Consolidated Financial Statements of

ICPEI Holdings Inc. (formerly EFH Holdings Inc.)

December 31, 2021 and 2020

Management's Responsibility for Financial Reporting

Roles of Management, Board of Directors and Audit and Risk Committee

Management is responsible for the preparation and fair presentation of the consolidated financial statements ("the financial statements"). The financial statements of ICPEI Holdings Inc. ("the Company") were prepared in accordance with International Financial Reporting Standards. Where necessary, these financial statements reflect amounts based on the best estimates and judgement of management.

In meeting its responsibility for the reliability of the financial statements, management maintains the necessary system of internal controls. These controls are designed to provide management with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The Audit and Risk Committee composed of directors who are not officers or employees of the Company, meets, as required, with management, the Appointed Actuary and the external auditor to review actuarial, accounting, reporting and internal control matters. The Audit and Risk Committee is responsible for reviewing the financial statements and recommending them to the Board of Directors for approval.

Role of Appointed Actuary

The Actuary is appointed by the Board of Directors, pursuant to the Insurance Companies Act. The Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The Appointed Actuary is also required to provide an opinion regarding the appropriateness of the policy liabilities to meet all policyholder obligations of the Company at the consolidated balance sheet date. Examination of supporting data for accuracy and completeness and consideration of the Company's assets are important elements of the work required to form this opinion. Policy liabilities include unearned premiums, provision for unpaid claims, reinsurers' share of unearned premiums and provision for unpaid claims and deferred policy acquisition costs.

Role of External Auditor

PricewaterhouseCoopers LLP, external auditor, has been appointed by the shareholders to conduct an independent audit of the financial statements of the Company in accordance with Canadian generally accepted auditing standards and report to the shareholders regarding the fairness of the annual financial statements.

Toronto, Ontario
March 3, 2022

(Signed) Serge Lavoie
Chief Executive Officer

(Signed) Teddy Chien
Chief Financial Officer

Independent auditor's report

To the Shareholders of ICPEI Holdings Inc. (formerly EFH Holdings Inc.)

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of ICPEI Holdings Inc. (formerly EFH Holdings Inc.) and its subsidiary (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's financial statements comprise:

- the consolidated balance sheets as at December 31, 2021 and 2020;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 IFRS, 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 related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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 Company to express an opinion on the consolidated 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Tamara Jones.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 3, 2022

ICPEI HOLDINGS INC.
Consolidated Balance Sheets
(in thousands of Canadian dollars)

	Note	December 31, 2021	December 31, 2020
Assets			
Cash and cash equivalents	7	16,485	11,859
Accounts receivable		19,815	12,039
Investments	7	54,518	44,582
Due from insurance companies		-	596
Deferred policy acquisition costs	8	8,156	5,110
Income taxes recoverable		310	460
Reinsurers' share - unearned premiums	11	1,050	799
- provision for unpaid claims	12	4,230	3,683
Deferred income taxes	15	341	195
Prepaid expenses and other assets	9	1,907	1,688
Right of use asset	10	273	482
Goodwill	28	378	378
Total assets		107,463	81,871
Liabilities			
Accounts payable and accrued liabilities		8,097	3,549
Bank loan	25	2,775	-
Income taxes payable		1,178	1,620
Unearned premiums	11	33,339	22,571
Unearned commission	8	269	220
Provision for unpaid claims	12	34,430	29,668
Lease liability	10	111	409
Due to reinsurers		112	-
Total liabilities		80,311	58,037
Equity			
Share capital	16	6,679	2,794
Contributed surplus		1,507	1,507
Retained earnings		18,510	14,186
Accumulated other comprehensive income	21	456	616
Equity attributed to shareholders of the Company		27,152	19,103
Non-controlling interest	24	-	4,731
Total equity		27,152	23,834
Total liabilities and equity		107,463	81,871

The accompanying notes, which include significant accounting policies and other explanatory information, are an integral part of these consolidated financial statements approved on March 3, 2022.

On behalf of the Board of Directors:

(Signed) Serge Lavoie
Chief Executive Officer

(Signed) Murray Wallace
Chairman of the Board

ICPEI HOLDINGS INC.
Consolidated Statements of Income and Comprehensive Income
(in thousands of Canadian dollars, except per share amounts)

	Note	For the year ended December 31	
		2021	**2020**
Revenue			
Gross written and assumed premiums		66,676	43,188
Less: premiums ceded to reinsurers		(2,711)	(2,122)
Net written and assumed premiums		63,965	41,066
Increase in gross unearned premiums		(10,768)	(3,822)
Increase (Decrease) in unearned premiums, reinsurers' share		251	(232)
Change in provision for unearned premiums		(10,517)	(4,054)
Net earned premiums		53,448	37,012
Investment income, net	7	2,561	4,795
Total revenue		56,009	41,807
Expenses			
Gross claims incurred		25,041	21,118
Recoveries from reinsurers		(760)	(1,205)
Net incurred claims		24,281	19,913
Gross acquisition costs		13,852	8,984
Recoveries from reinsurers		(62)	(66)
Net acquisition costs		13,790	8,918
Operating costs	17	8,891	7,040
Income before income taxes and discount rate impact on claims		9,047	5,936
Impact of change in discount rate on claims(1)		186	(342)
Income before income taxes		9,233	5,594
Income tax expense	15	2,558	698
Net income from continuing operations		6,675	4,896
Net loss from discontinued operations	23	-	(5,866)
Net income (loss)		6,675	(970)
Attributed to:			
Shareholders of the Company - continuing operations		6,359	4,149
Shareholders of the Company - discontinued operations		-	(5,866)
Non-controlling interest		316	747
Net income (loss)		6,675	(970)
Other comprehensive loss, net of taxes that may be classified subsequently to net income			
Available-for-sale investments:			
Change in net unrealized (losses) gains		(615)	1,800
Reclassification of net realized losses (gains) to net income		85	(2,538)
Tax impact	15	165	(428)
Other comprehensive (loss)		(365)	(1,166)

ICPEI HOLDINGS INC.
Consolidated Statements of Income and Comprehensive Income (continued)
(in thousands of Canadian dollars, except per share amounts)

	Note	2021	2020
Attributed to:			
Shareholders of the Company - continuing operations		(354)	(1,418)
Shareholders of the Company - discontinued operations		-	-
Non-controlling interest		(11)	252
Other comprehensive loss		(365)	(1,166)
Total comprehensive income (loss)		6,310	(2,136)
Attributed to:			
Shareholders of the Company - continuing operations		6,005	2,731
Shareholders of the Company - discontinued operations		-	(5,866)
Non-controlling interest		305	999
Total comprehensive income (loss)		6,310	(2,136)
Earnings per share attributable to shareholders of the Company	22		
Earnings per share continuing operations - basic		$0.45	$0.35
Earnings per share discontinued operations - basic		-	(0.49)
Earnings per share - basic		$0.45	(0.14)
Earnings per share continuing operations - diluted		$0.45	0.35
Earnings per share discontinued operations - diluted		-	(0.49)
Earnings per share - diluted		$0.45	(0.14)

(1) As interest rates may change each period, and have an impact to the incurred claims and therefore management believes it is beneficial to the users to see the impact of this change separately in order to understand the true movement in claims incurred.

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

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ICPEI HOLDINGS INC.
Consolidated Statements of Changes in Equity
(in thousands of Canadian dollars)

	Share Capital	Contribute d Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders' Equity	Non-controlling Interest	Total Equity
Balance at January 1, 2021	2,794	1,507	616	14,186	19,103	4,731	23,834
Net income	-	-	-	6,359	6,359	316	6,675
Other comprehensive loss	-	-	(354)	-	(354)	(11)	(365)
Total comprehensive (loss) income	-	-	(354)	6,359	6,005	305	6,310
Common shares issued	3,885	-	-	-	3,885	-	3,885
Purchase of non-controlling interest	-	-	194	(2.035)	(1,841)	(5,036)	(6,877)
Balance at December 31, 2021	6,679	1,507	456	18,510	27,152	-	27,152

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders ' Equity	Non-controlling Interest	Total Equity
Balance at January 1, 2020	2,794	1,507	2,034	83,140	89,475	3,732	93,207
Net income (loss)	-	-	-	(1,717)	(1,717)	747	(970)
Other comprehensive income (loss)	-	-	(1,418)	-	(1,418)	252	(1,166)
Total comprehensive income (loss)	-	-	(1,418)	(1,717)	(3,135)	999	(2,136)
Dividends Paid	-	-	-	(67,237)	(67,237)	-	(67,237)
Balance at December 31, 2020	2,794	1,507	616	14,186	19,103	4,731	23,834

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

ICPEI HOLDINGS INC.
Consolidated Statements of Cash Flows
(in thousands of Canadian dollars)

