Dumfries Mutual Insurance Company
Financial Statements
For the year ended December 31, 2013

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

Independent Auditor's Report

To the Policyholders of Dumfries Mutual Insurance Company

We have audited the accompanying financial statements of Dumfries Mutual Insurance Company, which comprise the statement of financial position as at December 31, 2013 and the statements of comprehensive income and unappropriated members' surplus and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Dumfries Mutual Insurance Company as at December 31, 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants
Mississauga, Ontario
February 18, 2014

Dumfries Mutual Insurance Company
Statement of Financial Position

December 31	2013	2012
Assets		
Cash	**$ 1,774,349**	$ 1,986,658
Due from policyholders	**3,642,090**	3,512,370
Investments (Note 3)	**41,705,170**	39,555,682
Prepaid expenses	**42,485**	60,337
Unpaid claims recoverable from reinsurer (Note 5)	**5,779,681**	5,604,000
Deferred acquisition expenditures (Note 5)	**784,785**	784,478
Property and equipment (Note 4)	**400,238**	429,242
Deferred tax assets (Note 6)	**135,000**	150,000
	$ 54,263,798	$ 52,082,767
Liabilities		
Accounts payable and accrued liabilities	**$ 592,248**	$ 309,808
Provision for refund of premium	**330,000**	269,101
Income taxes payable	**386,915**	687,561
Due to reinsurer (Note 5)	**67,754**	197,188
Unpaid claims	**16,230,835**	17,497,000
Unearned premiums (Note 5)	**6,830,972**	6,832,477
	24,438,724	25,793,135
Members' equity		
Unappropriated members' surplus	**29,825,074**	26,289,632
	$ 54,263,798	$ 52,082,767

On behalf of the Board:

______________________ Director

______________________ Director

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

Dumfries Mutual Insurance Company
Statement of Comprehensive Income and Unappropriated Members' Surplus

For the year ended December 31	2013	2012
Revenue		
Gross premiums written	**$ 14,008,419**	$ 13,965,546
Less: reinsurance ceded	**(2,491,996)**	(2,584,623)
Net premiums written	**11,516,423**	11,380,923
Change in unearned	**1,505**	(306,910)
Net premiums earned	**11,517,928**	11,074,013
Service charge income	**165,588**	138,862
	11,683,516	11,212,875
Expenses		
Gross claims and adjusting expenses	**4,696,543**	6,059,069
Reinsurance recoveries	**(324,812)**	(908,958)
Commissions expense	**1,669,378**	1,655,392
Operating expenses (See schedule)	**2,338,400**	1,934,876
	8,379,509	8,740,379
Underwriting gain	**3,304,007**	2,472,496
Other income		
Investment income (Note 7)	**1,758,746**	1,016,133
Comprehensive income before refund and income taxes	**5,062,753**	3,488,629
Refund of surplus to policyholders	**(330,000)**	(269,101)
Comprehensive income before income taxes	**4,732,753**	3,219,528
Income taxes		
Current (Note 6)	**1,182,311**	795,394
Deferred (Note 6)	**15,000**	263,907
	1,197,311	1,059,301
Comprehensive income for the year	**3,535,442**	2,160,227
Unappropriated members' surplus, beginning of year	**26,289,632**	24,129,405
Unappropriated members' surplus, end of year	**$ 29,825,074**	$ 26,289,632

