LANARK MUTUAL INSURANCE COMPANY
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2010

LANARK MUTUAL INSURANCE COMPANY

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AUDITORS' REPORT

To the Policyholders of
Lanark Mutual Insurance Company

Report on the Financial Statements

We have audited the accompanying financial statements of Lanark Mutual Insurance Company, which comprise the balance sheet as at December 31, 2010 and the statements of surplus and resources for protection of policyholders, comprehensive income and earnings 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these 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, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2010 and the results of its operations and the cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wilkinson & Company LLP

Chartered Accountants
Licensed Public Accountants

BELLEVILLE, Canada
February 4, 2011

WILKINSON & COMPANY LLP
Chartered Accountants & Tax Specialists Since 1964

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Since 1964

LANARK MUTUAL INSURANCE COMPANY
BALANCE SHEET AS AT DECEMBER 31, 2010

	2010	2009
	$	$
ASSETS		
Cash	**3,454,460**	4,153,241
Portfolio investments - Note 4	**42,695,514**	37,848,800
Accrued interest	**264,103**	275,194
Accounts receivable		
- Agents and policyholders	**5,491,669**	5,288,218
- Other	**132,732**	64,957
Income taxes recoverable	**12,912**	
Reinsurers' share of provisions for unpaid claims and adjustment expenses - Note 5	**6,845,192**	6,871,064
Deferred policy acquisition expenses	**2,039,291**	1,988,629
Prepaid expenses	**31,128**	5,524
Property, plant and equipment - Note 6	**3,743,519**	3,839,339
Future income taxes		40,000
	64,710,520	60,374,966
LIABILITIES		
Accounts payable and accrued liabilities	**476,950**	716,234
Income taxes payable		557,217
Provision for unpaid claims and adjustment expenses - Note 5	**14,770,355**	13,593,635
Unearned premiums	**10,913,231**	10,618,472
	26,160,536	25,485,558
SURPLUS		
Surplus and resources for protection of policyholders	**36,904,120**	34,025,577
Accumulated other comprehensive income - Note 7	**1,645,864**	863,831
	38,549,984	34,889,408
	64,710,520	60,374,966

APPROVED ON BEHALF OF THE BOARD

____________________ Director

____________________ Director

The accompanying notes form an integral part of these financial statements

LANARK MUTUAL INSURANCE COMPANY
STATEMENT OF SURPLUS AND RESOURCES FOR PROTECTION OF POLICYHOLDERS
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010 $	2009 $
SURPLUS - BEGINNING OF YEAR	**34,025,577**	33,303,411
NET EARNINGS FOR YEAR	**2,878,543**	722,166
SURPLUS - END OF YEAR	**36,904,120**	34,025,577

The accompanying notes form an integral part of these financial statements

LANARK MUTUAL INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010 $	2009 $
NET EARNINGS FOR YEAR	**2,878,543**	722,166
OTHER COMPREHENSIVE INCOME - Note 7	**782,033**	2,459,759
COMPREHENSIVE INCOME	**3,660,576**	3,181,925

The accompanying notes form an integral part of these financial statements

LANARK MUTUAL INSURANCE COMPANY
STATEMENT OF EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010 $	2009 $
PREMIUM INCOME		
Gross premiums written	**21,239,742**	20,566,389
Less reinsurance premiums	**(3,420,392)**	(3,418,846)
Net premiums written	**17,819,350**	17,147,543
Increase in unearned premiums	**(294,935)**	(448,812)
Net premiums earned	**17,524,415**	16,698,731
EXPENSES		
Net claims incurred	**8,252,908**	8,684,919
Net adjusting expenses incurred	**1,101,544**	772,931
Commissions	**4,070,480**	3,841,746
Salaries and benefits	**1,493,107**	1,379,273
Directors fees	**80,293**	81,351
Professional fees	**48,340**	54,823
Travel and education	**102,096**	111,242
Inspection fees	**95,849**	98,327
Advertising	**34,091**	30,496
Office, printing and telephone	**513,192**	453,778
Insurance	**71,787**	61,984
Ontario premium taxes	**68,033**	65,660
Building occupancy costs	**239,816**	235,649
Association and bureau fees	**59,073**	73,491
Other	**7,973**	7,158
	16,238,582	15,952,828
UNDERWRITING PROFIT	**1,285,833**	745,903
OTHER INCOME (EXPENSES)		
Investment income	**1,804,647**	1,304,392
Management fees - portfolio investments	**(125,970)**	(99,799)
(Loss) gain on disposal of portfolio investments	**121,170**	(237,175)
Write-down of available for sale investments - Note 4		(538,365)
Gain on disposal of property, plant and equipment	**1,863**	10,210
	1,801,710	439,263
EARNINGS BEFORE INCOME TAXES	3,087,543	1,185,166
INCOME TAX EXPENSE		
Current	**169,000**	413,000
Future	**40,000**	50,000
	209,000	463,000
NET EARNINGS FOR YEAR	**2,878,543**	722,166

