Lambton Mutual Insurance Company
Financial Statements
For the year ended December 31, 2009

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Contents

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Auditors' Report

To the Directors and Policyholders of
Lambton Mutual Insurance Company

We have audited the balance sheet of Lambton Mutual Insurance Company as at December 31, 2009 and the statements of policyholders' equity, operations, comprehensive income 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 cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Canada LLP

Chartered Accountants, Licensed Public Accountants

Sarnia, Ontario
January 19, 2010

Lambton Mutual Insurance Company
Balance Sheet

December 31	2009	2008
Assets		
Cash (Note 2)	$ 1,465,499	$ 2,556,977
Investments (Note 3)	37,208,127	32,944,713
Accrued interest on investments	167,544	150,814
Due from agents and policyholders	2,847,020	2,688,640
Income taxes recoverable	-	639,078
Due from reinsurer-paid claims	-	5,460
Due from Facility Association	48,749	32,971
Other receivables	6,486	2,864
Due from reinsurer-unpaid claims	9,001,552	10,347,569
Deferred policy acquisition expenses	1,169,481	1,098,106
Capital assets (Note 4)	1,219,102	1,248,917
Future income taxes	131,000	81,000
	$53,264,560	$ 51,797,109

Liabilities and Policyholders' Equity		
Unpaid claims (Note 5)	$20,190,136	$ 20,757,628
Unearned premiums	7,751,770	7,254,151
Accounts payable	339,210	438,131
Income taxes payable	349,775	-
	28,630,891	28,449,910
Contingent Liabilities (Note 7)		
Commitments (Note 8)		
Policyholders' Equity		
Accumulated other comprehensive loss	(253,148)	(1,657,573)
Surplus	24,886,817	25,004,772
	24,633,669	23,347,199
	$53,264,560	$ 51,797,109

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Lambton Mutual Insurance Company
Statement of Policyholders' Equity

For the year ended December 31	2009	2008
Statement of Surplus		
Surplus, beginning of year	$25,004,772	$ 25,723,415
Net income (loss) for the year	(117,955)	(718,643)
Surplus, end of year	$24,886,817	$ 25,004,772
Accumulated Other Comprehensive Loss		
Balance, beginning of year	$ (1,657,573)	$ (105,830)
Other comprehensive income (loss) for the year	1,404,425	(1,551,743)
Balance, end of year	$ (253,148)	$ (1,657,573)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Lambton Mutual Insurance Company
Statement of Operations

For the year ended December 31	2009	2008
Underwriting		
Gross premiums written	$15,854,001	$ 15,016,434
Less reinsurance premiums	(3,547,165)	(3,023,159)
Net premiums written	12,306,836	11,993,275
Increase in unearned premiums	(497,619)	(263,294)
Net premiums earned	11,809,217	11,729,981
Service charges	181,394	166,602
	11,990,611	11,896,583
Claims and expenses		
Net claims incurred (Note 6)	8,041,342	7,715,385
Net adjusting expenses	947,176	1,256,331
Commissions	2,358,465	2,310,717
Salaries, fees and benefits	1,126,945	1,127,627
Risk inspection	56,169	49,879
Office supplies, postage and telephone	136,512	122,290
Computer amortization, maintenance and leasing	198,048	207,358
Office premises	108,342	94,663
Premium taxes and dues	135,501	123,650
Advertising	25,962	27,410
Fire prevention	3,215	6,184
All other expenses	89,413	77,327
	13,227,090	13,118,821
Underwriting loss	(1,236,479)	(1,222,238)
Impairment losses on available-for-sale assets	(257,100)	(1,051,988)
Investment income (Note 10)	1,328,085	1,394,443
Other income	12,539	11,140
Loss before income taxes	(152,955)	(868,643)
Income taxes (recovery) (Note 11)		
Current	15,000	(137,000)
Future	(50,000)	(13,000)
	(35,000)	(150,000)
Loss for the year	$ (117,955)	$ (718,643)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Lambton Mutual Insurance Company
Statement of Comprehensive Income

