SIP

School Insurance Program

NOVA SCOTIA SCHOOL INSURANCE EXCHANGE

Financial Statements

Year Ended March 31, 2011

Shupe & Associates

NOVA SCOTIA SCHOOL INSURANCE EXCHANGE
Index to Financial Statements
Year Ended March 31, 2011

Shupe & Associates
chartered accountant

INDEPENDENT AUDITOR'S REPORT

To the Subscribers of Nova Scotia School Insurance Exchange

I have audited the accompanying financial statements of Nova Scotia School Insurance Exchange, which comprise the statement of financial position as at March 31, 2011, and the statements of operations and rate stabilization reserve, comprehensive income and cash flows 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 those risk 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Nova Scotia School Insurance Exchange as at March 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

SV Shupe & Associates

Dartmouth, Nova Scotia
June 16, 2011

S V SHUPE & ASSOCIATES
Chartered Accountant

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NOVA SCOTIA SCHOOL INSURANCE EXCHANGE
Statement of Operations and Rate Stabilization Reserve
Year Ended March 31, 2011

	2011	2010
Premium income	**$ 3,846,712**	$ 4,048,456
Insurance premiums		
Excess insurance premium	**2,087,866**	2,006,115
Student accident Insurance	**81,606**	86,049
	2,169,472	2,092,164
Net premium income	**1,677,240**	1,956,292
Expenses		
Insurance expenses		
Claims paid and incurred *(Note 10)*	**426,777**	91,828
Contribution to Nova Scotia School Insurance Program Association for direct expenses	**319,824**	287,071
Other	**15,184**	18,093
	761,785	396,992
Administration expenses		
School Insurance Program business errors and omissions insurance	**43,843**	39,056
Contribution to Nova Scotia School Insurance Program Association for expenses	**461,282**	508,818
Amortization	**22,260**	23,947
	1,289,170	968,813
Earnings before investment income	**388,070**	987,479
Investment income, net *(Note 11)*	**322,283**	231,478
Net earnings for the year	**710,353**	1,218,957
Unrestricted rate stabilization reserve - beginning of year	**5,652,214**	4,435,359
	6,362,567	5,654,316
Allocation to Net Assets Invested in Property, Plant and Equipment	**6,932**	(2,102)
Allocation to externally restricted guarantee fund	**(50,000)**	-
Allocation to externally restricted rate stabilization reserve	**(908,049)**	-
Allocation to internally restricted rate stabilization reserve	**(2,241,951)**	-
Unrestricted rate stabilization reserve - end of year	**$ 3,169,499**	$ 5,652,214

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NOVA SCOTIA SCHOOL INSURANCE EXCHANGE
Statement of Comprehensive Income
Year Ended March 31, 2011

	2011	2010
Net earnings for the year	**$ 710,353**	$ 1,218,957
Changes in other comprehensive income		
Unrealized gain on available for sale securities	**138,909**	377,518
Reclassification for realized (gains) losses included in net earnings	**(3,902)**	34,186
Comprehensive income for the year	**$ 845,360**	$ 1,630,661

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NOVA SCOTIA SCHOOL INSURANCE EXCHANGE
Statement of Financial Position
March 31, 2011

	2011	2010
ASSETS		
Current		
Cash and cash equivelent	**$ 3,763,658**	$ 3,407,739
Accounts receivable	**575**	1,475
Accrued investment income	**64,311**	61,812
Prepaid expenses	**33,148**	36,852
	3,861,692	3,507,878
Investments, *at market value* *(Note 3)*	**8,962,750**	8,371,705
Property, plant and equipment *(Note 4)*	**21,479**	28,411
	$12,845,921	$11,907,994
LIABILITIES		
Current		
Accounts payable	**$ 36,975**	$ 35,580
Due to Nova Scotia School Insurance Program Association	**9,458**	33,351
Premiums received in advance	**3,097,000**	2,861,300
Claims liabilities *(Note 5)*	**2,853,938**	2,974,573
	5,997,371	5,904,804
NET ASSETS		
Externally restricted guarantee reserve *(Note 6)*	**50,000**	-
Externally restricted rate stabilization reserve *(Note 6)*	**908,049**	-
Internally Restricted rate stabilization reserve, Actuarially determined *(Note 7)*	**2,241,951**	-
Unrestricted rate stabilization reserve *(Note 7)*	**3,169,499**	5,652,214
	6,369,499	5,652,214
Net assets invested in property plant and equipment *(Note 8)*	**21,479**	28,411
Accumulated other comprehensive income *(Note 9)*	**457,572**	322,565
	6,848,550	6,003,190
	$12,845,921	$11,907,994