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

Dumfries Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	2013	2012
Cash provided by (used in)		
Operating activities		
Comprehensive income	**$ 3,535,442**	$ 2,160,227
Adjustments for:		
Depreciation	**42,656**	41,579
Current income taxes	**1,182,311**	795,394
Deferred income taxes	**15,000**	263,907
Realized loss from disposal of investments	**411,023**	381,438
Unrealized gain on investments	**(873,833)**	(409,102)
	4,312,599	3,233,443
Changes in working capital and insurance contract related balances		
Accounts payable and accrued liabilities	**282,440**	86,639
Due to reinsurer	**(129,434)**	(2,325)
Unpaid claims	**(1,266,165)**	(2,498,000)
Unearned premiums	**(1,505)**	306,910
Provision for refund of premium	**60,899**	269,101
Due from policyholders	**(129,720)**	(122,283)
Unpaid claims recoverable from reinsurer	**(175,681)**	1,906,000
Deferred acquisition expenditures	**(307)**	(19,187)
Prepaid expenses	**17,852**	(36,444)
	(1,341,621)	(109,589)
Cash flows related to income taxes (paid) received	**(1,482,957)**	410,917
Total cash inflows from operating activities	**1,488,021**	3,534,771
Investing activities		
Purchase of investments, net	**(1,686,678)**	(2,516,105)
Purchase of property and equipment	**(13,652)**	(6,812)
Total cash outflows from investing activities	**(1,700,330)**	(2,522,917)
Increase (decrease) in cash	**(212,309)**	1,011,854
Cash, beginning of year	**1,986,658**	974,804
Cash, end of year	**$ 1,774,349**	$ 1,986,658

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

December 31, 2013

1. Nature of Operations and Summary of Significant Accounting Policies

Reporting entity

Dumfries Mutual Insurance Company (the "Company" or "Dumfries") was incorporated without share capital under the laws governed in Ontario on May 10, 1856. The Company is licensed to write property, auto and liability insurance in Ontario. The Company's products are marketed through independent agents and brokers located throughout Ontario. The Company is licensed in Ontario and the Company's registered office is 12 Cambridge Street, Cambridge, Ontario.

These financial statements have been authorized for issue by the Board of Directors on February 18, 2014.

Basis of Preparation

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

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

The 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 Generally Accepted Accounting Principles ("GAAP").

Balances arising from insurance contracts primarily include deferred acquisition expenditures, unpaid claims recoverable from reinsurer, provision for refund of premiums, unpaid claims and unearned premiums.

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

(a) Premiums and unearned premiums

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) Deferred acquisition expenditures

Acquisition costs are comprised of commissions and 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.

(c) 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 comprehensive income.

Claim liabilities are carried on a discounted basis (see Note 5).

(d) Liability adequacy test

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred acquisition expenditures 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 unappropriated members' surplus initially by writing off the deferred acquisition expenditures and subsequently by recognizing an additional liability for the provision for unpaid claims.

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

(e) Unpaid claims recoverable from reinsurer

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 accounts payable and accrued liabilities and are recognized as an expense when due.

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

(f) Provision for refund of premium

Under the discretion of the Board of Directors the Company may declare a refund to its policyholders based on premiums.

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 settlement 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.

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

(a) Loans and receivables (continued)

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 reinsurer, such provisions are recorded in a separate allowance account with the loss being recognized in comprehensive income. On confirmation that the amounts receivable will not be collectible, the gross carrying value of the asset is written off against the associated provision.

(b) Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy.

Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognized in profit or loss. The fair value on initial recognition is the fair value of the consideration given. Subsequent to initial recognition, fair value amounts represent estimates of the consideration that would currently be agreed upon between knowledgeable, willing parties who are under no compulsion to act.

(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. 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 ("OCI"), is recognized in comprehensive income.

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

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

Purchases and sales of equity instruments are recognized on 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 comprehensive income.

(d) Other financial liabilities

Other financial liabilities include all financial liabilities and comprise accounts payables and accrued liabilities, 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 payable while the liability is outstanding.

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 comprehensive income and is provided on a straight-line basis over the estimated useful life of the assets as follows:

Building	2.5%
Computer equipment	20.0%
Equipment and fixtures	10.0%

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

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

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, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows.

Impairment charges are included in comprehensive income.

Income taxes

Income tax expense comprises current and deferred tax. Current 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.

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

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting or taxable profit or loss.

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)

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities and equity investments carried at market are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in comprehensive income.

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 or later periods. The Company has decided not to early adopt any of these.

i) New standards, interpretations and amendments effective from January 1, 2013

IFRS 13 establishes a single framework for measuring fair value of financial and non-financial items recognized at fair value in the statement of financial position or disclosed in the notes in the financial statements. The guidance set out in IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). Changes arising from the adoption of IFRS 13 are disclosure only. Additional disclosures are required for items measured at fair value in the statement of financial position, as well as items merely disclosed at fair value in the notes to the financial statements. None of the other new standards, interpretations and amendments, effective for the first time from January 1, 2013 have had a material effect on the financial statements.

ii) New standards, interpretations and amendments not yet effective

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.

