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Peace Hills Insurance
2004 Annual Report

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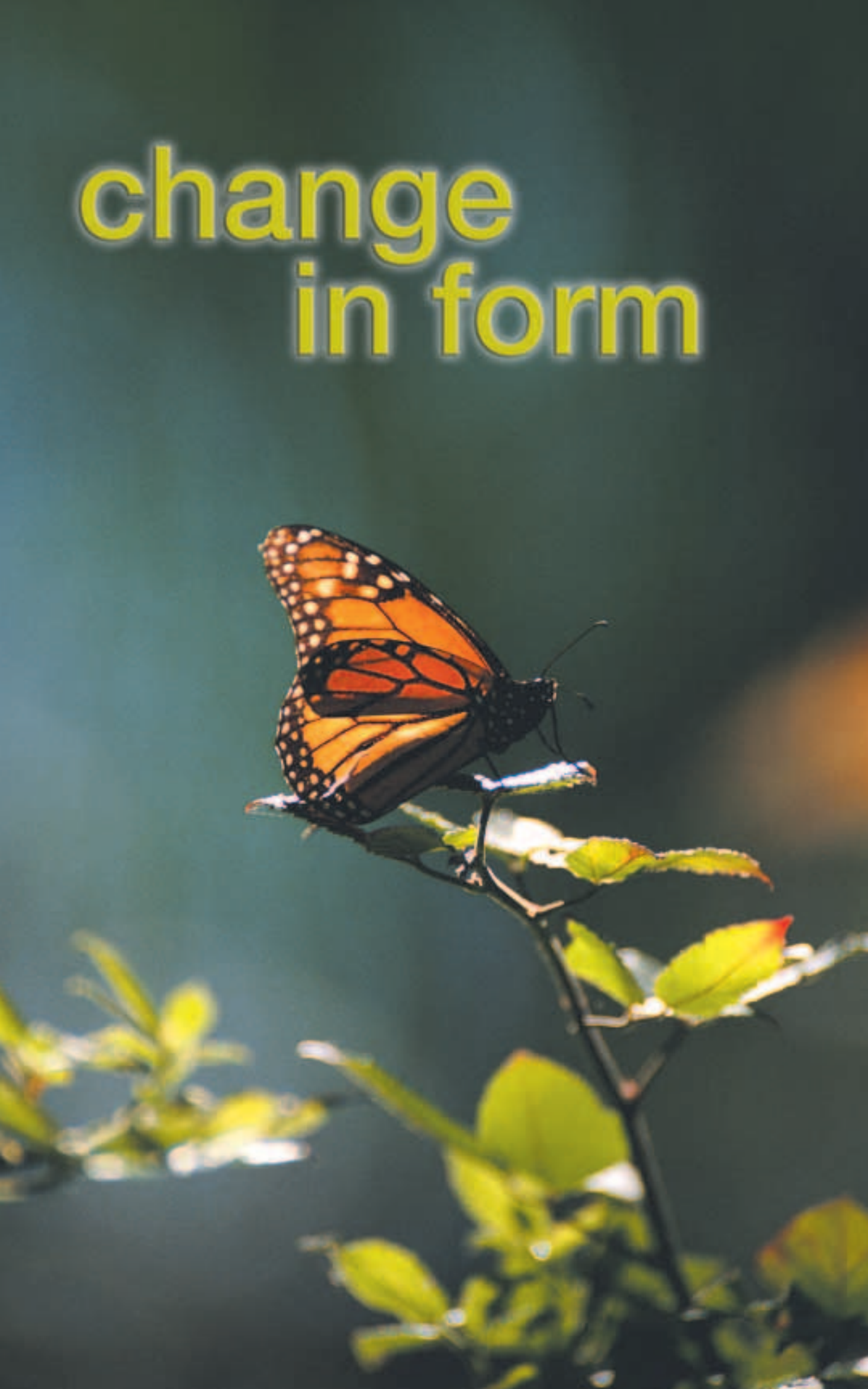

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Chairman & President's Report


Pat Buffalo


Diane Strashok

The Chinese have a saying "May you live in interesting times." This has certainly been our lives in 2004.

We have learned a great deal about the inside working of our Government, we have worked closely with our competitors, and our brokers, and we have never been more dependent on the dedication of our staff. The amount of changes we have experienced in the past year is unprecedented in the history of Peace Hills and possibly the entire insurance industry. Some changes have been extremely exciting, the Return on Equity of 40% is one of the best returns in the industry and it has come about with a lot of hard work and innovation from all departments. In spite of the required rollback of automobile premiums we were able to achieve significant growth. Gross written premium for year end was $110,895,241 (including facility premiums) which exceeded budget by 2.6%.

Our Claims Department has been successful in developing the new Claims Protocol for our Accident Benefits claimants. The results of this program have been outstanding. The loss ratio is 10.5%, and they are presently working on the changes to the Bodily Injury section of the policy. In addition to the Accident Benefits Protocol the Claims Departments in both offices experienced a number of summer storms that kept them busy.

The Underwriting Departments are to be congratulated for their hard work in handling the changes to the Alberta Automobile Reform. We were the first company to have the rollback endorsements completed and the service levels back to normal. In the midst of all this the Underwriting Departments were also occupied with a number of roll over books of business.

To comply with the Alberta Automobile Reform rollback we issued and sent out approximately 35,000 return premium endorsements and our Accounting Department did an incredible job of having the return premium cheques out to our insureds by November 10th.

We would be remiss if we did not note our appreciation to John Bud, our IT Manager, for his creative programming that allowed us to handle the auto reform in such an efficient manner.

During the year the Board of Directors held the first Strategic Planning Session and we are pleased with the results. "To be profitable and provide shareholder value by growing the company" is now our revised Mission Statement.

Growth and Profit are the major objectives for the company and with our strong capital base we will seek opportunities to enhance operations across all business lines and increase shareholders value. Shareholder Value was an important objective at the strategic planning session and in keeping with this the Board of Directors approved the opening of a Driver Training School in Hobbema. There is a significant amount of work to accomplishing this goal and we expect to have it in operation by late 2005. We strongly believe this will help save lives and demonstrates to the shareholders that their company is putting something back into the community.

We said a sad goodbye to one of our Directors, Fred Luby. Fred was a member of our Board for 14 years and we wish him all the best in his retirement. Gabe Lee stepped into the new position and brings with him valuable knowledge of the investment industry. In keeping with the new Audit and Governance rules and the changes to the Insurance Act, the Board has moved some responsibilities to a number of committees. We would like to pass on our appreciation to the members of these committees as it has increased their time commitments.

Our commitment to the broker community in Western Canada is strong and because of our relationships we see terrific opportunities for growth. The future is an exciting place and we are more than ready for the challenge.

Pat Buffalo
Chairman

Diane Strashok
President and CEO


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Finance & Administration Report


John Morgan

Moving into 2004 the company was faced with the prospect that the government had mandated an automobile rate freeze, which was expected to impact 61% of our business. There were also indications that the government was proposing a rate rollback, although the size of the roll back had not been determined. The industry was becoming very competitive in parts of the property market as participants tried to increase market share to offset potential loss of automobile business. It was an election year in Alberta and two of the three major political parties were clamoring for government automobile insurance. On the positive side, we had just completed the most profitable year in our history and actuarial evidence indicated that we were rate adequate. With all these factors in the mix, it was very hard to predict that 2004 would be an absolutely phenomenal year and that after tax profits would generate a Return on Equity (ROE) in excess of 40%.

Gross written premiums totaled $110,895,241, a 4.4% increase over prior year revenues. This includes our proportionate share of revenues from both the Facility Association ("Facility") and the Alberta Risk Sharing Pool ("the Pool"). Excluding Facility and the Pool our gross written premiums or gross revenues totaled $103,098,218, a 4.3% increase over last year. Our premium growth would have been more significant except for the premium roll back on mandatory coverage that the Alberta government directed in October 2004. This 5% rollback reduced our gross revenues by more than $2,000,000. Thanks to excellent work by our programming staff and diligent processing by our underwriting and billing departments, all endorsements and refunds related to the roll back were processed well before the end of the year.

Growth occurred primarily in our property business and in all geographic locations outside of Alberta. In years past the company wrote 100% of its business in Alberta and wrote primarily personal automobile business (in excess of 80% of our revenues came from automobile policies). Since 1991 the company has been trying to diversify by increasing its property business and since 1995 by also expanding outside of Alberta. At the end of 2004 automobile business represented only 62.2% of gross premiums and premiums from areas outside of Alberta accounted for almost 15% of our total premiums written.

