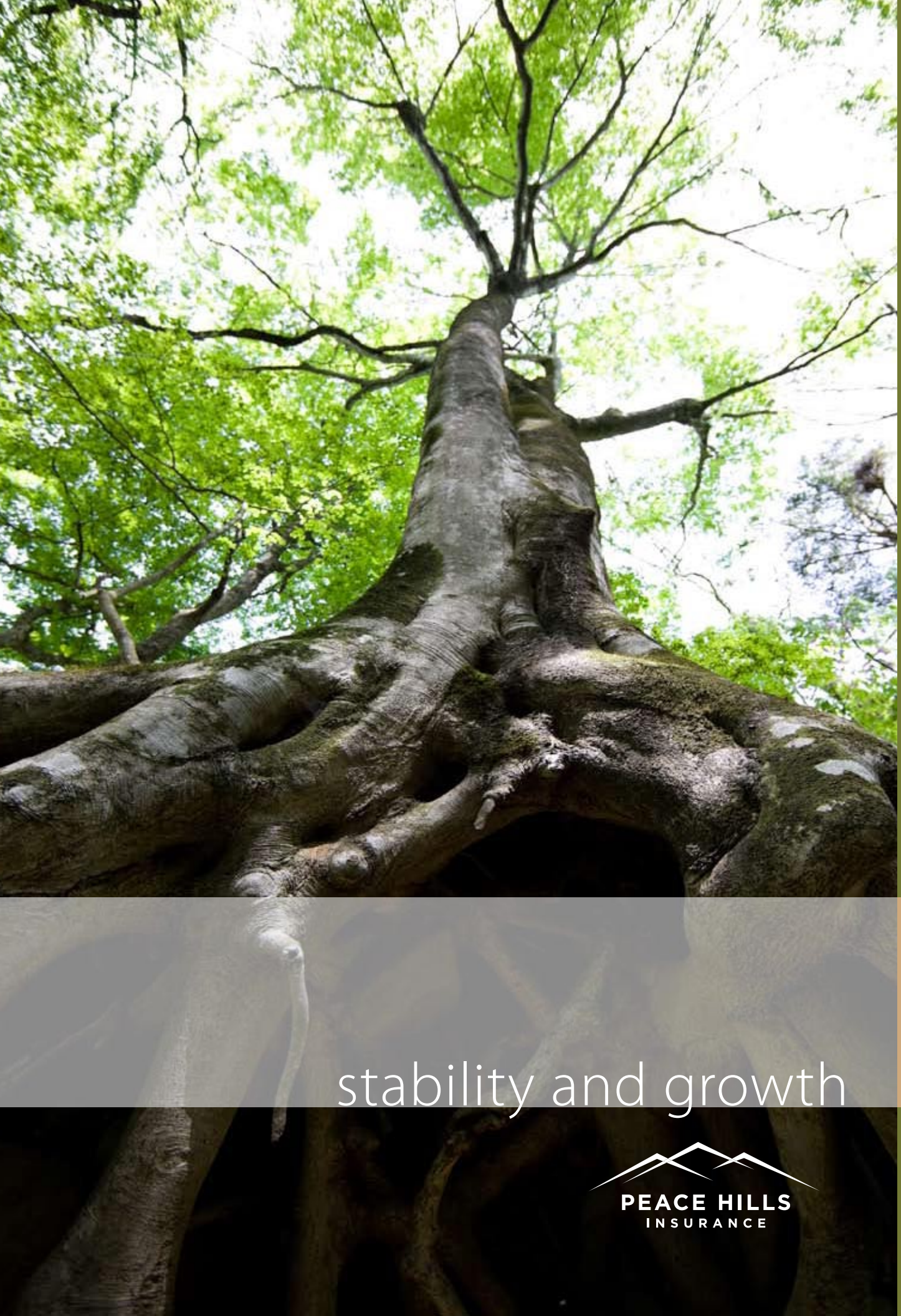

Peace Hills Insurance 2010 Annual Report

stability and growth

PEACE HILLS
INSURANCE

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Chairman's Report

Chief Marvin Yellowbird
Chairman of the Board

In the six years that I have had the privilege of chairing the Peace Hills Board of Directors, the company has continued to grow and prosper. We finished the decade of the new millennium with one of the best years of the company's history; some of the most significant accomplishments in 2010 were:

- Increased Capital and Surplus to $64.3M,
- The Minimum Capital Test reached an all-time high of 306.0%
- The ROE was 21.8%

Looking back over these six years, we have seen some struggles, especially in 2008, however, I believe we have recovered as a much stronger and focused organization. The Board of Directors Strategic Planning session in June focused on two goals:

- Achieve and maintain a 300% Minimum Capital Test ratio; and
- Regain the B+ rating from AM Best

In order to achieve these goals, the Board of Directors worked on two major initiatives: a Capital Management Strategy and a Dividend Policy. The objective of the Capital Management Policy was to find ways to allow the company to achieve, and then maintain, a 300% MCT ratio, while still being able to grow the company. The Dividend Policy will set out the guidelines in returning dividends to our Shareholder.

We were sad to say goodbye to two of our Board of Directors. Dennis Leonard retired from our Board after 20 years; his dedication and dry sense of humour will be missed. Replacing Dennis on the Board is Laurie Powers, CA, ICD. Laurie brings a strong financial background to the table and we are fortunate that she is a member of the Audit Conduct Review Committee.

Florence Buffalo, also left the Peace Hills Insurance Board in 2010. She is no stranger to our Board as she had served several terms over the years, so she too will also be missed. Replacing Florence is Leiha Crier. Leiha's strong business mind and youthful approach will be a benefit to the future of the Board.

I am personally very proud of the work that the Board has completed this past year and I would like to pass on my appreciation to them, as well as our gratitude to the management team and all our staff for the part they played in making 2010 the best year in our 28-year history.

Respectfully,

Diane Brickner, CIP
President & CEO

Financial stability comes from perseverance, price increases, patience and prayers – these have all paid off in 2010, and I would like to thank everyone that played a part in making this our best year ever.

We started increasing our Personal Property rates 36 months ago, and we continued to increase them every 6 to 12 months thereafter. This started well in advance of our competitors and our brokers persevered; we are very appreciative of the support we have received from them. We have patiently waited for these increases to have an impact on our results and this year we started seeing the benefits.

Price increases have become more aggressive in the farm book of business and we will continue to persevere until we improve this book of business as well.

We are still patiently waiting for the commercial market to harden and from everything we see and hear that is not likely to happen in the near future.

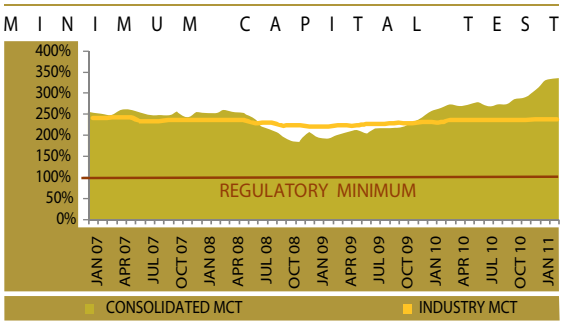
The return on equity of 21.8% and the Minimum Capital Test of 306.0% are record highs for Peace Hills Insurance and, although the success of these achievements does not come from any one area or department, we can identify a number of things that have made a significant contribution:

- Implemented strategic rate increases;
- Pending claims are down as a result of lower claims activity and faster close ratio; and
- Improved investment results.

The incredible results of 2010 have placed us on a strong foundation to move forward on a number of initiatives. We have some aggressive projects on the go and it will be an exciting year in 2011.

I would like to thank everyone in our organization for their contribution to making 2010 our Best Year Ever. It has been a team effort like none we have seen before.

Thank you again!



Finance Report

Kathy Boychuk, CMA
Vice President, Finance

Strong underwriting results and healthy investment income combined to make 2010 one of our most successful years ever. Gross written premiums ended the year at $172.3M, up from $165.7M in the previous year. Net earned premiums were $111.2M which is up 1.1% over the previous year.

Underwriting income for the year was $10.5M, up from $2.6M. We continued to adjust our rates, and maintained a controlled growth approach. Personal property results are slowly seeing improvements driven by increased rates. Automobile results were stabilized by the Minor Injury Regulation in Alberta and commercial lines experienced steady growth and profitable results.

With an overall net loss ratio of 54.1%, we continued to outperform the industry, and leaned on our strong reinsurance program through another year full of catastrophe activity. This contributed to finishing the year with a combined ratio of 92.4%, down from 99.4% in the previous year.

Investment income was strong with two new investment management firms on board applying a more conservative asset allocation than we have had in the past. Combining investment income with our underwriting profit, we achieved net income after tax for the year of $12.4M, an increase from $3.2M in the prior year. The unrealized gains in the market value of our investment portfolio generated other comprehensive income of $2.9M. Together these combined to produce total comprehensive income of $15.2M.

These annual results increased our equity position to $64.3M to end the year which resulted in a ROE of 21.8%, up from 7.0% in the previous year. With our continued focus on capital management we achieved our goal of a 300% MCT ratio. As we move forward, we will continue to work to maintain our strong capital position.

Overall, 2010 was a very successful year for Peace Hills Insurance. Moving forward into 2011, we will celebrate our successes and strive to maintain the strength and stability we have worked so hard to achieve.

