CAYUGA MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

For the year ended December 31, 2011

CAYUGA MUTUAL
INSURANCE COMPANY

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For the year ended December 31, 2011

INDEX

CAYUGA MUTUAL
INSURANCE COMPANY

Millard, Rouse & Rosebrugh LLP
Chartered Accountants
P.O. Box 367, 96 Nelson Street
Brantford, Ontario N3T 5N3
Telephone: (519) 759-3511
Facsimile: (519) 759-7961

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Cayuga Mutual Insurance Company

We have audited the accompanying financial statements of Cayuga 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, changes in equity 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 controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud of error.

Auditors' 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 audits 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 auditors' judgement, including the assessment of the risks of material misstatement of the financial statement, 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 Cayuga Mutual Insurance Company as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Millard, Rouse & Rosebrugh LLP

February 16, 2012

CHARTERED ACCOUNTANTS
Licensed Public Accountants

CAYUGA MUTUAL INSURANCE COMPANY

STATEMENT OF FINANCIAL POSITION

As at	December 31 2011	December 31 2010	January 1 2010
ASSETS			
Cash and cash equivalents	1,539,384	1,251,150	946,073
Investments (Note 5)	14,548,111	14,298,894	13,889,759
Investment income accrued	83,212	63,447	97,818
Due from policyholders	1,156,430	1,011,154	822,422
Income taxes recoverable	44,320	-	147,931
Prepaid expenses and other assets	36,201	62,711	59,967
Due from reinsurers (Note 7)	264,693	414,351	288,849
Due from other insurers	148,627	180,545	188,569
Reinsurers' share of provisions for unpaid claims (Note 7)	3,359,797	3,211,816	3,613,968
Deferred policy acquisition expenses (Note 7)	340,387	327,960	280,427
Deferred income tax (Note 10)	18,381	27,117	124,567
Property, plant and equipment (Note 6)	1,758,095	1,849,214	1,860,112
	23,297,638	22,698,359	22,320,462
LIABILITIES			
Provision for unpaid claims (Note 7)	8,150,992	7,703,161	8,618,626
Unearned premiums (Note 7)	3,006,529	2,802,924	2,510,111
Accounts payable and accrued liabilities	367,634	362,559	225,339
Income taxes payable	-	9,386	-
F.A.R.M. Funds due to Facility Association	107,422	120,582	130,988
Premiums paid in advance	25,771	23,462	33,197
	11,658,348	11,022,074	11,518,261
EQUITY			
Unappropriated members' surplus	11,639,290	11,676,285	10,802,201
	23,297,638	22,698,359	22,320,462

Approved on behalf of the Board of Directors

Signed by Mark Comley ____ *Director*

Signed by Robert Young ____ *Director*

CAYUGA MUTUAL INSURANCE COMPANY

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31	2011	2010
Unappropriated members surplus		
Opening balance	11,676,285	10,802,201
Net income (loss)	(36,995)	874,084
Ending Balance	11,639,290	11,676,285

CAYUGA MUTUAL INSURANCE COMPANY

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31	2011	2010
Underwriting Operations		
Gross premiums written net of rebates and returned premiums	7,498,663	6,830,553
Less: Premiums paid reinsurance	1,451,668	1,410,520
Increase (Decrease) in reserve for unearned premiums	203,605	292,813
	1,655,273	1,703,333
Net Premiums Earned	5,843,390	5,127,220
Direct Losses Incurred		
Gross claims and adjustment expenses (Note 11)	5,178,727	2,918,185
Less reinsurers' share of claims and adjustment expenses	(1,336,378)	(447,856)
	3,842,349	2,470,329
Fees, Commissions and Other Acquisition Expenses (Page 5)	680,739	640,680
Other Operating and Administrative Expenses (Page 5)	1,565,734	1,810,749
Total Expenses	6,088,822	4,921,758
Underwriting Income (Loss)	(245,432)	205,462
Investment and Other Income (Note 5)	262,372	871,412
Income Before Income Taxes	16,940	1,076,874
Provision for income taxes (Note 10)	53,935	202,790
Total Comprehensive Income (Loss) for the Year	(36,995)	874,084

CAYUGA MUTUAL INSURANCE COMPANY

SCHEDULE OF EXPENSES

For the year ended December 31	2011	2010
Fees, Commissions and Other Acquisition Expenses		
Commissions and other	680,739	640,680
Other Operating and Administrative Expenses		
Salaries	359,294	322,849
Directors' fees	96,253	94,986
Professional fees	100,929	90,786
Travelling expenses	61,804	66,662
Canada pension plan and staff benefits	151,248	222,417
Employment insurance	8,118	7,386
Advertising	24,085	24,615
Postage and telephone	51,580	41,572
Printing, stationery and office supplies	60,761	83,327
Corporation premium tax	14,047	12,408
Association fees	30,258	27,343
Insurance	33,645	28,124
Other administrative expense	143,379	118,508
Computer expenses	153,852	164,449
Building expenses	80,309	76,877
Depreciation	93,551	95,327
Fire prevention expenses (net)	102,621	78,493
Settlement costs	-	254,620
	1,565,734	1,810,749

