# Pro-Demnity Insurance Company
## Consolidated Financial Statements
**For the year ended December 31, 2022**

**Contents**

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# Independent Auditor's Report

To the Shareholder of Pro-Demnity Insurance Company

## Opinion

We have audited the consolidated financial statements of Pro-Demnity Insurance Company (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of operations and retained earnings, comprehensive income and accumulated other comprehensive income (loss), 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, 2022, 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 *Auditor's 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

## Independent Auditor's Report (Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)
As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Oakville, Ontario
February 23, 2023

## Pro-Demnity Insurance Company
## Consolidated Statement of Financial Position

| December 31 | 2022 | 2021 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents (Note 3) | **$ 13,592,192** | $ 7,583,202 |
| Investments (Note 3) | **90,433,232** | 92,176,031 |
| Receivables | **10,717,487** | 10,457,062 |
| Accrued interest | **550,065** | 400,657 |
| Prepaid expenses | **56,332** | 49,896 |
| Reinsurer's share of unearned premiums (Note 7) | **10,648,262** | 9,893,187 |
| Reinsurer's share of provision for unpaid claims (Note 7) | **27,501,099** | 24,072,000 |
| Deferred policy acquisition expenses (Note 7) | **620,326** | 565,142 |
| Income taxes recoverable | **311,398** | 437,452 |
| Property and equipment (Note 4) | **122,380** | 536,837 |
| Intangible asset (Note 5) | **493,292** | - |
| Right-of-use assets (Note 6) | **1,449,649** | 406,186 |
| Deferred tax asset (Note 9) | **737,681** | 750,247 |
| | **$157,233,395** | $147,327,899 |

| | 2022 | 2021 |
|---|---|---|
| **Liabilities and Shareholders' Equity** | | |
| **Liabilities** | | |
| Payables and accruals | **$ 3,626,416** | $ 2,927,765 |
| Unearned premiums (Note 7) | **20,677,522** | 19,338,051 |
| Provision for unpaid claims (Note 7) | **93,083,170** | 86,786,000 |
| Lease liabilities (Note 6) | **1,447,092** | 461,617 |
| | **118,834,200** | 109,513,433 |
| **Shareholders' equity** | | |
| Share capital (Note 8) | **25,106,500** | 25,106,500 |
| Contributed surplus | **2,051,915** | 2,051,915 |
| Retained earnings | **12,014,115** | 7,972,988 |
| Accumulated other comprehensive income (loss) | **(773,335)** | 2,683,063 |
| | **38,399,195** | 37,814,466 |
| | **$157,233,395** | $147,327,899 |

On behalf of the Board:

_____________________ Director

_____________________ Director

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

## Pro-Demnity Insurance Company
## Consolidated Statement of Operations and Retained Earnings

| **For the year ended December 31** | **2022** | 2021 |
|---|---|---|
| Direct premiums written | **$ 44,614,017** | $ 41,368,349 |
| Less: Reinsurance ceded, net of commissions earned | **20,266,273** | 19,038,001 |
| Net premiums written | **24,347,744** | 22,330,348 |
| Increase in net unearned premiums | **(584,396)** | (689,875) |
| Net premiums earned | **23,763,348** | 21,640,473 |
| Service charges | **16,250** | 26,250 |
| | **23,779,598** | 21,666,723 |
| Less: Claims and adjustment expenses | **12,893,813** | 16,783,639 |
| Underwriting income before expenses and premium tax | **10,885,785** | 4,883,084 |
| Operating expenses (schedule page 36) | **7,073,366** | 5,320,309 |
| Commissions earned | **(856,444)** | (1,274,656) |
| Premium tax | **1,283,236** | 1,196,388 |
| Net underwriting income (loss) | **3,385,627** | (358,957) |
| Net investment income (Note 10) | **1,277,072** | 2,619,910 |
| Other income | **829,976** | 4,856 |
| Income before income taxes | **5,492,675** | 2,265,809 |
| Income taxes (recovery) (Note 9) | | |
| Current | **192,796** | 504,493 |
| Deferred | **1,258,752** | (52,056) |
| | **1,451,548** | 452,437 |
| **Net income for the year** | **4,041,127** | 1,813,372 |
| **Retained earnings**, beginning of year | **7,972,988** | 6,159,616 |
| **Retained earnings**, end of year | **$ 12,014,115** | $ 7,972,988 |

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

# Pro-Demnity Insurance Company
## Consolidated Statement of Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

| For the year ended December 31 | 2022 | 2021 |
|---|---|---|
| **Net income for the year** | **$ 4,041,127** | $ 1,813,372 |
| **Other Comprehensive Income (Loss)** | | |
| Unrealized gains (losses) on available-for-sale assets, net of tax recovery of $1,575,006 (2021 - tax expense of $61,775) | **(4,368,417)** | 171,337 |
| Transfer of realized losses (gains) on available-for-sale assets to consolidated statement of operations and retained earnings, net of tax recovery of $328,822 (2021 - tax expense of $93,260) | **912,017** | (258,663) |
| **Total other comprehensive loss** | **(3,456,400)** | (87,326) |
| **Comprehensive income for the year** | **$ 584,727** | $ 1,726,046 |
| **Accumulated other comprehensive income,** beginning of year | **$ 2,683,063** | $ 2,770,389 |
| **Total other comprehensive loss,** for the year | **(3,456,400)** | (87,326) |
| **Accumulated other comprehensive income (loss),** end of year | **$ (773,337)** | $ 2,683,063 |