The accompanying notes form an integral part of these financial statements

LANARK MUTUAL INSURANCE COMPANY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010

	2010 $	2009 $
OPERATING ACTIVITIES		
Net earnings for year	**2,878,543**	722,166
Adjustment for items which do not affect cash -		
Amortization of property, plant and equipment	**193,244**	182,962
Loss (gain) on sale of portfolio investments	**(121,170)**	237,175
Bond amortization	**12,996**	21,349
Gain on disposal of property, plant and equipm	**(1,863)**	(10,210)
Future income taxes	**40,000**	50,000
Write-down of available for sale investments		538,365
	3,001,750	1,741,807
Net change in non-cash working capital balances related to operations - Note 9	**351,537**	470,677
Tax effect on comprehensive income	**(218,000)**	(418,000)
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES	**3,135,287**	1,794,484
INVESTING ACTIVITIES		
Purchase of portfolio investments	**(6,750,366)**	(4,772,801)
Proceeds on sale of portfolio investments	**3,011,859**	5,006,628
Purchase of property, plant and equipment	**(101,061)**	(80,259)
Proceeds on sale of property, plant and equipment	**5,500**	17,000
CASH FLOWS PROVIDED FROM (USED IN) INVESTING ACTIVITIES	**(3,834,068)**	170,568
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR YEAR	**(698,781)**	1,965,052
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	**4,153,241**	2,188,189
CASH AND CASH EQUIVALENTS - END OF YEAR	**3,454,460**	4,153,241
REPRESENTED BY:		
Cash	**3,454,460**	4,153,241
SUPPLEMENTAL INFORMATION:		
Interest paid	**NIL**	NIL
Income taxes paid	**1,018,776**	275,000

The accompanying notes form an integral part of these financial statements

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

1. NATURE OF BUSINESS OPERATIONS

The Company was incorporated without share capital on September 9, 1896 under the laws of the Province of Ontario as a mutual insurance company and is subject to the Ontario Insurance Act. It is licenced to conduct its principal business activity which is to write property, liability and automobile insurance in Ontario.

2. ACCOUNTING POLICIES

The Company follows Canadian generally accepted accounting policies, which comply with the requirements for filing with the Financial Services Commission of Ontario. Those accounting policies considered to be particularly significant are as follows:

(a) Accounting Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the valuation of accounts receivable and the estimated useful life of building and equipment. Actual results could differ from those estimates.

(b) Financial Instruments

Purchases and sales of financial assets are accounted for at settlement date. Transaction costs are deferred and recognized in income upon the disposition of the asset.

Cash and cash equivalents are classified as held-for-trading. Receivables are classified as loans and receivables, which are measured at amortized cost. Portfolio investments are classified in accordance with Note 2(c) below. Accounts payable and accrued liabilities, due to reinsurers and other insurance companies are classified as other financial liabilities, which are measured at amortized cost.

(c) Portfolio Investments

Portfolio investments invested in equity securities are classified as available-for-sale, and are initially recorded at their acquisition cost on the date of trade. Investments in publicly-traded securities are subsequently adjusted to fair value as at the date of the balance sheet, and the corresponding unrealized gains and losses are recorded in other comprehensive income. A write-down of the carrying value is charged against income when evidence indicates that the decline in the fair value below the cost of the financial asset is other than a temporary decline.

