



**HOWICK**  
MUTUAL INSURANCE COMPANY

**CONSOLIDATED FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2025**

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**MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING**  
**DECEMBER 31, 2025**

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The accompanying consolidated financial statements and all other information contained in this annual report are the responsibility of the management of Howick Mutual Insurance Company. The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (including the accounting requirements of the Financial Services Regulatory Authority of Ontario) and have been approved by the Board of Directors.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Howick Mutual Insurance Company, which includes adherence by all employees to the company's Code of Conduct. Management maintains a system of internal accounting controls to provide reasonable assurance that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial information. Such information also includes data based on management's best estimates and judgements.

The Audit & Finance Committee and the Board of Directors review and approve the annual consolidated financial statements. In addition, the Audit & Finance Committee meets periodically with financial officers of Howick Mutual Insurance Company and the external auditors, and reports to the Board of Directors thereon. The Audit & Finance Committee and Board of Directors also review the annual report in its entirety.

The accompanying consolidated financial statements have been audited by Graham Mathew Professional Corporation, authorized to practise public accounting by the Chartered Professional Accountants of Ontario, who are engaged by the Board of Directors and whose appointment was ratified at the annual meeting of the policyholders. The auditors have access to the Audit & Finance Committee, without management present, to discuss the results of their work. Their report dated February 18, 2026 expresses their unmodified opinion on the Company's 2025 consolidated financial statements.



Kevin Inglis, CIP  
President & CEO



Shawn Cottrill, CPA, CGA, BBS  
Corporate Treasurer & CFO

## INDEPENDENT AUDITORS' REPORT

To the Policyholders of  
**Howick Mutual Insurance Company**

### **Opinion**

We have audited the accompanying consolidated financial statements of **Howick Mutual Insurance Company** (the Company), which comprise the consolidated statement of financial position as at December 31, 2025, and the consolidated statements of comprehensive income, policyholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2025, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Basis for Opinion**

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with 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 Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors 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.

### **Auditors' 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 auditors' 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.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement 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 auditors' 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 auditors' 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.

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.

A handwritten signature in black ink that reads "Graham Mathew Professional Corporation". The signature is written in a cursive, flowing style.

Cambridge, Ontario  
February 18, 2026


Chartered Professional Accountants, authorized to practise public  
accounting by the Chartered Professional Accountants of Ontario



**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2025**

	2025	2024
	\$	\$
<b>ASSETS</b>		
Cash and cash equivalents (note 16)	1,687,293	667,646
Reinsurance contract assets (note 8(b))	8,278,109	4,395,434
Other assets	101,199	84,463
Income taxes recoverable	1,594,451	118,939
Deferred income taxes	360,973	38,797
<b>Current assets</b>	<b>12,022,025</b>	<b>5,305,279</b>
Investments and accrued interest (note 9)	37,448,309	40,842,526
Property, plant and equipment (note 11)	3,902,003	4,008,159
	<b>53,372,337</b>	<b>50,155,964</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	316,931	458,889
<b>Current liabilities</b>	<b>316,931</b>	<b>458,889</b>
Liability for remaining coverage (note 8(a))	5,748,691	4,895,807
Liability for incurred claims (note 4)	24,689,815	16,613,072
<b>Total insurance contract liabilities</b>	<b>30,438,506</b>	<b>21,508,879</b>
<b>Total liabilities</b>	<b>30,755,437</b>	<b>21,967,768</b>
<b>POLICYHOLDERS' EQUITY</b>		
Policyholders' equity (page 5)	22,616,900	28,188,196
	<b>53,372,337</b>	<b>50,155,964</b>

**APPROVED BY THE BOARD:**

  
 \_\_\_\_\_ Bil Graham, Director

  
 \_\_\_\_\_ Jeff Consitt, Director

The explanatory financial notes form an integral part of these financial statements.



**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
YEAR ENDED DECEMBER 31, 2025**

	2025 \$	2024 \$
Insurance revenue (note 5)	34,924,816	32,486,538
Insurance service expense (note 6)	( 40,927,983)	( 24,376,203)
<b>Insurance service result before reinsurance</b>	<b>( 6,003,167)</b>	<b>8,110,335</b>
Reinsurance premiums ceded	( 7,411,177)	( 6,893,021)
Recoverable from reinsurers for incurred claims	7,978,879	1,817,900
<b>Net income (expense) for reinsurance contracts</b>	<b>567,702</b>	<b>( 5,075,121)</b>
<b>Insurance service result</b>	<b>( 5,435,465)</b>	<b>3,035,214</b>
<b>Investment income (note 10)</b>	<b>1,641,870</b>	<b>2,987,881</b>
Finance expense for insurance contracts issued	( 813,952)	( 663,245)
Finance income for reinsurance contracts held	177,000	179,000
<b>Net insurance financial result</b>	<b>( 4,430,547)</b>	<b>5,538,850</b>
Other expenses (note 6)	( 3,006,812)	( 2,798,267)
<b>Income (loss) before income taxes</b>	<b>( 7,437,359)</b>	<b>2,740,583</b>
Income tax (expense) recovery		
Current (note 12)	1,591,563	( 708,804)
Deferred	274,500	41,500
	<b>1,866,063</b>	<b>( 667,304)</b>
<b>Net income (loss), being total comprehensive income (loss) for year</b>	<b>( 5,571,296)</b>	<b>2,073,279</b>

**CONSOLIDATED STATEMENT OF POLICYHOLDERS' EQUITY  
YEAR ENDED DECEMBER 31, 2025**

Balance at beginning of year	28,188,196	26,114,917
Net income (loss), being total comprehensive income (loss) for year	( 5,571,296)	2,073,279
<b>Balance at end of year</b>	<b>22,616,900</b>	<b>28,188,196</b>

The explanatory financial notes form an integral part of these financial statements.

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2025**

	2025	2024
	\$	\$
<b>Cash flows from operating activities:</b>		
Net income (loss), being total comprehensive income (loss) for year	( 5,571,296)	2,073,279
Items not involving cash:		
Gain on disposal of property, plant and equipment	( 10,000)	( 12,241)
Depreciation and amortization	123,095	126,705
Deferred income taxes	( 274,500)	( 41,500)
Gain on disposal of investments	( 497,045)	( 875,885)
Unrealized gains on investments	( 202,909)	( 1,085,927)
	( 6,432,655)	184,431
Net change in non-cash working capital balances relating to operations:		
Reinsurance contract assets	( 3,882,675)	325,900
Other assets	( 16,736)	15,012
Accounts payable and accrued liabilities	( 141,958)	66,191
Income taxes	( 1,475,512)	( 903,458)
Liability for remaining coverage	852,884	( 4,765)
Liability for incurred claims	8,076,743	3,005,105
Taxes paid - IFRS 17 transition	( 47,676)	( 47,676)
	( 3,067,585)	2,640,740
<b>Cash flows from investment activities:</b>		
Investment income due and accrued	40,677	( 29,607)
Sale of investments	16,975,571	15,775,763
Purchase of investments	( 12,922,077)	( 19,280,727)
Net additions to property plant and equipment and intangible assets	( 6,939)	( 94,144)
	4,087,232	( 3,628,715)
<b>Net increase (decrease) in cash</b>	<b>1,019,647</b>	<b>( 987,975)</b>
Cash position, beginning of year	667,646	1,655,621
<b>Cash position, end of year</b>	<b>1,687,293</b>	<b>667,646</b>

The explanatory financial notes form an integral part of these financial statements.

