Financial Statements of

GRENVILLE MUTUAL INSURANCE COMPANY

Year ended December 31, 2010

Bennett
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Stillar

Chartered Accountants

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INDEPENDENT AUDITORS' REPORT

To the Policyholders

We have audited the accompanying financial statements of Grenville Mutual Insurance Company, which comprise the balance sheet as at December 31, 2010, and the statement of income, statement of policyholders' equity and statement of 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 Canadian generally accepted accounting principles, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Grenville Mutual Insurance Company as at December 31, 2010 and its financial performance and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Bennett Lewis McMahon Stellar

Chartered Accountants, Licensed Public Accountants

Brockville, Canada
February 9, 2011

GRENVILLE MUTUAL INSURANCE COMPANY

Balance Sheet

December 31, 2010, with comparative figures for 2009

	2010	2009
Assets		
Cash	$ 918,289	$ 1,263,030
Premiums uncollected	6,742,564	5,573,968
Due from other insurers	115,617	503,444
Income taxes recoverable	–	308,121
Receivable from employees	6,682	3,438
Accrued investment income	316,824	299,961
Investments (note 2)	40,525,505	37,093,102
Recoverable subrogation of claims (note 5(c))	712,005	1,123,092
Unpaid claims and adjusting expenses recoverable from reinsurer	7,696,400	8,340,032
Prepaid expenses	34,638	28,998
Deferred policy acquisition expenses	808,340	710,838
Property and equipment (note 4)	1,696,948	993,282
Future income taxes	25,000	50,000
	$ 59,598,812	$ 56,291,306
Liabilities and Policyholders' Equity		
Liabilities		
Accounts payable and accrued liabilities	$ 1,225,826	$ 697,431
Income taxes payable	144,760	–
Provision for unpaid claims and adjusting expenses (note 5)	16,139,942	16,508,666
Unearned premiums	10,565,354	8,816,143
	28,075,882	26,022,240
Policyholders' equity	31,522,930	30,269,066
Commitment (note 6)		
	$ 59,598,812	$ 56,291,306

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Income

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Net premiums earned:		
Direct written	$ 20,729,414	$ 17,197,259
Reinsurance assumed	35,316	71,170
Increase in unearned premiums	(1,749,211)	(1,318,473)
	19,015,519	15,949,956
Premiums ceded to reinsurer	(3,223,570)	(2,723,835)
	15,791,949	13,226,121
Expenses:		
Net claims and adjusting expenses (note 7(f))	10,309,437	10,935,477
Commissions	4,028,311	3,277,568
Premium taxes	68,110	59,723
Management and administrative salaries and benefits	1,076,626	914,196
Directors fees and travel	154,748	130,676
Risk management	38,185	38,177
Professional and consulting fees	36,853	51,451
Advertising	67,303	61,822
Postage and telephone	53,131	58,753
Printing, stationery and office supplies	80,723	83,416
Training and meetings	44,935	44,505
Insurance	46,115	33,309
Licences and association fees	116,617	101,682
Building	90,511	77,642
Furniture and office equipment	19,814	40,411
Computer operations and statistical information	261,589	173,481
Bank and payroll service charges	32,038	28,644
Miscellaneous	52,834	36,147
	16,577,880	16,147,080
Underwriting loss	(785,931)	(2,920,959)
Other income (expenses):		
Investment income, net of investment expenses (note 8)	2,678,747	3,772,825
Community support program donations	(12,550)	(13,330)
Loss on disposal of equipment	(6,506)	-
Settlement of legal claims (note 9)	(418,504)	-
	2,241,187	3,759,495
Income before income taxes	1,455,256	838,536
Income taxes (note 10):		
Current	176,392	46,593
Future	25,000	(21,000)
	201,392	25,593
Net income	$ 1,253,864	$ 812,943

See accompanying notes to financial statements.