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

# Pro-Demnity Insurance Company
# Consolidated Statement of Cash Flows

| For the year ended December 31 | 2022 | 2021 |
|---|---|---|
| **Operating activities** | | |
| Net income for the year | **$ 4,041,127** | $ 1,813,372 |
| Adjustments for: | | |
| Depreciation of property and equipment, intangible assets and right-of-use asset | **292,384** | 341,941 |
| Amortization of premium/discount on bonds/debentures | **261,466** | 451,268 |
| Interest and dividend income | **(3,039,584)** | (962,792) |
| Provision for income taxes | **1,451,548** | 452,437 |
| Realized (gain) loss from disposal of investments | **1,233,001** | (352,426) |
| Loss on disposal of property and equipment | **54,988** | 57,562 |
| Gain on disposal of right-of-use asset and lease liability | **(41,784)** | - |
| | **4,253,146** | 1,801,362 |
| Changes in working capital and insurance contract related balances | | |
| Receivables | **(260,425)** | (208,372) |
| Prepaid expenses | **(6,436)** | 79,212 |
| Reinsurer's share of unearned premiums | **(755,075)** | (798,876) |
| Deferred policy acquisition expenses | **(55,184)** | (44,663) |
| Payables and accruals | **698,651** | (238,218) |
| Unearned premiums | **1,339,471** | 1,488,751 |
| Provision for unpaid claims, net of reinsurer's share | **2,868,071** | 7,067,000 |
| | **8,082,219** | 9,146,196 |
| Cash flows related to interest, dividends and income taxes | | |
| Interest and dividends received | **2,925,488** | 977,265 |
| Income taxes | **(66,744)** | (1,502,015) |
| Interest paid | **(24,752)** | 15,686 |
| **Total cash inflows from operating activities** | **10,916,211** | 8,637,132 |
| **Investing activities** | | |
| Purchase of investments | **(134,801,040)** | (87,665,590) |
| Proceeds from sale of investments | **130,346,690** | 82,769,537 |
| Purchase of property and equipment | **(84,724)** | (402,210) |
| Purchase of intangible assets | **(264,989)** | - |
| **Total cash outflows from investing activities** | **(4,804,063)** | (5,298,263) |
| **Financing activity** | | |
| Repayment of lease liabilities | **(103,158)** | (78,163) |
| **Increase in cash and cash equivalents during the year** | **6,008,990** | 3,260,706 |
| **Cash and cash equivalents**, beginning of year | **7,583,202** | 4,322,496 |
| **Cash and cash equivalents**, end of year | **$ 13,592,192** | $ 7,583,202 |
| **Cash and cash equivalents consist of the following:** | | |
| Cash | **$ 7,168,810** | $ 7,583,202 |
| Cash equivalents (Note 3) | **6,423,382** | - |
| | **$ 13,592,192** | $ 7,583,202 |

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

### 1. Nature of Operations and Summary of Significant Accounting Policies

***Reporting entity***

Pro-Demnity Insurance Company (the "Company" or "Pro-Demnity") was incorporated under the laws of Ontario on August 9, 2002. The Company is an insurer dedicated to the underwriting of architects' liability coverages. The Company is licensed in Ontario and the Company's registered office is 160 Bloor Street East, Suite 1001, Toronto, Ontario.

These consolidated financial statements have been authorized for issue by the Board of Directors on February 23, 2023.

***Basis of preparation***

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

These consolidated financial statements were prepared under the historical cost convention, except as modified by the revaluation of investments. (Note 3)

The Company’s consolidated financial statements are presented in Canadian dollars (CDN), which is also the Company's functional currency.

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.

***Principles of consolidation***

The consolidated financial statements include the accounts of the wholly-owned subsidiary PD Reinsurance Intermediaries Inc. All intercompany transactions and balances have been eliminated upon consolidation.

## 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

***Significant accounting policies***

**Insurance contracts**

In accordance with IFRS 4 *Insurance Contracts*, the Company has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian GAAP.

Balances arising from insurance contracts primarily include unearned premiums, provision for unpaid claims, reinsurer's share of unearned premiums, reinsurer's share of provision for unpaid claims, and deferred policy acquisition expenses.

**(a) Premiums and unearned premiums**

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

The Company earns premium income evenly over the term of the insurance policy using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

**(b) Reinsurer's share of unearned premiums**

The reinsurer's share of unearned premiums are recognized as an asset using principles consistent with the Company's method for determining the unearned premium liability.

**(c) Deferred policy acquisition expenses**

Acquisition costs are comprised of premium taxes. These costs are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums, after considering the related anticipated claims and expenses.

**(d) Provision for unpaid claims**

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 net income.

Claim liabilities are carried on a discounted basis to reflect the time value of money. As required by actuarial standards in Canada claims liabilities also include a provision for adverse deviation (PFAD), which represents an additional margin on valuation variable factors, which are claims development, reinsurance recoveries and interest rates used in discounting claims liabilities.

## 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

**Insurance contracts** (continued)

### (e) Liability adequacy test

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses 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 consolidated statement of operations and retained earnings initially by writing off the deferred policy acquisition expense and subsequently by recognizing additional unearned premiums.

### (f) Reinsurer's share of provision for unpaid claims

The Company 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 payables and accruals and are recognized as an expense on the same basis as revenue on the underlying policies being reinsured.

Expected reinsurance recoveries on unpaid claims are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability.

### (g) Refund of premiums

Under the discretion of the Board of Directors the Company may declare a refund to its policyholders based on premiums to the mandatory insurance program required by the Architect's Act and its regulations.

## 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

### Financial instruments

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

#### (a) Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses.

Impairment provisions are recognized when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Company will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For amounts due from policyholders and reinsurers, such provisions are recorded in a separate allowance account with the loss being recognized in net income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

#### (b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity. These investments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at amortized cost using the effective interest rate method. The Company classifies its debt securities that are backing its claims liabilities as held-to-maturity. This aims to reduce the volatility caused by the fluctuations in carrying values of underlying claims liabilities due to the impact of changes in investment returns on claims discount rates. Interest on debt securities classified as held-to-maturity is calculated using the effective interest method and is included in net income. Where there is a significant or prolonged decline in the fair value of a held-to-maturity financial asset, which constitutes objective evidence of impairment, the full amount of the impairment is recognized in net income.