	For the year ended December 31	
	2021	**2020**
Cash provided by (used in):		
Operating activities		
Net income from continued operations	6,675	4,896
Net loss from discontinued operations	-	(5,866)
Adjusted for:		
Reinsurers' share of unearned premiums	(251)	232
Reinsurers' share of unpaid claims	(547)	(415)
Provision for unpaid claims	4,762	2,384
Unearned premiums	10,768	3,822
Deferred income taxes	(146)	33
Unearned commissions	49	25
Deferred policy acquisition costs	(3,046)	(901)
Amortization on right of use asset	368	399
Amortization on property plant equipment and intangible assets	422	264
Amortization of premiums on bonds	187	66
Fair value change on FVTPL investments	(419)	(40)
Prepaid expenses & other assets	67	2,543
	12,214	8,412
Cash flow from changes in		
Accounts receivable	(7,776)	(2,019)
Net realized losses (gains)	62	(2,512)
Income taxes recoverable and payable	(127)	1,915
Due to reinsurers	112	
Due from insurance companies	596	(272)
Accounts payable and accrued liabilities	4,548	(979)
Cash provided by continuing operating activities	16,304	9,441
Cash used by discontinued operating activities	-	(5,866)
Cash inflow from operating activities	16,304	3,575
Financing activities		
Common shares issued	3,885	--
Common share dividends	-	(67,237)
Purchase of minority interest	(6,877)	-
Term loan from bank	2,775	-
Payment of lease liabilities	(457)	(407)
Cash (used) by continuing financing activities	(674)	(67,644)
Cash (outflow) from financing activities	(674)	(67,644)
Investing activities		
Purchases of property, equipment and intangible assets	(708)	(454)
Net cash acquired through business combination	-	265
Purchases of investments	(40,058)	(36,305)
Sale/maturity of investments	29,762	41,490

ICPEI HOLDINGS INC.
Consolidated Statements of Cash Flows (continued)
(in thousands of Canadian dollars)

	2021	2020
Cash (used) provided by continuing investing activities	(11,004)	4,996
Cash (outflow) inflow from investing activities	(11,004)	4,996
Increase (Decrease) in cash and cash equivalents	4,626	(59,073)
Cash and cash equivalents, beginning of year	11,859	70,932
Cash and cash equivalents, end of year	16,485	11,859
Supplementary information		
Income taxes paid (recovered)	3,188	(2,385)
Interest received	1,545	1,156
Interest paid	71	-
Dividends received	213	324

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

1 Nature of operations

ICPEI Holdings Inc. ("the Company"), incorporated in Canada on August 18, 1997, under the Business Corporations Act (Ontario) is domiciled in Canada and its shares are traded on the TSX Venture Exchange. On July 15, 2021 after receiving approval from shareholders, the Company changed its name to ICPEI Holdings Inc. from EFH Holdings Inc. Earlier the Company’s name had changed from Echelon Financial Holdings Inc. to EFH Holdings Inc. after receiving approval from shareholders on December 11, 2020.The Company is principally engaged in property and casualty insurance in the Maritimes provinces along with Quebec and Ontario, Canada through its 100% owned subsidiary – The Insurance Company of Prince Edward Island (“ICPEI”). On April 1, 2021 the Company acquired the remaining 25% ownership of ICPEI that it did not already own. The Company’s head office is located at 2800 Skymark Avenue. Suite 200, Mississauga, Ontario.

2 COVID-19 Pandemic

Due to the strict restrictions on activity in early spring of 2021 combined with rapid gains in vaccinations, the numbers of COVID-19 cases gradually decreased and we saw the gradual re-opening of the Canadian economy in the second half of 2021. However, with the highly contagious Delta variant and the discovery of a new variant, Omicron, the risk for increased COVID cases across Canada remains high. Currently, COVID-19 did not have any significant impact on the premiums, collections, investments or other operational activities of the Company, but the impact remains uncertain as the pandemic continues to evolve.

The effects on the Company's development of critical estimates in year 2021 are described below:

Investment valuation

The Company’s valuation technique and recognition of impairment remain unchanged. The Company’s investments are valued at fair value using Level 1 or Level 2 inputs that are primarily based on quoted market prices. The Company has no Level 3 investments that require more assumptions and judgement in their valuation. COVID 19 did not have any adverse impact on valuation of investments.

Provision for unpaid claims

ICPEI does not provide insurance coverage specifically for pandemic risk. However, in its commercial property policies, it offers coverage for business interruption. Based on outside legal counsel review, ICPEI does not believe that business interruption claims from pandemic Covid-19 are covered perils. ICPEI will continue to monitor all developments in future. No specific provisions have been provided.

Credit risk

During the year 2021, the Company’s exposure to credit risk continued to remain high primarily due to the continued potential effects of COVID-19 pandemic on the Company’s reinsurers, insurance contract receivables from customers, and issuers of the Company’s investments in bonds. There were no significant changes used in the year to monitor and evaluate credit risks. There was no downgrade of reinsurers’ credit rating and there were no significant delinquent payments from customers. Valuation of investment bonds is based on observable market values which already reflect the associated credit risks associated with the issuers.

3 Basis of preparation

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

These consolidated financial statements have been authorized for issue by the Board of Directors, on March 3, 2022.

4 Summary of significant accounting policies

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for investments and insurance contracts which are carried at fair value and in accordance with IFRS 4, respectively.

Discontinued Operations

Assets and liabilities are classified as held for sale (discontinued operations) if their carrying amounts are recovered through a sales transaction rather than through continuing use. This condition is satisfied when the asset is available for immediate sale in its present condition, management is committed to the sale and it is highly probable to occur within one year. Assets classified as held-for-sale are measured at their lower of their previous carrying amount and fair value, less costs to sell, and are presented separately from other assets on the consolidated balance sheet.

A disposal group is classified as a discontinued operation if it meets the following conditions: (a) it is a component that can be distinguished operationally and financially from the rest of our operations, and (b) it represents either a separate major line of business or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

Balance sheet presentation

The Company does not classify its assets and liabilities as current and non-current on its consolidated balance sheet. As a financial institution, the Company provides insurance services over a period of years, rather than within a clearly identifiable short-term operating cycle. The consolidated balance sheet is presented in the order of liquidity, based on expectations regarding recovery or settlement within 12 months after the reporting date, and more than 12 months after the reporting date as presented in the respective notes.

The maturity profile of the investment portfolio is described in note 14 based on expected settlements. The estimated payment period for insurance claims, less related reinsurance recoverable, is provided in note 14. Cash and cash equivalents, due from insurance companies, accounts receivable, deferred policy acquisition costs, income taxes recoverable and payable, accounts payable and accrued liabilities, payable to insurance companies, unearned premium, and unearned commission are expected to be recovered or settled within twelve months of the year end.

Consolidation

The consolidated financial statements of the Company consolidate the accounts of ICPEI Holdings Inc. and its subsidiary. All inter-company transactions, balances and unrealized gains and losses from inter-company transactions are eliminated on consolidation.

The subsidiary is the entity which ICPEI Holdings Inc., through its investment in the entity, is exposed or has rights to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether ICPEI Holdings Inc. controls another entity. The subsidiary is fully consolidated from the date on which control is obtained by ICPEI Holdings Inc. and is de-consolidated from the date that control ceases.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity.

Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to senior management, the Chief Executive Officer and Board of Directors of the Company.

Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a controlled entity comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the controlled entity.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Within 12 months of completing the acquisition, identifiable intangible assets are valued and separately recognized in the statement of financial position. On an acquisition-by-acquisition basis, the company recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the company's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the controlled entity acquired and the measurement of all amounts has been reviewed, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in the statement of comprehensive income.

Cash and cash equivalents

Cash and cash equivalents include cash-on-hand, cash balances with banks and any cash balances with maturity of less than 90 days.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) *Financial assets and liabilities at fair value through profit or loss (FVTPL)*: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term, or if it is designated at FVTPL by management. The Company has designated as FVTPL under the fair value option financial assets which contain embedded derivatives that significantly alter the cash flows of the underlying asset.

Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the consolidated statements of income and comprehensive income within investment income in the year in which they arise. The Company's investments in preferred shares are classified as FVTPL.

(ii) *Available-for-sale (AFS) investments:* Non-derivative financial assets that are either designated in this category or not classified in any of the other categories are AFS investments. The Company's AFS investments are comprised of marketable securities and investments in debt and common equity securities.

AFS investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in OCI.

Interest on AFS investments, calculated using the effective interest method, is recognized in the consolidated statements of income and comprehensive income within investment income. Dividends on AFS equity instruments are recognized in the consolidated statements of income and comprehensive income as part of investment income when the Company's right to receive payment is established. When an AFS investment is sold or impaired, the accumulated gains or losses are moved from accumulated OCI to the consolidated statements of income and comprehensive income and included within investment income.

(iii) *Loans and receivables:* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of accounts receivables, due from insurance companies, and loans to brokers. Loans and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less any provision for impairment.

Impairment of financial assets

The Company determines, at each reporting date, whether there is objective evidence that financial assets are impaired. The criteria used to determine if objective evidence of an impairment loss include:

i. Significant financial difficulty of the obligor;
ii. Delinquencies in interest, principal or dividend payments; and
iii. It becomes probable that the borrower will enter bankruptcy or other financial reorganization.
iv. For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If such evidence exists, the Company recognizes an impairment loss, as follows:

AFS investments: The impairment loss is the difference between the amortized cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statements of income and comprehensive income. This amount represents the cumulative loss in accumulated OCI that is reclassified to the consolidated statements of income and comprehensive income.

Loans and receivables carried at amortized cost: The loss is the difference between the amortized cost of the loan and receivables and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent years if the amount of the loss decreases or the fair value of financial assets carried at amortized cost increases and the decrease/increase can be related objectively to an event occurring after the impairment was recognized. In contrast, impairment losses on AFS equity instruments are not reversed.

