

BRANT MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

For the year ended December 31, 2010



Millard, Rouse & Rosebrugh LLP
Chartered Accountants



BRANT MUTUAL INSURANCE COMPANY

For the year ended December 31, 2010

INDEX

| | Page |
|---|--------|
| INDEPENDENT AUDITORS' REPORT | 1 |
| FINANCIAL STATEMENTS | |
| Balance Sheet | 2 |
| Statement of Retained Earnings | 3 |
| Statement of Accumulated Other Comprehensive Income | 3 |
| Statement of Comprehensive Income | 3 |
| Statement of Income | 4 |
| Schedule of Expenses | 5 |
| Statement of Cash Flows | 6 |
| Notes to the Financial Statements | 7 - 19 |



Millard, Rouse & Rosebrugh LLP

Chartered Accountants
P.O. Box 367, 96 Nelson Street
Brantford, Ontario N3T 5N3
Telephone: (519) 759-3511
Facsimile: (519) 759-7961

INDEPENDENT AUDITORS' REPORT

To the Policyholders of
Brant Mutual Insurance Company

We have audited the accompanying financial statements of Brant Mutual Insurance Company, which comprise the balance sheet as at December 31, 2010, and the statements of income, comprehensive income, retained earnings, accumulated other comprehensive income and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, 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 have 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 Brant 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.

February 22, 2011

CHARTERED ACCOUNTANTS
Licensed Public Accountants

BRANT MUTUAL INSURANCE COMPANY

BALANCE SHEET

| As at December 31 | 2010 | 2009 |
|---|------------|------------|
| ASSETS | | |
| Bank | 191,336 | 609,184 |
| Investments (Note 5) | 8,727,319 | 9,867,586 |
| Premiums receivable | 1,888,845 | 1,688,770 |
| Due from reinsurers and other receivables | 367,929 | 525,092 |
| Reinsurance recoverable on unpaid claims | 3,384,114 | 2,751,269 |
| Deferred policy acquisition expenses | 436,330 | 385,466 |
| Prepaid expenses | 131,322 | 90,403 |
| Income taxes recoverable | 29,000 | 186,486 |
| Assets held for sale (Note 11) | 235,477 | - |
| Property, plant and equipment (Note 6) | 2,769,509 | 843,733 |
| Future income tax | 127,153 | 157,115 |
| | 18,288,334 | 17,105,104 |
| LIABILITIES | | |
| Provision for unpaid claims | 6,553,480 | 6,033,317 |
| Unearned premiums | 3,420,344 | 3,086,893 |
| Accounts payable and accrued liabilities | 492,102 | 268,877 |
| F.A.R.M. Funds due to Facility Association | 175,181 | 195,436 |
| Premiums paid in advance | 25,622 | 41,101 |
| Refund on premiums | 10,729 | 9,981 |
| | 10,677,458 | 9,635,605 |
| EQUITY | | |
| Retained Earnings | 7,562,055 | 7,901,040 |
| Accumulated other comprehensive income (loss) | 48,821 | (431,541) |
| | 7,610,876 | 7,469,499 |
| | 18,288,334 | 17,105,104 |

Approved on behalf of the Board of Directors

.....Director

.....Director

BRANT MUTUAL INSURANCE COMPANY

STATEMENT OF RETAINED EARNINGS

| For the year ended December 31 | 2010 | 2009 |
|------------------------------------|-----------|-----------|
| Balance - Beginning of Year | 7,901,040 | 8,154,298 |
| Net Income (Loss) | (338,985) | (253,258) |
| Balance - End of Year | 7,562,055 | 7,901,040 |

STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME

| For the year ended December 31 | 2010 | 2009 |
|------------------------------------|-----------|-------------|
| Balance - Beginning of Year | (431,541) | (1,015,237) |
| Other Comprehensive Income (Loss) | 480,362 | 583,696 |
| Balance - End of Year | 48,821 | (431,541) |

