CARLETON-FUNDY MUTUAL INSURANCE COMPANY

NON-CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

INDEX

Stevenson & Partners
CHARTERED PROFESSIONAL ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the policyholders of Carleton-Fundy Mutual Insurance Company:

Report on the Consolidated Financial Statements

Opinion

We have audited the accompanying non-consolidated financial statements of Carleton-Fundy Mutual Insurance Company and its subsidiary which comprise the statement of financial position as at December 31, 2020, and the non-consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

In our opinion, the non-consolidated financial statements present fairly, in all material respects, the financial position of Carleton-Fundy Mutual Insurance Company and its subsidiaries as at December 31, 2020, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis of Opinion

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

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

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

In preparing the 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

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

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

Evaluate the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the 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 non-consolidated financial statements. We are responsible for the direction, supervision and performance of the 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.

Stevens + Partners

Riverview, NB
March 26, 2021

Chartered Professional Accountants

CARLETON-FUNDY MUTUAL INSURANCE COMPANY

NON-CONSOLIDATED STATEMENT OF FINANCIAL POSITION Statement **1**

DECEMBER 31, 2020

	2020	2019
ASSETS		
Cash	$ 2,418,008	$ 1,374,487
Investments (Note 5)	17,872,859	17,233,205
Accrued interest income	12,302	16,082
Due from agents, brokers and policyholders	1,423,166	1,324,060
Reinsurers share of unpaid claims (Note 6)	646,463	815,838
Receivable from other insurance companies	34,609	308,234
Other assets	17,701	24,388
Investment in wholly-owned subsidiary	638,570	638,570
Due from wholly-owned subsidiary	89,692	78,136
Deferred premium acquisition costs (Note 6)	607,969	613,717
Investment property (Note 9)	277,428	285,649
Property and equipment (Note 10)	735,109	880,109
Held in trust (Note 8)	622,238	814,836
Deferred income taxes (Note 12)	35,000	124,000
	$ 25,431,114	**$ 24,531,311**
LIABILITIES		
Reserve for unpaid claims (Note 6)	$ 1,623,098	$ 1,621,202
Other liabilities (Note 11)	479,387	430,478
Due to wholly-owned subsidiary	91,178	92,471
Unearned premiums (Note 6)	3,474,110	3,409,539
	5,667,773	5,553,690
EQUITY		
General reserve - Statement 2	19,763,341	18,977,621
	$ 25,431,114	**$ 24,531,311**

APPROVED ON BEHALF OF THE BOARD:

__________________________ Director

__________________________ Director

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

CARLETON-FUNDY MUTUAL INSURANCE COMPANY

NON-CONSOLIDATED STATEMENT OF CHANGES IN EQUITY Statement **2**

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020	2019
General reserve		
Balance, beginning of year, before IFRS 16 adjustment	$18,977,621	$17,185,529
Adoption of IFRS 16 (Note 1)	-	(1,706)
General reserve, beginning of year	18,977,621	17,183,823
Net income for the year - Statement 3	785,720	1,793,798
Balance, end of year - Statement 1	**$19,763,341**	**$18,977,621**
Accumulated other comprehensive income (loss)		
Balance, beginning of year	$ -	$ (42,225)
Total other comprehensive income - Statement 3	-	42,225
Balance end of year - Statement 1	**$ -**	**$ -**

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

CARLETON-FUNDY MUTUAL INSURANCE COMPANY

NON-CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Statement 3

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020	2019
Premiums written	$ 6,473,928	$ 6,324,679
Reinsurance premiums	(1,695,904)	(1,545,720)
Change in unearned premiums	(64,571)	(210,770)
Net premiums earned	4,713,453	4,568,189
Service Charges	99,855	100,023
	4,813,308	4,668,212
Losses		
Claims and adjusting expenses incurred	2,983,622	2,546,982
Reinsurance recoveries	(817,422)	(697,330)
Net claims incurred	2,166,200	1,849,652
	2,647,108	2,818,560
Expenses		
Premium acquisition expense - Schedule 1	1,067,971	1,007,252
Operating expenses - Schedule 1	1,426,302	1,533,129
	2,494,273	2,540,381
Underwriting income	152,835	278,179
Investment income (loss) and other items (Note 13)	721,885	1,752,619
Income before income taxes	874,720	2,030,798
Provision for income taxes (Note 12)	(89,000)	(237,000)
Net income for the year - Statement 2	785,720	1,793,798
Other comprehensive income:		
Share of other comprehensive income of associate	-	42,225
Comprehensive income for the year	**$ 785,720**	**$ 1,836,023**