One directive of the Alberta Automobile Reform package has been to ensure that everyone has access to insurance. This resulted in implementation of an all comers' rule which requires companies to write any mandatory auto business that is presented to them. Prior to implementation of the rule in October 2004, our personal automobile policy count had actually declined 1.2% from the previous year. However, due to the all comers' rule we saw significant growth in the last quarter and ended the year with a policy count 2.6% greater than last year, a significant turnaround in three months.

The government also implemented a grid system which capped the amounts charged for mandatory auto coverage. To offset the potential negative impacts of capped premiums and the inability of companies to turn down business, it also implemented the Pool. The Pool mechanism allows a company to cede any business which is capped by the grid. The total of all this business is then returned back to all participating companies based on predetermined formulas. The Pool is currently in the very early stages of development and it is apparent that implementation has not gone altogether smoothly. A number of companies have had major difficulties in making the necessary adjustments to their business processing systems and are way behind in their processing schedules. Although Peace Hills has run into several issues, we believe that the diligent work of our IT staff has put us at the forefront of companies making submissions.

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Finance & Administration Report

Up until this year the Facility had been the insurer of last resort for high risk automobile business. With the implementation of the Pool it is expected that the Facility will remain for only a very small portion of the driving public. Depopulation of the Facility has already begun as we saw a 26% decline in our share of Facility premiums from 2003 to 2004.

In 2004, the company continued with a reinsurance program that included both proportional and non proportional reinsurance. The biggest change in the program involved adding an additional $10,000,000 of catastrophe coverage which brings our total catastrophe coverage to $40,000,000. Total premium cessions to all reinsurance partners totaled $44,060,812 resulting in Net Premiums Written of $66,834,429. Adjustments for our unearned premium liability and service charge revenues on our various billing plans added an additional $481,559 in revenue, producing Net Premiums Earned of $67,315,988.

The big story in 2004 was the substantial reduction in claims costs. Incurred claims declined from $38,346,826 to $31,505,430. Reduced claims played a significant part in this reduction as reported new claims were 5.7% less than last year despite an increase of 6.7% in our policy count. As well we saw a $1.6 million improvement in prior year development in 2004 compared to the year before. Finally, we experienced six large weather related losses in 2004 compared to two the year before. These weather losses added an additional 393 claims this year but most of the costs related to these additional losses were covered by reinsurance and did not have a large impact on our net incurred claims.

We were hit by five of these weather losses in July, including the major hail storm in southwest Edmonton that received national news coverage. This storm, which currently has incurred costs of $5,233,562 was the largest single claim in our twenty three year history. Combined with the other four storms in July it helped to generate incurred losses of $10,441,795, the largest single month of incurred losses we have ever experienced. The losses in this one month represent 21.2% of our total year's incurred losses.

Our expense ratio increased from 34.2% to 36.1% in 2004. The increased costs came primarily from increased direct commissions and increased administrative expenses. The increased commissions resulted from an increase in our property business revenues with its higher direct commissions. As well, the very profitable year that we experienced was also shared by many of our brokers as we provided for a significant increase in the contingent profit commissions that we expect to pay early in 2005. The increase in administrative expenses came primarily from increased staffing and increased provision for employee bonuses.

The very profitable underwriting results were complemented by an increase in our investment income. The investment markets have continued to improve since the end of 2002 and our investment manager was able to realize almost an additional million dollars in realized investment gains. In addition to this management felt that although several securities in the portfolio have a market value below cost there was no need to write down the cost of these securities as we did the previous year. Market value of these securities is expected to rise over the course of 2005.

The net cost to Peace Hills Insurance from the operation of the building housing its northern Alberta branch and head office in Edmonton was $211,636. This is a $200,000 improvement over last year due to a combination of increased revenues and reduced expenses. The impact of the consolidation of the financial statements of Peace Hills Insurance and its subsidiary, PHI Properties Ltd., results in the elimination of rent expense from administrative expenses of Peace Hills Insurance and elimination of rental income from rental

Finance & Administration Report

revenues of PHI Properties Ltd. Therefore, the loss of $211,636 in other income is actually the cost to Peace Hills Insurance to occupy two full floors in the building in 2004 (very reasonable rent given the existing boom occurring in downtown Edmonton).

We generated pre tax income of $15,557,104 this year and Net Income of $10,333,986. This represents a Return on Equity (ROE) of 40.46% compared to 23.20% in 2003.

In reviewing last year's report, I concluded by saying "…Next year is likely to suffer to some degree due to Alberta Automobile Reform, especially when it is removing up to $30,000 per month from our gross revenues. Whether or not we will experience the full benefits (or detrimental effects, depending on the results of negotiations) remains to be seen at this point…" It appears that in 2004 we experienced some very positive results from Alberta Automobile Reform. However, there are some dark clouds on the horizon including government review of "excessive" industry profits and possibly one or more challenges by legal groups to the validity of the cap on pain and suffering. In addition, the freeze on mandatory automobile coverage is slated to be removed in July of 2005. Whether the industry will follow its usual tack of falling on its own sword or whether the industry will manage to preserve price stability remains to be seen. At this point, management feels relatively optimistic for 2005 and although we do not expect a repeat of 2004, we do believe 2005 will provide a respectable level of profitability.

John Morgan, CMA
Vice President, Finance & Administration

"If we don't change, we don't grow. If we don't grow, we aren't really living."

– Gail Sheehy, Author


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of day

Underwriting & Marketing Report


Jamie Hotte

Gross Written Premiums
Gross Written Premiums totaled $103,098,217 (excluding Facility Association business) which was an increase of 4% over 2003.

In Force Policies
Our policy count increased by 6.6% ending the year with 92,936 policies in force.

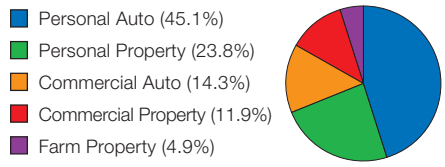
Underwriting Results
Underwriting results showed a significant improvement over 2003. Our gross loss ratio decreased by 7% ending the year at 50%. 2004 produced the best underwriting results ever achieved by the company. Our net underwriting profit for 2004 was $11,534,994.

REVIEW OF EACH BUSINESS LINE

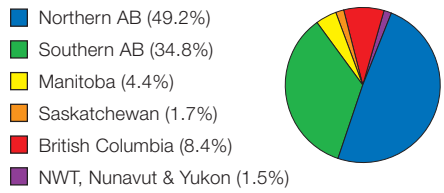
Personal Automobile
Gross written premiums remained similar to last year ending the year at $46,459,354. Our in force policies increased by 2.6% ending the year with 31,900 in force policies. Gross loss ratio was down by 16% from the prior period ending the year at 43%.

Generally, the insurance industry as a whole has experienced improved results throughout 2004. Premiums have been frozen under government legislation since October 1, 2003. We were also required to rollback premiums on mandatory coverages by 5% effective October 1, 2003.

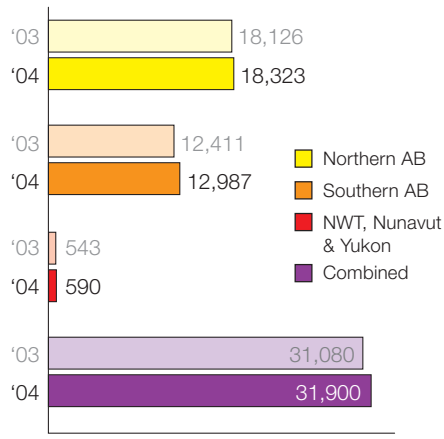
Gross Written Premium Distibution By Business Line



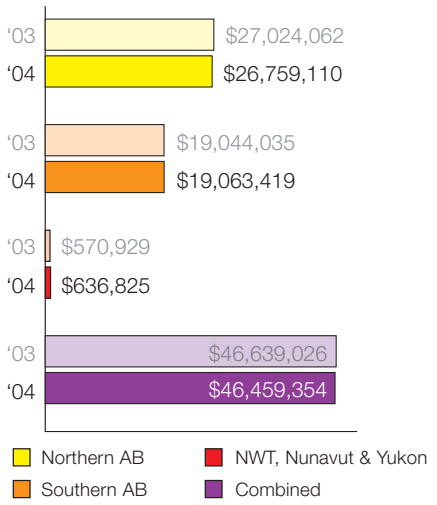
Gross Written Premium Distibution By Region



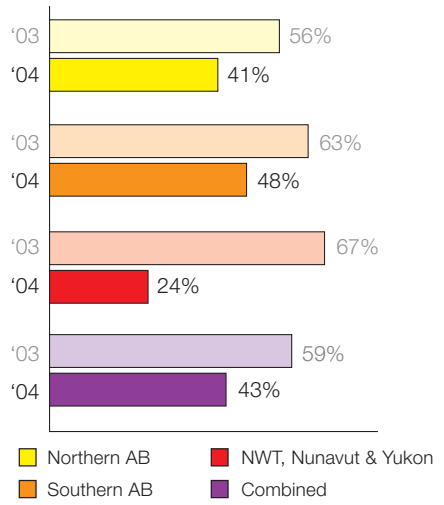
Personal Auto Policy Count



Personal Auto Gross Written Premiums



Personal Auto Loss Ratios



Underwriting & Marketing Report

Personal Property
Gross written premiums increased by 14% to $24,585,177.

