

Financial Statements of

**GRENVILLE MUTUAL
INSURANCE COMPANY**

Year ended December 31, 2009

AUDITORS' REPORT

To the Policyholders

We have audited the balance sheet of Grenville Mutual Insurance Company as at December 31, 2009 and the statements of income, policyholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Bennett Lewis McMahon Stillar

Chartered Accountants, Licensed Public Accountants

Brockville, Canada
January 28, 2010

GRENVILLE MUTUAL INSURANCE COMPANY

Balance Sheet


December 31, 2009, with comparative figures for 2008

	2009	2008
		(as restated - note 2)
Assets		
Cash	\$ 1,263,030	\$ 1,025,829
Premiums uncollected	5,573,968	4,576,242
Due from other insurers	503,444	232,303
Income taxes recoverable	308,121	1,536,398
Receivable from employees	3,438	6,429
Accrued investment income	299,961	287,087
Investments (note 3)	37,093,102	33,033,997
Recoverable subrogation of claims (note 6(c))	1,123,092	1,164,480
Unpaid claims and adjusting expenses recoverable from reinsurer	8,340,032	11,246,345
Prepaid expenses	28,998	20,261
Deferred policy acquisition expenses	710,838	638,411
Property and equipment (note 5)	993,282	998,862
Future income taxes	50,000	29,000
	<hr/>	<hr/>
	\$ 56,291,306	\$ 54,795,644
Liabilities and Policyholders' Equity		
Liabilities		
Accounts payable and accrued liabilities	\$ 697,431	\$ 457,038
Provision for unpaid claims and adjusting expenses (note 6)	16,508,666	17,384,813
Unearned premiums	8,816,143	7,497,670
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	26,022,240	25,339,521
Policyholders' equity (note 2)	30,269,066	29,456,123
Subsequent event (note 8(a))		
Contingency (note 9)		
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	\$ 56,291,306	\$ 54,795,644

See accompanying notes to financial statements.

On behalf of the Board:

 Director

 Director

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Income

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008
		(as restated - note 2)
Net premiums earned:		
Direct written	\$ 17,197,259	\$ 14,826,983
Reinsurance assumed	71,170	37,438
Increase in unearned premiums	(1,318,473)	(761,562)
	15,949,956	14,102,859
Premiums ceded to reinsurer	(2,723,835)	(2,145,767)
	13,226,121	11,957,092
Expenses:		
Net claims and adjusting expenses (note 8(f))	10,935,477	10,660,804
Commissions	3,277,568	2,711,016
Premium taxes	59,723	45,196
Management and administrative salaries and benefits	914,196	822,291
Directors fees and travel	130,676	155,340
Risk management	38,177	44,244
Professional and consulting fees	51,451	96,936
Advertising	61,822	59,834
Postage and telephone	58,753	39,108
Printing, stationery and office supplies	83,416	59,657
Training and meetings	44,505	71,922
Insurance	33,309	14,871
Licences and association fees	101,682	93,353
Building	77,642	87,157
Furniture and office equipment	40,411	39,629
Computer operations and statistical information	173,481	169,391
Bank and payroll service charges	28,644	22,670
Miscellaneous	36,147	25,158
	16,147,080	15,218,577
Underwriting loss	(2,920,959)	(3,261,485)
Other income (expenses):		
Investment income (loss), net of investment expenses (note 10)	3,772,825	(1,276,429)
Community support program donations	(13,330)	(10,732)
Loss on disposal of equipment		(17,731)
	3,759,495	(1,304,892)
Income (loss) before income taxes	838,536	(4,566,377)
Income taxes (note 11):		
Current (recovery)	46,593	(878,378)
Future	(21,000)	(15,000)
	25,593	(893,378)
Net income (loss)	\$ 812,943	\$(3,672,999)

See accompanying notes to financial statements.

