# Dufferin 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 Dufferin Mutual Insurance Company**

We have audited the accompanying financial statements of Dufferin 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 operations and unappropriated members' surplus, comprehensive income and accumulated other comprehensive income 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 Dufferin Mutual Insurance Company as at December 31, 2011, December 31, 2010 and January 1, 2010 and its results of 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 9, 2012

# Dufferin Mutual Insurance Company
## Statement of Financial Position

| | **As at December 31 2011** | As at December 31 2010 | As at January 1 2010 |
|---|---|---|---|
| **Assets** | | | |
| Cash | **$ 2,175,864** | $ 1,284,794 | $ 1,397,624 |
| Accounts receivable | **2,405,145** | 2,247,164 | 2,026,067 |
| Income taxes recoverable (Note 6) | **-** | 19,063 | - |
| Reinsurer's share of unearned premiums (Note 5) | **853,846** | 867,947 | 712,948 |
| Deferred acquisition expenditures (Note 5) | **1,026,080** | 931,781 | 843,684 |
| Investments (Note 3) | **7,900,517** | 7,771,250 | 7,572,892 |
| Unpaid claims recoverable from reinsurer | **14,582,693** | 14,403,808 | 4,326,425 |
| Property and equipment (Note 4) | **949,023** | 1,008,112 | 986,849 |
| Deferred tax asset (Note 6) | **80,522** | 112,112 | - |
| | **$ 29,973,690** | $ 28,646,031 | $ 17,866,489 |
| **Liabilities** | | | |
| Accounts payable and accrued liabilities | **$ 307,262** | $ 252,219 | $ 614,154 |
| Unearned premiums (Note 5) | **4,501,303** | 4,385,473 | 3,982,567 |
| Unearned commissions | **298,671** | 303,781 | 249,532 |
| Due to reinsurer | **106,469** | 288,367 | 186,261 |
| Income taxes payable (Note 6) | **-** | - | 836 |
| Deferred tax liability (Note 6) | **-** | - | 53,000 |
| Unpaid claims (Note 5) | **19,761,740** | 18,658,970 | 7,000,156 |
| | **24,975,445** | 23,888,810 | 12,086,506 |
| **Members' equity** | | | |
| Unappropriated members' surplus | **4,226,993** | 4,222,147 | 5,376,346 |
| Accumulated other comprehensive income | **771,252** | 535,074 | 403,637 |
| | **4,998,245** | 4,757,221 | 5,779,983 |
| | **$ 29,973,690** | $ 28,646,031 | $ 17,866,489 |

On behalf of the Board:

Ian Gallagher Director

Director

# Dufferin Mutual Insurance Company
## Statement of Operations and Unappropriated Members' Surplus

| For the year ended December 31 | 2011 | 2010 |
|---|---|---|
| **Revenue** | | |
| Premiums written | $ 8,862,897 | $ 8,741,452 |
| Change in unearned | (129,931) | (247,907) |
| Less: reinsurance ceded (Note 5) | (3,522,946) | (3,523,760) |
| Net premium earned | 5,210,020 | 4,969,785 |
| Service charge income | 113,402 | 106,764 |
| | 5,323,422 | 5,076,549 |
| **Expenses** | | |
| Gross incurred losses and claims expenses (Note 5) | 3,466,981 | 13,973,001 |
| Reinsurance recoveries | (924,138) | (10,134,512) |
| Commissions expense | 938,886 | 864,825 |
| Operating expenses (Schedule Page 32) | 2,017,441 | 2,111,750 |
| | 5,499,170 | 6,815,064 |
| **Underwriting loss** | (175,748) | (1,738,515) |
| **Other income** | | |
| Investment income (Note 7) | 184,505 | 374,445 |
| **Income (loss) before income taxes** | 8,757 | (1,364,070) |
| **Income taxes** | | |
| Current (recovery) | - | (15,411) |
| Future (recovery) | 3,911 | (194,460) |
| | 3,911 | (209,871) |
| **Net income (loss) for the year** | 4,846 | (1,154,199) |
| **Unappropriated members' surplus** | | |
| Balance, beginning of year | 4,222,147 | 5,376,346 |
| Balance, end of year | $ 4,226,993 | $ 4,222,147 |

