2007 ANNUAL REPORT

Celebrating 25 Years

PEACE HILLS
INSURANCE

PEACE HILLS
INSURANCE

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celebrating beginnings

Chairman's Report

Marvin Yellowbird
Chairman of the Board

What a long and exciting journey we have travelled... 25 years ago we started our business focused on the needs of Albertans. Now we are truly a western Canadian company with offices in Alberta, BC, Saskatchewan, Manitoba, the North West Territories, Nunavut and the Yukon.

Our employee family has grown to over 150 hard working and loyal staff, each one making a valued contribution to our success.

We are also fortunate to have a broker network of over 300 offices that continue to support us. Their loyalty and their support is sincerely appreciated.

Our commitment to the independent broker and our insureds' has not wavered in 25 years. We are dedicated to providing exceptional service, offering the best product for value and maintaining a flexible, friendly and fair underwriting and claims philosophy.

We believe we are different from others in our business. While we are building shareholder value, we are creating a legacy business for future generations of the Samson Cree Nation. While we continue to grow, we create more opportunities for our young adults.

25 years are now behind us. Although the past has taught us valuable lessons, it is time to look into the future and ask: what will the next 25 years bring?

The question is impossible to answer with any certainty. But, one thing we are certain of; Peace Hills Insurance will be here, stronger than we are today, with an enthusiastic Board of Directors, a dedicated employee base, a loyal network of successful brokers and a client base continuing to demand our products.

celebrating growth

President's Report

Diane Brickner, CIP
President & CEO

"*Celebration*" how appropriate this word is! The Oxford dictionary defines ***celebrate*** "to mark a festival or special event with festivities" and celebrate in 2007 we did. When we started planning our 25th anniversary celebration we wanted to invite the people that were most important to our organization and those who helped to build this very successful company. Our guest list continued to grow and we ***celebrated*** our anniversary with 880 of our closest friends! However, there were many more we could have included had space permitted. It was a night to be remembered and we want to thank everyone involved for making it so very special.

The Board of Directors and our Shareholder are committed to growing and expanding this company. Our strategic plan includes the initial stages of expanding into Ontario as well as creating a new look for the company. At our Anniversary Gala we unveiled the new logo that will lead us into the next 25 years of growth and achievement.

At the Strategic Planning Meeting our Board of Directors enthusiastically challenged Management to achieve premium projections of $200 million by 2010 and therefore we have some very aggressive budgets. In 2007 we exceeded our premium budget. Our gross written premiums (excluding Facility Association and Alberta Risk Sharing Pool) were $130,064,657 which is an increase of 13% over 2006, and with the reduction of both the Facility and the Risk Sharing Pool premiums we still exceeded budget by $880,000.

The net income was $7,358,766 after tax which also exceeded our budget by $1,647,766. The gross loss ratio of 64% was amazing considering it included 8 catastrophes during the summer season.

Changes were made to our reinsurance program, we reduced the Quota Share Treaty from 25% to 15% and we have seen an increase in the net underwriting revenue of 20%. As our capital continues we are able to assume more risk and over the next few years we will become less reliant on our reinsurance coverage.

We are excited about the future of our company; all the pieces and parts are in place to take us to the next level, we have the strongest Management team ever, our staff have worked hard to improve our service levels in anticipation of our new computer system and our brokers have been more than supportive to meet our premium targets. It really is wonderful "when a plan comes together".

celebrating teamwork

Finance & Administration Report

Kathy Coogan, CMA
Controller

Peace Hills enjoyed another very good year as revenues and investment income exceeded budget, while expenses were less then budget. Net income was $7,358,766 before other comprehensive loss of $1,318,812 producing a Total Comprehensive Income of $6,039,954 producing a return on equity (ROE) of 15.7%.

Direct written premiums, excluding the company's market share of Facility Association and the Alberta Risk Sharing Pool, totaled $130,548,839. This is an increase of 11% over the prior year. You will see from the detailed analysis in the Underwriting and Marketing report that Peace Hills Insurance experienced terrific growth in all business lines.