Jamie Hotte, FCIP

Vice President,
Underwriting & Marketing

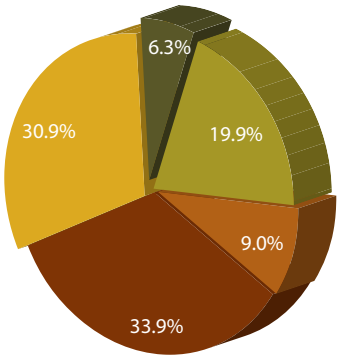
Gross written premiums totalled $164.8M, excluding the Auto Facility and Risk Sharing Pools, which was 5.2% higher than the previous year. Total premiums ceded of $9.3M to the Alberta Risk Sharing Pool.

Organic growth was positive with the policy count increasing by 1.7% ending at 120,780.

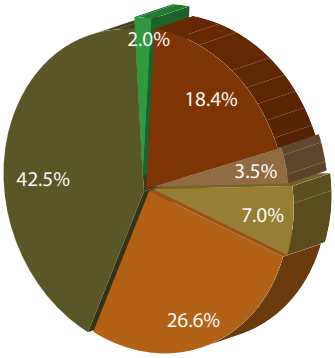
Gross loss ratios decreased by 22.3 percentage points ending at 57.0%, producing a net underwriting profit of $9.6M.

Commerical lines has experienced two very different stories. Commercial Property/Casualty continues to see a very soft market throughout 2010. On the other side, competition was fierce throughout 2010 as we struggled to retain our business on our commercial auto book. This was most evident on our larger fleet-rated accounts

Gross Written Premiums
By Business Line

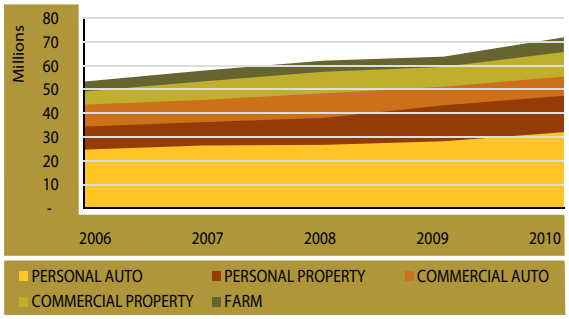


Gross Written Premiums
By Region

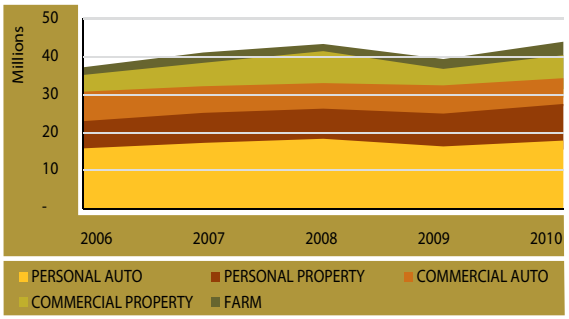


Underwriting and Marketing Report

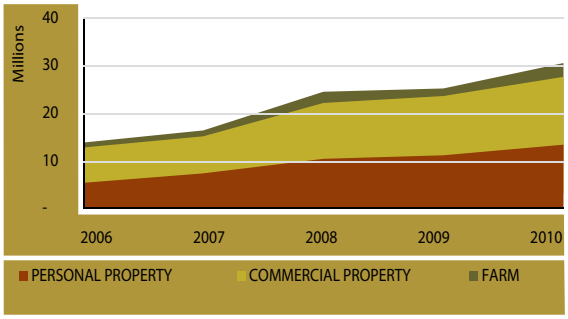
GROSS WRITTEN PREMIUMS
NORTHERN ALBERTA

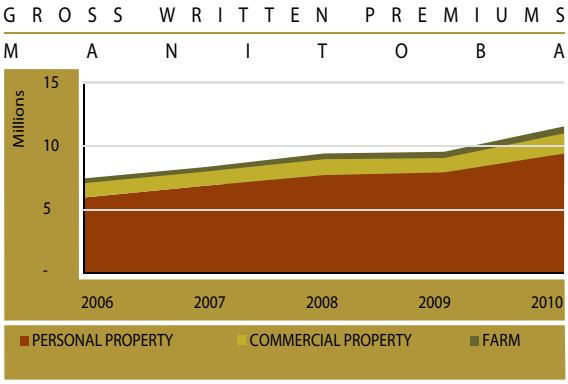


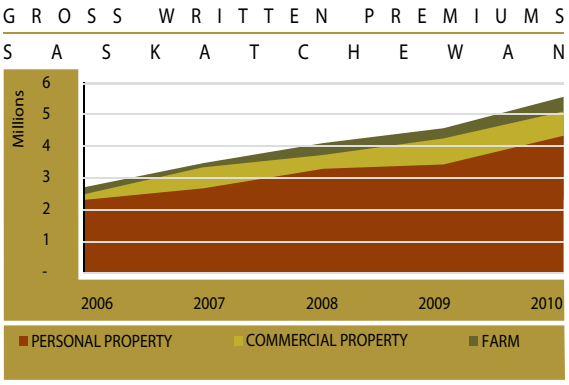
GROSS WRITTEN PREMIUMS
SOUTHERN ALBERTA

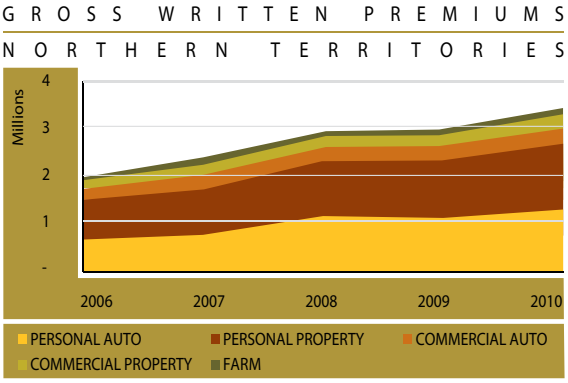


GROSS WRITTEN PREMIUMS
BRITISH COLUMBIA









Underwriting and Marketing Report

Underwriting and Marketing Report

Marketing and our Brokerage Force

Our overall growth of 5.2% fell slightly under our budgeted growth for 2010, even though we wrote 19,716 new policies during this period. Competition was tough throughout the year and our Marketing Teams and our Brokers had to work hard to achieve this growth. I would like to thank them for their dedication and hard work.

Independent Brokerage Network

Our sole distribution remains with the independent broker and we would like to thank all of our brokers for their continued support.

During 2010, we appointed twenty-seven new brokers and now are represented by 178 brokers with 420 locations throughout Western Canada.

PROVINCE	BROKERS	LOCATIONS
Alberta	124	222
British Columbia	29	127
Manitoba	17	47
Saskatchewan	6	20
Northern Territories	2	4

Our Underwriting Teams

Results improved significantly in 2010 which ended up being our best underwriting year ever. This was primarily due to two things:

1) our continued focus on pricing in some business lines; and
2) strong underwriting disciplines.

Our underwriting teams worked diligently with this focus in what was a fairly competitive market, which made this even more challenging. The 2010 year was an amazing year and our underwriting teams are commended for doing such a great job.

Robert Doiron, BA, CIP
Vice President, Claims

Loss Ratio

The 2010 year has produced exceptional loss ratios - much lower than everyone could have predicted. even with three major storms amounting to $11.6M, the overall gross loss ratio was 57.0%.

CATASTROPHIC STORMS

July 11 - 13	Wind Hail and Water	1,032 Claims	$7.4M
June 29 - July 1	Wind Hail and Water	160 Claims	$3.1M
June 17 - 19	Water	60 Claims	$1.1M

GROSS LOSS RATIOS
NORTHERN ALBERTA

Year	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm	ALL
2010	55.3%	51.6%	45.6%	14.7%	113.6%	**50.2%**
2009	52.2%	96.2%	50.2%	102.3%	61.4%	**69.2%**
2008	66.4%	78.6%	60.6%	28.3%	52.7%	**61.6%**
2007	61.3%	57.9%	55.5%	44.5%	79.8%	**58.1%**
2006	60.8%	58.6%	76.9%	49.8%	53.7%	**61.7%**

GROSS LOSS RATIOS
SOUTHERN ALBERTA

Year	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm	ALL
2010	64.0%	84.7%	37.2%	31.0%	130.7%	**65.5%**
2009	64.3%	95.6%	79.7%	27.4%	181.0%	**76.1%**
2008	83.9%	102.9%	53.4%	29.7%	97.7%	**75.3%**
2007	60.6%	121.2%	70.0%	39.7%	129.7%	**74.0%**
2006	60.8%	35.8%	33.2%	31.6%	105.2%	**50.8%**

GROSS LOSS RATIOS
BRITISH COLUMBIA

Year	Personal Property	Commercial Property	Farm	ALL
2010	59.6%	43.2%	37.6%	**50.0%**
2009	60.8%	99.3%	43.4%	**78.1%**
2008	56.4%	35.7%	139.6%	**53.5%**
2007	45.6%	52.0%	70.3%	**51.0%**
2006	74.3%	38.9%	18.6%	**52.2%**

Claims Report

GROSS LOSS RATIOS MANITOBA

Year	Personal Property	Commercial Property	Farm	ALL
2010	58.6%	43.4%	45.3	**55.7%**
2009	74.7%	74.4%	61.6%	**73.8%**
2008	66.3%	83.4%	84.0%	**69.4%**
2007	82.5%	52.1%	99.1%	**80.3%**
2006	52.9%	34.0%	46.6%	**50.3%**

GROSS LOSS RATIOS SASKATCHEWAN

Year	Personal Property	Commercial Property	Farm	ALL
2010	126.1%	16.5%	167.4%	**114.9%**
2009	48.9%	209.6%	29.1%	**67.4%**
2008	55.4%	94.4%	62.1%	**59.6%**
2007	58.0%	27.5%	19.9%	**52.8%**
2006	81.1%	44.9%	52.8%	**77.2%**

GROSS LOSS RATIOS NORTHERN TERRITORIES

Year	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm	ALL
2010	51.9%	84.9%	41.4%	15.5%	-0.1%	**61.3%**
2009	31.7%	156.2%	102.6%	26.4%	7.8%	**92.9%**
2008	25.6%	103.1%	70.7%	7.4%	5.2%	**62.9%**
2007	37.2%	116.1%	20.3%	11.5%	-0.8%	**67.7%**
2006	40.0%	49.9%	49.2%	-31.4%	-145.8%	**37.9%**

Personnel

For Claims, 2010 was a year of personnel changes. We reorganized the Edmonton Claims office by adding a new supervisor and a change in the manager's position. In Calgary, our long-time Claims Manager was promoted to Branch Manager and, as a result, we have a new Claims Manager there as well.