CAYUGA MUTUAL INSURANCE COMPANY

STATEMENT OF CASH FLOWS

For the year ended December 31	2011	2010
Cash Flows From Operating Activities		
Net Income (Loss)	(36,995)	874,084
Adjustments to convert income to a cash basis:		
Depreciation	98,706	98,359
Investment Income	(262,372)	(871,412)
Future income taxes (benefit)	8,736	97,450
(Increase) Decrease in reinsurer's share of provisions for unpaid claims	(147,981)	402,152
Increase (Decrease) in provision for unpaid claims	447,831	(915,465)
Increase (Decrease) in unearned premiums	203,605	292,813
Increase (Decrease) in accounts payable, accrued liabilities and other operating liabilities	(17,471)	136,200
Increase (Decrease) in premiums paid in advance	2,309	(9,735)
(Increase) Decrease in deferred policy acquisition expense	(12,427)	(47,533)
(Increase) Decrease in receivables and other operating assets	18,490	(161,023)
Gain (Loss) on disposal of equipment and property	-	2,231
	302,431	(101,879)
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(7,587)	(90,433)
Proceeds on disposal of equipment and property	-	741
Interest and dividends received, net of expenses	594,245	613,426
Proceeds on sale of investments	1,278,820	1,512,396
Purchase of investments	(1,879,675)	(1,629,174)
	(14,197)	406,956
Net Increase in Cash and Cash Equivalents	288,234	305,077
Opening Cash and Cash Equivalents	1,251,150	946,073
Closing Cash and Cash Equivalents	1,539,384	1,251,150

1. NATURE OF OPERATIONS

Reporting entity

Cayuga Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is located in Cayuga, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rate can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals by the Farm Mutual Reinsurance Plan Inc. The rate filing must include actuarial justification for rate increases and decreases. All rate filings are approved or denied by the Financial Services Commission of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

The financial statements have been authorized for issue by the Board of Directors on February 16, 2012.

Basis of presentation

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 16.

These financial statements were prepared under the historical cost convention, as modified by the use of fair value for financial assets designated as fair value through profit or loss.

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 having a higher degree of complexity, or areas where assumptions and estimate are significant to the financial statements are disclosed in Note 3.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Insurance Contracts

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

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

(i) Premiums and unearned premiums

Premiums written comprise of the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions payable to agents and exclusive of taxes levied on premiums.

The Company earns premium income evenly over the term of the insurance policy generally 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.

(ii) Deferred policy acquisition expenses

Acquisition costs are comprised of agents' commissions and other associated acquisition expenses. These costs are deferred and amortized over the term 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.

(iii) 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.

Claim liabilities are carried on an undiscounted basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Insurance Contracts (Continued)

(iv) Liability adequacy test

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense to the income statement initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

(v) 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.

(vi) Salvage and subrogation recoverable

In the normal course of business, the Company obtains the ownership of damaged property, which they resell to various salvage operations. Unsold property is valued at its estimated net realizable value.

Where the Company indemnifies policyholders against a liability claim, it acquires rights to subrogate its claim against other parties. These claims are reflected at amounts expected to be received from the subrogated parties net of related costs.

(vii) Refund of premium

Under the discretion of the board of directors the Company may declare a refund to its policy holders based on the premiums paid in the fiscal period. The refund is recognized as a reduction of revenue in the period for which it is declared.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Fire Mutual Guarantee Fund

The Company is a member of the Fire Mutuals Guarantee Fund (the Fund). The Fund was established to provide payment of outstanding policyholders' claims if a member company becomes bankrupt. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

This exposure represents a financial guarantee contract. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

(c) Financial instruments

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired or liability incurred. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

(i) Fair Value Through Profit or Loss (FVTPL)

FVTPL financial assets and liabilities are carried at fair value on the statement of financial position and changes in fair values are recorded in net income. FVTPL financial assets and liabilities are those that meet the definition as being held for trading and those the Company has chosen to designate as FVTPL. Transaction costs are expensed as incurred.

The Company has classified cash and its mutual and pooled fund investments as FVTPL.

(ii) Held to Maturity (HTM) Financial Assets

HTM financial assets have fixed or determinable payments and management has the positive intention and ability to hold them to maturity. Management judgement is utilized to determine when a financial asset is a HTM investment. These assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. A provision for impairment of debt securities classified as HTM is established when there is objective evidence of impairment and the impairment is other than temporary. If the impairment is other than temporary, the investment will be written down to its fair value.

The Company has classified all bonds and debentures as HTM.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (Continued)

(iii) 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 policy holders and reinsurers, which are reported net, 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 asset is written off against the associated provision.

(iv) Other financial liabilities

Other financial liabilities include all financial liabilities and comprise accounts payables, 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.