Impacting overall premium growth was a continued decline in the company's share of the Alberta Risk Sharing Pool. The Alberta Risk Sharing Pool revenues of $7,587,934 were 26.8% less than last year while Facility revenues of $2,366,404 were 1.9% more than 2006.

Overall premiums from all sources (including Risk Sharing Pool and Facility Association premiums) totaled $140,018,995 which is an increase of 9.6% over last year.

Gross incurred loss results deteriorated in most lines of business however the net loss ratio increased only slightly from 57.1% last year to 58.4% in 2007. There were 10,140 new claims reported in 2007 compared to 8,860 over the prior year. The increase in new claims was mainly attributed to 8 storms that occurred in Alberta, Manitoba and Saskatchewan. As you can imagine, we had a very busy summer.

Investment income increased 40.5% over 2007 which was a reflection of the significant gains realized in our equity portfolio. In 2007, as required by new accounting rules, our financial statements now include other comprehensive income or loss which is a reflection of the change in the unrealized gains and losses in our investment portfolio.

Overall, 2007 was a successful year and we look forward to continued positive results in 2008.

celebrating creativity

Underwriting & Marketing Report

Jamie Hotte, FCIP
Vice President, Underwriting & Marketing

Gross Written Premiums

Gross Written Premiums totaled $130,064,657. (excluding Facility Association and Alberta Risk Sharing Pool premiums) which was an increase of 13% over 2006.

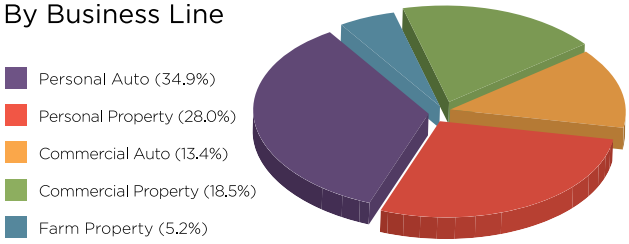
In Force Policies

Our policy count increased by 8% ending the year with 110,238 policies.

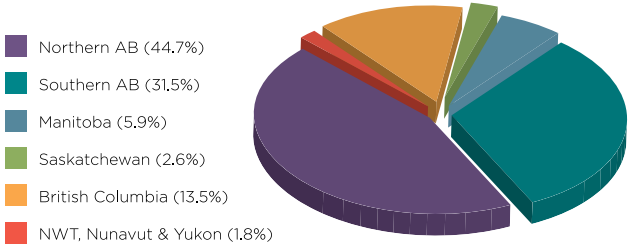
Underwriting Results

Underwriting results improved in 2007 and we produced a net underwriting profit of $2,832,533. Our gross loss ratio increased by 8% ending the year at 64%.

Gross Written Premiums By Business Line



Gross Written Premiums By Region



REVIEW OF EACH BUSINESS LINE

Personal Automobile

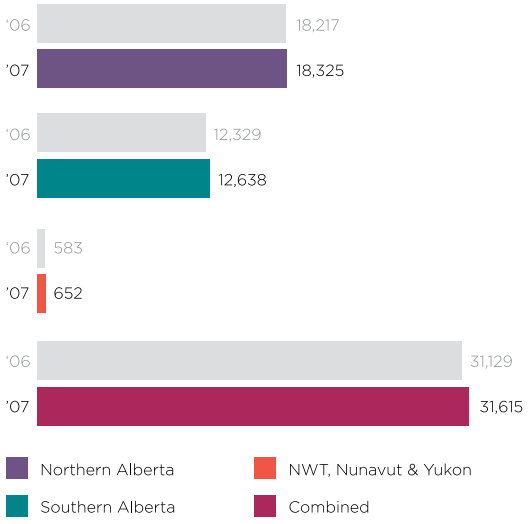
Gross written premiums (excluding Facility Association and Alberta Risk Sharing Pool premiums) increased by 3% ending the year at $45,327,896. We ceded $9,470,156 to the Alberta Risk Sharing Pool.

Our in force policies increased by just over 1% ending the year with 31,615 policies.

