

**POULTRY INSURANCE EXCHANGE
RECIPROCAL OF CANADA**

FINANCIAL STATEMENTS

For the year ended December 31, 2020

**POULTRY INSURANCE EXCHANGE
RECIPROCAL OF CANADA**

For the year ended December 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Subscribers of
Poultry Insurance Exchange Reciprocal of Canada

Opinion

We have audited the financial statements of Poultry Insurance Exchange Reciprocal of Canada (the 'Entity'), which comprise the statement of financial position as at December 31, 2020, and the statements of guarantee fund, comprehensive income, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2020, 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 Financial Statements* section of our report. We are independent of the Entity 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 these 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 Entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

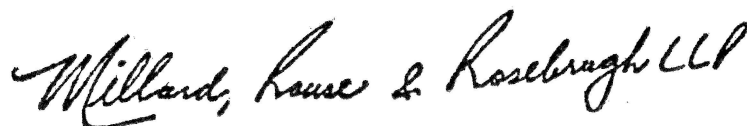
Those charged with governance are responsible for overseeing the Entity's financial reporting process.

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 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 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 Entity'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 Entity'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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the 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.



February 18, 2021
Brantford, Ontario

CHARTERED PROFESSIONAL ACCOUNTANTS
Licensed Public Accountants

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

STATEMENT OF FINANCIAL POSITION

As at December 31	2020	2019
ASSETS		
Cash	1,800,334	2,269,030
Accrued investment income	167,449	150,358
Investments (Note 2)	21,654,344	18,219,250
Provision for reinsurance recovery on unpaid claims (Note 3)	101,881	-
	23,724,008	20,638,638
LIABILITIES		
Accounts payable and accrued liabilities	38,363	28,090
Premium taxes payable	165,337	162,715
Premiums received in advance	3,293,537	2,587,698
Provision for unpaid claims (Note 3)	1,085,819	26,898
	4,583,056	2,805,401
Guarantee Fund (Note 7)		
Reserves required by the Financial Services Regulatory Authority of Ontario	50,000	50,000
Additional reserves required for Nationwide Licensing	1,350,000	1,350,000
Additional guarantee funds	17,740,952	16,433,237
	19,140,952	17,833,237
	23,724,008	20,638,638

Approved on behalf of the Board of Directors:

Signed by  _____

Signed by  _____

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

STATEMENT OF GUARANTEE FUND

Balance at January 1, 2019	14,094,971
Net Income	3,738,266
<hr/>	
Balance on December 31, 2019	17,833,237
Net Income	1,807,715
Chicken Farmers of Ontario capital contribution repayment (Note 7)	(500,000)
<hr/>	
Balance on December 31, 2020	19,140,952

See accompanying notes

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31	2020	2019
Underwriting Income		
Gross premiums written	4,673,045	4,598,017
Less: reinsurance premiums	(1,411,250)	(1,438,250)
Net premiums earned	3,261,795	3,159,767
Direct Losses Incurred (Note 3)		
Gross claims and adjustment expenses	1,748,353	(392,701)
Less: reinsurers' share of claims and adjustment expenses	(101,881)	132,225
	1,615,323	3,420,243
Expenses		
Other operating and administrative expenses (Note 4)	564,616	642,137
Net Underwriting Income	1,050,707	2,778,106
Investment and Other Income (Loss) (Note 5)	757,008	960,160
Net Income and Total Comprehensive Income for the Year	1,807,715	3,738,266