ON BEHALF OF THE BOARD

____________________ *Director*

____________________ *Director*

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NOVA SCOTIA SCHOOL INSURANCE EXCHANGE

Statement of Cash Flows

Year Ended March 31, 2011

	2011	2010
Operating activities		
Net earnings	**$ 710,353**	$ 1,218,957
Items not affecting cash:		
Amortization of property, plant and equipment	**22,260**	23,947
Loss (gain) on sale of investments	**(3,902)**	34,186
Unrealized foreign exchange loss	**2,908**	27,659
Write-down of fixed income premium	**687**	32,214
	732,306	1,336,963
Changes in non-cash working capital:		
Accounts receivable	**900**	81,525
Accrued investment income	**(2,499)**	19,775
Accounts payable	**1,396**	(165,223)
Prepaid expenses	**3,704**	(1,844)
Premiums received in advance	**235,700**	242,100
Claims liabilities	**(120,635)**	(651,087)
Due to Nova Scotia School Insurance Program Association	**(23,893)**	(32,870)
	94,673	(507,624)
	826,979	829,339
Investing activities		
Purchase of property, plant and equipment	**(15,648)**	(26,753)
Proceeds on disposal of property, plant and equipment	**320**	705
Purchases of fixed income investments	**(2,053,386)**	(3,119,240)
Purchases of equity investments	**(440,942)**	(758,217)
Proceeds from sale of fixed income investments	**1,583,025**	3,588,716
Proceeds from sale of equity investments	**455,571**	457,975
	(471,060)	143,186
Increase in cash flow for the year	**355,919**	972,525
Cash and cash equivalents - beginning of year	**3,407,739**	2,435,213
Cash and cash equivalents - end of year	**$ 3,763,658**	$ 3,407,738

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1. GENERAL

The Nova Scotia School Insurance Exchange is commonly known as the School Insurance Program (SIP). The Exchange executed an exchange agreement on December 1, 2000 and is a reciprocal insurance exchange, which is licenced by the Superintendent of Insurance for the Province of Nova Scotia. The Exchange's subscribers are Nova Scotia's seven regional school boards, one provincial school board and the campuses of the Nova Scotia Community College (NSCC). SIP began in 1988 as a service of the Nova Scotia School Boards Association. The Nova Scotia School Insurance Program Association is the Attorney-in-Fact for the Exchange.

SIP maintains excess insurance to cover claims and expenses and maintains excess coverage to limit the maximum aggregated loss in a year for property, liability and errors and omissions.

The Exchange is a not-for-profit organization under the Income Tax Act, as such is not subject to either federal or provincial income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles developed specifically for Non Profit Organizations.

They have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value.

International Financial Reporting Standards (IFRS)

On May 8, 2009, the Nova Scotia Superintendent of Insurance provided direction that the Exchange must adopt International Financial Reporting Standards ("IFRS") which will replace current Canadian generally accepted accounting principles ("GAAP"). For the Exchange, IFRS will be effective for fiscal year ending March 31, 2012, including the preparation and reporting of one year of Balance Sheet comparative figures as at April 1, 2010. The Exchange has also been instructed to follow Industry Regulator's guidelines, no early adoption of IFRS 9 will be permitted. The Exchange will continue to follow IAS 39 until 2013 for financial instruments. Management has presently determined that there will be no material impact from the changeover to IFRS. The impact of IFRS on accounting policies and implementation decisions will mainly be in the areas of presentation and additional note disclosures in the financial statements of the Exchange.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments

The Exchange classifies its financial assets into the following categories: loans and receivables; and available-for-sale in accordance with Section 3855 of the CICA Handbook "financial instruments – recognition and measurement". The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this at every reporting date.

a) Loans and receivables - cash and cash equivalents, accounts receivable, accrued investment income

The Exchange's carrying value of loans and receivables approximates its fair value due to the immediate or short term maturity of these instruments.

b) Available-for-sale - Investments

All government and corporate bonds in addition to all equities are classified into available-for-sale category. Subsequent measurements of financial instruments categorized as "available for sale" are also measured at fair value. Any gains and losses for changes in fair value are included in the net assets or in the appropriate deferred contributions balance until the asset is removed from the statement of financial position. Losses due to impairment are included in net investment income.

Available-for-sale securities are carried at fair value whereby unrealized gains and losses are included in Accumulated Other Comprehensive Income ("AOCI") until sale or other-than-temporary impairment is recognized, at which point cumulative unrealized gains or losses are transferred to the statement of operations. Realized gains and losses on sale and write-downs to reflect other-than-temporary impairments in values are included in net investment income.

