Dumfries Mutual Insurance Company Financial Statements

For the year ended December 31, 2011

Contents

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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 statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the statements of comprehensive income and unappropriated members' surplus and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 audits. We conducted our audits 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 in our audits 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, 2011, December 31, 2010 and January 1, 2010 and the results of its operations and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants
Mississauga, Ontario
February 14, 2012

Dumfries Mutual Insurance Company
Statement of Financial Position

	As at December 31 2011	As at December 31 2010	As at January 1 2010
Assets			
Cash (Note 3)	**$ 974,804**	$ 798,197	$ 1,597,643
Investments (Note 4)	**37,011,913**	35,590,239	32,008,800
Due from policyholders	**3,390,087**	3,102,309	2,787,442
Income taxes recoverable (Note 7)	**518,750**	-	-
Prepaid expenses	**23,893**	-	-
Unpaid claims recoverable from reinsurer (Note 6)	**7,093,454**	6,641,590	6,052,762
Deferred acquisition expenditures (Note 6)	**765,291**	699,736	646,963
Property and equipment (Note 5)	**464,009**	503,755	507,048
Deferred tax asset (Note 7)	**139,563**	124,563	135,563
	$ 50,381,764	$ 47,460,389	$ 43,736,221
Liabilities			
Accounts payable and accrued liabilities	**$ 223,164**	$ 222,488	$ 153,443
Provision for refund of premium	**-**	254,732	107,763
Income taxes payable (Note 7)	**-**	172,320	506,512
Due to reinsurer	**199,513**	105,562	20,990
Unpaid claims	**18,533,327**	16,168,853	14,481,656
Unearned premiums (Note 6)	**6,525,567**	6,048,797	5,420,655
	25,481,571	22,972,752	20,691,019
Members' equity			
Unappropriated members' surplus	**24,900,193**	24,487,637	23,045,202
	$ 50,381,764	$ 47,460,389	$ 43,736,221

On behalf of the Board:

John Bork ______________________ Director

______________________ Director

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

For the year ended December 31	2011	2010
Revenue		
Premiums written	**$ 13,178,919**	$ 12,317,671
Change in unearned	**(476,770)**	(625,534)
Less: reinsurance ceded (Note 6)	**(2,443,662)**	(2,168,300)
Net premiums earned (Note 6)	**10,258,487**	9,523,837
Service charge income	**162,636**	115,697
	10,421,123	9,639,534
Expenses		
Gross claims and adjusting expenses	**8,121,015**	6,033,540
Reinsurance recoveries	**(525,996)**	(716,836)
Commissions expense	**1,510,033**	1,419,349
Operating expenses (schedule page 32)	**1,735,269**	2,502,385
	10,840,321	9,238,438
Underwriting (loss) gain	**(419,198)**	401,096
Other income		
Investment income (Note 8)	**925,372**	1,916,331
Comprehensive income before refund and income taxes	**506,174**	2,317,427
Refund of surplus to policyholders	**-**	238,992
Comprehensive income before income taxes	**506,174**	2,078,435
Income taxes		
Current	**108,618**	625,000
Deferred (recovery)	**(15,000)**	11,000
	93,618	636,000
Comprehensive income for the year	**412,556**	1,442,435
Unappropriated members' surplus, beginning of year	**24,487,637**	23,045,202
Unappropriated members' surplus, end of year	**$ 24,900,193**	$ 24,487,637