Debt Impairment Model

- One or more loss events (a payment default for example) and change in credit rating that occurred after initial recognition and that has an impact on the estimated future cash flows of the financial asset.

Equity Impairment Model

- A significant, a prolonged, or a significant and prolonged decline in the fair value of an investment below cost.

Right of use assets and lease liabilities

The Company's right of use assets and liabilities consist primarily of real estate and equipment. At the lease commencement date, the Company recognizes a right-of-use asset and a lease liability on the balance sheet. At inception of a contract the company determines whether a contract is or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

The right of use assets are initially measured at cost. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis from the commencement of the lease, over the shorter of the lease term and the estimated useful lives of the assets. The right-of-use asset is adjusted for certain remeasurement of the lease liability and impairment losses.

The lease liability is 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, an estimate of the company's incremental borrowing rate. Generally, the company uses its estimated incremental borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from the company changing its assessment of whether it will exercise a purchase, extension or termination option. If the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

Goodwill

Purchased goodwill is not amortized, but is subject to impairment tests on at least an annual basis or more frequently if events or changes in circumstances indicate that it may be impaired and is carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill related to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk arises when the Company agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. Significant risk is defined as the possibility of having to pay significantly more in a scenario where the insured event occurs than when it does not occur.

Provision for unpaid claims

Provision for unpaid claims, including adjustment expenses, represents the estimated amounts required to settle all outstanding and unreported claims incurred to the end of the year. Unpaid claims liabilities are discounted to take into account the time value of money. It also includes a provision for adverse deviation. Expected reinsurance recoveries on unpaid claims and adjustment expenses, net of any required provision for doubtful amounts, are recognized as assets at the same time, using principles consistent with the Company's method for establishing the related liability.

Structured settlements

In the normal course of claims adjudication, the Company settles certain obligations to claimants through the purchase of annuities from third party life insurance companies under structured settlement arrangements (structured settlements). In accordance with OSFI Guideline D-5, these contracts are categorized as either Type 1 or Type 2 based on the characteristics of the claim settlement. When the Company does not retain a reversionary interest under the contractual arrangement to any current or future benefits of the annuity, and the Company has obtained a legal release of the obligation from the claimant, it will be classified as a Type 1 structured settlement. For such contracts, any gain or loss arising on the purchase of an annuity is recognized in the consolidated statement of income at the date of purchase and the related claims liabilities are de-recognized. All other structured settlements that do not meet these criteria are classified as Type 2, with the Company recognizing the annuity contract in other investments within invested assets. A corresponding liability representing the outstanding obligation to the claimant is recognized in insurance contracts.

Reinsurance

Reinsurance assets include the reinsurers' share of claims liabilities and unearned premiums. The Company reports third party reinsurance balances on the consolidated balance sheet on a gross basis to indicate the extent of credit risk related to third party reinsurance. The estimates for the reinsurers' share of claims liabilities are presented as an asset and are determined on a basis consistent with the related claims liabilities. Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period.

Revenue recognition

Premiums and unearned premiums

Insurance premiums written are deferred as unearned premiums and recorded in income as the premium is earned on a straight line basis over the terms of the underlying policies. The portion of the premiums related to the unexpired term of the policy at the end of the year is reflected in unearned premiums.

Ceded Premiums and reinsurers' share of unearned premiums

The reinsurers' share of unearned premiums, net of a provision for doubtful amounts, is recognized as an asset at the same time and using principles consistent with the Company's method for determining the unearned premium liability.

Deferred policy acquisition costs

Commissions, premium taxes and general expenses incurred in the writing of premiums are deferred only to the extent that they are expected to be recovered from unearned premiums and are amortized to income as the related premiums are earned. If unearned premiums are not sufficient to pay expected claims and expenses, including policy maintenance expenses and unamortized policy acquisition costs, a premium deficiency is said to exist. Premium deficiency is recognized by a charge to income initially by writing down deferred policy acquisition costs. If the premium deficiency is greater than the deferred policy acquisition costs, a liability would be accrued for the excess deficiency.

Unearned commission

Unearned commissions are based on ceded premiums with a coverage period beyond the current year end. Unearned commissions are recognized as liabilities using principles consistent with the Company's method of determining policy acquisition costs.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization and impairment. Amortization is provided over the estimated useful lives of three years using the straight-line method.

Intangible assets

Intangible assets with finite useful lives, comprised primarily of computer software, are recorded at cost less accumulated amortization and impairment. Amortization is provided over the estimated useful life of the asset (2-3 years) using the straight-line method. Intangible assets with indefinite lives are recorded at lower of cost and recoverable amount.

Impairment of non-financial assets

Property and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units – or "CGUs"). Recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management).

The Company evaluates impairment losses, for potential reversals when events or circumstances warrant such consideration.

Employee benefits

The Company contributes to a group registered savings plan for employees as services are incurred. Contributions are charged to operating expenses. There are no other post-employment benefit expenses.

Income taxes

Income taxes are recognized in the consolidated statements of income and comprehensive income except to the extent that it relates to items recognized in OCI or directly in equity. In those cases, the related taxes are also recognized in OCI or directly in equity, respectively.

Current income tax is based on the results of the operations, adjusted for items that are not taxable or not deductible, that is payable for the current year. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the consolidated balance sheet date.

The Company follows the asset and liability method of accounting for income taxes, whereby deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the carrying values of existing assets and liabilities and their respective income tax bases and taxable losses and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income or OCI or equity in the year which includes the date of enactment or substantive enactment. Deferred income tax assets are recognized only to the extent the realization of such assets is probable. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is intention to settle the balances on a net basis.

Stock-based compensation

The Company has a Stock Option Plan and a Share Unit Plan that provide for the issuance of shares of the Company's common stock not exceeding 10% of the total issued and outstanding shares (on a diluted basis).

The Company utilizes the fair-value-based method of accounting for stock option based compensation. The fair value of stock based compensation determined using an option pricing model, is recorded over the vesting period as a charge to net earnings with a corresponding credit to contributed surplus. Awards are equity settled.

Stock options which contain a graded vesting feature (the total options granted vest on a graded basis such as annually over 5 years) are accounted for separately based on the date of vesting. At the time the options are granted, expected forfeiture rates are estimated and used to reduce the amount expensed over the life of the options. The estimated forfeiture rate is adjusted to actual forfeiture experience as information becomes available.

The Company has established a Share Unit Plan, under which the Board of Directors may from time to time determine (i) those eligible employees and directors (a "participant") who shall receive a grant of Restricted Share Units ("RSUs") and/or Performance Share Units ("PSUs") (RSUs and PSUs are collectively referred to as "Share Units"), (ii) the number of such RSUs and/or PSUs and (iii) the grant date(s) applicable to such RSUs and/or PSUs. Compensation expense and the related liability are recorded equally over the vesting period, taking into account fluctuations in the market price of the Company's share price.

Each Share Unit granted under the Share Unit Plan will entitle the participant, upon satisfying all applicable vesting criteria, to receive one common share or a cash payment equal to the market value of such share, calculated based on the weighted average trading price per common share on the TSX Venture Exchange for the 5 trading days prior to a fixed date. The grant of a Share Unit will not entitle the participant to exercise any voting rights, or exercise any other right which attaches to ownership of common shares.

Grant date fair value of each Share Unit is calculated based on the weighted average trading price per common share on the relevant stock exchange for the 5 trading days prior to a fixed date. The cost of the awards is recognized as an expense over the vesting period, with a corresponding entry to liabilities until settled. The value of each award is revalued subsequently, but the Company re-estimates the number of awards that are expected to vest at each reporting period.

Members of the Board, who are not otherwise employees of the Company or any affiliate are eligible to participate in a Deferred Share Unit Incentive Plan, which allows them to elect to defer all or a portion of their annual retainer received in the form of Deferred Share Units (DSUs), each of which is equivalent in value to one common share of the Company. The number of DSUs is established by dividing the amount of retainers not paid in cash by the weighted average trading price of the Common Shares for the last 5 trading days preceding the determination. Whenever cash dividends are paid on the common shares, the director's account under the DSU plan is credited with additional DSUs corresponding to the dividend paid on the common shares. The cost of the awards is recognized as an expense with a corresponding entry to liabilities. The fair value of the DSUs is re-measured each period and the subsequent changes in the market value of common shares is recorded as an expense.

Provisions

Provisions are recognized as liabilities when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Share capital

Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. The cost method is used to account for the shares purchased under a normal course issuer bid with the average cost of the shares reducing share capital and any excess recorded as a deduction to retained earnings.

Dividends

Dividends on common shares are recognized in the Company's consolidated financial statements in the year in which the dividends are approved by the Board of Directors.

Earnings per share

Basic earnings per share ("EPS") are calculated by dividing the net income (loss) for the year attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The Company's potentially dilutive common shares comprise stock options and RSUs granted. The number of shares included is computed using the treasury stock method.

