AYR FARMERS MUTUAL INSURANCE COMPANY

NON-CONSOLIDATED
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

AYR FARMERS MUTUAL INSURANCE COMPANY

DECEMBER 31, 2012
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AYR FARMERS MUTUAL INSURANCE COMPANY

NON-CONSOLIDATED
MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING
DECEMBER 31, 2012

The accompanying non-consolidated financial statements and all other information contained in this annual report are the responsibility of the management of Ayr Farmers Mutual Insurance Company. The financial statements have been prepared by management in accordance with International Financial Reporting Standards (including the accounting requirements of the Financial Services Commission of Ontario) and have been approved by the Board of Directors.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of Ayr Farmers Mutual Insurance Company, which includes adherence by all employees to the company's Code of Conduct. Management maintains a system of internal accounting controls to provide reasonable assurance that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial information. Such information also includes data based on management's best estimates and judgments.

The Audit Committee and the Board of Directors review and approve the annual financial statements. In addition, the Audit Committee meets periodically with financial officers of Ayr Farmers Mutual Insurance Company and the external auditors, and reports to the Board of Directors thereon. The Audit Committee and Board of Directors also review the annual report in its entirety.

The accompanying non-consolidated financial statements have been audited by Graham Mathew Professional Corporation, authorized to practice public accounting by The Institute of Chartered Accountants of Ontario, who are engaged by the Board of Directors and whose appointment was ratified at the annual meeting of the policyholders. The auditors have access to the Audit Committee, without management present, to discuss the results of their work. Their report dated January 23, 2013 expresses their qualified opinion on the Company's 2012 financial statements.

Donald J. Davidson, CIP	David Paterson, BBA
President & CEO	Chief Financial Officer

150 Pinebush Road, P.O. Box 880, Cambridge, Ontario N1R 5X9
p: 519.623.1870 f: 519.623.9490

Graham Mathew

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Ayr Farmers Mutual Insurance Company

We have audited the accompanying non-consolidated financial statements of **Ayr Farmers Mutual Insurance Company**, which comprise the non-consolidated statement of financial position as at December 31, 2012, and the non-consolidated statements of comprehensive income, policyholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

As explained in note 7, the company has not consolidated the financial statements of its subsidiary, Ayr Farmers Financial Services Inc., in order to comply with the accounting requirements of the Ontario Insurance Act as governed by the Financial Services Commission of Ontario. This investment has been accounted for using the equity method which constitutes a departure from International Financial Reporting Standards. Note 7 provides details on what amounts would have been affected had Ayr Farmers Financial Services Inc. been consolidated.

Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the non-consolidated financial statements present fairly, in all material respects, the financial position of **Ayr Farmers Mutual Insurance Company** as at December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Graham Mathew Professional Corporation

Cambridge, Ontario
January 23, 2013

CHARTERED ACCOUNTANTS, authorized to practice public accounting by The Institute of Chartered Accountants of Ontario

NON-CONSOLIDATED FINANCIAL POSITION
DECEMBER 31, 2012

	2012 $	2011 $
ASSETS		
Cash and investments (note 4)	**55,256,915**	48,704,914
Due from reinsurer (note 6)	**9,000**	140,079
Premiums receivable	**5,174,092**	4,545,980
Receivable from Facility Association	**11,431**	12,516
Reinsurer's share of provision for unpaid claims (note 6)	**6,327,110**	3,595,242
Deferred policy acquisition expenses (note 6)	**1,237,131**	1,177,295
Property, plant and equipment (note 5)	**2,098,562**	2,178,542
Deferred income taxes (note 9)	**105,000**	87,000
Intangible assets (note 5)	**13,762**	37,283
	70,233,003	60,478,851
LIABILITIES		
Provision for unpaid claims (note 6)	**19,312,560**	17,135,522
Unearned premiums (note 6)	**11,060,289**	10,423,674
Accounts payable and accrued liabilities	**875,175**	653,629
Income taxes payable	**421,345**	52,612
Provision for refund from premiums	**1,610,000**	505,000
	33,279,369	28,770,437
POLICYHOLDERS' EQUITY		
Policyholders' equity (page 5)	**36,953,634**	31,708,414
	70,233,003	60,478,851

APPROVED BY THE BOARD:

Cathy Tomiuk Director

Lisa Leck Director

The explanatory financial notes form an integral part of these financial statements.