**1. Nature of Operations and Summary of Significant Accounting Policies** (continued)

**Financial instruments** (continued)

**(c) Available-for-sale investments**

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise investments in debt securities and equity pooled funds. These instruments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable. When they do not have a quoted market price in an active market and fair value is not reliably determinable, they are carried at cost. Investments in pooled funds are valued at the net asset value provided by the investment fund manager.

Changes in fair value are recognized as a separate component of other comprehensive income (OCI). Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset, which constitutes objective evidence of impairment, the full amount of the impairment, including any amount previously recognized in other comprehensive income (loss), is recognized in net income.

Purchases and sales of equity pooled funds are recognized on the trade date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income (loss).

On sale, the amount held in accumulated other comprehensive income (loss) associated with that asset is removed from shareholders' equity and recognized in net income. Interest on debt securities classified as available-for-sale is calculated using the effective interest method and is included in net income.

**(d) Other financial liabilities**

Other financial liabilities include all financial liabilities and comprise payables and accruals. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

**1. Nature of Operations and Summary of Significant Accounting Policies** (continued)

**Property and equipment**

Property and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Depreciation based on the estimated useful life of the asset is calculated as follows:

| | | |
|---|---|---|
| Computer hardware | - | 20-33% straight-line basis |
| Furniture and fixtures | - | 10% straight-line basis |

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

**Intangible asset**

Intangible asset consists of computer software which is not integral to the computer hardware owned by the Company. Intangible assets are initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized in net income and is provided on a straight-line basis over the estimated useful life of the assets as follows.

| | | |
|---|---|---|
| Computer software | - | 5 year straight-line basis |

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

**1. Nature of Operations and Summary of Significant Accounting Policies** (continued)

**Right-of-use assets and lease liabilities**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. This policy is applied to contracts entered into, or changed, on or after January 1, 2019. All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets (based on the value of the underlying asset when new); and
- Short-term leases with a lease term of twelve months or less.

a) Nature of leasing activities (in the capacity as lessee)

The Company leases facilities.

Leases of facilities are made for a period of 10 years, with an extension option exercisable by the Company for an additional 5 years after the end of the non-cancellable period. Extension options are included in the lease term when the Company is reasonably expected to exercise that option. The lease payments comprise fixed payments over the lease term.

b) Recognition and initial measurement

The Company recognizes right-of-use assets and lease liabilities at the lease commencement date.

The right-of-use assets are initially measured at the amount of the lease liabilities, reduced for any lease incentives received, and increased for lease payments made at or before commencement of the lease or initial direct costs incurred.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally the Company uses its incremental borrowing rate as the discount rate. Variable lease payments are only included in the measurement of the lease liabilities if they depend on an index or rate (e.g. CPI or inflation). In such cases, the initial measurement of the lease liabilities assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments that are not dependent on an index or rate are expensed in the period to which they relate.

For contracts that both convey a right to the Company to use an identified asset and require services to be provided to the Company by the lessor, the Company has elected to account for the entire contract as a lease, and therefore the Company does not allocate the amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

## 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

**Right-of-use assets and lease liabilities** (continued)

c) Subsequent measurement

Right-of-use assets are subsequently measured at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liabilities.

Lease liabilities are subsequently increased by the interest cost on the lease liabilities and decreased by lease payments made. Lease liabilities are remeasured when there is a change in future lease payments arising from a change in an index or rate. The revised future lease payments are discounted at the same discount rate that applied on lease commencement. Lease liabilities are also remeasured when there is a change in the assessment of the term of any lease (for example, a change in the Company's assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised). The future lease payments over the revised term are discounted at the revised discount rate at the date of reassessment. In both cases, an equivalent adjustment is made to the carrying value of the right-of-use asset.

**Impairment of non-financial assets**

Non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

For the purpose of assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Where it is not possible to estimate the recoverable amount of an individual asset, an impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets to which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in net income, except to the extent they reverse gains previously recognized in other comprehensive income (loss).

**Income taxes**

Income tax expense comprises current and deferred tax. Current and deferred tax are recognized in net income except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

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 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, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination, and at the time of the transaction affects neither accounting or taxable profit or loss.

## 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

**Income taxes** (continued)

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This 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).

**Standards, amendments and interpretations not yet adopted**

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2023 or later that the Company has decided not to adopt early.

*IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement*

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39 – *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This single, principle-based approach replaces existing rule-based requirements and is intended to improve and simplify the reporting for financial instruments. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Retrospective application is required with certain exceptions.

The IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the new insurance contracts standard (IFRS 17). The amendments introduced an optional temporary exemption, which permits eligible companies to defer the implementation date of IFRS 9 until annual periods beginning on or after January 1, 2023. The temporary exemption is available to companies whose predominant activity is to issue insurance contracts. The amendments also include an option to apply the “overlay approach” to the presentation of qualifying financial assets, in which an entity would be permitted to remove from profit or loss and present instead in OCI, the impact of measuring financial assets at fair value through profit or loss under IFRS 9 when they would not have been so measured under IAS 39. The Company meets the eligibility criteria of the temporary exemption from IFRS 9 and has deferred the application of IFRS 9 until the effective date of IFRS 17.

The Company has determined the impact of implementing this standard on its consolidated financial statements. The available-for-sale investment portfolio will be classified as fair value through profit or loss. The accumulated other comprehensive loss of $773,337 will be recognized in the consolidated statement of operations and retained earnings as of the implementation date of January 1, 2023.