For the year ended December 31	2009	2008
Loss for the year	$ (117,955)	$ (718,643)
Other comprehensive income (loss):		
Unrealized gains and losses on available for sale financial assets arising during the year	1,625,928	(1,870,988)
Reclassification adjustment for gains and losses included in net income	71,497	6,245
	1,697,425	(1,864,743)
Income tax effect	(293,000)	313,000
Other comprehensive income (loss)	1,404,425	(1,551,743)
Comprehensive income (loss)	$ 1,286,470	$ (2,270,386)

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Lambton Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	2009	2008
Cash provided by (used in)		
Operating activities		
Net loss for the year	$ (117,955)	$ (718,643)
Other comprehensive income tax effect	(293,000)	313,000
	(410,955)	(405,643)
Items not involving cash		
Amortization of capital assets	58,526	64,383
Losses on available-for-sale assets	257,100	1,051,988
Loss (gain) on disposal of capital assets	(288)	2,208
Future income taxes	(50,000)	(13,000)
	(145,617)	699,936
Changes in non-cash working capital balances		
Accrued interest on investments	(16,730)	11,121
Due from policyholders	(158,380)	(227,643)
Due from reinsurer and Facility Association	1,335,699	473,917
Deferred policy acquisition expenses	(71,375)	(44,832)
Other receivables	(3,622)	27,986
Unpaid claims	(567,492)	1,264,517
Unearned premiums	497,619	263,294
Accounts payable	(98,921)	72,527
Income taxes	988,853	(546,001)
	1,760,034	1,994,822
Investing activities		
Purchase of investments	(13,871,385)	(16,350,984)
Sale of investments	11,048,296	15,131,450
Proceeds on sale of capital assets	5,658	2,550
Purchase of capital assets	(34,081)	(31,115)
	(2,851,512)	(1,248,099)
Increase (decrease) in cash during the year	(1,091,478)	746,723
Cash, beginning of year	2,556,977	1,810,254
Cash, end of year	$ 1,465,499	$ 2,556,977

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

December 31, 2009

Nature of Business	The company is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability and auto insurance in Ontario.
Capital Assets	Capital assets are recorded at cost less accumulated amortization. Amortization is provided as follows:

Building	- 2.5% diminishing balance basis
Equipment	- 10-20% diminishing balance basis
Computer hardware	- 25% straight line basis
Computer software	- 25% straight line basis
Automobiles	- 30% diminishing balance basis

Net Premiums Earned	Insurance premiums are included in income on a daily pro rata basis over the life of the policies.
Deferred Policy Acquisition Expenses	Expenses which relate to unearned premiums, which are comprised of commissions and premium taxes, are deferred and amortized over the terms of the related policies to the extent that they are considered to be recoverable from unearned premiums after considering the related anticipated claims and expenses.
Unpaid Claims	The provision for unpaid claims represents an estimate for the full amount of all costs of final settlement of claims incurred prior to the balance sheet date, including claims incurred but not yet reported to the company. These estimates of future loss activity are necessarily subject to uncertainty. 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 year.
	Claim liabilities are carried on an undiscounted basis.
Reinsurance ceded	Reinsurance premiums ceded and reinsurance recoveries on losses incurred are reported as reductions of the respective income and expense accounts. Unearned premiums on business ceded are recorded as deductions from unearned premiums. The estimate of amounts recoverable from the reinsurer on unpaid claims and adjustment expenses is recorded as an asset on the balance sheet.
	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. The company places all of its reinsurance business with the Farm Mutual Reinsurance Plan Inc.

Income Taxes

The company follows the asset and liability method for accounting for income taxes. Under the asset and liability method, income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax basis (temporary differences). Future income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the enactment date.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

Foreign Currency Translation

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.

Financial Instruments

The company recognizes and measures financial assets, and financial liabilities on the balance sheet when they become a party to the contractual provisions of a financial instrument. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, loans and receivables, available-for-sale, or other financial liabilities. Transactions costs are expensed as incurred for all financial instruments.

Held-for-trading
This category is comprised of cash. It is 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 the promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services to customers (due from policy holders and agents), 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.

Financial Instruments Continued

Available-for-sale
Non-derivative financial assets not included in the aforementioned categories are classified as available-for-sale and comprise certain investments in equity instruments, including the company's investments in private companies. When they 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.