NON-CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED DECEMBER 31, 2012

	2012 $	2011 $
Gross premiums written	**23,254,689**	21,828,279
Deduct		
Reinsurance premiums	**2,465,230**	2,186,760
Increase in reserve for unearned premiums	**636,615**	918,805
	3,101,845	3,105,565
Net premiums earned	**20,152,844**	18,722,714
Service charge revenue	**332,414**	298,703
Net underwriting revenue	**20,485,258**	19,021,417
Direct losses incurred		
Gross claims and adjusting expenses	**11,026,594**	8,218,710
Reinsurers' share of claims and adjusting expenses	**(2,710,161)**	952,350
	8,316,433	9,171,060
Expenses		
Fees, commissions and other acquisition expenses (note 11)	**2,751,966**	2,518,144
Other operating and administrative expenses (note 12)	**3,826,314**	3,535,838
	6,578,280	6,053,982
Underwriting profit	**5,590,545**	3,796,375
Other revenue (expense)		
Investment income (note 14)	**2,341,696**	1,310,389
Loss for year, subsidiary company (note 7)	**(118,985)**	(75,721)
Gain on sale of subsidiary company (note 7)	**128,863**	
Refund from premiums	**(1,599,272)**	(510,251)
Income tax expense (note 9)		
Current	**(1,115,627)**	(690,028)
Deferred recovery (expense)	**18,000**	(17,545)
	(345,325)	16,844
Net income, being total comprehensive income for year	**5,245,220**	3,813,219

The explanatory financial notes form an integral part of these financial statements.

NON-CONSOLIDATED STATEMENT OF POLICYHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 2012

	2012 **$**	2011 $
Balance at beginning of year	**31,708,414**	27,895,195
Net income, being total comprehensive income for year	**5,245,220**	3,813,219
Balance at end of year	**36,953,634**	31,708,414

The explanatory financial notes form an integral part of these financial statements.

NON-CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

	2012 $	2011 $
Cash flows from operating activities:		
Net income, being total comprehensive income for year	**5,245,220**	3,813,219
Items not involving cash:		
Amortization and depreciation	**294,431**	251,866
Gain on sale of subsidiary company	**(128,863)**	
Amortization, bonds	**32,737**	33,036
Deferred income taxes (recovery)	**(18,000)**	17,545
Loss of subsidiary company	**118,985**	75,721
Unrealized losses (gains) on investments	**(677,739)**	1,061,791
	4,866,771	5,253,178
Net change in non-cash working capital balances relating to operations:		
Unearned premiums	**636,615**	918,805
Reinsurer's share of provision for unpaid claims	**(2,731,868)**	2,229,435
Provision for unpaid claims	**2,177,038**	(2,682,119)
Other payables	**590,188**	196,929
Receivables, premiums and other	**(495,948)**	(514,558)
Deferred policy acquisition expenses	**(59,836)**	(109,322)
Investment income due and accrued	**(5,957)**	12,071
Recognized gain on investments	**(68,919)**	(585,053)
	4,908,084	4,719,366
Cash flows from investment activities:		
Proceeds from sale of subsidiary company	**478,000**	
Proceeds from sale of investments	**13,560,531**	15,034,066
Purchase of investments	**(16,851,999)**	(18,880,921)
Net additions to property, plant and equipment and intangible assets	**(190,930)**	(248,535)
	(3,004,398)	(4,095,390)
Cash flows from financing activities:		
Provision for refund from premiums, net change	**1,105,000**	(280,000)
Increase in cash during year	**3,008,686**	343,976
Cash, beginning of year	**5,121,266**	4,777,290
Cash, end of year (note 4)	**8,129,952**	5,121,266

The explanatory financial notes form an integral part of these financial statements.

1. Nature of Operations and Summary of Significant Accounting Policies

(a) Reporting entity

Ayr Farmers 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 Ayr, Ontario.

The Company is subject to rate regulation in the automobile business that it writes. Before automobile insurance rates 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 or 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.

These financial statements have been authorized for issue by the Board of Directors on January 23, 2013.

(b) 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).

These financial statements were prepared on a historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

The Company's functional and presentation currency is the Canadian dollar. The financial statements are presented in Canadian dollars.

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.

(c) 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, provisions for unpaid claims and adjustment expenses, the reinsurers' share of unpaid claims and adjustment expenses, deferred policy acquisition expenses, and salvage and subrogation recoverable.

(i) Premiums and unearned premiums

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

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

(c) Insurance contracts (continued)

(ii) Reinsurance

The company reflects reinsurance balances on the statement of financial position on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders and in the statement of comprehensive income to indicate the results of its retention of premiums written.

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. A contingent liability exists with respect to reinsurance ceded which could become a liability of the Company in the event that the reinsurer might be unable to meet its obligation under the reinsurance agreements. The Company ascertained that no provision is necessary at December 31 for doubtful collection of reinsurance recoveries.

