THE WESTMINSTER MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

For the Year Ended December 31, 2009

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Financial Statements

For the year ended December 31, 2009

Contents

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Auditors' Report

To the Members of
THE WESTMINSTER MUTUAL INSURANCE COMPANY

We have audited the balance sheet of THE WESTMINSTER MUTUAL INSURANCE COMPANY as at December 31, 2009 and the statements of operations and members' surplus, comprehensive income (loss), accumulated other comprehensive income (loss) 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 the cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Woodstock, Ontario
January 28, 2010

THE WESTMINSTER MUTUAL INSURANCE COMPANY
Balance Sheet

December 31		2009		2008
Assets				
Cash	**$**	**509,300**	$	675,503
Investments (Notes 2 and 3)		**8,221,825**		6,060,909
Investment income accrued		**32,614**		41,044
Income taxes recoverable		**-**		100,653
Other receivables		**2,691,079**		2,484,920
Reinsurers' share of provision for unpaid claims (Notes 2 and 12)		**6,552,866**		5,883,685
Salvage and subrogation recoverable		**92,435**		133,790
Deposit on capital asset		**-**		47,101
Deferred policy acquisition costs		**411,617**		426,689
Capital assets (Notes 2 and 7)		**338,230**		328,853
Future income taxes		**20,900**		61,158
	$	**18,870,866**	$	16,244,305
Liabilities				
Provision for unpaid claims and adjustment expenses (Notes 2 and 12)	**$**	**9,850,489**	$	8,404,109
Unearned premiums (Note 10)		**2,925,987**		2,685,084
Accounts payable and accrued liabilities		**1,141,256**		1,096,043
Income taxes payable (Notes 2 and 11)		**91,030**		-
		14,008,762		12,185,236
Members' surplus				
Members' surplus		**4,768,403**		4,845,943
Accumulated other comprehensive income (loss)		**93,701**		(786,874)
		4,862,104		4,059,069
	$	**18,870,866**	$	16,244,305

On behalf of the Board:

____________________________ Director

____________________________ Director

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

THE WESTMINSTER MUTUAL INSURANCE COMPANY
Statement of Operations and Members' Surplus

For the year ended December 31	2009	2008
Revenue (Page 5)	**$ 4,591,411**	$ 4,358,509
Expenses (Page 5)	**5,006,632**	4,327,304
Underwriting (loss) income	**(415,221)**	31,205
Other income (expense)		
Net investment income	**310,202**	288,187
Writedown of investments	**-**	(121,821)
	310,202	166,366
(Loss) income before income taxes	**(105,019)**	197,571
Income taxes - Current	**140,521**	(82,517)
- Future	**(168,000)**	118,585
	(27,479)	36,068
Net (loss) income for the year	**(77,540)**	161,503
Members' surplus		
Balance, beginning of year	**4,845,943**	4,684,440
Members' surplus		
Balance, end of year	**$ 4,768,403**	$ 4,845,943

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

THE WESTMINSTER MUTUAL INSURANCE COMPANY
Schedule of Revenue and Expenses

For the year ended December 31	2009	2008
Revenue		
Gross premiums written	$ 7,935,269	$ 7,295,536
Less: reinsurance premiums cost	(3,201,724)	(2,855,554)
Net premiums written	4,733,545	4,439,982
Increase in provision for unearned premiums	(240,903)	(191,530)
	4,492,642	4,248,452
Service charges	98,769	110,057
	$ 4,591,411	$ 4,358,509

Expenses		
Net claims incurred	$ 3,191,105	$ 2,599,772
Commission expense	1,195,220	1,194,792
Commission income (Note 8)	(687,061)	(669,817)
Salaries and directors' fees	505,350	429,293
Inspection of risks	88,764	76,813
Other expenses (see below)	713,254	696,451
	$ 5,006,632	$ 4,327,304

Other expenses		
Amortization	$ 48,893	$ 54,511
Bad debt expense	5,008	8,466
Education, fees and travel	132,494	126,863
Employee benefits	164,970	138,933
Office expense and maintenance	225,682	217,543
Postage and telephone	26,348	28,635
Printing and stationery	28,533	33,248
Professional services	30,701	30,525
Provincial premium tax	13,407	12,721
Sundry	37,218	45,006
	$ 713,254	$ 696,451

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

THE WESTMINSTER MUTUAL INSURANCE COMPANY
Statement of Comprehensive Income (Loss)