The classification of financial instruments on the balance sheet is as follows:

- Cash is classified as held for trading.
- Due from agents and policyholders, Facility Association and other receivables are classified as loans and receivables, which are measured at amortized cost.
- Investments and accrued interest on investments are classified as available-for-sale and are measured at fair value.
- Accounts payable are classified as other financial liabilities, which are measured at amortized cost.

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices as appropriate, in the most advantageous active market for that instrument to which the company has immediate access. Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discounted rates. In determining those assumptions, the company looks primarily to external readily observable market inputs including interest rate yield curves, currency rates and price and rate volatilities, as applicable.

Interest income	Interest income is recognized in the statement of operations for all interest bearing financial instruments using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash receipts through the expected life of the financial instrument to the new carrying amount of the financial instrument. The application of this method has the effect of recognizing income on the instrument evenly in proportion to the amount outstanding over the period to maturity.

1. Underwriting Policy

The company follows the policy of underwriting and reinsuring contracts of insurance which, for 2009 claims, limited the liability of the company to a maximum amount on any one property claim to $220,000 plus 10% of the next $780,000. The maximum liability to the company for each auto claim is limited to the amount of $150,000 plus 10% of the next $850,000, and for each liability claim to the amount of $125,000 plus 10% of the next $875,000.

Additionally the company carries reinsurance with an upper limit of $435,000 plus 5% of the remainder to protect itself against certain catastrophic losses. In addition, the company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% of gross net earned premiums for property and automobile.

2. Cash

Cash includes $1,461,383 on deposit at a Canadian chartered bank and earns interest at the bank's prime rate less 2%. Cash also includes $3,616 on deposit with a Canadian investment broker.

3. Investments

	2009			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Estimated fair value
Term deposits and treasury bills	$ 1,005,454	$ -	$ -	$ 1,005,454
Debt securities-federal	3,360,361	123,470	-	3,483,831
Debt securities-provincial	11,379,486	142,001	-	11,521,487
Debt securities-municipal	486,914	16,615	-	503,529
Debt securities-corporate	4,585,565	172,913	-	4,758,478
Fixed income pooled funds	9,616,549	-	(207,688)	9,408,861
Equities	7,081,945	-	(555,458)	6,526,487
Available for sale - investments	$37,516,274	$ 454,999	$ (763,146)	$37,208,127

	2008			
	Amortized cost	Gross Unrealized gain	Gross Unrealized loss	Estimated fair value
Term deposits and treasury bills	$ 2,975,537	$ -	$ -	$ 2,975,537
Debt securities-federal	3,360,686	199,121	-	3,559,807
Debt securities-provincial	7,006,828	97,205	-	7,104,033
Debt securities-municipal	709,825	41,532	-	751,357
Debt securities-corporate	4,845,535	-	(202,836)	4,642,699
Fixed income pooled funds	9,070,032	-	(202,020)	8,868,012
Equities	6,981,842	-	(1,938,574)	5,043,268
Available for sale - investments	$ 34,950,285	$ 337,858	$ (2,343,430)	$ 32,944,713

The maturity profile of the term deposits and debt securities is as follows:

Within 1 year	Over 1 to 5 years	Over 5 years	Amortized Cost
$ 2,958,163	$ 4,592,908	$13,266,709	$20,817,780

3. Investments (continued)

The interest rates on the term deposits and debt securities are between 0.22% to 8.75% for investments maturing within one year; 4.09% to 7.0% for investments maturing after one year and before five years; and 4.0% to 6.5% for investments maturing after five years.

Investments include $292,070 (2008 - $278,579) denominated in U.S. currency.

The estimated fair value of the investments is based on quoted market values, where available.

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

Available-for-sale bonds are tested for impairment on an annual basis. Objective evidence of impairment includes financial difficulty of the issuer, bankruptcy or defaults and delinquency in payments of interest or principal. Where there is objective evidence that an available-for-sale bond is impaired and the impairment in value is considered other-than-temporary, the loss accumulated in Other Comprehensive Income is reclassified to losses on available-for-sale assets. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net income, the impairment loss is reversed, with the amount of the reversal recognized in net income. Following impairment loss recognition, these assets will continue to be recorded at fair value with changes in fair value recorded to Other Comprehensive Income and tested for further impairment annually.