We introduced new accountability measures for our staff and I am pleased to say that they have responded very well. We had two main goals in 2010:

- Stabilize our reserving practices; and
- Improve our closing ratio.

Both goals were achieved. We appeared to have reversed the deterioration and end the year with positive results. We did end 2010 with 300 fewer files than 2009; given the volume of claims due to storms in 2010, I am very pleased we were able to reduce our year-end pending losses.

CLAIMS FREQUENCY BY BUSINESS LINE

Year	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm Property	ALL
2010	13.8%	5.5%	19.8%	8.6%	8.9%	**8.9%**
2009	14.2%	5.5%	21.2%	10.5%	8.7%	**9.3%**
2008	14.0%	4.3%	20.1%	8.8%	7.7%	**8.3%**

Frequency has remained stable for several years. Given the correlation between the expected number of losses and claims frequency, it has made our staff planning requirements more predictable.

CLAIMS SEVERITY BY BUSINESS LINE

Year	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm Property	ALL
2010	6,521	10,034	6,721	8,521	20,678	**8,516**
2009	5,971	11,170	9,543	18,144	19,013	**9,995**
2008	7,469	11,005	9,288	7,989	17,984	**9,122**

Our severity has remained stable as well. Our two largest sources of claims are in personal automobile and property which have tracked within a reasonable range. Commercial auto volume is relatively small when compared to personal auto which can lead to wider fluctuations. Commercial property appears to have significant fluctuations, however, the bump in 2009 was due to a significant increase on one shock loss. The garage auto is a very small portfolio, therefore subject to greater swings than any other line of business.

I am impressed with the way the claims staff responded to our initiatives on productivity and accountability. The claims contribution to our impressive results has been possible by having everyone step up to the plate in a significant way.

Information Technology Report

Harvey Schaerer, B.Sc.
VP, Information Technology

In 2010, new directions and approaches to Information Technology resulted in several significant initiatives and projects.

The development of a Peace Hills Insurance Exchange for various broker management systems is underway, and will provide our brokers with single-entry of data. Brokers will be able to exchange customer information directly with our insurance system and their broker management system to obtain ratings and premiums for new policies and endorsements.

Upgrades to communication links between our primary offices have significantly increased our throughput and data transfer speeds. This has allowed us to facilitate central management of computer systems and improve our control of all corporate data.

The implementation of change control processes and quality assurance standards have improved the control, reliability, and quality of changes that are made to our computer network infrastructure and software development projects.

Procedures have been put into practice to strengthen our security and prevent unauthorized access in order to comply with enterprise risk management assessments and recommendations.

A HelpDesk was established for our internal staff. This allows us to monitor employee requests or problems, and identify trends that may be developing and require proactive trouble shooting of our computer systems. We have also been able to improve response times and internal customer satisfaction.

We continue with on-going evaluations of disaster recovery and business continuity planning as changes are made to our information systems. We are also utilizing virtualization to improve our recovery capabilities.

With improvements to our internal infrastructure and programs under control, we are now able to focus on improvements for broker interaction with our website; and have begun to examine the provision of new functionality such as download of policies and other information.

2010 has indeed been a busy and productive year. Information Technology has become an integral part of the company, and challenges continue to be received from all levels to address new concepts, requirements, and projects. Personnel in our Information Systems Department have proven to be willing, and more than capable of taking on these new challenges and seeing them through to successful completion. Moving forward, we expect to continue to make even more exciting and significant contributions and progress in 2011.

HEAD OFFICE

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Edmonton, AB T5J 3N3 Canada
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or 1-800-272-5614

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Vancouver, BC V6E 3X2 Canada
Phone: (604) 408-4708
or 1-877-408-4708

EDMONTON OFFICE

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Edmonton, AB T5J 3N3 Canada
Phone: (780) 424-3986
or 1-800-272-5614

CALGARY OFFICE

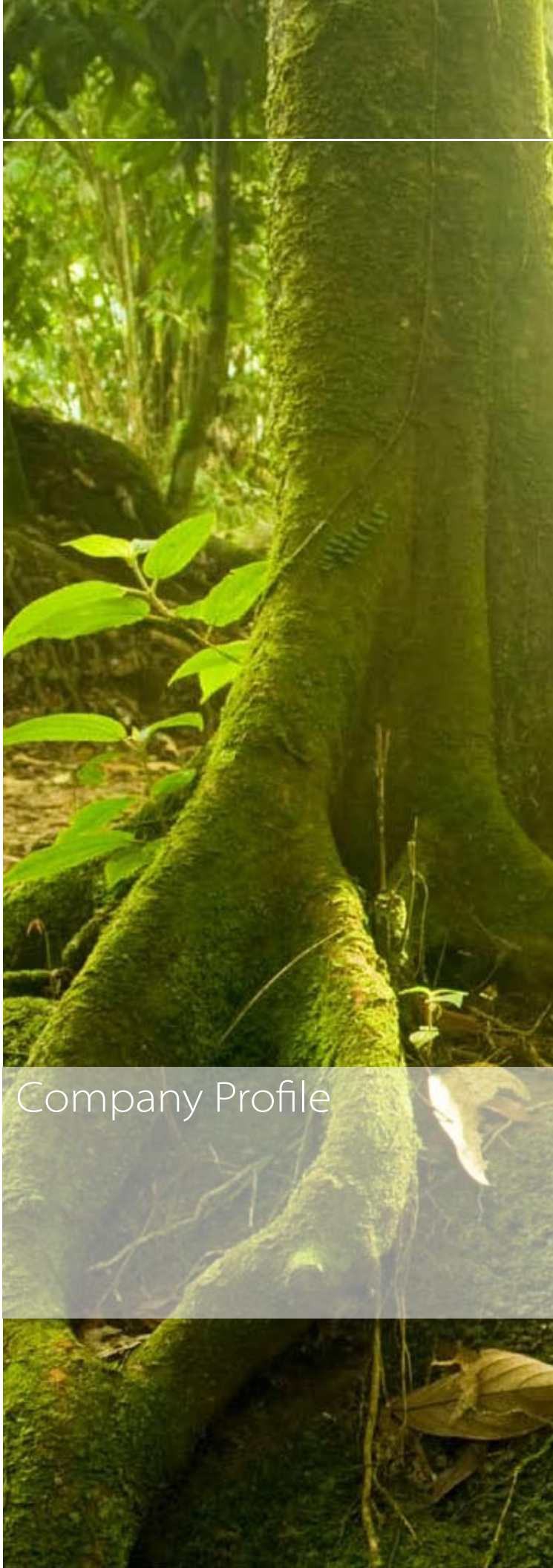
14th Flr, Encor Place, 645-7th Ave. S.W.
Calgary, AB T2P 4G8 Canada
Phone: (403) 262-7600
or 1-800-372-9295

AUDITORS

PricewaterhouseCoopers LLP
Suite 1501, TD Tower
10088 - 102 Avenue
Edmonton, AB T5J 3N5 Canada

ACTUARY

Barbara Addie, FCIA
Baron Insurance Services Inc.
206 Laird Drive
East York, ON M4G 3W4 Canada



Board of Directors & Committees

Chief Marvin Yellowbird
Chairman

Diane Brickner
President & CEO

Trevor Swampy
Vice Chairman

Patrick Buffalo
Secretary/Treasurer

Leiha Crier

John Crier

Lena Cutknife

Bill Kordyback

Julian Koziak

Laurie Powers

John Szumlas

Raymond Lightning
Elder

AUDIT/CONDUCT REVIEW COMMITTEE:
John Szumlas - Chair,
Julian Koziak, Bill Kordyback,
Laurie Powers

GOVERNANCE/COMPENSATION COMMITTEE:
Patrick Buffalo - Chair,
Trevor Swampy , John Crier,
John Szumlas,
Diane Brickner (Governance)

INVESTMENT/PHI PROPERTIES LTD. COMMITTEE:
John Crier - Chair,
Lena Cutknife, Patrick Buffalo,
Marvin Yellowbird, Julian Koziak,
Bill Kordyback, Leiha Crier

