Pro-Demnity Insurance Company

Consolidated Financial Statements

For the year ended December 31, 2024

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For the year ended December 31, 2024

Table of Contents	Page

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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 and its subsidiary (the Company), which comprise the consolidated statement of financial position as at December 31, 2024, and the consolidated statements of comprehensive income, retained earnings and cash flows for the year then ended and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2024, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and International Accounting Standards as issued by the International Accounting Standards Board (IASB) and Interpretations (collectively IFRS Accounting 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 IFRS Accounting 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.

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.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants
Oakville, Ontario
February 21, 2025

Pro-Demnity Insurance Company
Consolidated Statement of Financial Position
Expressed in thousands of Canadian dollars

		December 31, 2024		December 31, 2023
Assets				
Cash and cash equivalents	**$**	**16,802**	$	17,912
Investments (Notes 3.4.4; 4)		**115,023**		102,057
Investment income accrued		**829**		721
Reinsurance contract assets (Note 3.2.2)		**46,462**		42,521
Property and equipment (Note 11)		**395**		395
Intangible asset (Note 12)		**458**		532
Right-of-use assets (Note 13)		**1,140**		1,290
Deferred income taxes (Note 10)		**558**		174
Other assets		**755**		146
	$	**182,422**	$	165,748
Liabilities and Shareholders' Equity				
Accruals and other liabilities (Note 13)	**$**	**1,381**	$	1,398
Income taxes payable		**317**		3,457
Insurance contract liabilities (Note 3.2.1)		**119,870**		110,431
		121,568		115,286
Shareholders' equity				
Share capital (Note 9)		**25,107**		25,107
Contributed surplus		**2,052**		2,052
Retained earnings		**33,695**		23,303
		60,854		50,462
	$	**182,422**	$	165,748

Signed on behalf of the Board by:

_______________________, Director

_______________________, Director

Pro-Demnity Insurance Company
Consolidated Statement of Comprehensive Income
Expressed in thousands of Canadian dollars

For the year ended December 31	2024	2023
Insurance revenue	$ 53,044	$ 47,784
Insurance service expense	(23,210)	(20,515)
Insurance service result before reinsurance contracts held	29,834	27,269
Allocation of reinsurance premiums	(22,890)	(20,791)
Amounts recoverable from reinsurers	6,053	6,185
Net expense from reinsurance contracts held	(16,837)	(14,606)
Insurance service result	12,997	12,663
Insurance finance expense for insurance contracts issued (Note 3.3)	(5,488)	(5,293)
Reinsurance finance income for reinsurance contracts held (Note 3.3)	1,758	1,611
Net insurance financial result	(3,730)	(3,682)
Investment income (Note 5)	5,633	5,046
Other income	1,334	1,206
Other operating and administrative expenses (Note 7)	(2,193)	(1,942)
	4,774	4,310
Income **before tax**	14,041	13,291
Income tax expense (Note 10)	(3,649)	(3,471)
Comprehensive income for the year	$ 10,392	$ 9,820

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

Pro-Demnity Insurance Company
Consolidated Statement of Retained Earnings
Expressed in thousands of Canadian dollars

For the year ended December 31	2024	2023
Retained Earnings		
Balance, as previously reported	**$ 23,303**	$ 14,262
Impact of initial application of IFRS 9	**-**	(779)
Restated balance	**23,303**	13,483
Comprehensive income for the year	**10,392**	9,820
Balance, end of the year	**$ 33,695**	$ 23,303

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

Pro-Demnity Insurance Company
Consolidated Statement of Cash Flows
Expressed in thousands of Canadian dollars

For the year ended December 31	2024	2023
Operating activities		
Comprehensive income for the year	$ 10,392	$ 9,820
Adjustments for:		
Depreciation	374	369
Amortization of premium-discount on bonds/securities	(67)	55
Interest and dividend income	(4,276)	(3,492)
Provision for income taxes	3,649	3,471
Realized gain from disposal of investments	(71)	(141)
Unrealized gain on investments	(1,556)	(1,748)
Realized loss from disposal of capital assets	9	-
	8,454	8,334
Changes in working capital		
Change in reinsurance contract assets	(3,941)	(5,051)
Change in other assets	(609)	(79)
Change in accruals and other liabilities	103	15
Change in insurance contract liabilities	9,439	8,238
	4,992	3,123
Cash flows related to interest, dividends and income taxes		
Interest and dividends received	4,240	2,867
Income taxes (paid) received	(7,173)	53
	(2,933)	2,920
Total cash inflows from operating activities	10,513	14,377
Investing activities		
Sale of investments	294,577	281,019
Purchase of investments	(305,859)	(290,361)
Purchase of property and equipment	(70)	(304)
Purchase of intangible assets	(88)	(217)
Total cash outflows from investing activities	(11,440)	(9,863)
Financing activities		
Repayment of lease liabilities	(183)	(194)
Increase (decrease) in cash and cash equivalents	(1,110)	4,320
Cash and cash equivalents, beginning of year	17,912	13,592
Cash and cash equivalents, end of year	$ 16,802	$ 17,912
Cash and cash equivalents consist of the following:		
Cash	$ 1,015	$ 1,117
GIC	15,730	16,736
Letter of credit	57	59
	$ 16,802	$ 17,912

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

1. Corporate Information

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 head 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 21, 2025.