Available-for-sale equity investments are tested for impairment on an annual basis. Objective evidence of impairment for equity investments includes a significant or prolonged decline in fair value of the stock below cost or changes with adverse effects that have taken place in the technological, market, economic or legal environment in which the issuer operates that may indicate that the carrying value will not recover. The accounting for other-than-temporarily impaired available-for-sale equity investments is the same as described previously for available-for-sale bonds, with the exception of impairment losses. Impairment losses on equity investments that are classified as available-for-sale are charged to income and cannot be reversed at a later date.

Available-for-sale bonds and equity investments have generally been identified as temporarily impaired if their amortized cost at the end of December 31, 2009 was greater than their fair value, resulting in an unrealized loss. Unrealized losses may be due to interest rate fluctuations, widening of credit spreads, general depressed market prices due to current market conditions, and/or depressed fair values in sectors which have experienced unusually strong negative market reactions. In connection with the company's investment management practices and review of its investment holdings, it is believed that the contractual terms of these investments will be met and/or the company has the ability to hold these investments until recovery in value.

4. Capital Assets

	2009		2008	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$ 320,734	$ -	$ 320,734	$ -
Building	1,194,868	403,672	1,194,868	383,380
Equipment	366,521	327,774	366,906	321,915
Computer	131,464	110,454	158,779	125,819
Automobiles	82,811	35,396	81,021	42,277
	$ 2,096,398	$ 877,296	$ 2,122,308	$ 873,391
Net book value		$ 1,219,102		$ 1,248,917

5. Unpaid Claims

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurer's share requires the estimation of two major variables, being development of claims and reinsurance recoveries.

The provision for unpaid claims and adjustment expenses and the related reinsurer's share are estimated 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 experience. Methods of estimation have been used which the company believes produce reasonable results given current information.

6. Net claims incurred

	2009	2008
Gross claims incurred	$10,547,110	$ 10,372,195
Reinsurance incurred	(2,505,768)	(2,656,810)
	$ 8,041,342	$ 7,715,385

7. Contingent Liabilities

In common with the insurance industry in general, the company is subject to litigation arising in the normal course of conducting its insurance business. The company is of the opinion that this litigation will not have a significant effect on financial position, results of operations or cash flows of the company.

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. This business is placed with several licensed Canadian companies. No default has occurred, and the company considers the possibility of default to be remote.

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 connection with its operations, the Company and its directors have been named as co-defendants in two separate actions for damages and costs allegedly sustained by the plaintiffs. It is not possible to estimate the outcome of the proceedings at this time.

8. Commitments

The aggregate minimum rentals payable under leases in effect at December 31, 2009 are as follows:

Year	Amount
2010	7,775

9. Facility Association

Automobile risks that do not meet the underwriting criteria of the company and the other insurers are referred to a Facility Association. The company is required to include in its own financial statements its proportionate share of the revenue, expenses, assets and liabilities of the Association. The company's underwriting loss for the year has been increased by $175,333 (2008: net underwriting loss increased by $146,905) representing its share of the operations of the Facility Association and the Facility Association risk sharing pool.

10. Investment income

	2009	2008
Interest using the effective interest rate method	$ 1,345,025	$ 1,299,716
Dividends	140,390	134,803
Gain (loss) on investments	(96,533)	27,481
Investment fees	**(60,797)**	(67,557)
	$ 1,328,085	$ 1,394,443

11. Income Taxes

The company is subject to income taxes on that proportion (69.8% in 2009 and 66.7% in 2008) of its taxable income that its non-farm premiums written is of its total premiums written.

12. Pension Plan

The company participates in a multi-employer pension plan through the Ontario Mutual Insurance Association. The plan is a money purchase plan with a defined benefit option which provides pensions based on the length of service and final average earnings. The company contributed $86,594 (2008 - $86,818) on behalf of its employees during the year to the pension plan.

