

**LANARK MUTUAL INSURANCE COMPANY
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2008**

LANARK MUTUAL INSURANCE COMPANY
TABLE OF CONTENTS
AS AT DECEMBER 31, 2008

	<u>Page</u>
AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Balance Sheet	2
Statement of Surplus and Resources	
for Protection of Policyholders	3
Statement of Comprehensive Loss	4
Statement of Loss	5
Statement of Cash Flows	6
Notes to Financial Statements	7-19

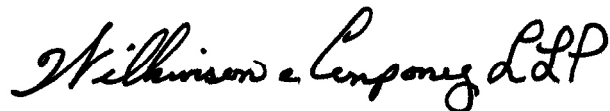
AUDITORS' REPORT

To the Policyholders of
Lanark Mutual Insurance Company

We have audited the balance sheet of Lanark Mutual Insurance Company as at December 31, 2008 and the statements of surplus and resources for protection of policyholders, comprehensive loss, loss 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 the cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



BELLEVILLE, Canada
January 29, 2009

Chartered Accountants
Licensed Public Accountants

LANARK MUTUAL INSURANCE COMPANY
BALANCE SHEET AS AT DECEMBER 31, 2008

	2008	2007
	\$	\$
ASSETS		
Cash	2,188,189	818,338
Portfolio investments - Note 4	36,001,757	41,228,016
Accrued interest	276,226	296,328
Accounts receivable		
- Agents and policyholders	4,883,298	4,916,790
- Other	183,752	1,099,184
Income taxes recoverable	1,816,299	
Reinsurers' share of provisions for unpaid claims and adjustment expenses - Note 5	7,274,116	4,422,248
Deferred policy acquisition expenses	1,902,670	1,903,380
Prepaid expenses	1,067	82,627
Investment in related party - Note 6		147,382
Property, plant and equipment - Note 7	3,948,832	4,097,446
Future income taxes	90,000	30,000
	58,566,206	59,041,739
LIABILITIES		
Accounts payable and accrued liabilities	391,071	504,189
Income taxes payable		161,819
Provision for unpaid claims and adjustment expenses - Note 5	16,298,000	12,079,591
Unearned premiums	10,169,652	10,201,998
	26,858,723	22,947,597
SURPLUS		
Surplus and resources for protection of policyholders	33,303,411	34,535,042
Accumulated other comprehensive income - Note 9	(1,595,928)	1,559,100
	31,707,483	36,094,142
	58,566,206	59,041,739

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, 2008**

	2008 \$	2007 \$
SURPLUS - BEGINNING OF YEAR	34,535,042	32,066,628
NET EARNINGS (LOSS) FOR YEAR	(1,231,631)	2,468,414
SURPLUS - END OF YEAR	33,303,411	34,535,042

The accompanying notes form an integral part of these financial statements

**LANARK MUTUAL INSURANCE COMPANY
STATEMENT OF COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31, 2008**

	2008	2007
	\$	\$
NET EARNINGS (LOSS) FOR YEAR	(1,231,631)	2,468,414
OTHER COMPREHENSIVE LOSS - Note 9	(3,155,028)	(162,711)
COMPREHENSIVE INCOME (LOSS)	(4,386,659)	2,305,703

The accompanying notes form an integral part of these financial statements

LANARK MUTUAL INSURANCE COMPANY
STATEMENT OF LOSS
FOR THE YEAR ENDED DECEMBER 31, 2008

	2008 \$	2007 \$
PREMIUM INCOME		
Gross premiums written	19,809,399	19,883,086
Less reinsurance premiums	(3,725,310)	(3,502,641)
Net premiums written	16,084,089	16,380,445
Decrease in unearned premiums	31,456	190,728
Net premiums earned	16,115,545	16,571,173
EXPENSES		
Net claims incurred	12,288,784	8,520,036
Net adjusting expenses incurred	945,658	822,329
Commissions	3,810,984	3,925,816
Salaries and benefits	1,285,342	1,361,902
Directors fees	85,268	76,839
Professional fees	27,457	37,829
Travel and education	119,074	100,052
Inspection fees	111,918	117,115
Advertising	37,282	37,900
Office, printing and telephone	465,364	459,285
Insurance	35,438	33,949
Ontario premium taxes	64,553	64,821
Building occupancy costs	228,312	227,879
Association and bureau fees	82,270	73,889
Other	8,067	9,469
	19,595,771	15,869,110
UNDERWRITING PROFIT (LOSS)	(3,480,226)	702,063
OTHER INCOME (EXPENSES)		
Refund from surplus - Farm Mutual Reinsurance Plan Inc.		120,511
Investment income	1,733,072	1,665,322
Management fees - portfolio investments	(115,093)	(150,576)
Gain on disposal of portfolio investments	189,010	1,015,108
Loss in earnings of related party - Note 6	(15,322)	(12,143)
Write-down of investment in related party - Note 6	(172,060)	
Write-down of available for sale investments - Note 4	(207,500)	
Gain on disposal of property, plant and equipment	6,488	14,129
	1,418,595	2,652,351
EARNINGS (LOSS) BEFORE INCOME TAXES	(2,061,631)	3,354,414
INCOME TAX EXPENSE (BENEFIT)		
Current	(803,000)	866,000
Future	(27,000)	20,000
	(830,000)	886,000
NET EARNINGS (LOSS) FOR YEAR	(1,231,631)	2,468,414