STATEMENT OF COMPREHENSIVE INCOME

| For the year ended December 31 | 2010 | 2009 |
|---|-----------|-----------|
| Net Loss | (338,985) | (253,258) |
| Other Comprehensive Income (Loss) Available for Sale | | |
| Change in Unrealized Gains and Losses | | |
| -mutual funds and pooled funds | 248,255 | 534,030 |
| Reclassification adjustment for realized (gain) losses included in income | 232,107 | 49,666 |
| Total Other Comprehensive Income (Loss) | 480,362 | 583,696 |
| Total Comprehensive Income | 141,377 | 330,438 |

BRANT MUTUAL INSURANCE COMPANY

STATEMENT OF INCOME

| For the year ended December 31 | 2010 | 2009 |
|--|------------------|------------------|
| Underwriting Operations | | |
| Gross premiums written less rebates and cancellations | 6,800,034 | 6,021,800 |
| Less: Reinsurance ceded | 1,443,146 | 1,293,183 |
| Increase (decrease) in reserve for unearned premiums | 333,450 | 235,703 |
| | 1,776,596 | 1,528,886 |
| Net Premiums Earned | 5,023,438 | 4,492,914 |
| Expenses | | |
| Claims Expenses | | |
| Net claims incurred | 2,794,075 | 2,913,004 |
| Net adjusting expenses | 519,542 | 468,118 |
| Commissions | 873,841 | 775,807 |
| | 4,187,458 | 4,156,929 |
| Salaries, Fees and Travelling Expenses (Page 5) | 586,214 | 584,886 |
| Loss Prevention Expenses (Page 5) | 59,151 | 42,166 |
| General Expenses (Page 5) | 600,757 | 513,119 |
| Total Expenses | 5,433,580 | 5,297,100 |
| Underwriting Income (Loss) | (410,142) | (804,186) |
| Investment and Other Income | | |
| Interest earned | 395,756 | 409,566 |
| Dividend income | 9,915 | 21,431 |
| Investment expenses | (45,486) | (27,334) |
| Loss on sale of investments and capital gains dividend | (310,509) | (58,866) |
| Other income | 109,557 | 95,322 |
| Total Investment and Other Income | 159,233 | 440,119 |
| Loss Before Income Taxes | (250,909) | (364,067) |
| Provision for (recovery of) income taxes (Note 7) | (139,041) | (110,809) |
| - prior year | (2,522) | - |
| Loss After Income Taxes | (109,346) | (110,809) |
| Extraordinary Item - Settlement Costs (Note 12) | 229,639 | - |
| Net Loss | (338,985) | (253,258) |

BRANT MUTUAL INSURANCE COMPANY

SCHEDULE OF EXPENSES

| For the year ended December 31 | 2010 | 2009 |
|--|---------|---------|
| Salaries, Fees and Travelling Expenses | | |
| Salaries | 345,858 | 364,283 |
| Pension and group insurance | 65,376 | 58,384 |
| Professional fees | 70,265 | 63,757 |
| Profit sharing plan | - | 12,879 |
| Directors' fees | 62,068 | 56,951 |
| Travel | 30,605 | 16,428 |
| Employment insurance | 12,042 | 12,204 |
| | 586,214 | 584,886 |
| Loss Prevention Expenses | | |
| Inspection of risks | 39,687 | 22,987 |
| Investigations | 19,464 | 19,179 |
| | 59,151 | 42,166 |
| General Expenses | | |
| Building overhead | 58,285 | 54,097 |
| Printing, stationery, office supplies and sundry | 65,854 | 42,421 |
| Conventions and meetings | 58,297 | 50,373 |
| Advertising | 31,540 | 40,500 |
| Amortization - equipment | 29,753 | 28,740 |
| Postage and telephone | 36,062 | 30,931 |
| Dues, subscriptions and memberships | 47,040 | 41,042 |
| Computer software | 9,793 | 8,259 |
| Amortization - buildings | 26,320 | 10,693 |
| Licence and filing fees | 14,071 | 19,340 |
| Insurance | 18,476 | 37,409 |
| Corporation premium tax | 13,377 | 12,052 |
| Staff training | 5,781 | 3,252 |
| Bank charges | (7,629) | (9,237) |
| Equipment repairs | 168,543 | 132,494 |
| Donations | 11,752 | 13,003 |
| Bad debt expense (recovery) | 11,521 | (3,684) |
| Collections fees | 1,921 | 1,434 |
| | 600,757 | 513,119 |