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

# Dufferin Mutual Insurance Company
## Statement of Comprehensive Income and Accumulated Other Comprehensive Income

| | | As at December 31 2011 | | As at December 31 2010 |
|---|---|---|---|---|
| **Net income (loss) for the year** | **$** | **4,846** | $ | (1,154,199) |
| **Other comprehensive income** | | | | |
| Unrealized gains on available for sale assets, net of tax payable of $13,640 (2010 - $21,936) | | **116,384** | | 177,485 |
| Transfer of realized (gains) losses on available for sale assets to statement of operations net of tax of $14,039 (2010 - $5,506) | | **119,794** | | (46,048) |
| **Total other comprehensive income** | | **236,178** | | 131,437 |
| **Comprehensive income (loss) for the year** | **$** | **241,024** | $ | (1,022,762) |
| **Accumulated other comprehensive income,** beginning of year | **$** | **535,074** | $ | 403,637 |
| **Other comprehensive income,** for the year | | **236,178** | | 131,437 |
| **Accumulated other comprehensive income,** end of year | **$** | **771,252** | $ | 535,074 |

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

# Dufferin Mutual Insurance Company
## Statement of Cash Flows

| For the year ended December 31 | 2011 | 2010 |
|---|---|---|
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net income (loss) for the year | **$ 4,846** | $ (1,154,199) |
| Adjustments for: | | |
| Amortization of property and equipment | **65,003** | 70,346 |
| Provision for income taxes | **3,911** | (209,871) |
| Unpaid claims, net of recoverable from reinsurer | **923,885** | 1,581,431 |
| Unearned premiums and commissions, net of reinsurer's share of unearned premiums | **124,821** | 302,156 |
| Gain on disposal of investments | **133,833** | (36,632) |
| | **1,256,299** | 553,231 |
| Changes in working capital and insurance contract related balances | | |
| Accounts receivable | **(157,981)** | (221,097) |
| Accounts payable and accrued liabilities | **55,043** | (361,935) |
| Deferred acquisition expenditures | **(94,299)** | (88,097) |
| Due to reinsurer | **(181,898)** | 102,106 |
| | **(379,135)** | (569,023) |
| Cash flows related to income taxes | | |
| Income taxes recovered (paid) | **(49,850)** | 24,860 |
| **Total cash inflows from operating activities** | **827,314** | 9,068 |
| **Investing activities** | | |
| Sale of investments | **462,848** | 1,459,155 |
| Purchase of investments | **(393,178)** | (1,489,444) |
| Acquisition of property and equipment | **(5,914)** | (91,609) |
| **Total cash inflows (outflows) from investing activities** | **63,756** | (121,898) |
| **Increase (decrease) in cash during the year** | **891,070** | (112,830) |
| **Cash,** beginning of year | **1,284,794** | 1,397,624 |
| **Cash,** end of year | **$ 2,175,864** | $ 1,284,794 |

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

## 1. Nature of operations and summary of significant accounting policies

### *Reporting entity*

Dufferin Mutual Insurance Company (the "Company") was incorporated without share capital under the laws governed in Ontario on May 15, 1895. 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 712 Main Street East, Shelburne, Ontario.

These financial statements have been authorized for issue by the Board of Directors on February 9, 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 13.

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 recoverable from reinsurer, the reinsurer's share of unearned premiums, due to reinsurer, unpaid claims, 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) Reinsurer's share of unearned premiums

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

### (d) Deferred acquisition expenditures

Acquisition costs are comprised of agents' commissions, premium taxes, association fees and certain identified business development costs. 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.

### (e) Provisions for unpaid claims and adjustment expenses

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.

### (f) 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)**

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

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

***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) 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.

**(c) 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.

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

### *Property and equipment*

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

| | | |
|---|---|---|
| Building | 2.5% | straight-line basis |
| Parking lot | 8.0% | straight-line basis |
| Equipment and fixtures | 20.0% - 30.0% | 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 are included in net income.

### *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.

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

***Income taxes (continued)***

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:

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.

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

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

IFRS 13 Fair Value Measurement aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Company 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.

***Provision for unpaid claims***

The estimation of the provision for unpaid claims and the related reinsurer’s share are the Company’s most critical accounting estimates. There are several sources of uncertainty that need to be considered by the Company in estimating the amount that will ultimately be paid on these claims. The uncertainty arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Changes in the estimate of the provision can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are based on the Company's historical experience and industry experience. More details are included in Note 5.