(iii) Deferred policy acquisition expenses

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

(iv) 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.

(v) 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 statement of comprehensive income initially by writing off the deferred policy acquisition expense and subsequently by recognizing an additional claims liability for claims provisions.

(vi) Reinsurers' 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 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.

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

(c) Insurance contracts (continued)

(vii) 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.

(viii) Refund from premium

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

(d) Structured settlements, Fire Mutuals Guarantee Fund and financial guarantee contracts

The Company enters into annuity agreements with various life insurance companies to provide for fixed and recurring payments to claimants. Under such arrangements, the Company's liability to its claimants is substantially transferred, although the Company remains exposed to the credit risk that life insurers fail to fulfill their obligations.

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 insolvent. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

These exposures represent financial guarantee contracts. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

(e) 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) Held-to-maturity financial assets

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as fair value through profit and loss, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.

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

(d) Financial instruments (continued)

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

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such upon initial recognition. Financial assets are designated as fair value through profit or loss if the Company manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

(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 policyholders 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 of the asset is written off against the associated provision.

(iv) Other financial liabilities

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

(f) 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 on a straight-line or declining-balance basis over the estimated useful life of the assets as follows:

Building	4%	Declining-balance
Computer hardware	3 years	Straight-line
Furniture and fixtures	5 years	Straight-line
Vehicles	30%	Declining-balance

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

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

(g) Intangible assets

Intangible assets consist of computer software which are not integral to the computer hardware owned by the Company. Software is initially recorded at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Software is amortized on a straight-line basis over its estimated useful life of 3 years. The amortization expense is included within other operating and administrative expenses in the statement of comprehensive income.

(h) 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.

(i) Facility Association

As a member of the Facility Association, the Company records its proportionate share of the Association's revenue, expenses, unearned premiums and provision for unpaid claims.

(j) Income taxes

Income tax expense includes 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 policyholders' equity or in other comprehensive income.

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

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

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The amount of the deferred tax asset or liability is measured at the amount expected to be recovered from or paid to the taxation authorities. This amount is determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date and are expected to apply when the liabilities / (assets) are settled / (recovered).

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

(k) 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.

(l) 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.

(m) Foreign currency translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a revalued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

(n) Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rentals payable under the lease are charged to the statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

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

(o) Standards, amendments and interpretations not yet effective

Certain new standards, amendments and interpretations have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2013 or later periods 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. The Company is in the process of evaluating the impact of the new standard.

None of the other new standards, interpretations and amendments, which are effective for the Company's accounting periods beginning after January 1, 2013 and which have not been adopted early, are expected to have a material effect on the Company's future financial statements.

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.

(a) Provision for unpaid claims

The estimation of the provision for unpaid claims and the related reinsurers' 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 6.

(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.

3. Financial Instrument Classification

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

	Held to maturity $	Fair value through profit or loss $	Loans and receivables $	Other financial liabilities $	Total $
December 31, 2012					
Cash		8,129,952			**8,129,952**
Investments (note 4)	6,282,466	40,721,743			**47,004,209**
Due from policyholders and reinsurer			5,183,092		**5,183,092**
Investment income accrued			122,754		**122,754**
Accounts payable and accrued liabilities				(875,175)	**(875,175)**
	6,282,466	48,851,695	5,305,846	(875,175)	**59,564,832**
December 31, 2011					
Cash		5,121,266			5,121,266
Investments (note 4)	5,135,283	37,863,446			42,998,729
Due from policyholders			4,686,059		4,686,059
Investment income accrued			116,796		116,796
Accounts payable and accrued liabilities				(653,629)	(653,629)
	5,135,283	42,984,712	4,802,855	(653,629)	52,269,221

The breakdown of the above fair value through profit and loss investments into held-for-trading and designated upon initial recognition is as follows:

2012

Held-for-Trading	9,548,086
Designated upon recognition (originally AFS)	39,303,609
	48,851,695

2011

Held-for-Trading	7,233,589
Designated upon recognition (originally AFS)	35,751,123
	42,984,712

4. 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.

The book values and market values on cash and investments as at December 31 were as follows:

	2012		2011	
	Book value	**Market value**	Book value	Market value
	$	**$**	$	$
Cash	**8,129,952**	**8,129,952**	5,121,266	5,121,266
Debt securities	**31,424,850**	**31,804,536**	29,010,353	29,442,302
Preferred shares	**5,000**	**5,000**	139,654	139,654
Common shares	**15,574,359**	**15,574,359**	13,848,723	13,848,723
Subsidiary company (note 7)			468,122	468,122
Accrued interest	**122,754**	**122,754**	116,796	116,796
	55,256,915	**55,636,601**	48,704,914	49,136,863

The market value of the debt securities and preferred and common shares is based on quoted market values.