For the year ended December 31	2009	2008
Net (loss) income for the year	**$ (77,540)**	$ 161,503
Other comprehensive income (loss)		
Change in unrealized gain (loss) on available-for-sale financial assets		
Debt securities	**272,408**	(248,656)
Preferred shares	**72,755**	(223,704)
Common shares	**359,404**	(669,717)
	704,567	(1,142,077)
Reclassification adjustment for loss (gain) included in income		
Debt securities	**131,474**	2,131
Preferred shares	**182,880**	(492)
Common shares	**21,139**	129,622
	335,493	131,261
Net unrealized gain (loss)	**1,040,060**	(1,010,816)
Income tax effect	**159,485**	(158,984)
Other comprehensive income (loss)	**880,575**	(851,832)
Comprehensive income (loss)	**$ 803,035**	$ (690,329)

Statement of Accumulated Other Comprehensive Income (Loss)

For the year ended December 31	2009	2008
Balance, beginning of year	**$ (786,874)**	$ 64,958
Other comprehensive income (loss)	**880,575**	(851,832)
Balance, end of year	**$ 93,701**	$ (786,874)

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

THE WESTMINSTER MUTUAL INSURANCE COMPANY
Statement of Cash Flows

For the year ended December 31	2009	2008
Cash flows from operating activities		
Net (loss) income for the year	**$ (77,540)**	$ 161,503
Adjustments to convert income to a cash basis:		
Increase (decrease) in provision for unpaid claims and adjustment expenses	**1,446,380**	(131,774)
Increase in unearned premiums	**240,903**	191,530
Increase in accounts payable and accrued liabilities	**45,213**	72,078
Increase in income taxes payable	**91,030**	-
Decrease (increase) in income taxes recoverable	**100,653**	(7,122)
(Increase) decrease in reinsurers' share of provision for unpaid claims	**(669,181)**	107,944
Decrease in salvage and subrogation recoverable	**41,355**	242,805
Amortization of capital assets	**48,893**	54,511
Increase in receivables and other assets	**(197,729)**	(158,771)
Decrease (increase) in deferred policy acquisition costs	**15,072**	(46,831)
(Gain) loss on sale of investments	**(44,880)**	62,940
Loss on disposal of capital assets	**-**	562
Writedown of investments	**-**	121,821
Future income tax provision	**(117,342)**	118,585
	922,827	789,781
Cash flows from investing activities		
Sale of investments	**1,883,852**	2,086,571
Purchase of investments	**(2,961,713)**	(2,497,238)
Purchase of capital assets	**(11,169)**	(27,670)
	(1,089,030)	(438,337)
(Decrease) increase in cash and cash equivalents during the year	**(166,203)**	351,444
Cash and equivalents, beginning of year	**675,503**	324,059
Cash and equivalents, end of year	**$ 509,300**	$ 675,503

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

1. Nature of Business

The Company is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. The Company is licensed to write property, boiler and machinery, liability and automobile insurance in Ontario. The accounting policies of the Company conform with those generally accepted in Canada and comply with the requirements for filing with the Financial Services Commission of Ontario.

2. Summary of Significant Accounting Policies

Premiums Earned and Deferred Policy Acquisition Expense

Insurance premiums are included in income on a daily prorata basis over the life of the policies. Acquisition expenses related to unearned premiums, comprised of commissions and premium taxes, are deferred and amortized to income over the periods in which the premiums are earned. The method followed in determining the deferred acquisition expenses limits the amount of the deferral to its realizable value by giving consideration to claims and expenses expected to be incurred as the premiums are earned.

Capital Assets

Capital assets are recorded at cost less accumulated amortization. Amortization is provided using the following rates reflecting the useful lives of the assets.

Building	4% - 10% declining balance
Furniture and equipment	20% declining balance and 5 - 15 years straight-line

Reinsurance Ceded

The Company reflects reinsurance balances on the balance sheet on a gross basis to indicate the extent of the credit risk related to reinsurance and its obligations to policyholders and on a net basis in the statement of operations to indicate the results of its retention of premiums written.

Income taxes

The Company follows the asset/liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets, that are likely to be realized, and future income tax liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities.

The future tax amount is measured at enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

2. Summary of Significant Accounting Policies (continued)

Financial Instruments

Purchases and sales of financial assets are accounted for at settlement date. Transaction costs are recognized immediately in income.

The Company classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Held-for-trading

This category is comprised of cash and cash equivalents. They are carried in the balance sheet at fair value with changes in fair value recognized in the statement of operations.