Diane Brickner, CIP
President & CEO

Jamie Hotte, FCIP
VP, Underwriting & Marketing

Kathy Boychuk, CMA
VP, Finance

Robert Doiron, BA, CIP
VP, Claims

Mary Clinton, CHRP
VP, Human Resources
& Administration

Harvey Schaerer, B.Sc.
VP, Information Technology

Executive

Management

Nazz Baksh, CMA
Controller

George Boulay, B.Comm, FCIP, CRM
Underwriting Manager, Rest of Canada

John Bud, CGA, CNA
Information Systems Manager

Sherril Couper,
Underwriting Manager, British Columbia

Trent Gibson, CA
Internal Auditor

Neil Klawitter
Branch Manager, Northern Alberta

Daryl Kochan, FCIP
Branch Manager, British Columbia

Bob Leckie
Claims Manager, Southern Alberta

Daphne Matthews
Claims Manager, Northern Alberta, British Columbia, Rest of Canada

Karri McCann
Commercial Lines Manager, Southern Alberta

Joan McMillan
Administration Manager, Head Office & Northern Alberta, British Columbia, Rest of Canada

Carol Paul
Personal Lines Manager, Northern Alberta

Gail Routh, CIP
Branch Manager, Rest of Canada

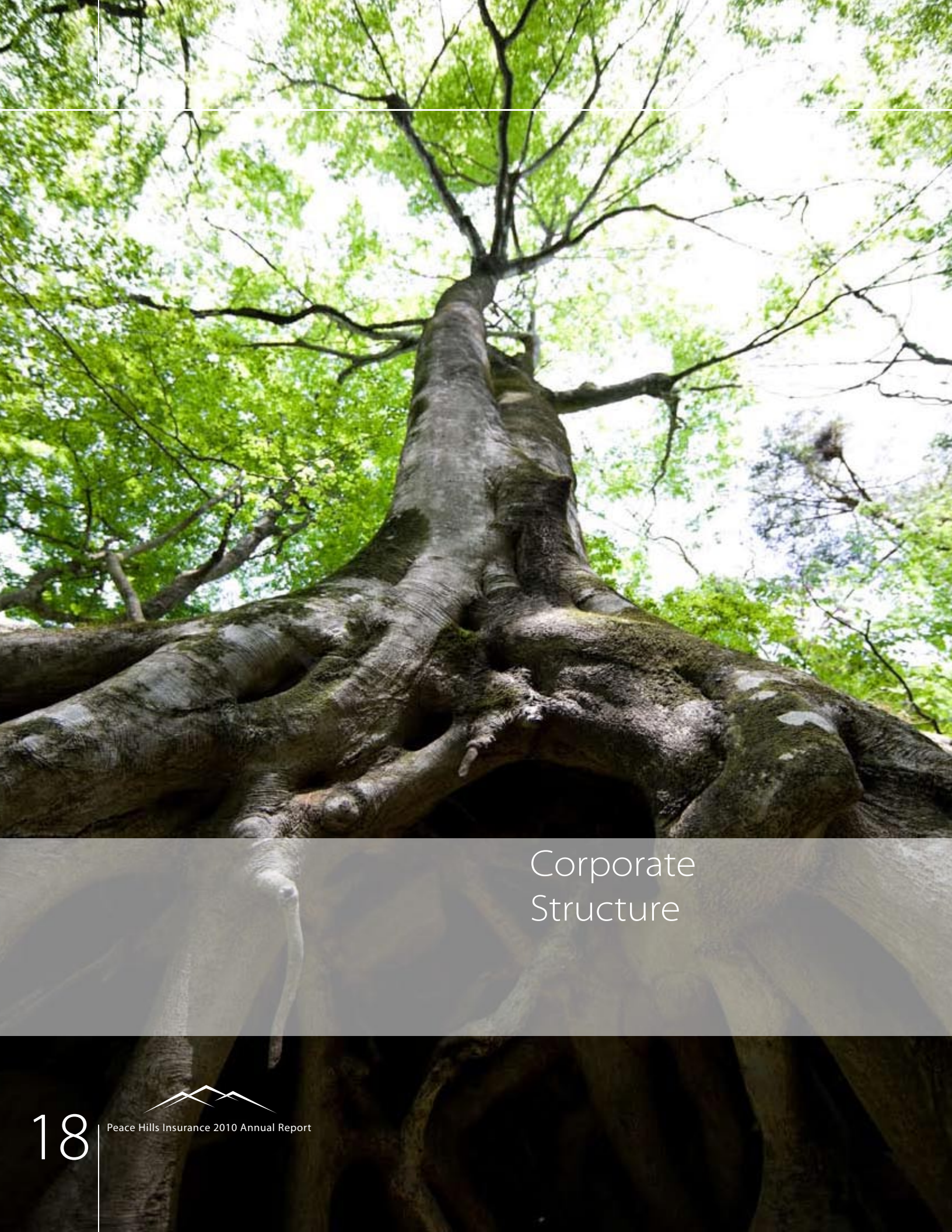
Julia Seguin
Administration Manager, Southern Alberta

Evanne Sheperdson
Personal Lines Manager, Southern Alberta

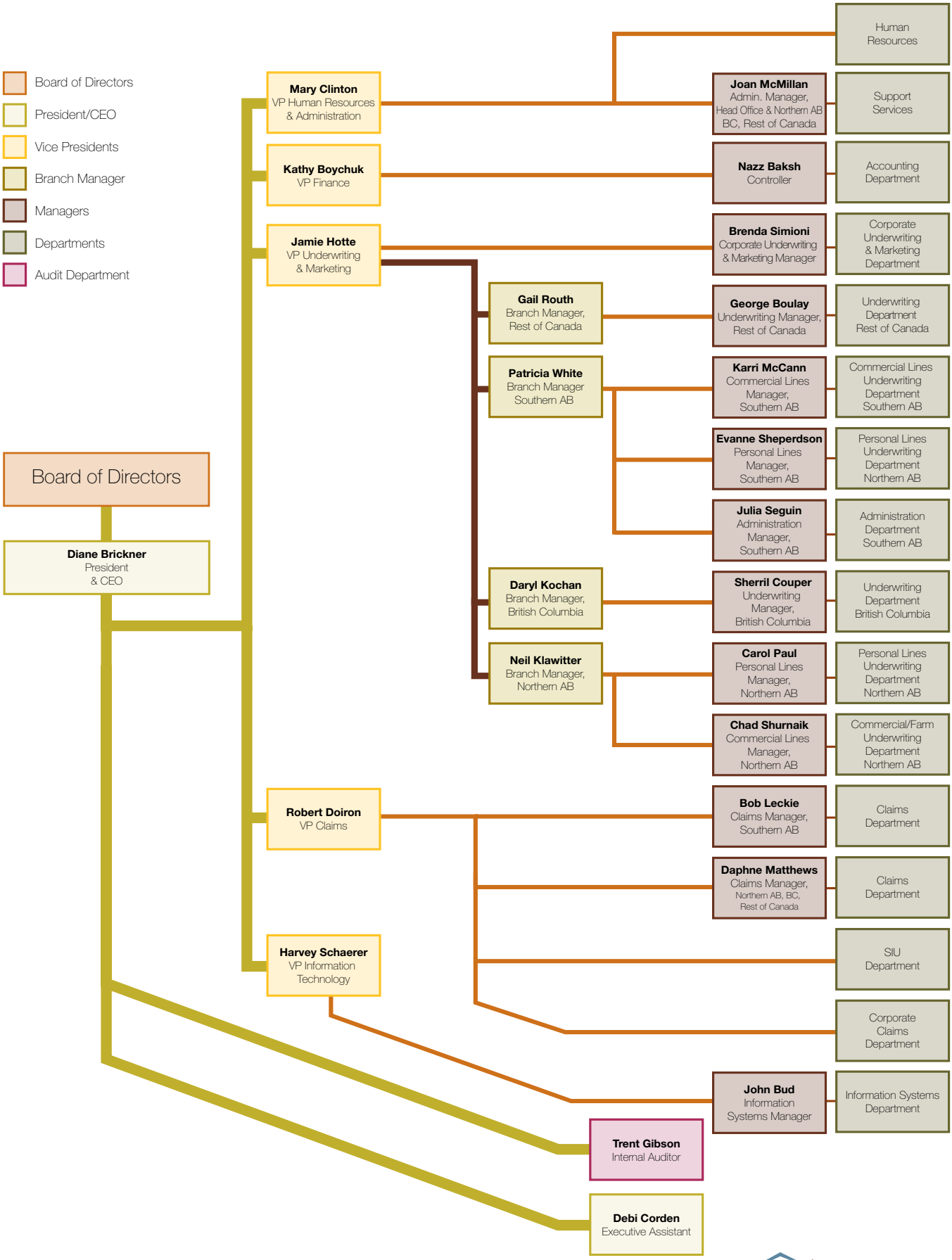
Chad Shurnaik,
B.Comm, FCIP, CRM
Commercial Lines Manager, Northern Alberta