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

2. ACCOUNTING POLICIES (Cont'd)

(c) Portfolio Investments (Cont'd)

Portfolio investments invested in fixed-income securities are classified as held-to-maturity, and are recorded at the lower of amortized cost or market, on a total portfolio basis. Any premium or discount is amortized using the effective interest rate method. A write-down of the carrying value is charged against income when evidence indicates a permanent decline in the carrying value and earning power of an individual investment.

Portfolio investments invested in private mortgages are classified as other receivables which are measured at amortized cost.

(d) Reinsurance

The Company reflects reinsurance balances on the balance sheet on a gross basis to indicate the extent of credit risk related to reinsurance and its obligations to policyholders.

(e) 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 are deferred and amortized to income over the periods in which the premiums are earned. Deferred policy acquisition costs are limited to realizable value, by giving consideration to losses and expenses to be incurred, net of anticipated investment income on unearned premiums, as premiums are earned.

(f) Property, Plant and Equipment and Amortization

Property, plant and equipment are stated at acquisition cost. Gains or losses on the disposal of individual assets are recognized in income in the year of disposal. Amortization is provided on the basis as detailed below:

Asset	Basis	Rate
Buildings	Straight-line	2-1/2%
Automobiles	Straight-line	30%
Computer equipment and software	Straight-line	45%
Office furniture and fixtures	Declining balance	20%

(g) Provision for Unpaid Claims and Adjustment Expenses

The provision for unpaid claims and adjustment expenses 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 and 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.

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

2. ACCOUNTING POLICIES (Cont'd)

(h) 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 tax purposes. Future income taxes are calculated using tax rates anticipated to apply in periods that temporary differences are expected to reverse.

(i) Cash and Equivalents

Cash and equivalents consist of cash on deposit.

3. CHANGES IN ACCOUNTING POLICY

Future Accounting Changes

The Accounting Standards Board has confirmed that all publicly accountable enterprises will have to comply with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Company understands there to be differences between current Canadian GAAP and IFRS, and have undertaken a project to understand the possible future effects on the financial statements.

The Company has approved accounting policies to comply with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011.

4. PORTFOLIO INVESTMENTS

As noted in Note 2(c) to these financial statements, equity investments are classified as available-for-sale and are adjusted to market value as at the balance sheet date, fixed-income securities are classified as held-to-maturity and are recorded at the lower of cost or market and mortgages are classified as other loans and receivables.

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

4. PORTFOLIO INVESTMENTS (Cont'd)

The carrying and market values of the investments are as follows:

	2010		2009	
	Carrying Value $	**Market Value $**	Carrying Value $	Market Value $
Held-to-maturity				
Term deposits	**1,750,000**	**1,750,000**	1,270,000	1,270,000
Debt securities				
Federal government	**3,722,991**	**3,897,384**	3,799,105	3,956,156
Provincial government and Provincially guaranteed	**5,809,793**	**6,059,963**	5,217,004	5,448,812
Canadian Municipal and School Boards	**7,011,675**	**7,304,540**	6,908,587	7,264,379
Canadian Corporate	**3,716,474**	**3,906,970**	3,821,082	4,040,250
	20,260,933	**21,168,857**	19,745,778	20,709,597
	22,010,933	**22,918,857**	21,015,778	21,979,597
Available-for-sale				
Preference shares, common shares and pooled funds	**20,684,581**	**20,684,581**	16,833,022	16,833,022
	42,695,514	**43,603,438**	37,848,800	38,812,619

The effective interest rates range from 1.85% to 6.90%.

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

4. PORTFOLIO INVESTMENTS (Cont'd)

Fair Value

The estimated market value of bonds and debentures are based on quoted market values. The estimated market value of preference and common shares are determined using the last bid price. The Company has reviewed the values of the above instruments and has determined that a permanent impairment of certain available-for-sale investments exists totalling $491,144. The value of these investments has been written down accordingly in a previous year.