	2012	2011
	$	$
The debt securities mature as follows:		
Within 1 year	**1,877,511**	2,025,545
Over 1 to 5 years	**10,961,437**	12,154,470
Over 5 years	**18,585,902**	14,830,338
	31,424,850	29,010,353

The effective investment yield for the year is 4.6% (2.7% for 2011).

The book value of the investments is shown in the following tables categorized by fair value through profit or loss and held-to-maturity. Book values are equal to their fair values. The maximum exposure to credit risk would be the fair value indicated.

4. Investments (Continued)

a) Financial assets at fair value through profit or loss

	2012		2011	
	Cost	**Fair value (Book value)**	Cost	Fair value (Book value)
	$	**$**	$	$
Debt securities:				
Corporate				
A or better	**6,379,688**	**6,671,152**	5,898,497	6,179,839
Below A	**3,975,731**	**4,037,125**	3,008,064	3,049,091
Pooled funds	**12,798,833**	**12,958,070**	12,260,459	12,488,475
Fire Mutual Guarantee Fund	**57,903**	**57,903**	45,342	45,342
Linked notes	**1,309,128**	**1,418,134**	2,051,178	2,112,323
	24,521,283	**25,142,384**	23,263,540	23,875,070
Equity investments:				
Canadian common	**13,751,006**	**13,282,756**	13,203,551	12,217,186
Canadian preferred	**5,000**	**5,000**	136,874	139,653
U.S. equities	**2,210,957**	**2,291,603**	1,703,724	1,631,537
	15,966,963	**15,579,359**	15,044,149	13,988,376
	40,488,246	**40,721,743**	38,307,689	37,863,446

b) Held-to-Maturity

Debt securities:				
Provincial	**4,099,691**	**4,099,691**	4,426,742	4,426,742
Municipal	**2,182,775**	**2,182,775**	708,541	708,541
	6,282,466	**6,282,466**	5,135,283	5,135,283

The following table provides an analysis of the investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities using the last bid price;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i e derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

4. Investments (Continued)

On December 31, 2012 and December 31, 2011, the company held only Level 1 and 2 investments.

December 31, 2012	Level 1 $	Level 2 $	Level 3 $	**Total $**
Cash and cash equivalents	8,129,952			**8,129,952**
Bonds				
Corporate		10,708,277		**10,708,277**
Linked notes		1,418,134		**1,418,134**
Fire Mutual Guarantee Fund		57,903		**57,903**
Pooled funds				
Canadian fixed income		12,958,070		**12,958,070**
Canadian equity		942,823		**942,823**
U.S. equity		1,094,455		**1,094,455**
Equity investments				
Canadian	10,410,508	5,004		**10,415,512**
U.S.	1,197,148			**1,197,148**
Mutual funds		1,929,421		**1,929,421**
Total assets measured at fair value	19,737,608	29,114,087	NIL	**48,851,695**

December 31, 2011	Level 1 $	Level 2 $	Level 3 $	Total $
Cash and cash equivalents	5,121,266			5,121,266
Bonds				
Corporate		9,228,929		9,228,929
Linked notes		2,112,323		2,112,323
Fire Mutual Guarantee Fund		45,342		45,342
Pooled funds				
Canadian fixed income		12,488,476		12,488,476
Canadian equity		1,521,882		1,521,882
U.S. equity		936,436		936,436
Equity investments				
Canadian	9,718,162	5,004		9,723,166
U.S.	695,101			695,101
Mutual funds		1,111,791		1,111,791
Total assets measured at fair value	15,534,529	27,450,183	NIL	42,984,712

There were no transfers between Level 1 and Level 2 for the years ended December 31, 2012 and 2011.