Brenda Simioni
Corporate Underwriting & Marketing Manager

Patricia White, CIP
Branch Manager, Southern Alberta



Corporate Structure


Board of Directors
President/CEO
Vice Presidents
Branch Manager
Managers
Departments
Audit Department
Board of Directors
Diane Brickner
President & CEO
Mary Clinton
VP Human Resources & Administration
Kathy Boychuk
VP Finance
Jamie Hotte
VP Underwriting & Marketing
Robert Doiron
VP Claims
Harvey Schaerer
VP Information Technology
Gail Routh
Branch Manager, Rest of Canada
Patricia White
Branch Manager Southern AB
Daryl Kochan
Branch Manager, British Columbia
Neil Klawitter
Branch Manager, Northern AB
Trent Gibson
Internal Auditor
Debi Corden
Executive Assistant
Joan McMillan
Admin. Manager, Head Office & Northern AB BC, Rest of Canada
Nazz Baksh
Controller
Brenda Simioni
Corporate Underwriting & Marketing Manager
George Boulay
Underwriting Manager, Rest of Canada
Karri McCann
Commercial Lines Manager, Southern AB
Evanne Sheperdson
Personal Lines Manager, Southern AB
Julia Seguin
Administration Manager, Southern AB
Sherril Couper
Underwriting Manager, British Columbia
Carol Paul
Personal Lines Manager, Northern AB
Chad Shurnaik
Commercial Lines Manager, Northern AB
Bob Leckie
Claims Manager, Southern AB
Daphne Matthews
Claims Manager, Northern AB, BC, Rest of Canada
John Bud
Information Systems Manager
Human Resources
Support Services
Accounting Department
Corporate Underwriting & Marketing Department
Underwriting Department Rest of Canada
Commercial Lines Underwriting Department Southern AB
Personal Lines Underwriting Department Northern AB
Administration Department Southern AB
Underwriting Department British Columbia
Personal Lines Underwriting Department Northern AB
Commercial/Farm Underwriting Department Northern AB
Claims Department
Claims Department
SIU Department
Corporate Claims Department
Information Systems Department

Financial Statements

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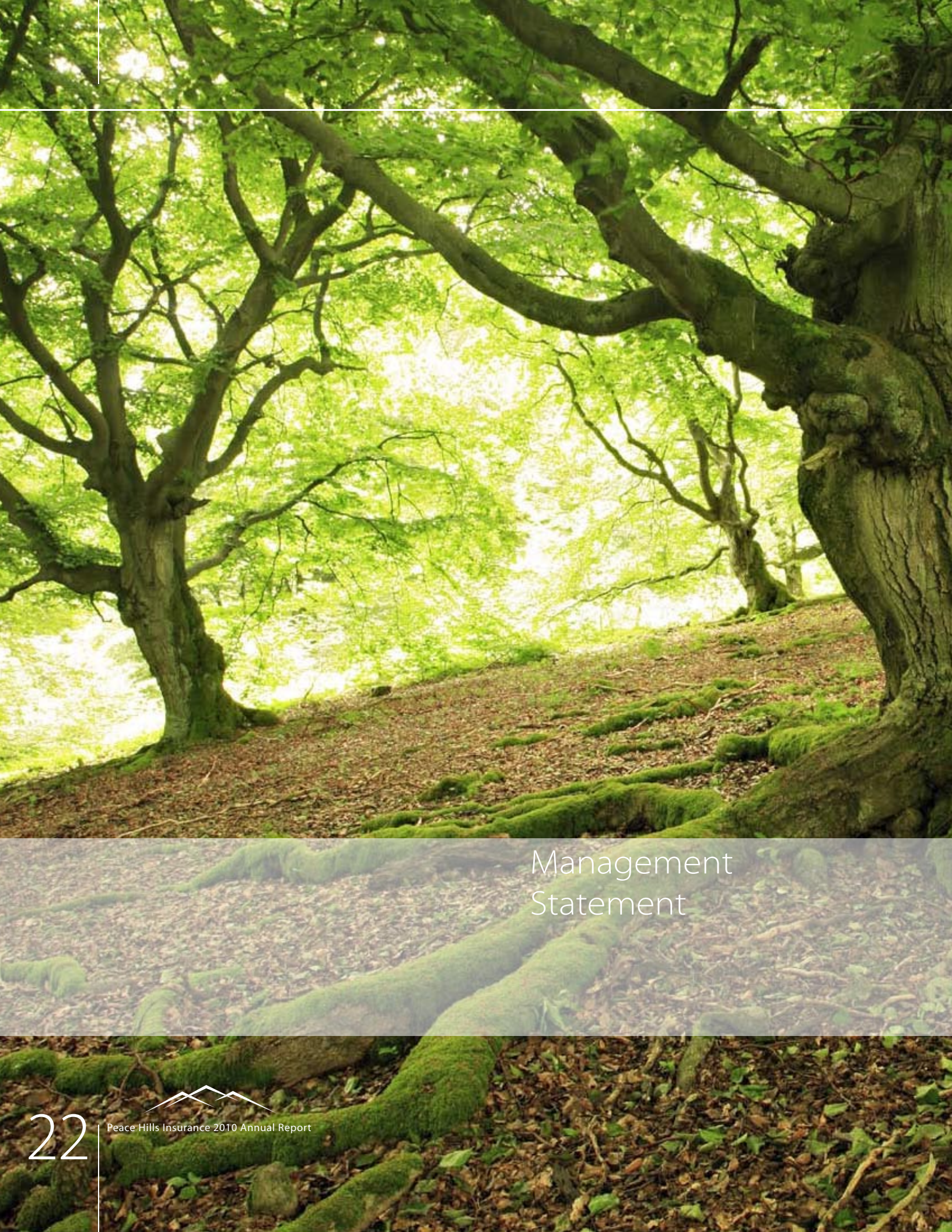


Management Statement

Management Statement on Responsibility for Financial Reporting.

The consolidated financial statements are the responsibility of management and have been prepared in conformity with Canadian generally accepted accounting principles including the accounting requirements of the Superintendent of Insurance for Alberta. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Peace Hills General Insurance Company within reasonable bounds of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Company. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable consolidated financial statements. The adequacy of operation of the control systems is monitored on an ongoing basis by management.

The Board of Directors is responsible for approving the consolidated financial statements. It has established an Audit Committee, comprised of directors who are neither officers nor employees of the Company who meet with management, internal auditors, the actuary and external auditors, all of whom have unrestricted access and the opportunity to have private meetings with the Audit Committee, to review the consolidated financial statements. The Audit Committee then submits its report to the Board of Directors recommending approval of the consolidated financial statements.

The Superintendent of Insurance for Alberta makes an annual examination and inquiry into the affairs of the Company as deemed necessary to ensure that the Company is in sound financial condition and that the interests of the policyholders are protected under the provisions of the Insurance Act (the "Act").

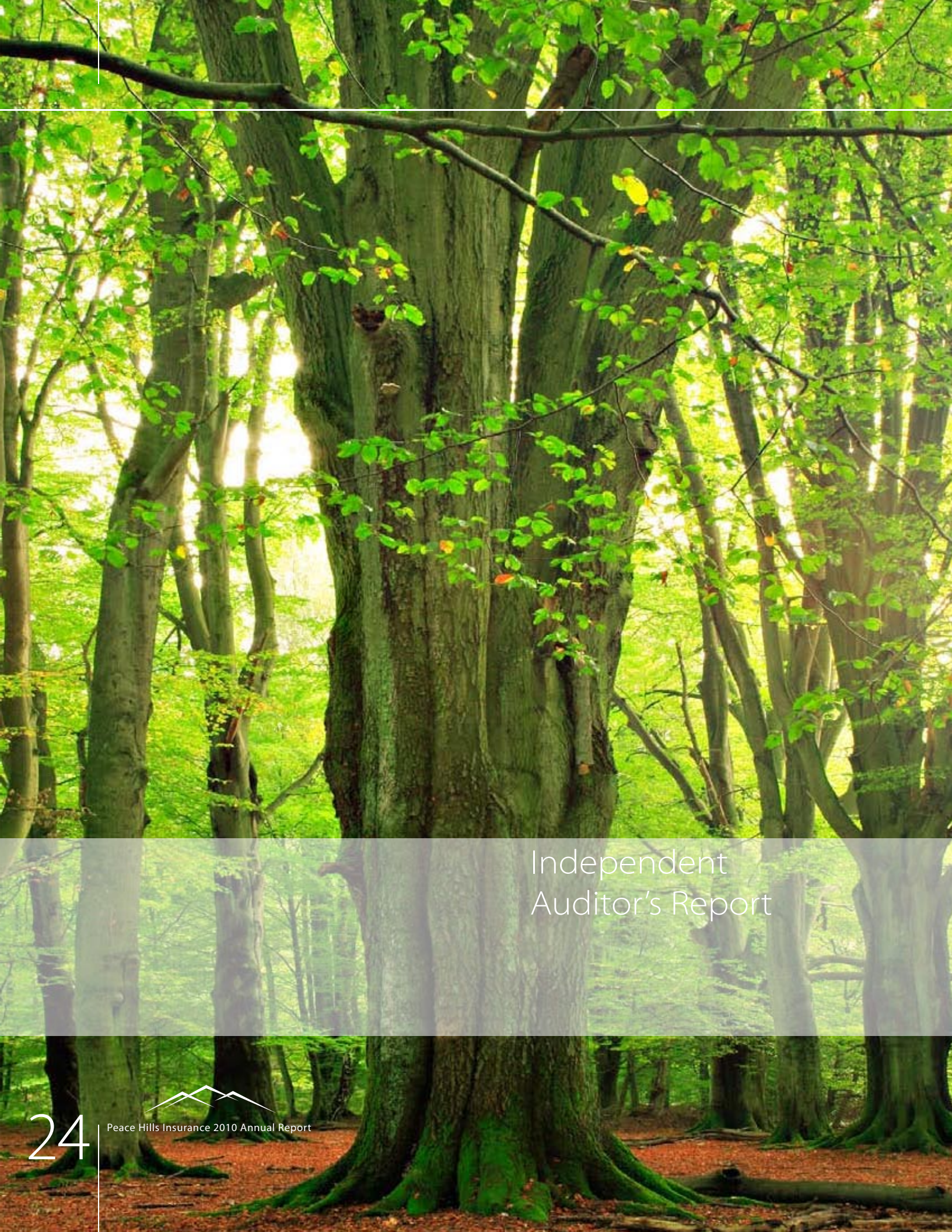
The actuary has been appointed by the Board of Directors pursuant to the Act. The actuary is required to carry out a valuation of the policy liabilities recorded by the Company in its consolidated financial statements and report thereon to the shareholder. Policy liabilities consist of the provisions for and reinsurance recovery of unpaid claims and adjustment expenses on insurance policies in force, including provisions for salvage and subrogation, 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. The actuary, in her 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 her work and opinion.