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

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**1. Identification and Activities**

Howick Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located at 40592 Amberley Road, RR#4, Wingham, Ontario, N0G 2W0.

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

These consolidated financial statements have been authorized for issue by the Board of Directors on February 18, 2026.

**2. Summary of Significant Accounting Policies**

(a) Reporting entity

These consolidated financial statements include the results of operations and financial position of the company and its wholly-owned subsidiary companies, 2518333 Ontario Inc., the subsidiary that holds the real estate for the company and operates out of the Wingham location, and 1000219586 Ontario Inc. All inter-company transactions and balances have been eliminated.

(b) Basis of presentation

**IFRS 17 Insurance contracts**

(i) *Classification and measurement*

IFRS 17 establishes specific principles for the recognition and measurement of insurance contracts issued and reinsurance contracts held by the Company.

Under IFRS 17, the Company's insurance contracts issued and reinsurance contracts held are all eligible to be measured by applying the Premium Allocation Approach ("PAA"). The PAA simplifies the measurement of insurance contracts in comparison with the general model in IFRS 17.

The measurement principles of the PAA are as follows:

- The liability for remaining coverage reflects premiums received less deferred insurance acquisition cash flows and less amounts recognized in revenue for insurance services provided.
- Measurement of the liability for remaining coverage is adjusted to include a loss component to reflect the expected loss from onerous contracts.
- Measurement of the liability for incurred claims is determined on a discounted probability-weighted expected value basis and includes an explicit risk adjustment for non-financial risk. The liability includes the Company's obligation to pay other incurred insurance expenses.
- Measurement of the asset for remaining coverage (reflecting reinsurance premiums paid for reinsurance held) is adjusted to include a loss-recovery component to reflect the expected recovery of onerous contract losses where such contracts reinsure onerous direct contracts.

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

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**2. Summary of Significant Accounting Policies (Continued)**

(b) Basis of presentation (continued)

**IFRS 17 Insurance contracts (continued)**

(i) *Classification and measurement (continued)*

The Company defers insurance acquisition cash flows for all product lines over the contract boundary. The Company allocates the acquisition cash flows to groups of insurance contracts issued or expected to be issued using a systematic and rational basis.

The Company's classification and measurement of insurance and reinsurance contracts is explained in note 2(c).

(ii) *Presentation and disclosure*

For presentation in the statement of financial position, the Company aggregates insurance and reinsurance contracts issued, and reinsurance contracts held, respectively and presents separately:

- Portfolios of insurance contracts issued that are liabilities
- Portfolios of insurance contracts issued that are assets
- Portfolios of reinsurance contracts held that are assets
- Portfolios of reinsurance contracts held that are liabilities

The portfolios referred to above are those established at initial recognition in accordance with the IFRS 17 requirements. Portfolios of insurance contracts issued include any assets for insurance acquisition cash flows.

(c) Insurance and reinsurance contracts accounting treatment

(i) *Insurance and reinsurance contracts accounting classification*

The Company issues insurance contracts in the normal course of business, under which it accepts significant insurance risk from its policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk. The Company issues property and casualty insurance to individuals and businesses, which includes property, liability, and automobile, aircraft and farmers' accident insurance. These products offer protection of policyholder's assets and indemnification of other parties that have suffered damage as a result of a policyholder's accident.

(ii) *Separating components from insurance and reinsurance contracts*

The Company assesses its insurance products to determine whether they contain distinct components which must be accounted for under another IFRS instead of under IFRS 17. After separating any distinct components, the Company applies IFRS 17 to all remaining components of the (host) insurance contract. Currently, the Company's products do not include any distinct components that require separation.

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

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**2. Summary of Significant Accounting Policies (Continued)**

(c) Insurance and reinsurance contracts accounting treatment (continued)

*(iii) Levels of aggregation*

IFRS 17 requires a company to determine the level of aggregation for applying its requirements. The level of aggregation for the Company is determined firstly by dividing the business written into portfolios. Portfolios comprise groups of contracts with similar risks which are managed together. Portfolios are further divided based on expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. No group for level of aggregation purposes may contain contracts issued more than one year apart.

The profitability of groups of contracts is assessed by actuarial valuation models that take into consideration existing and new business. The Company assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstances indicate otherwise. For contracts that are not onerous, the Company assesses, at initial recognition, that there is no significant possibility of becoming onerous subsequently by assessing the likelihood of changes in applicable facts and circumstances. The Company considers facts and circumstances to identify whether a group of contracts are onerous based on:

- Pricing information
- Results of similar contracts it has recognized
- Environmental factors, e.g., a change in market experience or regulations

The Company divides portfolios of reinsurance contracts held applying the same principles set out above, except that the references to onerous contracts refer to contracts on which there is a net gain on initial recognition. For some groups of reinsurance contracts held, a group can comprise a single contract.

*(iv) Recognition*

The Company recognizes groups of insurance contracts it issues from the earliest of the following:

- The beginning of the coverage period of the group of contracts
- The date when the first payment from a policyholder in the group is due or when the first payment is received if there is no due date
- For a group of onerous contracts, if facts and circumstances indicate that the group is onerous

The Company recognizes a group of reinsurance contracts held it has entered into from the earlier of the following:

- The beginning of the coverage period of the group of reinsurance contracts held. However, the Company delays the recognition of a group of reinsurance contracts held that provide proportionate coverage until the date any underlying insurance contract is initially recognized, if that date is later than the beginning of the coverage period of the group of reinsurance contracts held, and
- the date the Company recognizes an onerous group of underlying insurance contracts if the Company entered into the related reinsurance contract held in the group of reinsurance contracts held at or before that date.

The Company adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

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**2. Summary of Significant Accounting Policies (Continued)**

(c) Insurance and reinsurance contracts accounting treatment (continued)

(v) *Contract boundary*

The Company includes in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group. Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums, or in which the Company has a substantive obligation to provide the policyholder with insurance contract services.

A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognized. Such amounts relate to future insurance contracts.

(vi) *Insurance contracts – initial measurement*

The Company applies the premium allocation approach (PAA) to all the insurance contracts that it issues and reinsurance contracts that it holds as the coverage period for all contracts is one year or less.

For a group of contracts that is not onerous at initial recognition, the Company measures the liability for remaining coverage as:

- The premiums, if any, received at initial recognition
- Minus any insurance acquisition cash flows at that date
- Any other asset or liability previously recognized for cash flows related to the group of contracts that the Company pays or receives before the group of insurance contracts is recognized.