5. Property, Plant and Equipment and Intangible Assets

	Property, plant and equipment						Intangible assets
	Land	Building	Computer hardware	Furniture and fixtures	Vehicles	Total	Computer Software
Cost	**$**	$	$	$	$	$	$
Balance at January 1, 2011	154,073	2,445,376	673,138	332,788	142,225	3,747,600	64,559
Additions		12,430	130,156	74,548	55,500	272,634	6,004
Disposals			(294,191)		(45,944)	(340,135)	
Balance on December 31, 2011	154,073	2,457,806	509,103	407,336	151,781	3,680,099	70,563
Additions		19,693	117,997	50,254	27,162	215,106	
Disposals			(124,726)		(53,552)	(178,278)	
Balance on December 31, 2012	**154,073**	**2,477,499**	**502,374**	**457,590**	**125,391**	**3,716,927**	**70,563**
Accumulated Depreciation							
Balance at January 1, 2011		807,228	467,108	269,276	38,630	1,582,242	10,760
Depreciation expense		66,023	105,614	26,373	31,335	229,345	22,520
Impairment losses							
Disposals			(286,598)		(23,432)	(310,030)	
Balance on December 31, 2011		873,251	286,124	295,649	46,533	1,501,557	33,280
Depreciation expense		64,170	140,539	34,709	31,492	270,910	23,521
Impairment losses							
Disposals			(124,726)		(29,376)	(154,102)	
Balance on December 31, 2012		**937,421**	**301,937**	**330,358**	**48,649**	**1,618,365**	**56,801**
Net book value							
December 31, 2011	154,073	1,584,555	222,979	111,687	105,248	2,178,542	37,283
December 31, 2012	**154,073**	**1,540,078**	**200,437**	**127,232**	**76,742**	**2,098,562**	**13,762**

5. Property, Plant and Equipment and Intangible Assets (Continued)

The unamortized cost of capital assets available to reduce net income for income tax purposes amounts to approximately $1,842,000 ($1,853,000 in 2011).

6. Insurance Contracts

Due From Reinsurers

	2012 $	2011 $
Balance, beginning of year	**140,079**	NIL
Submitted to reinsurer	**111,294**	1,144,084
Received from reinsurer	**(242,373)**	(1,004,005)
Balance, end of year	**9,000**	140,079
Expected settlement		
Within one year	**9,000**	140,079
More than one year	**NIL**	NIL
	9,000	140,079

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

Reinsurers Share of Provision For Unpaid Claims

	2012 $	2011 $
Balance, beginning of year	**3,595,242**	5,824,677
New claims reserve	**1,527,984**	146,180
Change in prior years reserve	**1,315,178**	(1,231,531)
Submitted to reinsurer	**(111,294)**	(1,144,084)
Balance, end of year	**6,327,110**	3,595,242
Expected settlement		
Within one year	**110,729**	172,339
More than one year	**6,216,381**	3,422,903
	6,327,110	3,595,242

6. Insurance Contracts (Continued)	2012 $	2011 $
Deferred Policy Acquisition Expenses		
Balance, beginning of year	**1,177,295**	1,067,973
Acquisition costs incurred	**2,759,433**	2,580,866
Expense recognized as a result of liability adequacy tests	**NIL**	NIL
Expensed during the year	**(2,699,597)**	(2,471,544)
Balance, end of year	**1,237,131**	1,177,295

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

Unearned Premiums (UEP)		
Balance, beginning of year	**10,423,674**	9,504,869
Premiums written	**23,524,689**	21,828,279
Premiums earned during year	**(22,888,074)**	(20,909,474)
Increase in reserve for unearned premiums	**636,615**	918,805
Balance, end of year	**11,060,289**	10,423,674

Insurance Contract Provisions and Related Reinsurance Assets

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

December 31, 2012	Gross $	Re-insurance $	**Net $**
Outstanding claims provision			
Long settlement term	9,974,505	2,860,791	**7,113,714**
Short settlement term	1,720,383	124,319	**1,596,064**
Facility Association and other residual pools	462,842		**462,842**
Provisions for claims incurred but not reported, net	7,154,830	3,342,000	**3,812,830**
Balance, end of year	19,312,560	6,327,110	**12,985,450**

December 31, 2011	Gross $	Re-insurance $	Net $
Outstanding claims provision			
Long settlement term	9,596,050	2,910,105	6,685,945
Short settlement term	3,247,288	685,137	2,562,151
Facility Association and other residual pools	501,593		501,593
Provisions for claims incurred but not reported, net	3,790,591		3,790,591
Balance, end of year	17,135,522	3,595,242	13,540,280

6. Insurance Contracts (Continued)

Comments and Assumptions For Specific Claims Categories

The ultimate cost of long settlement general liability claims are difficult to predict for several reasons. Claims may not be reported until a number of 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 environmental impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislators 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 statement of financial position for the years ended December 31, 2012 and 2011 and their impact on claims and adjustment expenses:

	2012	2011
	$	$
Balance, beginning of year	**17,135,522**	19,817,641
New claims reserve	**4,757,024**	4,147,101
Change in prior years reserve	**(11,562,541)**	(16,983,118)
Paid claims		
Current year	**5,572,063**	6,317,464
Prior years	**3,410,492**	3,836,434
Balance, end of year	**19,312,560**	17,135,522
Expected settlement		
Within one year	**1,813,956**	2,696,216
More than one year	**17,498,604**	14,439,306
	19,312,560	17,135,522

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 reinsurers' 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.

