TOWN & COUNTRY MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

DECEMBER 31, 2008

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Chartered Accountant

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To the Policyholders of
Town & Country Mutual Insurance Company

AUDITOR'S REPORT

I have audited the balance sheet of Town & Country Mutual Insurance Company as at December 31, 2008 and the statements of income,surplus,comprehensive income (loss),accumulated other comprehensive income (loss)and cash flow for the year then ended.These financial statements are the responsibility of the company's management.My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards.Those standards require that I 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 my opinion, these financial statements present fairly, in all material respects,the financial position of the company as at December 31, 2008 and the results of its operations and its cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

London, Ontario
February 24, 2009

Chartered Accountant

Statement 1

TOWN & COUNTRY MUTUAL INSURANCE COMPANY

BALANCE SHEET

DECEMBER 31, 2008

(with comparative amounts as at December 31, 2007)

ASSETS

	2008	2007
Cash	$ 1,164,311	$ 1,665,824
Investments (note 3)	15,745,523	16,288,241
Investment income due and accrued	87,485	76,891
Accounts receivable	2,215,442	2,070,087
Income taxes recoverable	306,853	-
Future income taxes	65,000	51,000
Reinsurer's share of provision for unpaid claims and adjusting expenses (note 6)	6,541,435	5,585,791
Deferred policy acquisition expenses	579,383	545,517
Capital assets – at cost (note 5)	679,970	617,698
Prepaid expenses	20,325	16,259
	$ 27,405,727	$26,917,308

LIABILITIES

	2008	2007
Provision for unpaid claims and adjusting expenses (note 6)	$10,247,411	$ 9,000,361
Accounts payable and accrued liabilities	559,907	513,000
Income taxes payable	-	134,784
Unearned premiums	4,292,495	4,031,420
	15,099,813	13,679,565

SURPLUS

	2008	2007
Surplus (statement 2)	13,085,361	13,005,157
Accumulated other comprehensive income (loss) (statement 3)	(779,447)	232,586
	12,305,914	13,237,743
	$ 27,405,727	$26,917,308

On behalf of the Board:

______________________ Director

______________________ Director

(See accompanying notes)

TOWN & COUNTRY MUTUAL INSURANCE COMPANY

STATEMENT OF SURPLUS

YEAR ENDED DECEMBER 31, 2008
(with comparative amounts for the year ended December 31, 2007)

	2008	2007
Balance,beginning of year	$13,005,157	$12,373,825
Add:Net income for the year (statement 4)	80,204	631,332
Balance, end of year	$13,085,361	$13,005,157

(See accompanying notes)

TOWN & COUNTRY MUTUAL INSURANCE COMPANY

STATEMENT OF COMPREHENSIVE INCOME (LOSS)

YEAR ENDED DECEMBER 31, 2008
(with comparative amounts for the year ended December 31, 2007)

	2008	2007
Net income for the year (statement 4)	$ 80,204	$ 631,332
Deduct: Other comprehensive loss, net of income taxes		
Changes in unrealized gains and losses on available for sale investments for the year	(1,010,894)	(32,094)
Reclassification to income of realized losses on available for sale investments	(1,139)	(13,547)
	(1,012,033)	(45,641)
Comprehensive income (loss) for the year	$ (931,829)	$ 585,691

STATEMENT OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

YEAR ENDED DECEMBER 31, 2008
(with comparative amounts for the year ended December 31, 2007)

	2008	2007
Balance, beginning of year	$ 232,586	$ -
Cumulative effect of adopting new accounting policy net of income taxes	-	278,227
Deduct: Other comprehensive loss for the year	(1,012,033)	(45,641)
Balance, end of year	$ (779,447)	$232,586

(See accompanying notes)

TOWN & COUNTRY MUTUAL INSURANCE COMPANY

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2008
(with comparative amounts for the year ended December 31, 2007)

