

WEST WAWANOSH MUTUAL INSURANCE COMPANY
FINANCIAL STATEMENTS
DECEMBER 31, 2004

VODDEN, BENDER & SEEBACH *LLP*
Chartered Accountants

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AUDITOR'S REPORT

To the Members of West Wawanosh Mutual Insurance Company

We have audited the balance sheet of West Wawanosh Mutual Insurance Company as at December 31, 2004 and the statements of members' surplus, 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 from 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, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Vodden, Bender & Seebach LLP

Chartered Accountants

Clinton, Ontario
January 20, 2005

WEST WAWANOSH MUTUAL INSURANCE COMPANY
BALANCE SHEET

As at December 31	2004	2003
ASSETS		
Cash	1,212,881	1,567,279
Investments (note 3)	18,267,523	17,956,790
Accrued investment income	144,442	144,587
Instalment premiums receivable	1,777,739	2,031,362
Premiums due from brokers	1,009,431	1,008,360
Due from reinsurers	448,272	-
Recoverable from reinsurer on unpaid claims (note 5)	9,148,605	9,884,709
Due from Facility Association	794,785	610,683
Other accounts receivable	146,278	1,738
Income taxes recoverable	6,541	747
Deferred policy acquisition expenses	1,012,800	950,000
Capital assets (note 4)	405,589	404,320
Total assets	\$ 34,374,886	\$ 34,560,575
LIABILITIES		
Provision for unpaid claims and adjusting (note 5)	17,751,930	18,425,599
Unearned premiums	6,523,400	7,496,800
Due to reinsurers	-	147,529
Accounts payable and accrued liabilities	259,251	146,683
Total liabilities	24,534,581	26,216,611
MEMBERS' SURPLUS		
Total liabilities and surplus	\$ 34,374,886	\$ 34,560,575

The accompanying notes are an integral part of these financial statements

On behalf of the Board:

..... Director

..... Director

WEST WAWANOSH MUTUAL INSURANCE COMPANY
STATEMENT OF INCOME

For the Year Ended December 31	2004	2003
Premiums written	13,659,537	15,830,106
Reinsurance ceded	(3,325,414)	(3,860,256)
Decrease in unearned premiums	973,400	635,100
Net premiums earned	11,307,523	12,604,950
Payment plan service fees	137,759	157,812
Total underwriting revenue	11,445,282	12,762,762
Claims and expenses		
Gross claims incurred	10,768,992	15,568,490
Adjusting	1,235,485	1,506,652
Less: Reinsurance recoveries	4,307,328	6,994,278
Net claims and adjusting	7,697,149	10,080,864
Commissions	2,056,998	2,556,942
Salaries, fees, travel and training	759,103	754,080
Inspections and prevention	58,300	54,005
Advertising and promotion	37,733	47,645
Regulatory assessments	93,967	85,933
Statistical services	92,201	103,718
Postage and telephone	37,615	58,776
Office supplies	265,208	267,605
Occupancy costs	59,862	35,097
Amortization of capital assets	42,400	61,924
Total expenses	11,200,536	14,106,589
Underwriting gain (loss)	244,746	(1,343,827)
Investment income	1,251,595	1,352,794
Net income for year	\$ 1,496,341	\$ 8,967

The accompanying notes are an integral part of these financial statements

WEST WAWANOSH MUTUAL INSURANCE COMPANY
STATEMENT OF MEMBERS' SURPLUS

For the Year Ended December 31	2004	2003
Balance beginning of year	8,343,964	8,241,287
Net income for year	1,496,341	8,967
Decrease (increase) in reserves	-	93,710
Balance end of year	\$ 9,840,305	\$ 8,343,964

The accompanying notes are an integral part of these financial statements

WEST WAWANOSH MUTUAL INSURANCE COMPANY
STATEMENT OF CASH FLOWS

For the Year Ended December 31	2004	2003
Operating activities		
Net income for the year	1,496,341	8,967
Adjustments to convert earnings to cash basis:		
Amortization of capital assets	42,400	61,924
Amortization of bond discounts	1,861	2,429
Loss (gain) on investments	31,567	42,852
Changes in:		
Accrued investment income	145	17,326
Premiums receivable	252,552	449,244
Receivable from reinsurers	(43,799)	(4,378,409)
Other receivables	(144,540)	136,929
Income taxes recoverable / payable	(5,794)	34,496
Deferred policy acquisition expenses	(62,800)	169,000
Provision for unpaid claims	(673,669)	4,451,234
Unearned premiums	(973,400)	(635,100)
Accounts payable	112,568	(33,916)
Cash provided from (used for) operating activities	33,432	326,976
Investment activities		
Sale of investments	2,101,414	2,963,909
Purchases of investments	(2,445,575)	(4,198,928)
Purchase of capital assets	(43,669)	(32,984)
Cash provided from (used for) investment activities	(387,830)	(1,268,003)
Net increase (decrease) in cash	(354,398)	(941,027)
Cash beginning of year	1,567,279	2,508,306
Cash balance end of year	\$ 1,212,881	\$ 1,567,279

The accompanying notes are an integral part of these financial statements

WEST WAWANOSH MUTUAL INSURANCE COMPANY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

1. Nature of business

The company was incorporated without share capital in 1879 under the laws of Ontario as a mutual insurance company. The company is subject to the Ontario Insurance Act and is licenced to write property, liability and automobile insurance in Ontario.

2. 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.

Investments

Investments in bonds, debentures and shares are carried at cost. A write down of the carrying value is charged against income when evidence indicates a permanent decline in the underlying value and earning power of an investment. Gains and losses on disposal of investments are determined on a completed transaction basis.

Premiums earned and deferred policy acquisition expenses

Insurance premiums are included in income on a daily pro-rata basis over the term of the policies. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums.