Maturity Profile

The expected maturity dates for fixed-income securities are as follows:

	2010 $	2009 $
Maturing within one year	**2,840,097**	2,136,687
Maturing between one and five years	**12,451,367**	14,677,416
Maturing over five years	**6,719,469**	4,201,675
	22,010,933	21,015,778

5. PROVISION FOR UNPAID CLAIMS AND ADJUSTMENT EXPENSES

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of the following variables: development of claims and reinsurance recoveries. The estimates are based on the Company's historical experience and classified as follows:

	2010		2009	
	Gross $	Ceded $	Gross $	Ceded $
Short settlement term	**3,083,418**	**904,662**	2,960,330	1,106,719
Long settlement term	**11,171,550**	**5,940,530**	10,152,995	5,764,345
Facility Association and other residual pools	**515,387**		480,310	
	14,770,355	**6,845,192**	13,593,635	6,871,064

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

6. PROPERTY, PLANT AND EQUIPMENT

	2010		2009	
	Cost	**Accumulated amortization**	Cost	Accumulated amortization
	$	**$**	$	$
Land	**248,550**		248,550	
Building	**3,905,575**	**570,661**	3,907,826	474,620
Automobiles	**184,780**	**133,287**	181,173	116,646
Computer equipment and software	**310,816**	**278,928**	292,877	282,900
Office furniture and fixtures	**258,803**	**182,129**	259,380	176,301
	4,908,524	**1,165,005**	4,889,806	1,050,467
Cost less accumulated amortization	**$ 3,743,519**		$ 3,839,339	

Amortization on property, plant and equipment for the year amounted to $193,244 (2009 - $182,962).

7. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the changes in the balance of accumulated other comprehensive income:

	2010	2009
	$	$
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) - BEGINNING OF YEAR	**863,831**	(1,595,928)
Unrealized gains on available-for-sale financial assets (net of income tax expense of $194,000)	**927,203**	1,857,219
Reclassification adjustment for gains and write-downs included in net earnings for the year (net of income tax expense of $24,000)	**(145,170)**	602,540
OTHER COMPREHENSIVE INCOME	**782,033**	2,459,759
ACCUMULATED OTHER COMPREHENSIVE INCOME - END OF YEAR	**1,645,864**	863,831

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

8. INCOME TAX INFORMATION

The Company has a reduced effective income tax rate due to eligibility for the small business deduction and exemptions within the Income Tax Act for a proportion of its taxable income relating to farm premiums earned.

9. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS

Cash provided from (used in) non-cash working capital is compiled as follows:

	2010 $	2009 $
(INCREASE) DECREASE IN CURRENT ASSETS		
Accrued interest	**11,091**	1,032
Accounts receivable - agents and policyholders	**(203,451)**	(404,920)
Accounts receivable - other	**(67,775)**	118,795
Income taxes recoverable	**(12,912)**	1,816,299
Reinsurers' share of provision for unpaid claims and adjustment expenses	**25,872**	403,052
Deferred policy acquisition expenses	**(50,662)**	(85,959)
Prepaid expenses	**(25,604)**	(4,457)
	(323,441)	1,843,842
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**(239,284)**	325,163
Income taxes payable	**(557,217)**	557,217
Provision for unpaid claims and adjustment expenses	**1,176,720**	(2,704,365)
Unearned premiums	**294,759**	448,820
	674,978	(1,373,165)
NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS	**351,537**	470,677

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

10. UNDERWRITING POLICY

The Company follows a policy of underwriting with reinsuring contracts of insurance. The limit of liability of the Company to a maximum amount of any one claim of $325,000 in the event of a property claim, $325,000 in the event of a liability claim and $280,000 for Auto and $40,000 for Farmers Accident Benefits. In addition, the Company has obtained reinsurance having an upper amount of $6,000,000 and which limits the Company's liability to $750,000 in the event of a series of claims arising out of a single occurrence.