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Policyholders' Equity

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008 (as restated - note 2)
Balance, beginning of year:		
As previously reported	\$ 28,025,123	\$ 32,365,122
Restatement to correct prior years' accrued liability for premiums due to reinsurer (note 2)	1,431,000	764,000
As restated	29,456,123	33,129,122
Net income (loss)	812,943	(3,672,999)
Balance, end of year	\$ 30,269,066	\$ 29,456,123

Statement of Cash Flows

Year ended December 31, 2009, with comparative figures for 2008

	2009	2008 (as restated - note 2)
Cash provided by (used for):		
Operations:		
Net income (loss)	\$ 812,943	\$ (3,672,999)
Items not involving cash:		
Amortization of property and equipment	134,560	129,179
Amortization of discounts and premiums on bonds and debentures	31,250	13,308
Equity in loss of and provision in decline in value of GGL Financial Services Inc.	-	81,575
Provision for decline in value of investment in shares of Farm Mutual Financial Services Inc.	-	227,500
(Gain) loss on investments	(2,109,463)	2,684,563
Loss on disposal of equipment	-	17,731
Future income taxes	(21,000)	(15,000)
	(1,151,710)	(534,143)
Change in non-cash operating working capital (note 12)	3,498,783	(1,323,894)
	2,347,073	(1,858,037)
Investments:		
Additions to property and equipment	(128,980)	(132,659)
Proceeds on disposal of equipment	-	12,995
Purchase of investments	(5,537,687)	(1,814,560)
Proceeds on sale of investments	3,556,795	3,308,740
Investment in GGL Financial Services Inc.	-	(40,000)
	(2,109,872)	1,334,516
Increase (decrease) in cash	237,201	(523,521)
Cash, beginning of year	1,025,829	1,549,350
Cash, end of year	\$ 1,263,030	\$ 1,025,829

See accompanying notes to financial statements.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements

Year ended December 31, 2009

The Company is incorporated without share capital under the laws of Ontario as a mutual insurance company. The Company is subject to the Insurance Act (Ontario) and is licensed to write all classes of insurance other than life and surety in Ontario. The Company is subject to regulation by the Financial Services Commission of Ontario.

1. Significant accounting policies:

(a) Investments:

(i) Bonds and debentures:

Investments in bonds and debentures are classified as held-to-maturity financial assets and are carried at amortized cost with premiums and discounts amortized using the effective interest rate method.

(ii) Marketable common and preferred shares; pooled funds and mutual funds:

Investments in marketable common and preferred shares, pooled funds and mutual funds are classified as held for trading and are carried at fair value. Fair values are determined by reference to published price quotations in an active market. Dividend income on common and preferred shares is accrued on the ex-dividend date. Gains and losses are reflected in net income for the period in which they arise.

(iii) Other investments:

The investment in GGL Financial Services Inc. is accounted for using the equity method. Under the equity method, the original cost of the investment is adjusted for the Company's share of post-acquisition earnings or losses less dividends.

The investment in Farm Mutual Financial Services, and the Fire Mutual Guarantee Fund are carried at cost, less provision for permanent decline in value (where appropriate) as the fair values are not reasonably determinable and there is no active market for trading these investments.

Transaction costs associated with the acquisition and disposal of investments are capitalized and are included in the acquisition costs or reduced proceeds on disposal. Investment management fees are expensed as incurred.

(b) Property and equipment are stated at cost. Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Office premises	Straight line	2 1/2%
Furniture and office equipment	Declining balance	20%
Computer equipment and software	Straight line	33 1/3%
Automobiles	Declining balance	30%

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements, Page 2

Year ended December 31, 2009

1. Significant accounting policies (continued):

(c) Premiums earned and policy acquisition expenses:

Insurance premiums are included in income on a daily pro rata basis over the terms of the policies. Acquisition expenses related to unearned premiums, which include commissions and premium taxes, are deferred and charged to expense over the periods in which the premiums are earned. The amount of the deferral is limited to its realizable value by giving consideration to investment income as well as claims and adjusting expenses expected to be incurred as the premiums are earned.

(d) Provision for unpaid claims and adjusting expenses:

The provision for unpaid claims and adjusting expenses represents an estimate for the full amount of all costs including investigation and the projected final settlements of claims incurred up to the balance sheet date. This provision is calculated taking into account the time value of money using discount rates based on projected investment income from the assets supporting the provision. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. These provisions are adjusted, up or down, as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period.