2. Basis of Presentation

(a) Statement of Compliance

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

(b) Basis of Measurement

These consolidated financial statements were prepared under the historical cost convention, except for financial assets classified as fair value through profit or loss ("FVTPL").

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

(c) 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.

(d) Judgment and Estimates

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 critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are:

- The Company presents information about insurance contracts and reinsurance contracts in line with IFRS 17.95 and IFRS 17.96. The Company has one major product line that it manages and operates: Professional Liability.
- The Company applies the Premium Allocation Approach (PAA) to simplify the measurement of insurance contracts as the coverage period of each contract in the group is one year or less.
- The Company has made the election in IFRS 17.59(a) to recognize insurance acquisition cash flows as an expense when it incurs those costs and therefore does not defer insurance acquisition cash flows.

Expressed in thousands of Canadian dollars

2. Basis of Presentation (Continued)

(d) Judgment and Estimates (Continued)

- For groups of contracts that are onerous, the liability for the remaining coverage is determined by the fulfillment cash flows. Any loss/recovery is recognized on underlying contracts and the recovery expected on claims from reinsurance contracts held.
- The Company does not adjust the carrying amount of the liability for remaining coverage to include the time value of money or the effect of financial risk for its Professional Liability line.
- The cost of outstanding claims is estimated using appropriate standard actuarial claims projection techniques. The main assumption underlying these techniques is that a Company's past claims development experience can be used to project future claims development and hence ultimate claims costs.
- Insurance contract liabilities are calculated by discounting expected future cash flows at the risk free rate, plus illiquidity premium (when applicable). The reference portfolio to determine the corporate bonds spread incorporates 50% A-rated corporate bonds and 50% BBB-rated corporate bonds in Canadian currency.

  Discount rates applied are listed below:

	< 3 years		3-4 years		5-9 years		>= 10 years	
	2024	2023	2024	2023	2024	2023	2024	2023
Professional liability	3.9%	5.2%	4.0%	4.8%	4.4%	4.7%	4.8%	4.8%

- The risk adjustment for non-financial risk is the compensation the Company requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts. The Company has estimated the risk adjustment using a quantile approach at the 75th percentile. Under the quantile approach, the risk adjustment is determined by assuming a lognormal distribution and using a standard deviation derived from OSFI's (Office of the Superintendent of Financial Institutions) Minimum Capital Test liability for incurred claims risk margin, with adjustments based on the Company's loss experience.
- The Company has elected not to disaggregate the change in risk adjustment for non-financial risk in accordance with IFRS 17.81 and includes the entire change as part of the insurance service result in the statement of comprehensive income.
- The Company applies judgment over the inputs and methods used to allocate insurance acquisition cash flows to the related contracts. This includes judgments about the amounts allocated to insurance contracts expected to arise from renewals of insurance contracts. The Company will revisit the assumptions at the end of each reporting period and revise the amounts of assets for insurance acquisition cash flows as necessary.

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

3. Material Accounting Policies

3.1 Insurance Contracts

IFRS 17 replaced IFRS 4 - *Insurance Contracts* for periods on or after January 1, 2023, the Company adopted IFRS 17 using the full retrospective approach with an effective transition date of January 1, 2022.

The adoption of IFRS 17 did not change the classification of the Company's insurance contracts. Under the full retrospective approach, at January 1, 2022 the Company identified, recognized and measured each group of insurance contract liabilities and reinsurance contract assets held and any acquisition costs, and derecognized previously reported balances that would not have existed had IFRS 17 always applied. This includes receivables, reinsurer's share of unearned premiums, reinsurer's share of provision for unpaid claims, deferred policy acquisition expenses, unearned premiums and provision for unpaid claims which are included in the measurement of insurance contract liabilities and reinsurance contract assets held under IFRS 17.

3.1.1 Classification

Insurance contracts are those contracts that have significant insurance risk at the inception of the contract. The Company determines whether it has significant insurance risk, by comparing the benefits payable after an insured event with benefits payable if the insured event did not occur. The Company issues professional liability insurance products. These products offer protection of policyholder's assets and indemnification of other parties that have suffered damages as a result of a policyholder's accident.

3.1.2 Level of Aggregation and Recognition

Insurance contracts and reinsurance contract assets held are required to be aggregated into portfolios of insurance contracts, based on underlying risk and the management of those risks, then further aggregated into groups based on the underlying expected profitability at inception into three categories: onerous contracts, contracts with no significant risk of becoming onerous, and the remainder. The profitability of groups of contracts is assessed by actuarial valuation models that take into account existing and new business. IFRS 17 also requires that no group for level of aggregation purposes may contain contracts issued more than one year apart. The Company assumes that no contracts in the portfolio are onerous at initial recognition unless facts and circumstance indicate otherwise. The Company considered facts and circumstances to identify whether a group of contracts are onerous based on (i) pricing information, (ii) results of similar contracts it has recognized, and (iii) environmental factors (i.e. change in market experience or regulations).

Insurance contracts are recognized from the earliest of: the beginning of the insurance contract's coverage period; when payment from the policyholder becomes due or, if there is no contractual due date, when it is received; and when a contract is onerous.

