2021 Consolidated Financial Statements

Management Statement on Responsibility for Financial Reporting

The consolidated financial statements are the responsibility of management and have been prepared in conformity with International Financial Reporting Standards including the accounting requirements of the Superintendent of Insurance for Alberta. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Peace Hills General Insurance Company within reasonable bounds of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable consolidated financial statements. The adequacy of operation of the control systems is monitored on an ongoing basis by management.

The Board of Directors is responsible for approving the consolidated financial statements. It has established an Audit Committee, comprised of directors who are neither officers nor employees of the Company who meet with management, the internal auditor, the actuary and external auditors, all of whom have unrestricted access and the opportunity to have private meetings with the Audit Committee, to review the consolidated financial statements. The Audit Committee, in turn, submits its report to the Board of Directors to recommend the approval of the consolidated financial statements.

The Superintendent of Insurance for Alberta makes an annual examination and inquiry into the affairs of the Company as deemed necessary to ensure that the Company is in sound financial condition and that the interests of the policyholders are protected under the provisions of the Insurance Act.

The actuary has been appointed by the Board of Directors pursuant to the regulations found in the Insurance Act. The actuary is required to carry out a valuation of the policy liabilities recorded by the Company in its consolidated financial statements and report thereon to the shareholders. Policy liabilities consist of the provisions for salvage and subrogation, and future obligations on the unearned portion of insurance policies in-force, including deferred policy acquisition costs. The valuation is made in accordance with accepted actuarial practice, as well as any other matter specified in any direction that may be made by regulatory authorities. The actuary, in her verification of the management information provided by the Company and used in the valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of her work and opinion.

The Company's external auditors have been appointed by the shareholders, pursuant to the Act, to conduct an independent and objective audit of the consolidated financial statements of the Company in accordance with Canadian generally accepted auditing standards and report thereon to the shareholders. In carrying out their audit, the auditors also made use of the actuary and her report on the Company's policy liabilities. The auditor's report outlines the scope of their audit and their opinion.

Kathy Boychuk, CPA, CMA
President and Chief Executive Officer

Ajay Tellis, CPA, CA, CPA (Illinois), CIP
Chief Financial Officer

February 23, 2022
Edmonton, AB, Canada

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Independent Auditor's Report

PRICEWATERHOUSECOOPERS LLP
STANTEC TOWER, 10220 103 AVENUE NW, SUITE 2200, EDMONTON, AB, CANADA T5J 0K4
T: +1 780 441 6700 | F: +1 780 441 6776

To the Shareholders of Peace Hills General Insurance Company

OUR OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Peace Hills General Insurance Company and its subsidiary (together, the Company) as at December 31, 2021 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2021;
- the consolidated statement of changes in shareholders' equity for the year then ended;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year 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.

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.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
February 23, 2022

Actuary's Report

BARON INSURANCE SERVICES INC. | ACTUARIES & CONSULTANTS
206 LAIRD DRIVE, SUITE 205, TORONTO, ONTARIO M4G 3W4 | PHONE: (416) 486-0093

To the Shareholders of Peace Hills General Insurance Company:

I have valued the policy liabilities and the reinsurance recoverables of Peace Hills General Insurance Company for its statement of financial position as at December 31, 2021 and their changes in its statement of income for the year then ended, in accordance with accepted actuarial practice in Canada, including selection of appropriate assumptions and methods.

In my opinion, the amount of the policy liabilities, net of reinsurance recoverables, makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.

February 23, 2022
Toronto, Ontario

Barbara Addie
Fellow, Canadian Institute of Actuaries

Consolidated Statement of Financial Position

AS AT DECEMBER 31, 2021 (IN THOUSANDS $)

ASSETS	2021	2020
Cash and cash equivalents (Note 4)	25,189	19,273
Available-for-sale financial assets (Note 5)	260,101	213,888
Due from agents, brokers and policyholders	64,535	60,800
Due from other insurance companies	14,331	8,513
Salvage and subrogation recoverable	2,810	2,026
Reinsurance recoverables		
Unpaid claims and adjustment expenses (Note 13)	68,695	63,501
Unearned premiums	61,167	57,056
Salvage and subrogation	(922)	(653)
Deferred policy acquisition costs (Note 7)	46,304	40,286
Other assets (Note 6)	6,253	7,142
Capital assets		
Land and building (Note 8)	3,846	3,897
Other assets used in operations (Note 8)	1,755	2,134
Right-of-use assets (Note 9)	562	1,056
Intangible assets (Note 8)	1,268	1,284
Investment property (Note 10)	3,882	4,882
Deferred income tax assets (Note 23)	972	579
TOTAL ASSETS	**560,748**	**485,664**
LIABILITIES		
Due to agents, brokers and policyholders	15,441	10,366
Due to other insurance companies	9,759	8,453
Expenses due and accrued	4,532	3,917
Lease liabilities (Note 9)	595	1,100
Income taxes payable	4,151	3,854
Other taxes due and accrued	14,001	13,632
Unearned premiums and service charges (Note 12)	169,814	148,399
Provision for unpaid claims and adjustment expenses (Note 13)	196,465	176,849
Unearned reinsurance commissions	19,863	15,491
Funds held for other insurance companies (Note 11)	10,046	9,802
Deferred income tax liability (Note 23)	1,309	1,539
	445,976	**393,402**
SHAREHOLDERS' EQUITY		
Share capital (Note 18)	2,000	2,000
Preferred shares (Note 18)	5,000	5,000
Share premium (Note 18)	9,362	9,362
Retained earnings	97,419	70,348
Revaluation surplus	1,108	1,108
Accumulated other comprehensive (loss) income	(117)	4,444
	114,772	**92,262**
TOTAL LIABILITY AND EQUITY	**560,748**	**485,664**

Approved by the Board of Directors

Kathy Boychuk, CPA, CMA
President and Chief Executive Officer

John Szumlas
Audit Committee Chair

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statement of Changes in Shareholders' Equity

FOR THE YEAR ENDED DECEMBER 31, 2021 (IN THOUSANDS $)

	Share Capital	Preferred Shares	Share Premium	Retained Earnings	Revaluation Surplus	AOCI	TOTAL
At December 31, 2019	**2,000**	**5,000**	**9,362**	**52,909**	**1,108**	**582**	**70,961**
Net income	-	-	-	17,727	-	-	17,727
Other comprehensive income	-	-	-	-	-	3,862	3,862
Dividends (Note 18)	-	-	-	(325)	-	-	(325)
Refundable taxes	-	-	-	37	-	-	37
At December 31, 2020	**2,000**	**5,000**	**9,362**	**70,348**	**1,108**	**4,444**	**92,262**
Net income	-	-	-	27,868	-	-	27,868
Other comprehensive loss	-	-	-	-	-	(4,561)	(4,561)
Dividends (Note 18)	-	-	-	(786)	-	-	(786)
Refundable taxes	-	-	-	(11)	-	-	(11)
At December 31, 2021	**2,000**	**5,000**	**9,362**	**97,419**	**1,108**	**(117)**	**114,772**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statement of Income

FOR THE YEAR ENDED DECEMBER 31, 2021 (IN THOUSANDS $)

	2021	2020
Gross premiums written	331,945	291,399
Direct premiums written	327,980	287,492
Net premiums written	200,173	168,749
Net premiums earned	183,036	156,311
Earned service charge revenue	4,899	3,773
Underwriting revenue	187,935	160,084
Expenses incurred		
Claims	89,296	84,908
Commissions	30,813	25,854
Administrative (Note 25)	27,935	23,697
Premium taxes and other taxes	12,512	10,873
	160,556	145,332
Underwriting income	27,379	14,752
Investment income (expenses)		
Interest	2,979	3,608
Dividends and distributions	6,580	3,642
Gain on disposal of investments	2,345	2,765
Investment fees	(616)	(531)
	11,288	9,484
Loss from PHI Properties Limited (Note 14)	(558)	(683)
Investment property fair value adjustment (Note 10, 20)	(1,000)	-
Income before income taxes	**37,109**	**23,553**
Income taxes (Note 23)		
Current	9,865	2,773
Deferred	(624)	3,053
	9,241	5,826
Net income	**27,868**	**17,727**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED DECEMBER 31, 2021 (IN THOUSANDS $)