The Company also makes provisions for recovery from subrogation of claims, which are recorded as reductions in claims and adjusting expense. These provisions are also adjusted, up or down, as additional information affecting the estimated amounts becomes known during the course of settlement. All changes in estimates are recorded as incurred claims in the current period.

(e) Reinsurance ceded:

Reinsurance premiums ceded and reinsurance recoveries on net claims are recorded as reductions of the respective income and expense accounts. Estimates of amounts recoverable from the reinsurer on unpaid claims and adjusting expenses are recorded separately from estimated amounts payable to policyholders. Premiums on business ceded are calculated based on earned premiums.

(f) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(g) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the fiscal period. Actual results could differ from those estimates.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements, Page 3

Year ended December 31, 2009

2. Restatement to correct prior years' accrued reinsurance premium liability:

The Company's reinsurance premiums are determined, in part, based on its reinsurance claim experience of prior years (a 7 year moving coverage in the case of property). Prior to 2009, the Company estimated the impact that significant reinsurance claims would have on premiums ceded to reinsurer in future years' and accrued for that cost. This accrued liability amounted to \$1,683,000 at December 31, 2008.

During the completion of the 2009 financial statements Management determined that this accrual was not necessary, as the accepted practice in the insurance industry is to measure the cost of reinsurance based on rates in effect in the year of coverage.

As a result the Company has restated its 2008 balance sheet to reduce accounts payable and accrued liabilities by \$1,683,000, income taxes recoverable by \$20,000 and future income taxes \$232,000 and increased opening equity by \$1,431,000 (2008 - \$764,000). The 2008 statement of income has been restated to decrease premiums ceded to reinsurer by \$831,000 and to increase income taxes by \$164,000.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements, Page 4

Year ended December 31, 2009

3. Investments:

The carrying amounts of investments are summarized as follows in thousands of dollars:

	2009		2008	
	Face value	Carrying amount	Face value	Carrying amount
Bonds and debentures, carried at amortized cost:				
Government of Canada	\$ 1,000	\$ 1,015	\$ 1,200	\$ 1,214
Canadian provinces and provincial enterprises	7,850	7,926	7,670	7,698
Canadian municipal and public authorities	5,536	5,564	5,921	5,955
Canadian corporate	10,410	10,556	8,610	8,664
	24,796	25,061	23,401	23,531
Marketable securities, carried at fair market value:				
Common shares of Canadian corporations		3,305		2,075
Preferred shares of Canadian corporations		2,361		2,016
Farm Mutual Canadian Fixed Income Pooled Fund		2,796		2,635
Farm Mutual Canadian Equity Pooled Fund		1,837		1,416
Marketable securities, carried at fair market value:				
Canadian equity mutual funds		1,592		1,233
Other pooled investments		102		90
		11,993		9,465
Fire Mutual Guarantee Fund, at cost		39		38
		\$ 37,093		\$ 33,034

The fair value of bonds and debentures, based on bid prices published in financial newspapers or bid quotations received from securities dealers for those or similar investments, is \$26,160,000 (2008 - \$23,903,000).

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements, Page 5

Year ended December 31, 2009

3. Investments (continued):

Credit risk

The Company is exposed to credit risk resulting from the possibility that other parties may default on their financial obligations. The maximum exposure to this risk with respect to investments is the carrying value of bonds and debentures, the Fixed Income Pooled Fund and the other pooled funds, as shown above.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors, through its Conduct Review Committee. 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 portfolio.

The Company's investment policy permits investment of 70% to 90% of the total portfolio in investment grade fixed income investments and up to 25% of the total portfolio in investment grade Canadian equity investments. The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits. The Company limits its holdings in foreign investments to 2% of its total portfolio.

The Farm Mutual Pooled Funds were established to provide investment management for the investable assets of farm mutual insurance companies. The eligible assets of the funds must be invested in Canadian publicly traded securities. The Fixed Income Pooled Fund may have assets consisting of government bonds, corporate bonds with a BBB rating or better, Canadian Treasury Bills and preferred shares of corporations whose senior debt is rated A or better.

Other pooled investments represent hedge funds invested to earn dividend and interest income from Canadian financial services companies. The funds will be redeemed in 2010 and 2011. Based on the fair value of these investments at December 31, 2009, effective yield rates ranged from 8.8% to 15.2%.