## 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

**Standards, amendments and interpretations not yet adopted** (continued)

*IFRS 17 Insurance Contracts*

IFRS 17 supersedes IFRS 4 Insurance Contracts, effective for annual periods beginning on or after January 1, 2023 with restatement of comparative figures. IFRS 17 introduces a level of aggregation in identifying and measuring portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks, within the same product line and managed together. To measure a portfolio of contracts, a Company may estimate the fulfilment cash flows by allocating such estimates to portfolios of contracts. This will bring changes to the accounting for insurance and reinsurance contracts and financial instruments and is expected to have an impact on the Company's consolidated financial statements in the period of initial application. The Company has evaluated the impact of the new standard and is in the process of quantifying the adjustments required on January 1, 2023, and to comparative balances.

*Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2* provides guidance and examples to assist entities apply materiality judgements to accounting policy disclosures. The amendments to IAS 1 aim to help entities improve the usefulness of its accounting policy disclosures by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies. The amendments to IFRS Practice Statement 2 provide guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. The effective date for the amendments to IAS 1 is January 1, 2023 with earlier application permitted. The Company is currently assessing the impact of the amendments to determine the impact they will have on the Company's accounting policy disclosures.

## 2. Critical Accounting Estimates and Judgments

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

**Estimates**

The effect of a change in an accounting estimate is recognized prospectively by including it in net income in the period of the change, if the change affects that period only; or in the period of the change and future periods, if the change affects both.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

## 2. Critical Accounting Estimates and Judgments (continued)

***Provision for unpaid claims***

The estimation of the provision for unpaid claims and the related reinsurer's share are the Company's most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience.

**Judgments**

***Impairment of available-for-sale investments***

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in fair value below cost. The determination of what is significant or prolonged requires judgment. In making this judgment the Company considers among other factors, the normal volatility in market price, the financial health of the investee and industry and sector performance.

**December 31, 2022**

## 3. Financial Instrument Classification

The carrying amount of the Company's financial instruments by classification is as follows:

| | Held to maturity | Available-for-sale | Loans and receivables | Other financial liabilities | Total |
|---|---|---|---|---|---|
| **December 31, 2022** | | | | | |
| **Cash and cash equivalents** | **$ -** | **$ -** | **$ 13,592,192** | **$ -** | **$ 13,592,192** |
| **Investments** | **53,010,695** | **37,422,537** | **-** | **-** | **90,433,232** |
| **Receivables** | **-** | **-** | **10,717,487** | **-** | **10,717,487** |
| **Accrued interest** | **-** | **-** | **550,065** | **-** | **550,065** |
| **Payables and accruals** | **-** | **-** | **-** | **(3,626,416)** | **(3,626,416)** |
| | **$ 53,010,695** | **$ 37,422,537** | **$ 24,859,744** | **$ (3,626,416)** | **$111,666,560** |
| December 31, 2021 | | | | | |
| Cash | $ - | $ - | $ 7,583,202 | $ - | $ 7,583,202 |
| Investments | 48,929,431 | 43,246,600 | - | - | 92,176,031 |
| Receivables | - | - | 10,457,062 | - | 10,457,062 |
| Accrued interest | - | - | 400,657 | - | 400,657 |
| Payables and accruals | - | - | - | (2,927,765) | (2,927,765) |
| | $ 48,929,431 | $ 43,246,600 | $ 18,440,921 | $ (2,927,765) | $107,689,187 |

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

### Available-for-Sale

| | **December 31, 2022** | | December 31, 2021 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| Treasury bills | **$ -** | **$ -** | $ 4,850,754 | $ 4,850,754 |
| Guaranteed investment certificates (GICs) | **2,000,000** | **2,000,000** | - | - |
| Bonds | | | | |
| Government | **16,489,780** | **16,489,780** | 15,562,090 | 15,562,090 |
| Asset backed securities | **115,361** | **115,361** | 430,360 | 430,360 |
| Corporate | **12,398,592** | **12,398,592** | 13,092,487 | 13,092,487 |
| | **29,003,733** | **29,003,733** | 29,084,937 | 29,084,937 |
| Equities | | | | |
| Equity pooled fund (Canadian) | **3,094,648** | **3,094,648** | 4,493,174 | 4,493,174 |
| Equity pooled fund (International) | **3,324,156** | **3,324,156** | 4,817,735 | 4,817,735 |
| | **6,418,804** | **6,418,804** | 9,310,909 | 9,310,909 |
| Total Available-for-Sale | **$ 37,422,537** | **$ 37,422,537** | $ 43,246,600 | $ 43,246,600 |

### Held-to-Maturity

| | **December 31, 2022** | | December 31, 2021 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| Bonds | | | | |
| Government | **$ 26,400,973** | **$ 25,441,356** | $ 24,534,770 | $ 24,555,006 |
| Corporate | **26,609,722** | **25,271,308** | 24,394,661 | 24,577,557 |
| Total Held-to-Maturity | **$ 53,010,695** | **$ 50,712,664** | $ 48,929,431 | $ 49,132,563 |

| | **December 31, 2022** | | December 31, 2021 | |
|---|---|---|---|---|
| | **Carrying Value** | **Fair Value** | Carrying Value | Fair Value |
| Total Investments | **$ 90,433,232** | **$ 88,135,201** | $ 92,176,031 | $ 92,379,163 |

**3. Financial Instrument Classification** (continued)

The following table provides an analysis of 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 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).

Financial assets recorded at fair value by the level of the fair value hierarchy:

| | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| **December 31, 2022** | | | | |
| **GICs** | **$ 2,000,000** | **$ -** | **$ -** | **$ 2,000,000** |
| **Bonds** | **-** | **29,003,733** | **-** | **29,003,733** |
| **Equity pooled funds** | **-** | **6,418,804** | **-** | **6,418,804** |
| **Total** | **$ 2,000,000** | **$ 35,422,537** | **$ -** | **$ 37,422,537** |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| December 31, 2021 | | | | |
| GICs | $ 4,850,754 | $ - | $ - | $ 4,850,754 |
| Bonds | - | 29,084,937 | - | 29,084,937 |
| Equity pooled funds | - | 9,310,909 | - | 9,310,909 |
| Total | $ 4,850,754 | $ 38,395,846 | $ - | $ 43,246,600 |

Transfers between levels are considered to have occurred at the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 for the years ended December 31, 2022 and 2021. There were also no transfers in or out of Level 3.