Capital management

Capital is comprised of the Exchange's rate stabilization reserves, restricted and unrestricted and the guarantee reserve. As at March 31, 2011, the Exchange's capital was $6,369,499 (2010: $5,652,214). The Exchange's objectives when managing capital are to facilitate the prudent operation of the Exchange and to promote stability in premiums assessed to its Subscribers. Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines based on risk management policies.

The appointed actuary's recommended minimum capitalization was approved by the Board of Directors and reflects a requirement of $3,200,000 for 2011.

The Exchange's requirement of compliance with externally imposed capital requirements has been reviewed and is currently met.

The unrestricted rate stabilization reserve of $3,169,499 represents the possible maximum surplus capital that may be used to cover potential future catastrophic claims. Premium credits can be issued if approved by the Exchange's Board of Directors.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Land and buildings occupied by the Exchange are non-owned and currently comprise operating lease commitments. All other assets are stated at historical cost less amortization. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Amortization on assets is calculated using the straight-line method to allocate their cost amounts to their residual values over their estimated useful lives, as follows:

Computer hardware	2 years	straight-line method
Furniture and equipment	3 years	straight-line method
Leasehold improvements	5 years	straight-line method

Premiums and premiums received in advance

Premiums are earned over the term of the related policy period. As the Exchange's policy year ends March 31, there are no unearned premiums at March 31st.

Premiums received in advance relate to premiums received in the current year for the policy period commencing April 1st of the following policy year.

Investment income

Investment income of interest and dividend income are recorded as they accrue with any bond premiums or discounts amortized over the term of the bond. Gains and losses are recorded when realized. The Exchange accounts for all financial instruments using trade date accounting.

Foreign currency translation

(a) Functional and presentation currency

The Exchange financial statements are presented in Canadian dollars.

(a) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include providing for amortization of property, plant and equipment and claim reserves and expenses. Actual results could differ from these estimates.

Subrogation on primary policies and recoverable on excess insurance policies

The Exchange has the right to pursue third parties for payment of some or all claims costs from within any of SIP's three SIRs. Subrogation allowances are usually not recognized into income until paid or until funds are held in trust by the Exchange's solicitor.

The amounts of recoveries from excess property insurers are the claim values over the current aggregate limit subject to a deductible per occurrence (flood and all-risk). There is a 5% of the loss deductible for earthquake only.

Since the coverable portion is based in part on the reserves estimated by the Exchange, any adjustment will be reported in the year the claim is closed.

3. INVESTMENTS

	2011	2010
Fixed Income	**$ 7,367,730**	$ 6,883,740
Equities	**1,595,020**	1,487,965
	$ 8,962,750	$ 8,371,705
Adjusted Cost Base	**$ 8,505,178**	$ 8,049,140

4. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated amortization	**2011 Net book value**	2010 Net book value
Computer hardware	$ 44,307	$ 38,991	**$ 5,316**	$ 11,491
Furniture and equipment	74,295	58,921	**15,374**	15,270
Leasehold improvements	42,739	41,950	**789**	1,650
	$ 161,341	$ 139,862	**$ 21,479**	$ 28,411

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5. CLAIMS LIABILITIES

Provision has been made for the estimated liability for all reported and outstanding claims using a case-basis evaluation plus an amount for adverse development and for claims incurred to March 31, which have not yet been reported to the Exchange. The computation of these provisions takes into account the time value of money using discount rates based on investment income from the assets supporting these provisions.

Since the amounts are necessarily based on estimates of future trends in claim severity and other factors that could vary as the claims are settled, the ultimate liability may be more or less than the estimated amounts. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the unpaid claims amounts and related adjustment expenses are adequate. The estimates are reviewed annually by an independent actuary and, as adjustments to these liabilities become necessary, they are reflected in current operations.

Ultimate property losses were based on an incurred loss development method. Ultimate commercial general liability losses (1989-1997) used the incurred-to-date method to reflect the fact no claims are open for those years or no further IBNR claims are expected. Other selected ultimates were based on the incurred loss development method for (1998-2006). This method was supplemented with the Bornhuetter & Ferguson (2007-2011) using exposures and incurred loss method and incurred-to-date losses. Development factors were chosen based on the historical experience of the Exchange. The educational errors and omissions coverage is offered on a claims made basis, and is analysed on a report year basis. The ultimate losses were based on incurred to date for all report years to reflect the fact that no claims are open for those years.