See accompanying notes

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

STATEMENT OF CASH FLOWS

For the year ended December 31	2020	2019
Cash Flows From Operating Activities		
Net Income	1,807,715	3,738,266
Adjustments		
Realized (gain) loss on disposal of investments (Note 5)	20,711	(4,510)
Unrealized (gain) loss on investments (Note 5)	(232,537)	(482,694)
	1,595,889	3,251,062
Changes in Non-Cash Working Capital Balances		
Accounts receivable	-	25,000
Accrued investment income	(17,091)	(44,245)
Provision for reinsurance recoverable	(101,881)	132,225
Accounts payable and accrued liabilities	10,273	(32,922)
Premium taxes payable	2,622	36,722
Premiums received in advance	705,839	562,211
Provision for unpaid claims	1,058,921	(439,979)
	3,254,572	3,490,074
Cash Flows Used in Investing Activities		
Purchase of investments	(15,165,891)	(8,981,220)
Proceeds on sale of investments	11,942,623	6,359,687
	(3,223,268)	(2,621,533)
Cash Flows From Financing Activities		
Chicken Farmers of Ontario capital contribution	(500,000)	-
Net Increase in Cash and Cash Equivalents	(468,696)	868,541
Opening Cash and Cash Equivalents	2,269,030	1,400,489
Closing Cash and Cash Equivalents	1,800,334	2,269,030

See accompanying notes

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Poultry Insurance Exchange Reciprocal of Canada (the "Exchange") was formed under the Subscribers' Agreement dated July 9, 2003. The Exchange was licensed in the Province of Ontario on May 9, 2003 and commenced the exchange of policies on January 1, 2004. The Exchange is licensed by the Financial Services Regulatory Authority of Ontario to provide property insurance to its subscribers in accordance with Part XIII of the Insurance Act, Ontario, R.S.O. 1990.

The Exchange has three underwriting groups. The first underwriting group has 73 subscribers in Ontario, 29 subscribers in Alberta and an additional 10 subscribers in Saskatchewan. The Exchange provides policies of insurance covering business interruption loss due to Avian Influenza (A.I.), Salmonella Enteritidis infection (S.E.), Salmonella Typhimurium (St.Dt.-104), Mycoplasma Synoviae (MS) and Mycoplasma Gallisepticum (MG) infection in Broiler Breeder birds and chicks to this underwriting group.

The second underwriting group commenced on April 1, 2012 and has approximately 422 subscribers whose premiums are collected through 5 hatcheries. The Exchange provides policies of insurance covering business interruption loss due to Avian Influenza (A.I.) and Salmonella Enteritidis infection (S.E.) to the second underwriting group comprised of breeders, pullet growers and layer producers.

A third underwriting group comprised of approximately 1300 chicken farmers in Ontario became subscribers to the Exchange on November 15, 2018. The Exchange provides policies of insurance covering business losses due to Avian Influenza (A.I.). Premiums are collected from processors based on kilograms and remitted by Chicken Farmers of Ontario.

The Exchange's head office is located at 102 Seventh Avenue in Arnprior, Ontario.

The Exchange is dependent upon its subscribers for premiums and assessments, as determined by the actuary, required to cover claims and expenses experienced within each underwriting group.

These financial statements have been authorized for issue by the Board of Directors on February 18, 2021.

Basis of Presentation

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

These financial statements were prepared under the historical cost convention, except for financial assets which are classified at amortized cost or fair value through profit and loss (FVTPL).

The Exchange's functional and presentation currency is the Canadian dollar.

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Judgments and Estimates

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Exchange's accounting policies. The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The calculation of unpaid claims, including the determination of the initial claim liability and discount rate (Note 3); and
- The classification of debt instruments at amortized cost, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 2).

The notes to the financial statements were ordered so that the most relevant information was presented earlier in the notes and the disclosures that were deemed to be immaterial were excluded from the notes to the financial statements. The determination of the relevance and materiality of disclosures involved significant judgment.

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

2. INVESTMENTS

(a) Recognition and Initial Measurement

The Exchange recognizes debt instruments on the date on which they are originated. Equity instruments are recognized on the settlement date, which is the date that the asset is received by the Exchange. The instruments are initially measured at fair value.

(b) Classification and Subsequent Measurement

The Exchange classifies its debt instruments, money market funds, GICs and bonds at amortized cost because the Exchange holds financial assets in order to collect contractual cash flows and the contractual terms of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest. Interest on debt securities measured under amortized cost is calculated using the effective interest method and is included in net income.