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 arise principally through the provision of goods and services to customers, but also incorporate other types of contractual monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment.

Available-for-sale investments

Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise of investments in equity instruments, including the Company's investments in private companies. When the investments have a quoted market price in an active market, they are carried at fair value with changes in fair value recognized as a separate component of other comprehensive income. When they do not have a quoted market price in an active market, they are carried at cost. Where a decline in the fair value is determined to be other than temporary, the amount of the loss is removed from other comprehensive income and recognized in the statement of operations.

Other financial liabilities

Other financial liabilities includes all financial liabilities other than those classified as held-for-trading and comprises trade payables, and other short-term monetary liabilities. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method.

2. Summary of Significant Accounting Policies (continued)

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

	Designated held-for-trading	Available-for-sale	Loans and receivables	Other financial liability	Total
Cash	$ 509,300	$ -	$ -	$ -	$ 509,300
Investments	-	8,221,825	-	-	8,221,825
Investment income accrued	-	-	32,614	-	32,614
Accounts payable and accrued liabilities	-	-	-	(1,141,256)	(1,141,256)
	$ 509,300	$ 8,221,825	$ 32,614	$ (1,141,256)	$ 7,622,483

Fair values

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arms length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

Impaired Investments

When the value of any debt security or equity is identified as impaired, the carried amounts are adjusted to estimated realizable amounts. Estimated realizable amounts are measured by discounting reasonably determinable expected future cash flows at the effective interest rate inherent in the investment or using the estimated fair values of underlying security less realization costs or observable market prices. Adjustments to carried amounts are included in investment income in the period the impairment is recognized.

3. Investments

The cost and carrying values of investments at December 31, 2009 is shown in the following table.

	2009		2008	
	Amortized Cost	**Carrying Value**	Amortized Cost	Carrying Value
Term Deposits	**$ 1,463,803**	**$ 1,465,799**	$ 812,106	$ 812,106
Bonds Issued By:				
Provincial	**-**	**-**	48,552	48,466
Corporate				
- Rated A or better	**1,796,673**	**1,876,629**	1,749,808	1,687,954
- Rated B	**653,523**	**660,454**	853,292	760,883
- Not rated	**300,000**	**300,750**	472,873	312,904
Total Bonds	**2,750,196**	**2,837,833**	3,124,525	2,810,207
Pooled Fund				
Canadian Fixed Income	**1,362,559**	**1,361,725**	709,100	705,149
Canadian Equity	**573,411**	**613,830**	168,228	105,055
Fire Mutuals Guarantee Fund	**14,661**	**14,661**	9,534	9,534
Equity Investments				
Canadian Common	**1,195,401**	**1,291,039**	1,128,318	934,800
US Common	**165,020**	**98,423**	224,701	101,961
Preferred shares	**587,132**	**538,515**	884,520	582,097
	$ 8,112,183	**$ 8,221,825**	$ 7,061,032	$ 6,060,909

The carrying values are equal to their fair values except for the Fire Mutuals Guarantee Fund, which is at cost.

The maximum exposure to credit risk would be the carrying value as shown above.

The estimated fair value of bonds and debentures and pooled funds are based on quoted market values. The estimated fair value of equities are determined using last bid price.

Investment in the Fire Mutual Guarantee Fund does not have quoted market values. This investment have been recorded at cost for accounting purposes.

Based on the analysis by the equity portfolio investment managers, equities that have declined from their cost value at December 31, 2009 and are anticipated to have a prolonged or doubtful prospect of recovery to cost due to economic uncertainty in their respective sectors, were deemed as other than temporarily impaired and written down. While these equities have potential for values to improve, it is considered unlikely these stock values will recover to the point of their initial purchase price. During the year, the Company determined that no other than temporary impairment occurred, as such no writedown of investments was required.

3. **Investments** (continued)

Some equities that have declined in fair market value from their purchase price at December 31, 2009 in sectors where improvement is probably within a timeframe consistent to the investment manager's conservative strategy, were deemed as temporarily impaired and not written down.

Liquidity

Maturity profile as at December 31, 2009

	2009		2008	
	Cost/ Carrying	**Fair Value**	Cost/ Carrying	Fair Value
Bonds - maturity profile				
Maturing within one year	**$ 87,965**	**$ 88,052**	$ 720,308	$ 611,338
Maturing between 2 to 5 years	**2,014,215**	**2,078,728**	1,521,910	1,422,120
Maturing in over five years	**648,016**	**671,053**	882,307	776,749
	$ 2,750,196	**$ 2,837,833**	$ 3,124,525	$ 2,810,207

The effective interest rate at December 31, 2009 for debt securities is 5.13%.