BRANT MUTUAL INSURANCE COMPANY

STATEMENT OF CASH FLOWS

| For the year ended December 31 | 2010 | 2009 |
|---|-------------|-------------|
| Cash Flows From Operating Activities | | |
| Net Loss | (338,985) | (253,258) |
| Adjustments to convert income to a cash basis: | | |
| Increase (Decrease) in provision for unpaid claims | 520,163 | 834,362 |
| (Increase) Decrease in reinsurance recoverable on unpaid claims | (632,845) | 27,248 |
| Increase (Decrease) in unearned premiums | 333,451 | 235,703 |
| Increase (Decrease) in accounts payable, accrued liabilities and other operating liabilities | 188,239 | (51,253) |
| Amortization of building and other assets | 56,073 | 39,433 |
| (Increase) Decrease in receivables and other operating assets | 73,655 | (352,214) |
| (Increase) Decrease in deferred policy acquisition expense | (50,864) | (26,779) |
| (Increase) Decrease in future income taxes asset related to operations | (154,536) | 42,263 |
| (Gain) Loss on sale of investments | 321,256 | 68,740 |
| | 315,607 | 564,245 |
| Cash Flows From Investing Activities | | |
| Proceeds on sale of investments | 2,571,451 | 610,679 |
| Purchase of investments | (1,087,580) | (1,021,264) |
| Purchase of property, plant and equipment | (2,217,326) | (100,310) |
| | (733,455) | (510,895) |
| Net Decrease in Cash and Cash Equivalents | (417,848) | 53,350 |
| Opening Cash and Cash Equivalents | 609,184 | 555,834 |
| Closing Cash and Cash Equivalents | 191,336 | 609,184 |

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

Brant Mutual Insurance Company is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability and automobile insurance in Ontario.

1. CHANGES IN ACCOUNTING POLICIES

Future Accounting Changes

In 2008, the Canadian Accounting Standards Board announced that GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. As a publicly accountable enterprise, the Company will be required to prepare its December 31, 2011 financial statements including comparative information in compliance with IFRS.

IFRS uses a conceptual framework similar to Canadian GAAP, but there could be significant differences in recognition, measurement and disclosures. The Company has prepared a reconciliation of equity from Canadian GAAP to IFRS on the date of transition (January 1, 2010) and does not expect any material adjustments on transition.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

(a) Measurement

Financial statements are based on representations that may require estimates to be made in anticipation of future transactions and events and include measurement that may, by their nature, be approximations.

(b) Financial Assets

Available for Sale (AFS) Financial Assets

AFS financial assets with quoted prices in an active market are carried at fair value on the balance sheet from the settlement date. Any changes in fair values are recorded, net of income taxes, in other comprehensive income (OCI) until the financial asset is disposed of or has become other than temporarily impaired. When the asset is disposed of, or has become impaired, the accumulated fair value adjustments recognized in accumulated other comprehensive income (AOCI) are transferred to the income statement and, accordingly, a corresponding adjustment (net of income taxes) is made to OCI. A provision for impairment for equity instruments and debt securities classified as AFS is established when there is objective evidence that the investment is impaired and the impairment is other than temporary. A provision for impairment for loans and receivables classified as AFS is established when there is objective evidence that the Company will not be able to collect all amounts due according to their original terms. Equity investments that are classified as AFS and do not have a quoted price in an active market are recorded at cost.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Financial Assets (continued)

The Company has classified all stocks, mutual and pooled funds as AFS.