Included in cash and cash equivalents is a GIC of $3,000,000 (2021 - $Nil) that has an interest rate of 3.93% and matures in January 2023. Also included are treasury bills of $2,948,382 (2021 - $Nil) and a term deposit of $475,000 (2021 - $Nil) earning interest at 4.20% and maturing in March 2023.

Maturity profile of bonds held is as follows:

| | **Within 1 year** | **1 to 3 years** | **3 to 5 years** | **5 to 7 years** | **Greater than 7 years** | **Total** |
|---|---|---|---|---|---|---|
| **December 31, 2022** | **$ 9,803,083** | **$ 29,378,284** | **$ 22,819,464** | **$ 3,106,929** | **$ 16,906,668** | **$ 82,014,428** |
| **Percent of Total** | **11.95 %** | **35.82 %** | **27.82 %** | **3.79 %** | **20.62 %** | **100.00 %** |
| December 31, 2021 | $ 9,439,176 | $ 22,003,073 | $ 20,923,004 | $ 5,728,216 | $ 19,918,490 | $ 78,011,959 |
| Percent of Total | 12.10 % | 28.20 % | 26.82 % | 7.34 % | 25.54 % | 100.00 % |

The effective interest rate of the bond portfolio is 2.76% (2021 - 2.78%).

## 4. Property and Equipment

| | Furniture and fixtures | Computer hardware | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance at January 1, 2021 | $ 160,732 | $ 1,151,017 | $ 1,311,749 |
| Additions | - | 402,210 | 402,210 |
| Disposals | (50,165) | (883,011) | (933,176) |
| Balance at December 31, 2021 | 110,567 | 670,216 | 780,783 |
| Reclassification | - | (536,631) | (536,631) |
| Additions | 68,487 | 16,237 | 84,724 |
| Disposals | (89,603) | (18,216) | (107,819) |
| Balance at December 31, 2022 | $ 89,451 | $ 131,606 | $ 221,057 |
| **Accumulated depreciation** | | | |
| Balance at January 1, 2021 | $ 79,141 | $ 770,178 | $ 849,319 |
| Depreciation | 12,804 | 257,437 | 270,241 |
| Disposals | (50,165) | (825,449) | (875,614) |
| Balance at December 31, 2021 | 41,780 | 202,166 | 243,946 |
| Reclassification | - | (119,970) | (119,970) |
| Depreciation | 9,765 | 17,767 | 27,532 |
| Disposals | (42,671) | (10,160) | (52,831) |
| Balance at December 31, 2022 | $ 8,874 | $ 89,803 | $ 98,677 |
| **Net Book Value** | | | |
| December 31, 2021 | $ 68,787 | $ 468,050 | $ 536,837 |
| **December 31, 2022** | **$ 80,577** | **$ 41,803** | **$ 122,380** |

During the year, $536,631 of cost and $119,970 of accumulated depreciation were reclassified from computer hardware to intangible assets.

## 5. Intangible Asset

| | | Computer Software |
|---|---|---|
| **Cost** | | |
| Balance at December 31, 2021 | $ | - |
| Reclassification | | 536,631 |
| Addition | | 264,989 |
| Balance at December 31, 2022 | $ | 801,620 |
| **Accumulated depreciation** | | |
| Balance at December 31, 2021 | $ | - |
| Reclassification | | 119,970 |
| Depreciation | | 188,358 |
| Balance at December 31, 2022 | $ | 308,328 |
| **Net Book Value** | | |
| December 31, 2021 | $ | - |
| **December 31, 2022** | **$** | **493,292** |

$164,426 of additions have not been depreciated as they are not yet in use.

## 6. Right-of-Use Assets and Lease Liabilities

Right-of-use assets consist of the following:

| | Facilities and equipment |
|---|---|
| **Cost** | |
| Balance at January 1, 2021 | $ 621,286 |
| Additions | - |
| Balance on December 31, 2021 | 621,286 |
| Additions | 1,490,594 |
| Disposals | (621,286) |
| **Balance at December 31, 2022** | **$ 1,490,594** |
| | |
| **Accumulated Depreciation** | |
| Balance at January 1, 2021 | $ 143,400 |
| Depreciation | 71,700 |
| Balance on December 31, 2021 | 215,100 |
| Depreciation | 76,494 |
| Disposals | (250,649) |
| **Balance at December 31, 2022** | **$ 40,945** |
| | |
| **Carrying amount** | |
| At December 31, 2021 | $ 406,186 |
| **At December 31, 2022** | **$ 1,449,649** |

Lease liabilities consist of the following:

| | |
|---|---|
| **Balance at January 1, 2021** | $ 461,617 |
| Additions | 1,490,594 |
| Interest expense | 24,752 |
| Disposals | (426,713) |
| Lease payments | (103,158) |
| **Balance at December 31, 2022** | **$ 1,447,092** |

Amounts recognized in the statement of cash flows:

| | **2022** | 2021 |
|---|---|---|
| Total cash outflow for leases | **$ 103,158** | $ 78,163 |

The following table sets out the contractual maturities, representing undiscounted contractual cash-flows of lease liabilities at December 31, 2022:

| | |
|---|---|
| No later than 1 year | $ 192,184 |
| Later than 1 year and not later than 5 years | 722,947 |
| Later than 5 years | 921,256 |
| | $ 1,836,387 |

## 7. Insurance Contracts

### Reinsurer's share of unearned premiums (UEP)

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of the year | **$ 9,893,187** | $ 9,094,311 |
| Reinsurance ceded | **(20,266,273)** | (19,038,001) |
| Reinsurance expensed in year | **21,021,348** | 19,836,877 |
| Balance, end of the year | **$ 10,648,262** | $ 9,893,187 |

