Financial Statements of

ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Year ended December 31, 2008

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Financial Statements

December 31, 2008

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AUDITORS' REPORT

Auditors' Report to the Policyholders and Directors

We have audited the balance sheet of Antigonish Farmers' Mutual Insurance Company as at December 31, 2008 and the statements of income, comprehensive income, policyholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The current year's supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MGM & Associates

Chartered Accountants

Sydney, Canada

January 29, 2009

ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Balance Sheet

December 31, 2008, with comparative figures for 2007

	2008	2007
Assets		
Cash	$ 536,782	$ 744,470
Investments (note 5)	9,686,811	10,837,975
Accounts receivable (note 6)	985,043	1,315,611
Income taxes receivable	366,500	84,500
Prepaid expenses	18,083	20,448
Deferred policy acquisition costs	319,654	318,336
Property and equipment (note 7)	455,759	463,838
Future income tax asset (note 10)	107,400	–
	$12,476,032	$13,785,178
Liabilities		
Accounts payable and accrued liabilities	$ 216,550	$ 272,133
Claims payable	911,000	1,249,000
Reserve for unearned premiums	2,149,977	2,175,292
Long-term debt (note 8)	75,000	175,000
Future income tax liability (note 10)	–	73,900
	3,352,527	3,945,325
Policyholders' equity		
Policyholders' surplus	10,567,789	9,750,007
Accumulated other comprehensive income (loss)	(1,444,284)	89,846
	9,123,505	9,839,853
	$12,476,032	$13,785,178

See accompanying notes to financial statements.

On behalf of the Board:

_____________________________ Director

_____________________________ Director

ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Statement of Income

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Revenue:		
Gross premiums written	$ 4,377,874	$ 4,400,448
Returned premiums	(77,920)	(63,107)
Net gross premiums written	4,299,954	4,337,341
Reinsurance premiums	(1,257,892)	(1,172,507)
Net premiums written	3,042,062	3,164,834
Decrease (increase) in unearned premiums	25,315	(112,263)
Net premiums earned	3,067,377	3,052,571
Service charges	19,515	18,833
	3,086,892	3,071,404
Expenses:		
Claims and adjustments (schedule)	1,482,669	1,901,283
Administrative expenses (schedule)	1,746,764	1,495,121
	3,229,433	3,396,404
Underwriting loss	(142,541)	(325,000)
Other income (note 9)	934,246	1,056,019
Provision for decline in market value of specific securities	(66,465)	–
Earnings before income taxes	725,240	731,019
Income taxes (note 10):		
Current income tax expense	115,554	107,599
Future income tax expense (recovery)	(208,096)	32,649
	(92,542)	140,248
Net income	$ 817,782	$ 590,771

See accompanying notes to financial statements.

ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Statement of Comprehensive Income

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Net income	$ 817,782	$ 590,771
Other comprehensive income (loss):		
Change in unrealized gain/loss on available-for-sale investments	(1,821,932)	(338,000)
Net gain reclassified to income	12,045	(123,309)
	(1,809,887)	(461,309)
Income tax effect	275,757	136,348
	(1,534,130)	(324,961)
Comprehensive income (loss)	$ (716,348)	$ 265,810

See accompanying notes to financial statements.

ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Statement of Policyholders' Equity

Year ended December 31, 2008, with comparative figures for 2007

Policyholders' surplus

	2008	2007
Policyholders' surplus, beginning of year	$ 9,750,007	$ 9,159,236
Net income	817,782	590,771
Policyholders' surplus, end of year	$10,567,789	$ 9,750,007

Accumulated other comprehensive income

	2008	2007
Accumulated other comprehensive income, beginning of year	$ 89,846	$ –
Transition adjustment resulting from change in accounting policy (note 2)	–	414,213
Other comprehensive income (loss)	(1,534,130)	(324,367)
Accumulated other comprehensive income, (loss) end of year	$(1,444,284)	$ 89,846

See accompanying notes to financial statements.

ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Statement of Cash Flows

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Cash provided by (used in):		
Operations:		
Net earnings	$ 817,782	$ 590,770
Items not involving cash:		
Depreciation	59,561	74,797
Amortization of unrealized holding loss	1,661	4,671
Gain on disposal of investments	(46,956)	(331,400)
Future income tax expense (recovery)	(183,593)	(21,995)
Provision for decline in market value of specific securities	66,465	–
Tax effect on comprehensive income	278,050	89,937
Change in non-cash operating working capital:		
Decrease (increase) in accounts receivable	330,568	207,877
Decrease (increase) in prepaid expenses	2,365	104
Increase in deferred policy acquisition costs	(1,318)	15,168
Increase in accounts payable and accrued liabilities	(55,583)	(111,034)
Increase (decrease) in claims payable	(338,000)	(12,991)
Increase in reserve for unearned premiums	(25,315)	112,263
Increase in income tax receivable	(282,000)	(31,888)
	623,687	586,279
Financing:		
Repayment of long-term debt	(100,000)	(75,000)
Investments:		
Purchase of property and equipment	(51,482)	(41,922)
Proceeds on sale of investments	1,455,377	1,705,168
Purchase of investments	(2,135,270)	(1,936,895)
	(731,375)	(273,649)
Increase (decrease) in cash	(207,688)	237,630
Cash, beginning of year	744,470	506,840
Cash, end of year	$ 536,782	$ 744,470
Supplemental cash flow information:		
Income taxes paid	$ 95,000	$ 104,195
Interest paid	6,188	11,250

See accompanying notes to financial statements.

Company biography:

Antigonish Farmers' Mutual Insurance Company ("Company") is incorporated under a Private Act of the Legislature and is a corporate body under the Mutual Insurance Companies Act. It is licensed to write property and liability classes of insurance in Nova Scotia. The Company is subject to regulation by the Office of the Superintendent of Financial Institutions Canada ("OSFI") and the Nova Scotia Superintendent of Financial Institutions/Insurance. Its principal business activity is to provide insurance coverage for property and liability.

1. Basis of presentation:

These financial statements have been prepared in accordance with Section 331(4) of the Insurance Companies Act ("Act") which states that, except as otherwise specified by OSFI, the financial statements are to be prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of OSFI, are summarized below. These accounting policies conform, in all material respects, to GAAP.

The preparation of financial statements 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 revenue and expenses during the year. Actual results could differ from those estimates.

2. Change in accounting policy:

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.

2. Change in accounting policy (continued):

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation. Section 3863 carries forward unchanged the presentation requirements of Section 3861 which 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.

3. Significant accounting policies:

(a) Financial instruments:

The Company utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate fair values.

All transactions related to financial instruments are recorded on a settlement date basis.

Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services to customers (accounts receivable), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.

Available-for-sale investments

Non-derivative financial assets not included in the above category are classified as available-for-sale and comprise investments in equity instruments. When they have a quoted market price in an active market, they are carried at fair value with changes in fair value recognized as a separate component of other comprehensive income. When they do not have a quoted market price in an active market, they are carried at cost. Where a decline in fair value is determined to be other than temporary, the amount of the loss is removed from other comprehensive income and recognized in the income statement. Transaction costs related to available-for-sale investments are expensed as incurred.

3. Significant accounting policies (continued):

Other financial liabilities

Other financial liabilities includes all financial liabilities other than those classified as held-for-trading and comprise accounts payable and accrued liabilities and long-term debt. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are expensed as incurred.

(b) Property and equipment:

Rates and bases of depreciation applied to write-off the cost less estimated salvage value of property and equipment over their estimated lives are as follows:

Asset	Basis	Rate
Building	Straight line	5%
Vehicle	Declining balance	30%
Computer equipment	Declining balance	30%
Office equipment	Declining balance	20%
Telephone equipment	Declining balance	20%

(c) Deferred policy acquisition costs:

Deferred policy acquisition costs represent certain costs such as commissions and fire taxes related to the acquisition of new and renewal premiums written during the year and are amortized on a straight-line basis over the term of the policies. The method followed in determining deferred policy acquisition costs limits the deferral to its realizable value by giving consideration to losses and expenses expected to be incurred, as premiums are earned.