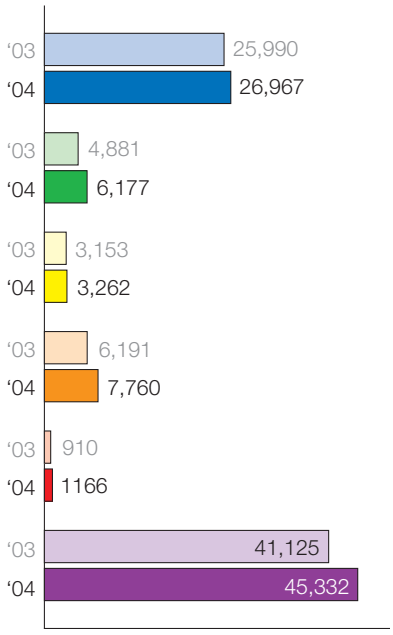
Our in force policies increased by 10.2% ending the year at 45,332 policies.

Our gross loss ratio increased by 9% ending the year at 75%.

The following rate changes which impacted 2004 were implemented:

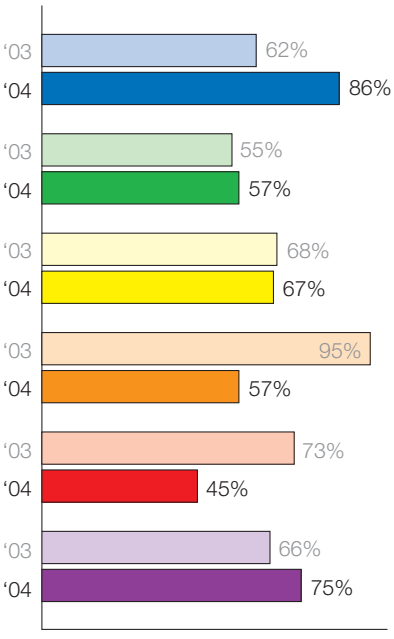
DATE	CHANGE	PROVINCE
Mar. 1/04	New Postal Code Rating	MB
July 1/04	New Postal Code Rating	AB
Sept. 17/04	5%-30% increase	BC
July 1/03	10%-30% increase	Nunavut & NWT
Aug. 1/03	Revised Rating Program	SK

Personal Property Policy Count

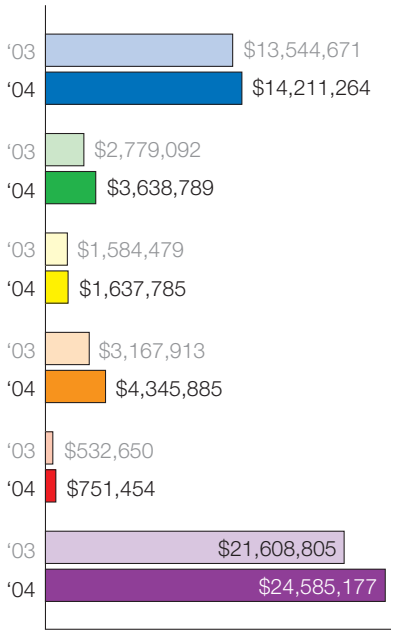


- Alberta
- Manitoba
- Saskatchewan
- British Columbia
- NWT, Nunavut & Yukon
- Combined

Personal Property Loss Ratios



Personal Property Gross Written Premiums



Underwriting & Marketing Report

Farm Property
Gross written premiums increased by 6% to $5,024,029.

Our in force policies increased by 2.3% ending the year at 3,823 policies.

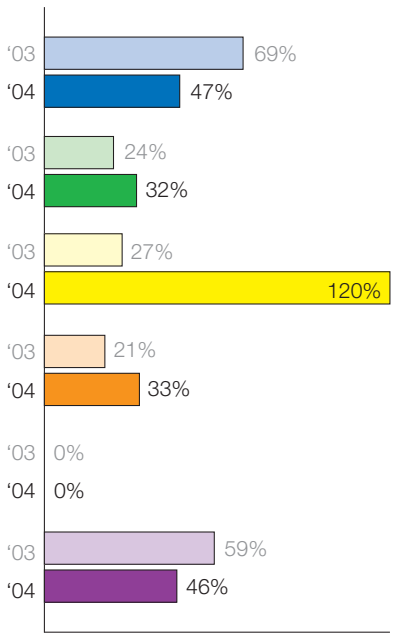
Our gross loss ratio decreased by 13% ending the year at 46%.

The following rate increases which impacted 2004 were implemented:

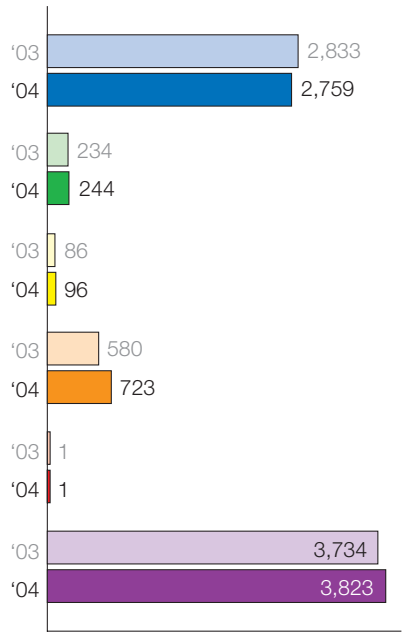
DATE	INCREASE	PROVINCE
Mar. 1/03	15%	BC

Alberta
Manitoba
Saskatchewan
British Columbia
NWT, Nunavut & Yukon
Combined

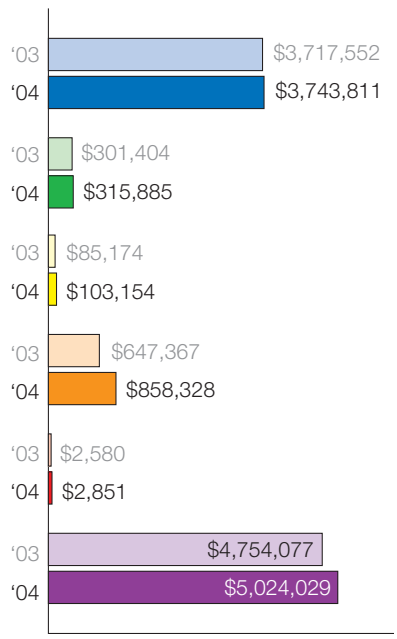
Farm Property Loss Ratios



Farm Property Policy Count



Farm Property Gross Written Premiums

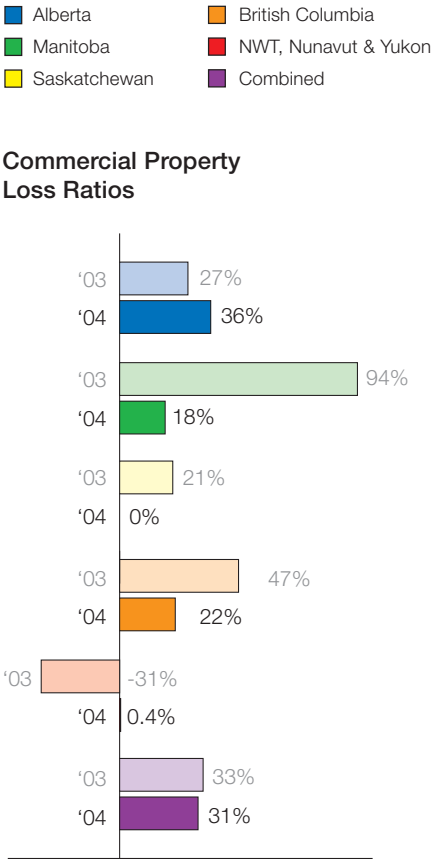


Underwriting & Marketing Report

Commercial Property/Casualty
Gross written premiums increased by 2% to $12,288,319. Our policies in force increased by 3% ending the year with 6,708 policies.