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

Diane Brickner, CIP
President and CEO

Kathy Boychuk, CMA
Vice President, Finance

February 23, 2011,
Edmonton, Canada



Independent Auditor's Report

Independent Auditor's Report

To the Shareholder of Peace Hills General Insurance Company

We have audited the accompanying consolidated financial statements of Peace Hills General Insurance Company and its subsidiary, which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of income, retained earnings, comprehensive income and accumulated other comprehensive income and cash flows for the year then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statement that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Peace Hills General Insurance Company and its subsidiary as at December 31,2010 and the results of their operations and their cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Edmonton, Alberta
February 23, 2011

Baron Insurance Services Inc.

To the Shareholders of Peace Hills General Insurance Company:

I have valued the policy liabilities of Peace Hills General Insurance Company for its balance sheet as at December 31, 2010 and their changes in its statement of income for the year then ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of the policy liabilities makes appropriate provision for all policyholder obligations and the financial statements fairly present the results of the valuation.

Barbara Addie
Fellow, Canadian Institute of Actuaries

Toronto, Ontario
February 23, 2011

Actuary's Report

	2010 $	2009 $
ASSETS		
Cash and cash equivalents (note 2)	16,454	44,939
Accrued investment income	794	799
Available for sale financial assets (note 3)	128,247	92,003
Due from agents, brokers and policyholders	33,336	33,039
Due from other insurance companies	10,051	9,009
Other receivables	2,038	2,483
Amounts recoverable from reinsurers		
Unpaid claims and adjustment expenses (notes 5 and 6)	39,536	47,651
Unearned premiums	20,917	18,856
Salvage and subrogation	(219)	(284)
Deferred policy acquisition costs	20,381	19,273
Deferred tax asset	179	288
Prepaid expenses and other assets	231	269
Capital assets (note 4)	5,848	4,867
Intangible assets (note 4)	1,631	1,615
	279,224	**274,807**
LIABILITIES		
Due to agents, brokers and policyholders	4,141	3,838
Due to other insurance companies	1,849	2,534
Expenses due and accrued	2,919	2,472
Income taxes payable	3,466	2,358
Other taxes due and accrued	6,132	5,573
Funds held for other insurance companies (note 17)	6,419	6,419
Bank loan payable	-	1,795
Unearned premiums	82,320	79,128
Provision for unpaid claims and adjustment expenses (note 5)	100,384	115,197
Unearned reinsurance commissions	7,322	6,452
	214,952	**225,766**
Commitments (note 11)	-	-
Contingent liabilities (note 12)	-	-
SHAREHOLDER'S EQUITY		
Share capital (note 7)	2,000	2,000
Contributed surplus	9,362	9,362
Retained earnings	47,566	35,199
Accumulated other comprehensive income	5,634	2,480
	64,272	49,041
	279,224	**274,807**

Approved by the Board of Directors

Director

Director

	2010 $	2009 $
Balance – Beginning of year	35,199	32,025
Net earnings (loss) for the year	12,367	3,174
Dividends paid	-	-
Balance – End of year	47,566	35,199

	2010 $	2009 $
Gross premiums written	172,340	165,724
Direct premiums written	163,015	156,804
Net premiums written	112,343	111,717
Net premiums earned (note 6)	111,232	109,999
Earned service charge revenue	2,006	1,964
Underwriting revenue	113,238	111,963
Expenses incurred (note 6)		
Claims (note 5)	60,229	66,222
Commissions	18,110	19,611
Premium and other taxes	5,430	5,103
Administrative	19,016	18,400
	102,785	109,336
Underwriting income	10,453	2,627
Investment income (expenses)		
Interest	4,178	2,596
Dividends	543	789
Gain (loss) on disposal of investments	3,004	(636)
Write down of investments	(141)	(328)
Investment fees	(405)	(338)
	7,179	2,083
Earnings (loss) from PHI Properties Limited (note 8)	(170)	(393)
Earnings before income taxes	17,462	4,317
Income taxes		
Current	4,933	814
Future	162	329
	5,095	1,143
Net earnings for the year	**12,367**	**3,174**

See accompanying notes to consolidated financial statements

Peace Hills General Insurance Company
Consolidated Statement of Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)
For the year ended December 31, 2010
(in thousands)

	2010 $	2009 $
Comprehensive income		
Net earnings for the year	12,367	3,174
Unrealized gains and losses on available for sale financial assets	6,807	4,579
Reclassification of realized gains and losses to operations	(2,925)	636
Net change in unrealized gains and losses	3,882	5,215
Income taxes	(1,018)	(1,600)
Other comprehensive income	2,864	3,615
Total comprehensive income	15,231	6,789
Accumulated other comprehensive income		
Balance – Beginning of year	2,480	(1,135)
Other comprehensive income	2,864	3,615
Total accumulated other comprehensive income	**5,344**	**2,480**

	2010 $	2009 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	12,367	3,174
Items not affecting cash:		
Future income taxes	162	329
Net realized loss (gain) on disposal of investments	(3,004)	636
Write down on investments	141	328
Amortization of bond premium (discount)	55	236
Amortization of capital and intangible assets	950	945
Loss (gain) on disposal of capital assets	37	68
	10,708	5,716
Change in non-cash working capital items:		
Deferred policy acquisition costs	(1,108)	(1,142)
Unpaid claims and adjustments expenses, net of recoverable from reinsurers	(6,498)	1,626
Unearned premiums, net of recoverable from reinsurers	1,111	1,718
Unearned reinsurance commissions	870	822
Net change in other non-cash balances	(235)	9,975
	4,848	18,715
Financing activities		
Payment of dividends	-	-
Repayment of bank loan payable	(1,795)	(162)
Investing activities		
Investments sold or matured:		
Bonds and debentures	181,586	9,928
Common shares	25,066	9,635
Other investments	133	1,092
Investments acquired:		
Bonds and debentures	(212,403)	(30,877)
Common shares	(23,836)	(6,360)
Other investments	(100)	(27)
Purchase of capital and intangible assets	(2,101)	(421)
Proceeds on disposal of capital assets	117	37
	(31,538)	(16,993)
Increase (decrease) in cash and cash equivalents	(28,485)	1,560
Cash and cash equivalents – Beginning of year	44,939	43,379
Cash and cash equivalents – End of year	**16,454**	**44,939**

Peace Hills General Insurance Company (the "Company") is incorporated under the laws of Alberta. The Company is subject to the Insurance Act of Alberta (the "Act") and is licensed to write all classes of insurance other than life, accident, sickness and hail in British Columbia, Alberta, Saskatchewan, Manitoba and the Northwest, Yukon and Nunavut Territories. The Company has a concentration of business in automobile and property insurance in the Province of Alberta. The Company is subject to regulation by the Superintendent of Insurance in the Province of Alberta.

1 Significant accounting policies

a) Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, *PHI Properties Limited*. All significant inter-company balances and transactions have been eliminated.

b) Rate regulation

The Company writes compulsory automobile business that is subject to rate regulation which comprises approximately 24.3% of net premiums written. The Company's automobile insurance premiums can be impacted by mandatory rate roll backs and mandatory rate assessments as legislated by provincial law and by regulation in certain provinces. This could result in lower future premium rates or reductions to premium rates charged by the Company. In addition, the Company is required, under certain provincial legislation, to participate in risk sharing pools which may impact positively or negatively upon underwriting results. Certain benefit payments are also subject to provincial government regulation including automobile accident benefits.

c) Cash and cash equivalents

The Company considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents. Cash and cash equivalents are financial assets classified as held for trading, with changes in fair value recorded in net income.

d) Investments

i) General

Bonds and debentures, common shares, and other investments are all designated as available for sale ("AFS") financial assets and are carried at fair value. Changes in fair value of AFS financial assets are recorded in other comprehensive income ("OCI") until the investment is sold or impaired, at which time the realized gain or loss will be recorded in net income. The fair value of investments are based on quoted prices in active markets.

Fair value prioritization is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are:

Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs, or inputs that are derived principally from, or corroborated with, observable market data through correlation or other means; and

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs.

Purchase and sales of investments are recognized at the trade date.

ii) Bonds and debentures

Transaction costs and premiums and discounts related to the purchase of bonds are recorded as part of the carrying value of the bonds at the date of purchase and amortized using the effective interest rate method. Interest income is recorded on an accrual basis over the term of the investment.

iii) Common shares and other investments

For common share and other investments, transaction costs are capitalized on initial recognition. Dividend income on common shares is accrued on the ex-dividend date.

iv) Impaired assets

Where there has been a reduction in the value of an investment below cost that is other than temporary, the investment is written down to fair value, and such a provision is recorded as a loss against investment income.

e) Premiums earned and deferred policy acquisition costs

Insurance premiums are recorded as revenue on a straight-line basis over the terms of the policies. Unearned premiums represent the portion of premiums written that relate to the unexpired term of the policies in force.