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

CARLETON-FUNDY MUTUAL INSURANCE COMPANY

NON-CONSOLIDATED STATEMENT OF CASH FLOWS

Statement **4**

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020	2019
Cash flows from operating activities:		
Net income for the year - Statement 3	$ 785,720	$ 1,793,798
Items not requiring an outlay of cash:		
Depreciation and amortization	170,843	185,872
Gain on disposal of investments	(407,658)	(93,362)
Change in fair value through profit or loss financial instruments (Note 13)	10,619	(1,190,634)
Deferred income taxes (Note 12)	89,000	237,000
Gain on sale of associate	-	(139,654)
Amortization of discounts on investments	3,704	10,956
	652,228	803,976
Changes in non-cash working capital balances related to operations (Note 19)	668,082	(883,905)
Cash flows from (used for) operating activities	1,320,310	(79,929)
Cash flows from investing activities:		
Additions to property, equipment, intangibles and investment property	(17,622)	(327,640)
Proceeds on sale of associate net of outlays	-	5,393,463
Proceeds on sale of investments	1,763,659	2,075,742
Purchase of wholly-owned subsidiary	-	(638,470)
Purchase of investments	(2,009,977)	(6,292,914)
Due to/from wholly-owned subsidiary	(12,849)	(58,504)
Cash flows from (used for) investing activities	(276,789)	151,677
Increase in cash and cash equivalents	1,043,521	71,748
Cash and cash equivalents, beginning of year	1,374,487	1,302,739
Cash and cash equivalents, end of year	**$ 2,418,008**	**$ 1,374,487**

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

CARLETON-FUNDY MUTUAL INSURANCE COMPANY

NON-CONSOLIDATED SCHEDULE OF OPERATING EXPENSES

Schedule **1**

FOR THE YEAR ENDED DECEMBER 31, 2020

	2020	2019
Premium acquisition expenses		
Commissions expense	$ 547,081	$ 468,188
Reinsurance commissions earned	-	(543)
Net commissions	547,081	467,645
Advertising	2,317	615
Computer and maintenance contracts	4,942	8,314
Depreciation	3,231	3,231
Fire Marshall's tax	33,910	34,568
Miscellaneous	4,735	6,351
Premium tax	194,218	189,740
Printing, stationery and supplies	3,411	903
Net rental expense	48,227	38,319
Salaries and benefits	206,712	235,615
Utilities	12,095	14,259
Water, sewerage and property taxes	7,092	7,692
	$ 1,067,971	$ 1,007,252
Operating expenses		
Advertising and donations	$ 39,550	$ 51,942
Bonding and insurance	12,327	17,262
Building and equipment maintenance	32,088	54,194
Computer and maintenance contracts	255,593	242,317
Depreciation	118,304	133,335
Directors fees and expenses	57,133	58,220
Dues, conventions and education	59,793	90,562
Executive and office expenses	8,951	20,653
Heat and lights	31,962	26,898
Interest and bank charges	66,444	60,064
Manager's vehicle expense	9,689	17,008
Miscellaneous	4,248	9,195
Postage	34,605	31,822
Printing, stationery and supplies	13,609	11,271
Professional services	31,572	33,817
Safety survey expenses	1,461	1,969
Salaries and employee benefits	576,411	606,354
Telephone	29,761	35,742
Water, sewerage and property taxes	42,801	30,504
	$ 1,426,302	$ 1,533,129

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

Description of major business activities

Carleton-Fundy Mutual Insurance Company (Carleton-Fundy) is incorporated under the laws of the province of New Brunswick and is subject to regulation by the Financial and Consumer Services Commission of New Brunswick (FCNB). The company is an insurer for both property and liability risks.

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

1. Adoption of new and revised standards and interpretations

Adoption of new standards

Due to the COVID-19 Pandemic, there have been changes to IFRS 16 relating to COVID-19 related rent concessions. This change will have no effect on the company.

Standards issued but not yet effective

At the date of authorization of these financial statements, the IASB and IFRS Interpretations Committee (IFRIC) has issued the following new and revised standards, amendments and interpretations which are not yet effective during period covered by these financial statements, which may affect the company in future fiscal years.

IFRS 17 Insurance Contracts is a new standard for insurance contracts. Under this new standard insurance contracts may be classified differently and reserve for policy and claims liabilities may be accounted for differently. This standard replaces the current IFRS 4 Insurance Contracts standard. The standard originally had an effective date of January 1, 2021, but has been deferred one year to year ends beginning on or after January 1, 2022. Due to the impact of COVID-19 Pandemic, the implementation has been deferred another year to January 1, 2023

IFRS 9 Financial Instruments includes revisions on the classification and measurement of financial instruments, changes to calculation of impairment on financial assets and new hedge accounting requirements. IFRS 9 replaces the current IAS 39 Financial Instruments: Recognition and Measurement and is effective for reporting periods beginning on or after January 1, 2018, with a deferral option for insurance companies to January 1, 2023 to coincide with the IFRS 17 adoption date. The company has elected to defer the implementation of this standard for the 2020 year.

The company is currently assessing the potential impact on its financial statements of the above standards. It is expected that IFRS 17 will have a material impact on the financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the company's future financial statements.

2. COVID-19 impact

On March 11, 2020 the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the Company's environment and in the global markets due the effects of the pandemic were unknown at that time. Since that date, the Company still faces uncertainty on the eventual effect on the companies operations as a result of COVID-19. To date the company has put in place all measures they believe are necessary to mitigate the risks associated with the pandemic. The Company has reviewed the possible financial impacts of COVID-19, and have found there are currently no effect to credit risk, impaired assets or to the going concern assumption. The area of greatest risk to the company, is in its long-term investments and the effect on their value as a result of changes in the global economy. The Company mitigates its risk on this as seen in Note 17(b). Although the Company has not seen any significant impact to its financial results or net realizable value of assets, it is currently uncertain as to the future impact of the pandemic will have on the Company.