3.1.2 Level of Aggregation and Recognition (Continued)

Reinsurance contract assets held are recognized at the beginning of the coverage period for the reinsurance contract unless the company recognizes onerous insurance contracts on an earlier date which are reinsured and the related reinsurance contract was entered into prior to the onerous contract being recognized, in which case the reinsurance contract assets held are recognized at the date the onerous groups of underlying insurance contracts are recognized. The Company adds new contracts to the group in the reporting period in which that contract meets one of the criteria set out above.

3.1.3 Separating Components from Insurance and Reinsurance Contracts

The Company assesses its insurance products to determine whether they contain distinct components which must be accounted for under another IFRS accounting standard instead of under IFRS 17. After separating any distinct components, the Company applies IFRS 17 to all remaining components of the (host) insurance contract.

Currently, the Company's products do not include any distinct components that require separation.

3.1.4 Measurement

The Company uses the PAA for all the insurance contracts that it issues and reinsurance contracts held. Insurance contracts issued and reinsurance contracts held are eligible for the PAA when the coverage period of each contract in the group is one year or less or the Company reasonably expects that the resulting measurement of the liability for remaining coverage would not differ materially from that of applying the General Measurement Model.

<u>Contract Boundary</u>

The contract boundary determines the cash flows that are included in the measurement of a group of insurance contracts issued and reinsurance contract assets held. Cash flows are within the contract boundary if they arise from substantive rights and obligations that exist during the reporting period in which the Company can compel the policyholder to pay the premiums or has a substantive obligation to provide services including insurance coverage. A liability or asset relating to expected premiums or claims outside the boundary of the insurance contract is not recognized. Such amounts relate to future insurance contracts.

<u>Insurance Acquisition Cash Flows</u>

Insurance acquisition cash flows arise from the cost of selling, underwriting and starting a group of insurance contracts that are directly attributable to the portfolio of insurance contracts to which the group belongs. These costs are expensed as incurred.

<u>Insurance Contract Liabilities - Initial Measurement</u>

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

- Premiums received on initial recognition;
- Any other asset or liability previously recognized for cash flows related to the group of contracts that the Company pays or receives before the group of insurance contracts is recognized.

3.1.4 Measurement (Continued)

If there are indications that a group of insurance contracts is onerous, then the Company recognizes a loss in insurance service expense in the consolidated statement of comprehensive income and increases the liability for remaining coverage if the current estimates of the fulfillment cash flows that relate to remaining coverage exceed the carrying amount of the liability for remaining coverage. This excess is recognized as a loss component within the liability for remaining coverage, which is reported in insurance contract liabilities on the consolidated statement of financial position.

Insurance Contract Liabilities - Subsequent Measurement

The carrying amount of a group of insurance contracts at each reporting date is the sum of the liability for remaining coverage and the liability for incurred claims.

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

- Plus premiums received in the period;
- Minus the amount recognized as insurance revenue for services provided;
- Minus any additional insurance acquisition cash flows allocated after initial recognition.

The liability for incurred claims includes the fulfillment cash flows for losses on claims and expenses that have not yet been paid, including those that have been incurred but not reported. The liability for incurred claims reflects current estimates from the perspective of the Company and include an explicit adjustment for non-financial risk.

The Company remeasures the loss component using the same calculation as on initial recognition and reflects any changes by adjusting the loss component as required until the loss component is reduced to zero. If a loss component did not exist on initial recognition but there are indications that a group of contracts is onerous on subsequent measurement, then the Company establishes a loss component using the same methodology as on initial recognition.

Reinsurance Contract Assets – Initial Measurement

The Company measures its reinsurance contract assets for a group of reinsurance contracts that it holds on the same basis as insurance contracts that it issues. However, they are adapted to reflect the features of reinsurance contracts held that differ from insurance contracts issued.

When there is an onerous group of underlying contracts, the Company establishes a loss-recovery component of the asset for remaining coverage for a group of reinsurance contracts held depicting the recovery of losses. The Company calculates the loss-recovery component by multiplying the loss recognized on the underlying insurance contracts and the percentage of claims on the underlying insurance contracts the Company expects to recover from the group of reinsurance contracts held. This loss recovery component adjusts the carrying amount of the reinsurance contract asset held.

3.1.4 Measurement (Continued)

Reinsurance Contract Assets – Subsequent Measurement

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

If a loss-recovery component exists, it is adjusted on subsequent measurement to reflect changes in the loss component of the onerous group of underlying contracts to the extent that it impacts reinsured cash flows, but it cannot exceed the portion of the loss component of the onerous group of underlying contracts that the Company expects to recover from the reinsurance contract assets held.

3.1.5 Derecognition and Contract Modification

An insurance contract is derecognized when it is extinguished, that is when the specified obligations in the contract expire or are discharged or cancelled. An insurance contract is also derecognized if its terms are modified in a way that would have significantly changed the accounting for the contract had the new terms always existed. In such cases, the Company derecognizes the initial contract and recognizes the modified contract as a new contract. If an insurance contract modification does not result in derecognition, then the changes in cash flows caused by the modification are treated as changes in estimates of fulfillment cash flows.

3.1.6 Presentation

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

The Company disaggregates the total amount recognized in the consolidated statement of comprehensive income into a net insurance service result, comprising insurance revenue and insurance service expense, and insurance finance income or expenses.