(v) Property, plant and equipment

Property, plant and equipment is initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recognized in net income and is provided over the estimated useful life of the assets as follows:

Building and parking lot	annual rate of 2.5 - 10% on a straight line basis
Computer hardware	straight line basis over a 5 year term
Furniture and fixtures	20% declining balance
Vehicles	30% declining balance

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (Continued)

(vi) 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, except to the extent they reverse gains previously recognized in other comprehensive income.

(vii) Income taxes

Income tax expense is comprised 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (Continued)

(v) Income taxes (Continued)

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).

(viii) Pension plan

The Company participates in a multi-employer defined benefit pension plan, however, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

(ix) Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including, legal, equitable or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

(x) Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 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, 2013. In 2011, the IASB issued an exposure draft proposing to delay the mandatory adoption effective date to periods beginning on or after January 1, 2015.

None of the other new standards, interpretations and amendments, which are effective for the Company's accounting periods beginning after January 1, 2012 and which have not been adopted early, are expected to impact on the Company's future financial statements.

3. 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.

(a) 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 7.

(b) 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.

4. FINANCIAL INSTRUMENT CLASSIFICATION

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

	FVTPL	HTM	Loans and receivables	Other financial liabilities	Total
December 31, 2011					
Cash	1,539,384	-	-	-	1,539,384
Investments	4,688,357	9,859,754	-	-	14,548,111
Investment income accrued	-	-	83,212	-	83,212
Due from policy holders	-	-	1,156,430	-	1,156,430
Accounts payable and accrued liabilities	-	-	-	(367,634)	(367,634)
Total investments	6,227,741	12,098,817	1,239,642	(367,634)	16,959,503
December 31, 2010					
Cash	1,251,150	-	-	-	1,251,150
Investments	5,150,286	9,148,608	-	-	14,298,894
Investment income accrued	-	-	63,447	-	63,447
Due from policy holders	-	-	1,011,154	-	1,011,154
Accounts payable and accrued liabilities	-	-	-	(362,559)	(362,559)
Total investments	6,401,436	9,148,608	1,074,601	(362,559)	16,262,086
January 1, 2010					
Cash	946,073	-	-	-	946,073
Investments	4,687,498	9,202,261	-	-	13,889,759
Investment income accrued	-	-	97,818	-	97,818
Due from policy holders	-	-	822,422	-	822,422
Accounts payable and accrued liabilities	-	-	-	(225,339)	(225,339)
Total investments	5,633,571	9,202,261	920,240	(225,339)	15,530,733

5. INVESTMENTS

The following table provides cost and fair value information of investments by type of security and issuer. The maximum exposure to credit risk would be the fair value as shown below.

(a)

	December 31, 2011		December 31, 2010		January 1, 2010	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value
GICs	100,000	100,000	100,000	100,000	783,000	783,000
Bonds issued by						
Federal	1,767,817	1,969,376	1,817,294	1,927,145	1,928,640	2,016,550
Provincial	3,143,380	3,401,398	3,218,248	3,349,176	2,997,227	3,114,390
Municipal	2,518,585	2,730,762	2,210,811	2,313,760	1,999,425	2,072,983
Corporate - - A or better	2,329,972	2,441,691	1,802,254	1,864,487	1,493,969	1,550,529
	9,759,754	10,543,227	9,048,607	9,454,568	8,419,261	8,754,452
Equity investments						
Canadian	86,860	86,860	86,860	86,860	86,860	86,860
Mutual funds	968,422	871,962	1,262,204	1,233,720	1,240,177	1,163,426
Farm mutual pooled funds						
Canadian fixed income	2,123,354	2,106,080	1,943,848	1,925,414	1,812,508	1,794,441
Canadian equity	2,126,406	1,607,780	2,126,406	1,888,618	2,125,908	1,627,631
	4,249,760	3,713,860	4,070,254	3,814,032	3,938,416	3,422,072
Other investments						
Fire Mutual guarantee fund	15,675	15,675	15,675	15,675	15,140	15,140
Total investments	15,180,471	15,331,584	14,583,600	14,704,855	14,482,854	14,224,950

5. INVESTMENTS (Continued)

(b) Investment and other income

Investment and other income for the year ended December 31, 2011 was derived from the following:

	2011	2010
Interest income	610,128	575,614
Change in fair value of investments	(337,756)	308,389
Loss on disposal of property, plant and equipment	-	(2,231)
Other income and expense (net)	(10,000)	(10,360)
	262,372	871,412

The effective investment yield for 2011 is 3.74% (2010 - 3.65%).