Policy acquisition costs are those expenses incurred in the acquisition of business. Acquisition costs comprise commissions, premium taxes, health levies and an allocation of other variable policy issue and underwriting expenses, which relate directly to the acquisition of the business.

Policy acquisition costs related to unearned premiums are only deferred to the extent that they are expected to be recovered from the unearned premiums, and are amortized on a straight line basis over the periods during which the premiums are earned. If the unearned premiums and anticipated investment income are not sufficient to pay expected claims and expenses (including policy maintenance expenses and unamortized policy acquisition costs), a premium deficiency exists. Premium deficiencies are recognized by first writing down the deferred policy acquisition cost asset, with any excess being recognized against underwriting income.

f) Loans and receivables

Financial assets, other than cash and cash equivalents and investments, are classified as loans and receivables. Loans and receivables are initially recorded at fair value and subsequently measured at cost or amortized cost. Interest income is accrued and recognized in income as earned. Transaction costs relating to loans and receivables are expensed as incurred.

g) Capital assets and Intangible assets

Capital assets and Intangible assets are carried at cost less accumulated amortization. Amortization is provided using the following methods and annual rates:

Building	Straight-line 3%
Building improvements	Straight-line 10%
Automotive equipment	Declining balance 30%
Leasehold improvements	Straight-line terms of leases
Office equipment	Declining balance 20%
Computer software	Straight-line 20%
System software	Straight-line 10%

Capital assets and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of the asset with its expected future net undiscounted cash flows from use together with its residual value. If such assets are considered to be impaired, the impairment recognized is the amount by which the carrying amount of the asset exceeds its fair value.

h) Provision for unpaid claims and adjustment expenses

The provision for unpaid claims represents the estimated amount needed to provide for the 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 cost of investigating, resolving and processing these claims. As permitted by the Superintendent of Insurance of Alberta, the provision estimations do not take into consideration the time value of money, or make explicit provision for adverse deviation. These estimates are necessarily subject to uncertainty and are selected from a wide range of possible outcomes.

As a result, all provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. Changes in estimates of the ultimate liability are recorded as incurred claims in the current period.

i) Salvage and subrogation

Salvage and subrogation recoverable are accrued on a specific case by case basis. The gross amount recoverable is recorded under "other receivables" and the estimated amount payable to reinsurers is recorded against "amounts recoverable from reinsurers".

j) Reinsurance ceded

Premiums, claims and expenses are recorded net of amounts ceded to, and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims and adjustment expenses and on unearned premiums are recorded on a gross basis as "amounts recoverable from reinsurers". Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

k) Financial liabilities

Financial liabilities, other than the provision for unpaid claims and adjustment expenses, are classified as other liabilities. Other liabilities are initially recorded at fair value and subsequently measured at cost or amortized cost. Transaction costs relating to other liabilities are expensed as incurred.

l) Income taxes

Income taxes are accounted for using the asset and liability method. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

m) Foreign currency translation

Monetary items denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at exchange rates in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

n) Comprehensive income

Comprehensive income comprises net income and OCI and includes all changes in shareholder's equity of the Company during the year except those resulting from investment by and distribution to owners. Changes in unrealized gains and losses on AFS investments are recorded in OCI.

The cumulative changes in OCI are included in accumulated other comprehensive income ("AOCI") until recognized in the statement of income. AOCI is included on the balance sheet as a separate component of shareholder's equity (net of income taxes).

o) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles ("GAAP") 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 year. Significant estimates include the valuation of investments (note 3) and the provision for unpaid claims and adjustment expenses (note 5). Actual results could differ from those estimates.

2 Cash and cash equivalents

All cash and cash equivalents are recorded at fair value (Level 1). The major components of cash and cash equivalents are as follows:

	2010 $	2009 $
Cash	7,440	13,729
Bank term deposits, maturing in 3 months or less, at rates of interest varying between 0.9% to 1.2%	9,014	31,210
	16,454	**44,939**

3 Investments

	Level	Cost $	Amortized discount/ premium $	Gross unrealized gains $	Gross unrealized losses $	2010 Fair value carrying amount $
Bonds and debentures	2	99,458	537	2,834	(316)	102,513
Common shares	1	21,668	-	4,038	(133)	25,573
Preferred shares	1	-	-	-	-	-
Other investments	2	161	-	-	-	161
		121,287	**537**	**6,872**	**(449)**	**128,247**

		Cost $	Amortized discount/ premium $	Gross unrealized gains $	Gross unrealized losses $	2009 Fair value carrying amount $
Bonds and debentures	2	66,807	482	1,996	(297)	68,988
Common shares	1	20,173	-	2,269	(1,308)	21,134
Preferred Shares	1	1,686	-	26	(17)	1,695
Other investments	2	254	-	-	(68)	186
		88,920	**482**	**4,291**	**(1,690)**	**92,003**

a) Bonds and debentures – principal amount and carrying amount

The principal amount and carrying amounts are shown by contractual maturity. Actual maturity may differ from contractual maturity because certain issuers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	2010		2009	
Term maturity	**Principal amount**	**Fair value carrying amount**	**Principal amount**	**Fair value carrying amount**
	$	**$**	**$**	**$**
Government of Canada				
Due in one year or less	5,634	5,694	4,415	4,445
Between one and five years	7,735	8,240	9,060	9,690
After five years	14,108	15,487	12,305	13,262
Canadian provincial, municipal and public authorities				
Due in one year or less	-	-	-	-
Between one and five years	-	-	5,475	6,112
After five years	30,013	32,777	10,195	11,103
Canadian corporate				
Due in one year or less	-	-	2,065	2,132
Between one and five years	11,564	11,996	12,415	13,333
After five years	26,124	28,319	8,438	8,911
	95,178	**102,513**	**64,368**	**68,988**

b) Bonds and debentures – interest rate risk

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

		2010		2009	
	Interest receivable basis	**Effective rates (% range)**	**Coupon rates (% range)**	**Effective rates (% range)**	**Coupon rates (% range)**
Government of Canada	Semi-annual	1.15 - 7.37	1.00 - 5.75	0.11 - 7.37	3.75 - 5.75
Canadian provincial, municipal and public authorities	Semi-annual	2.08 - 6.87	4.00 - 7.60	1.72 - 6.87	3.30 - 7.50
Canadian corporate	Semi-annual	2.55 - 9.03	3.05 - 9.98	2.55 - 9.03	4.71 - 8.30

The Company holds $5,616 (2009 – $1,600) in bonds that have a variable rate of return.

c) Common shares and other investments

The Company limits its investment concentration in any one investee or related group of investees to 5% of the Company's total assets, except as allowed by Section 418(1) of the Act.

4 Capital and Intangible assets

			2010	2009
	Cost	Accumulated amortization	Net	Net
	$	$	$	$
Capital assets:				
Land	640	-	640	640
Building	2,742	760	1,982	2,079
Building improvements	1,386	1,248	138	277
Automotive equipment	31	26	5	99
Leasehold improvements	2,379	616	1,763	675
Office equipment and software	2,949	1,629	1,320	1,097
	10,127	4,279	5,848	4,867
Intangibles:				
System software	2,275	644	1,631	1,615
Total Capital and Intangible assets	**12,402**	**4,923**	**7,479**	**6,482**

Amortization of capital and intangible assets of $853 (2009 – $848) is included in administrative expenses. Amortization of building of $97 (2009 – $97) is included in rental expenses (note 8).

5 Unpaid claims and adjustment expenses

a) Nature of unpaid claims and adjustment expenses

The provision for unpaid claims and adjustment expenses is determined using expected future claims payments based on assumptions that reflect the expected set of economic conditions and planned courses of action. Uncertainty exists on reported claims in that all information may not be available at the reporting date. In addition, claims may not be reported to the Company immediately, therefore estimates are made as to the value of claims incurred but not yet reported, a value that may take years to finally determine. The determination of the provision is dependent on numerous significant assumptions and estimates, which are developed considering the characteristics of the class of business, historical trends, the amount of data available on individual claims and other pertinent factors.

Claims provisions are periodically reviewed and evaluated in light of emerging claims experience and changing circumstances. The resulting changes in the estimates of the ultimate liability are recorded as claims incurred in the period in which the change occurred.

b) Activity in the provision for unpaid claims and claims adjustment expenses, by line of business, is summarized as follows:

	Property	Automotive	2010	2009
	$	$	$	$
Provision for unpaid claims and adjustment expenses – Beginning of year:				
Gross	57,514	57,683	**115,197**	97,548
Reinsurance ceded	30,559	17,092	**47,651**	31,627
Net provisions – Beginning of year	26,955	40,591	**67,546**	65,921
Net incurred claims and claim adjustment expenses				
Provision for insured events of current year	34,219	30,832	**65,051**	65,821
Increase (decrease) in provision for insured events of prior years	(859)	(3,963)	**(4,822)**	401
Total net incurred	33,360	26,869	**60,229**	66,222
Net payments attributable to				
Current year events	(18,177)	(17,735)	**(35,912)**	(34,037)
Prior year events	(17,704)	(13,111)	**(30,815)**	(30,560)
Total net payments	(35,881)	(30,846)	**(66,727)**	(64,597)
Net provision for unpaid claims and adjustment expenses – End of year	24,434	36,614	**61,048**	67,546
Reinsurance ceded – End of year	25,350	13,986	**39,336**	47,651
	49,784	**50,600**	**100,384**	**115,197**

c) The Company estimates that the fair value of the gross provision for unpaid claims and adjustment expenses is $101,205 (2009 – $116,689) as determined on a discounted basis by the appointed actuary.