IAS 32 'Financial Instruments: Presentation' was amended to clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems such as central clearing house systems which apply gross settlement mechanisms that are not simultaneous. The Company is yet to assess the full impact of this amendment to IAS 32 and will adopt the standard for the annual period beginning on January 1, 2014.

There are no other IFRSs or 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 and 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 comprehensive 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.

Unpaid claims

The estimation of the 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 and industry experience.

Judgments

Impairment of available-for-sale investments

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in fair value below 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:

	Fair value through profit or loss	Available-for-sale	Loans and receivables	Other financial liabilities	Total
December 31, 2013					
Cash	**$ 1,774,349**	**$ -**	**$ -**	**$ -**	**$ 1,774,349**
Investments	**41,671,567**	**33,603**	**-**	**-**	**41,705,170**
Due from policyholders	**-**	**-**	**3,642,090**	**-**	**3,642,090**
Accounts payable and accrued liabilities	**-**	**-**	**-**	**(592,248)**	**(592,248)**
Due to reinsurer	**-**	**-**	**-**	**(67,754)**	**(67,754)**
	$ 43,445,916	**$ 33,603**	**$ 3,642,090**	**$ (660,002)**	**$ 46,461,607**
December 31, 2012					
Cash	$ 1,986,658	$ -	$ -	$ -	$ 1,986,658
Investments	39,522,915	32,767	-	-	39,555,682
Due from policyholders	-	-	3,512,370	-	3,512,370
Accounts payable and accrued liabilities	-	-	-	(309,808)	(309,808)
Due to reinsurer	-	-	-	(197,188)	(197,188)
	$ 41,509,573	$ 32,767	$ 3,512,370	$ (506,996)	$ 44,547,714

3. Financial Instrument Classification (continued)

The following table provides 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:

	2013 Fair Value	2012 Fair Value
Available-for-sale:		
Fire Mutual Guarantee Fund	**$ 33,603**	$ 32,767
Fair value through profit or loss:		
Guaranteed investment certificates	**7,482,022**	490,000
Bonds and debentures - Canadian Federal	**3,877,763**	15,837,771
Canadian common shares	**2,318,848**	3,279,932
Foreign common shares	**2,335,685**	1,902,052
Farm Mutual Fixed Income Pooled Fund	**20,655,560**	14,784,375
Farm Mutual Equity Pooled Fund	**5,001,689**	3,228,785
	$ 41,705,170	$ 39,555,682

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 Instrument Classification (continued)

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

December 31, 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Available-for-sale:				
Fire Mutual Guarantee Fund	**$ -**	**$ 33,603**	**$ -**	**$ 33,603**
Fair value through profit or loss:				
Guaranteed investment certificates	**7,482,022**	**-**	**-**	**7,482,022**
Bonds and debentures - Canadian Federal	**-**	**3,877,763**	**-**	**3,877,763**
Canadian common shares	**2,318,848**	**-**	**-**	**2,318,848**
Foreign common shares	**2,335,685**	**-**	**-**	**2,335,685**
Farm Mutual Fixed Income Pooled Fund	**-**	**20,655,560**	**-**	**20,655,560**
Farm Mutual Equity Pooled Fund	**-**	**5,001,689**	**-**	**5,001,689**
Total	**$ 12,136,555**	**$ 29,568,615**	**$ -**	**$ 41,705,170**

December 31, 2012	Level 1	Level 2	Level 3	Total
Available-for-sale:				
Fire Mutual Guarantee Fund	$ -	$ 32,767	$ -	$ 32,767
Fair value through profit or loss:				
Guaranteed investment certificates	490,000	-	-	490,000
Bonds and debentures - Canadian Federal	-	15,837,771	-	15,837,771
Canadian common shares	3,279,932	-	-	3,279,932
Foreign common shares	1,902,052	-	-	1,902,052
Farm Mutual Fixed Income Pooled Fund	-	14,784,375	-	14,784,375
Farm Mutual Equity Pooled Fund	-	3,228,785	-	3,228,785
Total	$ 5,671,984	$ 33,883,698	$ -	$ 39,555,682

3. Financial Instrument Classification (continued)

Transfers between levels are considered to have occurred at the date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 for the year ended December 31, 2013 and 2012. There were also no transfers in or out of Level 3.