	2021	2020
Net income	**27,868**	**17,727**
Items that may be subsequently reclassified to profit or loss:		
Net (loss) gain arising on revaluation of available-for-sale financial assets during the year	(3,976)	7,789
Reclassification of adjustments relating to available-for-sale financial assets disposed of in the year	(2,345)	(2,765)
Income taxes	1,760	(1,162)
Other comprehensive (loss) income	**(4,561)**	**3,862**
Total comprehensive income	**23,307**	**21,589**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED DECEMBER 31, 2021 (IN THOUSANDS $)

	2021	2020
Net income	**27,868**	**17,727**
Operating activities:		
Items not affecting cash:		
Deferred income taxes	(623)	3,053
Net realized gain on disposal of investments	(2,345)	(2,765)
Amortization of bond premium	1,932	883
Depreciation and amortization of capital and intangible assets	983	892
Amortization on right-of-use assets	494	509
Loss on disposal of capital assets	(53)	(98)
Loss on disposal of right-of-use assets	-	12
Interest on lease liabilities	30	47
Fair value adjustment on investment property	1,000	-
	29,286	20,260
Change in non-cash working capital items:		
Deferred policy acquisition costs	(6,018)	(6,467)
Unpaid claims and adjustments expenses, net of recoverable from reinsurers	14,422	4,210
Unearned premiums, net of recoverable from reinsurers	17,137	12,438
Unearned reinsurance commissions	4,372	2,082
Net change in other non-cash balances	(638)	5,115
	29,275	17,378
	58,561	**37,638**
Investing activities:		
Investments sold or matured	288,946	163,220
Investments acquired	(340,757)	(208,011)
Net purchase of capital and intangible assets	(481)	(949)
Loan repayment from third parties	979	6,809
	(51,313)	**(38,931)**
Financing activities:		
Payment of dividends	(786)	(169)
Refundable taxes	(11)	37
Payment on lease liabilities	(535)	(557)
	(1,332)	**(689)**
Increase (decrease) in cash and cash equivalents	5,916	(1,982)
Cash and cash equivalents – Beginning of year	19,273	21,255
Cash and cash equivalents – End of year	**25,189**	**19,273**

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED DECEMBER 31, 2021 (IN THOUSANDS $)

Peace Hills General Insurance Company (the Company) is incorporated under the laws of the Province of Alberta. The Company is subject to the Insurance Act of Alberta (the Act) and is licensed to write all classes of insurance other than life, accident and sickness, in British Columbia, Alberta, Saskatchewan, Manitoba and the Northwest, Yukon and Nunavut Territories. The Company has a concentration of business in automobile and property insurance in the Province of Alberta. The Company is subject to regulation by the Alberta Superintendent of Insurance.

The address of its registered office is #300, 10709 Jasper Avenue, Edmonton, Alberta, Canada, T5J 3N3.

1. Significant Accounting Policies

The principal accounting policies adopted by the Company in the preparation of the consolidated financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as set out in Part I of the Handbook of the Chartered Professional Accountants of Canada as at and applicable on December 31, 2021.

The preparation of financial statements in compliance with IFRS requires the use of certain assumptions and critical accounting estimates and requires management to exercise professional judgment in the application of accounting policies. These estimates are subject to uncertainty. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect have been disclosed in note 2.

These consolidated financial statements were approved by the Board of Directors on February 23, 2022.

BASIS OF PREPARATION

The consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments, investment property and own-use land which are measured at fair value as noted in the accounting policies.

The functional currency is denominated in Canadian dollars and the amounts in the notes are shown in Canadian dollars, rounded to the nearest thousand dollars, unless otherwise stated. The consolidated statement of financial position is presented broadly in order of liquidity.

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, PHI Properties Limited. All inter-company balances and transactions have been eliminated.

COVID-19

In March 2020, the World Health Organization declared a global pandemic due to the novel coronavirus (COVID-19) which has carried into 2021. The impact of the pandemic on the economy and financial markets continues to evolve while contributing to increased market volatility and changes to the macroeconomic environment. The Company has included disclosures in the notes to the consolidated financial statements where the impact of COVID-19 is significant. The Company continues to monitor and manage the ongoing and developing impacts from COVID-19, including the potential future effects on its investments and its insurance contract liabilities, and will continue to assess the impacts to its operations. The extent of such impact will depend on future developments, which are highly uncertain, rapidly evolving and difficult to predict. Such further developments could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

FINANCIAL ASSETS

The Company classifies its financial assets into the following categories: available-for-sale or loans and receivables.

AVAILABLE-FOR-SALE INVESTMENTS

Debt securities (bonds and debentures) and equity shares (common shares) are classified as available-for-sale and recognized in the consolidated statement of financial position at their fair value, based on bid prices. Transaction costs relating to the purchase of bonds, along with premiums and discounts, are recorded as part of the carrying value of the bonds at the date of purchase and amortized using the effective interest rate method, while transaction costs that relate to common shares are capitalized on initial recognition.

Purchases and sales of securities and other financial assets are recognized at the trade date, being the date that the Company is committed to purchase or sell an asset.

Gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognized directly in other comprehensive income (OCI), until the financial asset is either sold, becomes impaired or matures, at which time the cumulative gain or loss previously recognized in OCI is recognized in the statement of income. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. When there is objective evidence that the asset is impaired, the cumulative loss that has been recognized directly in equity is removed from equity and recognized in profit or loss, even though the financial asset has not been derecognized.

De-recognition occurs when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Fair value measurements on the consolidated statement of financial position or the notes to the consolidated financial statements are classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The three levels of the fair value hierarchy are:

Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets or significant observable inputs

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs.

LOANS AND RECEIVABLES

Financial assets other than available-for-sale investments are classified as loans and receivables. Loans and receivables are initially recorded at fair value and subsequently measured at amortized cost.

INTEREST INCOME

Interest income and expense for all interest-bearing financial instruments are recognized in investment income and finance costs in the statement of income using the effective interest rate method.

DIVIDEND INCOME

Dividend income for available-for-sale equities is recognized when the right to receive payment is established, which is the ex-dividend date.

FINANCIAL LIABILITIES

All financial liabilities are classified as other financial liabilities and are initially recorded at fair value and subsequently measured at amortized cost.

OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position only where there is a legally enforceable right to offset and there is an intention to settle on a net basis or realize the asset and liability simultaneously.

INSURANCE CONTRACTS

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. The Company defines as significant insurance risk, the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

REVENUE RECOGNITION

Net premiums earned and service charges are recorded as revenue on a straight-line basis over the terms of the policies, usually twelve months. Unearned premiums represent the portion of premiums written that relate to the unexpired term of the policies in force.

DEFERRED POLICY ACQUISITION COSTS

Policy acquisition costs incurred in acquiring insurance premiums include commissions, premium taxes, health levies and an allocation of other variable policy underwriting expenses directly related to the writing or renewal of insurance policies.

Deferred policy acquisition costs relate to unearned premiums that are deferred to the extent that they are expected to be recovered from the unearned premiums and are amortized on a straight-line basis over the periods during which the premiums are earned. If the unearned premiums and anticipated investment income are not sufficient to pay expected claims and expenses (including policy maintenance expenses and unamortized policy acquisition costs), a premium deficiency exists. Premium deficiencies are recognized by first writing down the deferred policy acquisition cost asset, with any excess being recognized against underwriting income.

PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

The provision for unpaid claims represents the amount needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each statement of financial position date. A provision is also made for management's calculation of factors affecting future development of unpaid claims including claims incurred but not reported (IBNR) based on the volume of business currently in force and the historical experience on claims. The provision for adjustment expenses represents the estimated ultimate expected cost of investigating, resolving and processing these claims. As permitted by the Alberta Superintendent of Insurance, the provision estimations do not take into consideration the time value of money or make explicit provision for adverse deviation. These estimates are necessarily subject to uncertainty and are selected from a wide range of possible outcomes.

As a result, all provisions are regularly reviewed and evaluated in the light of emerging claim experience and changing circumstances. Changes in estimates of the ultimate liability are recorded as incurred claims in the current period.