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.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to fund its obligations as they come due. The Company's maximum exposure to this risk would be the carrying values as shown on the previous page.

Market risk

Market risk is the risk that the fair value or future cash flows will fluctuate as a result of market factors. The significant market risks to which the Company is exposed are interest rate risk, and equity risk.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements, Page 6

Year ended December 31, 2009

3. Investments (continued):

Interest rate price risk

The Company's investments in bonds and debentures are held-to-maturity and as such are not exposed to interest rate risk arising from fluctuations in interest rates.

The Company has an investment strategy to maintain a laddered structure of maturities of bonds and debentures to manage interest rate price risk. The laddered strategy helps reduce the sensitivity of the portfolio to the impact of interest rate fluctuations.

Approximately 9% of the bonds and debentures mature within one year, 36% mature after one year through five years and 55% mature after five years. Investments in bonds and debentures are generally held until maturity.

The coupon rates for the Company's bonds and debentures range from 5.5% to 9.5% for Government of Canada, from 4.25% to 6.5% for provinces and provincial enterprises, from 3.5% to 7.5% for municipal and public authorities and from 3.7% to 7.1% for corporate. Based on the fair value of these investments at December 31, 2009, effective interest rates were between 3.4% and 9.2%.

At December 31, 2009, a 1% move in interest rates, with all other variables held constant, would impact the fair value of bonds and debentures by \$1,269,000 and the value of the pooled bonds by \$194,000.

Equity Risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in the equity markets.

The Company's portfolio is entirely invested in Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. A 10% movement in the stock markets with all other variables held constant would have an estimated affect on the fair values of the Company's common shares of \$330,000. A 10% move in the fair value of the Company's Preferred shares is \$236,000. Realized and unrealized gains and losses are recognized in income during the year.

Shares have no fixed maturity date and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. Based on the fair value of these investments at December 31, 2009, effective yield rates ranged from 5.0% to 7.8%.

The Farm Mutual Equity Pooled Fund may have assets consisting of common shares of companies listed on Canadian Stock Exchanges, convertible debentures or convertible preferred shares of eligible common shares, Canadian Treasury Bills, warrants of eligible common shares, exchange traded index funds and income trusts with growing underlying assets.

Based on the fair market value of the Canadian equity mutual funds at December 31, 2009, effective yields ranged from 0% to 1.5%.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements, Page 7

Year ended December 31, 2009

4. Other financial instruments:

(a) Fair values of financial assets and financial liabilities:

The fair value of financial assets and liabilities, other than investments (note 3) and unpaid claims and adjusting expenses (note 6), approximate their carrying amounts

(b) Credit risk:

The Company is exposed to credit risk as all of its reinsurance is placed with Farm Mutual Reinsurance Plan Inc. ("FMRP"), a Canadian registered mutual reinsurer incorporated without share capital, of which the Company is a member. 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. The maximum exposure resulting from this credit risk would be the carrying amounts of "unpaid claims and adjusting expenses recoverable from reinsurer" as reported on the balance sheet.

Premiums uncollected include approximately \$4,735,045, which is due from policyholders on monthly payment plans. Almost all of these premiums are unearned as at December 31, 2009 and have not been included in revenue.

The balance of premiums uncollected represents amounts receivable from brokers. Broker accounts are due per contract terms in 60 days. Net premiums due from Brokers greater than 60 days amount to \$34,945. Brokers are required, by regulation, to hold amounts collected from policyholders in trust accounts until the funds are remitted to the insurer.

Due from other insurers and accrued investment income are short-term in nature and are not subject to material credit risk.