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

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

Insurance Revenue

The Company recognizes insurance revenue based on the expected premium receipts and the passage of time over the coverage period of a group of contracts unless the release of risk differs significantly from the passage of time, in which case insurance revenue is recognized based on the release of risk. For all periods presented, the Company has recognized insurance revenue based on the passage of time.

Insurance Service Expense

Insurance service expenses arising from insurance contracts are recognized in the consolidated statement of comprehensive income as they are incurred and include losses on claims, other insurance service expenses, insurance acquisition costs, and losses and reversals of losses on onerous contracts.

Expressed in thousands of Canadian dollars

3.1.6 Presentation (Continued)

<u>Net Finance Income or Expense from Insurance Contracts and Reinsurance Contract Assets Held</u>

Net finance income or expense from insurance contracts and reinsurance contract assets held as presented in the consolidated statement of comprehensive income are comprised of changes in the carrying amounts of insurance and reinsurance contracts arising from the effects of time value of money and changes in the time value of money and the effect of financial risk and changes in financial risk.

3.2 Insurance and Reinsurance Contracts

3.2.1 Movements in the Liability for Insurance Contracts Issued

The roll-forward of the professional liability insurance contracts issued is disclosed below:

	2024			
	Liabilities for remaining coverage	**Liabilities for incurred claims**		
		Estimates of the present value of future cash flows	**Risk adjustment**	**Total**
Opening balance - Insurance contract liabilities	**$ 12,390**	**$ 85,692**	**$ 12,349**	**$ 110,431**
Cash flows				
Premiums received	53,083	-	-	53,083
Claims and other expenses paid	(1,590)	(17,708)	-	(19,298)
Total cash flows	**51,493**	**(17,708)**	**-**	**33,785**
Changes in the consolidated statement of comprehensive income				
Insurance revenue	(53,044)	-	-	(53,044)
Insurance service expenses				
Incurred claims and other expenses	1,635	25,127	3,065	29,827
Changes to liabilities for incurred claims	-	(4,573)	(2,044)	(6,617)
Total insurance service expense	1,635	20,554	1,021	23,210
Insurance service result	(51,409)	20,554	1,021	(29,834)
Insurance finance expense	-	5,488	-	5,488
Total changes in the consolidated statement of comprehensive income	**(51,409)**	**26,042**	**1,021**	**(24,346)**
Closing balance - Insurance contract liabilities	**$ 12,474**	**$ 94,026**	**$ 13,370**	**$ 119,870**

Expressed in thousands of Canadian dollars

3.2.1 Movements in the Liability for Insurance Contracts Issued (Continued)

	2023			
	Liabilities for remaining coverage	Liabilities for incurred claims		
		Estimates of the present value of future cash flows	Risk adjustment	Total
Opening balance - Insurance contract liabilities	**$ 11,462**	**$ 79,266**	**$ 11,465**	**$ 102,193**
Cash flows				
Premiums received	48,634	-	-	48,634
Claims and other expenses paid	(1,405)	(17,015)	-	(18,420)
Total cash flows	**47,229**	**(17,015)**	**-**	**30,214**
Changes in the consolidated statement of comprehensive income				
Insurance revenue	(47,784)	-	-	(47,784)
Insurance service expense				
Incurred claims and other expenses	1,483	22,728	2,699	26,910
Changes to liabilities for incurred claims	-	(4,580)	(1,815)	(6,395)
Total insurance service expense	1,483	18,148	884	20,515
Insurance service result	(46,301)	18,148	884	(27,269)
Insurance finance income	-	5,293	-	5,293
Total changes in the consolidated statement of comprehensive income	**(46,301)**	**23,441**	**884**	**(21,976)**
Closing balance - Insurance contract liabilities	**$ 12,390**	**$ 85,692**	**$ 12,349**	**$ 110,431**

Expressed in thousands of Canadian dollars

3.2.2 Movements in the Asset for Reinsurance Contracts Held

The roll-forward of the asset for reinsurance contracts held is disclosed below:

	2024			
	Assets for remaining coverage	**Assets for incurred claims**		
		Estimates of the present value of future cash flows	**Risk adjustment**	**Total**
Opening balance - Reinsurance contract assets	**$ 9,613**	**$ 27,545**	**$ 5,363**	**$ 42,521**
Cash flows				
Premiums paid	23,937	-	-	23,937
Amounts received	-	(4,917)	-	(4,917)
Total cash flows	**23,937**	**(4,917)**	**-**	**19,020**
Changes in the consolidated statement of comprehensive income				
Allocation of reinsurance premiums	(22,890)	-	-	(22,890)
Amounts recoverable from reinsurers for incurred claims				
Recoveries of incurred claims and other insurance service expenses	-	5,821	1,333	7,154
Changes to amounts recoverable for incurred claims	-	(228)	(873)	(1,101)
Total amounts recoverable from reinsurers for incurred claims	-	5,593	460	6,053
Net income or expense from reinsurance contracts held	(22,890)	5,593	460	(16,837)
Reinsurance finance income	-	1,758	-	1,758
Total changes in the consolidated statement of comprehensive income	**(22,890)**	**7,351**	**460**	**(15,079)**
Closing balance - Reinsurance contract assets	**$ 10,660**	**$ 29,979**	**$ 5,823**	**$ 46,462**