	2008	2007
Net premiums written	$8,930,257	$8,434,377
Less: Increase in unearned premiums	261,075	69,448
Reinsurance premiums	2,694,501	2,489,024
Net premiums earned	5,974,681	5,875,905
Service charges	126,785	111,746
Total underwriting revenue	6,101,466	5,987,651
Claims and expenses:		
Net claims and adjusting incurred	4,133,822	3,340,811
Commission expense	1,239,065	1,190,323
Commission income	(2,758)	(2,466)
Premium tax	20,372	19,887
Depreciation	79,279	51,422
Salaries and benefits	656,631	645,964
Directors' fees	46,131	46,812
Professional fees	9,858	21,377
Advertising, promotion and donations	20,149	18,357
Education and conventions	53,121	47,033
Dues and fees	53,352	50,906
Loss prevention	38,229	63,482
Telephone	10,111	9,027
Computer	121,293	133,376
Office	62,620	55,392
Utilities, property taxes and repairs	34,787	29,780
Insurance	12,569	16,851
Miscellaneous	30,485	42,209
	6,619,116	5,780,543
Underwriting income (loss)	(517,650)	207,108
Investment and other income	583,854	561,224
Income before provision for income taxes	66,204	768,332
Recovery of (provision for) income taxes		
Current	-	(150,000)
Future	14,000	13,000
	14,000	(137,000)
Net income for the year	$ 80,204	$ 631,332

(See accompanying notes)

TOWN & COUNTRY MUTUAL INSURANCE COMPANY

STATEMENT OF CASH FLOW

YEAR ENDED DECEMBER 31, 2008
(with comparative amounts for the year ended December 31, 2007)

	2008	2007
Cash provided:		
Operations		
Net income for the year (statement 4)	$ 80,204	$ 631,332
Add (deduct) adjustments to convert income to a cash basis		
Increase in provision for unpaid claims and adjusting expenses	1,247,050	1,516,350
Increase in unearned premiums	261,075	69,448
Increase (decrease)in income taxes payable	(441,636)	134,784
Increase (decrease) in accounts payable and accrued liabilities	46,907	(55,857)
Depreciation	79,279	51,422
Amortization of discount on investments	-	(14,319)
Increase in reinsurer’s share of provision for unpaid claims and adjusting	(955,644)	(1,511,271)
Decrease (increase) in accounts receivable	(145,355)	41,288
Increase in investment income accrued	(10,594)	(10,964)
Increase in deferred policy acquisition expenses	(33,866)	(8,067)
Increase in prepaid expenses	(4,066)	(358)
Decrease (increase) in future income taxes	(14,000)	19,000
Loss on sale of investments	40,978	112,343
Current income tax recovery	150,000	-
	300,332	975,131
Sale of investments		
Proceeds from sale of investments	5,922,707	6,154,000
Total cash provided	6,223,039	7,129,131
Cash applied:		
Purchase of investments		
Purchase of investments	6,583,000	7,104,000
Financing activities and other applications		
Purchase of capital assets	141,552	103,548
Total cash applied	6,724,552	7,207,548
Decrease in cash during the year	(501,513)	(78,417)
Cash position, beginning of year	1,665,824	1,744,241
Cash position, end of year	$ 1,164,311	$ 1,665,824

(See accompanying notes)

TOWN & COUNTRY MUTUAL INSURANCE COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2008

1. 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.

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 automobile, property, liability and farmer's accident insurance in Ontario.

Investments

Investments are carried by the company at their fair value. Any discounts or premiums arising upon the purchase of an investment is amortized to income over the term of the investment. Gains or losses are recorded at the time of the disposal of the investment. Any permanent impairment in the value of investments is written off.

The changes in the fair value of the company's available for sale investments arising during the year flow through the statement of Other Comprehensive Income.

Financial instruments

The company's financial instruments consist of cash,investments,accounts receivable and accounts payable. Unless otherwise noted, it is management's opinion that the company is not exposed to any significant interest,currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximates their carrying values, unless otherwise noted.

Capital assets

Capital assets are stated at cost less accumulated depreciation. Depreciation is provided using the following methods and rates:

Buildings	-	4% declining balance basis
Parking lots	-	8% declining balance basis
Office equipment	-	20% declining balance basis
Computer hardware	-	5 years straight line
Computer software	-	2 years straight line

Premiums earned and deferred policy acquisition expenses

Insurance premiums are included in income on a daily prorata basis over the life of the policies. Acquisition expenses related to unearned premiums, which expenses include commissions and premium tax, 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.