3. Summary of significant accounting policies

The accompanying non-consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and in accordance with the regulations of the Financial and Consumer Services Commission of New Brunswick.

The non-consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments and deemed cost of investment property. The significant accounting policies adopted by the company are set out below.

In accordance with IFRS 4 Insurance Contracts, the company has applied previous Canadian generally accepted accounting principles (GAAP) modified as appropriate to comply with the IFRS framework. Previous Canadian GAAP accounting principles will continue to be applied for the company's insurance contracts until January 1, 2023 when IFRS 17 is to be adopted.

(a) Financial instruments

All financial instruments are classified as either fair value through profit or loss (FVTPL), available-for-sale, held-to-maturity, loans and receivables, or other liabilities. FVTPL and available-for-sale financial instruments are revalued to their fair value as of the financial statement reporting date. FVTPL financial instruments are recognized through net income and available-for-sale financial instruments are recognized through other comprehensive income until the instrument is derecognized, impaired or sold. Held-to-maturity, loans and receivables, and other liabilities are measured at amortized cost. Transactions costs are included in the carrying value of the financial instruments.

For information on the classification of each financial instrument of the company see Note 18.

Available-for-sale financial assets are assessed for indicators of impairment at each reporting period date. They are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. A significant or prolonged decline in fair value of an available-for-sale financial asset below its cost is considered to be objective evidence of impairment.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets and the loss is recognized in net income for the year.

In respect of available-for-sale financial instruments, impairment losses previously recognized through net income are not reversed through net income for the year. Any increase in fair value subsequent to an impairment loss is recognized directly in comprehensive income for the year.

Investments

Equities, bonds and debentures are carried at fair value based on bid prices published in financial newspapers or bid quotations received from securities dealers. Any premiums or discount on bond acquisitions is amortized, and any specific investment provisions flow through net income.

3. Summary of significant accounting policies (continued)

(a) **Financial instruments continued**

Investment income

Realized gains and losses arising from the sale of investments are the difference between the proceeds received, net of transaction costs, and its original cost or amortized cost as appropriate, using the average cost basis. Interest income is recorded on the accrual basis and dividends are recorded when the rights to receive payment have been established. Bond premiums and discounts are amortized over the life of the bond.

Unrealized gains and losses

Unrealized gains or losses on the investments represents the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognized unrealized gains and losses in respect of disposals during the year.

(b) **Insurance contracts**

Deferred premium acquisition costs

Deferred premium acquisition costs consist of agents' commissions and other policy acquisition costs which relate directly to the acquisition of premiums. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

Reserves for unpaid claims

Reserves unpaid claims includes claims and adjustment expenses which represent the estimated amounts required to settle all outstanding and unreported claims incurred to the end of the fiscal year. The valuation of the claims liabilities is determined on a non-discounted basis.

Salvage and subrogation recoverable

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

Where the company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

Insurance ceded

Premiums, claims and premium taxes are recorded net of amounts ceded to and receivable from reinsurers. Unearned premiums and deferred policy acquisition costs are also reported net of business ceded to reinsurers.

Estimates of amounts recoverable from reinsurers on unpaid claims are recorded separately from estimated amounts payable to policyholders. The recoverable amounts are estimated in a manner consistent with unpaid claim liability to the policyholder.

Earned/unearned premium revenue

Premium revenue is recognized on a daily pro rata basis over the terms of the insurance policies. Unearned premiums represent the portion of premiums written which are applicable to the unexpired terms of the policy in force.

3. Summary of significant accounting policies (continued)

(c) Cash and cash equivalents

For the purpose of the non-consolidated statement of cash flows, the company considers cash on hand to be balances with bank and stockbrokers, net of overdrafts, as cash or cash equivalents. Bank borrowings are considered to be financing activities.

(d) Investment in associate

The investment in the shares of the associate is accounted for on the equity basis whereby the carrying value of the investment is adjusted for Carleton-Fundy's share of net income and other comprehensive income of the associate. Investments are written down when a decline in the value below cost is determined to be other than temporary.

(e) Property and equipment

Property and equipment is recorded at cost less accumulated amortization and any recognized impairment loss. Depreciation is provided annually on a straight-line basis at rates calculated to write-off the cost of the property and equipment over their estimated useful lives using the following rates:

Building	15 to 40 years
Office furniture and equipment	15 years
Computer hardware	4 years
Automobiles	3 to 6 years

(f) Investment in wholly-owned subsidiaries

The investment in wholly owned subsidiaries is recorded on the cost basis.

(g) Goodwill

The company measures goodwill as the fair value of the consideration transferred, including the recognition of any non-controlling interest in the acquiree, less net recognized amounts of identifiable assets acquired and liabilities assumed. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

(h) Intangible assets

Intangible assets consist of computer software, which are not integral to the computer hardware owned by the company.

Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 3 years.