Expressed in thousands of Canadian dollars

3.2.2 Movements in the Asset for Reinsurance Contracts Held (Continued)

	2023			
	Assets for remaining coverage	Assets for incurred claims		
		Estimates of the present value of future cash flows	Risk adjustment	Total
Opening balance - Reinsurance contract assets	**$ 8,823**	**$ 23,868**	**$ 4,779**	**$ 37,470**
Cash flows				
Premiums paid	21,581	-	-	21,581
Amounts received	-	(3,535)	-	(3,535)
Total cash flows	**21,581**	**(3,535)**	**-**	**18,046**
Changes in the consolidated statement of comprehensive income				
Allocation of reinsurance premiums	(20,791)	-	-	(20,791)
Amounts recoverable from reinsurers for incurred claims				
Recoveries of incurred claims and other insurance service expenses	-	5,714	1,191	6,905
Changes to amounts recoverable for incurred claims	-	(113)	(607)	(720)
Total amounts recoverable from reinsurers for incurred claims	-	5,601	584	6,185
Net income or expense from reinsurance contracts held	(20,791)	5,601	584	(14,606)
Reinsurance finance expense	-	1,611	-	1,611
Total changes in the consolidated statement of comprehensive income	**(20,791)**	**7,212**	**584**	**(12,995)**
Closing balance - Reinsurance contract assets	**$ 9,613**	**$ 27,545**	**$ 5,363**	**$ 42,521**

Expressed in thousands of Canadian dollars

3.3 Net Finance Income or Expense from Insurance Contracts and Reinsurance Contract Assets Held

The following table presents an analysis of total investment income and net finance income or expense from insurance contracts and reinsurance contract assets held recognized in profit or loss in the period:

		2024		2023
Net insurance finance expense for insurance contracts issued				
Interest accreted to insurance contracts	**$**	**(3,688)**	$	(3,661)
Effects of changes in interest rates and other financial assumptions		**(1,800)**		(1,632)
Net insurance finance expense for insurance contracts issued	**$**	**(5,488)**	$	(5,293)
Net reinsurance finance income for reinsurance contracts held				
Interest accreted to reinsurance contract assets held	**$**	**1,184**	$	1,106
Effects of changes in interest rates and other financial assumptions		**574**		505
Net reinsurance finance income for reinsurance contracts held	**$**	**1,758**	$	1,611

3.4 Insurance and Financial Risk

3.4.1 Insurance Risk

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

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. For longer tail claims that take some years to settle, there is also inflation risk. 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. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities and pricing appropriately.

The ultimate cost of long settlement general liability claims are difficult to predict for several reasons. Changes in the legal environment can create further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written and associated claims are ultimately resolved. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

Expressed in thousands of Canadian dollars

3.4.1 Insurance Risk (Continued)

The Company enters into reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. The Company follows a policy of underwriting and reinsuring contracts of insurance which limit the liability of the Company as follows:

Reinsurance	Limits
Professional indemnity excess of loss reinsurance	Up to \$10,000 (2023 - \$10,000) any one claim per insured/firm Up to \$20,000 (2023 - \$20,000) in aggregate for any one project per insured/firm Up to \$40,000 (2023 - \$40,000) in the annual aggregate per insured/firm In excess of: \$200 (2023 - \$200) any one claim per insured/firm \$400 (2023 - \$400) in aggregate for any one project per insured/firm \$800 (2023 - \$800) in the annual aggregate per insured/firm
Professional indemnity clash reinsurance - first layer	Up to \$5,500 (2023 - \$5,500) ultimate net losses per any one event In excess of: \$1,000 (2023 - \$1,000) per any one event
Professional indemnity clash reinsurance - second layer	Up to \$13,500 (2023 - \$13,500) ultimate net losses per any one event In excess of: \$6,500 (2023 - \$6,500) per any one event

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

3.4.1.1 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, the characteristics of the line of business from which the claim arises and claims reporting patterns. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The tables below show how the Company’s estimate of cumulative incurred claims cost for each accident year has changed at successive year ends and reconciles the cumulative claims to the amount appearing in the consolidated financial statements for the gross liabilities for incurred claims and net of assets for incurred claims. 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.

Expressed in thousands of Canadian dollars

December 31, 2024

3.4.1.1.1 Claim development

	Gross undiscounted liabilities for incurred claims for 2024										
Accident year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
At the end year of claim	$ 4,630	$ 4,858	$ 4,921	$ 6,409	$ 6,301	$ 7,513	$ 7,553	$ 6,499	$ 7,076	$ 7,736	
One year later	9,434	10,435	11,491	15,121	14,744	16,604	17,441	19,394	21,393		
Two years later	9,418	9,801	10,971	16,808	13,193	17,327	17,023	19,016			
Three years later	10,003	10,514	10,443	19,340	12,961	17,229	16,140				
Four years later	10,004	11,018	9,958	20,949	12,228	16,380					
Five years later	10,139	11,954	11,657	24,625	11,419						
Six years later	11,732	12,865	10,538	24,785							
Seven years later	11,448	12,823	9,981								
Eight years later	11,539	13,088									
Nine years later	11,492										
Gross estimates of the undiscounted amount of the claims	11,492	13,088	9,981	24,785	11,419	16,380	16,140	19,016	21,393	7,736	151,430
Cumulative payments to date	8,913	8,895	6,839	17,312	3,859	4,668	2,045	1,553	638	74	54,796
Gross undiscounted liabilities for incurred claims	2,579	4,193	3,142	7,473	7,560	11,712	14,095	17,463	20,755	7,662	96,634
2014 and prior											4,113
ULAE (Unallocated Loss Adjustment Expenses)											10,006
Actuarial adjustments including discounting and risk adjustment											(4,134)
Claims payable											777
Total gross liabilities for incurred claims											$107,396