***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.

***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.

## 3. Financial instrument classification

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

| | Available for sale | Loans and receivables | Other financial liabilities | Total |
|---|---|---|---|---|
| December 31, 2011 | | | | |
| Cash | $ 2,175,864 | $ - | $ - | $ 2,175,864 |
| Investment | 7,900,517 | - | - | 7,900,517 |
| Accounts receivables | - | 2,405,145 | - | 2,405,145 |
| Payables and accrued liabilities | - | - | (307,262) | (307,262) |
| Due to re-insurer | - | - | (106,469) | (106,469) |
| | $10,076,381 | $ 2,405,145 | $ (413,731) | $12,067,795 |
| December 31, 2010 | | | | |
| Cash | $ 1,284,794 | $ - | $ - | $ 1,284,794 |
| Investments | 7,771,250 | - | - | 7,771,250 |
| Accounts receivable | - | 2,247,164 | - | 2,247,164 |
| Accounts payable and accrued liabilities | - | - | (252,219) | (252,219) |
| Due to re-insurer | - | - | (288,367) | (288,367) |
| | $ 9,056,044 | $ 2,247,164 | $ (540,586) | $10,762,622 |
| January 1, 2010 | | | | |
| Cash | $ 1,397,624 | $ - | $ - | $ 1,397,624 |
| Investments | 7,572,892 | - | - | 7,572,892 |
| Accounts receivable | - | 2,026,067 | - | 2,026,067 |
| Accounts payable and accrued liabilities | - | - | (614,154) | (614,154) |
| Due to re-insurer | - | - | (186,261) | (186,261) |
| | $ 8,970,516 | $ 2,026,067 | $ (800,415) | $10,196,168 |

**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.

***Available-for-sale***

| | **December 31 2011 Fair Value** | December 31 2010 Fair Value | January 1 2010 Fair Value |
|---|---|---|---|
| Bankers acceptances | **$ 90,013** | $ 160,742 | $ 206,976 |
| Bonds and debentures issued by | | | |
| Canadian federal | **1,006,893** | 750,288 | 762,493 |
| Canadian provincial | **3,432,568** | 3,181,694 | 2,923,687 |
| Canadian municipal | **189,323** | 306,803 | 329,745 |
| Corporate | **1,574,758** | 1,717,276 | 1,890,804 |
| | **6,203,542** | 5,956,061 | 5,906,729 |
| Common shares | **1,606,962** | 1,654,447 | 1,459,187 |
| | **$ 7,900,517** | $ 7,771,250 | $ 7,572,892 |

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:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| December 31, 2011 | | | | |
| Bankers acceptances | $ 90,013 | $ - | $ - | $ 90,013 |
| Bonds and debentures | - | 6,203,542 | - | 6,203,542 |
| Common shares | 1,606,962 | - | - | 1,606,962 |
| Total | $ 1,696,975 | $ 6,203,542 | $ - | $ 7,900,517 |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| December 31, 2010 | | | | |
| Bankers acceptances | $ 160,742 | $ - | $ - | $ 160,742 |
| Bonds and debentures | - | 5,956,061 | - | 5,956,061 |
| Common shares | 1,654,447 | - | - | 1,654,447 |
| Total | $ 1,815,189 | $ 5,956,061 | $ - | $ 7,771,250 |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| January 1, 2010 | | | | |
| Bankers acceptances | $ 206,976 | $ - | $ - | $ 206,976 |
| Bonds and debentures | - | 5,906,729 | - | 5,906,729 |
| Common shares | 1,459,187 | - | - | 1,459,187 |
| Total | $ 1,666,163 | $ 5,906,729 | $ - | $ 7,572,892 |

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 and 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, 2011** | **$ 411,942** | **$ 2,078,986** | **$ 3,598,838** | **$ 113,776** | **$ 6,203,542** |
| **Percent of Total** | **6.64%** | **33.51%** | **58.01%** | **1.83%** | **100%** |
| December 31, 2010 | $ 318,361 | $ 1,831,682 | $ 3,703,919 | $ 102,099 | $ 5,956,061 |
| Percent of Total | 5.35% | 30.75% | 62.19% | 1.71% | 100% |
| January 1, 2010 | $ 623,480 | $ 2,077,364 | $ 3,205,886 | $ - | $ - |
| Percent of Total | 10.56% | 35.17% | 54.28% | 0.00% | 100% |