INDUSTRY POOLS

When certain policyholders are unable to obtain insurance via the voluntary automobile insurance market, they are insured either through the Facility Association Residual Market (FARM) or the Alberta Risk Sharing Pool (ARSP). These risks are aggregated and shared by all entities in the Canadian P&C insurance industry, generally in proportion to market share. The Company applies the same accounting policies to FARM and ARSP insurance it assumes as it does to insurance policies issued by the Company directly to policyholders. In accordance with the guidelines set by the Alberta Superintendent of Insurance, assumed and ceded RSP premiums are reported in direct premiums written.

SALVAGE AND SUBROGATION

Salvage and subrogation recoverable are those circumstances in which the Company acquires the right to pursue third parties for losses paid to policyholders under insurance contracts or to dispose of the damaged goods. These are accrued on a specific case-by-case basis when the likelihood of salvage and subrogation is expected. The estimated amount payable to reinsurers is recorded as part of recoverable from reinsurers.

REINSURANCE

The Company cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the transferal of its risks. Reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders. Assets and liabilities arising from ceded reinsurance contracts are presented separately from the related assets and liabilities from the related insurance contracts because the reinsurance arrangements do not relieve the Company from its direct obligations to its policyholders.

Premiums, claims and expenses are recorded net of amounts ceded to, and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims and adjustment expenses and on unearned premiums are recorded on a gross basis as amounts recoverable from reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

CASH AND CASH EQUIVALENTS

The Company considers deposits in banks, certificates of deposit, banker's acceptance notes, treasury bills, money market funds and short-term investments with original maturities of three months or less as cash and cash equivalents.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investing or other purposes.

NON-FINANCIAL ASSETS

CAPITAL ASSETS

Capital assets, with the exception of land, are carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation of capital assets is provided using the following methodologies and annualized rates.

Asset Description	Value Method	Depreciation Method	Rate
Land	Fair value	Non-depreciating	
Building	Historical cost	Straight-line	3%
Leasehold improvements	Historical cost	Straight-line	Lease Term
Office equipment	Historical cost	Declining balance	20%
Computer infrastructure equipment	Historical cost	Declining balance	20%
Computer equipment	Historical cost	Straight-line	33%
Software	Historical cost	Straight-line	20%
Artwork	Historical cost	Non-depreciating	
Automobiles	Historical cost	Declining balance	30%

Own-use land is measured at fair value. Changes in fair value are recorded in OCI but are not subsequently reclassified to profit or loss. Rather, changes in fair value remain in shareholders' equity as part of revaluation surplus.

INTANGIBLE ASSETS

Intangible assets consist of certain acquired and internally developed software associated with the production of identifiable and unique software products controlled by the Company, and that will generate economic benefits exceeding costs beyond one year, some of which may not have yet been put into use. Intangible assets are amortized using the straight-line method over an estimated useful life of ten years. Amortization commences when the asset is available for use.

INVESTMENT PROPERTY

Investment property is held for long-term rental yields and capital appreciation, and is measured at fair value. Changes in the fair value of the investment property are recognized in profit or loss.

If the investment property or portion thereof becomes owner-occupied, the portion is reclassified as capital assets, and its fair value at the date of reclassification becomes its deemed cost upon which future depreciation expense is based.

IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets, including capital assets used in operations and intangibles, are assessed at the end of each reporting period to determine whether there is an indication of impairment. If such assets are considered to be impaired, the impairment recognized is the amount by which the carrying amount of the assets exceeds its fair value.

The carrying values of assets are written down by the amount of any impairment and this loss is recognized in the statement of income in the period in which it occurs. A previously recognized impairment loss relating to a non-financial asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the non-financial asset's recoverable amount.

INCOME TAXES

Income taxes are accounted for using the liability method. Under this method, deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Income tax payable on taxable profits is recognized as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognized as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits. Deferred tax is provided in full, using the liability method, on temporary timing differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and legislation enacted, or substantially enacted, by the statement of financial position date and is expected to apply when the deferred tax asset is realized or the deferred tax liability is settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. Deferred tax assets are only recognized to the extent their recovery is more likely than not.

LEASES

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

The Company leases office building space and office equipment. Rental contracts are typically for fixed terms under 7 years but may have extension options as described below.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Company under residual value guarantees
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the assets' useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and buildings and all leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise printers and telecommunications equipment.

Extension and termination options are included in a number of property and equipment leases. These are used to maximize operational flexibility in terms of managing the assets used in the Company's operations. The majority of extension and termination options held are exercisable only by the Company and not by the respective lessor. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Leases where the Company is the lessor and retains a significant portion of risks and rewards of ownership are classified as operating leases. Rental income under operating leases (net of any incentives paid) are recognized in the statement of income on a straight-line basis over the period of the lease.

FOREIGN CURRENCY TRANSLATION

Foreign exchange gains and losses resulting from the translation and settlement of foreign currency items are recognized in the consolidated statement of income.

Translation differences on items classified as available-for-sale (for example, equity securities) are not recognized in the consolidated statement of income but are included in net gains (losses) within OCI until the sale of the asset, at which time they are transferred to the statement of income as part of the overall gain or loss on sale of the item.

COMPREHENSIVE INCOME

Comprehensive income comprises net income and OCI. The cumulative changes in OCI, other than for own-use land, are included in accumulated other comprehensive income until recognized in the consolidated statement of income. The cumulative changes in OCI for own-use land are included in revaluation surplus and not recognized in profit or loss.

2. Critical Accounting Estimates and Judgments

In the preparation of the Company's consolidated financial statements, management has made a number of estimates and judgments, the more critical of which are discussed below:

PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

The provision for unpaid claims and adjustment expenses is valued based on Canadian accepted actuarial practice, which is designed to ensure the Company establishes an appropriate provision to cover the ultimate net cost of insured losses. These estimates are based on an independent opinion of a qualified actuary.

The determination of this provision, which includes unpaid claims, adjustment expenses, expected salvage and subrogation and the related reinsurers' share of each claim, requires an assessment of future claims development. Also included in this provision is an estimate for events that have been incurred but not reported (IBNR). This assessment takes into account the consistency of the Company's claim handling procedures, the best-known information available, the characteristics of the business line, historical trends, the potential impact of the COVID-19 pandemic, other pertinent factors and the normal delay inherent in claims reporting. This provision is an estimate and, as such, is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the Company's historical experience and may be revised as additional experience becomes available, which would be reflected in the consolidated statement of income for the period in which the change occurred.

FAIR VALUE OF INVESTMENT PROPERTY AND OWN-USE LAND

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (i.e. lease payments, occupancy rates, operating costs, capital expenditures), discount rates applicable to cash flows, identification of comparable properties and capitalization rates. These estimates are based on market conditions at the reporting date. The following approaches, either individually or in combination, are used by qualified appraisers or by management, in determination of the fair value of investment properties.

- The income approach derives market values by estimating the future cash flows that will be generated by the property and then applying the appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the direct capitalization method and/or the discounted cash flow analysis.

- The direct comparison approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

The most recent independent professional appraisal was completed in August 2019 using the combined approach (direct cash flow analysis and direct comparison approach). Management performed an internal assessment at year-end to update key assumptions, including considerations of the continued impact of the COVID-19 pandemic. Management concluded the fair value of investment property building decreased by $1,000 (2020: $nil).

If the market rental rates used in the DCF analysis were to increase or decrease by 10% from management's estimates, the carrying amount of investment property and own-use land would be an estimated $1,624 (2020: $1,017) higher or lower, respectively. If the discount rate used in the DCF analysis were to increase or decrease by 1%, the carrying amount of investment property and own-use land would be an estimated $647 (2020: $653) lower or higher, respectively. If the terminal capitalization rate used in the DCF analysis were to increase or decrease by 1%, the carrying amount of investment property and own-use land would be an estimated $469 (2020: $445) lower or higher, respectively.