Standards, amendments and interpretations not yet adopted or effective

IFRS 9, Financial Instruments

In July 2014, the IASB published the complete version of IFRS 9 which is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The new standard includes requirements on the classification and measurement of financial assets and liabilities, an expected credit loss model that replaces the existing incurred loss impairment model, and new hedge accounting guidance. The Company has evaluated and meets the requirements to defer the adoption of IFRS 9, since the percentage of liabilities connected with insurance contracts over total liabilities meets the 90% threshold. The company has deferred adoption, until the new insurance contracts standard is adopted effective January 1, 2023. The Company is in the process of implementing the new IFRS 9 accounting standard and evaluating the impact on the results of the Company.

IFRS 17, Insurance Contracts

In May 2017, the IASB published IFRS 17 which is proposed to be effective January 1, 2023, with retrospective application. The standard replaces IFRS 4. The standard is comprehensive in scope and addresses recognition, measurement, presentation and disclosure for insurance contracts. The standard requires the entity to recognize a group of insurance contracts it issues from the earliest of the following: (a) the beginning of the coverage period of the group of contracts; (b) the date when the first payment from a policyholder in the group becomes due; and (c) for a group of onerous contracts, when the group becomes onerous. The measurement approach is based on the following building blocks: (i) a current, unbiased probability-weighted estimate of future cash flows expected to arise as the insurer fulfills the contract; (ii) the effect of the time value of money; (iii) a risk adjustment that measures the effects of uncertainty about the amount and timing of future cash flows; and (iv) a contractual service margin which represents the unearned profit in a contract (that is recognized in net earnings as the insurer fulfills its performance obligations under the contract). Estimates are required to be re-measured each reporting period. In addition, a simplified measurement approach is permitted for short-duration contracts in which the coverage period is approximately one year or less. The Company is in the process of implementing the new IFRS 17 accounting standard and evaluating the impact on the results of the Company.

5 Critical accounting estimates and judgements

The preparation of the Company's consolidated financial statements requires management to use estimates and judgements that affect the amounts reported in the financial statements. These estimates and judgements principally relate to the establishment of reserves for claims and expenses, impairments of investment securities, amounts recoverable from reinsurers and income taxes. As more information becomes known, these estimates and judgements could change and impact future results.

Valuation of provisions for unpaid claims

Provision for unpaid claims are maintained to cover the Company's estimated ultimate liability for unpaid losses and loss adjustment expenses with respect to reported and unreported claims incurred as of the end of each accounting period. The provision for unpaid claims and adjustment expenses is first determined on a case-by-case basis as claims are reported and then reassessed as additional information becomes known. The provision also accounts for the future development of these claims, including claims incurred but not reported (IBNR). Provision for unpaid claims do not represent an exact calculation of liability, but instead represent estimates developed using projection techniques in accordance with Canadian accepted actuarial practice. These estimates are expectations of the ultimate cost of settlement and administration of claims based on the Company's assessment of facts and circumstances then known, its review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors. The appointed actuary of the Company's subsidiary, using appropriate actuarial techniques, evaluates the adequacy of the policy liabilities at the end of each reporting period.

Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer. These estimates are refined in a systematic ongoing process as historical loss experience develops and additional claims are reported and settled. Because the establishment of reserves is an inherently uncertain process involving estimates, current reserves may not be sufficient. Adjustments to reserves, both positive and negative, are reflected in the consolidated statements of income and comprehensive income for the year in which such estimates are updated. Please see note 12.

Impairment of Financial Assets

The Company considers an impairment if there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its carrying value.

Factors considered by the Company include but are not limited to:

a. significant financial difficulty of the issuer or obligor;
b. a breach of contract, such as a default or delinquency in interest or principal payments;
c. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
d. it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
e. the disappearance of an active market for that financial asset because of financial difficulties; or
f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    i. adverse changes in the payment status of borrowers in the group (e.g., an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or
    ii. national or local economic conditions that correlate with defaults on the assets in the

group (e.g., an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

Valuation of Reinsurer's share of provision for unpaid claims

Reinsurer's share of the provision for unpaid claims include amounts for expected recoveries related to provision for unpaid claims. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves. The ceding of an insurance liability to a reinsurer does not discharge the Company's primary liability to the policyholders. The Company's policy is to record an estimated allowance for doubtful accounts on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, credit ratings of reinsurers, collateral held by the Company, management's experience and current economic conditions.

The Company is exposed to disputes on, and defects in, contracts with reinsurers and the possibility of default by reinsurers.

6 Seasonality

The P&C insurance business is seasonal in nature. While net earned premiums reflect the premium volume from quarter to quarter, net underwriting income can be driven by weather conditions, which may vary significantly by quarter.

(in thousands of Canadian dollars, except per share amounts)

7 Investments

The following table provides a breakdown of the investment portfolio:

	Fair values	
Available for sale	**As at December 31, 2021**	**As at December 31, 2020**
Fixed income		
Canadian		
Federal	6,256	6,704
Provincial	5,543	5,163
Municipal	102	110
Corporate	12,364	6,747
Foreign		
Corporate	626	-
Total fixed income	24,891	18,724
Corporate value pooled fund	7,383	6,481
Money market pooled funds	326	852
Short-term fixed income and mortgage pooled funds	14,350	14,439
Short-term and Floating rate pooled fund	2,000	-
Total pooled funds	24,059	21,772
Common Shares		
Canadian	452	339
Canadian – ETF	812	--
Total common shares	1,264	339
Total available-for-sale	50,214	40,835
Fair value through profit or loss		
Preferred shares	3,527	3,747
Preferred shares - ETF	777	-
Total preferred shares	4,304	3,747
Total investments	54,518	44,582
Cash and cash equivalents	16,485	11,859
Total investments including cash and cash equivalents	71,003	56,441

Fair value

The Company is responsible for determining the fair value of its investment portfolio by utilizing market-driven fair value measurements from active markets, where available, by considering other observable and unobservable inputs, and by employing valuation techniques which make use of current market data. The technique employed has remained the same from December 31, 2019. The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. A description of the inputs used in the valuation of financial instruments is as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. The fair value of the Company's common and preferred shares is determined based on quoted prices in active markets obtained from external pricing sources.

Level 2 – Inputs, other than quoted prices, that are observable for the investment either directly or indirectly. These inputs include quoted prices for similar instruments exchanged in active markets; quoted prices for identical or similar instruments exchanged in inactive markets; inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data and correlation or other means. The Company's investments in government securities (including federal, provincial and municipal bonds),corporate securities, commercial mortgage pooled funds, money market pooled funds and infrequently traded securities are priced using publicly traded, over-the-counter prices or broker-dealer quotes which are based on market observable inputs. Observable inputs such as benchmark yields, reported trades, broker dealer quotes, issuer spreads and bids are available for these investments.

(in thousands of Canadian dollars, except per share amounts)

Level 3 – Inputs that are not based on observable market data. Management is required to use assumptions regarding unobservable inputs as there is little, if any, market activity in these investments or related observable inputs that can be corroborated at the measurement date. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets. To verify pricing, the Company assesses the rationality of the fair values by comparing to industry-accepted valuation models, to movements in credit spreads and to recent transaction prices for similar assets where available.

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined, as at December 31:

December 31, 2021			
	Level 1	**Level 2**	**Total**
Fixed income	—	24,891	24,891
Corporate value pooled funds	—	7,383	7,383
Money market pooled funds	—	326	326
Short-term fixed income and mortgage pooled funds	—	14,350	14,350
Short-term and Floating rate pooled fund	—	2,000	2,000
Common Shares – ETF	812	—	812
Preferred Shares – ETF	777	—	777
Common Shares	452	—	452
Preferred Shares	3,527	—	3,527
	5,568	48,950	54,518
December 31, 2020			
	Level 1	**Level 2**	**Total**
Fixed income	—	18,724	18,724
Corporate value pooled funds	—	6,481	6,481
Money market pooled funds	—	852	852
Short-term fixed income and mortgage pooled funds	—	14,439	14,439
Common Shares	339	—	339
Preferred Shares	3,747	—	3,747
	4,086	40,496	44,582

The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers from the existing portfolio for the year ended December 31, 2021 or 2020.

(in thousands of Canadian dollars, except per share amounts)

The fair values of cash and cash equivalents, account receivables and financial liabilities approximate their carrying values due to their short-term nature.

The Company has interests in unconsolidated structured entities, through investments in pooled funds, which are included in investments on the consolidated balance sheet. These entities are not controlled by the Company. The carrying value of pooled funds and maximum exposure to loss as of December 31, 2021 was $24,059 (December 31, 2020 – $21,772). The Company has also invested in Common Shares and Preferred Shares ETFs totaling $1,589 (December 31, 2020 - $nil). Investments in pooled funds consist of units invested in underlying money market and mortgage securities managed by third-party managers. The pooled funds are perpetual private trusts created under trust agreements. Financing is only provided to the pooled funds through the purchase of units and is therefore limited to the investment made.

Impaired assets and provisions for losses

A gross unrealized loss of $205 on Available for Sale (AFS) investments at December 31, 2021 (December 31, 2020 – $25) is recorded, net of tax, in the amount of $143 (December 31, 2020 – $17) in Accumulated Other Comprehensive Income, primarily due to the impact of higher government bond yields on the Company's fixed income portfolio.

Management has reviewed currently available information regarding those financial assets where estimated fair values are less than amortized cost. For those investments that are considered impaired, the Company records the difference between the amortized cost of the financial assets and its fair value as an impairment which reduces investment income recorded in the year.