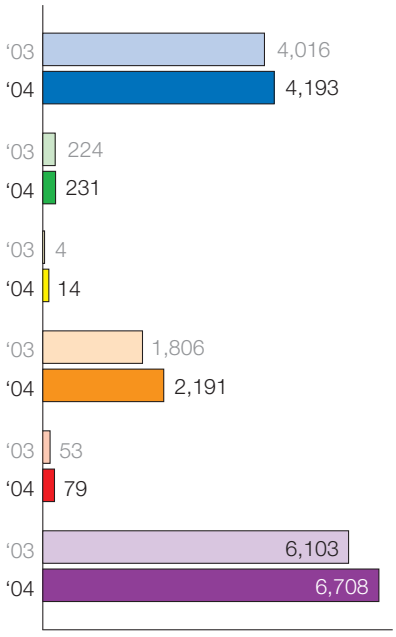
Our gross loss ratio decreased 2% ending the year at 31%.

Premium increases during the year ranged between 0% and 5% depending on the individual account.

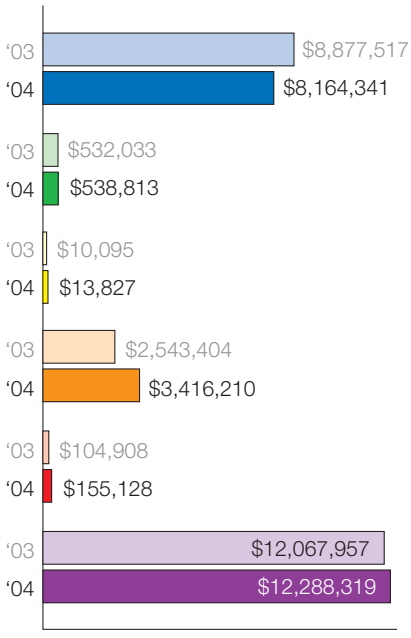


Commercial Property Loss Ratios

Commercial Property Policy Count



Commercial Property Gross Written Premiums



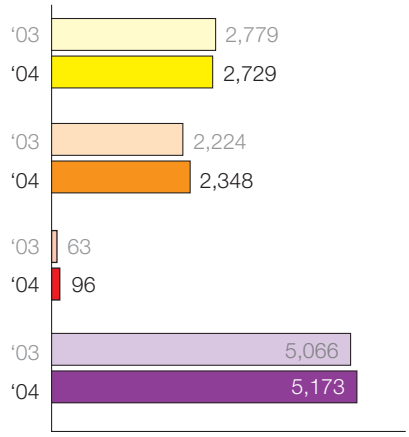
Underwriting & Marketing Report

Commercial Automobile
Gross written premiums increased by 7% to $14,741,338. Our in force policies increased 2.1% ending the year with 5173 policies.

Our gross loss ratio decreased by 16% ending the year at 44%.

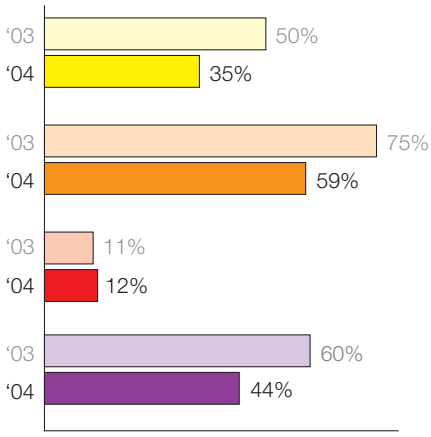
Rates have been frozen under government legislation since October 1, 2003.

Commercial Auto Policy Count

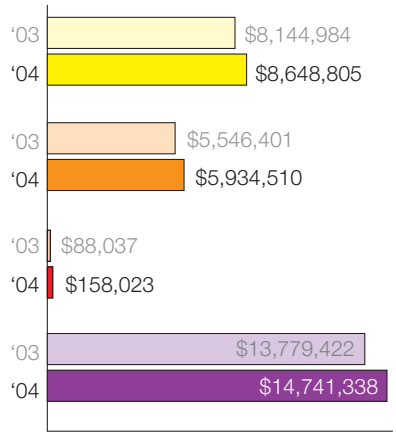


Northern AB
Southern AB
NWT, Nunavut & Yukon
Combined

Commercial Auto Loss Ratios



Commercial Auto Gross Written Premiums



Underwriting & Marketing Report

PROVINCIAL REPORT

Alberta
Gross written premiums increased by 1% to $86,525,260. Policies in force increased by 3% ending the year at 70,306. Our gross loss ratio decreased by 7% ending the year at 50%.

Last year the government passed legislation for Automobile Reform (Bill 53). Implementing an entirely new private passenger automobile system by October 1, 2004 proved to be very challenging. In addition, government legislation required us to rollback premiums for mandatory coverages by 5%. We also had to cap certain premiums under the new government grid pricing. This required us to issue refunds to more than 35,000 policyholders. We are happy to report that we completed these refunds by November 10, 2004. The total amount refunded to policyholders was $2,050,083.

We continue to make the necessary changes required to enable us to cede business into the newly formed industry risk sharing pool. We are also in the process of implementing new statistical reporting requirements.

Manitoba
Gross written premiums increased by 24% to $4,493,487. Policies in force increased by 25% ending the year at 6,652. Our gross loss ratio decreased by 8% ending the year at 50%.

Saskatchewan
Gross written premiums increased by 5% to $1,754,766. Policies in force increased by 4% ending the year at 3,372. Our gross loss ratio increased by 4% ending the year at 70%.

British Columbia
Gross written premiums increased by 36% to $8,620,423. Policies in force increased by 25% ending the year at 10,674. Our gross loss ratio decreased by 27% ending the year at 41%.

Northwest Territories, Nunavut and Yukon
Gross written premiums increased by 31% to $1,704,281. Policies in force grew by 23% ending the year at 1,932. Our gross loss ratio decreased by 25% ending the year at 33%.

MARKETING AND PROMOTION

Our gross written premium growth of 4% was 2.6% over our 2004 budget. New business polices written during 2004 were up 24% from 2003.

Retention
Our retention improved, increasing from 81% to almost 87%.
Our “AIR MILES” retention incentive program with our brokers was discontinued in 2004.

Independent Brokerage Network
We are dedicated to the broker relationships we have maintained and express our thanks and gratitude for their support. Independent Brokers continue to be our sole method of distribution.

We were represented by 162 brokers with 310 locations throughout western Canada.

Province	Brokers	Locations
Alberta	114	205
Manitoba	21	34
Saskatchewan	3	16
NWT & Nunavut	1	5
British Columbia	23	50

Underwriting & Marketing Report

Underwriting and Marketing Staff
2004 has probably been one of the most challenging years for us. Alberta Automobile Reform created a huge increase in workload for our underwriting and marketing staff. They were faced with learning a new automobile system. In addition, they received an abundance of questions from our brokers. This was in addition to their regular work. They stood up to these challenges and we successfully implemented all the necessary changes. In the end, 2004 produced the best underwriting results the company has ever experienced. I would like to extend my personal thanks to each and every staff member for their efforts.

Computer Systems Staff
I would like to extend a special thank you to our IT manager – John Bud, who was able to make the necessary changes to our systems in order to deal with all aspects of Alberta Automobile Reform. These programming changes will allow us to continue most of our automated underwriting processes.

Jamie Hotte, FCIP
Vice President, Underwriting & Marketing

"They say time changes things, but you actually have to change them yourself."

– Andy Warhol, Artist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in time

Claims Report


Robert Doiron

Tremendous energy and time was spent coping with the introduction of Alberta Automobile Reform that became effective October 1, 2004.

Peace Hills Insurance provided significant manpower and expertise in industry wide initiatives to prepare claims adjusters for Alberta Automobile Reform. Many hours were spent assisting our IBC partners developing and delivering training materials to assist adjusters in coping with the new regulations.