The Exchange classifies its equity instruments in listed and unlisted companies as FVTPL. Equity instruments are subsequently measured at fair value where the net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in profit or loss.

Debt instruments' carrying value is subsequently reduced by any loss allowance. As at December 31, 2020, the expected credit losses on the Exchange's debt investment portfolio are immaterial.

(c) Derecognition

The Exchange derecognizes investments when the contractual rights to the cash flows from the investment expires or the Exchange transfers the investment. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

2. INVESTMENTS (Continued)

(d) Risks

The following table provides fair value information of investments by type and security of user.

	December 31, 2020			December 31, 2019		
	Cost	Fair Value	Carrying Amount	Cost	Fair Value	Carrying Amount
Money Market						
Corporate	2,515,152	2,515,152	2,515,152	2,344,663	2,344,663	2,344,663
Bonds Issued by						
Government	1,199,293	1,235,087	1,199,293	2,260,787	2,271,293	2,250,083
Corporate	3,624,405	3,674,678	3,610,822	3,798,479	3,801,543	3,798,973
	4,823,698	4,909,765	4,810,115	6,059,266	6,072,836	6,049,056
Equity Investments						
Common Shares	5,818,924	6,537,693	6,537,693	3,835,956	4,322,188	4,322,188
GIC	7,791,384	7,791,384	7,791,384	5,503,343	5,503,343	5,503,343
Total Investments	20,949,158	21,753,994	21,654,344	17,743,228	18,243,030	18,219,250

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements for invested assets are categorized into levels within a fair value hierarchy based on the nature of valuation inputs (Level 1, 2 or 3). The fair value of other financial assets and financial liabilities is considered to be the carrying value when they are of short duration or when the instrument's interest rate approximates current observable market rates

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

2. INVESTMENTS (Continued)

Investments that are measured subsequent to initial recognition at fair value, are 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 using the last bid price;
- 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).

All equity investments held by the Exchange are classified as Level 1 investments.

There were no transfers between Level 1 and Level 2 for the year ended December 31, 2020.

The maturity profile of bonds held is as follows:

	<1 year	1-3 years	3-10 years	Fair value
December 31, 2020	2,013,571	2,083,182	813,012	4,909,765
Percent of Total	41 %	42 %	17 %	
December 31, 2019	2,659,422	3,413,414	-	6,072,836
Percent of Total	44 %	56 %	- %	

The bond investment yield for 2020 is 2.27% (2019 - 2.05%).

Investment Policy and Procedures

The Investment Policy Statement of the Exchange is based on the objective of investing in low risk investments with attractive long-term rates of return and that operate within the guidelines of the Insurance Act for the Province of Ontario. No individual investment holding taken at market value is to exceed 10% of the total portfolio of a single issuer other than government securities. At December 31, 2020, the Exchange was in compliance with this policy. All investment transactions must be approved by one of the General Manager, Chair, or Vice-Chair. The General Manager reviews performance of the portfolio on a monthly basis and quarterly reporting including portfolio listings, values, yield, and rating are provided by the Investment Manager to enable the directors to effectively oversee the investments and related income of the Exchange.

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

2. INVESTMENTS (Continued)

Credit Risk

The Exchange's investment policy sets limits for the investment in bonds including issuer type, investment quality, and maximum investment range to be included in any one issuer type. All bonds and other debt instruments must be issued by governments, government agencies or corporations with a credit rating of "BBB" or better. As of December 31, 2020, all bonds held by the Exchange are held with approved issuers and have a bond rating of "BBB" or better. There have been no significant changes from the previous year in the exposure to this risk or the policies, procedures or methods used to measure this risk.

Currency Risk

Currency risk relates to the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. At December 31, 2020, the Exchange has no foreign holdings in its portfolio and therefore is not subject to significant currency risk.