Held to Maturity (HTM) Financial Assets

HTM financial assets have fixed or determinable payments and management has the positive intention and ability to hold them to maturity. These assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. A provision for impairment of debt securities classified as HTM is established when there is objective evidence of impairment and the impairment is other than temporary. The investment will be written down to its fair value.

Held for Trading (HFT) Financial Assets and Liabilities

HFT financial assets and liabilities are carried at fair value on the balance sheet from the settlement date and changes in fair values are recorded in net income. HFT financial assets and liabilities are purchased or incurred with the intention of generating profits in the near term (classified as HFT) or are designated as such by the Company.

The Company has classified cash as HFT.

Loans and Receivables

Financial assets classified as loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

The Company has classified accounts receivable as loans and receivables.

Transaction Costs

Transaction costs are expensed as incurred for financial instruments classified or designated as HFT. For other financial instruments, transactions costs are expensed on initial recognition.

(c) Fair Value

The fair value of financial instruments, such as accounts receivable, accounts payable and accrued liabilities and customer deposits are determined to approximate their recorded value due to their short term maturity.

The fair value of bonds, debentures, mutual funds and marketable securities is based on quoted market values as at year end.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Premiums Earned and Deferred Policy Acquisition Expenses

Insurance premiums are included in income on an annual pro-rata basis over the life of the policies. Acquisition expenses related to unearned premiums, which expenses comprise commissions, premium taxes, association fees and certain identified business development costs, 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.

(e) Unpaid Claims

The provision for unpaid claims represents an estimate for the full amount of all costs including investigation and the projected final settlements of claims incurred prior to the balance sheet date. 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.

(f) Reinsurance Ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Unearned premiums on business ceded are recorded as deductions from unearned premiums. Estimates of amounts recoverable from the reinsurer on unpaid claims and adjustment expenses are recorded as an asset.

A contingent liability exists with respect to reinsurance ceded which could become a liability of the Company in the event that the reinsurer might be unable to meet its obligations under the reinsurance agreements.

(g) Property, Plant and Equipment and Amortization

Property, plant and equipment are stated at historical cost. Amortization is provided for in the accounts at rates reflecting the estimated useful lives of the assets as follows:

| | |
|--------------------|---|
| Real Estate | annual rate of 2.5% over a 40 year term |
| Office equipment | 10% over a 10 year term |
| Computer equipment | 20% over a 5 year term |

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Future Income Taxes

The Company follows the liability method of accounting for income taxes.

Under this method, future income tax assets are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted income tax rates for the years in which the differences are expected to reverse.

(i) Facility Association

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

3. UNDERWRITING POLICY

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 \$250,000 plus 10% of the next \$750,000 in the event of a property claim, \$200,000 plus 10% of the next \$800,000 in the event of a liability claim and \$150,000 plus 10% of the next \$850,000 in the event of an automobile claim.

In addition, the Company has obtained reinsurance having an unlimited upper amount, which limits the Company's liability in the event of a series of claims arising out of a single occurrence

4. REINSURANCE CEDED

The Company cedes reinsurance to another insurer in order to limit the maximum loss through the spreading of risks. Reinsurance ceded does not relieve the Company of primary liability as the originating insurer.