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, 2008

	2008	2007
	\$	\$
OPERATING ACTIVITIES		
Net earnings (loss) for year	(1,231,631)	2,468,414
Adjustment for items which do not affect cash -		
Amortization of property, plant and equipment	186,981	212,818
Gain on sale of portfolio investments	(189,010)	(1,015,108)
Bond amortization	22,124	21,436
Gain on disposal of property, plant and equipment	(6,488)	(14,129)
Loss in earnings of related party	15,322	12,143
Future income taxes	(27,000)	20,000
Write-down of investment in related party	172,060	
Write-down of available for sale investments	207,500	
	<u>(850,142)</u>	1,705,574
Net change in non-cash working capital		
balances related to operations - Note 11	294,255	(1,577,415)
Tax effect on comprehensive income	783,000	
	<u>227,113</u>	128,159
CASH FLOWS PROVIDED FROM OPERATING ACTIVITIES		
INVESTING ACTIVITIES		
Purchase of portfolio investments	(1,895,013)	(3,415,001)
Proceeds on sale of portfolio investments	3,106,833	3,191,247
Investment in related party	(40,000)	(25,000)
Purchase of property, plant and equipment	(41,107)	(95,096)
Proceeds on sale of property, plant and equipment	12,025	42,470
	<u>1,142,738</u>	(301,380)
CASH FLOWS PROVIDED FROM (USED IN) INVESTING ACTIVITIES		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FOR YEAR		
	1,369,851	(173,221)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		
	818,338	991,559
CASH AND CASH EQUIVALENTS - END OF YEAR		
	<u>2,188,189</u>	818,338
REPRESENTED BY:		
Cash	2,188,189	818,338
SUPPLEMENTAL INFORMATION:		
Interest paid	NIL	NIL
Income taxes paid	427,445	670,305

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, 2008

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. 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.

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.

**LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

2. ACCOUNTING POLICIES (Cont'd)

(d) Investment in Related Company

The Company's investment in a related company is accounted for by the equity method. Under this method, the investments are initially recorded at cost and are increased for the proportionate share of any post-acquisition earnings and are decreased by any post-acquisition losses and dividends received. 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 the investment.

(e) 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.

(f) 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.

(g) 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%
Computer and software	Straight-line	45%
Automotive equipment	Straight-line	30%
Furniture and fixtures	Declining balance	20%

(h) 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, 2008

2. ACCOUNTING POLICIES (Cont'd)

(i) 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.

(j) Cash and Equivalents

Cash and equivalents consist of cash on deposit.

3. CHANGES IN ACCOUNTING POLICY

(a) 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.

(b) 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 Company's objectives, policies, and processes for managing capital; information about what the Company 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 Company 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.

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

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

	2008		2007	
	Carrying Value \$	Market Value \$	Carrying Value \$	Market Value \$
Held-to-maturity				
Term deposits	550,000	550,000	800,000	800,000
Debt securities				
Federal government	3,289,470	3,591,503	3,396,424	3,474,878
Provincial government and Provincially guaranteed	4,740,190	5,055,559	5,502,758	5,659,025
Canadian Municipal and School Boards	8,067,341	8,530,609	8,627,857	8,888,432
Canadian Corporate	3,827,471	3,737,210	3,834,557	3,816,970
	19,924,472	20,914,881	21,361,596	21,839,305
	20,474,472	21,464,881	22,161,596	22,639,305
Available-for-sale				
Preference shares, common shares and pooled funds	15,516,989	15,516,989	19,033,039	19,033,039
Other receivables				
Mortgages	10,296	10,296	33,381	33,381
	36,001,757	36,992,166	41,228,016	41,705,725

The effective interest rates range from 3.85% to 10%.

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

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

4. PORTFOLIO INVESTMENTS (Cont'd)

During the year, Farm Mutual Financial Services Inc. entered bankruptcy protection. Accordingly, the Company recognized a loss of \$207,500 on its investment in Farm Mutual Financial Services Inc. Furthermore, the Company invested in Farm Mutual Pooled Funds. Due to the uncertainty surrounding the bankruptcy, the custodian of these funds have 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.