Expressed in thousands of Canadian dollars

December 31, 2024

3.4.1.1.1 Claim development (Continued)

	Net undiscounted liabilities for incurred claims for 2024										
Accident year	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**Total**
At the end year of claim	$ 2,630	$ 3,758	$ 3,771	$ 4,529	$ 4,326	$ 4,853	$ 4,728	$ 3,954	$ 4,501	$ 4,971	
One year later	8,084	8,635	8,966	11,756	10,384	11,469	11,956	12,329	13,573		
Two years later	8,168	8,486	8,641	12,674	9,523	12,030	11,418	11,930			
Three years later	9,068	8,994	7,858	13,379	8,906	12,133	10,560				
Four years later	9,479	9,218	7,743	14,792	8,625	11,593					
Five years later	9,659	9,864	8,722	15,019	7,826						
Six years later	10,732	9,955	8,054	15,102							
Seven years later	10,738	9,788	7,842								
Eight years later	10,889	9,933									
Nine years later	11,172										
Net estimates of the undiscounted amount of the claims	11,172	9,933	7,842	15,102	7,826	11,593	10,560	11,930	13,573	4,971	104,502
Cumulative payments to date	8,763	7,455	5,695	9,571	3,623	3,870	1,995	1,253	638	74	42,937
Net undiscounted liabilities for incurred claims	2,409	2,478	2,147	5,531	4,203	7,723	8,565	10,677	12,935	4,897	61,565
2014 and prior											3,429
ULAE (Unallocated Loss Adjustment Expenses)											10,006
Non-performance											179
Actuarial adjustments including discounting and risk adjustment											(3,265)
Claims receivable											(320)
Total net liabilities for incurred claims											$ 71,594

Expressed in thousands of Canadian dollars

3.4.2 Sensitivities

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

		2024		2023	
	Change in assumptions $'000	**Impact on profit before tax, gross of reinsurance $'000**	**Impact on profit before tax, net of reinsurance $'000**	Impact on profit before tax, gross of reinsurance $'000	Impact on profit before tax, net of reinsurance $'000
Weighted average term to settlement	+10%	1,590	992	1,572	996
Expected loss	+5%	(2,652)	(1,508)	(2,389)	(1,350)
Inflation rate	+1%	(1,066)	(719)	(972)	(653)
Weighted average term to settlement	-10%	(1,618)	(1,007)	(1,602)	(1,013)
Expected loss	-5%	2,652	1,508	2,389	1,350
Inflation rate	-1%	1,066	719	972	653

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.

3.4.3 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’s investment policy requires that nil% to 20% of the Company's portfolio be held in cash and short-term investments, which mitigates liquidity risk. Short-term investments include treasury bills, commercial paper and term deposits with an original maturity of less than one year.

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 (2023 - $1,500). 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 2024 or 2023. The Company also has a Standby Letter of Credit in the amount of $57 (2023 - $59) which expires on July 21, 2025. Interest on the Standby Letter of Credit is accrued at 4.10% (2023 - 5.10%).

Expressed in thousands of Canadian dollars

3.4.3 Liquidity Risk (Continued)

The following table summarizes the maturity profile of portfolios of insurance contracts issued that are liabilities of the Company based on the estimates of the undiscounted future cash flows expected to be paid out in the periods noted:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	>5 years	Total
December 31, 2024						
Professional Liability	$ 13,583	$ 12,322	$ 10,831	$ 8,940	$ 29,502	$ 75,178
Percent of Total	18%	16%	15%	12%	39%	100%
December 31, 2023						
Professional Liability	$ 12,614	$ 11,165	$ 9,814	$ 8,357	$ 27,339	$ 69,289
Percent of Total	18%	16%	14%	12%	40%	100%

The following table presents the maturity profile of bonds held:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	>5 years	Total
December 31, 2024						
Debt instruments at fair value	$ 11,428	$ 13,764	$ 15,739	$ 35,722	$ 26,065	$ 102,718
Percent of Total	11%	14%	15%	35%	25%	100%
December 31, 2023						
Debt instruments at fair value	$ 11,726	$ 16,133	$ 13,049	$ 30,051	$ 21,831	$ 92,790
Percent of Total	13%	17%	14%	32%	24%	100%

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

3.4.4 Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument, insurance contract issued or reinsurance contract held will fluctuate because of changes in market prices. Market factors that will impact the fair value of investments 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.

The Company's currency risk is limited to its investment in an international equity pooled fund. The Company limits its holdings in foreign equity to 12.5% of the total FVTPL portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Finance and Audit Committee and the Board of Directors, and holdings are adjusted when offside of the investment policy.

Expressed in thousands of Canadian dollars

3.4.4 Market risk (Continued)

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument or insurance or reinsurance contract will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk through its interest bearing investments (GICs and bonds).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating gains or losses in profit or loss.