All reinsurance is placed with Farm Mutual Reinsurance Plan Inc.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

5. INVESTMENTS

The fair value of the Company's investment portfolio by financial instrument classification at December 31 is as follows:

| | Classified as AFS | 2010 Total Carrying Value | Classified as AFS | 2009 Total Carrying Value |
|---------------------------------------|------------------------------|--|------------------------------|--|
| Debt securities | 27,245 | 27,245 | 32,733 | 32,733 |
| Equities -preferred and common shares | 18,656 | 18,656 | 18,656 | 18,656 |
| Mutual and pooled funds | 8,681,418 | 8,681,418 | 9,816,197 | 9,816,197 |
| Total investments | 8,727,319 | 8,727,319 | 9,867,586 | 9,867,586 |

(a) Stocks and Other Invested Assets

| 2010 | Cost amount | Fair value carrying amount | Difference |
|--|------------------------|---------------------------------------|-------------------|
| Canadian preferred shares | 18,155 | 18,155 | - |
| Canadian common shares | 501 | 501 | - |
| Pooled funds | 8,613,848 | 8,681,418 | 67,570 |
| Total stocks and other invested assets | 8,632,504 | 8,700,074 | 67,570 |

| 2009 | Cost amount | Fair value carrying amount | Difference |
|--|------------------------|---------------------------------------|-------------------|
| Canadian preferred shares | 18,155 | 18,155 | - |
| Canadian common shares | 501 | 501 | - |
| Pooled funds | 10,413,485 | 9,816,197 | (597,288) |
| Total stocks and other invested assets | 10,432,141 | 9,834,853 | (597,288) |

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

5. INVESTMENTS (continued)

(b) Investment Income

Investment income for the year ended December 31, 2010 was derived from the following:

| | 2010 | 2009 |
|------------------------------------|-----------|----------|
| AFS securities - dividend income | 9,915 | 21,431 |
| - interest income | 395,756 | 409,566 |
| - capital gains distributions | 10,747 | 9,874 |
| Gain (loss) on sale of investments | (321,256) | (68,740) |
| | 95,162 | 372,131 |

The effective investment yield for 2010 is 1.61% (2009 4.13%).

(c) Disclosures Relating to Fair Value Measurements

In compliance with CICA 3862, the Company has categorized its assets and liabilities that are carried at fair value on a recurring basis, 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.

Disclosures of fair value are not required:

- i) when the carrying amount is a reasonable approximation of fair value, such as short term receivables and payables, and
- ii) for investments in equity instruments that do not have a quoted market value in an active market and are carried at cost (other than instruments classified as HFT).

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

5. INVESTMENTS (continued)

(c) Disclosures Relating to Fair Value Measurements (continued)

| 2010 | Level 1 | Level 2 | Total |
|--|----------------|------------------|------------------|
| Assets - Cash and cash equivalents | 191,336 | - | 191,336 |
| Farm Mutual Pooled Funds | | | |
| - Canadian Fixed Income | - | 2,359,822 | 2,359,822 |
| CCL Pooled Funds | - | 6,321,596 | 6,321,596 |
| Total assets measured at fair value | 191,336 | 8,681,418 | 8,872,754 |

| 2009 | Level 1 | Level 2 | Total |
|--|----------------|------------------|-------------------|
| Assets - Cash and cash equivalents | 609,184 | - | 609,184 |
| Farm Mutual Pooled Funds | | | |
| - Canadian Fixed Income | - | 2,725,007 | 2,725,007 |
| - Canadian Equity | - | 1,270,671 | 1,270,671 |
| CCL Pooled Funds | - | 5,820,519 | 5,820,519 |
| Total assets measured at fair value | 609,184 | 9,816,197 | 10,425,381 |

| 6. PROPERTY, PLANT AND EQUIPMENT | Cost | Accumulated Amortization | 2010 | 2009 |
|----------------------------------|------------------|--------------------------|------------------|----------------|
| Land | 490,252 | - | 490,252 | 495,252 |
| Building | 1,935,387 | 17,763 | 1,917,624 | 256,898 |
| Parking lot | 105,114 | 1,791 | 103,323 | 5,270 |
| Office equipment | 173,763 | 4,467 | 169,296 | 62,129 |
| Computer equipment | 81,718 | 26,998 | 54,720 | 24,184 |
| Sign | 36,461 | 2,167 | 34,294 | - |
| | 2,822,695 | 53,186 | 2,769,509 | 843,733 |

