Pro-Demnity Insurance Company
Summary Financial Statements
For the year ended December 31, 2012

Contents

Tel: 905 270-7700
Fax: 905 270-7915
Toll-free: 866 248 6660
www.bdo.ca

BDO Canada **LLP**
1 City Centre Drive, Suite 1700
Mississauga ON L5B 1M2 Canada

Report of the Independent Auditor on the Summary Financial Statements

To the Shareholders of Pro-Demnity Insurance Company

The accompanying summary financial statements, which comprise the summary statement of financial position as at December 31, 2012, and the summary statements of operations and retained earnings, and summary comprehensive income and accumulated other comprehensive income and summary cash flows for the year then ended, and related notes are derived from the audited financial statements of Pro-Demnity Insurance Company for the year ended December 31, 2012. We expressed an unmodified audit opinion on those financial statements in our report dated February 21, 2013. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by International Financial Reporting Standards. Reading the summary financial statements, therefore is not a substitute for reading the audited financial statements of Pro-Demnity Insurance Company.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements in accordance with International Financial Reporting Standards as described in Note 1.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements."

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of Pro-Demnity Insurance Company for the year ended December 31, 2012 are a fair summary of those financial statements, in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants
Mississauga, Ontario
February 21, 2013

Pro-Demnity Insurance Company
Summary Statement of Financial Position

December 31	2012	2011
Assets		
Cash	**$ 933,383**	$ 636,162
Investments (Note 3)	**66,073,940**	66,960,148
Receivables	**4,064,805**	3,487,939
Accrued interest	**511,854**	561,586
Prepaid expenses	**12,378**	21,075
Reinsurer's share of unearned premiums	**3,849,759**	3,742,330
Deferred policy acquisition expenses	**260,895**	275,240
Reinsurer's share of provision for unpaid claims	**10,412,000**	10,039,000
Income taxes recoverable (Note 6)	**26,298**	220,860
Property & equipment (Note 4)	**210,147**	152,895
Deferred tax asset (Note 6)	**449,693**	429,408
	$ 86,805,152	$ 86,526,643

Liabilities and Shareholders' Equity

	2012	2011
Liabilities		
Payables and accruals	**$ 2,096,881**	$ 1,513,772
Unearned premiums	**9,196,515**	9,178,093
Refund of premiums payable	**-**	2,130,000
Provision for unpaid claims	**49,410,000**	47,627,000
	60,703,396	60,448,865
Shareholders' equity		
Share capital (Note 5)	**20,106,500**	20,106,500
Contributed surplus	**2,051,915**	2,051,915
Retained earnings	**2,978,099**	2,910,920
Accumulated other comprehensive income	**965,242**	1,008,443
	26,101,756	26,077,778
	$ 86,805,152	$ 86,526,643

On behalf of the Board:

______________________________ Director

______________________________ Director

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

Pro-Demnity Insurance Company
Summary Statement of Operations and Retained Earnings

For the year ended December 31	2012	2011
Direct premiums written	$ 19,321,999	$ 19,361,520
Reinsurance ceded	8,839,272	8,668,168
Net premiums written	10,482,727	10,693,352
Increase (decrease) in net unearned premiums	85,585	(11,751)
Net premiums earned	10,568,312	10,681,601
Claims and adjustment expenses	9,596,452	8,170,135
Underwriting income before expenses and commissions	971,860	2,511,466
Operating expenses (schedule page 26)	3,768,750	3,415,543
Commissions earned	(338,784)	(597,592)
Premium tax	546,134	523,199
Net underwriting loss	(3,004,240)	(829,684)
Net investment income (Note 7)	3,032,206	2,590,231
Earnings before the following	27,966	1,760,547
Refund of premiums	-	(2,130,000)
Income (loss) before income taxes	27,966	(369,453)
Income taxes (recovery)		
Current	(39,213)	263
Deferred	-	-
	(39,213)	263
Net income (loss) for the year	67,179	(369,716)
Retained earnings, beginning of year	2,910,920	3,280,636
Retained earnings, end of year	$ 2,978,099	$ 2,910,920

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

Pro-Demnity Insurance Company
Summary Statement of Comprehensive Income and Accumulated Other Comprehensive Income