3. Future Changes in Accounting Policies

The following standards are effective for the Company for the year commencing January 1, 2023. In March 2020, the International Accounting Standards Board (IASB) deferred the mandatory effective date of the following standards to January 1, 2023.

a) IFRS 9, Financial Instruments, is a three-part standard to replace IAS 39, Financial instruments: recognition and measurement, addressing new requirements for:

i. classification and measurement;
ii. impairment; and
iii. hedge accounting

IFRS 9 was effective for the year commencing January 1, 2018. However, an amendment to IFRS 4, Insurance contracts, which was adopted by the Company on January 1, 2018, provide an option of a temporary exemption from applying IFRS 9 for entities whose predominate activity is issuing insurance contracts within the scope of IFRS 4. Therefore, qualifying entities have the option to adopt IFRS 9 upon the adoption of IFRS 17, Insurance Contracts, which is discussed further below. The Company has assessed the qualification criteria and determined that this temporary exemption does apply; thus, IFRS 9 will be effective when IFRS 17 is adopted.

The Company has concluded that it qualifies for the temporary exemption from IFRS 9 based on the following reasons:

i. The Company has not previously applied any version of IFRS 9 for any of the entities; and

ii. The Company's activities are predominantly considered insurance. To be considered predominantly insurance, the carrying amount of liabilities arising from contracts within the scope of IFRS 4 must be significant compared to the total carrying amount of all liabilities. The standard goes on to detail that significant is defined as greater than 90%, or less than or equal to 90% but greater than 80%, and the insurer does not engage in a significant activity unconnected with insurance.

The Company completed an assessment and concluded that its activities are greater than 90% and hence predominately connected with insurance. The assessment was performed using the consolidated reporting entity basis, as required by the standard.

b) IFRS 17, Insurance contracts, was issued in May 2017 to replace IFRS 4, with the purpose of providing a single accounting model that measures insurance contracts using current estimates. It introduces several changes to the recognition, measurement, presentation and disclosure of these contracts.

For recognition and measurement under IFRS 17:

i. the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognized over the coverage period, or

ii. aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less.

The Company is assessing the impact of the pronouncements on its results and consolidated financial position. Semi-annual progress reports are provided to the Audit Committee and the Superintendent of Insurance.

4. Cash and Cash Equivalents

The effective interest rate on bank account deposits is 0.2% (2020: 0.55%). The weighted average maturity on short term paper with a maturity date is 12 days (2020: 38 days).

	2021	2020
Cash	6,446	3,600
Investments in short term paper	1,320	1,660
Money market funds	17,423	14,013
	25,189	**19,273**

5. Available-for-Sale Financial Assets

The Company limits its investment concentration in any one investee or related group of investees to 5% of the Company's total assets, except as allowed by Section 418(1) of the Act.

	2021			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value Carrying Amount
Bonds and Debentures	216,494	562	(1,952)	215,104
Common Shares	42,879	3,244	(2,263)	43,860
Accrued Investment Income	1,137	-	-	1,137
	260,510	**3,806**	**(4,215)**	**260,101**

	2020			
	Cost/ Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value Carrying Amount
Bonds and Debentures	174,128	3,530	(2)	177,656
Common Shares	32,010	3,491	(94)	35,407
Accrued Investment Income	825	-	-	825
	206,963	**7,021**	**(96)**	**213,888**

BONDS AND DEBENTURES – PRINCIPAL AMOUNT AND CARRYING AMOUNT

The principal amount and carrying amount are shown by contractual maturity. Actual maturity may differ from contractual maturity because certain issuers have the right to call or prepay certain obligations with or without call or prepayment penalties.

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Term maturity	2021 Principal amount	2021 Fair value carrying amount	2020 Principal amount	2020 Fair value carrying amount
Government of Canada:				
Due in one year or less	7,320	7,337	18,972	19,103
Between one and five years	39,403	39,587	21,127	21,477
After five years	-	-	6,181	6,704
Provincial:				
Due in one year or less	7,102	7,198	5,473	5,637
Between one and five years	74,322	77,396	42,065	45,535
After five years	2,628	3,057	12,600	13,689
Municipal:				
Due in one year or less	1,233	1,243	811	820
Between one and five years	3,831	3,985	5,198	5,494
After five years	-	-	75	81
Corporate:				
Due in one year or less	10,329	10,407	11,093	11,180
Between one and five years	40,158	40,527	29,130	30,579
After five years	23,612	24,367	16,188	17,357
	209,938	**215,104**	**168,913**	**177,656**
Due in one year or less	**25,984**	**26,185**	**36,349**	**36,740**
Between one and five years	**157,714**	**161,495**	**97,520**	**103,085**
After five years	**26,240**	**27,424**	**35,044**	**37,831**
	209,938	**215,104**	**168,913**	**177,656**

The Company continues to assess the cash flow characteristics SPPI (solely payments of principal and interest) test under IFRS 9. Based on its preliminary assessment, the bonds and debentures, as well as other financial assets, would pass the SPPI test. The composition of bonds and debentures may change significantly by the time IFRS 9 is adopted, which is expected to be on January 1, 2023, as discussed in Note 3.

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BONDS AND DEBENTURES – INTEREST RATE RISK

Details of significant terms and conditions and exposures to interest rate risk on investments are as follows:

		2021			
Interest Receivable Basis	**Bond Description**	**Effective rates (% range)**	**Weighted Average (%)**	**Coupon rates (% range)**	**Weighted Average (%)**
Semi-annual	Government of Canada	0.27 to 1.50	1.02	0.25 to 2.40	1.69
Semi-annual	Provincial	0.41 to 2.20	1.37	1.88 to 5.85	2.72
Semi-annual	Municipal	0.31 to 1.61	1.19	0.90 to 4.98	2.80
Semi-annual	Canadian Corporate	0.21 to 4.37	1.86	0.21 to 4.86	2.62

		2020			
Interest Receivable Basis	**Bond Description**	**Effective rates (% range)**	**Weighted Average (%)**	**Coupon rates (% range)**	**Weighted Average (%)**
Semi-annual	Government of Canada	0.14 to 0.59	0.22	0.50 to 2.75	1.39
Semi-annual	Provincial	0.17 to 0.83	0.56	1.35 to 4.25	2.81
Semi-annual	Municipal	0.22 to 2.01	0.78	0.80 to 4.98	2.73
Semi-annual	Canadian Corporate	0.29 to 4.29	1.01	1.13 to 6.63	2.87

6. Other Assets

	2021	2020
Prepaid expenses	520	431
Income taxes receivable	65	107
Other receivables	5,668	6,604
	6,253	**7,142**

Other receivables consist of broker loans, receivables from the federal goods and services tax rebates, and recoverable receivables of PHI Properties from tenants. The majority of the balance relates to loans to certain insurance brokers at floating interest rates. At December 31, 2021, the Company had loans outstanding with a balance of $4,885 (2020: $5,866) with annual principal payments of $831 in the upcoming year. Maturity dates for loans range from March 2024 to May 2029. Prepayment can occur without penalty or notice.

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7. Deferred Policy Acquisition Costs

The movements of deferred policy acquisitions costs during the year were as follows:

	2021	2020
As of January 1	40,286	33,819
Additions	88,888	78,329
Expensed during the year	(82,870)	(71,862)
As of December 31	46,304	40,286

8. Capital and Intangible Assets

	Land	Building	LAND AND BUILDING TOTAL	Leasehold Improvements	Office Equipment & Artwork	Computing and Software	Automobiles	OTHER ASSETS TOTAL	INTANGIBLE ASSETS TOTAL
Carrying Value, Dec 31, 2019	**3,366**	**582**	**3,948**	**390**	**206**	**705**	**355**	**1,656**	**1,556**
2020									
Additions	-	-	-	-	62	921	188	1,171	(25)
Disposals	-	-	-	-	(4)	(2)	(93)	(99)	-
Depreciation and amortization expenses	-	(51)	(51)	(181)	(45)	(246)	(122)	(594)	(247)
Net change to assets	**-**	**(51)**	**(51)**	**(181)**	**13**	**673**	**(27)**	**478**	**(272)**
Carrying Value:									
Cost/fair value	3,366	1,442	4,808	4,291	1,834	3,386	590	10,101	4,162
Accumulated depreciation and amortization	-	(911)	(911)	(4,082)	(1,615)	(2,008)	(262)	(7,967)	(2,878)
Carrying Value, Dec 31, 2020	**3,366**	**531**	**3,897**	**209**	**219**	**1,378**	**328**	**2,134**	**1,284**
2021									
Additions	-	-	-	7	48	203	96	354	240
Disposals	-	-	-	-	(3)	(25)	(29)	(57)	-
Depreciation and amortization expenses	-	(51)	(51)	(181)	(39)	(349)	(107)	(676)	(256)
Net change to assets	-	(51)	(51)	(174)	6	(171)	(40)	(379)	(16)
Carrying Value:									
Cost/fair value	3,366	1,442	4,808	4,298	1,878	3,403	580	10,159	4,402
Accumulated depreciation and amortization	-	(962)	(962)	(4,263)	(1,653)	(2,196)	(292)	(8,404)	(3,134)
Carrying Value, Dec 31, 2021	**3,366**	**480**	**3,846**	**35**	**225**	**1,207**	**288**	**1,755**	**1,268**

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The Company has a multi-use property allocated between capital assets and investment property (Note 20). Land and building figures above represent the carrying amount of the portion that is used by the Company. Intangible assets include the net book value of integrated third-party financial systems and the broker portal system that are designed specifically for the Company of $1,268 (2020: $1,284).