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	2011	2010
Cash provided by (used in)		
Operating activities		
Net income	**$ 412,556**	$ 1,442,435
Adjustments for:		
Depreciation of property and equipment	**42,208**	49,392
Provision for income taxes	**93,618**	636,000
Realized loss (gain) from disposal of investments	**60,374**	(77,598)
Unrealized loss (gain) on investments	**439,272**	(800,322)
	1,048,028	1,249,907
Changes in working capital and insurance contract related balances		
Accounts payable and accrued liabilities	**676**	236,166
Due to reinsurer	**93,951**	84,572
Unpaid claims	**2,364,474**	1,687,197
Unearned premiums	**476,770**	628,142
Provision for refund of premium	**(254,732)**	(20,152)
Due from policyholders	**(287,778)**	(314,867)
Unpaid claims recoverable from reinsurer	**(451,864)**	(588,828)
Deferred acquisition expenditures	**(65,555)**	(52,773)
Prepaid expenses	**(23,893)**	-
	1,852,049	1,659,457
Cash flows related to		
Income taxes paid	**(799,688)**	(959,192)
Total cash inflows from operating activities	**2,100,389**	1,950,172
Investing activities		
Purchase of investments, net	**(1,921,320)**	(2,703,519)
Purchase of property and equipment	**(2,462)**	(46,099)
Total cash outflows from investing activities	**(1,923,782)**	(2,749,618)
Net increase (decrease) in cash	**176,607**	(799,446)
Cash, beginning of year	**798,197**	1,597,643
Cash, end of year	**$ 974,804**	$ 798,197

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

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 14, 2012.

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). This is the first time that the Company has prepared its financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Details of how the transition from pre-changeover Canadian GAAP to IFRS has affected the financial position, financial performance and cash flows are disclosed in Note 14.

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

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

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 of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

Significant accounting policies

(a) Insurance contracts

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

Balances arising from insurance contracts primarily include unearned premiums, unpaid claims, the reinsurer's share of provisions for unearned premiums and unpaid claims recoverable, and deferred acquisition expenditures.

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

(b) 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.

(c) Deferred acquisition expenditures

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

(d) Unpaid claims

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

(e) 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 operations initially by writing off the deferred acquisition expenditure and subsequently by recognizing an additional liability for the provision for unpaid claims.

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

(f) Unpaid claims recoverable from reinsurer and adjustment expenses

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

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

(g) 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.

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 net income. On confirmation that the amounts receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

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

(b) 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 and debt securities. These instruments are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition. Subsequently they are carried at fair value, unless they do not have a quoted market price in an active market and fair value is not reliably determinable. When they do not have a quoted market price in an active market and fair value is not reliably determinable, they are carried at cost.

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

Purchases and sales of equity instruments are recognized on trade date with any change in fair value between trade date and settlement date being recognized in accumulated other comprehensive income.

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

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

(d) Other financial liabilities

Other financial liabilities include all financial liabilities and comprise 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 carrying in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Property and equipment

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

Building	2.5%	straight-line basis
Equipment and fixtures	10.0%	straight-line basis
Computer equipment	20.0%	straight-line basis

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

Impairment of non-financial assets

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

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

Where it is not possible to estimate the recoverable amount of an individual asset, 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 of $NIL (2010 - $NIL) are included in net income.

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

Income taxes

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

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

Standards issued but 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, 2012 or later periods that the Company has decided not to early adopt. The standards, amendments and interpretations that will be relevant to the Company are:

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.

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

Standards issued but not yet effective (continued)

An amendment to IAS 1 Presentation of Financial Statements, provides new guidance on the presentation of items included in other comprehensive income (OCI). The amendment requires entities to present line items for OCI amounts by nature and to group items presented in OCI into two categories: those that could be subsequently reclassified to profit or loss and those that will not be reclassified. The amendment is effective for periods beginning on or after July 1, 2012. The Company is in the process of evaluating the impact of the new standard.

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

IFRS 13 Fair Value Measurement aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on January 1, 2013.

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.

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.

2. Critical accounting estimates and judgments (continued)

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 experience and industry experience.

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.

2. Critical accounting estimates and judgments (continued)

Income taxes

The Company periodically assesses its liabilities and contingencies related to income taxes for all years open to audit based on the latest information available. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

December 31, 2011

3. Cash

The bank account earns interest at the higher of prime less 2.50% and 0.10%.