(d) Premiums earned and unearned premiums:

The Company recognizes premium income over the period covered by each individual insurance contract. Unearned premiums represent premiums written by the Company for insurance contracts which are in force at the year end and will continue into the next fiscal year.

3. Significant accounting policies (continued):

(e) Unpaid claims and adjustment expenses:

The provision for unpaid claims represents the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. The provision for adjustment expenses represents the estimated ultimate expected costs of investigating, resolving and processing these claims. Estimated recoveries of these costs from reinsurance ceded are included in assets. The computation of these provisions takes into account the time value of money using discount rates based on projected investment income from the assets supporting the provisions.

The process of determining the provision for unpaid claims and adjustment expenses necessarily involves risks that the actual results will deviate from the best estimates made. These risks vary in proportion to the length of the estimation period and the volatility of each component comprising the liabilities. To recognize the uncertainty in establishing these best estimates and to allow for possible deterioration in experience, actuaries are required to include explicit margins for adverse deviation in assumptions for asset defaults, reinvestment risk, claims development and recoverability of reinsurance balances.

All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the current period.

(f) Reinsurance:

Reinsurance premiums and commissions are recognized on a straight-line basis over the terms of the policies.

(g) Income taxes:

Income taxes are accounted for using the asset and liability method. Under this method, current income taxes are based on taxable income and future income taxes are based on taxable temporary differences. The income tax rates used to measure income tax assets and liabilities are those rates enacted or substantively enacted at the balance sheet date.

(h) Use of estimates:

The preparation of financial statements in conformity with 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 periods. Actual results could differ from those estimates.

4. Role of the actuary and auditor:

The actuary, Ernst & Young LLP, has been appointed pursuant to the Act. With respect to preparation of financial statements, the actuary is required to carry out a valuation of the Company's policy liabilities and report thereon to the directors and the Company's members. Policy liabilities consist of the provisions for, and reinsurance recovery of, unpaid claims and adjustment expenses on insurance policies in force, and future obligations on the unearned portion of insurance policies in force including deferred policy acquisition costs. The valuation is made in accordance with accepted actuarial practice as well as any other matter specified in any direction that may be made by regulatory authorities. In performing the valuation of the liabilities, which are by their nature inherently variable, assumptions are made as to the future loss ratios, trends, rates of claims frequency and severity, inflation, reinsurance recoveries, investment rates of return, and both internal and external adjustment expenses, taking into consideration the circumstances of the Company and the nature of the insurance policies in force.

The provisions do not include estimates for extraordinary future emergence of either new classes of claims or claims categories not sufficiently recognized in the claims data base. The actuary, in his verification of the management information provided by the Company used in the valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of his work and opinion.

The external auditors, MGM & Associates, Chartered Accountants, have been appointed by the members pursuant to the Act to conduct an independent and objective audit of the financial statements of the Company in accordance with Canadian generally accepted auditing standards and to report thereon to the members. In carrying out their audit, the auditors also make use of the work of the actuary and his report on the Company's policy liabilities. The auditors' report outlines the scope of their audit and their opinion.