Maturity profile of bonds held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Fair Value
December 31, 2013	**$ 666,572**	**$ 1,774,497**	**$ -**	**$ -**	**$ 2,441,069**
Percent of Total	**27.31%**	**72.69%**	**-**	**-**	**100%**
December 31, 2012	$ -	$ 8,733,020	$ 7,104,753	$ -	$15,837,773
Percent of Total	-	55.14%	44.86%	-	100%

The effective interest rate of the bonds portfolio held at December 31, 2013 is 3.8% (2012 - 2.3%).

4. Property and Equipment

	Land and building	Computer equipment	Equipment and fixtures	Total
Cost				
Balance at January 1, 2012	$ 739,232	$ 208,943	$ 236,104	$ 1,184,279
Additions	-	3,387	3,425	6,812
Balance at December 31, 2012	$ 739,232	$ 212,330	$ 239,529	$ 1,191,091
Additions	3,305	10,347	-	13,652
Balance at December 31, 2013	**$ 742,537**	**$ 222,677**	**$ 239,529**	**$ 1,204,743**
Accumulated depreciation				
Balance at January 1, 2012	$ 357,397	$ 166,255	$ 196,618	$ 720,270
Depreciation	15,944	14,524	11,111	41,579
Balance at December 31, 2012	$ 373,341	$ 180,779	$ 207,729	$ 761,849
Depreciation	15,944	15,430	11,282	42,656
Balance at December 31, 2013	**$ 389,285**	**$ 196,209**	**$ 219,011**	**$ 804,505**
Net book value				
December 31, 2012	$ 365,891	$ 31,550	$ 31,800	$ 429,242
December 31, 2013	**$ 353,252**	**$ 26,468**	**$ 20,518**	**$ 400,238**

5. Insurance Contracts

Due to reinsurer

	2013	2012
Balance, beginning of the year	**$ (197,188)**	$ (199,513)
Submitted to reinsurer	**(1,683,878)**	(1,629,258)
Received from reinsurer	**1,813,312**	1,631,583
Balance, end of the year	**$ (67,754)**	$ (197,188)

Unpaid claims recoverable from reinsurer

	2013	2012
Balance, beginning of the year	**$ 5,604,000**	$ 7,510,000
New claims reserve	**228,371**	448,672
Change in prior years' reserve	**284,520**	(1,008,004)
Submitted to reinsurer	**(337,210)**	(1,346,668)
Balance, end of the year	**$ 5,779,681**	$ 5,604,000

Deferred acquisition expenditures

	2013	2012
Balance, beginning of the year	**$ 784,478**	$ 765,291
Acquisition expenses incurred	**1,672,649**	1,677,451
Expensed during the year	**(1,672,342)**	(1,658,264)
Balance, end of the year	**$ 784,785**	$ 784,478

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

5. **Insurance Contracts** (continued)

Unearned premiums

	2013	2012
Balance, beginning of the year	**$ 6,832,477**	$ 6,525,567
Premiums written	**11,516,423**	11,380,923
Premiums earned during year	**(11,517,928)**	(11,074,013)
Balance, end of the year	**$ 6,830,972**	$ 6,832,477

Unpaid claims

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

Claim development

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available and the characteristics of the claim. In general, the longer the term required for the settlement the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported. Historically substantially all of the Company’s claims have long settlement terms.

The tables that follow present the development of claims payments and the estimated ultimate cost of claims for the claim year 2007 to 2013. The upper half of the tables shows the cumulative amounts paid or estimated to be paid during successive years related to each claim year. The original estimates will be increased or decreased, as more information becomes known about the original claims and overall claim severity.

In 2011, the year of adoption of IFRS, only information from periods beginning on or after January 1, 2007 is required to be disclosed. This is being increased in each succeeding additional year, until ten years of information is included.