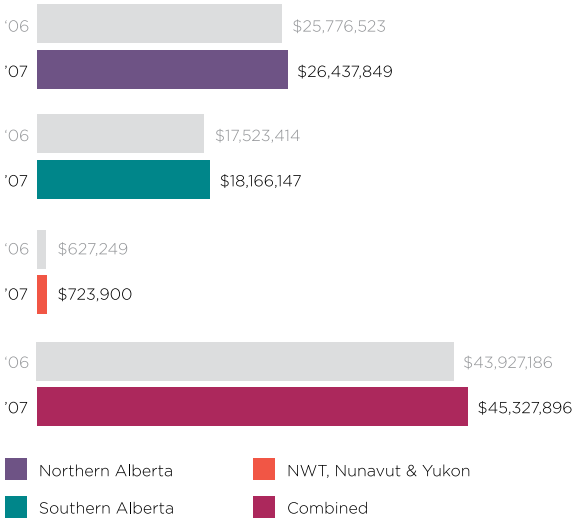
Our gross loss ratio remained the same as 2006 at 61%.

There were no rate changes in 2007.

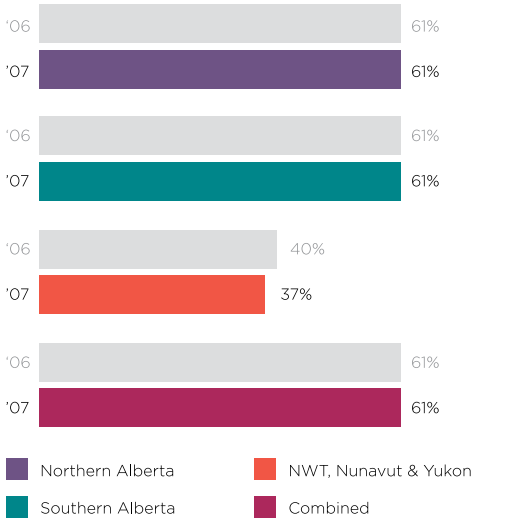
Personal Automobile
Policy Count



Personal Automobile
Gross Written Premiums



Personal Automobile
Loss Ratios



Personal Property

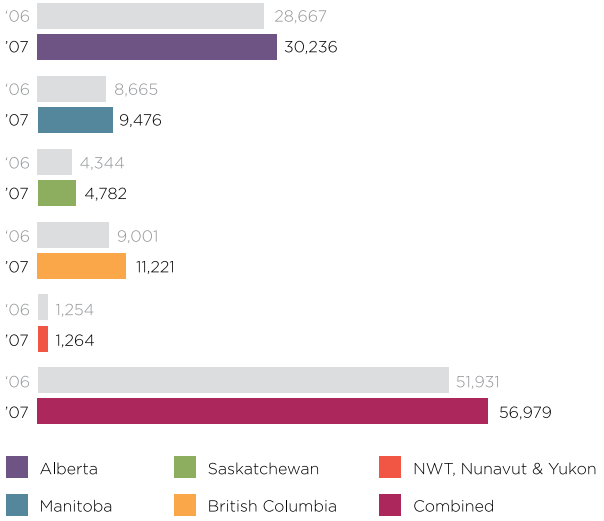
Gross written premiums increased by 20% ending the year at $36,370,264.

Our in force policies increased by almost 10% ending the year at 56,979 policies.

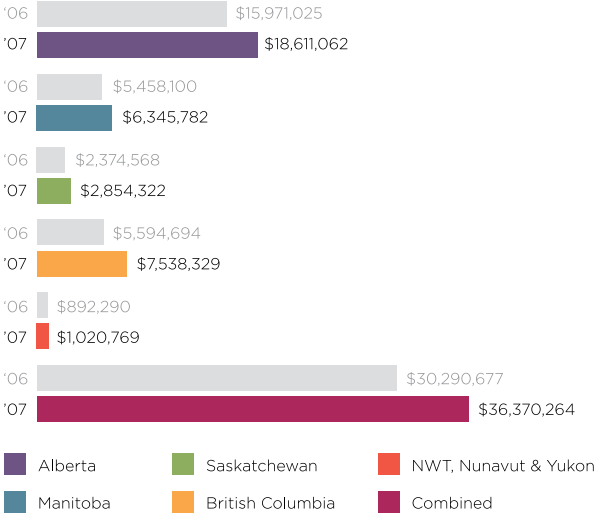
Our gross loss ratio increased by 18% ending the year at 75%.