Where facts and circumstances indicate that contracts are onerous at initial recognition, the Company performs additional analysis to determine if a net outflow is expected from the contract. Such onerous contracts are separately grouped from other contracts and the Company recognizes a loss in comprehensive income for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Company for the liability for remaining coverage for such onerous group depicting the losses recognized.

(vii) *Reinsurance contracts held – initial measurement*

The Company measures its reinsurance assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues (i.e. the PAA). However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued, for example the generation of expenses or reduction in expenses rather than revenue. Where the Company recognizes a loss on initial recognition of an onerous group of underlying insurance contracts or when further onerous underlying insurance contracts are added to a group, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses. The Company calculates the loss-recovery component by multiplying the loss recognized on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Company expects to recover from the group of reinsurance contracts held. The Company uses a systematic and rational method to determine the portion of losses recognized on the group to insurance contracts covered by the group of reinsurance contracts held where some contracts in the underlying group are not covered by the group of reinsurance contracts held. The loss-recovery component adjusts the carrying amount of the asset for remaining coverage.

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

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**2. Summary of Significant Accounting Policies (Continued)**

(c) Insurance and reinsurance contracts accounting treatment (continued)

*(viii) Insurance contracts – subsequent measurement*

The Company measures the carrying amount of the liability for remaining coverage at the end of each reporting period as the liability for remaining coverage at the beginning of the period:

- Plus premiums received in the period,
- Minus insurance acquisition cash flows,
- Plus any amounts relating to the amortization of the insurance acquisition cash flows recognized as an expense in the reporting period for the group,
- Minus the amount recognized as insurance revenue for the services provided in the period.

The Company estimates the liability for incurred claims as the fulfilment cash flows related to incurred claims. The fulfilment cash flows incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows, they reflect current estimates from the perspective of the Company, and include an explicit adjustment for non-financial risk (the risk adjustment).

Where, during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Company recognizes a loss in comprehensive income for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows. A loss component is established by the Company for the liability for remaining coverage for such onerous group depicting the losses recognized.

Insurance acquisition cash flows are allocated on a straight-line basis as a portion of premium to comprehensive income (through insurance service expense).

*(ix) Reinsurance contracts – subsequent measurement*

The subsequent measurement of reinsurance contracts held follows the same principles as those for insurance contracts issued and has been adapted to reflect the specific features of reinsurance held.

Where the Company has established a loss-recovery component, the Company subsequently reduces the loss-recovery component to zero in line with reductions in the onerous group of underlying insurance contracts in order to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

*(x) Insurance acquisition cash flows*

Insurance acquisition cash flows arise from the costs of selling, underwriting and starting a group of insurance contracts (issued or expected to be issued) that are directly attributable to the portfolio of insurance contracts to which the group belongs. The Company uses a systematic and rational method to allocate insurance acquisition cash flows to each group of insurance contracts.

Where insurance acquisition cash flows have been paid or incurred before the related group of insurance contracts is recognized in the statement of financial position, a separate asset for insurance acquisition cash flows is recognized for each related group.

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**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2025**

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**2. Summary of Significant Accounting Policies (Continued)**

(c) Insurance and reinsurance contracts accounting treatment (continued)

(xi) *Insurance contracts – modification and derecognition*

The Company derecognizes insurance contracts when:

- The rights and obligations relating to the relevant contracts are extinguished (i.e., discharged, cancelled or expired), or
- The contract is modified such that the modification results in a change in the measurement model or the applicable standard for measuring a component of the contract, substantially changes the contract boundary, or requires the modified contract to be included in a different group. In such cases, the Company derecognizes the initial contract and recognizes the modified contract as a new contract.

When a modification is not treated as a derecognition, the Company recognizes amounts paid or received for the modification with the contract as an adjustment to the relevant liability for remaining coverage.

(xii) *Presentation*

The Company has presented separately, in the statement of financial position, the carrying amount of portfolios of insurance contracts issued that are assets, portfolios of insurance contracts issued that are liabilities, portfolios of reinsurance contracts held that are assets and portfolios of reinsurance contracts held that are liabilities.

The Company does not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and includes the entire change as part of the insurance service result.

The Company separately presents income or expenses from reinsurance contracts held from the expenses or income from insurance contracts issued.

(xiii) *Insurance revenue*

The insurance revenue for the period is the amount of expected premium receipts allocated to the period. The Company allocates the expected premium receipts to each period of insurance contract services on the basis of the passage of time. But if the expected pattern of release of risk during the coverage period differs significantly from the passage of time, then the allocation is made on the basis of the expected timing of incurred insurance service expenses.

The Company changes the basis of allocation between the two methods above as necessary, if facts and circumstances change. The change is accounted for prospectively as a change in accounting estimate.

For the periods presented, all revenue has been recognized on the basis of the passage of time.

(xiv) *Loss components*

The Company assumes that no contracts are onerous at initial recognition unless facts and circumstances indicate otherwise. Where this is not the case, and if at any time during the coverage period, facts and circumstances indicate that a group of insurance contracts is onerous, the Company establishes a loss component as the excess of the fulfilment cash flows that relate to the remaining coverage of the group over the carrying amount of the liability for remaining coverage of the group. Accordingly, by the end of the coverage period of the group of contracts the loss component will be zero.

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

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**2. Summary of Significant Accounting Policies (Continued)**

(c) Insurance and reinsurance contracts accounting treatment (continued)

*(xv) Loss-recovery components*

As described in note 2(c)(xiv) above, where the Company recognizes a loss on initial recognition of an onerous group of underlying insurance contracts, or when further onerous underlying insurance contracts are added to a group, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the expected recovery of the losses. A loss-recovery component is subsequently reduced to zero in line with reductions in the onerous group of underlying insurance contracts in order to reflect that the loss-recovery component shall not exceed the portion of the carrying amount of the loss component of the onerous group of underlying insurance contracts that the entity expects to recover from the group of reinsurance contracts held.

*(xvi) Insurance finance income and expense*

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effect of the time value of money and changes in the time value of money; and the effect of financial risk and changes in financial risk. The Company presents insurance finance income or expenses within comprehensive income each period.

*(xvii) Net income or expense from reinsurance contracts held*

The Company does not separately present on the face of the statement of comprehensive income, the amounts expected to be recovered from reinsurers, and an allocation of the reinsurance premiums paid. The Company treats reinsurance cash flows that are contingent on claims on the underlying contracts as part of the claims that are expected to be reimbursed under the reinsurance contract held and excludes commissions from an allocation of reinsurance premiums presented on the face of the statement of comprehensive income.

(d) Structured settlements, Fire Mutuals Guarantee Fund and financial guarantee contracts

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

The Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims if a member company becomes insolvent. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

These exposures represent financial guarantee contracts. The Company accounts for financial guarantee contracts in accordance with IFRS 17, Insurance Contracts.