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

Interest Rate Risk

The Exchange is exposed to interest rate risk throughout the year through its interest bearing investments including bonds, treasury bills and guaranteed investment certificates. Investments in treasury bills, guaranteed investment certificates and other short-term investments are restricted to those issued by the six major banks, federally regulated trust companies, and federal, provincial and municipal governments.

Interest rate risk is managed by the Exchange by diversifying the maturity of the bond portfolio and investing in short-term investments based on future cash requirements which helps protect the Exchange from fluctuations in the interest rate. The Exchange has no occurrences where interest would be charged on its liabilities, minimizing the exposure to interest required to be paid by the Exchange.

At December 31, 2020, a 1% move in interest rates, with all other variables held constant, could effect the market value of bonds by \$54,330 (2019 - \$61,805).

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

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

2. INVESTMENTS (Continued)

Equity Risk

The Exchange is exposed to equity risk through its equity holdings within its investment portfolio.

At December 31, 2020, a 10% movement in the stock markets, with all other variables held constant, would have an estimated effect on the fair value of the Exchange's equities of \$653,770 (2019 - \$432,219).

Equity risk is minimized through limits set in the Exchange's Investment Policy Statement. The policy states that approved investments include those in corporate equities with a credit rating of "BBB" or higher, preferred securities backed by corporations with a credit rating of P1 or higher as set by Standard & Poor's Rating Service, or PFD2 or higher as set by DBRS, and pooled funds with a risk rating of moderate/medium or lower as stated in the fund's simplified prospectus. Further minimization of equity risk occurs as investments in Canadian and foreign equities must be diversified with a minimum of 5 securities. Pooled funds may be used by the Exchange to ensure that this diversification is met. At December 31, 2020, the Exchange has investments in a combined 12 corporate equities. The Exchange's investment policy limits the equities held in the portfolio to the lesser of 35% of the total portfolio or the total value of surplus assets held by the Exchange. This condition was met at December 31, 2020.

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

Liquidity Risk

The Exchange mitigates liquidity risk through continued monitoring of its expected cash inflows and cash outflows by the General Manager and Board of Directors through regular reporting.

The investment policy of the Exchange states that no money shall be borrowed or investments pledged or encumbered except as required to meet short-term needs or opportunities or to the extent that temporary overdrafts occur in the normal course of day-to-day portfolio management. The Exchange has no material unexpected financial liabilities. Any claim payments are funded by current operating cash flows and available reinsurance recoveries.

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

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

3. INSURANCE CONTRACTS

In accordance with IFRS 4, Insurance Contracts, the Exchange has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian Generally Accepted Accounting Principles.

Financial statement balances arising from insurance contracts primarily include provisions for unpaid claims and the provision for reinsurance recovery on unpaid claims.

Insurance Risk Management

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Exchange 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.

First Underwriting Group

The property insurance policy of the Exchange for the first underwriting group with respect to S.e., S.t. Dt-104, M.s. and M.g., provides for payment in the event of any one loss or a series of losses arising out of a single occurrence limited to the amount of loss or losses based on values defined in the policy. The Exchange has obtained reinsurance protection on these policies. The reinsurer shall be liable for the Ultimate Net Loss in excess of the Exchange's retention of \$200,000 Ultimate Net Loss in respect of each loss, each Risk. The Reinsurer's limit of liability shall not exceed \$800,000 in respect of each loss, each Risk. The sum of the Exchange's retentions shall not exceed \$750,000 Ultimate Net Loss in aggregate. Once that amount is exceeded, the Exchange's retention in respect of each subsequent loss shall be reduced to zero, and the Reinsurer shall be liable for the full amount of Ultimate Net Loss, up to \$1,000,000 in respect of each loss, each Risk. In the event that all or any portion of the reinsurance is exhausted by loss, the amount exhausted shall be reinstated from the time of occurrence of such loss. The Reinsurer's limit of liability shall not exceed \$4,000,000 in respect of all losses occurring during the term of the Contract.