There were no rate changes in 2007.

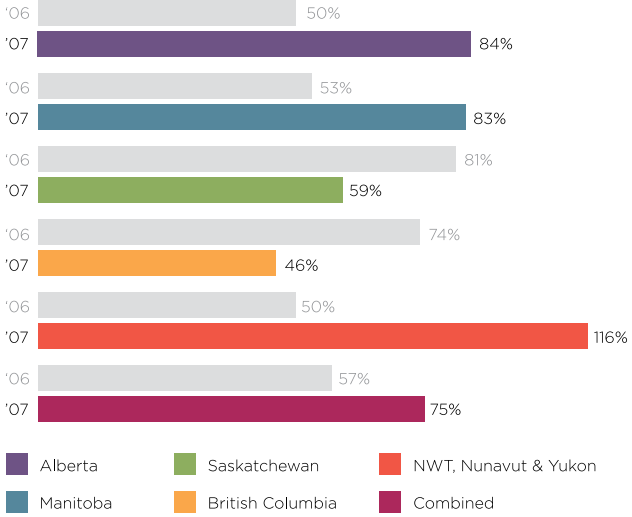
Personal Property Policy Count



Personal Property Gross Written Premiums



Personal Property Loss Ratios



Farm Property

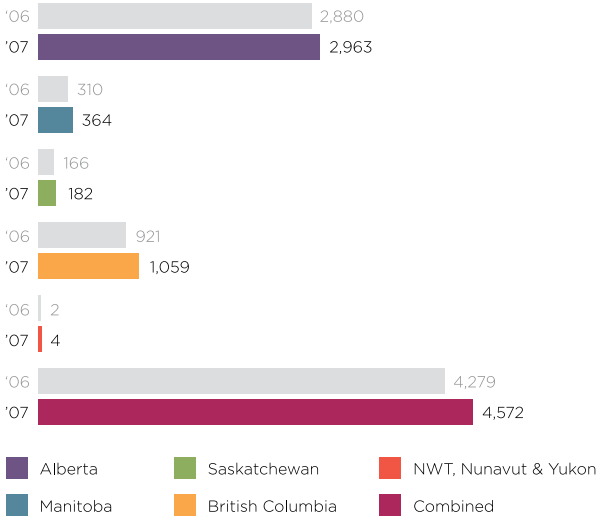
Gross written premiums increased by 12% ending the year at $6,868,981.

Our in force policies increased by 7% ending the year at 4,572 policies.

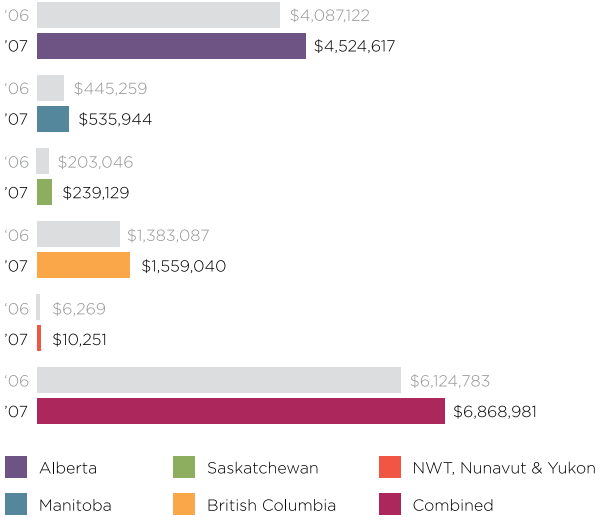
Our gross loss ratio increased by 31% ending the year at 94%.

There were no rate changes in 2007.