(e) Financial instruments

The Company measures its financial assets at fair value through profit or loss (FVTPL) because the Company's business model manages asset performance on a fair value basis.

Financial assets are initially measured at fair value with directly attributable transaction costs recognized in comprehensive income.

Financial liabilities are initially measured at fair value net of any transaction costs directly attributable to the issuance of the instrument, and are subsequently carried at cost using the effective interest rate method.

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

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**2. Summary of Significant Accounting Policies (Continued)**

(f) Facility Association

As a member of the Facility Association, the Company records its proportionate share of the Association's revenue, expenses, unearned premiums and provision for unpaid claims.

(g) Income taxes

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

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base. The amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

(h) Pension plan

The Company participates in a multi-employer defined benefit pension plan. However, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

**3. Accounting Estimates and Judgements**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur. The company consolidates information and does not provide a separate breakdown for its major product lines; instead, it presents them as a unified portfolio.

(i) *Insurance contracts*

The Company applies the PAA to simplify the measurement of insurance contracts. When measuring liabilities for incurred claims, the Company includes an explicit risk adjustment for non-financial risk.

(a) *Liability for remaining coverage*

(i) *Onerous groups*

For groups of contracts that are onerous, the liability for remaining coverage is determined by the fulfilment cash flows. Any loss-recovery component is determined with reference to the loss component recognized on underlying contracts and the recovery expected on such claims from reinsurance contracts held.

(ii) *Time value of money*

The company does not adjust the carrying amount of the liability for remaining coverage to reflect the time value of money or the effect of financial risk for any of its product lines.

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

**3. Accounting Estimates and Judgements (Continued)**

*(i) Insurance contracts (continued)*

*(b) Liability for incurred claims*

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs. These methods extrapolate the development of paid and incurred losses, average costs per claim (including claims handling costs), and claim numbers based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analyzed by accident years, but can also be further analyzed by geographical area, as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based.

Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g., to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the probability weighted expected value outcome from the range of possible outcomes, taking account of all the uncertainties involved.

The Company also has the right to pursue third parties for payment of some or all costs. Estimates of salvage recoveries and subrogation reimbursements are considered as an allowance in the measurement of ultimate claims costs.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency exchange rates.

*(c) Discount rates*

Insurance contract liabilities and reinsurance contract assets are calculated by discounting expected future cash flows at a risk-free rate, plus an illiquidity premium where applicable. Risk free rates are determined by reference to the yields of highly liquid sovereign securities as published by Fiera Capital Corporation. The illiquidity premium is determined by reference to observable market rates.

Discount rates applied for discounting of future cash flows are listed below:

	1 year		3 years		5 years		10 years	
	2025	2024	2025	2024	2025	2024	2025	2024
Insurance Contract Liabilities	<b>2.33</b>	3.06	<b>2.75</b>	3.01	<b>3.11</b>	3.20	<b>3.94</b>	3.84
Reinsurance Contract Assets	<b>2.33</b>	3.06	<b>2.75</b>	3.01	<b>3.11</b>	3.20	<b>3.94</b>	3.84

A sensitivity analysis of how the insurance liabilities respond to changes in the discount rates has been disclosed in note 4.

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**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2025**

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**3. Accounting Estimates and Judgements (Continued)**

*(i) Insurance contracts (continued)*

*(d) Risk adjustment for non-financial risk*

The risk adjustment for non-financial risk is the compensation that the Company requires for bearing the uncertainty about the amount and timing of the cash flows of groups of insurance contracts. The risk adjustment reflects an amount that an insurer would rationally pay to remove the uncertainty that future cash flows will exceed the expected value amount.

The Company has estimated the risk adjustment using a confidence level (probability of sufficiency) approach at the 65th-75th percentile. That is, the Company has assessed that in order to be indifferent to uncertainty for all product lines (as an indication of the compensation that it requires for bearing non-financial risk) they require an additional amount equivalent to the 65th-75th percentile level less the mean of an estimated probability distribution of the future cash flows. The Company has estimated the probability distribution of the future cash flows, and the additional amount above the expected present value of future cash flows required to meet the target percentiles.

A sensitivity analysis of how the insurance liabilities respond to changes in the risk adjustments has been disclosed in note 4.

**4. Insurance Financial Risk Management**

The company's activities expose it to a variety of insurance and financial risks and those activities necessitate the analysis, evaluation, control and/or acceptance of some degree of risk or combination of risks. Taking on various types of risk is core to the financial services business and operational risks are an inevitable consequence of being in business. The company's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance.

*(a) Insurance risk*

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

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

The Company purchases reinsurance as part of its risk mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

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

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

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

**4. Insurance Financial Risk Management (Continued)**

(a) Insurance risk (continued)

The Company manages this risk via its underwriting and reinsurance strategy within an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Regulatory Authority of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk. The Company has policies regarding renewal and new business accepted and reinsurance is purchased to mitigate the effect of the potential loss to the Company.

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of \$750,000 in the event of a property claim, an amount of \$750,000 in the event of an automobile claim and \$750,000 in the event of a liability claim. The Company also obtained reinsurance, which limits the Company's liability to \$2,000,000 in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 70% of net earned premiums.

The following tables show the concentration of net insurance contract liabilities by type of contract:

	December 31, 2025			December 31, 2024		
	Gross Claims	Reinsurance Of Claims	Net Claims	Gross Claims	Reinsurance Of Claims	Net Claims
	\$	\$	\$	\$	\$	\$
Property	9,351,259	4,655,047	4,696,212	7,544,903	1,894,598	5,650,305
Liability	3,619,040	383,524	3,235,516	1,587,843	764,299	823,544
Automobile	11,719,516	3,380,090	8,339,426	7,480,326	2,058,412	5,421,914
	<b>24,689,815</b>	<b>8,418,661</b>	<b>16,271,154</b>	16,613,072	4,717,309	11,895,763

(i) Sensitivities

The liability for incurred claims is sensitive to the key assumptions in the table below. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following sensitivity analysis shows the impact on gross and net liabilities, profit before tax and equity for reasonably possible movements in key assumptions with all other assumptions held constant. The correlation of assumptions will have a significant effect in determining the ultimate impacts, but to demonstrate the impact due to changes in each assumption, assumptions have been changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

2025						
	Change in assumptions	Impact on profit before tax, gross of reinsurance	Impact on profit before tax, net of reinsurance	Impact on equity, gross of reinsurance	Impact on equity, net of reinsurance	
Expected loss	+	5 % ( 433,000) (	334,000) (	318,255) (	245,490)	
Inflation rate	+	1 % ( 331,000) (	220,000) (	243,285) (	161,700)	
Expected loss	-	5 % 432,000	334,000	317,520	245,490	
Inflation rate	-	1 % 325,000	215,000	238,875	158,025	

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

**4. Insurance Financial Risk Management (Continued)**

(a) Insurance risk (continued)

(i) *Sensitivities (continued)*

	2024					
	Change in assumptions	Impact on profit before tax, gross of reinsurance	Impact on profit before tax, net of reinsurance	Impact on equity, gross of reinsurance	Impact on equity, net of reinsurance	
Expected loss	+	5 % (	376,000) (	280,000) (	276,360) (	205,800)
Inflation rate	+	1 % (	232,000) (	166,000) (	170,520) (	122,010)
Expected loss	-	5 %	376,000	280,000	276,360	205,800
Inflation rate	-	1 %	232,000	166,000	170,520	122,010

(i) *Claims development*

The following tables show the estimates of cumulative incurred claims for each successive accident year at each reporting date, together with cumulative payments to date.