Unpaid claims

The provision for unpaid claims represents an estimate for the full amount of all costs including adjusting and the projected final settlement of claims incurred prior to the balance sheet date. These estimates are 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 become known during the course of claim settlement. All changes in estimates are recorded as incurred claims in the current period.

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 be a maximum amount on any one claim of $75,000 plus 10% in the event of a property claim, an amount of $50,000 plus 10% in the event of a liability claim and an amount of $40,000 plus 10% in the event of an automobile claim.In addition,the company has obtained reinsurance having an upper amount of $5,000,000 per property risk, which limits the company's liability to $225,000 in the event of a series of claims arising out of a single occurrence.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Estimates of amounts recoverable from the reinsurer on unpaid claims and adjusting expenses are recorded as assets in the accompanying financial statements. A contingent liability exists with respect to reinsurance ceded which could become a liability of the company in the event that the reinsurer were unable to meet its obligations under the reinsurance agreements. All reinsurance is placed through the Farm Mutual Reinsurance Plan Inc.

Income taxes

Income taxes are accounted for under the asset and liability method which determines future income taxes based on the differences between assets and liabilities reported for financial accounting purposes and those reported for income tax purposes.Future income taxes are calculated using tax rates anticipated to apply in future periods when the temporary differences are expected to reverse.

Under the Canadian Income Tax Act, the company is subject to income taxes on the portion of its taxable income that relates to non farm income.In 2008 that portion of the company's taxable income which related to non farm business was 69.7%(69.1% in 2007)

2. Changes in accounting policies:

Future accounting changes

International Financial Reporting Standards (IFRS)

The Accounting Standards Board has confirmed that all publicly accountable enterprises will have to comply with IFRS for fiscal years beginning on or after January 1, 2011. The company understands there are differences between current Canadian GAAP and IFRS, and has undertaken a project to understand the possible future effects on the company's financial statements.

Accounting changes applied during the year

Financial instruments

On January 1, 2008, the company adopted three new Canadian Institute of Chartered Accountants (CICA) Handbook Sections: Section 1535, Capital Disclosures; Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation. Prior year financial statements have not been restated.

Section 1535 requires disclosure of any entity's objectives, policies, and processes for managing capital; information about what the entity regards as capital; whether the company has complied with any external capital requirements; and the consequences of not complying with these capital requirements.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation. Section 3863 carries forward unchanged the presentation requirements of Section 3861 while Section 3862 requires enhanced financial instrument disclosures focusing on disclosures related to the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Since the purpose of these new standards is to enhance disclosure requirements, they do not have a financial impact on the company.

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 unpredictable. To limit the potential impact, catastrophe coverage limits the company's exposure to $225,000 plus 5% of the remaining loss in one event. The $225,000 amount represents approximately 1.7% of the company's capital.

The regulators measure the financial strength of property and casualty insurance companies 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 company. 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.The regulator has authority to request more extensive reporting and can place restrictions on the company's operations if deemed necessary.

In an actuarial study done by an independent actuarial firm, the Net Risk Ratio was shown to have a high correlation to the MCT. The company uses Net Risk Ratio to monitor capital adequacy. Regulators have indicated a minimum Net Risk Ratio 1:2 (50%) as desirable.The Net Risk Ratio for the company at December 31, 2008 is 1.46:1.00 (146%) The company is focused on maintaining this ratio by increasing surplus in proportion to written premium and evaluating the ratio on at least an annual basis.

For the purpose of capital management,the company considers capital as surplus excluding accumulated other comprehensive income.

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 the reinsurer to make payment when certain loss conditions are met.

The Company's investment policy puts limits on the bond 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 99% 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 FMRP, a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance contracts are reviewed annually by management prior to their renewal with the Reinsurance Plan.

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

There has 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 Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one A rated corporate bond to a maximum of $300,000

Currency Risk

Currency risk related 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 US stock holdings. The company limits its holdings in foreign equities to only investments approved by the investment committee.Foreign currency changes are monitored by the investment committee and holdings are adjusted when out of balance with investment policy. A 1% change in the value of the United States dollar would affect the fair value of stocks by $ 2,000 which would be reflected in net income or OCI.

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.

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 (T-Bills, Pooled Fund – fixed income, Bonds).

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 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 objectives, policies and procedures for managing interest rate risk is to diversify the bond portfolio.