6. Insurance Contracts (Continued)

Claim Development

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, the characteristics of the 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-term settlement 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 years 2007 to 2012. 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 is being increased in each succeeding additional year, until ten years of information is included.

6. Insurance Contracts (Continued)

Gross Claims	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	Total $
Gross estimate of cumulative claims cost							
At the end year of claim	9,826,912	13,120,618	13,359,764	12,820,335	13,658,668	12,605,047	
One year later	8,809,978	10,981,483	10,897,230	10,140,484	13,293,461		
Two years later	8,299,166	9,601,423	9,223,315	9,691,527			
Three years later	8,004,347	9,628,495	8,804,158				
Four years later	7,540,045	9,376,148					
Five years later	7,666,008						
Current estimate of cumulative claims cost	7,666,008	9,376,148	8,804,158	9,691,527	13,293,461	12,605,047	61,436,349
Cumulative payments	6,242,753	8,024,970	7,856,876	6,977,371	8,983,794	5,401,367	43,487,131
Outstanding claims	1,423,255	1,351,178	947,282	2,714,156	4,309,667	7,203,680	17,949,218
Outstanding claims 2006 and prior							1,363,342
Total gross outstanding claims and handling expenses							19,312,560

6. Insurance Contracts (Continued)

Net Claims	2007 $	2008 $	2009 $	2010 $	2011 $	2012 $	Total $
Net estimate of cumulative claims cost							
At the end year of claim	9,126,563	11,413,358	11,567,725	11,807,507	13,241,436	11,073,407	
One year later	7,651,525	9,401,792	9,247,353	8,976,188	12,054,247		
Two years later	6,782,913	8,220,579	8,431,072	8,222,256			
Three years later	6,497,550	8,164,644	8,077,217				
Four years later	6,383,640	7,951,297					
Five years later	6,422,639						
Current estimate of cumulative claims cost	6,422,639	7,951,297	8,077,217	8,222,256	12,054,247	11,073,407	53,801,063
Cumulative payments	5,834,821	7,229,299	7,317,360	6,745,404	8,862,169	5,401,367	41,390,420
Outstanding claims	587,818	721,998	759,857	1,476,852	3,192,078	5,672,040	12,410,643
Outstanding claims 2006 and prior							574,807
Total net outstanding claims and claims handling expenses							12,985,450

7. Non-Consolidated Financial Statements

The operations of Ayr Farmers Financial Services Inc. (AFFS), a wholly-owned subsidiary of this company, have not been consolidated with these financial statements in order to comply with the accounting requirements of the Financial Services Commission of Ontario.

On August 21, 2012 AFFS paid $268,000 to the company as return of capital on its outstanding shares. On the same date the company then sold all of the issued and outstanding shares of AFFS for $210,000. Immediately prior to the sale, the investment in Ayr Farmers Financial Services Inc. recorded on the non-consolidated, equity basis amounted to $81,137 ($468,122 in 2011) which reflected the capital investment of $650,300 for 650,300 common shares less accumulated after tax losses of the subsidiary amounting to $301,163 through August 21, 2012 ($182,178 through 2011) and the return of capital of $268,000 paid on August 21, 2012. The sale of the subsidiary resulted in a gain of $128,863 shown as other revenue on the non-consolidated statement of comprehensive income.

8. 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 defined benefit pension plan for the employees for which the company made contributions during the year on their behalf in the amount of $153,547 ($135,289 in 2011), and a defined contribution pension plan for the sales agents for which the Company made contributions during the year on their behalf in the amount of $60,889 ($59,291 in 2011).

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 plan 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 most recent actuarial valuation of the defined benefit plan on December 31, 2010 indicated the plan was in a deficit position. As a result of that valuation, the Company was required to make a lump sum additional contribution in 2011 of behalf of the employees in the amount of $126,262.

By participating in this defined benefit multi-employer pension plan, the Company is exposed to a contingent liability for any shortfall in plan assets resulting from insufficient contributions including actuarial losses relating to other participating entities and any shortfall in the plan if other entities cease to participate.