13. Statement of Cash Flows

	2009	2008
Income taxes paid (recovered)	$ (694,836)	$ 125,948

14. Rate Regulations

The company is subject to regulatory rate control over its automobile business. All aspects of automobile pricing is controlled and approved through rate filings processed through Farm Mutual Reinsurance Plan Inc. (FMRP), who files the rates collectively for most Ontario mutual insurance companies, to Financial Service Commission of Ontario (FSCO). FSCO is the regulatory body for automobile rates in Ontario, and subject to various provincial legislation, the rates are approved by them.

15. Financial Instrument Risk Management

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The company is exposed to credit 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 all bonds either government bonds or corporate 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.

15. Financial Instrument Risk Management (continued)

Reinsurance is placed with 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 and the Board of Directors prior to renewal of the reinsurance contract.

Due from agents and policyholders are short-term in nature and are not subject to material credit risk.

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

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

Market risk

Market risk is the risk that the fair value 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 Board of Directors and the company's management. Diversification techniques are utilized to minimize risk. The policy limits the investment in any one corporate issuer to a maximum of 2% of the total bond portfolio except for Canadian chartered banks, Manulife Financial Corporation and Sunlife Financial Inc. which are restricted to 4%.

Currency Risk

Currency risk relates to the company operating in different currencies and converting non-Canadian assets 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 equity holdings. The company limits its holdings in foreign equity to 2% of the total investment portfolio in accordance with its investment policy. Foreign currency changes are monitored by the Board of Directors and the company's management. A 1% change in the value of the United States dollar would affect the fair value of foreign equities by $2,921, which would be reflected in other comprehensive income.

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

15. 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 (treasury bills and debt securities).

Historical data and current information is used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the company's assets relate to its capital rather than liabilities, the value of its interest rate based assets exceeds its interest rate based liabilities. As a result, generally, the company's investment income will move with interest rates as bonds are reinvested, with the change in fair value reflected in unrealized gain 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 have maturity terms ranging from 1 to 10 years. A portion 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, a 1% increase in interest rates, with all other variables held constant, could decrease the market value of bonds by $1,693,549. Conversely, a decrease of 1% in interest rates could increase the market value of bonds by a comparable amount. For bonds that the company did not sell during the year, the change during the year would be recognized as other comprehensive income during the period.

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.

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.

Investment in shares are limited to 25% of the investment portfolio and restricted to equities which are contained in the S&P/TSX 60 Index or listed on the S&P 500 Index. Maximum exposure to any one equity investment is limited to 10% of the equity portfolio.

15. Financial Instrument Risk Management (continued)

The company's portfolio includes Canadian equities with fair values that move with the Toronto Stock Exchange Composite Index, and United States equities 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 equity shares and United States equity shares of $649,750. For equities that the company did not sell during the period, the change would be recognized in the asset value and in other comprehensive income. For equities that the company did sell during the period it would be recognized as investment income during the period.

Liquidity Risk

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

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

16. Capital Management

The company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations. 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 $435,000 plus 5% of the remaining loss. The $435,000 gross retained amount represents approximately 1.7% of the company's capital. For the purpose of capital management, the company has defined capital as policyholders' equity excluding accumulated other comprehensive income.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect property and casualty companies to comply with capital adequacy requirements. This test compares a company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors. The regulator indicates that the company should produce a minimum MCT of 150%. The company exceeded the minimum capital requirement at December 31, 2009.

17. Fair Value Measurement

In compliance with CICA Handbook Section 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.

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2,470,953	$ -	$ -	$ 2,470,953
Bonds				
Canadian Government	-	3,483,831	-	3,483,831
Provincial	-	11,521,487	-	11,521,487
Municipal	-	503,529	-	503,529
Corporate	-	4,719,994	-	4,719,994
Farm Mutual Pooled Funds				
Canadian Fixed Income	-	9,408,861	-	9,408,861
Canadian Equity	-	1,072,515	-	1,072,515
Fire Mutuals Guarantee Fund	-	38,484	-	38,484
Mutual Funds	-	771,928	-	771,928
Equity Investments				
Canadian	4,389,974	-	-	4,389,974
US	292,070	-	-	292,070
Total assets measured at fair value	$ 7,152,997	$31,520,629	$ -	$38,673,626

18. Comparative Information

Certain amounts appearing in the 2008 comparative financial statements have been reclassified to conform with the current year's presentation.