CLAIMS FREQUENCY

We continued to see a reduction in claims frequency in 2004 which contributed to our best financial results in corporate history. There was a total reduction in new claims from 7966 in 2003 to 7512 in 2004.

CATASTROPHE CLAIMS

Storm frequency was up in 2004, particularly in July.

July 2-4 Edmonton
This storm caused 46 losses for a total incurred loss of $573,704.

July 11-13 Edmonton
Who will ever forget the T.V. news images of vehicles floating in a combination of water and ice in Edmonton underpasses? Mother nature hit west and south west Edmonton with a vengeance causing 419 claims for a whopping total of $5,233,562.

July 14-16 Calgary
Calgary was not to be denied and was hit by a hail storm causing 86 claims ringing in at $438,642.

July 20-22 The Pas, Manitoba
The Pas got more rain than it could handle causing numerous sewer back ups. Peace Hills experienced 31 claims for a total of $345,146.

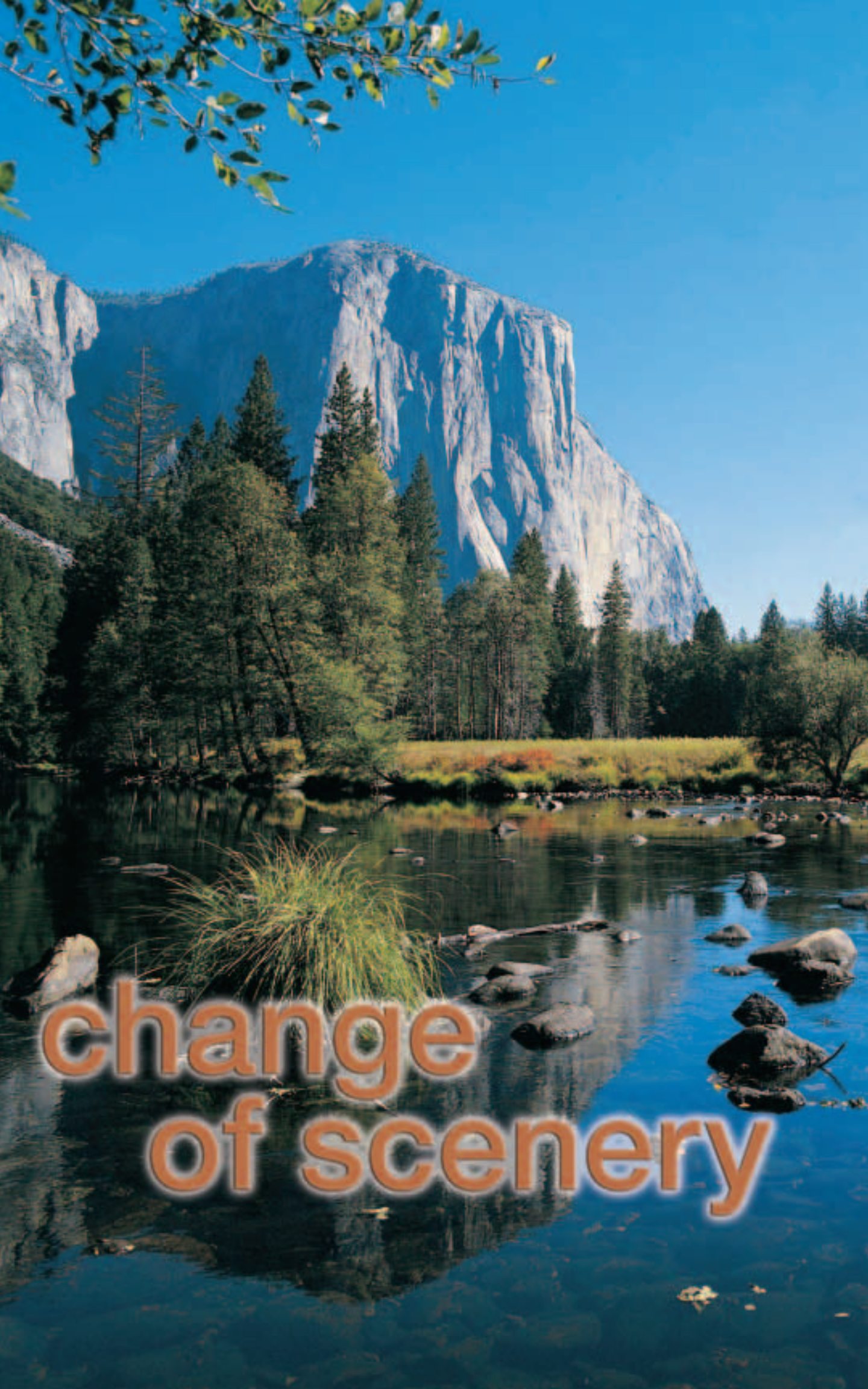
August 24-26 Langdon, Alberta
This small community south east of Calgary was the unfortunate recipient of hail causing 45 claims for a total of $497,079.

CHALLENGES

The single greatest challenge of 2004 was the significant amount of work required to cope with Alberta Automobile Reform.

We are very proud of the way all staff in every department stepped up to the plate to meet this challenge. It proves once again what terrific staff we have.

Robert Doiron, BA, CIP
Vice President, Claims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Regional Reports


Sheldon Bos

NORTHERN ALBERTA

Managing the effects of Alberta Automobile Reform was the predominant focus for 2004. Thanks to the hard work and dedication of our staff, we were one of the only companies able to bring our underwriting workflow to current status in time to handle the government ordered rate roll-back on October 1. Our service levels remain by far the best in the industry.

Storm losses were the 'wrench in the machine' for us in 2004 however. July storms in Edmonton decimated our personal property earned loss ratio which ended the year at 98%.

Fortunately all other business lines produced profitable results allowing us to achieve an overall earned loss ratio of 49% for the Edmonton Branch in 2004. The written premium volumes decreased by 1%.

Considering all the challenges we had to respond to in the past year, 2004 was certainly our most successful year ever. We couldn't have done it without the exceptional team we have in the Edmonton Branch.

Sheldon Bos, CIP
Edmonton Branch Manager


Fergus Kavanagh

SOUTHERN ALBERTA

The Calgary office was affected by various and drastic changes in the market place in 2004. These included Alberta Automobile Reform, rebates and the voracious appetite of other Insurers for acquiring business.

In spite of these challenges the Branch did extremely well, and all lines of business had excellent results. The overall growth rate was 4% in premium volume and 6% in policy count. The earned loss ratio was a very respectable 51%. We are now seeing the fruits of previous changes and decisions in underwriting and broker management.

We came through the reform and rebate problems relatively unscathed, thanks to the great effort of everyone involved. With the Alberta Automobile Reform behind us, and internal changes just about completed, we are looking forward to another profitable year in 2005.

Fergus Kavanagh
Calgary Branch Manager


Daryl Kochan

BRITISH COLUMBIA

During our 5th year in B.C. we continued to increase our volume and had our best loss ratio since opening our doors finishing off at 41%.

Total Gross Written Premiums increased significantly from $6,359,000 in 2003 to $8,620,000, a growth of 36%.

We are grateful for the support of our brokers who have contributed greatly to our fourth steady year of growth and profitability in B.C. In 2004 we added 4 more brokerages to our BC family bringing the total number of offices representing Peace Hills Insurance to 43. In 2005 we have plans to add 3 more offices to ensure continued growth for years to come.

Daryl Kochan
Regional Manager, British Columbia

Board of Directors

Victor Buffalo
Chief, Samson
Cree Nation

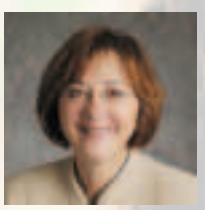
John Crier

Fred Luby

Pat Buffalo
Chairman

Bill Kordyback

Ilene Nepoose



Diane Strashok
President & CEO

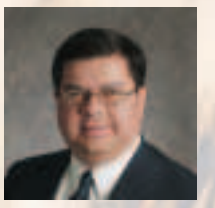
Julian Koziak

Lawrence Saddleback

Victor Bruno
Executive
Vice President

Dennis Leonard

John Szumlas



Trevor Swampy
Secretary/Treasurer

Walter Lightning

Marvin Yellowbird

Committees

COMPENSATION COMMITTEE
The Compensation Committee makes recommendations to the Board of Directors with respect to matters affecting the company's Human Resources and Compensation programs for the President and Vice Presidents of the company.