For the year ended December 31		2012		2011
Net income (loss) for the year	**$**	**67,179**	$	(369,716)
Other Comprehensive Income				
Unrealized gains on available for sale assets, net of tax expense of $217,985 (2011 - $80,445)		**546,875**		489,799
Transfer of realized gains on available for sale assets to statement of operations, net of tax expense of $235,205 (2011 - $21,410)		**(590,076)**		(230,468)
Total other comprehensive (loss) income		**(43,201)**		259,331
Comprehensive income (loss) for the year	**$**	**23,978**	$	(110,385)
Accumulated other comprehensive income beginning of year	**$**	**1,008,443**	$	749,112
Total other comprehensive (loss) income, for the year		**(43,201)**		259,331
Accumulated other comprehensive income, end of year	**$**	**965,242**	$	1,008,443

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

Pro-Demnity Insurance Company
Summary Statement of Cash Flows

For the year ended December 31	2012	2011
Cash provided by (used in)		
Operating activities		
Net income (loss)	**$ 67,179**	$ (369,716)
Adjustments for:		
Depreciation	**48,150**	48,713
Amortization of premium/discount on bonds and debentures	**944,228**	735,247
Interest and dividend income	**(442,503)**	(398,635)
Provision (recovery) for income taxes	**(39,213)**	263
Realized gain from disposal of investments	**(915,064)**	(357,113)
	(337,223)	(341,241)
Changes in working capital and insurance contract related balances		
Receivables	**(576,866)**	72,163
Prepaid expenses	**8,697**	(6,301)
Reinsurer's share of unearned premiums	**(107,429)**	234,644
Deferred policy acquisition expenses	**14,345**	6,684
Payables and accruals	**583,109**	(577,486)
Unearned premiums	**18,422**	(219,470)
Refund of premiums payable	**(2,130,000)**	(2,020,000)
Provision for unpaid claims, net of reinsurer's share	**1,410,000**	1,690,000
	(1,116,945)	(1,161,007)
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	**492,235**	260,556
Income taxes recovered (paid)	**174,277**	(570,089)
Total cash outflows from operating activities	**(450,433)**	(1,470,540)
Investing activities		
Purchase of investments	**(89,686,932)**	(54,715,157)
Proceeds from sale of investments	**90,539,988**	55,409,453
Purchase of property & equipment	**(105,402)**	(58,827)
Total cash inflows from investing activities	**747,654**	635,469
Increase (decrease) in cash during the year	**297,221**	(835,071)
Cash, beginning of year	**636,162**	1,471,233
Cash, end of year	**$ 933,383**	$ 636,162

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

December 31, 2012

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 in 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 111 Moatfield Drive, Toronto, Ontario.

Basis of preparation

Management is responsible for the preparation of these summary financial statements. The summary presented includes the Summary Statement of Financial Position, Summary Statement of Operations and Retained Earnings, Summary Statement of Comprehensive Income and Accumulated Other Comprehensive Income, Summary Statement of Cash Flows, and selected accounting notes. It does not include all disclosures required under International Financial Reporting Standards. Copies of the December 31, 2012 audited financial statements are available at the Pro-Demnity Insurance Company Office.

The audited financial statements were authorized for issue by the Board of Directors on February 21, 2013. The audited financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These summary financial statements were prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

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

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 Company’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

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, the reinsurer's share of unearned premiums and provision for unpaid claims, and deferred policy acquisition expenses.

1. Nature of operations and summary of significant accounting policies (continued)

(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 current income.

Claim liabilities are carried on a discounted basis to reflect the time value of money.

(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 statement of comprehensive income and accumulated other comprehensive income initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability.

1. Nature of operations and summary of significant accounting policies (continued)

(f) Reinsurer's share of provisions for unpaid claims and adjustment expenses

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 when due.

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.

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.

1. Nature of operations and summary of significant accounting policies (continued)

(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.

(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 equity instruments and debt securities. 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.

Changes in fair value are recognized as a separate component of other comprehensive income. 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, is recognized in net income.

Purchases and sales of equity instruments 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.

On sale, the amount held in accumulated other comprehensive income associated with that asset is removed from 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.

1. Nature of operations and summary of significant accounting policies (continued)

(d) Other financial liabilities

Other financial liabilities include all financial liabilities and comprise payables and accruals, and other short-term monetary liabilities. 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 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.

Property & equipment

Property & 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 equipment	- 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.

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.

1. Nature of operations and summary of significant accounting policies (continued)

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 a business combination, or items recognized directly in equity or in other comprehensive income.

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

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).

1. Nature of operations and summary of significant accounting policies (continued)

Standards, Amendments and Interpretations Not Yet Effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2013. The standards, amendments and interpretations that will be relevant to the Company are:

International Accounting Standard ("IAS") 1 *Presentation of Financial Statements* was amended to change the grouping of items presented in other comprehensive income ("OCI"). Items that would be reclassified to profit or loss at a future point in time will be presented separately from items that will never be reclassified. The amendments do not change the nature of items that are currently recognized in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit or loss in future periods. The Company is does not anticipate a material change from IAS 1 and will adopt the standard for the annual period beginning on January 1, 2013.