	2011	2010
Property	339,551	339,692
Errors & Ommissions	-	112,224
Liability	2,153,843	2,206,637
Actuarial liability total	2,493,394	2,658,553
Internal loss adjustment expense	360,544	316,020
Claims liability	2,853,938	2,974,573
Discount rate used	3.14 %	3.22 %

6. EXTERNALLY RESTRICTED RATE STABILIZATION AND GUARANTEE RESERVES

The Nova Scotia Insurance Act requires that 50% of the gross premium receipts minus the cost of excess insurance be maintained as a Restricted Reserve Fund in cash or approved securities.

The Nova Scotia Insurance Act requires that $50,000 be maintained as a Restricted GuaranteeFund in cash or approved securitie

7. RATE STABILIZATION RESERVE - INTERNALLY RESTRICTED AND UNRESTRICTED

In accordance with the December 2010 actuarial review of the minimum capitalization required for the Exchange, a conservative level of capital has been determined to be in the range of $2,800,000 to $3,200,000 for 2011. This actuarial value, including externally restricted reserves, represents the capital, in its simplest form, required to cover the shortfall between the premium income-based on expected losses and expenses and the actual expenses and losses as measured at year end. It also protects policyholders against any sudden increase in frequency or severity that could result in rate increases in excess of the inflation rate by up to 25%.

The Board approved the creation of an internally restricted rate stabilization reserve based on the appointed actuary's conservative capitalization calculation of $3,200,000 less the externally restricted reserves.

In accordance with the Exchange Agreement, Subscribers were not obliged to contribute any amounts to the Exchange in the form of a capital contribution. Therefore, the rate stabilization reserve represents the cumulative excess of income over expenses, including investment income, and may be used to cover potential future catastrophe claims. The Agreement provides that additional assessments may be made to the Subscribers to the extent that premiums collected are insufficient to cover the claims and expenses experienced by the Exchange. Similarly, where accumulated funds are in excess of funds required to meet obligations in respect of claims arising, the Agreement provides for the issue of premium credits.

8. NET ASSETS INVESTED IN PROPERTY, PLANT AND EQUIPMENT

	2011	2010
Balance, beginning of year	**$ 28,411**	$ 26,310
Purchases of computers and equipment, net of proceeds	**15,328**	26,048
Amortization	**(22,260)**	(23,947)
Balance, end of year	**$ 21,479**	$ 28,411

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

	2011	2010
Accumulated comprehensive income - beginning of year	**$ 322,565**	$ (89,139)
Unrealized gains on available for sale securities	**135,007**	411,704
Accumulated other comprehensive income - end of year	**$ 457,572**	$ 322,565

Accumulated other comprehensive income is the unrealized gains on available for sale securities and is broken down by investment type:

Fixed income	172,014	143,085
Equities	285,558	179,480

10. CLAIMS PAID AND INCURRED

	2011	2010
Claims	**$ 505,226**	$ 233,648
Adjuster fees	**71,797**	78,194
Legal	**27,224**	(92,364)
Claim subrogation recoveries - prior year claims		(55,446)
	604,247	164,032
Claims liabilities adjustments non case reserves	**(177,470)**	(72,204)
Total claims paid and incurred	**$ 426,777**	$ 91,828

11. INVESTMENT INCOME

	2011	2010
Investment income - interest /dividends	**$ 370,437**	$ 371,918
Bond premiums (discounts) amortization	**(687)**	(32,214)
Exchange gain (loss) on holding foreign currency investments	**(3,204)**	(29,503)
Realized gain (loss) on sale of Investments	**3,902**	(34,186)
Investment management fee	**(48,165)**	(44,537)
	$ 322,283	$ 231,478

12. FINANCIAL RISK MANAGEMENT

The Exchange's exposure to potential loss from financial instruments is primarily due to underwriting risk along with various market risks, including interest rate risk and equity market fluctuation risk, foreign currency risk, liquidity risk, as well as credit risk.

a) Underwriting risk:

Underwriting risk is the risk that the total cost of claims and acquisition expenses will exceed premiums received and can arise from numerous factors, including pricing risk, reserving risk and catastrophic loss risk.

(i) Pricing risk:

Pricing risk arises when actual claims experience differs from the assumptions included in pricing calculations. Historically, the underwriting results of the property and casualty industry have fluctuated significantly due to the cyclicality of the insurance market. The market cycle is affected by the frequency and severity of losses, levels of capacity and demand, general economic conditions and price competition. The Exchange prices its products taking into account numerous factors including claim trends, product line expense ratios, the capital require to support the product line, and the investment income earned on that capital. These factors are set in conjunction with the Exchange's appointed actuary when required, and are reviewed and adjusted periodically to ensure they reflect the current environment.