### Reinsurer's share of provision for unpaid claims

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of the year | **$ 24,072,000** | $ 20,129,000 |
| Received from reinsurers | **(2,788,296)** | (2,225,419) |
| New claims reserve | **6,217,395** | 6,168,419 |
| Balance, end of the year | **$ 27,501,099** | $ 24,072,000 |

### Deferred policy acquisition expenses

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of the year | **$ 565,142** | $ 520,479 |
| Acquisition expenses incurred | **1,338,420** | 1,241,051 |
| Expensed during the year | **(1,283,236)** | (1,196,388) |
| Balance, end of the year | **$ 620,326** | $ 565,142 |

Deferred policy acquisition expenses will be recognized as an expense within one year.

### Unearned premiums (UEP)

| | 2022 | 2021 |
|---|---|---|
| Balance, beginning of the year | **$ 19,338,051** | $ 17,849,300 |
| Premiums written | **44,614,017** | 41,368,349 |
| Premiums earned during year | **(43,274,546)** | (39,879,598) |
| Balance, end of the year | **$ 20,677,522** | $ 19,338,051 |

## 7. Insurance Contracts (continued)

### Claims and adjustment expenses

Changes in claim liabilities recorded in the consolidated statement of financial position for the years-ended December 31, 2022 and 2021 and their impact on claims for the two years follow:

| | **2022** | 2021 |
|---|---|---|
| Unpaid claim liabilities - beginning of year – net of reinsurance | **$ 62,714,000** | $ 55,647,000 |
| Increase in estimated losses and expenses, for losses occurring in prior years | **7,814,000** | 9,732,000 |
| Provision for losses and expenses on claims occurring in the current year | **4,538,000** | 5,849,000 |
| Payment on claims: | | |
| Current year | **(42,000)** | (27,000) |
| Prior years | **(9,441,929)** | (8,487,000) |
| Unpaid claims – end of year - net | **$ 65,582,071** | $ 62,714,000 |

***Provision for unpaid claims***

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's share requires the estimation of the development of claims, reinsurance recoveries, and future investment income.

***Claim development***

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, and the characteristics of the claim. In general, the longer the term required for the settlement 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 substantially all of the Company's claims have long settlement terms.

The tables that follow present the development of claims payments and the estimated cumulative incurred cost of claims for the claim years 2013 to 2022. The upper half of the tables show the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim severity. The Company's underwriting year ends on March 31 of each calendar year. The following tables present claims results based on these underwriting periods. As a result, the underwriting year is not fully developed until two years after the fiscal year end.

**7. Insurance Contracts** (continued)

***Gross claims*** *(in $000's)*

| Reporting Date | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At end of December 31st | $ 5,110 | $ 5,370 | $ 4,630 | $ 4,858 | $ 4,921 | $ 6,409 | $ 6,301 | $ 7,513 | $ 7,553 | $ 6,499 | |
| 1 year later | 10,162 | 10,680 | 9,434 | 10,435 | 11,491 | 15,121 | 14,744 | 16,604 | 17,441 | | |
| 2 years later | 8,069 | 10,351 | 9,418 | 9,801 | 10,971 | 16,808 | 13,193 | 17,327 | | | |
| 3 years later | 7,898 | 10,502 | 10,003 | 10,514 | 10,443 | 19,340 | 12,961 | | | | |
| 4 years later | 7,318 | 10,744 | 10,004 | 11,018 | 9,958 | 20,949 | | | | | |
| 5 years later | 7,119 | 11,274 | 10,139 | 11,954 | 11,657 | | | | | | |
| 6 years later | 6,648 | 11,845 | 11,732 | 12,865 | | | | | | | |
| 7 years later | 6,687 | 13,433 | 11,448 | | | | | | | | |
| 8 years later | 6,733 | 13,894 | | | | | | | | | |
| 9 years later | 6,727 | | | | | | | | | | |
| Current estimate of ultimate cost | 6,727 | 13,894 | 11,448 | 12,865 | 11,657 | 20,949 | 12,961 | 17,327 | 17,441 | 6,499 | $ 131,768 |
| Cumulative payments | 5,740 | 10,197 | 7,890 | 7,278 | 5,263 | 9,496 | 2,282 | 2,587 | 509 | 42 | 51,284 |
| Outstanding claims | $ 987 | $ 3,697 | $ 3,558 | $ 5,587 | $ 6,394 | $ 11,453 | $ 10,679 | $ 14,740 | $ 16,932 | $ 6,457 | $ 80,484 |
| Liability for all prior underwriting years | | | | | | | | | | | 6,132 |
| Internal loss adjusting expenses | | | | | | | | | | | 8,364 |
| Actuarial adjustment | | | | | | | | | | | (1,897) |
| Total gross outstanding claims | | | | | | | | | | | $ 93,083 |