4. 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, 2011					
Cash	$ 974,804	$ -	$ -	$ -	$ 974,804
Investments	36,979,312	32,601	-	-	37,011,913
Due from policyholders	-	-	3,390,087	-	3,390,087
Accounts payable and accrued liabilities	-	-	-	(133,794)	(133,794)
Provision for refund of premium	-	-	-	(89,371)	(89,371)
Due to reinsurer	-	-	-	(199,513)	(199,513)
	$ 37,954,116	$ 32,601	$ 3,390,087	$ (422,678)	$ 40,954,126
December 31, 2010					
Cash	$ 798,197	$ -	$ -	$ -	$ 798,197
Investments	35,558,666	31,573	-	-	35,590,239
Due from policyholders	-	-	3,102,309	-	3,102,309
Accounts payable and accrued liabilities	-	-	-	(389,609)	(389,609)
Provision for refund of premium	-	-	-	(87,611)	(87,611)
Due to reinsurer	-	-	-	(105,562)	(105,562)
	$ 36,356,863	$ 31,573	$ 3,102,309	$ (582,782)	$ 38,907,963
January 1, 2010					
Cash	$ 1,597,643	$ -	$ -	$ -	$ 1,597,643
Investments	31,978,305	30,495	-	-	32,008,800
Due from policyholders	-	-	2,787,442	-	2,787,442
Accounts payable and accrued liabilities	-	-	-	(155,644)	(155,644)
Provision for refund of premium	-	-	-	(107,763)	(107,763)
Due to reinsurer	-	-	-	(20,990)	(20,990)
	$ 33,575,948	$ 30,495	$ 2,787,442	$ (284,397)	$ 36,109,488

4. 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.

	December 31 2011 Fair Value	December 31 2010 Fair Value	January 1 2010 Fair Value
Available-for-sale			
Fire Mutual Guarantee Fund	**$ 32,601**	$ 31,573	$ 30,495
Fair value through profit or loss			
Guaranteed investment certificates	**-**	-	-
Bonds and debentures - Canadian Federal	**15,769,543**	15,402,188	15,983,504
Canadian common shares	**3,097,694**	3,014,977	2,012,630
Foreign common shares	**1,558,689**	1,785,237	1,390,226
Farm Mutual Fixed Income Pooled Fund	**14,035,090**	11,518,766	9,657,876
Farm Mutual Equity Pooled Fund	**2,518,296**	3,837,498	1,934,429
	$ 37,011,913	$ 35,590,239	$ 31,009,160

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).

4. Financial instrument classification (continued)

December 31, 2011	Level 1	Level 2	Level 3	Total
Available-for-sale				
Fire Mutual Guarantee Fund	$ -	$ 32,601	$ -	$ 32,601
Fair value through profit or loss				
Bonds and debentures - Canadian Federal	-	15,769,543	-	15,769,543
Canadian common shares	3,097,694	-	-	3,097,694
Foreign common shares	1,558,689	-	-	1,558,689
Farm Mutual Fixed Income Pooled Fund	-	14,035,090	-	14,035,090
Farm Mutual Equity Pooled Fund	-	2,518,296	-	2,518,296
Total	$ 4,656,383	$ 32,355,530	$ -	$ 37,011,913

December 31, 2010	Level 1	Level 2	Level 3	Total
Available-for-sale				
Fire Mutual Guarantee Fund	$ -	$ 31,573	$ -	$ 31,573
Fair value through profit or loss				
Bonds and debentures - Canadian Federal	-	15,402,188	-	15,402,188
Canadian common shares	3,014,977	-	-	3,014,977
Foreign common shares	1,785,237	-	-	1,785,237
Farm Mutual Fixed Income Pooled Fund	-	11,518,766	-	11,518,766
Farm Mutual Equity Pooled Fund	-	3,837,498	-	3,837,498
Total	$ 4,800,214	$ 30,790,025	$ -	$ 35,590,239

4. Financial instrument classification (continued)

January 1, 2010	Level 1	Level 2	Level 3	Total
Available-for-sale				
Fire Mutual Guarantee Fund	$ -	$ 30,495	$ -	$ 30,495
Fair value through profit or loss				
Guaranteed investment certificates	-	999,640	-	999,640
Bonds and debentures - Canadian Federal	-	15,983,504	-	15,983,504
Canadian common shares	2,012,630	-	-	2,012,630
Foreign common shares	1,390,226	-	-	1,390,226
Farm Mutual Fixed Income Pooled Fund	-	9,657,876	-	9,657,876
Farm Mutual Equity Pooled Fund	-	1,934,429	-	1,934,429
Total	$ 3,402,856	$ 28,605,944	$ -	$ 32,008,800

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2010 and 2011. There were also no transfers in or out of Level 3 for the year ended December 31, 2011.