5. Insurance Contracts (continued)

Gross claims (000's)

	Accident Year							
Reporting date	2007	2008	2009	2010	2011	2012	2013	Total
At end of claim year	$ 7,468	$ 7,774	$ 8,825	$ 6,944	$ 10,641	$ 5,701	$ 6,938	
1 year later	6,558	6,976	9,357	6,884	9,851	6,031		
2 years later	6,198	6,214	9,367	6,994	9,962			
3 years later	6,444	5,188	9,427	6,276				
4 years later	6,308	4,477	8,706					
5 years later	6,533	4,497						
6 years later	5,910							
Current estimate of ultimate cost	5,910	4,497	8,706	6,276	9,962	6,031	6,938	48,320
Cumulative payments	5,358	4,097	6,010	3,697	5,207	4,088	4,062	32,519
Outstanding claims	$ 552	$ 400	$ 2,696	$ 2,579	$ 4,755	$ 1,943	$ 2,876	$ 15,801
Liability for all prior accident years								430
Total gross claims								$ 16,231

5. Insurance Contracts (continued)

Net of reinsurance (000's)

	Accident Year							
Reporting date	2007	2008	2009	2010	2011	2012	2013	Total
At end of claim year	$ 5,815	$ 5,869	$ 6,465	$ 4,563	$ 9,002	$ 5,600	$ 6,801	
1 year later	5,323	5,455	7,718	5,495	9,040	5,900		
2 years later	5,010	5,512	7,108	5,732	8,591			
3 years later	5,301	4,868	7,103	4,963				
4 years later	5,241	4,476	6,423					
5 years later	5,219	4,495						
6 years later	4,999							
Current estimate of ultimate cost	4,999	4,495	6,423	4,963	8,591	5,900	6,801	42,172
Cumulative payments	4,691	4,097	5,535	3,697	5,481	4,157	4,062	31,720
Outstanding claims	$ 308	$ 398	$ 888	$ 1,266	$ 3,110	$ 1,743	$ 2,739	$ 10,452
Liability for all prior accident years								(1)
Total net claims								$ 10,451

6. Income Taxes

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

	2013	2012
Current tax expense		
Based on current year taxable income	**$ 1,182,311**	$ 795,394
Deferred tax expense		
Origination and reversal of temporary differences	**(4,505)**	(3,596)
Non-deductible claims	**19,104**	266,913
Rate difference	**401**	590
	15,000	263,907
Total income tax expense	**$ 1,197,311**	$ 1,059,301

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.5% (2012 – 26.5%) are as follows:

	2013	2012
Comprehensive income for the year	**$ 4,732,753**	$ 3,219,528
Expected taxes based on the statutory rate	**1,254,180**	853,175
Non deductible expenses	**2,881**	2,923
Canadian dividend income not subject to tax	**(21,228)**	(28,783)
Effect of small business deduction rate	**(35,000)**	(35,000)
Effect of accounting policy change	**-**	276,959
Effect of foreign non-business tax credit	**(5,063)**	(6,912)
Effect of provincial foreign tax credit	**-**	(5,488)
Other	**1,541**	2,427
Total income tax expense	**$ 1,197,311**	$ 1,059,301

6. Income Taxes (continued)

The movement in 2013 deferred tax assets are:

	Opening balance at Jan 1, 2013	Recognize in comprehensive income	Closing balance at Dec 31, 2013
2013			
Deferred tax assets			
Non-deductible claims	**$ 157,582**	**$ (18,834)**	**$ 138,748**
Other	**(7,582)**	**3,834**	**(3,748)**
2013 deferred tax assets	**$ 150,000**	**$ (15,000)**	**$ 135,000**

The movement in 2012 deferred tax assets are:

	Opening balance at Jan 1, 2012	Recognize in comprehensive income	Closing balance at Dec 31, 2012
2012			
Deferred tax assets			
Non-deductible claims	$ 424,495	$ (266,913)	$ 157,582
Other	(10,588)	3,006	(7,582)
2012 deferred tax assets	$ 413,907	$ (263,907)	$ 150,000

7. Investment Income

		2013		2012
Interest income	$	**406,751**	$	923,742
Dividend income		**121,276**		156,351
Realized gain (loss) from disposal of investments		**411,023**		(381,438)
Investment expenses		**(54,137)**		(91,624)
Unrealized gain on investments		**873,833**		409,102
	$	**1,758,746**	$	1,016,133

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:

		2013		2012
Compensation				
Short term employee benefits and directors' fees	$	**599,322**	$	587,331
Total pension and other post-employment benefits		**37,505**		39,442
Premiums		**103,522**		67,891
Claims paid		**184,795**		7,487

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

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 company. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and if deemed necessary.