In setting claims provisions, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed which is reflected in the risk adjustment. In general, the uncertainty associated with the ultimate cost of settling claims is greatest when the claim is at an early stage of development. As claims develop, the ultimate cost of claims becomes more certain.

	Note	2025			2024		
		Estimates of the PVFCF	Risk adjustment	Total	Estimates of the PVFCF	Risk adjustment	Total
<b>Total gross liabilities for incurred claims</b>	8(a)	<b>23,485,815</b>	<b>1,204,000</b>	<b>24,689,815</b>	15,727,072	886,000	16,613,072
Amounts recoverable from reinsurance	8(b)	<b>8,292,661</b>	<b>126,000</b>	<b>8,418,661</b>	4,519,309	198,000	4,717,309
<b>Total net liabilities for incurred claims</b>		<b>15,193,154</b>	<b>1,078,000</b>	<b>16,271,154</b>	11,207,763	688,000	11,895,763

\* PVFCF refers to present value of future cash flows

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

**4. Insurance Financial Risk Management (Continued)**

(a) Insurance risk (continued)

(i) *Claims development (continued)*

Gross undiscounted liabilities for incurred claims for 2025

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
End of insured event year	8,340,426	12,906,408	11,763,294	10,973,236	10,306,751	13,451,358	12,687,440	13,794,116	13,329,603	27,330,062	
One year later	7,898,728	13,546,495	11,254,308	10,970,294	10,396,936	14,114,806	13,834,174	14,868,431	13,001,112		
Two years later	7,933,967	14,011,330	11,285,395	11,320,679	10,930,513	14,149,202	14,647,296	14,813,129			
Three years later	7,722,382	13,685,243	11,319,271	11,437,536	11,954,124	14,295,831	15,468,887				
Four years later	7,696,066	13,772,811	11,314,319	11,493,005	11,862,174	14,297,426					
Five years later	7,733,461	13,945,576	11,224,710	11,519,703	11,916,129						
Six years later	7,805,878	14,439,135	11,322,342	11,557,052							
Seven years later	7,946,746	13,986,485	11,334,837								
Eight years later	8,344,991	13,996,345									
Nine years later	8,344,991										
<b>Gross estimates of the undiscounted amount of the claims</b>	8,344,991	13,996,345	11,334,837	11,557,052	11,916,129	14,297,426	15,468,887	14,813,129	13,001,112	27,330,062	
<b>Cumulative payments to date</b>	7,883,949	13,980,025	11,211,035	11,101,980	11,831,583	13,908,558	13,505,584	13,695,640	9,475,634	18,369,237	
<b>Outstanding claims</b>	461,042	16,320	123,802	455,072	84,546	388,868	1,963,303	1,117,489	3,525,478	8,960,825	17,096,745
Outstanding claims 2015 and prior											138,128
Incurred but not reported											5,356,000
Effect of risk adjustment											1,204,000
Effect of discounting											(952,000)
Facility and RSP											456,942
Internal adjusting expenses											<u>1,390,000</u>
<b>Total gross liabilities for incurred claims</b>											<u>24,689,815</u>

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2025**

**4. Insurance Financial Risk Management (Continued)**

(a) Insurance risk (continued)

(i) *Claims development (continued)*

Net undiscounted liabilities for incurred claims for 2025

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
End of insured event year	7,300,599	9,566,312	9,695,778	9,048,306	9,380,935	9,381,350	11,110,606	11,797,460	10,804,496	21,356,804	
One year later	7,117,668	9,926,783	9,364,090	9,425,372	9,392,153	9,257,710	11,177,725	12,293,642	10,135,627		
Two years later	7,222,100	10,388,762	9,395,176	9,657,613	9,923,363	9,126,408	12,105,429	12,065,420			
Three years later	7,010,515	10,114,600	9,429,053	9,769,470	10,014,378	9,273,076	12,504,674				
Four years later	6,984,199	10,143,350	9,424,101	9,727,908	9,924,092	9,274,671					
Five years later	7,021,594	10,224,464	9,334,492	9,756,317	9,977,534						
Six years later	7,094,011	10,206,348	9,432,124	9,761,475							
Seven years later	7,071,612	10,157,547	9,444,619								
Eight years later	7,071,612	10,183,131									
Nine years later	7,071,612										
<b>Net estimates of the undiscounted amount of the net claims</b>	7,071,612	10,183,131	9,444,619	9,761,475	9,977,534	9,274,671	12,504,674	12,065,420	10,135,627	21,356,804	
<b>Cumulative payments to date</b>	7,071,612	10,166,811	9,320,817	9,480,225	9,893,055	8,885,803	10,963,718	11,265,661	8,886,708	15,129,073	
<b>Outstanding claims</b>	NIL	16,320	123,802	281,250	84,479	388,868	1,540,956	799,759	1,248,919	6,227,731	10,712,084
Outstanding claims 2015 and prior											138,128
Incurred but not reported											3,136,000
Effect of risk adjustment											1,078,000
Effect of discounting											(640,000)
Facility and RSP											456,942
Internal adjusting expenses											1,390,000
<b>Total net outstanding claims and claims handling expenses</b>											<b>16,271,154</b>

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

**4. Insurance Financial Risk Management (Continued)**

(b) Financial risk management

The Company has exposure to credit risk, liquidity risk and market risks from its use of financial instruments and its insurance contracts.

**Credit risk**

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due. The Company is exposed to this risk relating to its debt holdings in its investment portfolio and the reliance on the reinsurer to make payment when certain loss conditions are met.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio remains very high quality with 90% of the bonds rated A or better. The Company's investment policy limits investment in bonds and debentures of the various ratings to limits ranging from 67% to 97% of the Company's portfolio. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

The Company continues to monitor investments for credit ratings to ensure investments are made in bonds BBB or better.

Reinsurance is placed with Farm Mutual Re, a Canadian registered reinsurer. Management monitors the credit-worthiness of Farm Mutual Re by reviewing their annual consolidated financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management and the Board prior to renewal of the reinsurance contract.

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

The carrying amount of the Company's financial instruments best represents the maximum exposure to credit risk.