4. **Fair Value Measurement**

The accounting standards board amended Handbook section 3862, Financial Instruments - Disclosures, by including enhanced disclosure requirements for fair value measurement of financial instruments and liquidity risk. The required disclosure relating to liquidity risk is in Note 6.

In compliance with CICA 3862, the Company has categorized its assets and liabilities that are carried at fair value, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs or inputs that are derived principally for or corroborated with observable market data through correlation or other means.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs or the use of broker quotes. These unobservable inputs reflect the Company's assumptions about the assumptions market participants would use in pricing the assets or liabilities.

December 31, 2009

4. Fair Value Measurement (continued)

	Level 1	Level 2	Level 3	Total
Term Deposits	$ 1,465,799	$ -	$ -	$ 1,465,799
Bonds				
Corporate	-	2,837,833	-	2,837,833
Pooled Funds				
Canadian Fixed Income	-	1,361,725	-	1,361,725
Canadian Equity	-	613,830	-	613,830
Equity Investments				
Canadian Common	1,291,039	-	-	1,291,039
US Common	98,423	-	-	98,423
Preferred shares	538,515	-	-	538,515
Total assets measured at fair value	$ 3,393,776	$ 4,813,388	$ -	$ 8,207,164

The Company does not own any level 3 investments as at December 31, 2009.

5. Capital Management

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, catastrophe coverage limits the Company's exposure to $265,000 per event. The $265,000 net retained amount represents approximately 5% of the Company's capital.

The Company also uses a Net Premium Written to Surplus Ratio to analyze the management of capital. The Company has determined that a minimum ratio of 1 to 1 is to be maintained. This ratio as at December 31, 2009 is 1.01 to 1.

For the purpose of capital management, the Company has defined capital as policyholders' equity excluding accumulated other comprehensive income.

6. Financial Instrument Risk Management

Credit risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The bond portfolio remains very high quality with 66% 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 creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Accounts receivables are short-term in nature and are not subject to material credit risk.

The maximum exposure to investment credit risk and concentration of this risk is outlined in note 3.

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.

Market risk

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

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer to a maximum of 10% of the Company's total assets.

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 30% of the book value of the total equity portfolio, in accordance with its investment policy. Foreign currency changes are monitored by the investment committee and holdings are adjusted when out of balance with investment policy. A 10% change in the value of the United States dollar would affect the fair value of stocks by $9,842 which would be reflected in other comprehensive income.

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

6. **Financial Instrument Risk Management** (continued)

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 (Term deposits and bonds).

Historical data and current information are used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term with short term interest rate fluctuations creating unrealized gains or losses in Other Comprehensive 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 and policies and procedures for managing interest rate risk is to diversify the bond portfolio in such a way that the bonds are a portfolio laddered over 5 years. One fifth of the bond portfolio would come due each year and be reinvested. This protects the Company from fluctuations in the interest rates.

At December 31, 2009, an interest rate movement of 1%, with all other variables held constant, could impact the market value of bonds and fixed income pooled funds by $196,400. For bonds that the Company did not sell during the year, the change during the year and changes prior to the year would be recognized as Other Comprehensive Income during the period.

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

Equity Risk

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

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index and United States stocks with fair values that move with the S&P 500 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 Canadian common and United States common of $138,714. A 10% move in the fair value of the Company's Canadian Preferred stocks is $53,852, and similarly a 10% move in the stock markets would affect the value of company's pooled fund investments by $61,383. For stocks that the Company did not sell during the period, the change would be recognized in the asset value and in other comprehensive income. For stocks that the Company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in income during the year.

6. Financial Instrument Risk Management (continued)

The Company's investment policy limits the total book value of equities as a percentage of the total investment portfolio to 25%. All equity purchases are high quality investments and the maximum market value of any one equity cannot exceed 10% of the value of the total equity portfolio.

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 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. There are no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income. The Company also maintains a maximum of 5% of its investible assets in cash and money market investments to manage short term liquidity issues.

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.