5. Investments:

	2008		2007	
	Cost	Fair market value	Cost	Fair market value
Government bonds:				
Federal:				
Less than 1 year	$ –	$ –	$ 20,000	$ 20,472
1 – 5 years	350,000	363,498	350,000	347,717
	350,000	363,498	370,000	368,189
Provincial:				
Less than 1 year	–	–	225,000	225,729
1 – 5 years	1,550,000	1,728,144	1,400,000	1,466,630
After 5 years	700,000	846,026	1,125,000	1,234,289
	2,250,000	2,574,170	2,750,000	2,926,648
Municipal:				
Less than 1 year	–	–	–	–
1 – 5 years	480,000	520,640	613,000	636,786
After 5 years	90,000	108,225	90,000	106,330
	570,000	628,865	703,000	743,116
Corporate bonds:				
Less than 1 year	100,000	83,370	425,000	420,717
1 – 5 years	2,100,000	2,073,503	1,585,000	1,555,224
After 5 years	430,000	423,154	705,000	801,094
	2,630,000	2,580,027	2,715,000	2,777,035
Common shares	4,587,734	2,811,808	3,165,110	3,130,552
Preferred shares	893,564	728,443	919,460	892,435
	$11,281,298	$ 9,686,811	$10,622,570	$10,837,975

Management has reviewed currently available information regarding those investments whose fair market value is less than cost and ascertained that the declines are due to what is expected to be a temporary decline in general market values.

Details of significant terms and exposure to interest rate risk on investments are as follows:

5. Investments (continued):

(i) Bonds - interest rate risk:

	2008 Interest rate (% range)	2007 Interest rate (% range)
Government:		
Federal	3.50 – 4.00%	3.50 – 10.00%
Provincial	4.10 – 11.50%	3.70 – 11.50%
Municipal	4.20 – 10.125%	4.20 – 10.125%
Corporate	0.10 – 9.65%	4.35 – 11.00%

(ii) Interest rate and liquidity risk:

Investment policy and strategy has been established taking into consideration historic claims settlement patterns. Since the nature of the business is ongoing, current cash flow is utilized to settle claims and any excess cash flow is invested. Fluctuations in interest rates could have a significant impact on the market value of the bond portfolio. This could result in the need to realize gains or losses if actual claims payments differed significantly from expected and some liquidation of assets were required to meet policy obligations.

6. Accounts receivable:

	2008	2007
Interest	$ 79,897	$ 92,722
Premiums	560,249	608,766
Farmers Mutual Reinsurance Plan Inc.	250,000	544,000
Rent	452	2,622
Other	99,520	72,576
	990,118	1,320,686
Provision for doubtful accounts	(5,075)	(5,075)
	$ 985,043	$ 1,315,611

7. Property and equipment:

			2008	2007
	Cost	Accumulated Depreciation	Net book Value	Net book Value
Land	$ 21,700	$ –	$ 21,700	$ 21,700
Building	595,755	275,927	319,828	347,235
Vehicle	54,345	21,767	32,578	18,687
Computer equipment	261,595	236,028	25,567	24,557
Office equipment	52,687	30,604	22,083	15,519
Telephone equipment	16,479	8,715	7,764	3,341
Building generator	36,443	10,204	26,239	32,799
	$ 1,039,004	$ 583,245	$ 455,759	$ 463,838

Depreciation of $59,561 was provided in 2008 (2007 - $74,797).

8. Long-term debt:

	2008	2007
Northeastern Community Investment Inc. loan payable, fixed interest at 5% through February 15, 2008, at which time interest will be calculated at prime, maturing in November 2009	$ 75,000	$ 175,000

Principal payment due on long-term debt for the year subsequent to December 31, 2008 is $75,000.

9. Other income:

	2008	2007
Income from investments	$ 667,832	$ 653,102
Gain on sale of investments	46,956	331,400
Policy fees	73,530	2,360
Miscellaneous	956	(1,708)
Farmers Mutual Insurance Agency	70,654	30,288
Insurance proceeds	50,610	–
Net rental income (schedule)	23,708	27,165
Reinsurance rebate	–	13,412
	$ 934,246	$ 1,056,019

10. Income taxes:

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates of 35.5% (2007 - 38.12%) to earnings before income taxes. The reasons for the differences and the related tax effects are as follows:

	2008	2007
Earnings before income taxes	$ 725,240	$ 731,019
Tax at applicable tax rate	$ 257,460	$ 278,664
Tax effect resulting from application of rate reduction for small business income	(66,185)	(49,639)
Tax effect resulting from non-taxable farming income	43,991	(44,011)
Tax effect resulting from non-taxable dividend income	(31,950)	(36,595)
Prior year adjustment	–	26,806
Tax effect on comprehensive income	(302,553)	(35,293)
Other	6,695	316
	$ (92,542)	$ 140,248

The Company is exempt from income tax on that portion of its income that is attributable to farm insurance premiums as defined under The Income Tax Act (Canada). The income tax calculations presented in these financial statements are based on current legislation. These calculations are subject to change based on proposed legislation not yet substantially enacted.