An amendment to IFRS 7 *Financial Instruments: Disclosures* provides guidance on transitional disclosures an entity is required to disclose upon adoption of IFRS 9 *Financial Instruments*. These disclosures relate to changes in classifications of financial assets and liabilities upon initial adoption of IFRS 9. For reclassified financial assets and liabilities, an entity is required to disclose information surrounding fair value, the basis for measurement of reclassified items, the changes in carrying amount, the fair value of gains/losses that would have been recognized in profit or loss or OCI during the reporting period if the financial assets or liabilities had not been reclassified, the effective interest rate determined at the date of reclassification and the interest income/expense recognized. The amendment is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard.

IFRS 9 *Financial Instruments* is part of the IASB's wider project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard.

IFRS 13 *Fair Value Measurement*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Company has assessed the impact of IFRS 13 and determined it will not have a material impact on its financial statements. The Company will adopt the standard for the accounting period beginning on January 1, 2013.

There are no other IFRSs or International Financial Reporting Interpretations Committee ('IFRIC') interpretations that are not yet effective that would be expected to have a material impact on the Company.

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.

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 and held-to-maturity investments

The Company determines that available-for-sale and held-to-maturity investments are impaired when there has been a significant or prolonged decline in fair value below its 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.

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, 2012					
Cash	**$ 933,383**	**$ -**	**$ -**	**$ -**	**$ 933,383**
Investments	**44,070,165**	**22,003,775**	**-**	**-**	**66,073,940**
Receivables	**-**	**-**	**4,064,805**	**-**	**4,064,805**
Accrued interest	**-**	**-**	**511,854**	**-**	**511,854**
Payables and accruals	**-**	**-**	**-**	**(2,096,881)**	**(2,096,881)**
	$ 45,003,548	**$ 22,003,775**	**$ 4,576,659**	**$ (2,096,881)**	**$ 69,487,101**
December 31, 2011					
Cash	$ 636,162	$ -	$ -	$ -	$ 636,162
Investments	43,951,761	23,008,387	-	-	66,960,148
Receivables	-	-	3,487,939	-	3,487,939
Accrued interest	-	-	561,586	-	561,586
Payables and accruals	-	-	-	(1,513,772)	(1,513,772)
Refund of premiums payable	-	-	-	(2,130,000)	(2,130,000)
	$ 44,587,923	$ 23,008,387	$ 4,049,525	$ (3,643,772)	$ 68,002,063

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.

Pro-Demnity Insurance Company
Notes to Summary Financial Statements

December 31, 2012

3. Financial instrument classification (continued)

Available-for-Sale

	December 31, 2012 Carrying Value	December 31, 2012 Fair Value	December 31, 2011 Carrying Value	December 31, 2011 Fair Value
Guaranteed investment certificates	$ 377,313	$ 377,313	$ 63,788	$ 63,788
Bonds issued by				
Government and guaranteed	6,030,095	6,030,095	6,515,652	6,515,652
Canada mortgages	1,538,575	1,538,575	1,627,229	1,627,229
Canadian municipal	1,354,996	1,354,996	1,349,821	1,349,821
Corporate	7,008,620	7,008,620	7,118,842	7,118,842
	15,932,286	15,932,286	16,611,544	16,611,544
Equities				
Equity pool funds	5,694,176	5,694,176	6,318,801	6,318,801
Total Available-for-Sale	$ 22,003,775	$ 22,003,775	$ 22,994,133	$ 22,994,133

Held-to-Maturity

	December 31, 2012 Carrying Value	December 31, 2012 Fair Value	December 31, 2011 Carrying Value	December 31, 2011 Fair Value
Guaranteed investment certificates	$ 299,229	$ 299,229	$ 2,993,050	$ 2,993,050
Mortgage receivable	785,352	785,352	1,912,139	1,912,139
Bonds issued by				
Government and guaranteed	21,611,528	21,950,023	19,911,991	20,454,327
Canada mortgages	1,708,611	1,742,753	1,864,785	1,945,929
Corporate	19,665,445	20,045,056	17,284,050	17,706,569
	42,985,584	43,737,832	39,060,826	40,106,825
Total Held to Maturity	44,070,165	44,822,413	43,966,015	45,012,014
Total Investments	$ 66,073,940	$ 66,826,188	$ 66,960,148	$ 68,006,147

The mortgage on the building is issued to the Ontario Association of Architects (parent) bearing an interest rate of 7.00% per annum. The Company earned interest totaling $82,040 (2011 - $134,323). The mortgage matures on January 15, 2017.