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

7. INCOME TAXES

The provision for income taxes reported differs from the amount computed by applying the Canadian Statutory rate to income before income taxes for the following reasons:

| | 2010 | 2009 |
|--|-----------|-----------|
| Tax expense (Recovery) before under-noted items | (69,627) | (146,974) |
| Tax effect of extraordinary item | (63,725) | - |
| Tax Adjustments - Non-deductible and other items | (5,689) | 36,165 |
| Provision for (Recovery of) Income Taxes | (139,041) | (110,809) |

During the year the Company made income tax payments totaling \$21,366 (2009 - \$38,278).

Income taxes included in OCI:

The amounts included in the statement of comprehensive income as at December 31, 2010 are shown net of the following tax expense (benefit):

| | 2010 | 2009 |
|---|---------|---------|
| Tax impact on: | | |
| Change in unrealized gains and losses - mutual and pooled funds | 95,350 | 289,213 |
| Losses realized for tax purposes | - | 49,220 |
| Reclassification adjustment for realized (gain) losses included in income | 89,148 | 19,076 |
| Total income taxes expense (benefit) included in OCI | 184,498 | 357,509 |

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

8. FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT

The principal financial instruments from which financial instrument risk arises are trade accounts receivable, investments and accounts payable.

Risk Management

The Company's management and Board of Directors identify and address risks facing the Company. There has been no significant change in the Company's risk management framework.

(a) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause a financial loss for the Company. The Company remains exposed to credit risk primarily through amounts receivable from policyholders and reinsurers and its investment portfolio.

The Company's credit exposure to any one individual policyholder is not material.

The Company monitors the financial condition of its reinsurer, Farm Mutual Reinsurance Plan Inc.

The majority of the Company's investment portfolio is invested in well-established, active and liquid markets. The Company's investment policy is to invest primarily in pooled funds invested in fixed income and marketable securities. Management monitors pooled fund composition and performance on a regular basis

The Company's maximum exposure to credit risk for investments is the fair value carrying amount. The risk of significant credit loss for accounts receivable is considered remote.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet cash flow obligations as they come due.

The liquidity requirements of the Company's business have been met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expenses payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements. To manage its cash flow requirements, the Company maintains its invested assets in liquid securities.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

8. FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (continued)

(b) Liquidity Risk (continued)

| 2010 | No fixed maturity | <1 year | 1-5 years | >5 years | Total |
|----------------------------|-------------------|------------|------------|------------|------------------|
| Preferred shares | 18,155 | - | - | - | 18,155 |
| Common shares | 501 | - | - | - | 501 |
| Pooled funds | 8,681,418 | - | - | - | 8,681,418 |
| Total | 8,700,074 | - | - | - | 8,700,074 |
| Percentage of Total | 100.0 % | - % | - % | - % | - |

| 2009 | No fixed maturity | <1 year | 1-5 years | >5 years | Total |
|----------------------------|-------------------|------------|------------|------------|------------------|
| Preferred shares | 18,155 | - | - | - | 18,155 |
| Common shares | 501 | - | - | - | 501 |
| Pooled funds | 9,816,197 | - | - | - | 9,816,197 |
| Total | 9,834,853 | - | - | - | 9,834,853 |
| Percentage of Total | 100.0 % | - % | - % | - % | - |

(c) Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange values.

The Company is exposed to currency risk through its holdings in US equity and international equity pooled funds. Management monitors its foreign currency exposure regularly and adjusts holdings when deemed necessary.

It is estimated that an immediate hypothetical 1% change in the value of foreign currency would result in an unrealized loss of \$7,310 at December 31, 2010 (2009 - \$5,267).

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

8. FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (continued)

(c) (continued)

Interest Rate Risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is not significantly exposed to interest rate risk.