The effective interest rate of the bonds portfolio held at December 31, 2011 is 5.1%. (5.1% and 5.5% at December 31, 2010 and January 1, 2010 respectively)

**December 31, 2011**

## 4. Property and equipment

| | Land and building | Parking lot | Equipment and fixtures | Total |
|---|---|---|---|---|
| Cost | | | | |
| Balance at January 1, 2010 | $ 1,429,889 | $ 34,121 | $ 357,984 | $ 1,821,994 |
| Additions | - | - | 91,609 | 91,609 |
| Balance on December 31, 2010 | 1,429,889 | 34,121 | 449,593 | 1,913,603 |
| Additions | 5,914 | - | - | 5,914 |
| Balance on December 31, 2011 | $ 1,435,803 | $ 34,121 | $ 449,593 | $ 1,919,517 |
| Accumulated depreciation | | | | |
| Balance at January 1, 2010 | $ 469,351 | $ 34,121 | $ 331,673 | $ 835,145 |
| Depreciation expense | 28,097 | - | 42,249 | 70,346 |
| Balance on December 31, 2010 | 497,448 | 34,121 | 373,922 | 905,491 |
| Depreciation expense | 28,246 | - | 36,757 | 65,003 |
| Disposals | | | | |
| Balance on December 31, 2011 | $ 525,694 | $ 34,121 | $ 410,679 | $ 970,494 |
| Net book Value | | | | |
| January 1, 2010 | $ 960,538 | $ - | $ 26,311 | $ 986,849 |
| December 31, 2010 | $ 932,441 | $ - | $ 75,671 | $ 1,008,112 |
| **December 31, 2011** | **$ 910,109** | **$ -** | **$ 38,914** | **$ 949,023** |

## 5. Insurance Contracts

***Reinsurer's share of unearned premiums***

| | 2011 | 2010 |
|---|---|---|
| Balance, beginning of the year | **$ 867,947** | $ 712,948 |
| Reinsurance ceded | **1,593,120** | 1,743,000 |
| Reinsurance expensed in year | **(1,607,221)** | (1,588,001) |
| Balance, end of the year | **$ 853,846** | $ 867,947 |

***Unpaid claims recoverable from reinsurer***

| | 2011 | 2010 |
|---|---|---|
| Balance, beginning of the year | **$ 14,403,808** | $ 4,326,425 |
| New claims reserve | **3,085,446** | 7,749,205 |
| Change in prior years reserve | **(1,854,443)** | 3,272,803 |
| Submitted to reinsurer | **(1,052,123)** | (944,625) |
| Balance, end of the year | **$ 14,582,688** | $ 14,403,808 |

***Deferred acquisition expenditures***

| | 2011 | 2010 |
|---|---|---|
| Balance, beginning of the year | **$ 931,781** | $ 843,684 |
| Acquisition expenses incurred | **1,026,080** | 931,781 |
| Expensed during the year | **(931,781)** | (843,684) |
| Balance, end of the year | **$ 1,026,080** | $ 931,781 |

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

## 5. Insurance contracts (continued)

***Unearned premiums***

| | 2011 | 2010 |
|---|---|---|
| Balance, beginning of the year | **$ 4,385,473** | $ 3,982,567 |
| Premiums written | **8,862,897** | 8,741,452 |
| Premiums earned during year | **(8,747,067)** | (8,338,546) |
| Balance, end of the year | **$ 4,501,303** | $ 4,385,473 |

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

## 5. 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 accident year | $ 4,997 | $ 6,776 | $ 5,371 | $ 14,902 | $ 6,595 | $ |
| 1 year later | 6,362 | 4,512 | 4,107 | 12,438 | | |
| 2 years later | 4,789 | 4,138 | 4,494 | | | |
| 3 years later | 6,086 | 3,954 | | | | |
| 4 years later | 6,036 | | | | | |
| Current estimate of ultimate cost | 6,036 | 3,954 | 4,494 | 12,438 | 6,595 | 33,517 |
| Cumulative payments | 3,955 | 3,717 | 2,249 | 2,982 | 1,289 | 14,192 |
| Outstanding claims | 2,081 | 237 | 2,245 | 9,456 | 5,306 | 19,325 |
| Liability for all prior accident years | | | | | | 437 |
| Total gross outstanding claims | | | | | | $ 19,762 |