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

The Company manages its credit exposure based on the carrying value of the financial instruments and insurance and reinsurance contract assets. The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties:

	2025			Total
	A or better	Less than A	Not rated	
<b>Financial instruments (bonds)</b>	<b>23,905,659</b>	<b>2,803,493</b>		<b>26,709,152</b>
<b>Reinsurance contract assets</b>		<b>8,278,109</b>		<b>8,278,109</b>
	<b>23,905,659</b>	<b>11,081,602</b>		<b>34,987,261</b>
	2024			Total
	A or better	Less than A	Not rated	
Financial instruments (bonds)	22,200,659	4,805,858		27,006,517
Reinsurance contract assets		4,395,434		4,395,434
	22,200,659	9,201,292		31,401,951

*Concentrations of credit risk*

The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

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**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2025**

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**4. Insurance Financial Risk Management (Continued)**

(b) Financial risk management (continued)

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client, nor does it have material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

The Company's investment policy requires that 3% to 10% of the Company's portfolio be held in cash and short-term investments with a minimum of \$1,000,000 held in cash and short-term investments to manage short-term liquidity issues. Short-term investments include treasury bills, commercial paper, and term deposits with an original maturity of less than one year.

There have been no significant changes from the previous period in the exposure to risk, nor significant changes in 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 Ontario Insurance Act. An investment policy is in place and its application is monitored by management and the Audit and Finance Committee. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 5% (except government sponsored bonds) of the company's total assets.

(i) *Interest rate risk*

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The Company is exposed to this risk through its interest bearing investments, which include Bankers acceptance, T-bills, GICs and bonds.

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used, in a broad sense, to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than its liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in net income. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

The objectives, policies and procedures for managing interest rate risk are to diversify the bond and guaranteed investment portfolio in such a way that this portfolio is laddered over a period of years. This protects the Company from fluctuations in interest rates.

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

**4. Insurance Financial Risk Management (Continued)**

(b) Financial risk management (continued)

**Market risk (continued)**

(i) *Interest rate risk (continued)*

Had prevailing interest rates of the bond funds increased or decreased by 1.0%, assuming a parallel shift in the yield curve and all other variables held constant, the market value of the fixed income holdings would have decreased or increased by approximately \$1,258,000. The fixed income holdings' sensitivity to interest rate fluctuations was estimated using the weighted average duration of the fixed income holdings. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

There have been no significant changes from the previous period in the exposure to risk, nor any significant changes to policies, procedures and methods used to measure the risk.

Insurance finance income or expenses reflect changes in insurance contract liabilities valuations, driven by factors like discount rate adjustments and financial assumptions. These valuations, in turn, impact our financial results. Prudent risk management strategies ensure stability in financial performance, underscoring the crucial link between investment returns and our insurance business.

The following analysis is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on profit before tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact of interest rate risk, but to demonstrate the impact due to changes in variables, variables have been changed on an individual basis. It should be noted that movements in these variables are non-linear. The method used for deriving sensitivity information and significant variables has not changed from the previous period.

		2025		2024	
	Change in interest rate	Effect on Net profit	Effect on Equity	Effect on Net profit	Effect on Equity
Debt Instruments	<b>+100 bps</b>	<b>( 1,258,348)</b>	<b>( 924,886)</b>	<b>( 1,149,370)</b>	<b>( 844,787)</b>
Debt Instruments	<b>- 100 bps</b>	<b>1,258,348</b>	<b>924,886</b>	<b>1,149,370</b>	<b>844,787</b>

(ii) *Price risk*

Price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings within its investment portfolio.

The company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index and U.S. stocks, with fair values that move with the S&P 500 Index. A 10% movement in the Canadian stock markets, with all other variables held constant, would have an estimated effect on the fair values of the company's Canadian common stocks of approximately \$734,000. A 10% movement in the U.S. stock markets, with all other variables held constant, would have an estimated effect on the fair values of the company's U.S. stocks of approximately \$218,000. These changes would be recognized in the statement of comprehensive income.

The Company's investment policy limits investment in preferred and common shares to a maximum of 22% of the market value of the portfolio.

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

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**4. Insurance Financial Risk Management (Continued)**

(b) Financial risk management (continued)

**Market risk (continued)**

(ii) *Price risk (continued)*

Equities are monitored by management and holdings are adjusted following each quarter to ensure the investment portfolio remains in compliance with the investment policy.

There have been no significant changes from the previous period in the exposure to risk, nor any changes to the investment policies, procedures and processes for managing price risk.

The Company does not issue any participating contracts. Therefore, there are no insurance or reinsurance contracts which are exposed to price risk.

(iii) *Foreign currency risk*

Foreign currency risk relates to the company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Company's principal transactions are carried out in Canadian dollars and its exposure to foreign exchange risk arises primarily with respect to the United States dollar. The Company's financial assets are primarily denominated in the same currencies as its insurance contract liabilities.

The Company's foreign exchange risk is related to its stock holdings which are limited to United States equities in sectors which are not readily available in Canada. The Company limits its holdings in foreign equity to 12% of investments in accordance with its investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks and cash by approximately \$22,000, which would be reflected in the statement of comprehensive income.

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.

	<b>2025</b>	<b>2024</b>
	\$	\$
<b>5. Insurance Revenue</b>		
Gross premiums written	<b>35,617,627</b>	33,428,552
Increase in unearned premiums	( <b>1,028,798</b> )	( 1,253,174 )
Service fees & bad debts	<b>335,987</b>	311,160
	<b>34,924,816</b>	32,486,538

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

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	2025	2024
	\$	\$
<b>6. Insurance Service Expense</b>		
Claims and benefits	32,444,374	16,206,465
Salaries, employee benefits and directors' fees	2,365,364	2,421,356
Professional fees (other than legal)	185,753	78,937
Legal fees	2,726	1,345
Commissions	7,006,859	6,504,870
Depreciation and amortization (note 11)	90,847	93,152
Occupancy expenses (including rent, leasing and maintenance)	205,818	188,800
Information technology	647,991	661,307
Other general expenses	985,063	1,018,238
<b>Total</b>	<b>43,934,795</b>	<b>27,174,470</b>
<b>Represented by:</b>		
Insurance service expenses	40,927,983	24,376,203
General and operating expenses	3,006,812	2,798,267
<b>Total</b>	<b>43,934,795</b>	<b>27,174,470</b>
<b>7. Salaries, Benefits and Directors Fees</b>		
Total benefits	622,954	598,287
Total salaries and directors fees	2,508,183	2,635,444
	<b>3,131,137</b>	<b>3,233,731</b>

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

**8. Insurance and Reinsurance Contracts**

**(a) Roll forward of net liability for insurance contracts**

The Company provides disclosure for its entire portfolio on an overall basis without further disaggregating information based on major product lines. This approach reflects the company's management and reporting practices.