9. Right-of-Use Assets and Lease Liabilities

AMOUNTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Right-of-use assets	**2021**	**2020**
Balance at January 1	1,056	1,336
Additions	-	254
Amortization	(494)	(509)
Disposals	-	(25)
Balance at December 31	**562**	**1,056**
Right-of-use assets breakdown		
Buildings	399	833
Office equipment	163	223
	562	**1,056**

Lease liabilities	**2021**	**2020**
Undiscounted cash flows		
Within 1 year	436	535
Within 2 years	121	436
Within 3 years	47	121
Within 4 years	6	47
In excess of 4 years	-	6
Undiscounted balance at December 31	610	1,145
Effect from discounting	(15)	(45)
Lease liabilities included in the consolidated statement of financial position	**595**	**1,100**
Lease liabilities breakdown		
Current	425	505
Non-Current	170	595
	595	**1,100**

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AMOUNTS RECOGNIZED IN THE CONSOLIDATED STATEMENT OF INCOME

Amortization of right-of-use assets	**2021**	**2020**
Buildings	435	435
Office equipment	59	74
	494	**509**
Other lease related expenses (included in Note 25)		
Interest expense	30	47
Expenses related to short-term leases	-	9
Expense relating to leases of low-value assets that are not shown above as short-term leases	3	5
Expenses relating to variable lease payments not included in lease liabilities	227	225

The total cash outflow for leases in 2021 was $538 (2020: $571).

As at December 31, 2021 potential future cash outflows of $1,819 (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

10. Investment Property

	Land	**Building**	**TOTAL**
Fair value as of December 31, 2020	3,033	1,849	4,882
Fair value losses	-	(1,000)	(1,000)
Fair value as of December 31, 2021	3,033	849	3,882

Income and operating expenses related to the Company's multi-use property are included in Note 14. Fair value disclosures are included in Note 20.

11. Alberta Risk Sharing Pool and Facility Association Residual Market

The Company has included in its accounts the following aggregate amounts in respect of its share in the ARSP and FARM:

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Assets	2021	2020
Due from other insurance companies	9,167	7,574
Amounts recoverable from reinsurers	5,946	5,250
Deferred policy acquisition costs	1,932	1,620
	17,045	14,444
Liabilities		
Provision for unpaid claims and adjustment expenses	13,450	12,228
Unearned premiums and reinsurance commissions	6,181	5,086
Due to other insurance companies	874	441
Other taxes due and accrued	235	313
	20,740	18,068
Revenues		
Net premiums earned	7,294	6,660
Expenses		
Claims	4,344	4,945
Commissions	1,534	1,501
Premium and other taxes	607	627
Administrative	578	513
	7,063	7,586

The Company holds its proportionate share of excess funds from FARM as part of its investment portfolio in the amount of $6,419 (2020: $6,419), which are included in funds held for other insurance companies. These funds will be returned to FARM as needed to facilitate payment of the related policyholder claims. Premiums ceded to the ARSP were $3,965 (2020: $3,907); there are no premiums that are ceded to the FARM.

12. Unearned Premiums and Service Charges

Unearned premiums and service charges, as presented on the consolidated statement of financial position, are composed of the following movements within the consolidated statement of income.

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	2021			2020		
	Gross of Reinsurance	**Reinsurance**	**Net of Reinsurance**	**Gross of Reinsurance**	**Reinsurance**	**Net of Reinsurance**
As of January 1	**148,399**	**57,056**	**91,343**	**126,848**	**48,704**	**78,144**
Premiums written	331,945	131,772	200,173	291,399	122,650	168,749
Less: Net unearned premiums resulting from a portfolio transfer	-	1,292	(1,292)	-	-	-
Less: Premiums earned	(310,697)	(128,953)	(181,744)	(270,609)	(114,298)	(156,311)
Change in unearned service charges	167	-	167	761	-	761
As of December 31	**169,814**	**61,167**	**108,647**	**148,399**	**57,056**	**91,343**

13. Unpaid Claims and Adjustment Expenses

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of two major variables: the development of claims and reinsurance recoveries. Activity in the provision for unpaid claims and adjustment expenses, by line of business, is summarized below:

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	Property	Auto	2021	2020
Provision for unpaid claims and adjustment expenses Beginning of year:				
Gross	78,879	97,970	**176,849**	**166,078**
Reinsurance ceded	(33,436)	(30,065)	**(63,501)**	**(56,940)**
Net provisions – Beginning of year	45,443	67,905	**113,348**	**109,138**
Net incurred claims and claim adjustment expenses:				
Provision for insured events of current year	45,785	47,849	**93,634**	**91,196**
Increase (decrease) in provision for insured events of prior years	39	(3,862)	**(3,823)**	**(6,384)**
Total net incurred (excludes subrogation)	45,824	43,987	**89,811**	**84,812**
Net payments attributable to:				
Current year events	(19,935)	(20,208)	**(40,143)**	**(44,543)**
Prior year events	(18,711)	(16,535)	**(35,246)**	**(36,059)**
Total net payments	(38,646)	(36,743)	**(75,389)**	**(80,602)**
Net provision for unpaid claims and adjustment expenses End of year	52,621	75,149	**127,770**	**113,348**
Reinsurance ceded – End of year	35,063	33,632	**68,695**	**63,501**
Gross provision for unpaid claims and adjustment expenses End of year	87,684	108,781	**196,465**	**176,849**

COVID-19 has the potential to impact estimates and assumptions used in the valuation of unpaid claims and adjustment expenses. The extent to which COVID-19 alters the Company's estimates and assumptions in the valuation of its unpaid claims and adjustment expenses will depend on future developments that are highly uncertain, including new information which may emerge concerning the duration and severity of government interventions as the outcome of the pandemic continues to evolve. The effects of COVID-19 on emerging coverage issues and claims, including certain class action lawsuits, in which the Company may be indirectly affected or named, pertaining to business interruption coverage and related defense costs could further negatively impact our claims reserves.

The Company estimates that the fair value of the gross provision for unpaid claims and adjustment expenses is $192,491 (2020: $177,827) as determined on a discounted basis by the appointed actuary.

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CLAIMS DEVELOPMENT (GROSS)

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

The top half of each table illustrates how the Company's estimate of total claims incurred for each year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim frequency and severity.

Reporting Year (Gross)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Estimate of ultimate claims costs:											
At end of reporting year	98,236	116,503	119,680	112,970	233,007	130,658	130,823	111,177	123,410	124,793	**1,301,257**
1 year later	100,435	117,478	120,831	116,079	223,148	132,127	130,402	107,733	123,708		
2 years later	100,301	120,568	122,291	117,581	223,140	133,545	130,781	111,450			
3 years later	101,972	122,452	124,847	118,850	225,068	133,466	131,563				
4 years later	102,290	123,835	124,771	119,590	225,374	133,779					
5 years later	102,073	124,067	125,205	119,851	224,902						
6 years later	102,342	124,333	125,126	120,091							
7 years later	102,182	122,898	125,189								
8 years later	102,015	123,123									
9 years later	102,400										
Current estimate of cumulative claims	102,400	123,123	125,189	120,091	224,902	133,779	131,563	111,450	123,708	124,793	**1,320,998**
Cumulative payments to date	(101,313)	(122,712)	(124,431)	(118,062)	(219,475)	(125,186)	(119,997)	(95,078)	(101,422)	(60,214)	**(1,187,890)**
Liability recognized in the consolidated statement of financial position	1,087	411	758	2,029	5,427	8,593	11,566	16,372	22,286	64,579	**133,108**
IBNR	83	161	468	951	1,369	2,200	3,624	6,832	15,905	16,423	**48,016**
FARM	9	41	39	57	68	135	453	732	1,082	1,748	**4,364**
ARSP	107	91	85	288	403	543	983	1,412	2,050	3,008	**8,970**
Reserve in respect of prior years											**2,007**
Total reserve included in the consolidated statement of financial position											**196,465**

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CLAIMS DEVELOPMENT (NET)

The following table considers claim liabilities after recovery from various reinsurers. The Company continues to benefit from reinsurance that was purchased in prior years and these include excess-of-loss reinsurance coverage.