GRENVILLE MUTUAL INSURANCE COMPANY

Statement of Policyholders' Equity

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Balance, beginning of year	$ 30,269,066	$ 29,456,123
Net income	1,253,864	812,943
Balance, end of year	$ 31,522,930	$ 30,269,066

Statement of Cash Flows

Year ended December 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used for):		
Operations:		
Net income	$ 1,253,864	$ 812,943
Items not involving cash:		
Amortization of property and equipment	245,360	134,560
Amortization of discounts and premiums on bonds and debentures	45,624	31,250
Gain on investments	(894,828)	(2,109,463)
Loss on disposal of equipment	6,506	-
Future income taxes	25,000	(21,000)
	681,526	(1,151,710)
Change in non-cash operating working capital (note 11)	2,512,464	3,498,783
	3,193,990	2,347,073
Investments:		
Additions to property and equipment	(975,713)	(128,980)
Proceeds on disposal of equipment	20,181	-
Purchase of investments	(5,484,324)	(5,537,687)
Proceeds on sale of investments	2,901,125	3,556,795
	(3,538,731)	(2,109,872)
Increase (decrease) in cash	(344,741)	237,201
Cash, beginning of year	1,263,030	1,025,829
Cash, end of year	$ 918,289	$ 1,263,030

See accompanying notes to financial statements.

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 Fire Mutual Guarantee Fund is carried at cost, less provision for permanent decline in value (where appropriate) as the fair value is not reasonably determinable and there is no active market for trading this investment.

(iv) Transaction costs:

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%
Parking lot	Straight-line	6 2/3%
Building service equipment	Declining balance	20%
Furniture and office equipment	Declining balance	20%
Computer equipment and software	Straight-line	33 1/3%
Automobiles	Declining balance	30%

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 revenue 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.

2. Investments:

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

	2010		2009	
	Face value	Carrying amount	Face value	Carrying amount
Bonds and debentures, carried at amortized cost:				
Government of Canada	$ 1,750	$ 1,780	$ 1,000	$ 1,015
Canadian provinces and provincial enterprises	8,100	8,204	7,850	7,926
Canadian municipal and public authorities	5,095	5,117	5,536	5,564
Canadian corporate	11,710	11,916	10,410	10,556
	26,655	27,017	24,796	25,061
Marketable securities, carried at fair market value:				
Common shares of Canadian corporations		3,595		3,305
Preferred shares of Canadian corporations		2,851		2,361
Farm Mutual Canadian Fixed Income Pooled Fund		3,000		2,796
Farm Mutual Canadian Equity Pooled Fund		2,131		1,837
Canadian equity mutual funds		1,794		1,592
Other pooled investments		97		102
		13,468		11,993
Fire Mutual Guarantee Fund, at cost		41		39
		$ 40,526		$ 37,093

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 $28,282,000 (2009 - $26,160,000).

2. 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 and 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 2011 and 2014. Based on the fair value of these investments at December 31, 2010, effective yield rates ranged from 8.3% to 18.1%.

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 of investments or future cash flows from investments 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.

2. 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, 31% mature after one year through five years and 60% 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 3.35% to 9.0% for Government of Canada, from 4.15% to 6.4% for provinces and provincial enterprises, from 4.15% to 7.5% for municipal and public authorities and from 3.7% to 7.7% for corporate. Based on the fair value of these investments at December 31, 2010, effective interest rates were between 3.4% and 8.9%.

At December 31, 2010 a 1% move in interest rates, with all other variables held constant, would impact the fair value of bonds and debentures by $1,445,000 and the value of the pooled bonds by $205,000.

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 $360,000. A 10% move in the fair value of the Company's preferred shares is $285,000. 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, 2010, effective yield rates ranged from 3.3% to 9.9%.

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, 2010, effective yields ranged from 0% to 1.0%.

3. Other financial instruments:

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

The fair value of financial assets and liabilities, other than investments (note 2) and unpaid claims and adjusting expenses (note 5), 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 $5,896,592 which is due from policyholders on monthly payment plans. Almost all of these premiums are unearned as at December 31, 2010 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 $24,130. 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 unexpectantly 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.

4. Property and equipment:

			2010	2009
	Cost	Accumulated Amortization	Net Carrying Amount	Net Carrying Amount
Land	$ 50,390	$ –	$ 50,390	$ 24,000
Office premises and parking lot	920,838	347,651	573,187	606,884
Building service equipment	48,568	14,477	34,091	21,379
Furniture and office equipment	481,881	382,859	99,022	119,858
Computer equipment and software	720,743	206,231	514,512	164,062
Software under development	351,087	–	351,087	11,475
Automobiles	110,277	35,618	74,659	45,624
	$ 2,683,784	$ 986,836	$ 1,696,948	$ 993,282

The 2009 cost and accumulated amortization were $1,810,488 and $817,206 respectively. Amortization for the year was $245,360 (2009 - $134,560).