(c) Liquidity risk:

The Company mitigates liquidity risk by monitoring its cash activities and expected outflows. 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 any need for material capital expenditures in the normal course of operations. Claims payments are funded by current operating cash flow, including investment income.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements, Page 8

Year ended December 31, 2009

5. Property and equipment:

	2009		2008	
	Cost	Accumulated Amortization	Net Carrying Amount	Net Carrying Amount
Land	\$ 24,000	\$ –	\$ 24,000	\$ 24,000
Office premises	908,712	301,828	606,884	629,602
Furniture and office equipment	508,090	366,853	141,237	158,670
Computer equipment and software	251,368	87,306	164,062	121,412
Software under development	11,475	–	11,475	–
Automobiles	106,843	61,219	45,624	65,178
	\$ 1,810,488	\$ 817,206	\$ 993,282	\$ 998,862

2008 cost and accumulated amortization were \$1,714,343 and \$715,481 respectively. Amortization for the year was \$134,560 (2008 - \$129,179).

6. Unpaid claims and adjusting expenses:

(a) Nature of unpaid claim and adjusting expenses:

During the year the establishment of the provision for unpaid claims and adjusting expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, professional experience and expertise of the Company's claims personnel and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the reserving determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be.

Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tailed claims, such as liability claims.

Consequently, the establishment of the provision for unpaid claims and adjusting expenses process relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements, Page 9

Year ended December 31, 2009

6. Unpaid claims and adjusting expenses (continued):

(b) Provision for unpaid claims and adjusting expenses:

The Company has experienced favourable reserve development on provisions originally established in each of the last five accident years. The experience reflects the Company's general reserving philosophy, which is to maintain a margin of conservatism in the provisions.

The following is a summary of reserve developments by policy year, presented net of reinsurance recoveries, in thousands of dollars:

	2008	2007	2006	2005	2004
Unpaid claims and adjusting expenses, originally established	\$ 4,974	\$ 3,007	\$ 6,175	\$ 3,095	\$ 3,465
Amounts paid plus reserves provided at December 31, 2009	2,421	2,462	4,386	1,808	2,938
Excess	\$ 2,553	\$ 545	\$ 1,789	\$ 1,287	\$ 527

(c) Recoverable subrogation of claims:

The Company has incurred losses on a number of claims related to heating oil spills, which resulted from actions of third parties. The Company is seeking subrogation of these claims from those third parties, has estimated the amount that will likely be recovered from these actions and has recorded these amounts as recoverable subrogation. The process of determining the receivable necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

(d) Fair value of unpaid claims and adjusting expenses:

It is not practicable to estimate the fair value of unpaid claims and adjusting expenses, gross and recoverable from insurers. The provision for unpaid claims and adjusting expenses, gross and recoverable from insurers is calculated taking into account the time value of money using discount rates based on projected investment income from the assets supporting the provision. The discount rate used was 5%.

7. 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 its capital. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. The Company's agreements with its reinsurer Farm Mutual Reinsurance Plan Inc are described in note 8. For the purpose of capital management, the Company has defined capital as policyholders' equity.

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 the 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%. The MCT for the Company at December 31, 2009 was 854%.

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements, Page 10

Year ended December 31, 2009

8. Reinsurance agreements:

- (a) The Company follows the policy of underwriting and reinsuring contracts of insurance which limits the retained liability of the Company to a maximum amount, on any one loss, of \$325,000 in the event of a property claim, \$280,000 in the event of a liability or automobile claim. Effective for fiscal year 2010, the Company increased the maximum amount on any one loss it retains in the event of a liability or auto claim to \$370,000.
- (b) The reinsurance treaties provide stop loss coverage that limits the amount of net losses for a year to 92% of earned premiums for property policies and 110% for automobile and liability policies.
- (c) The Company has catastrophe reinsurance, which provides coverage for 95% of single event losses in excess \$750,000.
- (d) The Company participates in a program to provide re-insurance coverage for crop insurance. The maximum retained liability for the Company in any one year is \$450,000.
- (e) The Company is participating as a reinsurer of losses from catastrophe suffered by members of the Farm Mutual Reinsurance Plan Inc. to the extent of \$200,000 for a single catastrophe loss. The Company's participation commences if a catastrophe loss exceeds \$7.5 million and reaches the limit of \$200,000 if the loss is \$55 million or greater.
- (f) An amount of \$2,782,516 (2008 – \$10,124,375) was deducted from net claims and adjusting expenses in connection with reinsurance ceded.