10. Financial Instrument and Insurance Risk Management

Insurance risk management

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

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

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 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 $300,000 on any property claim and $310,000 on any automobile claim with no quota share ceded (2012 - $275,000 for property and automobile plus 10% of the next $775,000). It further limits the liability of the Company to the first $250,000 on any liability claim with no quota share ceded (2012 - $225,000 plus 10% of the next $775,000).

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, 2013.

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.

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

10. Financial Instrument and Insurance Risk Management (continued)

Insurance risk management (continued)

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

	Property claims		Auto claims		Liability claims	
(000's)	**2013**	2012	**2013**	2012	**2013**	2012
5% increase in loss ratios						
Gross	**$ 256**	$ 255	**$ 384**	$ 382	**$ 60**	$ 61
Net	**230**	227	**299**	304	**37**	38
5% decrease in loss ratios						
Gross	**$ (256)**	$ (255)	**$ (384)**	$ (382)	**$ (60)**	$ (61)
Net	**(230)**	(227)	**(299)**	(304)	**(37)**	(38)

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 reinsurer to make payment when certain loss conditions are met.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, and corporate sector limits. Funds should be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated BBB or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. ("FMRP"), a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. 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.

The maximum exposure to investment credit risk is outlined in Note 5.

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

December 31, 2013

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 Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in equities to 25% of the portfolio, international equities cannot exceed 50% of the total equity balance.

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

Currency risk

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

The Company is exposed to currency risk on its investments in the USA. Included in the statement of financial position are investments denominated in U.S. dollars of $2,335,685 CDN (2012 - $1,902,052 CDN). If the U.S. dollar weakened/strengthened by 5% against the Canadian dollar, all other variables held constant, the net effect on the unappropriated members' surplus for the year would be $116,784 lower/higher (2012 - $95,102).

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)

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 (debt securities and fixed income pooled funds).

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. 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 fair value through profit or loss 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 comprehensive income.

At December 31, 2013 a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $246,905 (2012 - $1,583,777).

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, 2013, 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 $2,799,293 (2012 - $1,991,521).

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.

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.

11. Pension Plan

The Company sponsors a defined contribution pension plan. In prior years the Company participated in a multi-employer defined benefit pension plan. As of July 1, 2013, the Company no longer participates in the multi-employer defined benefit pension plan and all employees previously enrolled in the defined benefit pension plan were moved to the defined contribution plan. Contributions to the defined contribution plan for the year ended December 31, 2013 were $49,474. The Company has accrued an estimate of $290,000 as its final contribution to close the defined benefit pension plan.

12. Rate Regulation

The Company's automobile insurance rates are subject to approval by the Financial Services Commission of Ontario (FSCO). Application for automobile rate increases are presented to FSCO by FMRP on behalf of members of OMIA (Ontario Mutual Insurance Association). FSCO approves these rates based on information submitted.

Dumfries Mutual Insurance Company
Schedule of Operating Expenses

For the year ended December 31	2013	2012
Advertising	$ 61,628	$ 55,773
Amalgamation costs	-	69,788
Association fees, training and other	77,190	71,568
Bad debts	22,319	8,223
Computer services	188,710	174,151
Depreciation	42,656	41,579
Employee benefits	590,743	244,346
Facility office costs	973	6,090
Inspection of risks and fire prevention	65,222	95,274
Insurance	40,206	44,523
Occupancy costs	93,052	59,816
Office and general	147,839	144,715
Postage and telephone	55,104	51,187
Provincial premium tax	25,430	23,760
Salaries and directors' fees	746,810	705,163
Scholarships	3,100	2,500
Statistics and assessments	61,199	49,183
Travel and conventions	116,219	87,237
	$ 2,338,400	$ 1,934,876