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, 2011	$ 952,042	$14,817,502	$ -	$ -	$15,769,544
Percent of Total	6.04%	93.96%	-	-	100%
December 31, 2010	$ 6,673,355	$ 8,728,833	$ -	$ -	$15,402,188
Percent of Total	43.33%	56.67%	-	-	100%
January 1, 2010	$ -	$ 7,716,838	$ 8,266,666	$ -	$15,983,504
Percent of Total	-	48.28%	51.72%	-	100%

The effective interest rate of the bonds portfolio held at December 31, 2011 is 2.4% (2.2% and 2.2% at December 31, 2010 and January 1, 2010 respectively).

5. Property and equipment

	Land and building	Computer equipment	Equipment and fixtures	Total
Cost				
Balance at January 1, 2010	$ 739,232	$ 160,382	$ 236,104	$ 1,135,718
Additions	-	46,099	-	46,099
Balance at December 31, 2010	739,232	206,481	236,104	1,181,817
Additions	-	2,462	-	2,462
Balance at December 31, 2011	**$ 739,232**	**$ 208,943**	**$ 236,104**	**$ 1,184,279**
Accumulated depreciation				
Balance at January 1, 2010	$ 325,510	$ 128,755	$ 174,405	$ 628,670
Depreciation expense	15,944	22,352	11,096	49,392
Balance at December 31, 2010	341,454	151,107	185,501	678,062
Depreciation expense	15,943	15,148	11,117	42,208
Balance at December 31, 2011	**$ 357,397**	**$ 166,255**	**$ 196,618**	**$ 720,270**
Net book Value				
January 1, 2010	$ 413,722	$ 31,627	$ 61,699	$ 507,048
December 31, 2010	$ 397,778	$ 55,374	$ 50,603	$ 503,755
December 31, 2011	**$ 381,835**	**$ 42,688**	**$ 39,486**	**$ 464,009**

6. Insurance contracts

Unpaid claims recoverable from reinsurer

	2011	2010
Balance, beginning of the year	**$ 6,641,590**	$ 6,052,762
New claims reserve	**1,150,929**	1,191,414
Change in prior years reserve	**439,171**	(547)
Submitted to reinsurer	**(1,138,236)**	(602,039)
Balance, end of the year	**$ 7,093,454**	$ 6,641,590

Deferred acquisition expenditures

	2011	2010
Balance, beginning of the year	**$ 699,736**	$ 646,963
Acquisition expenses incurred	**1,603,954**	1,487,865
Expensed during the year	**(1,538,399)**	(1,435,092)
Balance, end of the year	**$ 765,291**	$ 699,736

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

Unearned premiums

	2011	2010
Balance, beginning of the year	**$ (6,048,797)**	$ (5,420,655)
Premiums written	**(10,735,256)**	(10,149,371)
Premiums earned during year	**10,258,486**	9,521,229
Balance, end of the year	**$ (6,525,567)**	$ (6,048,797)

The change in estimate of losses occuring in prior years is due to changes arising from new information received.

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.

December 31, 2011

6. Insurance contracts (continued)

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 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 2011. 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.

Gross claims (000's)

			Accident Year			
Reporting Date	2007	2008	2009	2010	2011	Total
At end of claim year	$ 7,468	$ 7,774	$ 8,825	$ 6,944	$ 9,179	$ -
1 year later	6,558	6,976	9,357	6,884		
2 years later	6,198	6,214	9,366			
3 years later	6,444	5,188				
4 years later	6,308					
Current estimate of ultimate cost	6,308	5,188	9,366	6,884	9,179	36,925
Cumulative payments	5,026	3,941	5,279	3,097	3,767	21,110
Outstanding claims	$ 1,282	$ 1,247	$ 4,087	$ 3,787	$ 5,412	$ 15,815
Liability for all prior accident years						2,718
Total gross claims						$ 18,533

6. Insurance contracts (continued)

Net of reinsurance (000's)