No Impairments on AFS investments were recognized for the year ended December 31, 2021 (December 31, 2020 - $nil).

Investment income

The table below provides additional details on net investment income for the year ended December 31:

	2021	2020
Interest income	2,134	2,135
Dividend income	235	333
Net realized gains	(62)	2,512
Fair value change on FVTPL investments	419	40
Investment expenses	(165)	(225)
Investment income	2,561	4,795

(in thousands of Canadian dollars, except per share amounts)

8 Deferred policy acquisition costs

Commissions, premium taxes and general expenses incurred in the writing of premiums are deferred in accordance with the accounting policies set out above.

A reconciliation of DPAC is shown below as at December 31:

	2021		2020	
	Gross	**Ceded**	**Gross**	**Ceded**
Balance at the beginning of the year	5,110	220	4,209	195
Acquisition costs during the year	16,898	111	9,886	91
Amortization of acquisition costs during the year	(13,852)	(62)	(8,985)	(66)
Acquisition costs deferred at end of the year	8,156	269	5,110	220

9 Prepaid expenses and other assets

	2021	2020
Prepaid expenses	93	186
Broker Loans	667	640
Property Plant and equipment- net	20	52
Capital WIP	317	36
Computer Software- net	810	774
Total	**1,907**	**1,688**

Computer Software

Description	Opening Cost	Additions	Disposals	Transfers	End of year cost	Accumulated amortization	Net
December 31, 2021	1,088	427	-	-	1,515	705	810
December 31, 2020	675	413	-	-	1,088	314	774

10 Right of use asset and lease liability

Right of Use Asset

	2021	2020
Cost		
As at January 1	**1,358**	**1,254**
Additions	159	104
Ending Cost as at December 31	**1,517**	**1,358**
Accumulated Depreciation		
As at January 1	**876**	**477**
Depreciation Charge	368	399
Ending accumulated depreciation	**1,244**	**876**
As at December 31	**273**	**482**

(in thousands of Canadian dollars, except per share amounts)

Lease Liability

As at January 1	**1,358**	**1,254**
Additions	159	104
Ending Cost as at December 31	**1,517**	**1,358**

Accumulated Lease Payments and Interest		
As at January 1	**949**	**542**
Change during year	457	407
Ending lease payments and interest	**1,406**	**949**
As at December 31	**111**	**409**

11 Unearned premiums

The following table shows unearned premiums by line of business and nature of risk as at December 31:

	2021		2020	
	Gross	**Ceded**	**Gross**	**Ceded**
Automobile				
– accident benefits	1,881	89	1,822	46
– liability	9,876	292	7,904	236
– other	8,258	42	6,057	184
Total Auto	20,015	423	15,783	466
Property				
– commercial	8,801	365	3,473	109
– personal	2,455	102	2,218	79
Total Property	11,256	467	5,691	188
Liability	1,746	54	983	31
Other	322	106	114	114
	33,339	1,050	22,571	799

A reconciliation of unearned premium is shown below as at December 31:

	2021		2020	
	Gross	**Ceded**	**Gross**	**Ceded**
Unearned premium at the beginning of the year	22,571	799	18,749	1,031
Premium written and ceded during the year	66,676	2,711	43,188	2,122
Premium earned in income	55,908	2,460	39,366	2,354
Unearned premium at the end of the year	33,339	1,050	22,571	799

12 Provision for unpaid claims

Provision for unpaid claims are maintained to cover the Company's estimated ultimate liability for unpaid losses and loss adjustment expenses with respect to reported and unreported claims incurred as of the end of each accounting period.

The Company determines the discount rate based on the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments. The investment portfolio has experienced an increase in yields compared to December 31, 2020. The Company discounts its best estimate using 2.09% (December 31, 2020: 1.75%) for all lines of business.

(in thousands of Canadian dollars, except per share amounts)

The Company recorded a $611 reduction to the net provision for unpaid claims relating to favourable development in prior years' estimates (December 31, 2020 – Unfavorable development $113).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial liabilities are adequate to pay future claims, the Company includes provisions for adverse deviations (PFADs) in some assumptions relating to claims development, reinsurance recoveries, and future investment income. The PFADs selected are in the mid-range of those recommended by the Canadian Institute of Actuaries. The aggregate impact of the provision for adverse deviation is to increase the provision for unpaid claims on a net basis by $1,947 as at December 31, 2021 (December 31, 2020 – $1,846).

The provision for unpaid claims on an actuarial present value (APV) gross and ceded basis by line of business is shown below as at December 31:

	2021		**2020**	
	Gross	**Ceded**	**Gross**	**Ceded**
Automobile				
– accident benefits	4,729	70	4,493	85
– liability	18,639	2,872	16,493	2,882
– other	1,964	111	1,129	21
Total Auto	25,332	3,053	22,115	2,988
Property				
– commercial	4,365	1,005	1,355	84
– personal	973	64	1,856	383
Total Property	5,338	1,069	3,211	467
Liability	1,907	(20)	2,256	39
ULAE	709	-	655	-
Other (PFAD and discounting)	1,144	128	1,431	189
Total unpaid claims	34,430	4,230	29,668	3,683

Claims development

The table below provides additional details on the provision for unpaid claims as at December 31:

Provision for unpaid claims analysis	**December 31, 2021**	**December 31, 2020**
Unpaid claims, beginning of year, net	25,985	23,361
Prior year claims development	(611)	113
Net claims incurred in current year	24,706	20,143
Paid on claims occurring during		
Current year	(12,988)	(10,788)
Prior years	(6,892)	(6,844)
Unpaid claims, end of year, net	30,200	25,985
Reinsurers' share	4,230	3,683
Gross unpaid claims	34,430	29,668

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims.

Assumptions used to develop the provision estimate for unpaid claims and adjustment expenses are selected by class of business and geographic location. Consideration is given to the characteristics of the risks, historical loss development factors and payment patterns, reinsurance recoveries, claims frequency and severity, inflation and any other pertinent factors. Some assumptions require a significant amount of judgement such as the expected impacts of future judicial decisions and government legislation. There were no new assumptions identified in the year as having a potential or identifiable material impact on the overall claims estimate.

(in thousands of Canadian dollars, except per share amounts)

Claims development table, net of reinsurance

The following tables show the estimates of cumulative incurred claims, including IBNR, with subsequent developments during the periods and together with cumulative payments to date. The original reserve estimates are evaluated quarterly for redundancy or deficiency. The evaluation is based on actual payments in full or partial settlement of claims and current estimates of claims liabilities for claims still unreported.

	Accident Years									
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net ultimate loss at the end of:	10,895	13,460	17,537	16,808	12,631	15,563	17,969	17,071	15,570	21,559
1 year later	10,736	12,772	15,377	14,966	12,130	14,956	18,223	16,772	15,132	
2 years later	10,205	12,768	14,925	14,914	12,127	14,941	18,753	16,280		
3 years later	9,886	12,803	15,125	14,982	12,599	14,597	19,136			
4 years later	9,866	12,911	15,102	15,039	12,791	14,432				
5 years later	9,627	12,900	15,196	14,823	13,116					
6 years later	9,392	12,793	15,290	14,972						
7 years later	9,680	12,617	15,145							
8 years later	9,616	12,272								
9 years later	9,123									
Cumulative (favourable) unfavourable loss development	(1,772)	(1,188)	(2,392)	(1,836)	485	(1,131)	1,167	(791)	(438)	n/a
Cumulative loss development as a % of original ultimate loss	(16.26)%	(8.83)%	(13.64)%	(10.92)%	3.84%	(7.27)%	6.49%	(4.63)%	(2.82)%	n/a

	Accident Years											
	2011& Prior	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Total
Current estimate of net ultimate loss		9,123	12,272	15,145	14,972	13,116	14,432	19,136	16,280	15,132	21,559	
Cumulative paid	(60,788)	(9,046)	(12,107)	(14,725)	(14,128)	(11,806)	(13,041)	(16,475)	(13,544)	(10,203)	(11,606)	
Net provision of unpaid claims by accident years	618	77	165	420	844	1,310	1,391	2,661	2,736	4,929	9,953	25,104
Facility Association (FA) & Risk Sharing Pool (RSP)												3,408
ULAE												709
Other reconciling items												(33)
Net provision for undiscounted unpaid claims												29,188
PfAD on ICPEI Reserves												1,947
Discounting impact on ICPEI Reserves												(1,085)
PfAD and Discounting on FA & RSP and other reconciling items												150
Net provision for APV unpaid claims												30,200

(in thousands of Canadian dollars, except per share amounts)

13 Underwriting policy and reinsurance ceded

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other large loss events by purchasing reinsurance to share all or part of the insurance risks originally accepted by the Company in writing premiums. This does not relieve the Company of its primary obligation to policyholders.

During 2021, the Company followed the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss to $1,000 (2020 – $1,000) for auto and liability and $500 (2020 – $500) for property. In addition, the Company obtained catastrophe reinsurance which limits the loss from a series of claims arising from a single occurrence to $1,000 (2020 – $1,000), to a maximum coverage of $35,000 (2020 – $35,000).

The Company places all its reinsurance with registered reinsurers.

Failure of reinsurers to honour their obligations could result in losses to the Company. Consequently, the Company continually evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses. There have been no defaults and no provision made in the accounts for defaults based on management's review of the creditworthiness of its reinsurers.