7. Capital Assets

	2009		2008	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 45,482**	**$ -**	$ 45,482	$ -
Building	**312,425**	**151,898**	306,837	143,743
Furniture and equipment	**447,741**	**315,520**	395,579	275,302
	$ 805,648	**$ 467,418**	$ 747,898	$ 419,045
Net book value		**$ 338,230**		$ 328,853

8. Reinsurance Agreement

The Company follows the policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to a maximum amount on any one claim of $130,000 plus 10% of the excess up to $1,000,000 in the event of a property claim, $130,000 plus 10% of the excess up to $1,000,000 in the event of a liability claim and $130,000 plus 10% of the excess up to $1,000,000 in the event of an automobile claim.

9. Pension Plan

The Company makes contributions to the Ontario Mutual Insurance Association Pension Plan, which is a multi-employer plan, on behalf of its staff. The plan is the greater of a defined benefit plan or a money purchase plan. A defined benefit plan specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay. A money purchase plan is the amount to be received by the employees based on the investing of the pension assets and the return they have received during the length of service.

Contributions made during the year on behalf of the employees amounted to $70,190 (2008 - $65,582) for current service. These payments are included in the Statement of Operations and Members' Surplus.

10. Unearned Premiums

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, investment income and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2009 and 2008.

11. Income Taxes

The Company is subject to income taxes on that proportion of its taxable income derived from insuring non-farm related risks.

12. Provision for Unpaid Claims and Adjustment Expenses

Scope

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of three major variables or quanta being development of claims, reinsurance recoveries and future investment income.

The provision for unpaid claims and adjustment expenses and related reinsurers' share are estimates subject to variability, and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability 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 principally based on the Company's historical experiences. Methods of estimation have been used which the Company believes produce reasonable results given current information.

The table below details the provision for unpaid claims and adjustment expenses by risk categories.

	2009		2008	
Type of Claim Provision	**Gross**	**Ceded**	Gross	Ceded
Long settlement term				
Ontario auto	**$ 6,104,509**	**$ 4,467,275**	$ 4,396,565	$ 3,548,988
Property and liability	**239,559**	**80,645**	185,917	(13,383)
IBNR (Incurred but not reported)	**2,407,082**	**1,767,082**	2,510,838	1,870,838
	8,751,150	**6,315,002**	7,093,320	5,406,443
Short settlement term	**682,026**	**235,382**	884,435	474,760
Assumed business	**2,482**	**2,482**	2,482	2,482
Facility association	**322,396**	**-**	290,082	-
Subtotal	**9,758,054**	**6,552,866**	8,270,319	5,883,685
Subrogation recoverable	**92,435**	-	133,790	-
Total	**$ 9,850,489**	**$ 6,552,866**	$ 8,404,109	$ 5,883,685

Assumptions

Claim Development

Uncertainty exists on reported claims in that all information may not be available at the reporting date, therefore, the claim cost may rise or fall at some date in the future when the information is obtained. In addition, claims may not be reported to the Company immediately, therefore, estimates are made as to the value of claims incurred but not yet reported, a value which may take some months to finally determine. In order to determine the liability, assumptions are developed considering the characteristics of the class of business, the historical pattern of payments, the amount of data available and any other pertinent factors.

The Company must participate in industry automobile residual pools of business (Facility), 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.

13. Rate Regulations

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.

14. Guarantees

Pursuant to an agreement effective January 1, 1976, the Company, is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims if a member company becomes bankrupt. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

In the normal course of claims adjudication, the Company settles some long-term losses through the purchase of annuities (structured settlements) from life insurance companies. The fair value of annuities purchased and guaranteed by the Company is $101,283. The annuities are placed with two licensed Canadian companies. No default has occurred, and the Company considers the possibility of default to be remote.

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

15. New Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the company, are as follows:

International financial reporting standards (IFRS)

The Accounting Standards Board has confirmed in 2008 that the use of International Financial Reporting Standards ("IFRS") by publicly accountable enterprises will be required in 2011 with comparative data for the prior year. IFRS uses a conceptual framework similar to Canadian GAAP, but there could be significant differences in recognition, measurement and disclosures that will need to be addressed.

In order to prepare for the conversion to IFRS, the Company has developed an IFRS conversion plan. The IFRS conversion plan is well underway with key IFRS standards analyzed and compared against the Company's current Canadian GAAP policies. The key accounting policy alternatives have been identified including contract classification and first-time adoption of IFRS, however final decisions are pending. The impacts of these decisions are currently being addressed. Developments relating to existing standards and new standards are being monitored to assess the impact on the conversion plan. The Company's transition status is currently on track with its implementation schedule.