	Accident Year					
Reporting Date	2007	2008	2009	2010	2011	Total
At end of claim year	$ 5,815	$ 5,869	$ 6,465	$ 4,563	$ 7,683	$ -
1 year later	5,323	5,455	7,718	5,495		
2 years later	5,010	5,512	7,108			
3 years later	5,301	4,868				
4 years later	5,241					
Current estimate of ultimate cost	5,241	4,868	7,108	5,495	7,683	30,395
Cumulative payments	4,384	3,941	4,901	3,097	3,767	20,090
Outstanding claims	$ 857	$ 927	$ 2,207	$ 2,398	$ 3,916	$ 10,305
Liability for all prior accident years						1,135
Total net claims						$ 11,440

7. Income taxes

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

	2011	2010
Current tax expense		
Based on current year taxable income	**$ 108,618**	$ 625,000
Deferred tax expense		
Origination and reversal of temporary differences	**(3,510)**	8,478
Non-deductible claims	**(25,103)**	(15,514)
Mark-to-market transition deductions	**3,652**	3,930
Rate difference	**9,961**	14,106
	(15,000)	11,000
Total income tax expense	**$ 93,618**	$ 636,000

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 28.25% (2010 – 31.0%) are as follows:

	2011	2010
Net income for the year	**$ 506,174**	$ 2,078,435
Expected taxes based on the statutory rate	**142,994**	644,315
Non deductible expenses	**2,430**	4,997
Rate difference	**9,961**	14,106
Deductible dividend income	**(24,131)**	(13,239)
Effect of small business deduction rate	**(36,240)**	(7,144)
Effect of foreign non-business tax credit	**(4,013)**	(3,141)
Other	**2,617**	(3,894)
Total income tax expense	**$ 93,618**	$ 636,000

7. Income taxes (continued)

	Opening balance at Jan 1, 2011	Recognize in net income	Closing balance at Dec 31, 2011
2011			
Deferred tax assets			
Non-deductible claims	$ 134,573	$ 15,575	$ 150,148
Other	(10,010)	(575)	(10,585)
2011 deferred tax asset	$ 124,563	$ 15,000	$ 139,563

The movement in 2010 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2010	Recognize in net income	Closing balance at Dec 31, 2010
2010			
Deferred tax assets			
Non-deductible claims	$ 130,648	$ 3,925	$ 134,573
Other	4,915	(14,925)	(10,010)
2010 deferred tax asset	$ 135,563	$ (11,000)	$ 124,563

8. Investment income

		2011		2010
Interest income	**$**	**1,396,621**	$	1,031,232
Dividend income		**113,900**		80,524
Realized gain (loss) from disposal of investments		**(60,374)**		77,598
Investment expenses		**(85,503)**		(73,345)
Unrealized gain (loss) on investments		**(439,272)**		800,322
	$	**925,372**	$	1,916,331

9. 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:

		2011		2010
Compensation				
Short term employee benefits and directors' fees	**$**	**487,712**	$	477,020
Total pension and other post-employment benefits		**38,111**		38,987
Premiums		**54,244**		51,856
Claims paid		**400,561**		31,186

10. Capital management

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, the Company purchases reinsurance, the details of which are outlined in Note 11. For the purpose of capital management, the Company has defined capital as members' equity.

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

The Company's regulators target, as a minimum, a MCT ratio of 150% before corrective action is imposed. The Company has established an internal minimum target of 200% before taking self-imposed corrective measures. Throughout the year, the Company was in compliance with the minimum MCT requirements.

11. 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 the first $225,000 plus 10% of the next $775,000 on any one property, liability and automobile claim.

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, 2011 and 2010.

The risks associated with insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The Company's 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 6.

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.

11. 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 as impact on pre-tax income:

	Property claims		Auto claims		Liability claims	
(000's)	2011	2010	2011	2010	2011	2010
5% increase in loss ratios						
Gross	$ 250	$ 236	$ 348	$ 321	$ 61	$ 58
Net	$ 216	$ 205	$ 283	$ 263	$ 38	$ 40
5% decrease in loss ratios						
Gross	$ (250)	$ (236)	$ (348)	$ (321)	$ (361)	$ (58)
Net	$ (216)	$ (205)	$ (283)	$ (263)	$ (38)	$ (40)

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 4.