(c) Disclosures Relating to Fair Value Measurements

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 derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

December 31, 2011	Level 1	Level 2	Total
Cash and cash equivalents	1,539,384	-	1,539,384
Equities	-	86,860	86,860
Mutual funds	-	871,962	871,962
Farm mutual pooled funds	-	3,713,860	3,713,860
Guarantee Fund	-	15,675	15,675
Total	1,539,384	4,688,357	6,227,741

5. INVESTMENTS (Continued)

(c) Disclosures Relating to Fair Value Measurements (Continued)

December 31, 2010	Level 1	Level 2	Total
Cash and cash equivalents	1,251,150	-	1,251,150
Equities	-	86,860	86,860
Mutual funds	-	1,233,720	1,233,720
Farm mutual pooled funds	-	3,814,032	3,814,032
Guarantee fund	-	15,675	15,675
Total	1,251,150	5,150,287	6,401,437

January 1, 2010	Level 1	Level 2	Total
Cash and cash equivalents	946,073	-	946,073
Equities	-	86,860	86,860
Mutual funds	-	1,163,426	1,163,426
Farm mutual pooled funds	-	3,422,072	3,422,072
Guarantee fund	-	15,140	15,140
Total	946,073	4,687,498	5,633,571

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2010 and 2011.

5. INVESTMENTS (Continued)

(c) Disclosures Relating to Fair Value Measurements (Continued)

Maturity profile of investments held is as follows:

	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years	Total
December 31, 2011	699,947	3,919,903	5,033,990	205,914	9,859,754
Percent of Total	7 %	40 %	51 %	2 %	
December 31, 2010	650,991	3,470,880	4,820,229	206,507	9,148,607
Percent of Total	7 %	38 %	53 %	2 %	
January 1, 2010	1,383,072	3,122,795	3,924,037	772,357	9,202,261
Percent of Total	15 %	34 %	43 %	8 %	

The effective interest rate of the bond debentures and GICs portfolio held is 4.51%, 4.72% and 4.86% at December 31, 2011, 2010 and January 1, 2010 respectively.

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Parking lot	Automotive equipment	Furniture and equipment	Computer equipment	Total
Cost							
Balance at January 1, 2010	311,093	1,597,998	44,937	82,187	306,472	178,816	2,521,503
Additions	-	-	-	49,133	-	41,300	90,433
Disposals	-	-	-	(29,719)	-	-	(29,719)
Balance on December 31, 2010	311,093	1,597,998	44,937	101,601	306,472	220,116	2,582,217
Additions	-	-	-	-	-	7,587	7,587
Balance on December 31, 2011	311,093	1,597,998	44,937	101,601	306,472	227,703	2,589,804
Accumulated depreciation							
Balance at January 1, 2010	-	228,080	33,052	57,838	216,593	125,828	661,391
Depreciation expense	-	40,092	2,853	13,783	19,524	22,107	98,359
Disposals	-	-	-	(26,747)	-	-	(26,747)
Balance on December 31, 2010	-	268,172	35,905	44,874	236,117	147,935	733,003
Depreciation expenses	-	40,093	2,852	17,018	17,167	21,576	98,706
Balance on December 31, 2011	-	308,265	38,757	61,892	253,284	169,511	831,709

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land	Building	Parking lot	Automotive equipment	Furniture and equipment	Computer equipment	Total
Net book value							
January 1, 2010	311,093	1,369,918	11,885	24,349	89,879	52,988	1,860,112
December 31, 2010	311,093	1,329,826	9,032	56,727	70,355	72,181	1,849,214
December 31, 2011	311,093	1,289,733	6,180	39,709	53,188	58,192	1,758,095

Automotive equipment amortization has been allocated to specific expense categories as follows:

Adjusting expenses $5,155 (2010 - $3,032)

7. INSURANCE CONTRACTS

Due from reinsurers	**2011**	**2010**
Balance, beginning of the year	414,351	288,849
Submitted to reinsurer	1,188,397	850,006
Received from reinsurer	(1,338,055)	(724,504)
Balance, end of the year	264,693	414,351
Expected settlement		
Within one year	264,693	414,351
More than one year	-	-
	264,693	414,351

At year-end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance was necessary.

7. INSURANCE CONTRACTS (Continued)

Reinsurers share of provision for unpaid claims	**2011**	**2010**
Balance, beginning of the year	3,211,816	3,613,968
New claims reserve	1,678,287	739,675
Change in prior year reserves	229,129	291,874
Submitted to reinsurer	(1,759,434)	(1,433,701)
Balance, end of the year	3,359,797	3,211,816

Expected settlement		
Within one year	551,283	67,291
More than one year	2,808,514	3,144,525
	3,359,797	3,211,816

Deferred policy acquisition expenses	**2011**	**2010**
Balance, beginning of the year	327,960	280,427
Acquisition costs incurred	340,387	327,960
Expensed during the year	(327,960)	(280,427)
Balance, end of the year	340,387	327,960

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

Unearned premiums (UEP)	**2011**	**2010**
Balance, beginning of the year	2,802,924	2,510,111
Premiums written	7,498,663	6,830,553
Premiums earned during the year	(7,295,058)	(6,537,740)
Balance, end of the year	3,006,529	2,802,924

7. INSURANCE CONTRACTS (Continued)

The following is a summary of the insurance contract provisions and related reinsurance assets at December 31.