(ii) Reserving risk:

Reserving risk arises due to the length of time between the occurrence of a loss, the reporting of the loss and the ultimate resolution of the claim. Claim provisions are expectations of the ultimate cost of resolution and administration of claims based on an assessment of facts and circumstances then known, a review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors.

Variables in the reserve estimation process can be affected by receipt of additional claim information and other internal and external factors. Due to the amount of time between the occurrence of a loss, the actual reporting of the loss and the ultimate payment, provisions may ultimately develop differently from the actuarial assumptions made when initially estimated the provision for claims. The Exchange's ultimate claim valuations are reviewed separately by, and must be acceptable to, the independent appointed actuary, and an external valuation actuary.

(iii) Catastrophic loss risk:

Catastrophic loss risk is the exposure to losses resulting from multiple claims arising out of a single catastrophic event. Property and casualty insurance companies experience large losses arising from manmade or natural catastrophes that can result in significant underwriting losses. The incidence and severity of catastrophes are inherently unpredictable. The Exchange's exposure to insured risks is managed through the use of excess insurance policies that limit its exposure to aggregate loss limits on each line of business subject to the current deductible, if applicable.

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12. FINANCIAL RISK MANAGEMENT *(continued)*

b) Credit risk

The Exchange's risk management strategy is to invest primarily in debt instruments of high credit quality issuers and to limit the amount of credit exposure with respect to any one issuer. The Exchange attempts to limit credit exposure by imposing portfolio limits on individual corporate issuers as well as limits based on credit quality. The breakdown of the Exchange's current fixed income portfolio by the DBRS Rating or, where unavailable, the S&P rating, is presented below:

	Fair value	% of Total
AAA	$ 753,926	10.2 %
AA	3,018,326	41.0 %
A	3,562,478	48.4 %
<A	33,000	0.4 %
	$ 7,367,730	-

c) Liquidity risk

Liquidity risk is the risk of having insufficient cash resources to meet financial commitments and policy obligations as they fall due, without raising funds at unfavorable rates or selling assets on a forced basis. The liquidity requirements of the Exchange's business have been met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claims adjustment expense payments and operating expenses. As previously stated, the time and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements. To meet these cash requirements, the Exchange has policies to ensure that assets and liabilities are broadly matched in terms of their duration and currency. The Exchange also holds a portion of invested assets in liquid securities. Major liquidity risk is also mitigated with having $500,000 of investment funds available within one year with another $500,000 available within year two.

d) Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by volatility and liquidity in the markets in which the related underlying assets are traded.

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12. FINANCIAL RISK MANAGEMENT *(continued)*

(i) Interest rate risk:

Fluctuations in interest rates have a direct impact on the market valuation of the Exchange's fixed income securities portfolio and liability values. Historical data and current information are used to profile the ultimate claims settlement pattern by class of insurance, which are then used in a broad sense to develop an investment policy and strategy. Generally our investment income will move with interest rates over the long term. Short-term interest rate fluctuations will generally create unrealized gains or losses. Generally, the Exchange's interest and dividend investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities are called, mature, or are sold and the proceeds reinvested at lower rates. This will likely result in unrealized gains to the value of fixed income securities the Exchange continues to hold, as well as realized gains to the extent the relevant securities are sold. During periods of rising interest rates, the market value of the Exchange's existing fixed income securities will generally decrease and gains on fixed income securities will likely be reduced or result in realized losses.

(ii) Equity market fluctuation risk:

Fluctuations in the value of equity securities affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. General economic conditions, political conditions and many other factors can also adversely affect stock markets and, consequently, the value of the equity securities the Exchange owns.

To mitigate these risks, the Exchange establishes an investment policy, which is approved by the Board of Directors. The policy sets forth limits for each type of investment and compliance with the policy is closely monitored. The Exchange's current investment policy limits exposure risk to a maximum of 15% of total portfolio purchase costs.

(iii) Foreign exchange risk:

Foreign exchange risk is the possibility that changes in exchange rates produce an unintended effect on earnings and equity when measured in domestic currency. The Exchange monitors the exposure of invested assets to foreign exchange and limits these amounts when deemed necessary. Nevertheless, the Exchange may, from time to time, experience losses resulting from fluctuations in the values of these foreign currencies, which could adversely affect operating results.

13. COMPARATIVE FIGURES

Some of the comparative figures have been reclassified to conform to the current year's presentation.