The tax effects of temporary differences that give rise to future tax assets and future tax liabilities at December 31, 2008 and 2007 are presented below:

	2008	2007
Future income tax assets:		
Retirement allowance, principally due to accrual for financial reporting purposes	$ 33,000	$ 33,500
Claims payable for financial reporting purposes exceeds amounts deductible for tax purposes	11,700	13,400
Investments – principally due to changes to market on securities and unamortized premiums/discounts on bond purchases	193,000	–
Property and equipment – differences in depreciation and undepreciated capital cost	20,100	18,400
Total gross future income tax asset	257,800	65,300

10. Income taxes (continued):

	2008	2007
Carry forward	$ 257,800	$ 65,300
Future income tax liabilities:		
Deferral of gains/losses on disposition of bonds for tax purposes	27,400	33,600
Investments – due to changes to fair value on bonds	123,000	105,600
Total gross future income tax liability	150,400	139,200
Net future income tax asset (liability)	$ 107,400	$ (73,900)

11. Unpaid claims and adjustment expenses:

a) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, loss payments, pending levels of unpaid claims, product mix or concentration, claims severity and claim frequency patterns.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's claim department personnel, the quality of the data used for projection purposes, existing claims management practices including claims handling and settlement practices, the effect of inflationary trends on future claims settlement costs, investment rates of returns, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tail claims, such as general liability claims.

Consequently, the establishment of the provision for unpaid claims relies on the judgment and opinions of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provisions necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimates made.

11. Unpaid claims and adjustment expenses (continued):

b) Discounting of the provision for unpaid claims and adjustment expenses and related reinsurance recoveries:

The provision for unpaid claims and adjustment expenses and related reinsurance recoveries is discounted using rates based on the projected investment income from the assets supporting the provisions, and reflecting the estimated timing of payments and recoveries. The discount rates used are as follows:

Cash flow period	2008	2007
All periods	4.26%	4.75%

c) Activity in the provision for unpaid claims and claims adjustment expense is summarized as follows:

	2008	2007
Claims payable, beginning of year:		
Gross	$ 1,249,000	$ 1,261,991
Reinsurance ceded	(544,000)	(678,517)
	705,000	583,474
Net incurred claims and adjustment expense for prior year events	(343,268)	(335,488)
Increase (decrease) of provision for prior year events (net)	(1,646)	(29,494)
Provision for current year events (net)	300,914	486,508
	$ 661,000	$ 705,000
Claims payable, end of year:		
Gross	$ 911,000	$ 1,249,000
Reinsurance ceded	(250,000)	(544,000)
	$ 661,000	$ 705,000

12. Underwriting policy and reinsurance ceded:

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophe or other events that cause unfavourable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers.

While reinsurance is obtained to protect against large losses, the primary liability to the policyholder remains with the Company. Failure of reinsurers to honour their obligations could result in losses to the Company.

The Company follows the policy of underwriting and reinsuring insurance contracts which, in the main, limit the liability of the Company to $80,000 plus 10% of the next $920,000 on any property claim and $50,000 plus 10% of the next $950,000 of any liability claim. In addition, the Company has obtained reinsurance which limits the Company's liability to $240,000 plus 5% of the balance of all claims in the event of a series of claims arising out of a single occurrence. The Company has also obtained Stop Loss reinsurance which limits the "Net Incurred Loss Ratio" to 80% for property and 100% for liability. Reinsurance does not relieve the Company of primary liability as the originating insurer.