**5. Insurance contracts (continued)**

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

| | Accident Year | | | | | |
|---|---|---|---|---|---|---|
| Reporting Date | 2007 | 2008 | 2009 | 2010 | 2011 | Total |
| At end of accident year | $ 1,796 | $ 2,024 | $ 2,393 | $ 3,752 | $ 3,223 | $ |
| 1 year later | 3,423 | 2,925 | 2,428 | 3,574 | | |
| 2 years later | 1,804 | 2,758 | 2,381 | | | |
| 3 years later | 2,036 | 2,582 | | | | |
| 4 years later | 1,921 | | | | | |
| Current estimate of ultimate cost | 1,921 | 2,582 | 2,381 | 3,574 | 3,223 | 13,681 |
| Cumulative payments | 1,589 | 2,486 | 1,739 | 1,832 | 1,021 | 8,667 |
| Outstanding claims | 332 | 96 | 642 | 1,742 | 2,202 | 5,014 |
| Liability for all prior accident years | | | | | | 165 |
| Total gross outstanding claims | | | | | | $ 5,179 |

## 6. 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 | **$** | **-** | $ | - |
| Adjustments for over / under provision in prior period | | **-** | | (15,411) |
| | **$** | **-** | $ | (15,411) |
| Deferred tax expense | | | | |
| Origination and reversal of temporary differences | **$** | **(8,112)** | $ | 1,564 |
| Non-deductible claims | | **(8,130)** | | (5,335) |
| Loss carryforwards | | **41,007** | | (107,954) |
| Transfer of realized gains/losses on available for sale investments | | **(8,296)** | | (4,702) |
| Change in unrealized gains/losses on available for sale investments | | **(8,533)** | | (13,055) |
| Adjustment for over/under provision | | **(4,025)** | | (64,978) |
| | | **3,911** | | (194,460) |
| Total income tax expense (recovery) | **$** | **3,911** | $ | (209,871) |

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

| | | **2011** | | 2010 |
|---|---|---|---|---|
| Current tax expense | | | | |
| Change in unrealized gain / losses on available-for-sale investments | **$** | **13,640** | $ | 21,936 |
| Reclassification of realized gains / losses on available-for-sale investments | | **14,039** | | (5,506) |
| | **$** | **27,679** | $ | 16,430 |

## 6. Income taxes (continued)

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.25% (2010 – 31.0%) are as follows:

| | **2011** | 2010 |
|---|---|---|
| Net income for the year | **$ 8,757** | $ (1,364,070) |
| Expected taxes based on the statutory rate | **(875)** | (422,862) |
| Non deductible expenses | **1,361** | 1,671 |
| Effective of small business deduction | **(5,152)** | 204,611 |
| Effect of Farm Mutual tax rate | **-** | 65,885 |
| Other | **8,577** | (59,176) |
| Total income tax expense (recovery) | **$ 3,911** | $ (209,871) |

| | Opening balance at Jan 1, 2011 | Recognize in net income | Recognize in OCI | Closing balance at Dec 31, 2011 |
|---|---|---|---|---|
| 2011 | | | | |
| *Deferred tax assets* | | | | |
| Loss carryforward | $ 107,954 | $ (41,007) | $ - | $ 66,947 |
| Non-deductible claims | 20,268 | 8,130 | - | 28,398 |
| Fair value adjustment | - | 27,679 | (27,679) | - |
| Other | (16,110) | 1,287 | - | (14,823) |
| 2011 deferred tax asset | $ 112,112 | $ (3,911) | $ (27,679) | $ 80,522 |

## 6. Income taxes (continued)

The movement in 2010 deferred tax liabilities and assets are:

| | Opening balance at Jan 1, 2010 | Recognize in net income | Recognize in OCI | Closing balance at Dec 31, 2010 |
|---|---|---|---|---|
| 2010 | | | | |
| *Deferred tax assets* | | | | |
| Loss carryforward | $ - | $ 107,954 | $ - | $ 107,954 |
| Non-deductible claims | 14,933 | 5,335 | - | 20,268 |
| Fair value adjustment | - | 16,430 | (16,430) | - |
| Other | (67,933) | 51,823 | - | (16,110) |
| 2010 deferred tax asset | $ (53,000) | $ 181,542 | $ (16,430) | $ 112,112 |

## 7. Investment income

| | **2011** | 2010 |
|---|---|---|
| Interest income | **$ 296,666** | $ 354,289 |
| Dividend income | **43,601** | 39,893 |
| Realized gains (losses) on disposal of investments | **(133,833)** | (3,261) |
| Investment expenses | **(21,929)** | (16,476) |
| | **$ 184,505** | $ 374,445 |

## 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:

| | **2011** | 2010 |
|---|---|---|
| Compensation | | |
| Short term employee benefits and director's fees | **$ 194,963** | $ 196,394 |
| Premiums | **70,294** | 67,749 |
| Claims paid | **87,401** | 149,290 |

## 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 5. For the purpose of capital management, the Company has defined capital as its unappropriated members' surplus.