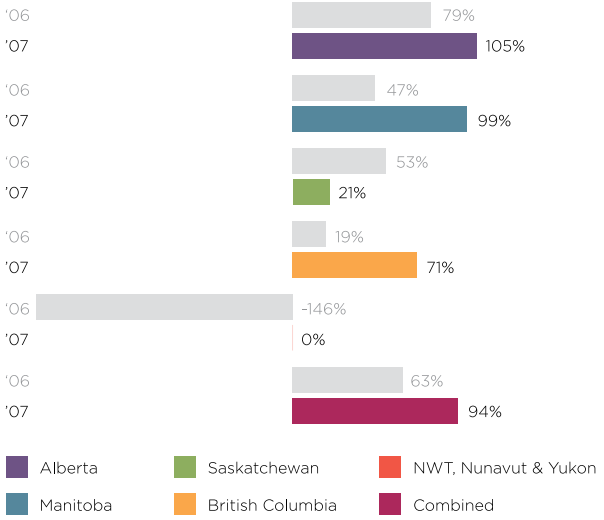
Farm Property Policy Count



Farm Property Gross Written Premiums



Farm Property Loss Ratios



Commercial Property/Casualty

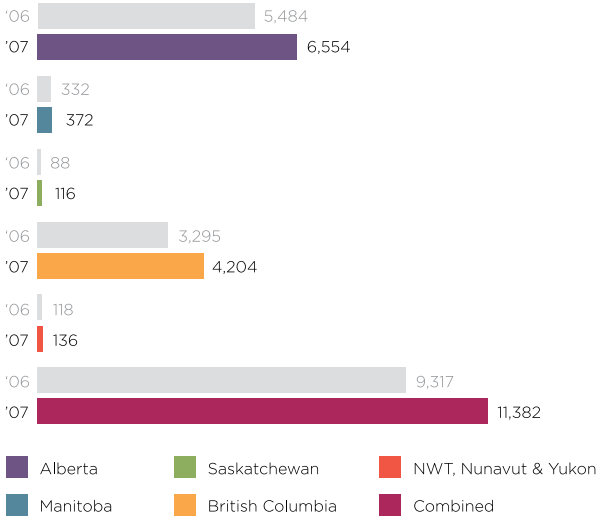
Gross written premiums increased by 31% to $24,086,110.

Our in force policies increased by 22% ending the year with 11,382 policies.

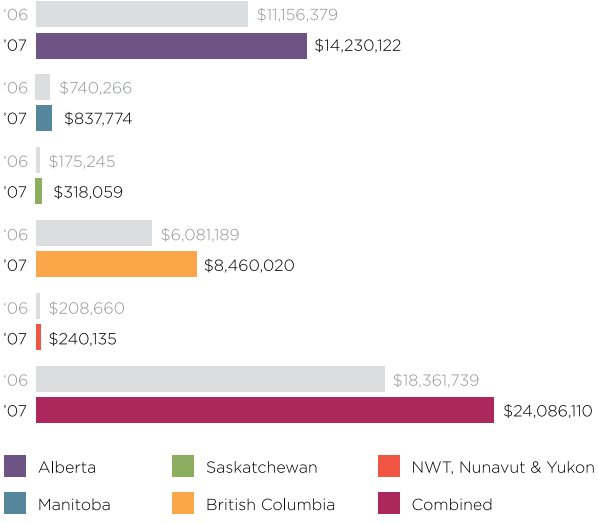
Our gross loss ratio increased by 6% ending the year at 46%.

We continued to see increased competition throughout 2007.