Reinsurance recoverable

The following tables summarize the balances outstanding from reinsurers, by risk rating, as at December 31:

December 31, 2021		
Credit rating	**Gross reinsurance recoverable**	**Net exposure**
A or higher	5,280	5,280
	5,280	5,280

December 31, 2020		
Credit rating	**Gross reinsurance recoverable**	**Net exposure**
A or higher	4,482	4,482
	4,482	4,482

14 Risk and capital management

As a provider of insurance products, effective risk management is fundamental to the Company's ability to protect the interests of its customers and shareholders. The Company is exposed to risks of loss pertaining to insurance products. These include risks surrounding product and pricing, underwriting and claims, catastrophic exposure, and matching of assets and liabilities. The Company is also exposed to potential loss from various risks, including interest rate risk, equity market fluctuation risk, credit risk, liquidity risk, cyber security risk, and to a lesser extent foreign exchange risk.

The Company has written principles for overall risk management, as well as written policies covering specific areas such as underwriting, reinsurance, foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment.

Insurance risk

The risk under any one insurance contract is the possibility that the event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable. The principal risk that the Company faces under its insurance contract is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or the severity of the claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the estimate.

(in thousands of Canadian dollars, except per share amounts)

Direct Written Premium	**December 31, 2021**	**December 31, 2020**
Lines		
Automobiles and liabilities	58%	71%
Property	42%	29%
Regions		
New Brunswick	23%	29%
Nova Scotia	28%	41%
Prince Edward Island	18%	27%
Quebec	29%	3%
Ontario	2%	-%

Sensitivity to insurance risk

The table below shows the sensitivity of earnings from operations before income taxes and total equity after giving effect to a one percentage point increase in the loss ratio and claims settlement costs. The loss ratio is regarded as a non-IFRS measure and is calculated by the Company with respect to its ongoing insurance operations as losses on claims incurred (including losses and loss adjustment expenses) expressed as a percentage of net premiums earned. Such an increase could arise from higher frequency of losses, increased severity of losses, or from a combination of both. The sensitivity analysis presented below does not consider the probability of such losses to loss frequency or severity occurring or any non-linear effects of reinsurance and, as a result, each additional percentage point increase in the loss ratio would result in a linear impact on earnings from operations before income taxes and total equity.

	December 31, 2021		**December 31, 2020**	
Sensitivity Factor	**Net income before income taxes**	**Shareholders' equity**	**Net income before income taxes**	**Shareholders' equity**
Increase of 1 % to loss ratio	(534)	(373)	(370)	(258)
Increase of 1% to claims settlement costs	(302)	(210)	(260)	(181)

Product and pricing

The Company prices its products taking into account numerous factors, including claims frequency and severity trends, product line expense ratios, special risk factors, the capital required to support the product line, and the investment income earned on that capital. The Company's pricing process is designed to ensure an appropriate return on capital and long-term rate stability avoiding wide fluctuations in rates, unless necessary. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Pricing for automobile insurance must be submitted to each provincial government regulator and, in certain provinces, pre-approved by the regulator. Regulatory decisions may impede automobile rate increases or other actions that the Company may wish to take. Also, during periods of intense competition for any product line, to gain market share, the Company's competitors may price their products below the rates the Company considers acceptable. Although the Company may adjust its pricing up or down to maintain a competitive position, the Company strives to ensure its pricing will produce an appropriate return on invested capital. There is no assurance that the Company will not lose market share during periods of pricing competition.

Underwriting and claims

The Company is exposed to loss resulting from the underwriting of risks being insured and the exposure to financial loss resulting from greater than anticipated adjudication, settlement and claims costs.

The Company's underwriting objectives are to develop business within target markets on a prudent and diversified basis and to achieve profitable underwriting results. The Company underwrites automobile business after a review of the applicant's driving record and claims experience. Commercial and personal property risks are selected by the Company, working with its external brokers, after consideration of various risk factors associated with these lines of business. Despite its best efforts, and consideration of all known risk factors, there can be no assurance that all risks associated with the insurance policies that it writes can be identified and assessed, and the Company may, therefore, experience increased adjudication, settlement and claims costs.

The Company estimates its claims reserves on a quarterly basis. Every quarter, for each line of business, the Company compares actual and expected claims development. To the extent that actual results differ from expected development, assumptions are re-evaluated and new estimates are derived. Although the Company believes its overall provision levels to be adequate to satisfy its obligations under existing policies, actual losses may deviate, perhaps substantially, from the amounts reflected in the Company's consolidated financial statements. To the extent provisions prove to be inadequate, the Company would have to re-evaluate such provisions and may incur a charge to earnings in the future.

Unpredictable catastrophic events

Catastrophes can be caused by various natural and unnatural events. Natural catastrophic events include hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather, flood and fires. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas.

Catastrophes can cause losses in a variety of business lines. Claims resulting from natural or unnatural catastrophic events could cause substantial volatility in the Company's financial results and could materially reduce the Company's profitability or harm the Company's financial condition. The Company manages the impact of losses which may result from catastrophic events by purchasing excess of loss and catastrophe reinsurance to share all or part of the insurance risks originally accepted by the Company as well as geographic diversification.

Asset and liability matching

The Company is exposed to:

- changes in the value of its fixed income investments and policy liabilities to the extent that market interest rates change;

(in thousands of Canadian dollars, except per share amounts)

- equity price fluctuations, which affect the fair values of equities held by the Company;
- the risk of losses to the extent that the sale of an investment prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows;
- the risk that future inflation of policyholder cash flows exceed returns on long-term investments; and
- foreign exchange risks with respect to investments, derivatives, receivables and policy liabilities denominated in foreign currencies.

The Company's exposures are monitored on a regular basis and actions are taken to balance investment positions when approved risk tolerance limits are exceeded.

Risk management is carried out by the Audit and Risk Committee under policies approved by the Board of Directors.

Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial assets are traded. Below is a discussion of the Company's primary market risk exposures and how these exposures are currently managed.

Interest rate risk

Fluctuations in interest rates have a direct impact on the fair valuation and future cash flow of the Company's fixed income investment portfolio. Generally, the Company's investment income will be reduced during sustained periods of lower interest rates, as higher yielding fixed income investments mature or are sold and the proceeds are reinvested at lower rates. During periods of rising interest rates, the fair value of the Company's existing fixed income investments will generally decrease, and gains on fixed income securities will likely be reduced.

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on other comprehensive income ("OCI") relating to the fixed income investment portfolio as at December 31, based on parallel 50 basis point shifts in interest rates up and down in 25 basis point increments.

Change in interest rate As at December 31, 2021	Fair value of fixed income and pooled funds	Hypothetical change on fair value	Effect on OCI net of tax
50 basis point rise	48,275	(1.4)%	(470)
25 basis point rise	48,610	(0.7)%	(235)
No change	48,950	-	-
25 basis point decline	49,286	0.7%	235
50 basis point decline	49,623	1.4%	470

(in thousands of Canadian dollars, except per share amounts)

Change in interest rate As at December 31, 2020	Fair value of fixed income and pooled funds	Hypothetical change on fair value	Effect on OCI net of tax
50 basis point rise	39,890	(2)%	(423)
25 basis point rise	40,193	(1)%	(211)
No change	40,496	-	-
25 basis point decline	40,800	1%	211
50 basis point decline	41,103	2%	423

As discussed in note 12, the discount rate used in the determination of the provision for unpaid claims is based on the expected return of assets on its investment portfolio with appropriate assumptions for interest rates relating to reinvestment of maturing investments. Fluctuations in market interest rates will therefore have an impact on the discount rate used in the valuation of the net provision for unpaid claims. The table below shows the potential impact of interest rate fluctuations on the net provision for unpaid claims and income statement:

Change in discount rate	Net provision for unpaid claims	Hypothetical change in value	Effect on net income net of tax
As at December 31, 2021			
100 basis point rise	29,594	(2)%	(425)
No change	30,200	-	-
100 basis point decline	30,833	2%	438
As at December 31, 2020			
100 basis point rise	25,449	(2)%	(374)
No change	25,985	-%	-
100 basis point decline	26,538	2%	385

Liquidity risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. The Company's liquidity management strategy is to ensure that there is sufficient cash to meet its financial commitments as they become due. To manage cash flow requirements, the Company maintains a portion of invested assets in liquid investments.

The maturity profile of financial assets is as follows, as at December 31:

December 31, 2021	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	699	8,974	8,514	6,704	24,891
Cash and cash equivalents	16,485	--	--	--	16,485
Broker Loans	--	667	--	--	667
Accounts receivable	19,815	--	--	--	19,815
Total	36,999	9,641	8,514	6,704	61,858
Percentage of total	60%	15%	14%	11%	100%

(in thousands of Canadian dollars, except per share amounts)

December 31, 2020	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	668	6,724	7,109	4,223	18,724
Cash and cash equivalents	11,859	--	--	--	11,859
Broker Loans	--	640	--	--	640
Accounts receivable	12,039	--	--	--	12,039
Total	24,566	7,364	7,109	4,223	43,262
Percentage of total	57%	17%	16%	10%	100%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at December 31:

December 31, 2021	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Gross claim liabilities	14,173	10,322	4,957	3,837	33,289
Less: Reinsurance recoverable	2,258	902	266	675	4,101
Net actuarial liabilities	11,915	9,420	4,691	3,162	29,188

December 31, 2020	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Gross claim liabilities	10,209	10,683	4,087	3,257	28,236
Less: Reinsurance recoverable	625	2,361	(223)	730	3,493
Net actuarial liabilities	9,584	8,322	4,310	2,527	24,743

Equity price risk

Fluctuations in the value of equity investments affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. General economic conditions, political conditions, and many other factors can also adversely affect the stock and bond markets and, consequently, the value of the equity and fixed income investments held.