(i) Investment property

The company's investment property consists of land and building held to earn rental income. Investment property is initially recorded at cost or deemed cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Land is not depreciated. Buildings are depreciated on a straight-line basis over their estimated useful life of 15 to 40 years.

3. Summary of significant accounting policies (continued)

(j) Impairment of tangible assets

At the end of each reporting period, the company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the asset's useful life.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increase in carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

(k) Income taxes

The tax expense represents the sum of current income tax payable and deferred income tax relating to the year's operations.

The income tax currently payable is based on taxable income for the year. Taxable income differs from net income as reported in the non-consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current income tax is calculated using income tax rates effective at the statement of financial position date.

Deferred income tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the non-consolidated financial statement and the corresponding income tax bases used in the computation of taxable income. Deferred tax is accounted for as an asset or liability on the non-consolidated statement of financial position. Deferred income tax liabilities are generally recognized for all taxable temporary differences and deferred income tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred income tax is calculated at the tax rates that have been enacted or substantially enacted at the end of the reporting period. Deferred tax is charged or credited to the non-consolidated statement of comprehensive income except when it relates to items charged or credited directly to equity, in which case the deferred income tax is charged or credited in equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right of offset of current income tax assets and liabilities and when the company intends to settle its current income tax assets and liabilities on a net basis.

3. Summary of significant accounting policies (continued)

(l) Leases

Lessee

The company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company's average interest rate on bonds in the year of origination of the lease.

Lease payments included in the measurement of the lease liability comprise the following:

fixed payments, including in-substance fixed payments;

variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date

amounts expected to be payable under a residual value guarantee; and

the exercise price under a purchase option that the company is reasonably certain to exercise, lease payments in an optional renewal period if the company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the company's estimate of the amount expected to be payable under a residual value guarantee, or if the company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in comprehensive income if the carrying amount of the right-of-use asset has been reduced to zero.

The company presents right-of-use assets that do not meet the definition of investment property in property and equipment (Note 10) and lease liabilities in other liabilities (Note 11) in the statement of financial position.

3. Summary of significant accounting policies (continued)

(l) Leases

Short-term leases and leases of low-value assets

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

Lessor

The company leases a portion of its operating premises to a third party. The lease includes base rent and a charge for common area costs. This lease is considered to be an operating lease. Rental revenue is recognized over the period of the lease on a straight-line basis.

(m) Comprehensive income

Comprehensive income includes the change in the Company's net assets that result from transactions, events and circumstances from sources other than the company's equity and includes items that would not normally be included in net income, such as unrealized gains and losses on available-for-sale financial instruments from the company or as a result of the Company's portion of available-for-sale financial instruments in its associate.

(n) Product classification

The Company's product consists of property and liability insurance and is classified, for accounting purposes, as an insurance contract. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to make significant additional benefits in any scenario. Such contracts may also transfer financial risk.

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in a period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgments in applying the company's accounting policies

Management has not made any critical judgments apart from those involving estimations (which are dealt with separately below) in the process of applying the company's accounting policies that have significant effect on the amounts recognized in these non-consolidated financial statements.

4 Critical accounting judgments and key sources of estimation uncertainty (continued)

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Valuation of reserves for unpaid claims

Determining the reserve for unpaid claims involves an assessment of the future development of the claims. The process takes into account the consistency of the company's claims handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises, and the delays in reporting of claims. These reserves for unpaid claims are estimates and, as such, are subject to variability, which could be material in the near term. Changes to the estimates could result from future events such as receiving additional claim information, changes in judicial interpretations of contracts or significant changes in severity or frequency of claims from past trends. In general, the longer the term required for settlement of claims, the more variable the estimates.

The estimates are principally based on the company's historical experience. Methods of estimation have been used that the company believes produce reasonable results given current information. As additional experience and other data become available, the estimates could be revised. Any future changes in estimation would be reflected in the net income for the year in which the change occurred.

Income taxes

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

5. Investments

Investments are classified as fair value through profit or loss financial instruments, and therefore are carried at their fair value. The fair value of investments is as follow:

	2020 Fair Value	2019 Fair Value
Term deposit	$ 533	$ 528
Short term investments	6,316,400	6,899,321
Equity investments	11,286,646	9,726,662
	17,603,579	16,626,511
Bonds and debentures maturing within one year:		
Government of Canada	-	67,987
Provincial/Municipal Governments	-	100,979
Canadian Corporate/Financial Institutions	-	169,484
Bonds and debentures maturing more than one year:		
Canadian Corporate/Financial Institutions	269,280	268,244
	269,280	606,694
	$ 17,872,859	**$ 17,233,205**

6. Insurance contracts

Deferred premium acquisition costs

The following is a schedule of the changes in deferred premium acquisition costs for the year:

	2020	2019
Beginning of year	$ 613,717	$ 575,778
Acquisition costs incurred during the year	1,062,223	1,045,191
Expensed during the year	(1,067,971)	(1,007,252)
End of year	**$ 607,969**	**$ 613,717**