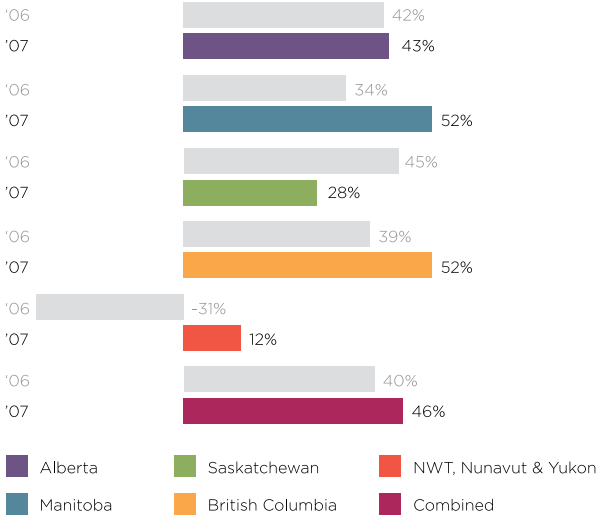
Commercial Property Policy Count



Commercial Property Gross Written Premiums



Commercial Property Loss Ratios



Commercial Automobile

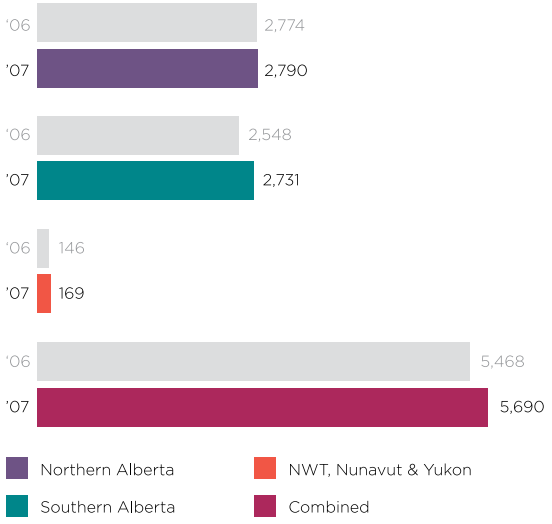
Gross written premiums increased by 7% to $17,411,406.

Our in force policies increased 4% ending the year with 5,690 policies.

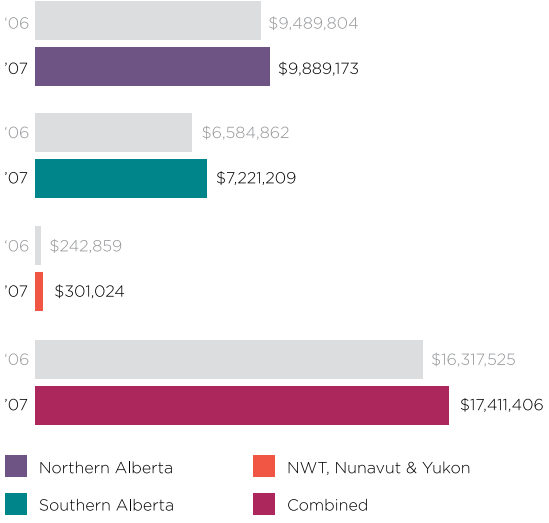
Our gross loss ratio increased by 2% ending the year at 61%.

There were no rate changes in 2007.

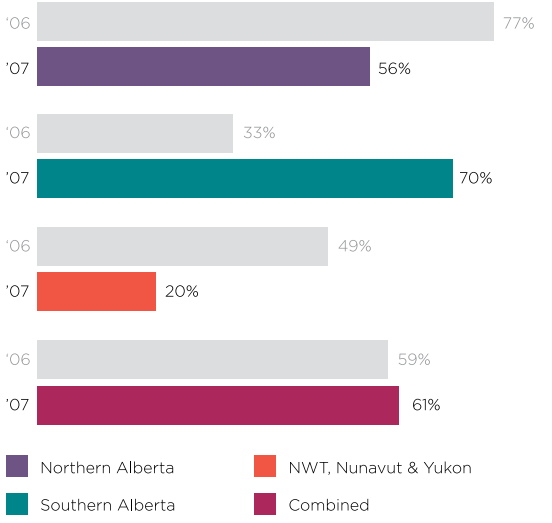
Commercial Automobile Policy Count



Commercial Automobile Gross Written Premiums



Commercial Automobile Loss Ratios



PROVINCIAL REPORTS

Alberta

Gross written premiums increased by 9% to $99,080,179. Policies in force increased by almost 5% ending the year at 76,237. Our gross loss ratio increased by 6% ending the year at 65%.

Manitoba

Gross written premiums increased by 16% to $7,719,500. Policies in force increased by 10% ending the year at 10,212. Our gross loss ratio increased by 30% ending the year at 80%.

Saskatchewan

Gross written premiums increased by 24% to $3,411,510. Policies in force increased by 10% ending the year at 5,080. Our gross loss ratio decreased by 24% ending the year at 53%.