The property insurance policy of the Exchange for the first underwriting group with respect to Avian Influenza provides for payment in the event of any one loss or a series of losses arising out of a single occurrence limited to the amount of loss or losses based on values defined in the policy. The Exchange has obtained reinsurance protection on these policies. The Reinsurer shall be liable for the aggregate Ultimate Net Loss in excess of the Exchange's aggregate retention of \$250,000 Ultimate Net Loss in respect of all losses occurring during the term of the contract. The Reinsurer's aggregate liability shall not exceed \$3,750,000 in respect of all losses occurring during the term of the Contract.

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

3. INSURANCE CONTRACTS (Continued)

Second Underwriting Group

The property insurance policy of the Exchange for the second underwriting group, with respect to S.e., provides for payment in the event of any one loss or a series of losses arising out of a single occurrence limited to the amount of loss or losses based on values defined in the policy. The Exchange has obtained reinsurance protection on these policies. The Reinsurer shall be liable for the aggregate Ultimate Net Loss in excess of the Exchange's aggregate retention of \$1,500,000 Ultimate Net Loss in respect of all losses occurring during the term of the Contract. The Reinsurer's aggregate liability shall not exceed \$10,000,000 in respect of all losses occurring during the term of the Contract.

The property insurance policy of the Exchange for the second underwriting group with respect to Avian Influenza provides for payment in the event of any one loss or a series of losses arising out of a single occurrence limited to the amount of loss or losses based on values defined in the policy. The Exchange has obtained reinsurance protection on these policies. The Reinsurer shall be liable for the aggregate Ultimate Net Loss in excess of the Exchange's aggregate retention of \$250,000 Ultimate Net Loss in respect of all losses occurring during the term of the Contract. The Reinsurer's aggregate liability shall not exceed \$8,750,000 in respect of all losses occurring during the term of the Contract.

Third Underwriting Group

The property insurance policy of the Exchange for the third underwriting group with respect to Avian Influenza provides for payment in the event of any one loss or a series of losses arising out of a single occurrence limited to the amount of loss or losses based on values defined in the policy. The Exchange has obtained reinsurance protection on these policies. The Reinsurer shall be liable for the aggregate Ultimate Net Loss in excess of the Exchange's aggregate retention of \$250,000 Ultimate Net Loss in respect of all losses occurring during the term of the Contract. The Reinsurer's aggregate liability shall not exceed \$4,250,000 in respect of all losses occurring during the term of the Contract.

Provision for Reinsurance Recovery on Unpaid Claims

The Exchange enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities.

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

3. INSURANCE CONTRACTS (Continued)

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Exchange's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
Balance, beginning of the year	-	132,225
Change in current year reserve	101,881	(132,225)
Balance, end of the year	101,881	-
Expected settlement within one year	101,881	-

Unpaid Claims and Adjustment Expenses

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, changes in reported claims and for claims incurred but not reported, based on past experience and business in force. The estimates are regularly reviewed and updated, and any resulting adjustments are included in current income.

The determination of the provision for unpaid claims and the related reinsurers' share requires the estimation of three major variables which are the development of claims, reinsurance recoveries, and future investment income.

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

3. INSURANCE CONTRACTS (Continued)

Management has concluded that the best estimate of the claims liabilities currently available is the amount calculated by the appointed Actuary. The Actuary's calculated value as at December 31, 2020 amounted to \$1,085,819 (2019 - \$26,898) and is gross of estimated reinsurance of \$101,881 (2019 - \$Nil).

Due to short-term nature of claims, the provision for claims liabilities is not discounted as the effect of discounting is immaterial.

Insurance ceded under reinsurance arrangements does not relieve the Exchange of its primary liability to the subscriber. No information has come to the Exchange's attention indicating that its current reinsurer will not be able to honour their liabilities under the reinsurance contract.