6. Insurance contracts (continued)

Reserve for unpaid claims

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

	2020		
	Insurance contract liabilities	Reinsurance of liabilities	Net
Unpaid claims, beginning of year	$ 1,621,202	$ 815,838	$ 805,364
Change in provision for insured events of prior year	(221,662)	(127,726)	(93,936)
Provision for insured events of current year	3,205,284	945,148	2,260,136
	2,983,622	817,422	2,166,200
Payments attributable to:			
Prior events	453,080	91,653	361,427
Current year events	2,528,646	895,144	1,633,502
	2,981,726	986,797	1,994,929
Unpaid claims, end of year	**$ 1,623,098**	**$ 646,463**	**$ 976,635**

	2019		
	Insurance contract liabilities	Reinsurance of liabilities	Net
Unpaid claims, beginning of year	$ 2,054,216	$ 1,337,149	$ 717,067
Change in provision for insured events of prior year	177,232	365,690	(188,458)
Provision for insured events of current year	2,369,750	331,640	2,038,110
	2,546,982	697,330	1,849,652
Payments attributable to:			
Prior events	1,226,014	887,001	339,013
Current year events	1,753,982	331,640	1,422,342
	2,979,996	1,218,641	1,761,355
Unpaid claims, end of year	**$ 1,621,202**	**$ 815,838**	**$ 805,364**

The company has determined estimated settlements in the next fiscal year on the reserve for unpaid claims noted above to be $586,000. This estimate was determined through the use of historical data on claims payments year over year.

6. Insurance contracts (continued)

Claims development

The estimation of claim development involves assessing the future behaviour of claims, taking into account 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 settlement of a group of claims the more variable the estimates. Short-term settlement claims are those which are expected to be substantially paid within a year of being reported

In the prior year there was an amalgamation between Carleton Mutual Insurance Company and Fundy Mutual Insurance Company. As a result claims development was not available for the claims assumed on January 1, 2019. The company was not able to determine the development without substantial cost, and therefore this has not been included in the financial statements.

Unearned premiums

Unearned premiums on the non-consolidated statement of financial position consist of the unearned portions of premiums, reinsurance premiums and deferred commissions. The following is a schedule of the changes in the above for the year:

	2020	2019
Beginning of year	$ 3,409,539	$ 3,199,313
Premiums written in year	6,473,928	6,324,679
Premiums earned in year	(6,409,357)	(6,114,453)
End of year	$ 3,474,110	$ 3,409,539

7. Wholly-owned subsidary

	2020	2019
Investment in wholly-owned subsidiary includes the following:		
Dairytown Insurance Ltd.	$ 100	$ 100
McCauley, Gault & Boudreau Insurance Ltd.	638,470	638,470
	$ 638,570	$ 638,570

In addition to the above, there are amounts due to/from wholly-owned subsidiaries as follows:

	2020	2019
Due from McCauley, Gault & Boudreau Insurance Ltd.	$ 89,692	$ 78,136
Due to Dairytown Insurance Ltd.	$ 91,178	$ 92,471

8. Investment in associate

On January 1, 2019 the company sold its interest in United General Insurance Corporation. As part of the sale, legal counsel has held back a portion of the proceeds from the sale of the above shares. This holdback is included in the statement of financial position as funds Held in Trust. The balance of the holdback amount of $622,238 was paid back early in the 2021 fiscal year.

9. Investment property

	Land	Building	Total
Gross Carrying Amount			
Balance January 1, 2020	$ 105,000	$ 272,409	$ 377,409
Additions	-	-	-
Disposals	-	-	-
Balance December 31, 2020	105,000	272,409	377,409
Depreciation and impairment			
Balance January 1, 2020	-	91,760	91,760
Additions	-	8,221	8,221
Disposals	-	-	-
Balance December 31, 2020	-	99,981	99,981
Carrying amount, December 31, 2020	**$ 105,000**	**$ 172,428**	**$ 277,428**
Gross Carrying Amount			
Balance January 1, 2019	$ 105,000	$ 268,509	$ 373,509
Additions	-	6,900	6,900
Disposals	-	(3,000)	(3,000)
Balance December 31, 2019	105,000	272,409	377,409
Depreciation and impairment			
Balance January 1, 2019	-	86,539	86,539
Additions	-	8,221	8,221
Disposals	-	(3,000)	(3,000)
Balance December 31, 2019	-	91,760	91,760
Carrying amount, December 31, 2019	**$ 105,000**	**$ 180,649**	**$ 285,649**

The fair value of the investment property is approximately $375,000 (2019 - $375,000).

Investment property held by the company is leased out under operating leases on a month to month basis.