The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of equity securities.

The table below summarizes the potential impact of a 10% change in the value of the equity securities (common and preferred shares) on net income and OCI for the twelve months ended December 31. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumption that all equity holdings increased/decreased by 10% with all other variables held constant.

Change in equity holdings	Effect on net income (loss) net of tax		Effect on OCI net of tax	
	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020
10% rise	300	261	88	25
10% decline	(300)	(261)	(88)	(25)

Credit risk

The Company is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of investment securities which do not carry the guarantee of a national or Canadian provincial government. The Company's credit exposure to any one individual policyholder is not material. The Company has policies that limit its exposure to individual reinsurers and regular review processes to assess the creditworthiness of reinsurers with whom it transacts business.

(in thousands of Canadian dollars, except per share amounts)

The Company's maximum exposure to credit risk, without taking into account amounts held as collateral, is:

	As at December 31, 2021	As at December 31, 2020
Bonds	24,891	18,724
Gross reinsurance recoverable	5,280	4,482
Accounts receivable	19,815	12,039
Broker Loans	667	640
Due from insurance companies	-	596
Cash and cash equivalents	16,485	11,859
On-balance sheet credit exposure	**67,138**	**48,340**
Structured settlements (note 18)	938	1,102
Off-balance sheet credit exposure	**938**	**1,102**

The following table sets forth the Company's fixed income securities portfolio by credit quality as at December 31:

	As at December 31, 2021		As at December 31, 2020	
	Fair value	%	Fair value	%
AAA	7,399	30%	8,179	44%
AA	5,262	21%	4,577	24%
A	10,096	41%	4,918	26%
BBB	2,134	8%	1,050	6%
Total	24,891	100%	18,724	100%

A breakdown of the preferred shares portfolio by credit rating is shown below:

	As at December 31, 2021		As at December 31, 2020	
	Fair value	%	Fair value	%
P2	3,025	86%	3,234	86%
P3	502	14%	513	14%
Total	3,527	100%	3,747	100%

Cyber security risk

Information technology and cyber security risks continue to increase as attacks have become more frequent and sophisticated. We are more dependent on technology and critical applications to operate our business more effectively. To ensure the security of our systems, the safeguard of our information, we plan, test and execute our continuity and security plans. This includes threat and vulnerability assessments and monitoring of trending threats to mitigate vulnerabilities.

(in thousands of Canadian dollars, except per share amounts)

Capital management

Capital is comprised of the Company's total equity. As at December 31, 2021, the Company's equity was $27,152 (December 31, 2020 – $23,834).

The Company's objectives when managing capital consists of:

- Maintaining capital to be above minimum regulatory levels,
- Ensuring capital is above internally determined risk management levels,
- Maintaining creditworthiness, financial strength and protect its claims paying abilities.
- Maximizing returns to shareholders over the long term.

ICPEI is required to maintain minimum capital levels as required by the regulators. As at December 31, 2021, ICPEI's Minimum Capital Test (MCT) in accordance with the Office of the Superintendent of Financial Institutions was 328% (2020 – 312%)

15 Income taxes

The income tax is as follows as at December 31:

	2021	2020
Current	2,545	665
Deferred	13	33
	2,558	698

The effective income tax rates are different from the combined federal and provincial income tax rates.

The consolidated statements of income and comprehensive income contain items that are non-taxable or non-deductible for income tax purposes, which cause the income tax expense to differ from what it would have been if based on statutory rates. Statutory rate differences also arise because of different tax rates in different jurisdictions.

The difference is broken down as follows:

	2021	2020
Income tax expense calculated at statutory rates	26.5%	26.5%
Increase (decrease) in income tax rates resulting from:		
Non-taxable dividend income	(0.7)%	(1.5)%
Tax benefit of losses not previously recognized	(0.3)%	(8.2)%
Statutory rate differences	2.4%	2.4%
Non-taxable portion of capital gains	(0.3)%	(6.9)%
Other	0.1%	0.2%
Effective income tax rate	27.7%	12.5%

(in thousands of Canadian dollars, except per share amounts)

Deferred income taxes are comprised of the following as at December 31:

	Losses Carried Forward	Reserves	Property, equipment and intangible assets	Total
Balance – January 1, 2021	--	386	(191)	195
Amounts recorded in income statement	--	171	(184)	(13)
Amounts recorded in equity	--	159	--	159
Balance – December 31, 2021	--	716	(375)	341
	Losses Carried Forward	**Reserves**	**Property, equipment and intangible assets**	**Total**
Balance – January 1, 2020	--	303	(75)	228
Amounts recorded in income statement	--	83	(116)	(33)
Balance – December 31, 2020	--	386	(191)	195

Management reviews the recoverability of the deferred income tax asset on an ongoing basis and adjusts as necessary, to reflect its anticipated realization. Management expects that the recorded deferred income tax asset will be realized in the normal course of operations.

The Company has tax losses available resulting from capital losses of $12,985 (2020 - $13,115). No deferred tax assets have been recognized for these losses as there is no certain probability that these losses will be utilized.

Income taxes included in OCI

The amounts included in the consolidated statements of comprehensive income are shown net of the following tax benefit (expense), as at December 31:

	2021	2020
Change in unrealized losses (gains)	190	(499)
Reclassification to net income of (gains) and losses	(25)	71
Total income tax benefit (expense) included in OCI	165	(428)

Income taxes payable are expected to be settled within one year of the financial statement date.

16 Share capital

	As at December 31, 2021	As at December 31, 2020
Authorized		
Unlimited common shares (no par value)		
Unlimited special shares issuable in Series (no par value)		
Issued		
14,742,158 common shares (December 31, 2020 - 12,006,558 common shares)	6,679	2,794

On April 1, 2021, 2,735,600 shares were issued (2020 – nil) at a price of $1.42 per share for an aggregate of $3,885 to finance the acquisition of the remaining 25% ownership of ICPEI that it did not already own at the time. In 2021 there was no distribution of Dividends (2020 - $67,237).

(in thousands of Canadian dollars, except per share amounts)

During the year, 261,300 Restricted Share Units ("RSUs") were issued and outstanding with a weighted-average fair value at grant date of $1.57 per unit. The provision recorded as at December 31, 2021 for RSUs was $246 (2020 - $nil).

17 Operating Costs by nature

The table below presents operating costs by major category as at December 31:

	2021	2020
Salaries and benefits	4,716	4,045
Directors' and regulatory filing fees	196	285
Systems costs	800	463
Professional fees	567	637
Occupancy and lease cost	636	599
Printing and postage	177	179
Facility	566	585
Management fees	239	211
Interest expense	71	35
Other expenses	923	1
	8,891	7,040

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

18 Structured settlements

In the normal course of claims adjudication, the Company may settle certain long-term losses through the purchase of annuities (structured settlements) from life insurance companies. The fair estimated value of these annuity contracts amounts to $938 (December 31, 2020 – $1,102) using a discount rate of 1.68% (December 31, 2020 – 1.21%). It is the policy of the Company to purchase annuities from life insurers with proven financial stability. The net risk to the Company is the credit risk related to the life insurance companies and this risk is reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan. The Company has determined that no credit risk provision is required.

19 Contingencies

From time to time, in connection with its insurance operations, the Company is named as a defendant in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome, such actions have generally been resolved with minimal damage or expense in excess of amounts provided as policy liabilities. The Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

20 Rate regulations

The Company writes automobile business subject to rate regulation, which comprises approximately 58% (2020 -— 71%) of gross premiums written and assumed. The Company's automobile insurance premiums can be impacted by mandatory rate rollbacks and mandatory rate assessments as legislated by provincial law and by regulation in certain provinces. This could result in lower future premium rates or reductions to premium rates charged by the Company in prior years. In addition, the Company is required, under certain provincial legislation, to participate in risk sharing pools, which may impact positively or negatively on underwriting results. Certain benefit payments are also subject to provincial government regulation, including automobile accident benefits.