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.

## 10. Insurance and financial risk

***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.

**10. Financial instrument and insurance risk management (continued)**

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 $150,000 plus 10% of the next $900,000 on any one liability or automobile claim, and limit the liability of the Company to the first $125,000 plus 10% of the next $875,000 on any one property claim. The Company cedes 50% of auto premiums written and recovers 50% of auto losses from its reinsurer under a quota share treaty.

In addition, the Company has obtained reinsurance having an upper amount of $4,000,000, and which limits the Company's liability to the first $375,000 plus 5% of any additional amount in the event of a series of claims arising out of a single occurrence.

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 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.

## 10. Financial instrument and 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 | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| 5% increase in loss ratios | | | | | | |
| Gross | $ 227,829 | $ 217,127 | $ 176,662 | $ 182,098 | $ 41,050 | $ 37,847 |
| Net | 183,928 | 175,839 | 68,466 | 68,889 | 13,999 | 16,157 |
| 5% decrease in loss ratios | | | | | | |
| Gross | (227,829) | (217,127) | (173,662) | (182,098) | (41,050) | (37,847) |
| Net | $(183,928) | $(175,839) | $ (68,466) | $ (68,889) | $ (13,999) | $ (16,157) |

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 A 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.

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.

## 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 Canadian equities to 25% and international equities to 0% thereof.

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 balance sheet are U.S. dollar investments of $53,338 CDN (2010 - $53,444 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 $2,712 lower/higher (2010 - $6,200).

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 (T-Bills, GICs, bonds).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy for its investments held in support of its claims liabilities. This allows the Company to effectively manage a portion of its interest rate risk. However, because a significant portion of the Company’s assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result the Company is exposed to significant interest rate risk. Generally, the Company’s investment income related to its available for sale financial investment portfolio will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in other comprehensive income.

## 10. 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 $286,921 (2010 - $291,839). A 1% change in the interest rate used to discount the company's claims liabilities could have an offsetting impact on net claims liabilities of $(81,007) (2010 - $(64,576)) with all other variables held constant. These changes would be recognized in other comprehensive income for the available for sale portfolio, otherwise they would be reflected in net income.

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

### *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 in prior years within its investment portfolio.

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. 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 Canadian common shares of $160,696 (2010 - $165,444).

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.

### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. The Company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

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

## 11. 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 $59,765 (2010 - $70,486) 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 $63,818 (2010 - $169,598), which has been recognized in income and paid to the plan.

## 12. 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.

## 13. 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.

## 13. First-time adoption of IFRS (continued)

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.

*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 GAAP applied and the current IFRS accounting policies applied by the Company.

# Dufferin Mutual Insurance Company
## Schedule of Operating Expenses

| For the year ended December 31 | | 2011 | | 2010 |
|---|---|---|---|---|
| Advertising | **$** | **12,189** | $ | 27,037 |
| Amortization | | **65,002** | | 70,346 |
| Association fees and training | | **44,552** | | 41,602 |
| Computer services | | **167,781** | | 157,124 |
| Employee benefits | | **268,340** | | 395,941 |
| Facility office costs | | **79,875** | | 41,026 |
| Inspection of risks and fire prevention | | **32,075** | | 31,171 |
| Occupancy costs | | **123,712** | | 116,297 |
| Postage and telephone | | **38,675** | | 39,029 |
| Printing, stationery and office | | **35,088** | | 36,531 |
| Professional fees | | **89,358** | | 79,231 |
| Provincial premium tax | | **25,158** | | 21,709 |
| Salaries and directors' fees | | **848,762** | | 878,995 |
| Statistics and assessments | | **54,879** | | 39,505 |
| Sundry | | **24,203** | | 23,815 |
| Travel | | **107,792** | | 112,391 |
| | **$** | **2,017,441** | $ | 2,111,750 |