10. Property, equipment and intangible assets

	Land	Building	Office Furniture and Equipment	Computer Hardware	Vehicle	Right-of-Use Asset	Total	Intangibles
Gross Carrying Amount								
Balance January 1, 2020	$ 149,000	$ 693,535	$ 250,146	$ 391,025	$ 96,670	$ 157,236	$1,737,612	$ 261,452
Additions	-	-	-	17,622	-	-	17,622	-
Disposals	-	-	-	(17,712)	-	-	(17,712)	-
Balance December 31, 2020	149,000	693,535	250,146	390,935	96,670	157,236	1,737,522	261,452
Depreciation and impairment								
Balance January 1, 2020	-	388,326	182,376	169,426	73,495	43,880	857,503	261,452
Additions	-	19,645	6,425	80,357	12,315	43,880	162,622	-
Disposals	-	-	-	(17,712)	-	-	(17,712)	-
Balance December 31, 2020	-	407,971	188,801	232,071	85,810	87,760	1,002,413	261,452
Carrying amount, December 31, 2020	$ 149,000	$ 285,564	$ 61,345	$ 158,864	$ 10,860	$ 69,476	$ 735,109	$ -
Gross Carrying Amount								
Balance January 1, 2019	$ 149,000	$ 693,535	$ 208,182	$ 180,984	$ 96,670	-	$1,328,371	$ 261,452
IFRS 16 conversion additions	-	-	-	-	-	157,236	157,236	-
Additions	-	-	41,964	278,776	-	-	320,740	-
Disposals	-	-	-	(68,735)	-	-	(68,735)	-
Balance December 31, 2019	149,000	693,535	250,146	391,025	96,670	157,236	1,737,612	261,452
Depreciation and impairment								
Balance January 1, 2019	-	368,683	176,093	149,820	53,991	-	748,587	261,452
Additions	-	19,643	6,283	88,341	19,504	43,880	177,651	-
Disposals	-	-	-	(68,735)	-	-	(68,735)	-
Balance December 31, 2019	-	388,326	182,376	169,426	73,495	43,880	857,503	261,452
Carrying amount, December 31, 2019	$ 149,000	$ 305,209	$ 67,770	$ 221,599	$ 23,175	$ 113,356	$ 880,109	$ -

The company did not record any impairment charges or reversals during the years noted above.

11. Other liabilities

	2020	2019
Premium and Fire Marshall's taxes payable	$ 133,253	$ 90,815
Lease liability (below)	72,866	116,709
Other payables and accruals	273,268	222,954
	$ 479,387	**$ 430,478**

Lease liability includes the following:

	2020	2019
Lease payable in monthly instalments of $3,956 including tax and imputed interest of 3.75%, maturing in July, 2022.	**$ 72,866**	**$ 116,709**

	2020	2019
Maturity analysis of lease liability - contractual undiscounted cash flows		
Less then one year	$ 47,472	47,472
One to five years	27,692	75,164
Total	**$ 75,164**	**$ 122,636**

	2020	2019
Lease liability included in the statement of financial position		
Current	$ 45,517	$ 43,844
Non-Current	27,349	72,865
Total	**$ 72,866**	**$ 116,709**

	2020	2019
Included in Schedule 1 in net rental expense are the following:		
Interest on lease liabilities	**$ 4,347**	**$ 5,239**
Depreciation	**$ 43,880**	**$ 43,880**

12. Income taxes

The company's provision for income taxes is made up of the following items:

	2020	2019
Deferred income taxes expense	**$ (89,000)**	**$ (237,000)**

12. Income taxes (continued)

In computing the company's taxable income there are certain items that are restricted in their deduction or are not taxable:

	2020	2019
Company's income before income taxes	$ 874,720	$ 2,030,798
Temporary differences	88,535	(118,117)
Non-taxable dividends	(249,000)	(206,000)
Taxable loss from sale of associate	-	(139,654)
Income tax losses utilized	(715,455)	(1,569,025)
Non-deductible and restricted deductible expenses	1,200	2,000
Taxable income	-	2
Current effective tax rate	29 %	29 %
Current income tax	$ -	$ 1

The effects of cumulative temporary differences, which give rise to the net deferred income tax assets or liabilities reported, are as follows:

	Beginning of year	2020 Included in comprehensive income	End of year
Excess of undepreciated capital cost over net book value	$ (57,155)	8,061	$ (49,094)
Non-capital losses for use in future years	176,524	(97,801)	78,723
Reserve for unpaid claims	4,631	740	5,371
	$ 124,000	$ (89,000)	$ 35,000

	Beginning of year	2019 Included in comprehensive income	End of year
Excess of undepreciated capital cost over net book value	$ (19,646)	(37,509)	$ (57,155)
Non-capital losses for use in future years	376,121	(199,597)	176,524
Reserve for unpaid claims	4,525	106	4,631
	$ 361,000	$ (237,000)	$ 124,000

13. Investment and other income

	2020	2019
Interest from term deposits, bonds and debentures	$ 161,223	$ 230,335
Dividends received	271,481	225,454
Gain on disposal of investments	407,658	93,362
Change in fair value through profit or loss financial instruments	(10,619)	1,190,634
Investment management fees	(104,154)	(115,864)
Amortization of premiums on investments	(3,704)	(10,956)
Gain on sale of associate (Note 8)	-	139,654
	$ 721,885	$ 1,752,619

14. Related party transactions

Key management of the company are senior employees, officers and members of the board of directors. The following is a detail of key management remuneration:

	2020	2019
Key management remuneration	$ 217,466	$ 214,724

Included in the non-consolidated statement of comprehensive income are the following items relating to key management:

	2020	2019
Premiums paid	$ 16,367	$ 12,686
Claims incurred	$ 2,000	$ -

15. Contingencies

In common with the insurance industry in general, the company is subject to litigation arising in the normal course of conducting its insurance business, which is taken into account in establishing the reserve for unpaid claims.