British Columbia

Gross written premiums increased by 34% to $17,557,389. Policies in force increased by 25% ending the year at 16,484. Our gross loss ratio decreased by 3% ending the year at 51%.

Northwest Territories

Gross written premiums increased by 17% to $1,127,519. Policies in force increased by 6% ending the year at 1,201. Our gross loss ratio increased by 41% ending the year at 63%.

Yukon

Gross written premiums increased by 23% to $785,014. Policies in force increased by 12% ending the year at 605. Our gross loss ratio decreased by 36% ending the year at 10%.

Nunavut

Gross written premiums increased by 2% to $383,546. Policies in force decreased by 4% ending the year at 419. Our gross loss ratio increased by 119% ending the year at 187%.

MARKETING AND OUR BROKERAGE FORCE

Our overall growth was well over our budgeted growth for the year. We wrote 19,843 new policies during 2007 which was an increase of over 6% compared to the prior year.

Retention

Even though we have seen some signs of the market becoming more competitive, our retention improved by 1.5% ending the year at 88.5%.

Independent Brokerage Network

Our commitment to broker distribution remains and we would like to thank all of our brokers for their continued support.

During 2007 we appointed 15 new brokers. Over the year there was some consolidation where larger brokers purchased smaller ones. Even though the number of brokers has decreased, the number of locations has increased.

We were represented by 161 brokers with 340 locations throughout western Canada.

PROVINCE	BROKERS	LOCATIONS
British Columbia	26	73
Alberta	111	206
Saskatchewan	7	21
Manitoba	16	37
NWT, Nunavut & Yukon	1	3

Our Underwriting and Marketing Team

In conjunction with a year of 13% growth we have also been developing a new computer system internally. Our staff has been heavily involved with the development and testing of this new system. I would like to extend my gratitude and thanks to them for their dedication and hard work over the past year.

Our Fresh New Look

2007 also marked our 25th year in business. On September 20, 2007 we celebrated this special occasion with a dinner and entertainment at the Shaw Conference Centre in Edmonton, Alberta. We also unveiled a fresh new look.

Here is a visual reference to the journey that our logo has taken over the last 25 years:

Peace Hills General Insurance Company

1982 – 1989

Peace Hills Insurance

1989 – 2007

PEACE HILLS INSURANCE

2007...

Jamie Hotte

PEACE HILLS
INSURANCE

Our new look...

celebrating perseverance

Claims Report

Robert Doiron, BA, CIP
Vice President, Claims

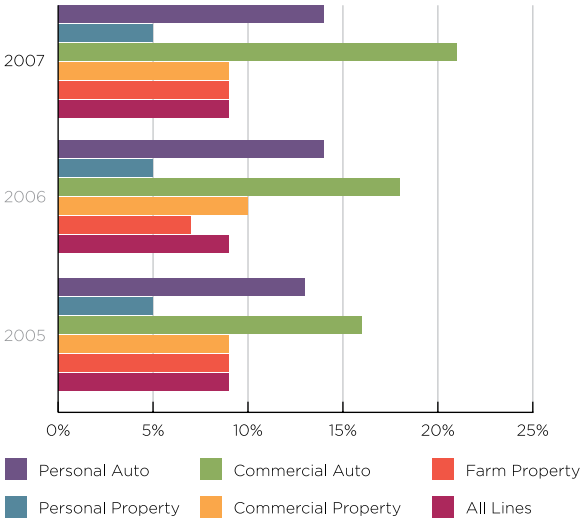
The big story on the claims front was the extreme storm activity yielding 8 catastrophe losses for Peace Hills Insurance across Western Canada. We have never experienced such storm frequency in corporate history. In chronological order they were:

May 5 – 7	Central Alberta (Water and Sewer Back-up)
June 5 – 7	Calgary Area (Water)
June 10 – 12	Rocky Mountain House (Hail)
June 23 – 25	Winnipeg (Hail)
June 28 – 30	Brooks (Hail)
July 15 – 17	Southern Alberta (Hail)
July 28 – 30	Fort McMurray (Hail)
August 9 – 11	Dauphin and Winnipeg (Hail)