9. 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:

	2012	2011
	$	$
Current tax expense		
Based on current year taxable income	**1,115,627**	690,028
Adjustments for over/under provision in prior periods	**NIL**	NIL
	1,115,627	690,028
Deferred tax expense (reduction)		
Origination and reversal of temporary differences	**(18,000)**	17,545

9 . 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 25.7% (22.7% in 2011) are as follows:

	2012 **$**	2011 $
Income before income taxes	**6,342,847**	4,520,792
Expected taxes based on the statutory rate of 25.7% (22.7% in 2011)	**1,630,112**	1,026,220
Income from insuring farm related risks	**(395,396)**	(247,621)
Non deductible portion of claims liabilities	**(7,074)**	(3,798)
Other non deductible expenses	**1,902**	5,827
Capital cost allowance in excess of depreciation	**21,871**	12,740
Other non taxable income	**(135,788)**	(103,340)
Total income tax expense	**1,115,627**	690,028

The movement in 2012 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2012	Recognize in net income	Recognize in OCI	Recognize directly in policyholders' equity	Reclassify from policyholders' equity to net income	**Closing Balance at Dec 31, 2012**
Deferred tax liabilities						
Property, plant and equipment	(37,878)	13,534				(24,344)
Deferred tax assets						
Claims liabilities	124,878	4,466				129,344
2012 net deferred tax assets movement	**87,000**	**18,000**				**105,000**

9 . Income Taxes (Continued)

The movement in 2011 deferred tax liabilities and assets are:

	Opening balance at Jan 1, 2011	Recognize in net income	Recognize in OCI	Recognize directly in policyholders' equity	Reclassify from policyholders' equity to net income	Closing Balance at Dec 31, 2011
Deferred tax liabilities						
Property, plant and equipment	(59,375)	21,497				(37,878)
Deferred tax assets						
Claims liabilities	163,920	(39,042)				124,878
2011 net deferred tax asset movement	104,545	(17,545)				87,000

	2012 $	2011 $
Deferred tax assets		
Deferred tax assets to be recovered within 12 months	**NIL**	NIL
Deferred tax assets to be recovered after more than 12 months	**129,344**	124,878
	129,344	124,878
Deferred tax liabilities		
Deferred tax liabilities to be settled within 12 months	**1,200**	1,200
Deferred tax liabilities to be settled after more than 12 months	**23,144**	36,678
	24,344	37,878
Net deferred tax asset	**105,000**	87,000

10. Gross Claims and Adjustment Expenses

Included in claims expenses were salary costs of $437,817 ($464,013 in 2011).

11. Fees, Commissions and Other Acquisition Expenses

Commissions	**2,700,680**	2,473,519
Other	**51,286**	44,625
	2,751,966	2,518,144

12. Other Operating and Administrative Expenses

	2012 **$**	2011 $
Computer costs	**321,426**	347,668
Licenses, fees and dues	**34,119**	31,033
Depreciation	**286,224**	243,565
Repairs and maintenance	**80,941**	69,600
Utilities	**35,486**	33,238
Property taxes	**69,467**	68,094
Postage, office supplies and telephone	**169,978**	176,705
Professional fees	**112,168**	72,181
Salaries, benefits and directors fees	**2,144,444**	1,995,133
Employee development, travel and conventions	**196,496**	168,008
Advertising and promotion	**151,256**	109,985
Statistical service	**80,703**	79,507
Memberships	**48,762**	45,507
Other	**94,844**	95,614
	3,826,314	3,535,838

13. Salaries, Benefits and Directors Fees

	2012 **$**	2011 $
Underwriter salaries and benefits	**531,046**	509,318
Sales salaries and commissions	**2,700,680**	2,473,519
Other salaries, benefits and directors fees	**1,613,398**	1,485,815
	4,845,124	4,468,652

14. Investment Income

	Held to maturity $	Fair value through profit or loss $	Loans and receivables $	**2012 Total** **$**
Interest income	199,037	1,117,310		**1,316,347**
Dividend income		518,603		**518,603**
Realized gains on disposal of investments	1,595	67,324		**68,919**
Unrealized gains on investments		677,739		**677,739**
Investment expenses		(271,254)		**(271,254)**
	200,632	2,109,722	NIL	**2,310,354**
		Rental income		**31,342**
		Investment and other income		**2,341,696**

14. Investment Income (Continued)

	Held to maturity $	Fair value through profit or loss $	Loans and receivables $	2011 Total **$**
Interest income	193,944	1,198,380		1,392,324
Dividend income		493,330		493,330
Realized gains on disposal of investments	8,736	576,317		585,053
Unrealized losses on investments		(1,061,791)		(1,061,791)
Investment expenses		(140,789)		(140,789)
	202,680	1,065,447	NIL	1,268,127
		Rental income		42,262
		Investment and other income		1,310,389

15. 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:

	2012 $	2011 $
Compensation		
Salaries	**924,448**	870,033
Employee benefits and director's fees	**120,792**	112,044
Pension and other post-employment benefits	**80,675**	71,821
	1,125,915	1,053,898
Premiums	**143,235**	94,252
Claims paid	**37,316**	10,860

Amounts owing to and from key management personnel at December 31, 2012 are $111 ($316 in 2011 and $23,272 ($23,343 in 2011). The amounts are included in accounts payable and accrued liabilities and due from policyholders on the statement of financial position.