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 there are no permanent impairments due to the current economic downturn.

Maturity Profile

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

	2008 \$	2007 \$
Maturing within one year	3,211,679	1,866,719
Maturing between one and five years	11,026,956	11,316,839
Maturing over five years	6,235,837	8,978,038
	20,474,472	22,161,596

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:

	2008		2007	
	Gross \$	Ceded \$	Gross \$	Ceded \$
Short settlement term	5,580,213	2,326,103	2,908,744	1,035,968
Long settlement term	10,251,682	4,948,013	8,718,604	3,386,280
Facility Association and other residual pools	466,105		452,243	
	16,298,000	7,274,116	12,079,591	4,422,248

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

6. INVESTMENT IN RELATED PARTY

The Company owns 33% of the issued and outstanding common shares of GGL Financial Services Inc., representing a one-third interest.

	2008	2007
	\$	\$
Investment cost - beginning	147,382	134,525
Advances during the year	40,000	25,000
Equity portion of losses	(15,322)	(12,143)
Write-down of investment	(172,060)	
	<hr/>	
Investment cost - ending	NIL	147,382

During the year, the investment in GGL Financial Services Inc. was written-down to \$Nil as the Company has ceased operations.

7. PROPERTY, PLANT AND EQUIPMENT

	2008		2007	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	\$	\$	\$	\$
Land	248,550		248,550	
Building	3,908,718	377,147	3,908,718	279,429
Automobiles	177,215	115,472	176,011	86,973
Computer equipment and software	275,662	272,756	273,435	265,531
Office furniture and fixtures	274,858	170,796	275,551	152,886
	<hr/>			
	4,885,003	936,171	4,882,265	784,819
	<hr/>			
Cost less accumulated amortization	\$ 3,948,832		\$ 4,097,446	

Amortization on property, plant and equipment for the year amounted to \$186,981 (2007 - \$212,818).

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

8. CREDIT FACILITY

The Company has a revolving credit facility with maximum borrowings allowed of \$1,000,000. Amounts borrowed under the credit facility are unsecured, due on demand and bear interest at the bank's prime rate. At December 31, 2008, the amount drawn of the credit facility amounted to \$Nil.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	2008 \$	2007 \$
Opening accumulated other comprehensive income	1,559,100	NIL
Adjustment to opening balance in accumulated other comprehensive income upon adoption of new financial instruments accounting standards on January 1, 2007		1,721,811
ACCUMULATED OTHER COMPREHENSIVE INCOME - BEGINNING OF YEAR	1,559,100	1,721,811
Unrealized gains (losses) on available-for-sale financial assets (net of income tax benefit of \$788,000)	(3,168,518)	852,397
Reclassification adjustment for losses (gains) included in net earnings for the year (net of income tax expense of \$5,000)	13,490	(1,015,108)
OTHER COMPREHENSIVE LOSS	(3,155,028)	(162,711)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) - END OF YEAR	(1,595,928)	1,559,100

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

10. 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.

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

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

	2008	2007
	\$	\$
(INCREASE) DECREASE IN CURRENT ASSETS		
Accrued interest	20,102	11,222
Accounts receivable - agents and policyholders	33,492	(29,960)
Accounts receivable - other	915,432	(131,903)
Income taxes recoverable	(1,816,299)	74,766
Reinsurers' share of provision for unpaid claims and adjustment expenses	(2,851,868)	943,942
Deferred policy acquisition expenses	710	38,953
Prepaid expenses	81,560	(10,235)
	(3,616,871)	896,785
INCREASE (DECREASE) IN CURRENT LIABILITIES		
Accounts payable and accrued liabilities	(113,118)	85,868
Income taxes payable	(161,819)	161,819
Provision for unpaid claims and adjustment expenses	4,218,409	(2,530,374)
Unearned premiums	(32,346)	(191,513)
	3,911,126	(2,474,200)
NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS	294,255	(1,577,415)

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

12. 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 \$250,000 in the event of a property claim, \$200,000 in the event of a liability claim and \$150,000 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.

13. 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. For the fair value of investment in related party for which there are no quoted market prices, a reasonable estimate of fair value could not be made without incurring excessive costs.

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.

**LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

13. 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 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 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.

**LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

13. 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 \$1,140,000. 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 \$809,000. 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%

LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008

13. 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.

14. 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 2.25% 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.

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.

**LANARK MUTUAL INSURANCE COMPANY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

15. PENSION PLAN

Employees of the Company are members of the Canada Life RRSP Plan. During the year, the Company paid \$66,675 (2007 - \$69,377) in contributions on behalf of the employees.

16. COMPARATIVE FIGURES FOR 2008

In order to conform with the presentation adopted in the current year, certain of the comparative figures for 2007 have been reclassified.