	2025				
	Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component	Loss component	Estimates of PVFCF*	Risk adjustments	Total
Insurance contract liabilities, beginning of year	4,895,807		15,727,072	886,000	21,508,879
Insurance revenue	( 34,924,778)				( 34,924,778)
Insurance service expenses					
Incurred claims and other directly attributable expenses			31,840,883	593,000	32,433,883
Insurance acquisition cash flows amortization	8,483,607				8,483,607
Changes that relate to past service – adjustments to the liability for incurred claims			285,455	( 275,000)	10,455
<b>Insurance service result</b>	( 26,441,171)		32,126,338	318,000	6,003,167
Insurance finance expenses			813,952		813,952
<b>Total changes in the statement of comprehensive income</b>	( 26,441,171)		32,940,290	318,000	6,817,119
Cash flows					
Premiums received	35,976,954				35,976,954
Claims and other directly attributable expenses paid			( 25,181,547)		( 25,181,547)
Insurance acquisition cash flows	( 8,682,899)				( 8,682,899)
<b>Total cash flows</b>	27,294,055		( 25,181,547)		2,112,508
<b>Insurance contract liabilities, end of year</b>	5,748,691		23,485,815	1,204,000	30,438,506

\* PVFCF refers to present value of future cash flows

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2025**

**8. Insurance and Reinsurance Contracts (Continued)**

**(a) Roll forward of net liability for insurance contracts (continued)**

	2024				Total
	Liabilities for remaining coverage		Liabilities for incurred claims		
	Excluding loss component	Loss component	Estimates of PVFCF*	Risk adjustments	
Insurance contract liabilities, beginning of year	4,900,572		12,969,967	638,000	18,508,539
Insurance revenue	( 32,486,538)				( 32,486,538)
Insurance service expenses					
Incurred claims and other directly attributable expenses			15,927,529	452,000	16,379,529
Insurance acquisition cash flows amortization	8,170,021				8,170,021
Changes that relate to past service – adjustments to the liability for incurred claims			30,653	( 204,000)	( 173,347)
<b>Insurance service result</b>	( 24,316,517)		15,958,182	248,000	( 8,110,335)
Insurance finance expenses			663,245		663,245
<b>Total changes in the statement of comprehensive income</b>	( 24,316,517)		16,621,427	248,000	( 7,447,090)
Cash flows					
Premiums received	32,816,171				32,816,171
Claims and other directly attributable expenses paid			( 13,864,322)		( 13,864,322)
Insurance acquisition cash flows	( 8,504,419)				( 8,504,419)
<b>Total cash flows</b>	24,311,752		( 13,864,322)		10,447,430
<b>Insurance contract liabilities, end of year</b>	4,895,807		15,727,072	886,000	21,508,879

\*PVFCF refers to present value of future cash flows

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

**8. Insurance and Reinsurance Contracts (Continued)**

**(b) Reinsurance contracts**

The company provides disclosure for its entire reinsurance portfolio on an overall basis without further desegregating information based on specific reinsurance lines or segments. This approach aligns with the company's management and reporting practices.

	2025				
	Assets for remaining coverage		Assets recoverable on incurred claims		Total
	Excluding loss recovery component	Loss recovery component	Estimates of PVFCF*	Risk adjustments	
<b>Reinsurance contract assets (liabilities), beginning of year</b>	( 321,875)		4,519,309	198,000	
Allocation of reinsurance premiums	( 7,411,174)				( 7,411,174)
Amounts recoverable from reinsurers for incurred claims			7,088,738	43,000	7,131,738
Amounts recoverable for claims and other expenses			962,138	( 115,000)	847,138
Changes to amounts recoverable for incurred claims					
<b>Net income (expenses) from reinsurance contracts held</b>	( 7,411,174)		8,050,876	( 72,000)	567,702
Reinsurance finance income			177,000		177,000
<b>Total changes in the statement of comprehensive income</b>	( 7,411,174)		8,227,876	( 72,000)	744,702
<b>Cash flows</b>					
Premiums paid net of ceding commissions and other directly attributable expenses paid	7,592,497				7,592,497
Amounts received			( 4,454,524)		( 4,454,524)
<b>Total cash flows</b>	7,592,497		( 4,454,524)		3,137,973
<b>Reinsurance contract assets (liabilities), end of year</b>	( 140,552)		8,292,661	126,000	8,278,109

\* PVFCF refers to present value of future cash flows

**EXPLANATORY FINANCIAL NOTES  
YEAR ENDED DECEMBER 31, 2025**

**8. Insurance and Reinsurance Contracts (Continued)**

**(b) Reinsurance contracts (continued)**

	2024				
	Assets for remaining coverage	Assets recoverable on incurred claims			
	Excluding loss recovery component	Loss recovery component	Estimates of PVFCF*	Risk adjustments	Total
<b>Reinsurance contract assets (liabilities), beginning of year</b>	( 228,943)		4,744,277	206,000	4,721,334
An allocation of reinsurance premiums	( 6,893,021)				( 6,893,021)
Amounts recoverable from reinsurers for incurred claims			2,101,303	109,000	2,210,303
Amounts recoverable for claims and other expenses			( 275,403)	( 117,000)	( 392,403)
<b>Net income (expenses) from reinsurance contracts held</b>	( 6,893,021)		1,825,900	( 8,000)	( 5,075,121)
Reinsurance finance income			179,000		179,000
<b>Total changes in the statement of comprehensive income</b>	( 6,893,021)		2,004,900	( 8,000)	( 4,896,121)
<b>Cash flows</b>					
Premiums paid net of ceding commissions and other directly attributable expenses paid	6,800,089				6,800,089
Amounts received			( 2,229,868)		( 2,229,868)
<b>Total cash flows</b>	6,800,089		( 2,229,868)		4,570,221
<b>Net reinsurance contract assets (liabilities), end of year</b>	( 321,875)		4,519,309	198,000	4,395,434

\* PVFCF refers to present value of future cash flows

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

**9. Investments**

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

	2025		2024	
	Cost \$	Fair Value \$	Cost \$	Fair Value \$
Government of Canada Treasury Bills			1,027,508	1,041,588
Guaranteed Investment Certificates	<b>1,000,000</b>	<b>1,000,000</b>	1,000,000	1,000,000
Bonds issued by				
Federal	<b>10,261,789</b>	<b>10,204,883</b>	9,561,092	9,406,688
Provincial	<b>8,136,201</b>	<b>8,090,113</b>	7,678,906	7,565,693
Municipal	<b>487,739</b>	<b>503,865</b>	487,739	500,394
Corporate A, AA or AAA	<b>5,059,943</b>	<b>5,106,798</b>	4,686,077	4,727,884
Corporate BBB and other	<b>2,698,672</b>	<b>2,803,493</b>	4,720,334	4,805,858
	<b>27,644,344</b>	<b>27,709,152</b>	29,161,656	29,048,105
Equity investments				
Canadian	<b>2,803,001</b>	<b>3,874,530</b>	3,467,206	4,344,337
United States	<b>1,465,169</b>	<b>2,178,473</b>	2,870,693	3,715,135
Canadian private companies	<b>2,630,500</b>	<b>3,467,591</b>	2,562,670	3,475,709
	<b>6,898,670</b>	<b>9,520,594</b>	8,900,569	11,535,181
Other investments				
Fire Mutual guarantee fund	<b>40,532</b>	<b>40,532</b>	40,532	40,532
MCCG Inc.	<b>1</b>	<b>1</b>	1	1
Accrued interest	<b>178,030</b>	<b>178,030</b>	218,707	218,707
	<b>218,563</b>	<b>218,563</b>	259,240	259,240
	<b>34,761,577</b>	<b>37,448,309</b>	38,321,465	40,842,526