	December 31, 2011			December 31, 2010			January 1, 2010		
	Gross	Re-insurance	Net	Gross	Re-insurance	Net	Gross	Re-insurance	Net
Outstanding claims provision									
Long settlement term	4,348,114	1,465,949	2,882,165	4,384,807	1,801,961	2,582,846	4,879,274	1,996,465	2,882,809
Short settlement term	1,035,115	547,283	487,832	564,999	63,290	501,709	1,004,316	270,938	733,378
Facility Association and other residual pools	259,198	-	259,198	244,790	-	244,790	226,471	-	226,471
	5,642,427	2,013,232	3,629,195	5,194,596	1,865,251	3,329,345	6,110,061	2,267,403	3,842,658
Provision for claims incurred but not reported	2,508,565	1,346,565	1,162,000	2,508,565	1,346,565	1,162,000	2,508,565	1,346,565	1,162,000
	8,150,992	3,359,797	4,791,195	7,703,161	3,211,816	4,491,345	8,618,626	3,613,968	5,004,658

7. INSURANCE CONTRACTS (Continued)

Comments and assumptions for specific claims categories

The ultimate cost of long settlement general liability and accident benefit claims are difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment have created further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written and associated claims are ultimately resolved. For example, liability for exposure to toxic substances and environment impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislation and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

The Company must participate in industry automobile residual pools of business and recognizes a share of this business based on its automobile market share. The Company records its share of the liabilities provided by the actuaries of the pools.

Claims and adjustment expenses

Changes in claim liabilities recorded in the balance sheet for the years-ended December 31, 2011 and 2010 and their impact on claims and adjustment expenses for the two years follow:

	2011	**2010**
Unpaid claim liabilities - beginning of year - net of reinsurance	4,491,345	5,004,658
Increase (decrease) in estimated losses and expenses, for losses occurring in prior years	(320,490)	(895,399)
Provisions for losses and expenses on claims occurring in the current year	4,172,819	3,365,727
Payment on claims:		
Current year	(2,623,063)	(1,819,162)
Prior years	(929,416)	(1,164,479)
Unpaid claims - end of year - net	4,791,195	4,491,345
Reinsurer's share and subrogation recoverable	3,359,797	3,211,816
	8,150,992	7,703,161

7. INSURANCE CONTRACTS (Continued)

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

Provision for unpaid claims and adjustment expenses

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

The Superintendent of the Financial Services Commission of Ontario has required that consideration of future investment income be disregarded except in the evaluation of automobile accident benefit claims.

Claim development

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the line of business from which the claim arises and historical delays in reporting claims. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The tables 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 frequency and 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 being increased in each succeeding additional year, until ten years of information is included.

7. INSURANCE CONTRACTS (Continued)

Gross claims	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Gross estimate of cumulative claims cost						
At the end year of claim	1,940,797	3,750,098	4,207,435	3,881,706	4,655,304	
One year later	1,781,906	3,500,382	3,420,132	3,217,534		
Two years later	1,873,859	3,112,853	4,471,555			
Three years later	1,811,189	2,712,443				
Four years later	1,744,322					
Current estimate of cumulative claims cost	1,744,322	2,712,443	4,471,555	3,217,534	4,655,304	16,801,158
Cumulative payments	1,652,454	2,503,164	2,416,574	2,362,320	2,623,063	11,557,575
Outstanding claims	91,868	209,279	2,054,981	855,214	2,032,241	5,243,583
Outstanding claims 2006 and prior						398,844
Provision for claims incurred but not reported						2,508,565
Total gross outstanding claims						8,150,992

7. INSURANCE CONTRACTS (Continued)

Net of reinsurance	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Net estimate of cumulative claims cost						
At the end year of claim	1,885,871	3,395,390	3,573,482	3,365,727	4,172,820	
One year later	1,765,402	3,161,847	3,142,509	2,886,328		
Two years later	1,854,522	2,819,093	3,367,562			
Three years later	1,756,350	2,701,738				
Four years later	1,744,323					
Current estimate of cumulative claims cost	1,744,323	2,701,738	3,367,562	2,886,328	4,172,820	14,872,771
Cumulative payments	1,652,454	2,503,164	2,416,574	2,362,320	2,623,063	11,557,575
Outstanding claims	91,869	198,574	950,988	524,008	1,549,757	3,315,196
Outstanding claims 2006 and prior						313,999
Provision for claims incurred but not reported						1,162,000
Total net outstanding claims						4,791,195

8. OTHER PROVISIONS AND CONTINGENT LIABILITIES

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of conducting its insurance business which is taken into account in establishing the provision for unpaid claims and adjustment expenses.

The Company is a member of the Farm Mutual Reinsurance Plan Inc. ("the Plan"), which is a general reinsurer that shares in the insurance risks originally accepted by member insurance companies. As a member of the Plan, the Company may be required to contribute additional capital to the Plan in the form of subordinated debt should the Plan's capital fall below a prescribed minimum.