Acquisition expenses related to unearned premiums, which expenses comprise commissions and premium tax, are deferred and amortized to income over the period in which the premiums are earned. The amount of deferral of policy acquisition expenses is limited to its estimated realizable value by giving consideration to claims and expenses expected to be incurred as premiums and investment income are earned.

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. The estimates are regularly reviewed and updated, and any resulting adjustments are included in current income. The provision includes an estimate of claims incurred but not reported.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective premium income and claim expense. Unearned premiums on business ceded and estimates of amounts recoverable from the reinsurer on unpaid claims and adjusting expenses are recorded on a gross basis. A contingent liability exists with respect to the amount recoverable from the reinsurer on unpaid claims which might not be realizable in the event of the reinsurer being unable to meet its obligations under the reinsurance agreements.

Capital assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided on the straight line basis at rates reflecting the estimated useful lives of the assets.

Future income taxes

Temporary differences between the tax basis of certain assets and liabilities and the carrying amounts in the financial statements arise mainly from timing differences in reporting claims reserves and gains on certain investments. A related future income tax liability is reported on the balance sheet, but a related future income tax recovery is reported only when it is likely that it will be recoverable.

WEST WAWANOSH MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

3. Investments

	<u>2004</u>		<u>2003</u>	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
Bonds and debentures				
Federal bonds	1,553,600	1,689,822	1,250,000	1,353,276
Provincial bonds	6,038,188	6,481,372	6,258,238	6,671,675
Municipal bonds	3,556,075	3,962,366	3,508,075	3,935,274
Corporate bonds	<u>2,119,506</u>	<u>2,266,173</u>	<u>2,012,000</u>	<u>2,153,429</u>
Total bonds	13,267,372	14,399,733	13,028,313	14,113,654
Loans to brokers	1,098,805	1,086,000	1,332,536	1,306,300
Corporate shares	1,006,306	872,063	960,071	867,200
Farm Mutual Pooled Funds	2,779,255	2,835,418	2,472,806	2,472,779
Farm Mutual Financial Services	45,000	45,000	45,000	45,000
Farm and Town Financial Services	10,750	10,750	60,000	5,721
Fire Mutual Guarantee Fund	<u>60,038</u>	<u>60,038</u>	<u>58,064</u>	<u>58,064</u>
	\$ <u>18,267,523</u>	\$ <u>19,309,002</u>	\$ <u>17,956,790</u>	\$ <u>18,868,718</u>

Bond maturity profile as at December 31, 2004:

	Within <u>1 year</u>	Within <u>2-5 years</u>	Over <u>5 years</u>
	\$ <u>1,706,750</u>	\$ <u>5,711,000</u>	\$ <u>5,849,622</u>

The effective investment yield for the year is 6.4% (7.0% for 2003).

The company holds a 1/7 interest in Farm and Town Financial Services Inc. Activity of this company is accounted for on the equity method.

4. Capital assets

	<u>2004</u>			<u>2003</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land	48,900	-	48,900	48,900
Building and pavement	542,400	276,350	266,050	278,350
Computers, furniture and equipment	140,769	80,100	60,669	35,100
Automobiles	<u>47,984</u>	<u>18,014</u>	<u>29,970</u>	<u>41,970</u>
	<u>780,053</u>	<u>374,464</u>	\$ <u>405,589</u>	\$ <u>404,320</u>

5. Provision for unpaid claims

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

6. Underwriting policy

The company follows the policy of underwriting and reinsuring contracts of insurance which, in the main, limited the liability of the company for any one claim incurred in 2004 to the first \$100,000. and 10% of the next \$900,000. in the event of a property, liability or automobile claim. In addition, the company has obtained reinsurance which limits the company's liability in the event of a series of property claims arising out of a single catastrophe occurrence to the first \$150,000. and 5% of the excess.

For the Year Ended December 31, 2004

7. Income taxes

Under the provisions of the Income Tax Act (Canada) the company is taxable on a portion of its net income pro-rated by the portion of premium income from sources other than insurance on farm properties. The non-farm insurance business written in fiscal 2004 amounted to 72% (71% in 2003).

The company has incurred losses for income tax purposes which may be carried forward for specified time periods to deduct from taxable income of future years. Net deductible losses available are approximately \$118,000. from 2002 and \$95,000. from 2003 for which the carry-forward periods expire in 2009 and 2010 respectively. Temporary differences between the tax basis of certain assets and liabilities and the carrying amounts results in a future tax liability on approximately \$15,000. of income. The net potential tax benefit has not been recognized in the financial statements.

8. Pension plan

The company makes contributions to the Ontario Mutual Insurance Association Pension Plan, which is a multi-employer plan, on behalf of fourteen members of its staff. The plan is a money purchase plan, with a defined benefit option at retirement which specifies the amount of the retirement benefit to be received by the employees based on length of service and rates of pay. The company contributes to a registered retirement savings plan on behalf of four members of its staff. The amount contributed to the plans for 2004 was \$86,283. (2003: \$55,902.) for current service. These payments are included in expenditure in the statement of income.

9. Financial instruments

Fair value

The company has financial instruments consisting of cash, investments, premiums and other accounts receivable, unearned premiums and claims and other accounts payable and accrued liabilities reported in its financial statements. The fair value of investments is disclosed in note 3. Except for the provision for unpaid claims and adjusting and the recoverable from reinsurers, other financial instruments are short-term and their fair value approximates their carrying value. The provision for unpaid claims and adjusting and the related recoverable from reinsurers will be settled over an extended period of time. Their estimated fair values, which would represent discounted future net cash outflows, has not been determined.

Credit risk

The company is exposed to credit risk on premiums receivable. The risk is mitigated by the nature of revenues which allow for cancellation of insurance coverages.