Reporting Year (Gross)	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**Total**
Estimate of ultimate claims costs:											
At end of reporting year	61,980	68,683	75,808	75,788	73,718	76,766	75,767	68,630	71,534	74,349	**723,023**
1 year later	63,271	68,169	76,539	77,794	74,756	77,416	75,267	66,506	71,696		
2 years later	63,670	70,371	77,855	79,232	77,071	79,123	75,813	69,060			
3 years later	65,125	71,569	79,991	80,577	78,777	79,098	76,546				
4 years later	65,593	72,821	79,891	81,251	79,054	79,283					
5 years later	65,356	73,018	80,301	81,364	79,073						
6 years later	65,606	73,224	80,372	81,574							
7 years later	65,467	72,946	80,434								
8 years later	65,327	73,169									
9 years later	65,619										
Current estimate of cumulative claims	65,619	73,169	80,434	81,574	79,073	79,283	76,546	69,060	71,696	74,349	**750,803**
Cumulative payments to date	(65,004)	(72,859)	(79,805)	(79,904)	(75,517)	(74,085)	(68,941)	(58,137)	(58,260)	(36,275)	**(668,787)**
Net liability recognized in the consolidated statement of financial position	615	310	629	1,670	3,556	5,198	7,605	10,923	13,436	38,074	**82,016**
IBNR	53	131	302	669	848	1,483	2,605	4,929	11,863	12,137	**35,020**
FARM	8	34	32	45	46	92	308	498	736	1,206	**3,005**
ARSP	91	75	71	228	274	369	668	960	1,394	2,075	**6,205**
Reserve in respect of prior years											**1,524**
Total reserve included in the consolidated statement of financial position											**127,770**

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14. PHI Properties Limited - Statement of Operations

	2021	2020
Revenue		
Rental income	1,506	1,391
Intercompany elimination	(1,034)	(1,094)
	472	297
Expenses		
Operations	905	834
Depreciation	51	51
Other	84	105
Intercompany elimination	(10)	(10)
	1,030	980
Operating loss	**(558)**	**(683)**

15. Defined Contribution Pension Plan

The Company maintains a defined contribution pension plan and other post-retirement benefits for certain employees, which is funded by employer and employee contributions. Contributions are expensed as paid or accrued. Pension expense included in administrative expenses for the year ended December 31, 2021 was $1,019 (2020: $933).

16. Related Party Transactions

KEY MANAGEMENT COMPENSATION

The Company's directors and executive management are considered to be persons who have the authority and responsibility for planning, directing and controlling the Company. The compensation amounts for the year were:

	2021	2020
Salaries and other short-term employee benefits	2,246	2,168
Other long-term employee benefits	327	281
	2,573	**2,449**

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DONATIONS

The Company made donations to individual members and organizations of the Samson Cree Nation, which is the ultimate shareholder of the Company. These donations are included in administrative expenses and amount to $188 (2020: $191).

17. Contingent Liabilities

The Company, like all other insurers, is subject to litigation in the normal course of conducting its insurance business which is taken into account in establishing the provision for unpaid claims and adjustment expenses. Uncertainty relates to whether the claim will be settled in or out of court or if the Company will be successful in defending the action. Because of the nature of disputes, the Company has not disclosed any additional information on the basis that they believe this would be seriously prejudicial to the Company's position in defending the cases brought against it. The Company does not believe that such litigation will have a material effect on its profit or loss and financial condition.

18. Share Capital

COMMON SHARES

The Company is authorized to issue an unlimited number of voting common shares. The issued number of common shares is twenty thousand nine hundred (20,900) with a par value of ninety-six dollars per share, amounting to $2,000 (2020: $2,000). All issued shares are fully paid and there have been no changes in the volume of shares or par value. All common shares are held by Samson Management Ltd., an entity owned by the Samson Cree Nation.

A dividend of $461 (2020: $nil) was declared and paid in 2021.

SHARE PREMIUM

Total share premium, which is the difference between the par value and the actual value paid on equity, is $9,362 (2020: $9,362).

PREFERRED SHARES

The Company is authorized to issue an unlimited number of non-voting Class A and B preferred shares. The issued number of preferred shares is five thousand (5,000) Class A preferred shares to the Samson Cree Nation with a redemption price of one thousand dollars per share, amounting to $5,000.

The shares are redeemable at the option of the Company on or after December 2024. Any redemption is subject to obtaining prior written approval of the Superintendent, the Company's bylaws and the Insurance Act of Alberta and subject to the proviso that no amount shall be paid to redeem any of the shares if, following such payment, the Company would fail to meet the Company's supervisory minimum capital test (MCT) target. Payment of dividends of 6.5% on the Class A preferred shares are payable only when declared by the Company's Board of Directors, such that the Company will be able to meet the supervisory MCT target after such declaration and payment.

A dividend of $325 (2020: $325) was declared on the Class A preferred shares in December and is included in expenses due and accrued. The dividend was paid subsequent to year-end.

19. Financial Risk Management

The Board of Directors ensures that management has appropriate and reasonable risk management processes in place. Through the Audit/Conduct Review Committee and Risk Committee, the Board oversees such risk management procedures and controls and management is responsible for carrying them out. The most significant risks that the Company must manage with respect to unpaid claims and other financial instruments are product and pricing, underwriting and liability, catastrophe and reinsurance, credit, market and liquidity risks.

CREDIT RISK

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash and cash equivalents, available-for-sale financial assets, due from agents, brokers and policyholders, due from other insurance companies, reinsurance recoverables and other receivables.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits and single issuer limits. Compliance with the investment policy is monitored by the Investment Committee of the Board of Directors. All of the Company's investments in bonds and debentures are rated A or above, except for $26,866 (2020: $16,363) which are rated BBB, as summarized below:

	2021		2020	
Bond rating:	**Principal amount**	**Fair value carrying amount**	**Principal amount**	**Fair value carrying amount**
AAA	49,417	49,675	49,349	50,474
AA	98,716	102,657	84,389	90,038
A	35,300	35,906	19,528	20,781
BBB	26,505	26,866	15,647	16,363
	209,938	**215,104**	**168,913**	**177,656**

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The Company's credit exposure to any one individual policyholder is not material. However, the Company's policies are distributed by brokers who may manage cash collection on its behalf. The Company monitors its exposure to brokers and has procedures to ensure that it works with only licensed firms in good standing with their regulatory bodies.

The Company also has policies which limit its exposures to individual reinsurers and regular review processes to assess the creditworthiness of reinsurers with whom it transacts business. All reinsurers are rated A- or above. In addition, for reinsurers not licensed in Canada, funds of $3,627 (2020: $3,383) are held on deposit for settlement of unpaid claims and adjustment expenses when paid. These deposits are included in funds held for other insurance companies.

The Company's maximum credit exposure is the carrying value of the financial assets recorded on the consolidated statement of financial position.

Amounts due from agents, bankers and policyholders are short-term in nature consisting of a large number of policyholders and are not subject to material credit risk. Regular review of outstanding receivables is performed to ensure credit worthiness.

INTEREST RATE RISK

Interest rate risk refers to the risk that the value of a financial instrument may fluctuate due to changes in interest rates. The Company is exposed to interest rate risk through investments in bonds and debentures, which are sensitive to changes in interest rates. Such changes may be more volatile due to the COVID-19 pandemic.

At December 31, 2021, a 1% change in interest rates, with all other variables held constant, is estimated to impact the fair value of bonds and debentures by $7,144 (2020: $5,912). The change would be recognized in OCI.

MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as equity market fluctuations and foreign currency exchange rates. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. The COVID-19 pandemic has increased market risk as it has and may continue to create volatility in the capital markets. At December 31, 2021, a 10% change in the fair value of equity holdings in the Company's investment portfolio, with all other variables held constant, would have an estimated effect on the fair values of common shares of $4,386 (2020: $3,541). The change would be recognized in other comprehensive income.

The Company does not have any investments denominated in foreign currencies. The Company has investments in a Pooled Global Equity Fund of $24,691 (2020: $20,131) and an Emerging Market Equity Fund of $6,179 (2020: $4,827), which are indirectly exposed to fluctuations in foreign exchange as part of overall market risk.

To mitigate these risks, the Company's exposures are monitored on a regular basis and actions are taken to balance positions when approved risk tolerance limits are exceeded. Compliance with the investment policy is monitored by the Investment Committee of the Board of Directors. Diversification techniques are employed to minimize risk. The policy limits the investment in any entity or group of related entities to a maximum of 5% of the Company's total assets. External investment managers manage the Company's investment portfolio and asset mix based on the investment policy guidelines.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will not be able to meet its cash obligations as they fall due. The Company does not have material liabilities that can be called unexpectedly. Claims and claims adjustment expenses and administrative expenses are funded by current operating cash flows which normally exceed cash requirements. The timing and amount of catastrophe claims events are inherently unpredictable and may create increased liquidity requirements.

Prudent liquidity management implies maintaining sufficient cash and available funding through an adequate amount of committed credit facilities. Liquidity risk is managed by maintaining a highly liquid investment portfolio, so investments with a longer or no contractual maturity are also available to meet liquidity requirements. In addition, at December 31, 2021, the Company has $25,189 (2020: $19,273) of cash and cash equivalents.

The Company's estimated maturities of its financial assets, other assets, and financial liabilities are presented based on their contractual maturities. The provision for unpaid claims and related reinsurers' share are presented based on expectations of the timing of future cash flows.

	2021					
	Within 1 year	**Over 1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**No contractual maturity**	**TOTAL**
Cash and cash equivalents	25,189	-	-	-	-	25,189
Available-for-sale financial assets and accrued investment income	26,185	52,843	108,652	27,424	44,997	260,101
Due from brokers, policyholders, and other insurance companies	81,676	-	-	-	-	81,676
Unpaid claims and adjustment expenses						
Unearned premiums	32,559	21,717	8,011	6,408	-	68,695
Salvage and subrogation	-	-	-	-	61,167	61,167
Salvage and subrogation	(922)	-	-	-	-	(922)
Other receivables	1,694	1,495	1,204	1,340	-	5,733
Other non-financial assets	-	-	-	-	59,109	59,109
	166,381	**76,055**	**117,867**	**35,172**	**165,273**	**560,748**
Due to brokers, policyholders and other insurance companies	25,200	-	-	-	-	25,200
Expenses and other taxes due and accrued	18,533	-	-	-	-	18,533
Income taxes payable	4,151	-	-	-	-	4,151
Lease liabilities	425	170	-	-	-	596
Unearned premiums, service charges and reinsurance commissions	-	-	-	-	189,677	189,677
Provision for unpaid claims and adjustment expenses	86,532	63,038	26,598	20,297	-	196,465
Funds held for other insurance companies	3,627	-	-	-	6,419	10,046
Deferred income tax liability	-	-	-	-	1,309	1,309
	138,468	**63,208**	**26,598**	**20,297**	**197,405**	**445,976**
Excess (deficit) of assets over liabilities by maturity	**27,913**	**12,847**	**91,269**	**14,875**	**(32,132)**	**114,772**

	2020					
	Within 1 year	**Over 1 to 3 years**	**Over 3 to 5 years**	**Over 5 years**	**No contractual maturity**	**TOTAL**
Assets	158,022	67,283	66,959	45,994	147,406	485,664
Liabilities	121,077	57,465	24,547	18,465	171,848	393,402
Excess (deficit) of assets over liabilities by maturity	**36,945**	**9,818**	**42,412**	**27,529**	**(24,442)**	**92,262**

20. Fair Values

The following tables summarize fair value measurements recognized in the consolidated statement of financial position or disclosed in the Company's consolidated financial statements by class of asset or liability and categorized by level according to the significance of the inputs used in making the measurements. There were no transfers between levels in the hierarchy during the year.

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	December 31, 2021				December 31, 2020			
	Carrying amount	Fair Value Level 1	Level 2	Level 3	Carrying amount	Fair Value Level 1	Level 2	Level 3
Recurring measurements								
Bonds and Debentures								
Government of Canada	46,924	-	46,924	-	47,284	-	47,284	-
Provincial	87,651	-	87,651	-	64,861	-	64,861	-
Municipal	5,228	-	5,228	-	6,395	-	6,395	-
Canadian corporate	75,301	-	75,301	-	59,116	-	59,116	-
	215,104	-	215,104	-	177,656	-	177,656	-
Common Shares								
Pooled Global Equity Funds	24,691	-	24,691	-	20,131	-	20,131	-
Pooled Emerging Market Equity Funds	6,179	-	6,179	-	4,827	-	4,827	-
Financials	4,362	4,362	-	-	3,460	3,460	-	-
Industrials	1,851	1,851	-	-	1,466	1,466	-	-
Information Technology	1,500	1,500	-	-	1,428	1,428	-	-
Materials	1,490	1,490	-	-	1,438	1,438	-	-
Energy	1,360	1,360	-	-	881	881	-	-
Consumer Discretionary	706	706	-	-	701	701	-	-
Consumer Staples	547	547	-	-	264	264	-	-
Telecommunication Services	456	456	-	-	284	284	-	-
Utilities	401	401	-	-	297	297	-	-
Real Estate	305	305	-	-	182	182	-	-
Health Care	12	12	-	-	48	48	-	-
	43,860	12,990	30,870	-	35,407	10,449	24,958	-
Total financial assets	**258,964**	**12,990**	**245,974**	**-**	**213,063**	**10,449**	**202,614**	**-**
Non-financial assets								
Land	3,366	-	-	3,366	3,366	-	-	3,366
Investment Property	3,882	-	-	3,882	4,882	-	-	4,882
Total non-financial assets	**7,248**	**-**	**-**	**7,248**	**8,248**	**-**	**-**	**8,248**
Fair values disclosed								
Other receivables	5,668	-	-	5,668	6,604	-	-	6,604

The fair values of the following financial assets and liabilities approximate their carrying value due to their short-term nature:

- Cash and cash equivalents
- Due from and to agents, brokers and policyholders
- Due from and to other insurance companies

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- Salvage and subrogation recoverable
- Reinsurance recoverables
- Expenses due and accrued
- Other taxes due and accrued
- Funds held for other insurance companies

INVESTMENTS

The fair value of Level 2 bonds and debentures, pooled global equity funds and other investments was determined by obtaining quoted market prices or executable dealer quotes for identical or similar instruments in active markets, or other inputs that are observable or can be corroborated by observable market data.

OWN-USE LAND AND INVESTMENT PROPERTY

The Company's head office location is a multi-use property. The portion of the property held for own-use is classified in capital assets, with the own-use land portion measured at fair value, and the portion rented to third parties is classified as investment property and measured at fair value.

The fair value of the own-use land and investment property are assessed on a periodic basis, based on active market prices as determined periodically by an independent valuation expert. The overall property is independently valued at least once every 3 years, which was most recently conducted in August 2019. The finance department verifies all major inputs to the valuation and reviews the results with the independent valuator.

Investment property and own-use land are valued on a highest and best use basis. The current use is considered to be the highest and best use, except for own-use land, which is valued in conjunction with the investment property, as opposed to being based on internal use.

The fair values for own-use land and investment property are calculated using the discounted cash flow approach (DCF), direct comparison approach or a combination of the two, which results in these measurements being classified as Level 3 in the fair value hierarchy. In applying this approach, the 10-year net operating cash flows of the property are discounted using an appropriate long-term discount rate. A terminal resale estimate is also included in the DCFs, based on net operating cash flows divided by an appropriate terminal capitalization rate.