Changes in the provision for unpaid claims and adjustment expenses during the year are as follows:

	2020	2019
Unpaid claim liabilities - beginning of year - net of reinsurance	26,898	334,652
Increase (decrease) in provision for unpaid claims	32,425	(439,979)
Provision for losses and expenses on claims occurring in the current year	1,715,928	47,278
Reinsurance	(101,881)	132,225
Payment on claims:		
Current year	(689,432)	(47,278)
Prior years	-	-
Unpaid claims - end of year - net of reinsurance	983,938	26,898
Reinsurer's share	101,881	-
	1,085,819	26,898

Premiums Written

Premiums written comprise the premiums on contracts incepting in the fiscal year. Premiums written are stated exclusive of taxes levied on premiums.

Premiums are recognized over the term of the related policy period. As the Exchange's policy year end is December, premiums received in advance relate to the policy period commencing January 1 of the following year and are included in current liabilities.

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

3. INSURANCE CONTRACTS (Continued)

Liability Adequacy Test

At each reporting date, the Exchange performs a liability adequacy test on its insurance liabilities to ensure the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense to the statement of operations by recognizing an additional claims liability for claims provisions.

Claim Development

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Exchange's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported. Historically, the Exchange has only dealt with short settlement claims, and therefore there is no significant risk associated with claim development.

Insurance Risk Management

The principal risk the Exchange 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 Exchange is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a number of insurance policies protecting against various business interruption losses. 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 Exchange purchases reinsurance as part of its risks mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

Credit Risk

Reinsurance is placed with Hannover Ruck SE, Navigators Insurance Company, Partner Reinsurance Company, Swiss Reinsurance Company, SCOR Global P&C SE, Allianz SE, AXA XL (2003 Syndicate), Markel (3000 Syndicate), and Ark for the first and second underwriting groups. Reinsurance is placed with Hannover Ruck SE, Navigators Insurance Company, Partner Reinsurance Company, Swiss Reinsurance Company, SCOR Global P&C SE, Allianz SE, AXA XL (2003 Syndicate) and Markel (3000 Syndicate) for the third underwriting group. Reinsurance providers are reviewed yearly and a new contract is approved by the Board of Directors each year. The General Manager signs reinsurance contracts on behalf of the Exchange.

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

4.	OTHER OPERATING AND ADMINISTRATIVE EXPENSES	2020	2019
	Premium taxes	165,337	164,591
	Management fees (Note 6)	142,380	135,600
	Professional fees	67,527	113,887
	Directors fees (Note 6)	39,508	40,895
	Office and other	101,170	115,484
	Consulting fees and expenses	48,694	37,825
	Website	-	33,855
		564,616	642,137
5.	INVESTMENT AND OTHER INCOME (LOSS)	2020	2019
	Interest income	316,614	311,004
	Dividend income	228,568	161,952
	Realized gains (losses) on disposal of investments	(20,711)	4,510
	Unrealized gains (losses) on equity investments	232,537	482,694
		757,008	960,160

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

6. RELATED PARTY TRANSACTIONS

Management Compensation

The Exchange 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 Exchange, including directors and management:

	2020	2019
Compensation		
Management fees	142,380	135,600
Director fees	39,508	40,895
	181,888	176,495

No amounts are owing to or from key management personnel at December 31, 2020 (2019 - \$Nil).

7. CAPITAL MANAGEMENT

The Exchange's objectives with respect to capital management are to maintain a level of capital that exceeds both the regulatory requirements and internal measures set forth for the Exchange.

In accordance with the Agreement, subscribers were not obliged to contribute any amounts to the Exchange in the form of a capital contribution. The Agreement provides that additional assessments may be made to the subscribers to the extent that premiums collected are insufficient to cover the claims and expenses experienced by the Exchange. Similarly, where accumulated funds are in excess of funds required to meet the obligations in respect of claims arising, the Agreement provides for the issue of premium credits.