At December 31, 2008, a 1% move in interest rates, with all other variables held constant, could impact the market value of bonds and Pooled Fund –fixed income fund by $620,000. 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 period in the exposure to risks 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, United States stocks with fair values that move with the Standard & Poor's 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 shares of $280,000 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 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 current liabilities arise as claims are made. The company does not have material liabilities that can be called unexpectantly at the demand of a lender or client. The company has no material commitments for capital expenditures.Claim payments are funded by current operating cash flow including investment income.

The company's liquidity is somewhat decreased as its investment in the Farm Mutual Pooled Funds has been frozen as at December 31, 2008 as outlined in note 4.Although this investment is large, the company's overall liquidity is more than adequate.

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

3. Investments

The fair values of investments are as follows:

	2008	2007
	Fair value	Fair value
Treasury Bills/ Term deposits	$ 1,496,199	$ 1,582,259
Pooled funds- Fixed income	3,136,562	2,978,773
Debt securities		
Federal	2,210,400	3,061,198
Provincial	3,910,959	2,575,611
Municipal	337,509	571,218
Corporate	1,830,070	1,769,920
	8,288,938	7,977,947
Common shares	2,823,824	3,749,262
	$15,745,523	$16,288,241

The fair value of the investments is based on quoted market values.

All investments except $ 173,544 of municipal debentures are classified as available for sale These municipal debentures are classified as investments held to maturity.

4. Investment in Farm Mutual Financial Services Inc.

The company,along with a number of other farm mutual insurance companies,is a shareholder in Farm Mutual Financial Services Inc. a company that made a voluntary assignment in bankruptcy during 2008.The company wrote off its total investment in Farm Mutual Financial Services Inc. in 2007.

Any future contingent liabilities resulting from this company are unknown as at December 31, 2008 and therefore no provision has been made in these financial statements.

Farm Mutual Financial Services Inc. the administrator of the Farm Mutual Pooled Funds held by the company, entered into bankruptcy protection during the year as noted.Due to uncertainty surrounding the bankruptcy,the custodian of these funds has frozen any contributions or withdrawals by the unit holders.The funds continue to be managed according to the investment mandate,but no purchase or sale of the units will be allowed until the uncertainty is resolved.The unit holders have applied to the courts to have the freeze lifted.

5. Capital assets

The capital assets consist of the following:

2008

	Cost	Accumulated depreciation	Net book value
Land	$ 125,000	$ -	$125,000
Buildings	446,969	110,237	336,732
Parking lot	31,270	13,005	18,265
Office equipment	123,072	73,923	49,149
Computer hardware & software	325,582	174,758	150,824
	$1,051,893	$371,923	$679,970

2007

	Cost	Accumulated depreciation	Net book value
Land	$125,000	$ -	$125,000
Buildings	446,969	96,206	350,763
Parking lots	31,270	11,416	19,854
Office equipment	123,072	61,635	61,437
Computer hardware & software	184,030	123,386	60,644
	$910,341	$292,643	$617,698

5. Provision for unpaid claims and adjusting expenses

The determination of the provision for unpaid claims and adjusting expenses and the related reinsurers' share requires estimations by the company's management and its adjusters.

The provision for unpaid claims and adjusting 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.

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 the 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 details of the net claims and adjusting incurred for the year

	2008	2007
Provision for unpaid claims and adjusting expenses, end of year	$10,247,411	$9,000,361
Less reinsurer's share of provision	6,541,435	5,585,791
	3,705,976	3,414,570
Add claims and adjusting expenses paid during the year (net of reinsurance)	3,842,416	3,335,732
	7,548,392	6,750,302
Provision for unpaid claims and adjusting expenses, beginning of year	3,414,570	3,409,491
Net claims and adjusting incurred for year	$4,133,822	$3,340,811

6. Rate regulation

The company’s automobile insurance premiums are subjected to approval By the Financial Services Commission of Ontario (FSCO). Application For automobile rate increases are presented to FSCO by the Farm Mutual Reinsurance Plan on behalf of the members of OMIA. FSCO approves these rates based on information supplied to them.

7. Income tax loss carryforward

The company has a $370,000 income tax loss carryforward which is available to reduce future income taxes payable.