16. Capital management

The company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable (see Note 17(a)). For the purpose of capital management, the company has defined capital as its General Reserve, excluding accumulated other comprehensive income.

The Insurance Act of New Brunswick requires insurers to maintain a reserve requirement equal to the sum of $500 for every $100,000 of the first $1,000,000 of insurance in force, and $3,000 for each additional $1,000,000 or part thereof insurance in force. The company's general reserve as at December 31, 2020 was 1.92 (2019 - 1.99) times the requirement of the New Brunswick Insurance Act, which results in a total reserve requirement of $10,331,000 (2019 - $9,569,000).

16. Capital management (continued)

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

17. Risk management, reinsurance and other risks

(a) Insurance risk

Reserves for unpaid claims

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

The reserve for unpaid claims and related reinsurer's share are estimates subject to variability and which might be material in the near term. The variability arises because all events affecting the ultimate settlement of claims may not have taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts or significant changes in severity or frequency of claims from historical trends. The estimates are principally based on the company's historical experience. Methods of estimation are used, which the company believes produce reasonable results given current information. All changes in estimates are recorded as incurred claims in the current period.

The company assists in minimizing risk of the above by diversifying risk across a large portfolio of insureds.

Reinsurance and underwriting

The company mitigates its insurance risk by having in place underwriting guidelines as well as reinsuring insurance contracts which limit the liability of the company to a maximum amount on any one claim. The company uses its underwriting guidelines to minimize risk by assessing individual policies, determining if the risk is within the tolerable range and then pricing the policy accordingly.

The current reinsurance contracts are as follows:

Property claims

The company pays the first $150,000 per loss, which limits the company's exposure in any one property claim to $150,000. In addition, the company has obtained reinsurance which limits the company's liability to $450,000 in a catastrophe.

17. Risk management, reinsurance and other risks (continued)

(a) Insurance risk (continued)

Reinsurance and underwriting (continued)

Liability claims

The company pays the first $50,000 per loss, which limits the company's exposure in any one liability claim to $50,000.

Stop loss reinsurance

Stop loss reinsurance is also in effect which protects the company to limit the "Gross Net Incurred Losses". For Net Incurred Losses between 70% and 200% of the Net Earned Premiums, the Reinsurer will pay 90% of those losses and for Net Incurred Losses exceeding 200% the Reinsurer will pay 100%.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Unearned premiums on business ceded and estimates of amounts recoverable from the reinsurers on reserve for unpaid claims are recorded on the non-consolidated statement of financial position. A contingent liability exists with respect to reinsurance ceded which could become a liability of the company in the event the reinsurer might be unable to meet its obligations under the reinsurance agreement.

The reinsurance of insurance contracts does not relieve the company's obligation to the policyholders. The company is exposed to the risk that the reinsurer will be unable to meet its obligations.

Insurance pricing

The company is exposed to pricing risk to the extent that the company's unearned premiums are insufficient to meet related future policy cost. The company evaluates this risk on a regular basis by estimating future policy costs through extrapolation of historical loss trends.

Sensitivity analysis

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The company uses various techniques based on past claims development and experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims occurrence, expected loss ratios and claims development as described in Note 6.

(b) Other risks

Property insurance risk

In the current year the company has underwritten insurance on the four properties it owns (Note 9 and Note 10). There is a risk to the company if there is a claim under its property or liability insurance. The current maximum risk to the company is $600,000 in property insurance and $200,000 in liability insurance totaling $800,000 in total risk exposure. This maximum risk exposure takes into consideration that the company will be subject to maximum property and liability claims. The company's insurance policies follow standard reinsurance arrangements as noted above.

17. Risk management reinsurance and other risks (continued)

(b) Other risks (continued)

Credit risks

Credit risk arises from the potential that a counter party will fail to perform its obligations. The company conducts a thorough assessment of debtors prior to granting credit and actively monitors the financial health of its debtors on an on-going basis. The premiums receivable, net of applicable reserves, approximates fair value.

The company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio remains very high quality with all of the bonds rated BB or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Accounts receivables are short-term in nature consisting of a large number of policyholders, and are not subject to material credit risk.

The maximum exposure to investment credit risk and concentration of this risk is outlined in Note 6.

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

The aggregate gross credit risk is as follows:

	2020	2019
Cash and cash equivalents	$ 2,418,008	$ 1,374,487
Accrued interest receivable	12,302	16,082
Term deposits	533	528
Bonds and guaranteed investment certificates	269,280	606,694
Equities	10,141,288	8,641,041
Preferred shares	1,145,358	1,085,621
Short-term investments	6,316,400	6,899,321
	$ 20,303,169	**$ 18,623,774**

17. Risk management reinsurance and other risks (continued)

(b) Other risks (continued)

Liquidity Risks

Liquidity risk is the risk that the company will not be able to meet all cash outflow obligations as they come due. The company mitigates this risk by monitoring cash activities and expected outflows. The company maintains high levels of liquid assets (cash, term deposits, equities and debt securities) to ensure that any reasonably unforeseen cash demand can be met readily. Current liabilities arise as claims are made. The company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. The company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

All financial liabilities have a maturity of less than one year. There have been no significant changes from the previous period in the exposure to risk or policies procedures and methods used to measure the risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk, and equity risk.