16. 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.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the Company should produce a minimum MCT of 150%. During the year, the Company has consistently exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and if deemed necessary.

The MCT for the company at December 31, 2012 was 587% (557% at December 31, 2011).

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

17. Financial Instrument and Insurance Risk Management

Insurance risk management

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

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

The Company purchases reinsurance as part of its risk 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 any reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

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 within 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. 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.

17. Financial Instrument and Insurance Risk Management (Continued)

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of $505,000 in the event of a property claim, an amount of $460,000 in the event of an automobile claim and $460,000 in the event of a liability claim. The Company also obtained reinsurance which limits the Company's liability to $1,350,000 plus 5% of the excess 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 net earned premiums for property and 100% for automobile and liability.

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, 2012 and 2011.

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 6.

The table below sets out the concentration of unpaid claims and adjustment expenses by class of insurance:

	December 31, 2012			December 31, 2011		
	Gross Liabilities $	**Reinsurance Of Liabilities $**	**Net Liabilities $**	Gross Liabilities $	Reinsurance Of Liabilities $	Net Liabilities $
Property	**1,401,408**	**68,385**	**1,333,023**	2,210,202	175,995	2,034,207
Automobile	**15,557,570**	**5,411,778**	**10,145,792**	13,129,277	3,027,777	10,101,500
Liability	**2,353,582**	**846,947**	**1,506,635**	1,796,043	391,470	1,404,573
	19,312,560	**6,327,110**	**12,985,450**	17,135,522	3,595,242	13,540,280

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	
	2012 $	2011 $	**2012 $**	2011 $	**2012 $**	2011 $
5% increase in loss ratios						
Gross	**(492,196)**	(463,518)	**(583,624)**	(544,978)	**(87,000)**	(82,918)
Net	**(457,627)**	(416,456)	**(513,144)**	(472,748)	**(68,786)**	(61,866)
5% decrease in loss ratios						
Gross	**492,196**	463,518	**583,624**	544,978	**87,000**	82,918
Net	**457,627**	416,456	**513,144**	472,748	**68,786**	61,866

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.

17. Financial Instrument and Insurance Risk Management (Continued)

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 the 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. The bond portfolio remains very high quality with 83% of the bonds 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 credit-worthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management and the Board prior to renewal of the reinsurance contract.

Amounts receivable are short-term in nature and are not subject to material credit risk.

The maximum exposure to credit risk and concentration of this risk is outlined in note 4.

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

Market risk

Market risk is the risk that the fair value of 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 Ontario 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. The policy limits the investment in any one corporate issuer to a maximum of 10% of the company's total assets.

a) 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's foreign exchange risk is related to its stock holdings. The Company limits its holdings in foreign equity to 10% of investments in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when out of balance with its investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks and cash by approximately $30,363, which would be reflected in the statement of comprehensive income.

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

17. Financial Instrument and Insurance Risk Management (Continued)

b) 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, which include treasury bills, guaranteed investment certificates 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 its liabilities, the value of its interest rate based assets exceeds its interest rate-based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses in net income. 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.

The objective, policies and procedures for managing interest rate risk are to diversify the bond portfolio in such a way that the bond portfolio is laddered over a period of years. This protects the Company from fluctuations in the interest rates. At December 31 2012, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds by approximately $1,534,633.

There have been no significant changes from the previous period in the exposure to risk, nor any significant changes to policies, procedures and methods used to measure the risk.

c) 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, United States stocks with fair values that move with the S&P 500 Index, and international stocks that move with financial markets in Europe, Australia and Far East. 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 stocks and United States common stocks of approximately $1,557,436. A 10% move in the fair value of the Company's Canadian preferred stocks would have an impact of approximately $500. These changes would be recognized in the statement of comprehensive income.

The Investment Committee of the Board of Directors follows investment policies, procedures and processes for managing equity 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, nor does it have 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 period in the exposure to risk, nor significant changes in policies, procedures and methods used to measure the risk.