21 Accumulated other comprehensive income

A breakdown of the accumulated other comprehensive income is shown below as at December 31:

	As at December 31, 2021	As at December 31, 2020
Gross unrealized gains (losses)	516	841
Tax impact	(60)	(225)
Ending balance	456	616

22 Earnings per share

The table below presents earnings per share as at December 31:

Earnings Per Share on Continuing Operations	**2021**	**2020**
Basic earnings per share on continuing operations:		
Net income available to shareholders	6,359	4,149
Average number of common shares (in thousands)	14,068	12,007
Basic income earnings per share on continuing operations	0.45	0.35
Diluted earnings per share:		
Average number of common shares (in thousands)	14,068	12,007
Average number of dilutive common shares under employee stock compensation Plan (in thousands)	209	--
Average number of diluted common shares (in thousands)	14,277	12,007
Diluted income earnings per share on continuing operations	0.45	0.35

Earnings Per Share on Discontinued Operations	**2021**	**2020**
Basic loss per share on discontinued operations:		
Net loss available to shareholders	-	(5,866)
Average number of common shares (in thousands)	14,068	12,007
Basic earnings loss per share on discontinued operations	-	(0.49)
Diluted earnings per share:		
Average number of common shares (in thousands)	14,068	12,007
Average number of dilutive common shares under employee stock compensation Plan (in thousands)	209	--
Average number of diluted common shares (in thousands)	14,277	12,007
Diluted earnings loss per share on discontinued operations	-	(0.49)

Total Earnings Per Share	**2021**	**2020**
Basic earnings per share:		
Net income (loss) available to shareholders	6,359	(1,717)
Average number of common shares (in thousands)	14,068	12,007
Basic earnings income (loss) per share	0.45	(0.14)
Diluted earnings per share:		
Average number of common shares (in thousands)	14,068	12,007
Average number of dilutive common shares under employee stock compensation Plan (in thousands)	209	--
Average number of diluted common shares (in thousands)	14,277	12,007
Diluted earnings income (loss) per share	0.45	(0.14)

(in thousands of Canadian dollars, except per share amounts)

23 Discontinued operations

The table below presents results of discontinued operations for the period ended December 31, 2021 and December 31, 2020.

Net income (loss) from discontinued operations

	2021	**2020**
Revenue		
Net earned premiums	—	—
Investment Income	—	—
Total revenue	—	—
Expenses		
Net incurred claims	—	—
Net acquisition costs	—	—
Operating costs	—	—
Total expenses	—	—
Settlement of New Nordic lawsuit	—	(7,000)
Loss before income taxes	—	(7,000)
Income tax (recovery)	—	(1,134)
Net loss on discontinued operations	—	(5,866)
Gain on sale, net of expenses	—	—
Loss on Wind-up of CIM Re	—	—
Net loss on discontinued operations	—	(5,866)
Other comprehensive income on discontinued operations	—	—
Comprehensive loss on discontinued operations	—	(5,866)

On March 7, 2017, the Company completed the sale of Qudos Insurance Holding Company to New Nordic Odin Denmark (“NNOD”).

On September 17, 2018 New Nordic Advisors Limited (NNAL) submitted a Statement of Claim to the Danish Institute of Arbitration naming the Company as a defendant in a proceeding related to the sale of the Company’s European Operations to NNOD. The claim was dismissed with costs.

On August 2, 2019, NNOD filed a Statement of Claim with the Danish Institute of Arbitration. The Claim sought €45.8 million in damages arising from the sale of 100% of the Company’s interest in QIC Holdings ApS to NNOD in March of 2017. The Statement of Claim alleged breach of contract and willful misrepresentation with respect to the amount of required reserves for Qudos claim liabilities and the overall value of Qudos. The Board concluded that it was in the best interests of the Company and the shareholders to settle the litigation for a reasonable amount. The parties settled litigation upon payment by the Company of $7,000 in the third quarter of 2020 with no further recourse from claimant.

24 Non-controlling interest

On April 1, 2021, the Company acquired the remaining 25% ownership of ICPEI that it did not already own. Total cash consideration paid was $6,315 plus expenses.

The transaction was financed partly by issuing 2,735,600 common shares of the Company through a non-brokered private placement at a price of $1.42 per Share for $3,885. The Company also obtained a $3,000 Term Loan (refer to note 25).

(in thousands of Canadian dollars, except per share amounts)

Prior to this transaction, the Company had non-controlling interests attributable to the subsidiary of ICPEI. The following tables summarize the comprehensive income attributable to the non-controlling shareholders:

	2021	2020
Revenue		
Gross written and assumed premiums	2,844	10,797
Net earned premiums	2,676	9,253
Investment income	168	504
Total revenue	2,844	9,757
Expenses		
Net incurred claims	1,351	5,064
Net acquisition costs	645	2,230
Operating costs	422	1,418
Total expenses	2,418	8,712
income before income taxes	426	1,045
Income tax expense	110	298
Net income attributable to NCI	316	747
Other comprehensive (loss) income attributable to NCI	(11)	252
Comprehensive income attributable to NCI	305	999

The following tables summarize the net assets of the non-controlling shareholders as at December 31:

	December 31, 2021	December 31, 2020
Assets		
Cash and investments	---	13,008
Other assets	---	6,224
Total assets	---	19,232
Liabilities		
Unearned premium	---	5,643
Unpaid claims	---	7,417
Other liabilities	---	1,441
Total liabilities	---	14,501
Equity		
Share capital	---	---
AOCI	---	205
Retained earnings	---	4,526
Total equity	---	4,731
Total liabilities and equity	---	19,232

(in thousands of Canadian dollars, except per share amounts)

	As at December 31, 2021	As at December 31, 2020
Cash flow from operating activities	---	2,732
Cash flow from investing activities	---	(1,850)
Cash flow from financing activities	---	(102)
Net Increase in cash and cash equivalents	---	780

25 Bank loan

The Company drew a $3,000 term loan with the National Bank maturing on March 31, 2024 with repayment terms of $300 per year and $2,400 on March 31, 2024. During 2021, a repayment of $225 was made to the bank. The bank has general security on all of the assets of the Company except the shares and any assets of ICPEI. The Company is subject to certain covenants pursuant to its loan agreement. . The Company monitors these ratios and reports them to its lenders on a quarterly basis. The Company was in compliance with all covenants for the year ended December 31, 2021. Interest rates on the term loan are based on Canadian Bankers' Acceptance rates, adjusted by the Company's credit spread. At December 31, 2021, the interest rate of the loan was 2.33%. Interest expense was $53 for the twelve months ended December 31, 2021.

The Company has a $2,000 revolving credit line with National Bank which has not been drawn.

(in thousands of Canadian dollars, except per share amounts)

26 Segmented information

The Company operates through two segments: Personal Lines and Commercial Lines businesses. Through its Personal Lines segment, the Company is engaged primarily in the underwriting of automobile insurance and personal property. Through its Commercial Lines, the Company designs and underwrites commercial property, commercial automobile and commercial liabilities.

Discontinued Operations are excluded. Please refer to note 23.

The effect of reinsurance is reflected in the revenue and results of each segment. The investment activities consist of managing the investment portfolio for the Company as a whole. Investment income is shown net of investment expenses. The corporate and other activities include holding company expenses not attributable to a division.

The following table summarizes the net income before interest and income taxes by Personal and Commercial Lines as at December 31:

	2021	2020
Revenue		
Net earned premium		
– Personal Lines	30,962	25,594
– Commercial Lines	22,486	11,418
Total net earned premium	53,448	37,012
Net claims incurred		
– Personal Lines	15,468	12,675
– Commercial Lines	8,813	7,238
Net claims	24,281	19,913
Net expenses		
– Personal Lines	12,923	9,967
– Commercial Lines	8,609	4,626
Total	21,532	14,593
Total net expenses	45,813	34,506
Income before income taxes		
– Personal Lines	2,571	2,952
– Commercial Lines	5,064	(446)
Underwriting income	7,635	2,506
Corporate and other	(1,149)	(1,365)
Impact of change in net claims discount rate	186	(342)
Investment income	2,561	4,795
Total income before income taxes	9,233	5,594

The Company has two major customers; one had revenue of $16,173 (2020 - $15,276) in personal and commercial lines and the other had revenue of $6,242 (2020 - $242) in commercial lines.

The Company only has business in Canada.

(in thousands of Canadian dollars, except per share amounts)

27 Related party transactions

ICPEI Holdings Inc. (ICPH), the parent company

ICPEI and ICPH provided management services to each other. ICPEI received $134 from ICPH for management services provided by ICPEI (2020 - $200). ICPEI paid $1,044 to ICPH for management services provided by ICPH (2020 – ICPEI paid $69 to ICPH). Severance liability for management payable by ICPH to ICPEI is $514 (2020 – nil). The due to related companies balance includes amounts due to ICPH of $nil (2020 - $56).

Key Management

Key management includes named executive officers. Compensation to these individuals is summarized in the following table for the year ending December 31:

Compensation	2021	2020
Salaries and other short-term benefits	1,033	1,004

28 Goodwill

Goodwill recognized of $378 is based on the acquisition of Atlantic Adjusting & Appraisals (AAA) and Maritime Finance & Acceptance Corporation (MFAC) in October 2020. The details of the transaction are as follows:

Cash acquired - pursuant to termination of services agreement with AAA	$800
Furniture and Equipment acquired from AAA and MFAC	$12
Liabilities assumed - Loss adjustment expenses	($655)
Net assets acquired	$157
Consideration paid in cash to AAA and MFAC	($535)
Goodwill recognized	$378

The goodwill recognized represents the acquired specialized knowledge and experience of the acquired employees. The Company has performed an annual goodwill impairment test and no impairment has been recognized.

29 Subsequent Event

On January 4, 2022 the Company completed a non-brokered Private Placement financing of $850. The Private Placement consists of the sale of 440,415 common shares of the Company at a price of $1.93 per share. The shares issued pursuant to the Private Placement are subject to a hold period of four (4) months and one day from the date of closing of the Private Placement.