**7. Insurance Contracts** (continued)

***Net of reinsurance** (in $000's)*

| Reporting Date | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| At end of December 31st | $ 2,860 | $ 3,070 | $ 2,630 | $ 3,758 | $ 3,771 | $ 4,529 | $ 4,326 | $ 4,853 | $ 4,728 | $ 3,954 | |
| 1 year later | 7,462 | 8,430 | 8,084 | 8,635 | 8,966 | 11,756 | 10,384 | 11,469 | 11,956 | | |
| 2 years later | 6,969 | 8,651 | 8,168 | 8,486 | 8,641 | 12,674 | 9,523 | 12,030 | | | |
| 3 years later | 6,648 | 8,952 | 9,068 | 8,994 | 7,858 | 13,379 | 8,906 | | | | |
| 4 years later | 6,518 | 9,769 | 9,479 | 9,218 | 7,743 | 14,792 | | | | | |
| 5 years later | 6,369 | 10,419 | 9,659 | 9,864 | 8,722 | | | | | | |
| 6 years later | 6,088 | 10,980 | 10,732 | 9,955 | | | | | | | |
| 7 years later | 6,252 | 11,838 | 10,738 | | | | | | | | |
| 8 years later | 6,378 | 11,799 | | | | | | | | | |
| 9 years later | 6,287 | | | | | | | | | | |
| Current estimate of ultimate cost | 6,287 | 11,799 | 10,738 | 9,955 | 8,722 | 14,792 | 8,906 | 12,030 | 11,956 | $ 3,954 | $ 99,139 |
| Cumulative payments | 5,440 | 9,472 | 7,740 | 6,278 | 4,348 | 7,213 | 2,282 | 1,837 | 509 | 42 | 45,161 |
| Outstanding claims | $ 847 | $ 2,327 | $ 2,998 | $ 3,677 | $ 4,374 | $ 7,579 | $ 6,624 | $ 10,193 | $ 11,447 | $ 3,912 | $ 53,978 |
| Liability for all prior underwriting years | | | | | | | | | | | 3,571 |
| Internal loss adjusting expenses | | | | | | | | | | | 8,364 |
| Actuarial adjustment | | | | | | | | | | | (331) |
| Total net outstanding claims | | | | | | | | | | | $ 65,582 |

## 8. Share Capital

Authorized:

| | |
|---|---|
| 100,000 | Class A preferred shares having a par value of $100, redeemable by the Company at par value, non-voting, non-participating, non-cumulative, maximum annual dividend of 6.5% |
| 100 | preferred shares having a par value of $100, redeemable by the Company at par value, non-voting, non-participating, non-cumulative 6% dividends |
| 250,000 | common shares having a par value of $100 |

Issued:

| | | 2022 | 2021 |
|---|---|---|---|
| 50,000 | Class A Preference shares | **$ 5,000,000** | $ 5,000,000 |
| 65 | Preference shares | **6,500** | 6,500 |
| 201,000 | Common shares | **20,100,000** | 20,100,000 |
| | | **$ 25,106,500** | $ 25,106,500 |

## 9. Income Taxes

The significant components of tax expense included in net income are composed of:

| | 2022 | 2021 |
|---|---|---|
| Current tax expense | | |
| Based on current year taxable income | **$ 192,796** | $ 504,493 |
| Deferred tax expense (recovery) | | |
| Origination and reversal of temporary differences | **$ 50,570** | $ 10,097 |
| Non deductible claims | **(38,002)** | (93,638) |
| Change in deferred tax on other comprehensive income | **1,246,184** | 31,485 |
| | **1,258,752** | (52,056) |
| Total income tax expense | **$ 1,451,548** | $ 452,437 |

**9. Income Taxes** (continued)

The significant components of the tax effect of the amounts recognized in other comprehensive loss are composed of:

| | **2022** | 2021 |
|---|---|---|
| Change in unrealized (losses) gains on available-for-sale investments | **$ (1,575,006)** | $ 61,775 |
| Reclassification of realized losses (gains) on available-for-sale investments | **328,822** | (93,260) |
| Change in deferred tax on other comprehensive loss | **$ (1,246,184)** | $ (31,485) |

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2021 – 26.5%) are as follows:

| | **2022** | 2021 |
|---|---|---|
| Income before income taxes | **$ 5,492,675** | $ 2,265,809 |
| Expected taxes based on the statutory rate | **$ 1,455,559** | $ 600,439 |
| Non deductible expenses | **4,933** | 468 |
| Canadian dividend income not taxable | **(8,944)** | (148,470) |
| Total income tax | **$ 1,451,548** | $ 452,437 |

The movements in 2022 deferred tax liabilities and assets are:

| | **Opening balance at Jan 1, 2022** | **Recognize in net income** | **Recognize in OCI** | **Closing balance at Dec 31, 2022** |
|---|---|---|---|---|
| **2022** | | | | |
| ***Deferred tax assets*** | | | | |
| **Claims liabilities** | **$ 830,961** | **$ 38,002** | **$ -** | **$ 868,963** |
| **Donation** | **-** | **384** | **-** | **384** |
| **Right-of-use and lease liability** | **14,688** | **(15,367)** | **-** | **(679)** |
| **Deferred tax assets** | **$ 845,649** | **$ 23,019** | **$ -** | **$ 868,668** |
| **2022** | | | | |
| ***Deferred tax liabilities*** | | | | |
| **Investments** | **$ -** | **$ 1,246,184** | **$ (1,246,184)** | **$ -** |
| **Bond transitional provision** | **9,363** | **(3,708)** | **-** | **5,655** |
| **Property and equipment** | **86,039** | **39,293** | **-** | **125,332** |
| **Deferred tax liabilities** | **95,402** | **1,281,769** | **(1,246,184)** | **130,987** |
| **Net deferred tax asset** | **$ 750,247** | **$ (1,258,750)** | **$ 1,246,184** | **$ 737,681** |

## 9. Income Taxes (continued)

The movements in 2021 deferred tax liabilities and assets are:

| | Opening balance at Jan 1, 2021 | Recognize in net income | Recognize in OCI | Closing balance at Dec 31, 2021 |
|---|---|---|---|---|
| 2021 | | | | |
| *Deferred tax assets* | | | | |
| Claims liabilities | $ 737,323 | $ 93,638 | $ - | $ 830,961 |
| Right-of-use and lease liability | 12,245 | 2,443 | - | 14,688 |
| Deferred tax assets | $ 749,568 | $ 96,081 | $ - | $ 845,649 |
| | | | | |
| 2021 | | | | |
| *Deferred tax liabilities* | | | | |
| Investments | $ - | $ 31,485 | $ (31,485) | $ - |
| Bond transitional provision | 13,071 | (3,708) | - | 9,363 |
| Property and equipment | 69,791 | 16,248 | - | 86,039 |
| Deferred tax liabilities | 82,862 | 44,025 | (31,485) | 95,402 |
| Net deferred tax | $ 666,706 | $ 52,056 | $ 31,485 | $ 750,247 |