The net operating cash flows are calculated from forecasted revenues less property operating expenses adjusted for items such as average lease-up costs, long-term vacancy rates, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items.

The terminal capitalization rate is based on the actual location, size and quality of the property and taking into account any available market data.

Based on the valuation approaches discussed above and an assessment of current economic environment as a result of the COVID-19 pandemic, the investment property building was written down $1,000 (2020: $nil). The own-use investment property land were assessed to have no change in value since the independent valuation in 2019.

Significant unobservable inputs into Level 3 valuations are as follows:

	December 31, 2021		December 31, 2020	
	Range	Weighted average	Range	Weighted average
Annual net operating cash flows over 10 years	($610) to $905	$576	$242 to $978	$823
Discount rate	8.0% to 9.0%	8.50%	8.0% to 9.0%	8.50%
Terminal capitalization rate	n/a	8.0%	n/a	8.0%

21. Capital Management

The Company's capital management objective is to ensure that the Company is capitalized in a manner which provides a strong financial position for its policyholders and exceeding the regulatory capital requirement in order to build long-term shareholder value. Quarterly, the Board of Directors review available capital as defined for regulatory purposes to ensure it is meeting regulatory requirements. Management performs a similar review on a monthly basis.

Adequate capital acts as a safety net for possible losses and provides a basis for confidence in the company by shareholders, policyholders, creditors and others. Capital funds are managed with plans that are put in place by the senior executive management of the Company. Capital is comprised of share capital, share premium, revaluation surplus, accumulated other comprehensive income and retained earnings.

Reinsurance is purchased to protect the Company's capital from catastrophic losses which can arise. Both the incidence and severity of catastrophic losses can be unpredictable, but the Company's reinsurance program limits the exposure to any single catastrophic loss.

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Regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT) and require compliance with capital adequacy requirements. This test compares a company's capital, which includes accumulated other comprehensive income against the risk profile of the organization. The MCT is impacted by many factors including changes in equity market performance, interest rates and underwriting profitability. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates.

The Company's regulator, the Alberta Superintendent of Insurance requires that the Company attain a minimum MCT ratio. The Company was positioned in excess of this compliance as at December 31, 2021.

	2021	2020
Total capital available	111,155	88,628
Total capital required	40,700	34,481
Minimum capital test (MCT)	**273.1%**	**257.0%**

Annually, the Company performs financial condition testing (FCT) on the MCT to ensure that the Company has sufficient capital to withstand significant adverse event scenarios. These scenarios are reviewed each year to ensure appropriate risks are included in the testing process.

22. Insurance Risk Management

The Company primarily underwrites automobile, home as well as commercial property and casualty contracts to individuals and businesses. The majority of the insurance risks are short-tail in nature with policies covering a 12-month period. By the very nature of an insurance contract, there is uncertainty as to whether an insured event will occur and the amount of loss that would arise in such as event. In the course of these insurance activities, there are several risks the Company must address by applying appropriate underwriting and claims policies and processes which include: underwriting and liability risk, product and pricing risk, and catastrophe and reinsurance risk.

The Company is at risk for losses in the event that incomplete or incorrect assumptions or information are used when pricing, issuing or reserving for insurance products.

UNDERWRITING AND LIABILITY RISK

Underwriting and liability risk is the exposure to financial loss resulting from the selection and approval of risks to be insured, the retention and transfer of risks, the reserving and adjudication of claims, and the management of contractual and non-contractual product options.

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The Company has specific underwriting guidelines for risk eligibility and establishes a line guide to ensure that the limits of insurance for a particular risk do not exceed the Company's net retention or maximum written limits. Net retention is the maximum amount of insurance that the Company will retain on a single exposure. Coverage in excess of its net retention is reinsured up to its maximum written limits. This risk is also mitigated by diversification across a large portfolio of insurance and geographic distribution. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

Notes 2 and 13 provide further information on the uncertainties in estimating the provision for unpaid claims and adjustment expenses, as well as the historical development of claims over time.

PRODUCT AND PRICING RISK

Product and pricing risk is the risk of financial loss from entering into insurance contracts when the liabilities assumed exceed the expectation reflected in the pricing of the insurance product. The Company prices its products, with the assistance of both an internal and external actuary, by taking into account several factors, including claims frequency, severity trends, product line expense ratios, special risk factors, capital requirements and investment income. These factors are reviewed and adjusted as needed on a regular basis to ensure they are reflective of current trends and market climate.

The Company writes automobile business that is subject to regulation in certain jurisdictions whereby rates charged to customers for certain automobile insurance policies must be approved by an applicable regulatory body. The Company is subject to only one regulatory authority, the Alberta Automobile Insurance Rate Board, which has adopted a file-and-approve regulatory process. This type of business comprises approximately 40.8% (2020: 38.2%) of total direct premiums written. In addition, the Company is required, under certain provincial legislation, to participate in risk sharing pools which may impact positively or negatively upon underwriting results (note 11). Certain benefit payments are also subject to provincial government regulation including automobile accident benefits.

CATASTROPHE AND REINSURANCE RISK

Catastrophes and large loss events can have a significant effect on the Company's operating results and financial condition. Catastrophic loss risk is the exposure to loss resulting from multiple claims arising out of a single catastrophic event. Potential events include perils such as fire, earthquake, tornado, wind or hail. The Company seeks to reduce the loss that may arise from catastrophe or other events that cause unfavorable underwriting results by reinsuring certain levels of risks, in various areas of exposure, with other insurers. The Board of Directors has approved and annually reviews the reinsurance policy which deals with the types of reinsurance programs placed and the practices management follows in managing and placing these programs.

The Company follows the policy of underwriting and reinsuring contracts of insurance that limit the net exposure of the Company to a maximum amount on any one loss of $4,140 (2020: $4,080) in the event of a claim or a catastrophe, excluding reinstatement fees when applicable. In addition, the Company has catastrophe reinsurance having an upper limit of $150,000 (2020: $150,000).

The amounts shown in the consolidated statement of income are net of the following amounts relating to reinsurance ceded to other companies.

	2021	2020
Net premium earned reduced by	123,696	110,391
Claims incurred reduced by	54,076	51,366
Commissions and premiums taxes reduced by	34,231	27,400

23. Income Taxes

RECONCILIATION TO STATUTORY INCOME TAX RATE

A reconciliation of income tax calculated at the statutory tax rate with the income tax provision at the effective tax rate in the financial statements is summarized in the following table:

	2021	2020
Income before income taxes	37,109	23,553
Provision at the statutory income tax rate of 24.3% (2020: 24.8%)	9,018	5,896
Impact of tax rate changes on opening deferred income taxes	-	183
Impact of tax rate changes for deferred income taxes	236	(153)
Non-deductible expenses	63	80
Non-taxable investment income	(101)	(124)
Other including permanent differences	25	(56)
	9,241	**5,826**

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COMPOSITION OF DEFERRED INCOME TAXES

The deferred income tax assets and liability comprise the following:

	2021	2020
Provision for unpaid claims and adjustment expenses	1,616	1,278
Capital losses carried forward	19	19
Available-for-sale financial assets	(5)	(7)
Capital and intangible assets	(588)	(642)
Other	(70)	(69)
Deferred income tax assets	**972**	**579**
Investment property	(1,309)	(1,539)
Deferred income tax liability	**(1,309)**	**(1,539)**
Deferred tax asset to be recovered after more than 12 months	972	579
Deferred tax liability to be settled after more than 12 months	(1,309)	(1,539)
Net deferred income tax asset (liability)	**(337)**	**(960)**

24. Supplemental Cash Flow Information

	2021	2020
Cash paid for:		
Income taxes	3,919	148
Cash received from:		
Dividends	6,715	3,634
Interest	4,552	5,201
Income taxes	-	3

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25. Administrative Expenses

	2021	2020
Salaries and employment benefits	17,744	14,553
Inspections and investigations	2,440	2,039
Electronic payment fees	1,533	1,388
Depreciation and amortization	1,425	1,350
Office administration	995	986
Information technology	684	578
Bureaus and associations	638	601
Directors remuneration	606	421
Professional fees	507	418
Business development	372	342
Employee development and retention	283	324
Community development and donations	212	213
Occupancy costs	170	165
Interest on lease liabilities	30	47
Other expenses	296	272
	27,935	**23,697**

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