Comprised of:

Walter Lightning, Chair

Lawrence Saddleback

Fred Luby

Bill Kordyback

Victor Bruno

AUDIT COMMITTEE
The responsibility of the Audit Committee is to make sure that the financial reporting process of the company is credible, controlled and reliable.

Comprised of:

Trevor Swampy, Chair

Ilene Nepoose

Fred Luby

Bill Kordyback

Julian Koziak

Dennis Leonard

CONDUCT REVIEW & INVESTMENT COMMITTEE
The purpose of the Conduct Review & Investment Committee is to review all investment activities and related party transactions of the company.

Comprised of:

John Crier, Chair

Julian Koziak

Bill Kordyback

Dennis Leonard

John Szumlas

Marvin Yellowbird

EXECUTIVE COMMITTEE FOR PHI PROPERTIES LTD.
The PHI Properties Committee provides strategic direction on the operations of the Peace Hills Insurance building to maximize its long term value.

Comprised of:

Julian Koziak, Chair

Lawrence Saddleback

John Crier

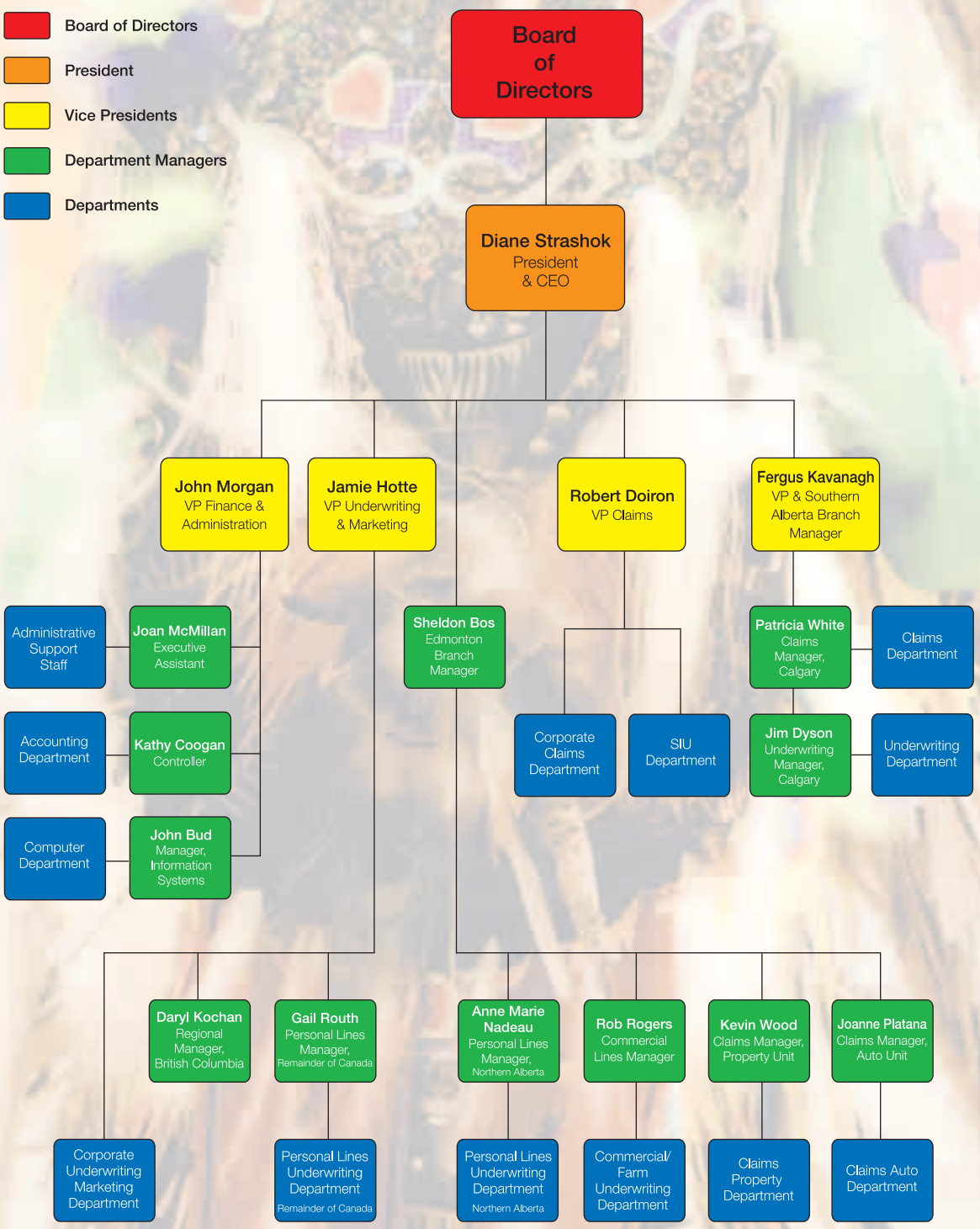
Victor Bruno

Ilene Nepoose

"Nothing endures but change."

– Heraclitus, Philospher

Corporate Structure



Management

Anne Marie Nadeau
Personal Lines Manager,
Northern Alberta

Kathy Coogan
Controller,
Head Office

Gail Routh
Personal Lines Manager,
Remainder of Canada

John Bud
Manager,
Information Systems
Head Office

Rob Rogers
Commercial Lines
Manager

Joan McMillan
Executive Assistant

Joanne Platana
Claims Manager,
Auto Unit

Patricia White
Claims Manager,
Calgary

Kevin Wood
Claims Manager,
Property Unit

Jim Dyson
Underwriting Manager,
Calgary


change
of gear

Financial Statements

Management Statement

Peace Hills General Insurance Company • Year Ended December 31, 2004

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 financial statements. It establishes 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 financial statements. The Audit Committee then submits its report to the Board of Directors recommending approval of the 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 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 determined by management and recorded by the Company in its 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 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.

Edmonton, Canada
February 24, 2005

Diane Strashok, CIP
President and CEO

John Morgan, CMA
Vice President,
Finance & Administration

Auditors' Report

Peace Hills General Insurance Company • Year Ended December 31, 2004

We have audited the consolidated balance sheet of Peace Hills General Insurance Company as at December 31, 2004 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The December 31, 2003 consolidated financial statements were reported on by another firm of auditors who expressed an opinion on these financial statements without reservation dated February 12, 2004.

PricewaterhouseCoopers LLP

Chartered Accountants

Edmonton, Canada
February 24, 2005

Actuary's Report

Peace Hills General Insurance Company • Year Ended December 31, 2004

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, 2004 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 make 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 24, 2005

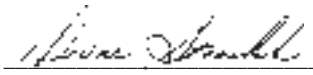
Consolidated Balance Sheet

Peace Hills General Insurance Company • At December 31, 2004

	2004	2003
Assets		
Cash and cash equivalents (note 2)	$ 10,890,616	$ 9,482,945
Accrued investment income	346,433	329,650
Investments (note 3)	64,064,628	66,028,221
Due from agents, brokers and policyholders	22,117,776	20,324,791
Due from other insurance companies	15,649,053	9,279,861
Other receivables	1,639,931	1,856,142
Amounts recoverable from reinsurers:		
Unpaid claims and adjustment expenses (notes 5 and 6)	29,202,197	30,037,930
Unearned premiums	19,294,533	15,580,149
Salvage and subrogation	(145,053)	(159,126)
	48,351,677	45,458,953
Deferred policy acquisition costs	11,865,313	11,026,119
Future income taxes	2,884,027	2,080,493
Prepaid expenses and other assets	153,134	176,431
Capital assets (note 4)	4,459,518	4,416,029
	$ 182,422,105	$ 170,459,635
Liabilities and Shareholder's Equity		
Due to agents, brokers and policyholders	$ 3,401,087	$ 1,900,772
Due to other insurance companies	3,557,770	1,096,644
Expenses due and accrued	387,256	270,506
Income taxes due and accrued	1,897,178	4,041,573
Other taxes due and accrued	4,243,387	4,978,003
Bank loan payable (note 7)	2,604,500	2,766,500
Unearned premiums	54,370,195	49,796,444
Provision for unpaid claims and adjustment expenses (note 5)	75,400,774	80,056,506
Unearned reinsurance commissions	5,763,192	3,847,805
Other liabilities	787,097	629,199
	152,412,436	149,383,953
Shareholder's equity:		
Share capital (note 8)	2,000,000	2,000,000
Contributed surplus	9,362,250	9,362,250
Retained earnings	18,647,418	9,713,432
	30,009,669	21,075,682
Commitments (note 11)		
Contingent liabilities (note 12)		
	$ 182,422,105	**$ 170,459,635**

See accompanying notes to consolidated financial statements.