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

11. 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 polcies, 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 balance sheet are investments denominated in U.S. dollars of $1,558,689 CDN (2010 - $1,785,237 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 $77,934 lower/higher (2010 - $89,262).

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

Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates. The Company is exposed to this risk through its interest bearing investments (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.

11. Financial instrument and insurance risk management (continued)

Interest rate risk (continued)

At December 31, 2011 a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by $1,185,467 (2010 - $1,108,935).

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 was exposed to this risk through its equity holdings within its investment portfolio. At December 31, 2011, 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 $1,811,208 (2010 - $1,714,150).

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.

12. Pension plan

The Company participates in a multi-employer pension plan that is a money purchase plan with a defined benefit option available to eligible employees at retirement. The amount of the retirement benefit to be received by an employee is based on the employee's length of service and final average earnings. Because the plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, there is no consistent and reliable basis for allocating the obligation, plan assets and cost to individual entities participating in the plan. The plan is therefore accounted for as if it were a defined contribution plan.

For the year ended December 31, 2011, the Company recognized an expense to income of $126,746 (2010 - $292,765) for current contributions.

The most recent valuation of the plan as at December 31, 2009 shows that on a going-concern basis, the actual value of liabilities exceeds the actuarial value of assets by $6,729,401. The plan has established a schedule of contributions with the participating employers in the plan to reduce the deficit. The Company's contribution under the agreement is $54,773 (2010- $189,532), which has been recognized in income and paid to the plan.

13. Rate regulation

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

14. First-time adoption of IFRS

IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be December 31, 2011. Therefore, the financial statements for the year-ended December 31, 2011, the comparative information presented in these financial statements for the year-ended December 31, 2010 and the opening IFRS statement of financial position at January 1, 2010 are prepared in accordance with IFRS standards effective at the reporting date. However, IFRS also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters.

In preparing its opening IFRS statement of financial position, there were no adjustments required to amounts reported previously in financial statements prepared in accordance with pre-changeover Canadian GAAP. Therefore, the figures for 2010 and the opening 2010 statement of financial position were not restated and no reconciliation to pre-changeover Canadian GAAP is required.

IFRS 1 exemptions and exceptions

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

Optional exemptions

Business combinations

The Company elected not to retrospectively apply IFRS 3, Business Combinations, to business combinations that occurred prior to its Transition Date and such business combinations have not been restated.

Insurance contracts

The Company has elected to apply the transitional provisions of IFRS 4, Insurance Contracts. IFRS 4 restricts the changes in accounting policies for insurance contracts.

Mandatory exceptions

Derecognition of financial assets and liabilities

The Company has applied the derecognition requirements in IAS 39, Financial Instruments: Recognition and Measurement, prospectively from the Transition Date. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the Transition Date in accordance with pre-changeover Canadian GAAP have not been reviewed for compliance with IAS 39.

14. First-time adoption of IFRS (continued)

Estimates

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result the Company has not used hindsight to revise estimates.

On-transition changes in accounting policies

There are no significant differences between the previous historical Canadian generally accepted accounting policies applied and the current IFRS accounting policies applied by the Company.

Dumfries Mutual Insurance Company
Schedule of Operating Expenses

For the year ended December 31	2011	2010
Advertising	**$ 55,834**	$ 44,735
Depreciation of property and equipment	**42,208**	49,392
Association fees, training and other	**50,407**	503,194
Bad debts	**48,143**	768
Computer services	**175,542**	243,384
Employee benefits	**229,828**	470,696
Facility office costs	**5,008**	7,606
Inspection of risks and fire prevention	**31,136**	55,442
Insurance	**22,869**	60,529
Occupancy costs	**60,167**	57,727
Office and general	**168,201**	130,903
Postage and telephone	**41,967**	36,460
Provincial premium tax	**24,198**	22,722
Salaries and directors' fees	**646,379**	684,176
Statistics and assessments	**38,337**	47,536
Travel and conventions	**95,045**	87,115
	$ 1,735,269	$ 2,502,385