Ontario Broiler Hatching Egg & Chick Commission (OBHECC):

The Ontario Broiler Hatching Egg & Chick Commission (OBHECC) contributed \$500,000 upon formation of the Exchange. The Exchange returned \$50,000 of this initial capital to OBHECC in 2010. In 2016 the Exchange paid \$400,000 of initial capital to the Ontario Broiler Hatching Egg & Chick Commission.

Egg Farmers of Ontario (EFO):

In 2012, the Egg Farmers of Ontario (EFO) notified the Exchange that it would be proceeding with an insurance program to protect egg farmers against losses due to Salmonella Enteritidis infection. EFO contributed \$1,000,000 as capital to the Exchange in 2012. \$500,000 of this capital contribution is repayable to EFO commencing December 31, 2013, based on the audited financial statements each year, calculated at 50% of the excess capital associated with the second underwriting group over \$2,000,000 until the \$500,000 contribution is repaid in full. This repayment is subject to the approval of the Board of Directors each year. In 2014 the Exchange paid \$443,884 (2013 - \$56,116) of this initial capital to EFO, which amounts to \$500,000 repayment.

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

7. CAPITAL MANAGEMENT (Continued)

Alberta Hatching Egg Producers:

The Alberta Hatching Egg Producers contributed \$300,000 as capital upon admittance into the Exchange in 2014 as part of the first underwriting group.

Saskatchewan Broiler Hatching Egg Producers:

In 2016 the Saskatchewan Broiler Hatching Egg Producers contributed \$120,000 as capital upon admittance into the Exchange as part of the first underwriting group.

Chicken Farmers of Ontario:

In 2018 the Chicken Farmers of Ontario contributed \$1,000,000 as capital upon admittance into the Exchange as part of the third underwriting group. The Exchange returned \$500,000 of the initial capital to the Chicken Farmers of Ontario in 2020.

The Insurance Act of Ontario requires the Exchange to maintain capital of at least \$50,000. The capital of the Exchange totals \$19,140,952 at December 31, 2020 and represents the Guarantee Fund and may be used to cover potential future catastrophic claims or reduce future premiums as appropriate.

8. STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET EFFECTIVE

Certain pronouncements were issued by the IASB or the IFRS interpretations Committee that are mandatory for accounting years beginning after January 1, 2021 or later.

The Exchange has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these financial statements:

- IFRS 17 Insurance Contracts supersedes IFRS 4 Insurance Contracts. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities using updated estimates and assumptions that reflect timing of cash flows and any uncertainty relating to insurance contracts. Additionally, IFRS 17 requires entities to recognize profits as it delivers insurance services. The effective date for IFRS 17 is January 1, 2023. The Exchange has not yet determined the impact of adoption, however it is expected to significantly impact the overall financial statements.

POULTRY INSURANCE EXCHANGE RECIPROCAL OF CANADA

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2020

9. COVID-19

Subsequent to year end, the outbreak of a novel strain of coronavirus has resulted in the global declaration of a pandemic. Measures in place to combat the health threat of the virus have caused material disruption to businesses globally resulting in an economic slowdown. The duration and impact of the outbreak is unknown at this time, as are the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of the measures nor their impact on the future financial results and condition of the Exchange.

Subscribers to the Exchange are essential businesses and have continued operations during the pandemic. Reinsurance availability and solvency has remained stable. The investment portfolio of the Exchange has not been significantly impacted due to the quality of investments held by the Exchange, in accordance with its investment policy. The Exchange did not access any forms of government assistance as a result of the pandemic and does not expect any significant impact to its operations in 2021.

10. EVENTS AFTER THE REPORTING PERIOD

Effective March 1, 2021, the Exchange will administer Salmonella Enteritidis coverage for Manitoba Hatching Egg Producers as part of the first underwriting group.

The Exchange also agreed to administer Avian Influenza coverage for Turkey Farmers of Ontario as a part of a new, fourth underwriting group. The coverage is not expected to start until 2022.