On behalf of the Board:


Director


Director

Consolidated Statement of Income & Retained Earnings

Peace Hills General Insurance Company • Year Ended December 31, 2004

	2004	2003
Gross premiums written	$ 110,895,241	$ 106,171,804
Net premiums written	$ 66,834,429	$ 67,204,429
Net premiums earned (note 6)	$ 67,315,988	$ 65,075,853
Expenses incurred (note 6):		
Claims	31,505,430	38,346,826
Commissions	9,703,462	8,949,531
Premium and other taxes	3,346,608	3,170,929
Administrative expenses	11,225,494	10,095,516
Total insurance expenses	55,780,994	60,562,802
Underwriting income	11,534,994	4,513,051
Investment income (expenses):		
Interest	2,676,459	2,429,785
Dividends	539,951	479,505
Gain on disposal of investments	1,253,468	316,293
Write-down of investments	–	(208,905)
General investment expenses	(236,131)	(214,719)
Net investment income	4,233,747	2,801,959
Other income (expense) (note 9):		
Rental income	712,171	676,599
Property expenses	(923,807)	(1,094,132)
	(211,636)	(417,533)
Income before income taxes	15,557,104	6,897,477
Income taxes:		
Current	6,026,652	3,619,416
Future	(803,534)	(1,103,554)
	5,223,118	2,515,862
Net income	10,333,986	4,381,615
Retained earnings, beginning of year	9,713,432	5,331,817
Dividends paid	(1,400,000)	–
Retained earnings, end of year	**$ 18,647,418**	**$ 9,713,432**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Peace Hills General Insurance Company • Year Ended December 31, 2004

	2004	2003
Cash provided by (used in):		
Operations:		
Net income	$ 10,333,986	$ 4,381,615
Items not affecting cash:		
Future income taxes	(803,534)	(1,103,554)
Net realized gain on disposal of investments	(1,253,468)	(316,293)
Write-down on investments	–	208,905
Amortization of capital assets	500,826	520,509
Gain on disposal of capital assets	(5,037)	(6,085)
Change in non-cash operating working capital:		
Deferred policy acquisition costs	(839,194)	(1,278,703)
Unpaid claims and adjustment expenses, net of recoverable from reinsurers	(3,819,999)	2,320,158
Unearned premiums, net of recoverable from reinsurers	728,917	3,052,649
Unearned reinsurance commissions	1,915,387	796,149
Net change in other non-cash balances	(6,468,521)	1,840,508
	289,363	10,415,858
Financing:		
Payment of dividends	(1,400,000)	–
Repayment of bank loan payable	(162,000)	(162,000)
	(1,562,000)	(162,000)
Investments:		
Investments sold or matured:		
Term Deposits	–	50,000
Bonds and debentures	7,675,730	3,993,340
Common and preferred shares	15,499,840	10,146,029
Investments acquired:		
Bonds and debentures	(9,222,803)	(13,065,488)
Common shares	(10,704,647)	(13,081,633)
Amortization of bond premiums and (discounts)	(30,944)	120,159
Purchase of capital assets	(605,785)	(725,415)
Proceeds on disposal of capital assets	68,917	58,208
	2,680,308	(12,504,800)
Net increase (decrease) in cash and cash equivalents	1,407,671	(2,250,942)
Cash and cash equivalents, beginning of year	9,482,945	11,733,887
Cash and cash equivalents, end of year	**$ 10,890,616**	**$ 9,482,945**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Peace Hills General Insurance Company • Year Ended December 31, 2004

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) Investments:
Investments are accounted for on the following basis:

(i) General:
Gains and losses arising on disposal of investments are on a completed transaction basis.

(ii) Bonds and debentures:
Investments in bonds and debentures are carried at amortized cost. The yield method is utilized to amortize discounts and premiums on investments in bonds and debentures. Interest income and amortization of discounts and premiums are recorded on an accrual basis over the term of the investment.

(iii) Common shares:
Investments in common shares are carried at cost. Dividend income on common shares is accrued on the ex-dividend date.

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 recoverable value, and such a provision is recorded in investment income.

(c) 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 relates 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 in underwriting income.

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

Asset	Basis	Rate
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%

(e) Provision for unpaid claims and adjustment expenses:
The provision for unpaid claims represents the amounts needed to provide for the estimated ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. The provision for adjustment expenses represents the estimated ultimate expected costs of investigating, resolving and processing these claims. The provision estimations do not take into consideration the time value of money, or make explicit provision for adverse deviation except if the provision calculated in that manner exceeds the provision excluding these amounts, in which case the greater amount is recorded. 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.

(f) Salvage and subrogation:
Salvage and subrogation recoverable are accrued using the "case basis" method. The gross recoverable is recorded under "other receivables" and the estimated amounts payable to reinsurers is recorded under "amounts recoverable from reinsurers".

(g) 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.

(h) Income taxes:
Income taxes are accounted for using the asset and liability method. Under this method, future 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 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 tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

(i) Foreign currency:
Monetary items denominated in foreign currency 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.

(j) Use of estimates:
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. 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. The major components of cash and cash equivalents are as follows:

	2004	2003
Cash	$ 2,510,948	$ 1,936,432
Bank term deposits, maturities at three months or less, at rates of interest varying between 2.4% and 2.6%	8,379,668	7,546,513
	$ 10,890,616	**$ 9,482,945**

3. Investments:

The carrying amounts and fair values of investments are summarized as follows:

					2004
	Carrying amount	Amortized premium	Gross unrealized gains	Gross unrealized losses	Market value
Bonds and debentures	$ 38,344,857	$ 536,014	$ 1,270,715	$ 209,296	$ 39,942,290
Common shares	25,719,771	–	6,257,269	626,886	31,350,154
	$ 64,064,628	**$ 536,014**	**$ 7,527,984**	**$ 836,182**	**$ 71,292,444**

					2003
	Carrying amount	Amortized premium	Gross unrealized gains	Gross unrealized losses	Market value
Bonds and debentures	$ 36,987,024	$ 566,957	$ 1,053,329	$ 221,182	$ 38,386,128
Common shares	29,041,197	–	4,730,410	1,220,124	32,551,483
	$ 66,028,221	**$ 566,957**	**$ 5,783,739**	**$ 1,441,306**	**$ 70,937,611**

Management has reviewed currently available information regarding those investments for which market value is less than carrying amount and ascertained that the carrying amounts are expected to be recovered. As such the Company determined that no securities in the common share portfolio had suffered an impairment in their market value, which is other than temporary (2003 - $208,905). Details of significant terms and conditions and exposures to interest rate and credit risks on investments are as follows:

(a) Bonds and debentures – interest rate risk:

		2004		2003	
	Interest receivable basis	Effective rates (% range)	Coupon rates (% range)	Effective rates (% range)	Coupon rates (% range)
Government of Canada	Semi-annual	3.31 to 7.55%	4.00 to 8.75%	2.87 to 7.79%	3.50 to 9.00%
Canadian provincial, municipal and public authorities	Semi-annual	2.70 to 7.29%	2.70 to 9.00%	2.70 to 7.29%	2.82 to 9.00%
Canadian corporate	Quarterly	3.40 to 9.29%	4.00 to 9.00%	4.40 to 9.29%	5.00 to 8.30%

(b) 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 borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	2004		2003	
Term to maturity	Principal amount	Carrying amount	Principal amount	Carrying amount
Government of Canada:				
Due in one year or less	$ 500,000	$ 505,668	$ 2,225,000	$ 2,257,251
Between one and five years	8,965,000	9,191,941	10,565,000	10,871,090
After five years	7,200,000	7,415,668	3,050,000	3,119,370
Canadian provincial, municipal and public authorities:				
Due in one year or less	1,050,000	1,051,198	–	–
Between one and five years	3,400,000	3,499,093	3,328,000	3,335,151
After five years	4,480,000	4,813,124	4,480,000	4,837,811
Canadian corporate:				
Due in one year or less	0	0	1,453,665	1,455,745
Between one and five years	3,850,000	3,883,835	2,700,000	2,730,695
After five years	7,850,000	7,984,330	8,240,000	8,379,911
	$ 37,295,000	**$ 38,344,857**	**$ 36,041,665**	**$ 36,987,024**

(c) Common shares:
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), Insurance Act of Alberta and Regulations.