5. 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.

5. 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:

	2009	2008	2007	2006	2005
Unpaid claims and adjusting expenses, originally established	$ 4,283	$2,785	$3,007	$6,175	$ 3,095
Amounts paid to date	2,488	749	1,687	3,984	1,721
Reserves provided at December 31, 2010	601	1,434	389	424	92
	3,089	2,183	2,076	4,408	1,813
Excess	$ 1,194	$ 602	$ 931	$1,767	$ 1,282

(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 3%.

6. Commitment:

In December 2010 the Company signed an agreement for the purchase of land in the amount of $545,000. The purchase is to close in August 2011.

7. Reinsurance agreements:

(a) The Company follows the policy of underwriting and reinsuring contracts of insurance which limit the retained liability of the Company to a maximum amount, on any one loss, of $325,000 in the event of a property claim and $370,000 in the event of a liability or automobile claim.

(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 $2,628,473 (2009 – $2,782,516) was deducted from net claims and adjusting expenses in connection with reinsurance ceded.

8. Investment income, net of investment expenses:

	2010	2009
Interest from bonds and debentures	$ 1,327,331	$ 1,265,955
Amortization of discounts and premiums on bonds and debentures	(45,624)	(31,250)
Other interest	6,126	34,189
Dividends	309,383	253,598
Reinvested distributions from pooled funds	215,146	168,405
Gain on investments	894,828	2,109,463
Investment management costs	(28,443)	(27,535)
	$ 2,678,747	$ 3,772,825

9. Settlement of legal claims:

During the year the Company paid $418,504 as part of a settlement of legal actions which arose in 2008 and 2009. The actions related to the Company's participation in Farm Mutual Financial Services Inc. The settlement was made without any admission of guilt and released the Company from any future claims relating to the matter.

10. 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 2010 amounted to 64% (2009 – 62%).

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:

	2010	2009
Provision for income taxes based on combined basic Canadian federal and provincial income tax rate of 31% (2009 – 33%)	$ 453	$ 277
Increases (decreases) resulting from:		
Small business deduction	(40)	(83)
Provincial surtax	20	36
Exempt income from insuring farm property	(163)	(105)
Adjustment of prior years' income taxes	(2)	(1)
Non-deductible expenses	3	3
Non-taxable dividend income	(70)	(55)
Allowable business investment loss on investment previously written-off	-	(46)
Provision for income taxes	$ 201	$ 26

11. Change in non-cash operating working capital:

	2010	2009
Cash provided by (used for):		
Premiums uncollected	$(1,168,596)	$ (997,726)
Due from other insurers	387,827	(271,141)
Income taxes recoverable	308,121	1,228,277
Receivable from employees	(3,244)	2,991
Accrued investment income	(16,863)	(12,874)
Recoverable subrogation of claims	411,087	41,388
Unpaid claims and adjusting expenses recoverable from reinsurer	643,632	2,906,313
Prepaid expenses	(5,640)	(8,737)
Deferred policy acquisition expenses	(97,502)	(72,427)
Accounts payable and accrued liabilities	528,395	240,393
Income taxes payable	144,760	-
Provision for unpaid claims and adjusting expenses	(368,724)	(876,147)
Unearned premiums	1,749,211	1,318,473
	$ 2,512,464	$ 3,498,783

12. 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 7. 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, 2010 was 760% (2009 – 854%).

13. Supplemental cash flow information:

	2010	2009
Income taxes paid	$ 197,729	$ 48,500
Cash received during the year		
Investment income	1,834,997	1,675,084
Income taxes	406,108	1,170,461

14. Future accounting changes:

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has confirmed that all publicly accountable enterprises will be required to comply with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. This will require the restatement of amounts reported by the Company as at and for the year ended December 31, 2010.

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 that 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 the resources required to satisfy the disclosure requirements.

(b) IFRS will require additional disclosure in the notes to the financial statements including the nature of expenses and details about the nature of provisions and changes thereto during the fiscal year.