Maturity profile of bonds, debentures and guaranteed investment certificates held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair Value
<b>December 31, 2025</b>	<b>2,248,493</b>	<b>13,025,881</b>	<b>12,434,778</b>	<b>NIL</b>	<b>27,709,152</b>
<b>Percent of Total</b>	<b>8 %</b>	<b>47 %</b>	<b>45 %</b>	<b>0 %</b>	
December 31, 2024	5,979,072	13,168,050	9,900,983	NIL	29,048,105
Percent of Total	21 %	45 %	34 %	0 %	

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

**9. Investments (Continued)**

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

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

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>December 31, 2025</b>				
Guaranteed Investment Certificates	1,000,000			1,000,000
Bonds		26,709,152		26,709,152
Equities	6,053,003		3,467,591	9,520,594
Other investments		40,533		40,533
<b>Total investments measured at fair value</b>	<b>7,053,003</b>	<b>26,749,685</b>	<b>3,467,591</b>	<b>37,270,279</b>

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>December 31, 2024</b>				
Government of Canada Treasury Bills	1,041,588			1,041,588
Guaranteed investment certificates	1,000,000			1,000,000
Bonds		27,006,517		27,006,517
Equities	8,059,472		3,475,709	11,535,181
Other investments		40,533		40,533
<b>Total investments measured at fair value</b>	<b>10,101,060</b>	<b>27,047,050</b>	<b>3,475,709</b>	<b>40,623,819</b>

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2025 and 2024.

Reconciliation of Level 3 financial instruments

	2025 \$	2024 \$
Balance, beginning of year	3,475,709	2,302,786
Purchases		1,062,670
Fair value adjustment	( 8,118)	110,253
<b>Balance, end of year</b>	<b>3,467,591</b>	<b>3,475,709</b>

The fair value of the investment in the Canadian private companies fluctuates based on the value of the underlying net assets held by the private companies. At December 31, 2025, the change in measurement inputs would not result in a material adjustment to the Company's investment.



**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

	2025	2024
	\$	\$
<b>10. Investment and Other Income</b>		
Interest and foreign income	984,894	1,025,331
Dividend income	95,296	115,936
Realized gains on disposal of investments	497,045	875,885
Increase in market value of investments	202,909	1,085,927
Investment expense	( 155,401)	( 147,441)
Other income	7,127	20,002
Gains on disposal of property plant and equipment	10,000	12,241
	<b>1,641,870</b>	<b>2,987,881</b>

**11. Property, Plant and Equipment and Intangible Assets**

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

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if necessary.

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. The amortization expense in the amount of \$123,095 is allocated between insurance service expenses and general and operating expenses in the statement of comprehensive income and is provided over the estimated useful life of the asset.

		2025		
	Depreciation rate	Cost	Accumulated Depreciation	Net Book Value
		\$	\$	\$
Land		372,741		372,741
Buildings and improvements	40 years	3,784,679	357,885	3,426,794
Computer hardware	3 years	294,391	241,251	53,140
Furniture and fixtures	5 years	373,430	371,943	1,487
Vehicles	5 years	115,080	67,239	47,841
		<b>4,940,321</b>	<b>1,038,318</b>	<b>3,902,003</b>

**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

**11. Property, Plant and Equipment and Intangible Assets (Continued)**

	Depreciation rate	2024 Cost	Accumulated Depreciation	Net Book Value
Land		372,741		372,741
Buildings and improvements	40 years	3,784,679	306,393	3,478,286
Computer hardware	3 years	295,075	204,936	90,139
Furniture and fixtures	5 years	373,430	371,117	2,313
Vehicles	5 years	149,770	85,592	64,178
Computer software	3 years	2,006	1,504	502
		<b>4,977,701</b>	<b>969,542</b>	<b>4,008,159</b>

The unamortized cost of property plant and equipment and intangible assets available to reduce net income for income tax purposes amounts to approximately \$3,861,000 (\$3,865,000 in 2024).

**12. Income Taxes**

Reasons for the difference between current tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (26.5% in 2024) are as follows:

	2025 \$	2024 \$
Income (loss) before income taxes	( 7,437,359)	2,740,583
Expected taxes based on the statutory rate of 26.5% (26.5% in 2024)		726,254
Effect of small business deduction		( 45,753)
Claims reserves timing differences	57,694	36,195
Other non deductible expenses	4,065	3,163
Difference between depreciation and capital cost allowance	11,613	13,333
Other non taxable income	( 73,372)	( 24,388)
Loss carryback to prior years	( 1,591,563)	
Total income tax expense (recovery)	( 1,591,563)	708,804

**13. Related Party Transactions**

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

Compensation		
Salaries, benefits and directors' fees	1,076,962	1,156,599
Total pension and other post-employment benefits	125,782	137,851
	<b>1,202,744</b>	<b>1,294,450</b>
Premiums	135,689	131,891
Claims paid (recovered)	( 7,792)	54,570

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**EXPLANATORY FINANCIAL NOTES**  
**YEAR ENDED DECEMBER 31, 2025**

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**14. Capital Management**

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates 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 if deemed necessary.

For the purpose of capital management, the Company has defined capital as policyholders' equity.

**15. Pension Plan**

The Company makes contributions on behalf of its employees to "the Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies", which is a multi-employer plan.

The Company makes contributions to the plan on behalf of members of its staff hired prior to January 1, 2014. The plan is a money purchase plan, with a defined benefit option at retirement available to employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay.

The amount contributed to the plan for 2025 was \$130,560 (\$135,774 in 2024). The contributions were made for current service, and these have been recognized in comprehensive income. These contributions amount to 6.0% (6.0% in 2024) of the total contributions made to the plan by all participating entities during the current fiscal year.

Expected contributions to the plan for the next annual reporting period amount to \$132,000, which is based on payments made to the multi-employer plan during the current fiscal year.

An actuarial valuation of the Pension Plan as of December 31, 2023 determined that the Plan was in a going-concern surplus position on that date. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2026.

Due to the complexity of the valuation and its long-term nature, the funding valuation is highly sensitive to changes in the assumptions, which are reviewed at each reporting date.

**16. Bank Line of Credit**

The company has arranged with Libro Credit Union for the availability of a line of credit to a maximum of \$2,000,000, bearing interest at Libro Prime Rate plus 1% per annum. On December 31, 2025 there was no outstanding balance on this line of credit.