As at December 31, 2008, reinsurance recoverable with a carrying value of $250,000 (2007 - $544,000) were associated with a single reinsurer.

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 utilize capital allocations. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. The Company's agreements with its reinsurer Farm Mutual Reinsurance Plan Inc are described in note 12. For the purpose of capital management, the company has defined capital as policyholders' surplus.

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 the 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%. As of December 31, 2008, the Company's capital margin exceeded the minimum required.

14. Financial instrument risk management:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to 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, and other general guidelines. 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 receivables are short-term in nature and are not subject to material credit risk.

The maximum exposure to investment credit risk and concentration of this risk is outlined in Note 5.

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

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act and its application is monitored by 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 25% of the Company's total assets.

a) 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 was not operating in different currencies during the year and therefore currency risk is minimal.

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

14. Financial instrument risk management (continued):

b) 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.

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 and 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. There are no occurrences where interest would be charged on liabilities, therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

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

At December 31, 2008, a 1% move in interest rates, with all other variables held constant, would not have a material impact on the market value of debt securities. 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 risk or policies, procedures and methods used to measure the risk.

c) 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 common share investment and preferred share investments in publicly traded entities. 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 equity holdings of $353,000. For equity investments that the Company did not sell during the period, the change would be recognized in the asset value and in other comprehensive income. For equity investments 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.

14. Financial instrument risk management (continued):

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company 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 and there is no need for such expenditures in the normal course of business. Our current liabilities arise as claims are made. Claim payments are funded by current operating cash flow including investment income.

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

15. New accounting pronouncements:

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the Company, are as follows:

International financial reporting standards

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has confirmed that all publically accountable enterprises will be required to comply with International Financial Reporting Standards ("IFRS") for fiscal years beginning on or after January 1, 2011. The Company understands that there will be differences between current Canadian generally accepted accounting standards and IFRS and has undertaken a project to determine the possible future effects on the financial statements.

16. Comparative figures:

Certain of the 2007 comparative figures have been reclassified to conform to the financial statement presentation adopted for 2008.

ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Schedule A – Rental Income

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Tenants	$ 99,849	$ 103,794
Expenses:		
Depreciation	17,181	17,181
Insurance	4,085	3,885
Lights, heat and power	20,243	17,611
Repairs and maintenance	22,028	22,381
Taxes	10,528	13,973
Miscellaneous	2,076	1,598
	76,141	76,629
	$ 23,708	$ 27,165

ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Schedule B – Schedule of Claims and Adjustments

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Expenses:		
Claims and adjustments – gross	$ 1,552,465	$ 2,430,939
Recoveries from reinsurance	(69,796)	(529,656)
	$ 1,482,669	$ 1,901,283

ANTIGONISH FARMERS' MUTUAL INSURANCE COMPANY

Schedule C – Schedule of Administrative Expenses

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Expenses:		
Advertising and promotion	$ 48,919	$ 30,128
Agent commissions	615,927	605,080
Bad debts	789	559
Computer	35,752	28,674
Conventions and meetings	31,186	25,266
Depreciation	42,380	57,616
Directors fees	32,550	34,200
Donations	15,573	29,424
Education	24,409	9,822
Field representative expenses	27,316	44,457
Furniture and fixtures	5,329	8,366
Insurance	22,844	16,729
Interest on long-term debt	6,188	11,250
Loss prevention	1,214	1,655
Meals and entertainment	11,693	9,906
Memberships and fees	32,106	24,348
Miscellaneous	31,542	28,403
Office	20,889	13,262
Postage and express	22,649	17,764
Printing and stationery	14,879	16,957
Professional fees	47,992	43,729
Rent	63,900	54,900
Retiring allowance	5,222	4,387
Salaries and benefits	359,567	295,328
Taxes and levies	181,721	46,020
Telephone	37,279	26,676
Travel	6,949	10,215
	$ 1,746,764	$ 1,495,121