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).

3. Financial instruments classification (continued)

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

	Level 1	Level 2	Level 3	Total
December 31, 2012				
Bankers acceptance	**$ 377,313**	**$ -**	**$ -**	**$ 377,313**
Bonds	**-**	**15,946,470**	**-**	**15,946,470**
Equity pool funds	**-**	**5,679,992**	**-**	**5,679,992**
Total	**$ 377,313**	**$ 21,626,462**	**$ -**	**$ 22,003,775**

	Level 1	Level 2	Level 3	Total
December 31, 2011				
Bankers acceptance	$ 63,788	$ -	$ -	$ 63,788
Bonds	-	16,611,544	-	16,611,544
Equity pool funds	-	6,318,801	-	6,318,801
Total	$ 63,788	$ 22,930,345	$ -	$ 22,994,133

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2012 and 2011. There were also no transfers in and out of Level 3.

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, 2012	**$ 7,872,398**	**$ 17,855,280**	**$ 22,881,956**	**$ 2,698,243**	**$ 8,300,719**	**$ 59,608,596**
Percent of Total	**13.21 %**	**29.95 %**	**38.39 %**	**4.53 %**	**13.93 %**	**100.00 %**
December 31, 2011	$ 7,195,856	$ 17,855,280	$ 22,881,956	$ 2,698,243	$ 8,300,719	$ 58,932,054
Percent of Total	12.21 %	30.30 %	38.83 %	4.58 %	14.08 %	100.00 %

The effective interest rate of the bonds portfolio is 4.848% (2011 - 4.495%).

December 31, 2012

4. Property & equipment

	Property & equipment		
	Furniture and fixtures	Computer Hardware	Total
Cost			
Balance at January 1, 2011	$ 77,102	$ 376,453	$ 453,555
Additions	52,950	5,877	58,827
Balance on December 31, 2011	130,052	382,330	512,382
Additions	2,185	103,217	105,402
Balance on December 31, 2012	$ 132,237	$ 485,547	$ 617,784
Accumulated depreciation			
Balance at January 1, 2011	$ 53,561	$ 257,213	$ 310,774
Depreciation	8,764	39,949	48,713
Balance on December 31, 2011	62,325	297,162	359,487
Depreciation	11,395	36,755	48,150
Balance on December 31, 2012	$ 73,720	$ 333,917	$ 407,637
Net Book Value			
December 31, 2011	$ 67,727	$ 85,168	$ 152,895
December 31, 2012	**$ 58,517**	**$ 151,630**	**$ 210,147**

5. Share capital

Authorized:

100	preference 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:

		2012	2011
65	Preference shares	**$ 6,500**	$ 6,500
201,000	Common shares	**20,100,000**	20,100,000
		$ 20,106,500	$ 20,106,500

6. Income taxes

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

	2012	2011
Current tax expense (recovery)		
Based on current year taxable income	**$ (39,228)**	$ 263
Deferred tax expense		
Origination and reversal of temporary differences	**$ (341)**	$ (13,576)
Non deductible claims	**(18,683)**	(58,378)
Transitional provision on bonds	**-**	33,654
Change in deferred tax on OCI	**17,220**	(59,035)
Other	**1,804**	97,335
	-	-
Total income tax expense (recovery)	**$ (39,213)**	$ 263

6. Income taxes (continued)

The significant components of the tax affect of the amounts recognized in other comprehensive income are composed of:

	2012	2011
Current tax		
Change in unrealized gains (losses) on available-for-sale investments	**$ 217,985**	$ 80,445
Reclassification of realized (gains) losses on available-for-sale investments	**(235,205)**	(21,410)
Total tax effect of amounts recorded in other net income	**$ (17,220)**	$ 59,035

Reasons for the difference between tax expense (recovery) for the year and the expected income taxes based on the statutory tax rate of 26.5% (2011 – 28.5%) are as follows:

	2012	2011
Net income for the year	**$ 27,966**	$ (369,453)
Expected taxes based on the statutory rate	**7,411**	(105,294)
Non deductible expenses	**(3,760)**	(12,455)
Over (under) provision in prior years	**(42,864)**	118,012
Total income tax expense (recovery)	**$ (39,213)**	$ 263