9. PENSION PLAN

The Company makes contributions to the Ontario Mutual Insurance Association Pension Plan, which is a multi-employer plan, on behalf of members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement available to some employees, which specifies the amount of the retirement benefit plan to be received by the employees based on length of service and rates of pay. However, the plan is accounted for as a defined contribution plan as insufficient information is available to account for the plan as a defined benefit plan. The Company is only one of a number of employers that participates in the plans and the financial information provided to the Company on the basis of the contractual agreements is usually insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The amount contributed to the plan for 2011 was $61,599 (2010 - $61,039). The contributions were made for current service and these have been recognized in net income. The Company also contributed $40,929 (2010 - $130,713) in 2011 to fund the solvency deficit of the plan.

The plan is currently in a deficit position and it is expected that further solvency deficit funding will be necessary in 2012.

10. INCOME TAXES

The Company is subject to income taxes on that portion of its income derived from insuring other than farm related risks.

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

	2011	2010
Current tax expenses		
Based on current year taxable income	5,200	74,274
Adjustments for over / under provision in prior periods	39,999	31,066
	45,199	105,340
Deferred tax expense		
Origination and reversal of temporary differences	(5,497)	101,839
Reduction in tax rate	14,233	(4,389)
Total income tax expense (recovery)	53,935	202,790

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 15.50% (2010 - 15.87%) are as follows:

	2011	2010
Net income for the year	16,940	1,076,874
Expected taxes based on statutory rate of 15.50% (2010 - 15.87%)	2,626	170,945
Income from insuring farm related risks	(622)	(19,089)
Non deductible portion of claims liabilities	2,324	(4,074)
Other non deductible expenses	1,705	3,801
Capital cost allowance in excess of depreciation	1,149	(6,283)
Non-capital loss application	-	(66,998)
Over (under) provision in prior years	39,999	31,066
Other	(1,982)	(4,028)
Total income tax expense (recovery)	45,199	105,340

10. INCOME TAXES (Continued)

The movement in 2011 deferred tax liabilities and assets are:

	Opening balance at January 1, 2011	Recognize in net income	Closing balance at December 31, 2011
Deferred tax liabilities			
Property, plant and equipment	(27,978)	13,235	(14,743)
Deferred tax assets			
Claims liabilities	55,095	(21,971)	33,124
Other	-	-	-
2011 net deferred income tax	27,117	(8,736)	18,381

10. INCOME TAXES (Continued)

	Opening balance at January 1, 2010	Recognize in net income	Closing balance at December 31, 2010
Deferred tax liabilities			
Property, plant and equipment	(15,770)	(12,208)	(27,978)
Deferred tax assets			
Claims liabilities	51,455	3,640	55,095
Other	88,882	(88,882)	-
Deferred tax assets	140,337	(85,242)	55,095
2010 net deferred income tax	124,567	(97,450)	27,117

	2011	2010
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	(14,743)	(27,978)
Deferred tax liabilities to be settled after more than 12 months	-	-
	(14,743)	(27,978)

	2011	2010
Deferred tax assets		
Deferred tax assets to be settled within 12 months	33,124	55,095
Deferred tax asset to be settled after more than 12 months	-	-
	33,124	55,095

11. GROSS CLAIMS AND ADJUSTMENT EXPENSES

Included in claims expenses were wage and benefit costs of $145,738 (2010 - $151,143).

12. SALARIES, BENEFITS AND DIRECTORS FEES

	2011	2010
Underwriter salaries and benefits	151,300	109,796
Sales salaries and commissions	699,679	593,147
Other salaries, benefits and directors fees	626,346	695,290
	1,477,325	1,398,233

13. 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	268,554	243,942
Total pension and other post-employment benefits	34,245	37,303
	302,799	281,245
Premiums	71,822	61,746
Claims paid	15,794	163

Amounts owing to and from key management personnel at December 31, 2011 are $nil (2010 - $nil, January 1, 2010 - $nil) and $2,904 (2010 - $993, January 1, 2010 - $nil) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

14. CAPITAL MANAGEMENT

The Company's objectives in managing its capital are to maintain financial stability for policyholders and meet regulatory requirements. Mutual insurance companies are regulated by the provisions of the Insurance Companies Act (ICA) and the Financial Services Commission of Ontario (FSCO).

The Company has a capital management process in place to monitor its capital. Reinsurance placed with Farm Mutual Reinsurance Plan and the Farm Mutual Guarantee Fund serve to protect capital and limit losses on any one claim (see Note 15). The Company meets its objectives for managing capital through management and Board monitoring and oversight of regulatory capital measures.

The Company's capital consists of unappropriated members' surplus. The Company's capital structure at December 31 was as follows:

	2011	**2010**
Unappropriated members' surplus	11,639,290	11,676,285
Total Capital	11,639,290	11,676,285

The Company is subject to an annual examination by the Financial Examination Committee, the results of which are reported to the Superintendent of Financial Institutions for Ontario. In its most recent examination report, the Company was in compliance with regulatory expectations. 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.

15. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT

Insurance risk management

The principal risk that 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.

The Company purchases reinsurance as part of its risks mitigation program. Retention limits for the excess-of-loss reinsurance vary by product line.