At December 31, a 1% move in interest rates, with all other variables held constant, could have the following impacts to the Company:

	2024			2023	
	Change in interest rate	**Impact on pre-tax profit or loss**	**Impact on equity**	**Impact on pre-tax profit or loss**	**Impact on equity**
Liability for incurred claims	+/- 1%	**$ 2,058**	**$ 1,513**	$ 1,865	$ 1,371
Debt instruments - fair value through profit and loss	+/- 1%	**$ (2,847)**	**$ (2,093)**	$ (2,405)	$ (1,768)

The Company is exposed to equity risk through its investments in listed Canadian and international equity pooled funds. At December 31, 2024, 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 equity pooled funds of $1,060 (2023 - $827). This change would be recognized in comprehensive income.

In the amortized cost portfolio, a 1% change in interest rate will impact the market value by $1,530 (2023 - $1,447). However, this change is not reflected in the financials because this portfolio is classified at amortized cost and is not presented at market value.

The Company's investment policy limits investment in shares and Canadian and Global equities to a combined maximum of 25% of the market value of the FVTPL portfolio.

Equities are monitored by the Finance and Audit Committee and Board of Directors and holdings are adjusted following each quarter to ensure the investment portfolio remains in compliance with the investment policy.

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

Credit risk is the risk that one party to a financial instrument, insurance contract issued in an asset position or reinsurance contract held will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk relating to its GIC and bond holdings in its investment portfolio.

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

Expressed in thousands of Canadian dollars

3.4.4 Market risk (Continued)

Fair Value Through Profit and Loss (FVTPL)

	December 31, 2024		December 31, 2023	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Guaranteed investment certificates (GICs)	**$ 1,700**	**$ 1,700**	$ 1,000	$ 1,000
Bonds				
Government	**24,713**	**24,713**	20,627	20,627
Asset backed securities	**301**	**301**	483	483
Corporate	**14,015**	**14,015**	12,239	12,239
	39,029	**39,029**	33,349	33,349
Equities				
Equity pooled fund (Canadian)	**5,690**	**5,690**	4,027	4,027
Equity pooled fund (International)	**4,915**	**4,915**	4,239	4,239
	10,605	**10,605**	8,266	8,266
Total FVTPL	**$ 51,334**	**$ 51,334**	$ 42,615	$ 42,615

Amortized Cost

	December 31, 2024		December 31, 2023	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Bonds				
Government	**$ 32,270**	**$ 32,449**	$ 30,023	$ 29,484
Corporate	**31,419**	**32,022**	29,419	29,138
Total Amortized Cost	**$ 63,689**	**$ 64,471**	$ 59,442	$ 58,622

	December 31, 2024		December 31, 2023	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Total Investments	**$ 115,023**	**$ 115,805**	$ 102,057	$ 101,237

3.4.4 Market risk (Continued)

The Company’s credit risk policy sets out the assessment and determination of what constitutes credit risk for the Company. Compliance with the policy is monitored and exposures and breaches are reported. The policy is regularly reviewed for pertinence and for changes in the risk environment.

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 amortized cost investment policy limits investment in bonds to limits ranging from 80% to 100% of the Company's portfolio. The FVTPL investment policy limits investment in bonds to limits ranging from 60% to 80% of the Company's portfolio. All portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

The maximum exposure to investment credit risk is the carrying value of investments.

Reinsurance is placed with Lloyd's Underwriters, a Canadian registered reinsurer. Management monitors the creditworthiness of Lloyd's Underwriters by reviewing their annual consolidated financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract. At year-end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

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

4. Investments

(a) Recognition and initial measurement

The Company recognizes debt instruments (including pooled funds) on the date on which they are originated. The instruments are initially measured at fair value. The Company classifies its debt securities that are backing its claims liabilities at amortized cost.

(b) Classification and subsequent measurement

The Company classifies its debt instruments at FVTPL because the Company manages the debt instruments and evaluates their performance on a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The Company’s pooled funds are redeemable at the option of the holder and therefore considered debt instruments under IFRS 9 that do not give rise to cash flows that are solely payments of principal and interest and therefore are classified as FVTPL.

The debt instruments are subsequently measured at fair value where the net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in comprehensive income.

The Company classifies its bonds and GICs at amortized cost as the Company holds to collect contractual cash flows until maturity of the debt instruments.

Expressed in thousands of Canadian dollars

4. Investments (Continued)

(c) Derecognition

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

(d) Fair value measurement

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).

	Level 1	Level 2	Level 3	Total
December 31, 2024				
GIC's	**$ 1,700**	**$ -**	**$ -**	**$ 1,700**
Bonds	**-**	**39,029**	**-**	**39,029**
Equity pooled funds	**-**	**10,605**	**-**	**10,605**
Total	**$ 1,700**	**$ 49,634**	**$ -**	**$ 51,334**
December 31, 2023				
GIC's	$ 1,000	$ -	$ -	$ 1,000
Bonds	-	33,349	-	33,349
Equity pooled funds	-	8,266	-	8,266
Total	$ 1,000	$ 41,615	$ -	$ 42,615

There were no transfers between level 1, level 2 and level 3 for the years ended December 31, 2024 and 2023.