The company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk.

Interest rate risks

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The company is exposed to this risk through its interest bearing investments. The company's invests in a diversified bond portfolio with 5 to 10 year maturity horizons to help mitigate the effect of interest rate fluctuations on interest income. Interest income is affected negatively in falling rate conditions but positively in rising interest rate conditions. At December 31, 2020, an increase or decrease of 1% in interest rates, with all other variables held constant, would affect the comprehensive income by $20,000, net of tax.

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

Currency risk

Foreign currency risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in exchange rates and produce an adverse impact on comprehensive income when measured in the company's operating currency.

The company's foreign exchange risk is related to its foreign stock holdings. Foreign currency changes are monitored by the investment committee. Foreign stocks included in the company's available for sale financial assets primarily relate to US dollar denominated equities totaling $4,493,497 Canadian. A 10% rise or fall in the value of the US dollar, with all other variables held constant, would affect comprehensive income by $369,000, net of tax. The company has not entered into any derivative financial instruments to hedge this currency risk exposure.

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

17. Risk management reinsurance and other risks (continued)

(b) Other risks (continued)

Market risk (continued)

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The company is exposed to this risk through its equity holdings within its investment portfolio. The company is not generally exposed to equity risk on its debt securities as these investments are typically held to their maturity.

The company's investment policy includes guidelines on the equity portfolio related to portfolio composition, preferred share rating as well as general guidelines for group and industry exposure. The company's equity portfolio is monitored by management on a quarterly basis. To further minimize risk exposure, the company has its investments managed by four third party investment managers.

The company's portfolio includes stocks and mutual funds with fair values that move with the changes in stock markets. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on comprehensive income by $212,000, net of tax.

18. Fair value of financial instruments

Financial instruments included in the non-consolidated statement of comprehensive income of Carleton-Fundy Mutual Insurance Company are broken down as follows:

Loans and receivables

Accrued interest income, receivables from other insurance companies, and reinsurer's share of unpaid claims

Fair value through profit or loss

Cash, investments and investments in associate

Other liabilities

Reserve for unpaid claims, and other liabilities

The above financial instruments are carried at their fair value. The maximum credit exposure to these financial instruments is their carrying amounts. Fair values were determined by management using the assumptions outlined below. Fair values are an estimate based on current market conditions and may not be reliable due to the use of assumption and are at a specific point in time and may not be reflective of future fair values.

The fair values of accrued interest income, receivable from other insurance companies, due to other insurance companies, reserves for unpaid claims and reinsurer's share of unpaid claims and other liabilities are the same as their carrying amount due to their short-term nature.

The fair value of investments was determined as outlined in Note 3.

18. Fair value of financial instruments (continued)

The company employs a fair value hierarchy to categorize the inputs it uses in valuation techniques to measure the fair value. The extent of use of (Level 1) quoted prices in active markets for identical assets or liabilities, (Level 2) inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly, and (Level 3) inputs for the asset or liability that are not based on observable market data in the valuation of securities as at December 31, 2020 is as follows:

	Total Fair Value	Level 1 Quoted Prices	Level 2 Observable Inputs	Level 3 Unobservable Inputs
Assets				
Cash	$ 2,418,008	$ 2,418,008	$ -	$ -
Accrued interest income	12,302	-	-	12,302
Reinsurance share of unpaid claims	646,463	-	-	646,463
Equity investments	11,286,646	11,286,646	-	-
Short term investments	6,316,400	6,316,400	-	-
Bonds, Debentures and Term Deposits	269,813	-	269,813	-
	$20,949,632	**$20,021,054**	**$ 269,813**	**$ 658,765**
Liabilities				
Reserve for unpaid claims	$ 1,623,098	$ -	$ -	$ 1,623,098
Other liabilities	479,387	-	-	479,387
	$ 2,102,485	**$ -**	**$ -**	**$ 2,102,485**

19. Supplementary cash flow information

	2020	2019
Change in non-cash working capital balances related to operations		
Accrued interest income	$ 3,780	$ 23,743
Due from agents, brokers, and policyholders	(99,106)	(100,605)
Receivable from other insurance companies	273,625	(133,936)
Reinsurers share of unpaid claims and adjustment expenses/unearned premiums	169,375	521,311
Deferred premium acquisition costs	5,748	(37,939)
Other assets	6,687	(1,645)
Reserve for unpaid claims	1,895	(433,014)
Other liabilities	48,909	(117,210)
Unearned premiums	64,571	210,226
Held in trust	192,598	(814,836)
	$ 668,082	**$ (883,905)**
Other cash flow information:		
Interest received	**$ 272,990**	**$ 363,423**

20. Subsequent event

On February 12, 2021 the company entered into a purchase and sale agreement to aquire Eastern Insurance Inc. The transaction will close on February 28, 2021. The estimated value of assets and liabilities of the company as of the closing date is unknown at this time.