11. FINANCIAL INSTRUMENTS

Financial instruments consist of cash, portfolio investments, accrued interest, accounts receivable, reinsurers' share of provision for unpaid claims and adjustment expenses, accounts payable and accrued liabilities, due to reinsurers and provision for unpaid claims and adjustment expenses. The carrying amounts approximate their fair market value due to the immediate or short-term maturity of these financial instruments except for portfolio investments which are disclosed in Note 4 to these financial statements.

Credit Risk

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

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The debt security portfolio remains very high quality with more than 80% of the securities rated A or better; all debt securities must have a BBB rating or better per the Company's investment policy. 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 treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Accounts receivable are short term in nature and are not subject to material credit risk. The maximum exposure to credit risk and concentration of this risk is limited to the carrying value of these instruments.

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.

11. FINANCIAL INSTRUMENTS (Cont'd)

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 investments policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Investment Committee and the Board of Directors. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer to a maximum of 5% of the Company's total investment portfolio.

Currency Risk

Currency risk relates to the Company operating in different currencies and converting non-Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur.

The Company does not hold any significant financial instruments in foreign currency, and as such, is not exposed to significant currency risk.

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 risk through its interest-bearing investments (term deposits 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 over the medium to long-term with short-term interest rate fluctuations creating unrealized gains or losses. 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.

11. FINANCIAL INSTRUMENTS (Cont'd)

The objective and policies and procedures for managing interest rate risk is to diversify the bond portfolio in such a way that the bonds are a portfolio laddered over several years and an approximately equal portion of the bond portfolio would come due each year and be reinvested. This protects the Company from fluctuations in the interest rates.

As prevailing interest rates increase or decrease, the market value of these interest-bearing investments change. If interest rates were to change by 1%, with all other variables being held constant, then the effect on the market value of these investments would be approximately $1,549,000. The Company intends to hold these investments to maturity, thereby reducing any potential interest rate risk.

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.

The Company's portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. A 10% movement in the stock markets with all other variables held constant would have an estimated effect on the fair values of the Company's preference and common shares of $859,000. For shares that the Company did not sell during the period, the change would be recognized in the asset value and in other comprehensive income. For shares 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 or losses in income during the period.

The Company's investments 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 preference and common shares are as follows:

Investment Category	Maximum Percentage of Investment Portfolio
Preference shares	25%
Common shares	35%
Income trusts	5%
Mutual and pooled funds	30%
Corporate securities	35%
Individual corporate group	5%
Individual sector	15%
Foreign securities	5%

11. FINANCIAL INSTRUMENTS (Cont'd)

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. Current liabilities arise as claims are made. There are no material liabilities that can be called unexpectedly at the demand of a lender or client. There are no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including the 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.

12. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS

In compliance with CICA Handbook Section 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.

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2010

12. DISCLOSURES RELATING TO FAIR VALUE MEASUREMENTS (Cont'd)

	Level 1 $ (000's)	Level 2 $ (000's)	Total $ (000's)
ASSETS			
Cash and cash equivalents	3,454		3,454
Term deposits		1,750	1,750
Debt securities			
Federal government		3,897	3,897
Provincial government and Provincially guaranteed		6,060	6,060
Canadian Municipal and School Boards		7,305	7,305
Canadian Corporate		3,907	3,907
Preference shares, common shares and pooled funds	8,460	12,225	20,685
TOTAL ASSETS MEASURED AT FAIR VALUE	11,914	35,144	47,058

13. 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 use 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, catastrophic coverage limits exposure to $750,000 plus 5% of the remaining loss. The $750,000 net retained amount represents approximately 2.0% of the Company's capital. For the purpose of capital management, the Company has defined capital as policyholders' equity (surplus), excluding accumulated other comprehensive income.

13. CAPITAL MANAGEMENT (Cont'd)

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 regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if deemed necessary. The Company takes a more conservative approach and strives to maintain a MCT in excess of 600%.

The Company has several guidelines and benchmarks established by the Financial Services Commission of Ontario regarding capital management. All of these guidelines have historically been met or exceeded by the Company, and management believes they will continue to do so in current and future years.

14. PENSION PLAN

Employees of the Company are members of the Great West Life RRSP Plan. During the year, the Company paid $70,974 (2009 - $69,220) in contributions on behalf of the employees.