Expressed in thousands of Canadian dollars

5. Investment Income

		2024		2023
Interest income	**$**	**3,940**	$	3,325
Unrealized gains on investments		**1,556**		1,748
Dividend income		**336**		167
Realized gains on disposal of investments		**71**		141
Bond amortization income (expense)		**67**		(55)
Expected credit losses		**(2)**		-
Investment expenses		**(335)**		(280)
	$	**5,633**	$	5,046

6. Capital Management

For the purpose of capital management, the Company has defined capital as its share capital, contributed surplus and retained earnings.

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

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators 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 dependant 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 or deemed necessary.

7. Other Operating and Administrative Expenses

		2024		2023
Customer experience, culture and communications	**$**	**648**	$	479
Governance costs		**555**		543
Risk education and management		**736**		659
Management expense allocation and other		**254**		261
	$	**2,193**	$	1,942

Expressed in thousands of Canadian dollars

8. Directors Fees

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:

	2024	2023
Executives' compensation and directors' fees	**$ 2,220**	$ 2,288

9. 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:

		2024	2023
50,000	Class A Preference shares	**$ 5,000**	$ 5,000
65	Preference shares	**7**	7
201,000	Common shares	**20,100**	20,100
		$ 25,107	$ 25,107

Expressed in thousands of Canadian dollars

10. Income Taxes

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

The significant components of tax expense included in comprehensive income consist of:

	2024	2023
Current tax expense		
Based on current year taxable income	**$ 4,033**	$ 3,716
Deferred tax expense		
Origination and reversal of temporary differences	**(33)**	81
Non-deductible policy reserves	**(351)**	(326)
	(384)	(245)
Total income tax expense	**$ 3,649**	$ 3,471

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

	2024	2023
Income before tax	**$ 14,041**	$ 13,291
Expected taxes based on the statutory rate of 26.5%	**3,721**	3,522
Small business deduction for subsidiary	**-**	(17)
Canadian dividend income	**(89)**	(42)
Other non deductible expenses	**2**	8
Other	**15**	-
Total income tax expense	**$ 3,649**	$ 3,471

At December 31, 2024, a deferred tax asset of $558 (2023 - $174) has been recorded. The utilization of this tax asset is dependent on future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences. The Company believes that this asset should be recognized as it will be recovered through future rates.

Expressed in thousands of Canadian dollars

11. 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 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:

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

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

	Furniture and fixtures	Computer hardware	Leasehold Improvements	Total
Cost				
Balance at January 1, 2023	$ 89	$ 132	$ -	$ 221
Reclassification	-	-	32	32
Additions	120	46	112	278
Balance at December 31, 2023	209	178	144	531
Additions	45	25	-	70
Disposals	(18)	-	-	(18)
Balance at December 31, 2024	$ 236	$ 203	$ 144	$ 583
Accumulated depreciation				
Balance at January 1, 2023	$ 9	$ 90	$ -	$ 99
Reclassification	-	-	5	5
Depreciation	13	19	-	32
Balance at December 31, 2023	22	109	5	136
Depreciation	24	22	16	62
Disposals	(10)	-	-	(10)
Balance at December 31, 2024	$ 36	$ 131	$ 21	$ 188
Net Book Value				
December 31, 2023	$ 187	$ 69	$ 139	$ 395
December 31, 2024	**$ 200**	**$ 72**	**$ 123**	**$ 395**

Expressed in thousands of Canadian dollars

12. 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 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

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

		Computer Software
Cost		
Balance at January 1, 2023	$	801
Reclassification		(32)
Addition		244
Balance at December 31, 2023	$	1,013
Addition		88
Balance at December 31, 2024	$	1,101
Accumulated depreciation		
Balance at January 1, 2023	$	307
Reclassification		(5)
Depreciation		179
Balance at December 31, 2023	$	481
Depreciation		162
Balance at December 31, 2024	$	643
Net Book Value		
December 31, 2023	$	532
December 31, 2024	**$**	**458**

13. 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. 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. The Company has used the 10 year period in its lease calculations.

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 (i.e. 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.

Expressed in thousands of Canadian dollars

13. 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.

Right-of-use assets consists of the following:

		Facilities and equipment
Cost		
Balance at January 1, 2023	$	1,491
Additions		-
Disposals		-
Balance on December 31, 2023		1,491
Additions		-
Disposals		-
Balance at December 31, 2024	**$**	**1,491**
Accumulated Depreciation		
Balance at January 1, 2023	$	41
Depreciation		160
Balance on December 31, 2023		201
Depreciation		150
Balance at December 31, 2024	**$**	**351**
Carrying amount		
At December 31, 2023	$	1,290
At December 31, 2024	**$**	**1,140**

Lease liabilities consist of the following:

Balance at January 1, 2024	$	1,322
Interest expense		63
Lease payments		(183)
Balance at December 31, 2024	**$**	**1,202**

Expressed in thousands of Canadian dollars

13. Right-of-Use Assets and Lease Liabilities (Continued)

Amounts recognized in the consolidated statement of cash flows:

	2024	2023
Total cash outflow for leases	**$ 183**	$ 194

The following sets out the contractual maturities, representing undiscounted contractual cash-flows of lease liabilities at December 31, 2024:

No later than 1 year	$ 180
Later than 1 year and not later than 5 year	731
Later than 5 years	547
	$ 1,458

Accruals and other liabilities consist of the following:

	2024	2023
Lease liabilities	**$ 1,202**	$ 1,322
Other accrued liabilities	**180**	76
	$ 1,382	$ 1,398