## 10. Investment Income

| | **2022** | 2021 |
|---|---|---|
| Interest income | **$ 2,744,570** | $ 1,969,858 |
| Dividend income | **33,750** | 560,266 |
| Realized gains (losses) on disposal of investments | **(1,233,001)** | 352,426 |
| Investment expenses | **(268,247)** | (262,640) |
| | **$ 1,277,072** | $ 2,619,910 |

## 11. 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 and management:

| | **2022** | 2021 |
|---|---|---|
| Compensation | | |
| Executives' compensation and directors' fees | **$ 2,602,613** | $ 1,935,502 |

## 12. Capital Management

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, the Company purchases reinsurance, the details of which are outlined in Note 13. For the purpose of capital management, the Company has defined capital as its share capital, contributed surplus and retained earnings.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators require 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%. As at December 31, 2022, the Company has exceeded this minimum in its quarterly filings. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

## 13. Financial Instrument and Insurance Risk Management

***Insurance risk management***

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

The Company insures architects in Ontario and as a result the Company is exposed to geographical and industry concentration risk. These risks are mitigated by regular review of the claims reserves as well as risk management strategies and the use of reinsurance arrangements.

The Company writes insurance primarily over a twelve month duration on a claims made basis.

The Company follows a policy of underwriting and reinsuring contracts of insurance which limit the liability of the Company to an amount on any one claim of $200,000 (2021 - $250,000). The reinsurer agreed to pay claims expenses in excess of $200,000 (2021 - $300,000) on each claim for claim limits above $200,000 (2021 - $250,000). In addition, the Company has obtained stop loss reinsurance and clash reinsurance against catastrophic events. The stop loss reinsurance attaches when claims liabilities in a specific underwriting year exceed $22,600,000 (2021 - $20,500,000) and ceases when claims liabilities reach $36,160,000 of the ultimate net loss (2021 - $31,000,000). The clash reinsurance applies to predefined events that cause a multiplicity of claims in excess of $1,500,000 (2021 - $1,500,000). The coverage is $5,000,000 (2021 - $4,000,000) in excess of a deductible of $1,500,000 (2021 - $1,500,000) for claims arising from a predefined event. The clash reinsurance includes an interlocking clause that permits spreading the coverage limit over multiple underwriting years. An additional layer of clash reinsurance coverage is $5,000,000 (2021 - $4,000,000) in excess of a deductible of $6,500,000 (2021 - $5,500,000) for claims arising from a predefined event.

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 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 is exposed to pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2022 and 2021.

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims frequency, expected loss ratios and claims development as described in Note 7.

**13. Financial Instrument and Insurance Risk Management** (continued)

Results of sensitivity analysis on liability claims based on expected loss ratios are as follows, shown gross and net of reinsurance as impacted on pre-tax income:

| | **2022** | 2021 |
|---|---|---|
| 5% increase in loss ratios | | |
| Gross | **$ 3,396,000** | $ 2,516,000 |
| Net | **3,136,000** | 2,143,000 |
| | | |
| 5% decrease in loss ratios | | |
| Gross | **$ (3,403,000)** | $ (2,519,000) |
| Net | **(3,099,000)** | (2,145,000) |

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

***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, and corporate sector limits. Funds are invested in bonds, asset backed securities and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. The held-to-maturity investment policy limits investment in bonds of the various ratings to limits ranging from 80% to 100% of the Company's portfolio. The available-for-sale investment policy limits investment in bonds of the various ratings to limits ranging from 60% to 80% of the Company's portfolio. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Lloyds, a Canadian registered reinsurer. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

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

## 13. Financial Instrument and Insurance Risk Management (continued)

### *Market risk*

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

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

### *Currency risk*

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 is exposed to currency risk through its investment in an international equity pooled fund.

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

### *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 (GICs, asset backed securities 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 for its investments held in support of its claims liabilities and classified as held-to-maturity. This allows the Company to effectively manage a portion of its interest rate risk. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result the Company is exposed to significant interest rate risk. Generally, the Company's investment income related to its available-for-sale financial investment portfolio will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in other comprehensive income (loss).

At December 31, 2022 a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds and asset backed securities held as available-for-sale by approximately $2,354,000 (2021 - $2,586,000) and those classified as held-to-maturity by $1,282,000 (2021 - $1,185,000). The change would be recognized in other comprehensive income (loss) for the available-for-sale portfolio. A 1% change in the interest rate used to discount the Company's claims liabilities, with all other variables held constant, could have an offsetting impact on claims liabilities of approximately $2,148,000 (2021 - $1,957,000). The Company continues to monitor investments for credit ratings to ensure investments are made in bonds rated A or better.

**13. Financial Instrument and Insurance Risk Management** (continued)

***Equity risk***

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its holdings in equity pooled funds within its investment portfolio. At December 31, 2022, a 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's equities of approximately $641,880 (2021 - $931,000).

Equity pooled funds are monitored by the Board of Directors and holdings are adjusted to ensure the investment portfolio remains in compliance with the investment policy.

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

***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. The Company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

The Company does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Company’s finance function.

The Company has the availability of an operating line of credit in the amount of $1,500,000 (2021 - $1,500,000). The line of credit is secured by a first-priority security interest over all assets of the Company. Interest on the line of credit is payable monthly at the prime rate per annum. The Company has not drawn any funds on the facility in 2022 or 2021. The Company also has a Standby Letter of Credit in the amount of $56,960 (2021 - $Nil) which expires on July 21, 2023. Interest on the Standby Letter of Credit is accrued at 1.25%.

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