4. Capital assets:

			2004	2003
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 640,000	$ –	$ 640,000	$ 640,000
Building	1,942,673	234,553	1,708,120	1,747,466
Building improvements	1,386,472	413,831	972,641	1,106,575
Automotive equipment	560,281	271,288	288,993	227,187
Leasehold improvements	247,174	50,424	196,750	221,344
Office equipment and computer software	1,546,730	893,716	653,014	473,457
	$ 6,323,330	**$ 1,863,812**	**$ 4,459,518**	**$ 4,416,029**

Amortization of capital assets of $436,757 (2003 – $386,969) is included in administrative expenses. Amortization of the building of $64,069 (2003 – $63,932) is included in property expenses. Office equipment and computer software includes software development costs of $87,061 that are not being amortized as the software is not in use.

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 the timing of 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 any other pertinent factors. Claims provisions are periodically reviewed and evaluated in the 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	Automobile	**2004** Total	**2003** Total
Provision for unpaid claims and adjustment expenses, beginning of year:				
Gross	$ 13,984,520	$ 66,071,986	$ 80,056,506	$ 75,979,642
Reinsurance ceded	6,337,863	23,700,067	30,037,930	28,281,224
Net provisions, beginning of year	7,646,657	42,371,919	50,018,576	44,698,418
Net incurred claims and claim adjustment expenses:				
Provision for insured events of current year	10,627,634	25,502,255	36,129,889	39,767,733
Decrease in provision for insured events of prior years	(1,744,691)	(2,879,767)	(4,624,458)	(1,420,907)
Total net incurred	8,882,943	22,622,488	31,505,431	38,346,826
Net payments attributable to:				
Current year events	(5,726,688)	(12,499,318)	(18,226,006)	(20,368,257)
Prior year events	(3,603,506)	(13,495,918)	(17,099,424)	(15,658,411)
Total net payments	(9,330,194)	(25,995,236)	(35,325,430)	(36,026,668)
Net provision for unpaid claims and adjustment expenses, end of year	7,199,406	38,999,171	46,198,577	50,018,576
Reinsurance ceded, end of year	8,961,908	20,240,289	29,202,197	30,037,930
Gross provision for unpaid claims and adjustment expenses, end of year	**$ 16,161,314**	**$ 59,239,460**	**$ 75,400,774**	**$ 80,056,506**

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 unfavorable 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 $225,000 in the event of a claim or a catastrophe, excluding reinstatement fees when applicable.

In addition, the Company has obtained catastrophe reinsurance having an upper limit of $40,000,000.

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:

	2004	2003
Net premiums earned reduced by	$ 40,346,427	$ 37,244,071
Claims incurred reduced by	22,583,521	20,528,446
Commissions and premium taxes reduced by	9,255,263	7,862,504

7. Bank loan payable:

PHI Properties Ltd., the Company's wholly owned subsidiary, owns an office building in Edmonton. The building purchase and the subsequent building improvements for the company were fully financed by a loan from the Bank of Nova Scotia for a five year term, with twenty year amortization at a floating interest rate of prime plus 0.25%. The collateral for the loan is provided by hypothecation of federal and provincial government bonds and treasury bills equal to the amount of the outstanding principal. Principal due within each of the next 2 years is $162,000 (2005) and $67,500 (2006), due in monthly principal installments of $13,500, for a five year term expiring May 31, 2006.

8. Share capital:

	2004	2003
Authorized:		
20,000 Common shares with a stated value of $100 per share		
Issued:		
20,000 Common shares	$2,000,000	$2,000,000

9. Other income (expenses):

	2004	2003
Rental income	$ 712,171	$ 676,599
Expenses:		
Operations	613,364	754,650
Amortization	64,069	63,932
Interest	113,766	140,416
Other	132,608	135,134
Total expenses	923,807	1,094,132
Building loss	**$ (211,636)**	**$ (417,533)**

10. Related party transactions:

The Company donated $132,386 (2003 - $229,246) to individual members and organizations of the Samson Cree Nation.

11. Commitments:

Operating lease commitments:

The Company has contractual obligations expiring at various dates in 2005 to 2013 in respect of rents payable on leased premises and equipment as follows:

Year ending December 31:	
2005	$ 176,312
2006	156,589
2007	124,332
2008	139,871
2009	142,800
2010 and thereafter	499,800

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.

13. Fair value of financial assets and financial liabilities:

Fair values

The fair values of financial instruments approximate the carrying amounts except for investments as disclosed in Note 3.

13. Fair value of financial assets and financial liabilities, continued:

Credit risk

The Company is exposed to credit risk through amounts due from agents, brokers and policyholders and amounts due from other insurance companies. The Company maintains provisions for potential credit losses and any such losses to date have been within management's expectations. The Company is also exposed to credit risk through contracts with third parties for reinsurance. This risk is mitigated by contracting with reputable organizations, and by utilizing a number of different organizations to mitigate the risk of any one company defaulting on its contractual obligations as disclosed in Note 6.

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. The Company is also exposed to interest risk through a bank loan bearing interest at bank prime rate plus 0.25%.

Foreign currency risk

The Company is exposed to foreign currency risk, principally to the U.S. dollar, through holding foreign currency denominated common share investments in the amount of $12,403,910 (2003 - $15,149,826).

14. Supplemental cash flow information:

	2004	2003
Cash paid for:		
Interest	$ 113,766	$ 140,416
Income taxes	4,122,461	0
Cash received for:		
Dividends	539,951	479,505
Interest	2,330,559	2,276,632
Income taxes	30,973	1,303,816

15. Alberta Risk Sharing Pool and Market Availability Plan:

The Company is a participant in the Alberta Risk Sharing Pool and Market Availability Plan ("Alberta RSP and MAP") effective October 1, 2004 as mandated by the Act. Prior to October 1, 2004 the Company was a member of the Facility Association. The Act replaced the Facility Association with the Alberta MAP effective October 1, 2004. Both the Alberta MAP and the Facility Association are joint ventures of insurers which provide automobile insurance for owners and operators of motor vehicles who may otherwise have difficulty obtaining such insurance.

The Company has made certain significant estimates in determining its share of the results of operations of the Alberta Risk Sharing Pool for the period October 1, 2004 to December 31, 2004 because of the lack of complete and accurate information available from the Alberta RSP. The Company has estimated an earned loss ratio of 100% for this three month period, and accordingly has recorded $596,730 in its provision for unpaid claims and adjustment expenses. It is reasonably possible that the loss ratio could change by a material amount in the near term, causing a material change in unpaid claims and adjustment expenses.

The Company proportionately consolidates its interests in the Alberta RSP and MAP, which are restricted to the pool of business relating to Alberta (including Northwest Territories, Yukon and Nunavut). Assets are included in "Due from agents, brokers and policyholders" and "Due from other insurance companies" and liabilities are included in "Unearned premiums" and "Provision for unpaid claims and adjustment expenses".

15. Alberta Risk Sharing Pool and Market Availability Plan, continued:

The Company has included in its accounts the following aggregate amounts in respect of its interests in the Alberta RSP and MAP:

	2004	2003
Assets	$14,821,678	$10,879,802
Liabilities	12,608,678	8,461,062
Revenues	5,384,475	4,009,033
Expenses	4,839,616	3,902,395

16. Alberta auto reform and rate freeze:

The Government of Alberta initiated a review of mandatory automobile coverage leading to the implementation of a rate freeze on October 30, 2003. The government and the industry negotiated on implementation of the reform process which came into effect on October 1, 2004. As part of this process, rates have been frozen until July, 2005 and a 5% premium roll back was enacted effective October 1, 2004. As of December 31, 2004 all endorsements related to the roll back have been issued and all monies returned to policyholders.

17. Comparative figures:

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

Notes

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Jamie Hotte, FCIP
Vice President, Underwriting & Marketing

Robert Doiron, BA, CIP
Vice President, Claims

John Bud, CGA
Manager, Information Systems

Kathy Coogan, CMA
Controller

Joan McMillan
Executive Assistant

EDMONTON OFFICE
Sheldon Bos, CIP
Branch Manager

Rob Rogers, FCIP, CRM
Commercial Lines Manager

Anne Marie Nadeau, CIP
Personal Lines Manager, Northern Alberta

Gail Routh
Personal Lines Manager, Remainder of Canada

Kevin Wood, CIP
Claims Manager, Property Unit

Joanne Platana, FCIP
Claims Manager, Auto Unit

CALGARY OFFICE
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