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

15. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (Continued)

Insurance risk management (Continued)

The Company writes insurance primarily over a twelve month duration. The most significant risks arise through high severity, low frequency events such as natural disasters or catastrophes. A concentration of risk may arise from insurance contracts issued in a specific geographic location since all insurance contracts are written in Ontario.

The Company manages this risk via its underwriting and reinsurance strategy with an overall risk management framework. Exposures are limited by having documented underwriting limits and criteria. Pricing of property and liability policies are based on assumptions in regard to trends and past experience, in an attempt to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Commission of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk; in this case the Company has policies regarding renewal and new business accepted. Reinsurance is purchased to mitigate the effect of the potential loss to the Company. Reinsurance is placed with Farm Mutual Reinsurance Plan Inc. (FMRP), a Canadian registered reinsurer.

The Company follows the policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to a maximum amount on any one claim of $200,000 (2010 - $175,000) in the event of a property claim, an amount of $120,000 (2010 - $100,000) in the event of a liability claim, and an amount of $170,000 (2010 - $150,000) in the event of an automobile claim. For amounts over the respective limits there is a 10% retention to a specified maximum. The Company also obtained reinsurance which limits the Company's liability in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of gross net earned premiums for property and automobile.

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 December 31, 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 7.

15. 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	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
5% increase in loss ratios						
Gross	148,789	138,339	198,860	176,623	27,054	25,697
Net	130,312	118,061	173,927	153,296	23,975	22,059
5% decrease in loss ratios						
Gross	(148,789)	(138,339)	(198,860)	(176,623)	(27,054)	(25,697)
Net	(130,312)	(118,061)	(173,927)	(153,296)	(23,975)	(22,059)

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

Credit risk

Credit risk is the risk of financial loss to the Company if a debtor fails to make payments of interest and principal when due. The Company is exposed to this risk relating to its debt holdings in its investment portfolio and the reliance on reinsurers to make payment when certain loss conditions are met.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, and bond quality 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.

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

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

15. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (Continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk.

Currency risk

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

The Company is not significantly exposed to currency risk.

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 (GICs and Bonds).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term. There are no occurrences where interest would be charged on liabilities; therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

In order to manage interest rate risk, the Company varies the maturity dates of bonds to avoid a significant number of bond maturities occurring at the same date. In addition, the Company avoids placing a significant amount of investments with a specific bond issuer.

The impact of an assumed 1% (100 basis point) decrease in interest rates on renewal of fixed rate investments maturing within the next twelve months would decrease investment income in the next twelve month period by approximately $6,999 (2010 - $6,510).

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.

15. FINANCIAL INSTRUMENT AND INSURANCE RISK MANAGEMENT (Continued)

Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings within its investment portfolio.

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. At December 31, 2011, a 10% movement in the stock market with all other variables held constant would have an estimated effect on the fair values of the Company's Canadian mutual funds of $458,582 (2010 - $504,775) and the equity fund of $8,686 (2010 - $8,686). This change would be recognized in investment income.

The Company's investment policy limits investment in pooled funds, preferred and common shares to a maximum of 25% of assets.

Equities are monitored by the board of directors and holdings are adjusted following each quarter when the investments are offside of the investment policy.

Liquidity risk

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

The Company holds a portion of its investment portfolio in cash and short-term investments. Short-term investments include cash and mutual and pooled funds.

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

16. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

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 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, the Company has adjusted amounts reported previously in financial statements prepared in accordance with pre-changeover Canadian GAAP. An explanation of how the transition from pre-changeover Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following notes and tables.

IFRS 1 exemptions and exceptions

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

Optional exemptions

(a) 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.

(b) 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.

(c) Designation of previously recognized financial instruments

The Company elected to designate certain previously recognized financial instruments as fair value through profit and loss at the transition date. These designations may differ from the financial instrument designations under pre-changeover Canadian GAAP.

16. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Mandatory exceptions

(a) 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.

(b) Estimates

The estimates previously made by the Company under the pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any differences 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.

(c) Reconciliation of equity and comprehensive income

In preparing these financial statements, management has amended certain accounting policies previously applied in the pre-changeover Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 were restated to reflect these adjustments. The following reconciliations and explanatory notes provide a description of the effect of the transition from pre-changeover Canadian GAAP to IFRS on members' surplus, net income and comprehensive income:

16. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS
(Continued)