9. Contingency:

Certain of the Company's directors and one of its officers have been named as defendants in an action for damages and costs. As the claims are in connection with the Company's operations, the Company and its insurer will be responsible for any judgement or settlement that might arise from this action. At this time it is not possible to estimate the outcome of the proceeding, nor the uninsured exposure of the Company.

10. Investment income, net of investment expenses:

	2009	2008
Interest from bonds and debentures	\$ 1,265,955	\$ 1,314,653
Amortization of discounts and premiums on bonds and debentures	(31,250)	(13,308)
Other interest	34,189	23,369
Dividends	253,598	264,822
Reinvested distributions from pooled funds	168,405	156,255
Gain (loss) on investments	2,109,463	(2,684,567)
Investment management costs	(27,535)	(28,578)
Equity in loss of GGL Financial Services Inc.	-	(64,320)
Provision for decline in value of investment in GGL Financial Services Inc.	-	(17,255)
Provision for decline in value of investment in share of Farm Mutual Financial Services Inc.	-	(227,500)
	\$ 3,772,825	\$ (1,276,429)

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements, Page 11

Year ended December 31, 2009

11. Income taxes:

The Company is subject to income taxes on a portion of its taxable income. That portion is based on the percentage of gross premium income earned for other than farm property, which in 2009 amounted to 62% (2008 – 59%).

The income tax provision has been calculated on net income before considering loss from equity investments and varies from the basic income tax rate as follows, in thousands of dollars:

	2009	2008
Provision for income taxes based on combined basic Canadian federal and provincial income tax rate of 33% (2008 – 33.5%)	\$ 277	\$ (1,502)
Increases (decreases) resulting from:		
Small business deduction	(83)	–
Provincial surtax	36	–
Exempt income from insuring farm property	(105)	640
Adjustment of prior years' income taxes	(1)	40
Non-deductible expenses	3	3
Non-taxable dividend income	(55)	(53)
Allowable business investment loss on investment previously written-off	(46)	–
Effect of applying loss to a prior year when rates were higher	–	(21)
Provision for income taxes	\$ 26	\$ (893)

12. Change in non-cash operating working capital:

	2009	2008
Cash provided by (used for):		
Premiums uncollected	\$ (997,726)	\$ (575,604)
Due from other insurers	(271,141)	269,713
Income taxes recoverable	1,228,277	(1,536,398)
Receivable from employees	2,991	375
Accrued investment income	(12,874)	16,803
Recoverable subrogation of claims	41,388	(19,560)
Unpaid claims and adjusting expenses recoverable from reinsurer	2,906,313	(7,255,155)
Prepaid expenses	(8,737)	(4,607)
Deferred policy acquisition expenses	(72,427)	(47,573)
Accounts payable and accrued liabilities	240,393	(213,724)
Income taxes payable	–	(237,389)
Provision for unpaid claims and adjusting expenses	(876,147)	7,517,664
Unearned premiums	1,318,473	761,561
	\$ 3,498,783	\$ (1,323,894)

GRENVILLE MUTUAL INSURANCE COMPANY

Notes to Financial Statements, Page 12

Year ended December 31, 2009

13. Supplemental cash flow information:

	2009	2008
Income taxes paid	\$ 48,500	\$ 1,039,643
Cash received during the year		
Investment income	1,675,084	1,804,160
Income taxes	1,170,461	130,951

14. Future accounting changes:

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has confirmed that all publically accountable enterprises will be required to comply with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Company understands that there will be differences between current Canadian generally accepted accounting standards and IFRS and has undertaken a project to determine the possible future effects on the Company's future financial statements. The findings of that project, to date, are as follows:

- (a) IFRS 4 *Insurance Contracts* permits companies to use existing accounting policies for insurance contracts, subject to certain modifications which should not cause any significant changes to Canadian practice, which the Company currently follows.

As a result of applying IFRS 4 there will be increased disclosures regarding risk, risk management practices, changes in reserves, claims developments and reinsurance matters. Management has concluded that they currently have most of the resources required to satisfy the disclosure requirements and will be able to obtain the balance of the required resources by the end of 2010.

- (b) IFRS in general will require additional disclosure in the notes to the financial statements including:

- the nature of expenses
- details about the nature of provisions and changes thereto during the fiscal year