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company is exposed to other price risk through its holdings in common shares, preferred shares, mutual funds and pooled funds that are subject to changes in market prices. Fluctuations in the market value of these investments affect the carrying value of these securities causing changes in realized and unrealized gains and losses. Management monitors the ongoing performance of mutual and pooled funds monthly and ensures that investments are diversified by sector and geographically.

The Company's mutual and pooled fund investments are concentrated as follows:

| | 2010 | 2009 |
|---|-----------|-----------|
| CCL Fixed Income Pooled Fund | 3,643,011 | 3,448,028 |
| CCL Short Term Bond Pooled Fund | 1,044,674 | 902,380 |
| CCL Income Pooled Fund | 768,347 | 547,815 |
| CCL Canadian Valued Pooled Fund | 134,532 | 395,591 |
| CCL US Equity Pooled Fund | 406,217 | 261,012 |
| CCL International Equity Pooled Fund | 324,815 | 265,693 |
| Farm Mutual Canadian Equity Pooled Fund | - | 1,270,671 |
| Farm Mutual Canadian Fixed Income Pooled Fund | 2,359,822 | 2,725,007 |
| | 8,681,418 | 9,816,197 |

It is estimated that an immediate hypothetical 5% decrease in market value of stocks, mutual and pooled funds would result in a unrealized loss of \$434,071 at December 31, 2010 (2009 - \$490,810).

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

9. CAPITAL MANAGEMENT

The Company's objectives in managing its capital are to maintain financial stability for policyholders and meet regulatory requirements. Mutual insurance companies are regulated by the provisions of the Insurance Companies Act (ICA) and the Financial Services Commission of Ontario (FSCO).

The Company has a capital management process in place to monitor its capital. Reinsurance placed with Farm Mutual Reinsurance Plan and the Farm Mutual Guarantee Fund serve to protect capital and limit losses on any one claim (see Note 3). The Company meets its objectives for managing capital through management and Board monitoring and oversight of regulatory capital measures.

The Company's capital consists of retained earnings and accumulated other comprehensive income (loss). The Company's capital structure at December 31 was as follows:

| | 2010 | 2009 |
|---|-----------|-----------|
| Retained earnings | 7,562,055 | 7,901,040 |
| Accumulated other comprehensive income (loss) | 48,821 | (431,541) |
| Total Capital | 7,610,876 | 7,469,499 |

The Company is subject to an annual examination by the Financial Examination Committee, the results of which are reported to the Superintendent of Financial Institutions for Ontario. In its most recent examination report, the Company was in compliance with regulatory expectations.

10. GUARANTEES AND CONTINGENT LIABILITIES

The Company has been named in a statement of claim. As at the date of the financial statements, the Company's liability, if any, has not been determined. The Company has made a counter claim in the matter.

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.

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. The Company is also eligible to receive a refund of reinsurance premiums if a refund is declared by the Plan.

BRANT MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2010

11. ASSETS HELD FOR SALE

In 2010 the Company completed a plan to construct a new building and move operations to that location. As a result the previous building is now listed for sale and not used in the normal course of operations.

12. EXTRAORDINARY ITEM - SETTLEMENT COSTS

During the year the Company participated in a settlement relating to legal actions, which had been commenced in 2009. The litigation arose out of prior actions of a subsidiary Company. The settlement resolves the litigation relating to the matter and was concluded out of court without admission of liability. The settlement amount has been classified in the current year as an extraordinary item.

13. COMMITMENTS

The Company pledged in 2010 to contribute \$90,000 to the County of Brant Twin Pad Complex capital campaign. This contribution will be paid out in annual installments of \$15,000, which began in 2010 and will end in 2015.

The Company has also pledged to donate \$5,000 to the Brantford General Hospital Foundation, renewable on a yearly basis, and \$2,000 per year to the Brant Waterways Foundation, from 2010 through 2014.

14. COMPARATIVE FIGURES

Certain of the prior year's figures, provided for the purposes of comparison, have been reclassified to conform with the current year's statement presentation.