Statement of financial position at January 1, 2010 - Transition Date

	Sub-note	Pre-changeover Canadian GAAP	Adjustments	IFRS
ASSETS				
Cash and cash equivalents		946,073	-	946,073
Bonds, debentures and marketable securities	(i)	13,889,759	-	13,889,759
Investment income accrued		97,818	-	97,818
Premiums outstanding		822,422	-	822,422
Income taxes recoverable		147,931	31,066	178,997
Prepaid expenses and other assets		59,967	-	59,967
Due from reinsurers		288,849	-	288,849
Due from other insurers		188,569	-	188,569
Reinsurance recoverable on unpaid claims		3,613,968	-	3,613,968
Deferred policy acquisition expenses		280,427	-	280,427
Deferred income tax		124,567	(31,066)	93,501
Property, plant and equipment		1,860,112	-	1,860,112
		22,320,462	-	22,320,462
LIABILITIES				
Provision for unpaid claims		8,618,626	-	8,618,626
Unearned premiums		2,510,111	-	2,510,111
Accounts payable and accrued liabilities		225,339	-	225,339
F.A.R.M funds due to Facility Association		130,988	-	130,988
Premiums paid in advance		33,197	-	33,197
		11,518,261	-	11,518,261
EQUITY				
Unappropriated members' surplus	(i)	11,272,426	(470,225)	10,802,201
Accumulated other comprehensive income		(470,225)	470,225	-
		10,802,201	-	10,802,201
		22,320,462	-	22,320,462

16. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS
(Continued)

Statement of financial position for the year-ended December 31, 2010

	Sub-note	Pre-changeover Canadian GAAP	Adjustments	IFRS
ASSETS				
Cash and cash equivalents		1,251,150	-	1,251,150
Investments	(i)	14,298,894	-	14,298,894
Investment income accrued		63,447	-	63,447
Due from policyholders		1,011,154	-	1,011,154
Prepaid expenses and other assets		62,711	-	62,711
Due from reinsurers		414,351	-	414,351
Due from other insurers		180,545	-	180,545
Reinsurance recoverable on unpaid claims		3,211,816	-	3,211,816
Deferred policy acquisition expenses		327,960	-	327,960
Deferred income tax		27,117	-	27,117
Property, plant and equipment		1,849,214	-	1,849,214
		22,698,359	-	22,698,359
LIABILITIES				
Provision for unpaid claims		7,703,161	-	7,703,161
Unearned premiums		2,802,924	-	2,802,924
Accounts payable and accrued liabilities		362,559	-	362,559
Income taxes payable		9,386	-	9,386
F.A.R.M Funds due to Facility Association		120,582	-	120,582
Premiums paid in advance		23,462	-	23,462
		11,022,074	-	11,022,074
EQUITY				
Unappropriated members' surplus	(i)	11,915,791	(239,506)	11,676,285
Accumulated other comprehensive income		(239,506)	239,506	-
		11,676,285	-	11,676,285
		22,698,359	-	22,698,359

16. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Statement of Comprehensive Income for the year-ended December 31, 2010

	Pre-changeover Canadian GAAP	Adjustments	IFRS
Underwriting operations			
Gross premiums written net of rebated and returned premiums	6,830,553	-	6,830,553
Less premiums paid reinsurance	1,410,520	-	1,410,520
Less increase in reserve for unearned premiums	292,813	-	292,813
	1,703,333	-	1,703,333
Net premiums earned	5,127,220	-	5,127,220
Direct Losses Incurred			
Gross claims and adjustment expenses	2,918,185	-	2,918,185
Less reinsurers' share of claims and adjustment expenses	(447,856)	-	(447,856)
	2,470,329	-	2,470,329
Fees, Commissions and Other Acquisition Expenses	640,680	-	640,680
Other Operating and Administrative Expenses	1,556,129	254,620	1,810,749
Total Expense	4,667,138	254,620	4,921,758
Underwriting Income	460,082	(254,620)	205,462
Investment and Other Income	563,023	308,389	871,412
Income Before Taxes	1,023,105	53,769	1,076,874
Provision (recovery of) for income taxes	125,120	77,670	202,790
Income After Income Taxes	897,985	(23,901)	874,084
Extraordinary Item - Settlement Costs	254,620	(254,620)	-
Net Income	643,365	230,719	874,084
Other Comprehensive Income (Net of Tax)			
Change in unrealized gains and losses on AFS investments	227,880	(227,880)	-
Reclassification adjustment for realized (gain) losses included in income	2,839	(2,839)	-
Comprehensive Income	874,084	-	874,084

16. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

Statement of Cash Flows for the year-ended December 31, 2010

The transition to IFRS had no impact on total operating or financing activities on the statement of cash flows. The change in net income for year ended December 31, 2010 has been offset by adjustments to operating activities.

Explanations for the adjustments are as follows:

(i) Investments

Under pre-changeover Canadian GAAP the Company classified all equity, mutual and pooled fund investments as available-for-sale. The Company elected to designate these financial instruments as fair value through profit and loss at the Transition date and as a result investments which were previously classified as available-for-sale have now been designated fair value through profit and loss. The change in classification of these investments has no impact on the amount recognized on the statement of financial position, however unrealized losses of $470,225 at January 1, 2010 have been reclassified from accumulated other comprehensive income to unappropriated members surplus. For the year ended December 31, 2010 the change in unrealized losses on available for sale investments and the reclassification of realized gains / losses on available-for-sale investments been adjusted by $227,880 and $2,839 respectively, with corresponding adjustments of $230,719 to investment income and income taxes.

17. COMPARATIVE FIGURES

Certain of the prior year's figures, provided for the purposes of comparison, have been reclassified to conform with the current year's statement presentation.