	Opening balance at Jan 1, 2012	Recognize in net income	Recognize in OCI	Closing balance at Dec 31, 2012
2012				
Deferred tax assets				
Claims liabilities	**$ 498,041**	**$ 18,683**	**-**	**$ 516,724**
Other	**5,863**	**(5,863)**	**-**	**-**
Deferred tax asset	**503,904**	**12,820**	**-**	**516,724**
2012				
Deferred tax liabilities				
Investments	**$ -**	**$ (17,220)**	**$ 17,220**	**$ -**
Bond transitional provision	**54,676**	**(7,125)**	**-**	**47,551**
Plant & equipment and intangible assets	**19,820**	**(340)**	**-**	**19,480**
Deferred tax liabilities	**74,496**	**(24,685)**	**17,220**	**67,031**
Net deferred tax	**$ 429,408**	**$ 37,505**	**$ (17,220)**	**$ 449,693**

6. Income taxes (continued)

The movement in 2011 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2011	Recognize in net income	Recognize in OCI	Closing balance at Dec 31, 2011
2011				
Deferred tax assets				
Claims liabilities	$ 556,419	$ (58,378)	$ -	$ 498,041
Other	3,510	2,353	-	5,863
Deferred tax asset	559,929	(56,025)	-	503,904
2011				
Deferred tax liabilities				
Investments	$ -	$ 59,035	$ (59,035)	$ -
Bond transitional provision	38,091	16,585	-	54,676
Plant & equipment intangible assets	33,396	(13,576)	-	19,820
Deferred tax liabilities	71,487	62,044	(59,035)	74,496
2011 net deferred tax	$ 488,442	$ (118,069)	$ 59,035	$ 429,408

7. Investment income

	2012	2011
Interest income	**$ 2,209,585**	$ 2,382,400
Dividend income	**87,614**	43,700
Realized gains on disposal of investments	**915,064**	357,113
Investment expenses	**(180,057)**	(192,983)
	$ 3,032,206	$ 2,590,230

8. 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:

	2012	2011
Compensation		
Executives' compensation and directors' fees	**$ 1,239,906**	$ 1,154,539

In addition, the Company had the following transactions with its parent company, The Ontario Association of Architects.

	2012	2011
Administrative services	**$ 135,986**	$ 139,295
Occupancy costs	**146,683**	142,317

9. 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 11. 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%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

10. 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 primarily 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.

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 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, in the main, limit the liability of the Company to an amount on any one claim of $ 250,000. In addition, the Company has obtained stop loss reinsurance which attaches when claims liabilities in a specific year exceed 200% of gross net earned premiums and ceases when claims liabilities reach 650% of gross net premiums.

The Company is exposed to a 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, 2012.

10. Financial instrument and insurance risk management (continued)

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 occurrence, expected loss ratios and claims development as described in Note 5.

Results of sensitivity testing based on expected loss ratios are as follows, shown gross and net of reinsurance as impact on pre-tax income:

	Liability claims **2012**	Liability claims 2011
5% increase in loss ratios		
Gross	**$ 875,000**	$ 810,000
Net	**274,000**	349,000
5% decrease in loss ratios		
Gross	**$ (877,000)**	$ (810,000)
Net	**(275,000)**	(350,000)

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 reinsurers 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 and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

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

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

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.

10. 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 Investment 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 does not have any transaction or financial instruments denominated in foreign currencies.

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.

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 (Bankers Acceptance, T-Bills, GICs, and Bonds).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy 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.

At December 31, 2012, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds held as available-for-sale by $937,000 (2011 - $1,079,000) and those classified as held-to-maturity by $1,037,000 (2011 - $1,142,000). The change would be recognized in other comprehensive income 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 by $1,123,000 (2011 - $1,062,000).

10. Financial instrument and insurance risk management (continued)

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.

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings within its investment portfolio. At December 31, 2012, 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 $567,999 (2011 - $631,880).

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.

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.

Pro-Demnity Insurance Company
Schedule of Operating Expenses

For the year ended December 31	**2012**	2011
Salaries and benefits	**$ 2,137,202**	$ 1,934,004
Employee acquisition costs	**-**	7,119
Advertising	**38,785**	16,950
Automobile and travel	**130,968**	72,802
Bad debts	**282**	5,000
Directors remuneration	**291,616**	289,783
Computer maintenance	**35,742**	27,088
Insurance	**132,040**	131,479
Postage and courier	**11,780**	10,838
Printing and stationary	**37,856**	27,998
Professional fees	**313,671**	225,052
Telephone and communications	**19,161**	19,819
Depreciation	**48,150**	48,713
Training, membership and general	**59,263**	63,835
Regulatory assessment	**10,877**	10,938
Occupancy costs	**146,683**	142,317
OAA service agreement	**135,986**	139,295
Risk management	**218,688**	242,513
	$ 3,768,750	$ 3,415,543