6 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.

Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible.

The Company follows the policy of underwriting and reinsuring contracts of insurance that limit the net exposure of the Company to a maximum amount on any one loss of $553 (2009 – $553) in the event of a claim or a catastrophe, excluding reinstatement fees when applicable.

In addition, the Company has catastrophe reinsurance having an upper limit of $85,000 (2009 – $65,000).The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

The figures shown in the consolidated statement of income are net of the following amounts relating to reinsurance ceded to other companies:

	2010	**2009**
	$	**$**
Net premium earned reduced by	47,235	41,626
Claims incurred reduced by	22,932	13,694
Commissions and premiums taxes reduced by	11,986	8,998

7 Share capital

Authorized : 20,000 common shares with a stated value of $100 per share

Issued:

	2010	**2009**
	$	**$**
20,000 common shares	2,000	2,000

8 PHI Properties Limited – Statement of Operations

	2010 $	2009 $
Rental income	849	769
Expenses		
Operations	828	765
Amortization	97	97
Interest	11	44
Other	83	256
	1,019	1,162
Operating income (loss)	(170)	(393)

9 Pension plan

The Company maintains a defined contribution pension plan and other post retirement benefits for certain employees, which is funded by employer and employee contributions. Contributions are expensed as paid or accrued as earned. Pension expense included in Administrative expenses for the year ended December 31, 2010 was $781 (2009 – $751).

10 Related party transactions

The Company donated $169 (2009 – $173) to individual members and organizations of the *Samson Cree Nation*, which is the ultimate shareholder of the Company.

11 Commitments

Operating lease commitments

The Company has contractual obligations expiring at various dates in respect of rents payable on leased premises and equipment as follows:

	2010	2009
Within 1 year	622	498
Within 2 years	595	463
Within 3 years	524	440
Within 4 years	490	438
In excess of 5 years	384	821
	2,615	**2,660**

The Company is also responsible for its proportionate share of operating costs under the terms of the premises leases.

12 Contingent liabilities

In common with the insurance industry in general, the Company is subject to litigation arising in the normal course of conducting its insurance business. The Company is of the opinion that this litigation will not have a significant effect on the financial position, results of operations or cash flows of the Company.

The Company has provided loan guarantees of $900 (2009 – $900) to unrelated parties with terms ending in the year 2021. In the event of a default the Company will realize recovery on the assets of the entities for which guarantees have been made.

13 Financial risk management objectives and policies

Credit risk

Credit risk refers to the risk of financial loss from the failure of a counterparty/debtor to honour its obligation to the Company. The Company is exposed to credit risk through its investment securities and amounts receivable from agents, brokers, policyholders and reinsurers. The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits and single issuer limits. Compliance with the investment policy is monitored by the Investment Committee of the Board of Directors. All of the Company's term deposits and bonds and debentures are rated A or above, except for $1,742, which are rated BBB.

The Company's credit exposure to any one individual policyholder is not material. However, the Company's policies are distributed by brokers who manage cash collection on its behalf. The Company monitors its exposure to brokers and has procedures to ensure that it works with only licensed firms in good standing with their regulatory bodies.

The Company also has policies which limit its exposures to individual reinsurers and regular review processes to assess the creditworthiness of reinsurers with whom it transacts business. All reinsurers are rated A- or above.

The Company's maximum credit exposure is the carrying value of the financial assets recorded on the balance sheet, as well as the loan guarantee disclosed in Note 12.

Interest rate risk

The Company is exposed to interest rate risk through investments in bonds and debentures, which are sensitive to changes in interest rates.

At December 31, 2010, a 1% change in interest rates, with all other variables held constant, could impact the fair value of bonds and debentures by $7,648 (2009 – $3,371). The change would be recognized in other comprehensive income.

Market risk

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

At December 31, 2010, a 10% change in the equity market indices, with all other variables held constant, would have an estimated effect on the fair values of common shares and other investments of $2,573 (2009 – $2,302). The change would be recognized in other comprehensive income.

The Company holds United States Dollar denominated common shares and other investments in the amount of $6,066 (2009 – $4,055). A 10% change in the value of the United States Dollar would affect the fair value of the investments by $607 (2009 – $406).

To mitigate these risks, the Company's exposures are monitored on a regular basis and actions are taken to balance positions when approved risk tolerance limits are exceeded. Compliance with the investment policy is monitored by the Investment Committee of the Board of Directors. Diversification techniques are employed to minimize risk. The policy limits the investment in any entity or group of related entities to a maximum of 5% of the Company's total assets. External investment managers manage the Company's investment portfolio and asset mix based on the investment policy guidelines.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its cash obligations as they fall due. The Company does not have material liabilities that can be called unexpectedly. Claims and claims adjustment expenses and administrative expenses are funded by current operating cash flows which normally exceed cash requirements. The timing and amount of catastrophe claims events are inherently unpredictable and may create increased liquidity requirements. Liquidity risk is managed by maintaining a highly liquid investment portfolio. In addition, at December 31, 2010, the Company had $16,454 of cash and cash equivalents.

The payment obligations associated with the financial liabilities on the balance sheet are generally expected to be discharged during the 2011 fiscal year. The exception to this is the funds held for other insurance companies (note 18) and the provision for unpaid claims and adjustment expenses of which 90% is expected to be settled in the next five years. More than half of the provision for unpaid claims and adjustment expenses is expected to be settled in the coming year.

14 Capital management

The Company's capital management approach is designed to maintain adequate levels of capital in order to build long term shareholder value, meet regulatory capital requirements, and maintain an appropriate credit rating. Adequate capital acts as a safety net for possible losses and provides a basis for confidence in the Company by shareholders, policyholders, creditors and others. Capital funds are managed with plans that are put in place by the senior executive management of the Company. Capital is comprised of common share capital, contributed surplus, accumulated other comprehensive income (loss) and retained earnings.

Reinsurance is purchased to protect the Company's capital from catastrophic losses which can arise. Both the incidence and severity of catastrophic losses can be unpredictable but the Company's reinsurance program limits the exposure to any single catastrophic loss.

The financial strength of property and casualty insurers is measured by regulators using the Minimum Capital Test ("MCT"). This test compares a company's capital, which includes accumulated other comprehensive income, against the risk profile of the company. Various factors are applied to many different elements including assets, policy liabilities, and the type of invested assets. The Company's regulators in the Province of Alberta require that each company attain a minimum MCT ratio of 150%. The Company was in compliance with this requirement as at December 31, 2010 with a ratio of 306.0% (2009 – 242.6%).

15 Supplemental cash flow information

	2010 $	2009 $
Cash paid for:		
Interest	11	44
Income taxes	4,911	157
Cash received from:		
Dividends	494	773
Interest	4,245	2,548
Income taxes	16	7,075

16 Alberta Risk Sharing Pool and Facility Association Residual Market

The Company, as mandated by the Act, is a participant in the Alberta Risk Sharing Pool and Facility Association Residual Market ("ARSP" and "FARM"). Both the ARSP and FARM are associations of insurers which provide automobile insurance for owners and operators of motor vehicles who may otherwise have difficulty obtaining such insurance.

The Company records its interests in the ARSP and FARM, which are restricted to the pool of business relating to Alberta (including Northwest, Yukon and Nunavut Territories).

The Company has included in its accounts the following aggregate amounts in respect of its interests in the ARSP and FARM:

	2010 $	2009 $
Assets:		
Due from other insurance companies	6,753	6,927
Amounts recoverable from reinsurers	2,524	2,935
Deferred policy acquisition costs	1,118	1,220
	10,395	11,082
Liabilities:		
Provision for unpaid claims and adjustment expenses	11,133	12,576
Unearned premiums	3,904	4,386
Due to other insurance companies	855	745
Other taxes due and accrued	53	51
	15,945	17,758
Revenues:		
Premiums earned	6,833	8,254
Expenses:		
Claims	3,219	3,650
Commissions	1,696	1,957
Premium and other taxes	469	484
Administrative	253	323
	5,637	6,414

Premiums ceded to the ARSP and FARM for the year ended December 31, 2010 were $7,556 (2009 - $9,114).

17 Funds due to FARM

The Company holds its proportionate share of excess funds from FARM as part of its investment portfolio. These funds will be returned to FARM over time as needed to facilitate payment of the related policyholder claims.

18 Variable interest entity

In 2008, the Company made a loan to one of its insurance brokers in the amount of $875. The loan bears interest at prime plus 1% (4.0% at December 31, 2010). Annual principal payments of $88 are due until maturity of the loan on February 28, 2013. Prepayment can occur without notice. The outstanding loan amount is $478 (2009 – $630).

The Company has determined that the broker is a variable interest entity and that the loan agreement represents a variable interest in the broker. The Company has determined, however, that it is not the primary beneficiary under the loan agreement since the Company is not entitled to receive a majority of the broker's expected residual returns or absorb a majority of its expected losses. As the broker is a separate legal entity, the Company does not have direct access to the broker's assets and the broker's other creditors do not have recourse against the Company. Therefore, the broker is not consolidated in these financial statements.

During the year ended December 31, 2010, the Company has written premiums from the broker of $2,145 (2009 – $1,702).

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