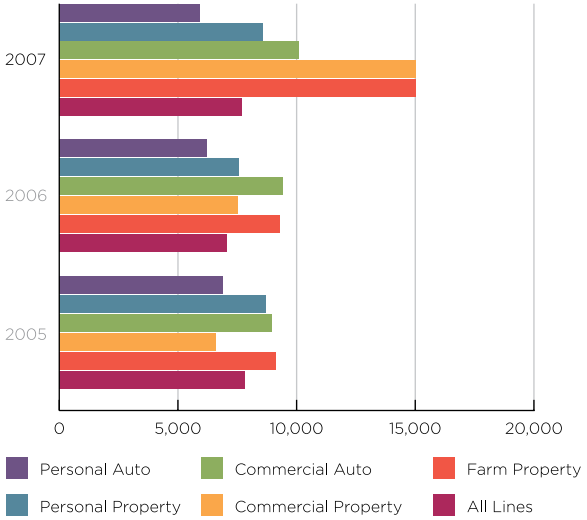
Combined, these catastrophe losses yielded 1,141 claims for a total of $10,244,510 in losses.

Our overall loss frequency, relative to policy count, has remained virtually static since 2005 at 9%. Our new claims counts have been 8,376 in 2005, 8,860 in 2006 and 10,140 in 2007.

Loss Frequency
By Business Line



Severity
By Business Line



Unfortunately our severity has crept up yielding a 2007 loss ratio of 64% relative to a loss ratio of 56% in 2006.

The second biggest story is the court challenge by Plaintiff Bar to the Constitutionality of the Minor Injury Regulation. This regulation was introduced by the Alberta government in October 2004 as part of the measures to curb rapidly escalating Bodily Injury claims costs. Minor whiplash and sprains and strains had a limit of $4,000 (indexed) imposed on the Pain and Suffering portion of the injured parties claim.

The challenge was heard in Calgary and resulted in the Court striking down the Minor Injury Regulation in February 2008. The uncertainty of the status of the regulation will likely last for several years until the Supreme Court of Canada hears the case.

The costs of repairs for vehicles and property continue to escalate, particularly in Alberta. In May of 2007 we established a position to develop programs to deal with these cost pressures. Anecdotal evidence shows positive trends in the early stages.

The Alberta boom has created chronic staffing problems for all industries, however I am pleased to say that our staffing situation stabilized significantly in 2007.

The development of our new computer system and a dramatic increase in storm activity created a very heavy workload for our staff but they came through in sterling fashion once again.

PEACE HILLS
INSURANCE

Company Profile

HEAD OFFICE

300, 10709 Jasper Avenue
Edmonton, AB T5J 3N3 Canada
Phone: (780) 424-3986
or 1-800-272-5614

VANCOUVER OFFICE

Suite 2300, 1066 West Hastings St.
Vancouver, BC V6E 3X2 Canada
Phone: (604) 408-4708
or 1-877-408-4708

EDMONTON OFFICE

300, 10709 Jasper Avenue
Edmonton, AB T5J 3N3 Canada
Phone: (780) 424-3986
or 1-800-272-5614

CALGARY OFFICE

24th 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

celebrating work

Board of Directors

Victor Buffalo
Chief

Marvin Yellowbird
Chairman

Diane Brickner
President & CEO

Pat Buffalo
Executive Vice President

Trevor Swampy
Treasurer

Victor Bruno
Elder

John Crier

Leiha Crier

Bill Kordyback

Julian Koziak

Dennis Leonard

Lawrence Saddleback

John Szumlas

Walter Lightning

AUDIT/CONDUCT REVIEW COMMITTEE:

Trevor Swampy (Chair), Bill Kordyback, Julian Koziak, Dennis Leonard, Lawrence Saddleback, John Szumlas

GOVERNANCE/COMPENSATION COMMITTEE:

Pat Buffalo (Chair), John Crier, Dennis Leonard, Lawrence Saddleback, John Szumlas, Marvin Yellowbird

INVESTMENT/PHI PROPERTIES LTD. COMMITTEE:

John Crier (Chair), Pat Buffalo, Leiha Crier, Bill Kordyback, Julian Koziak, Walter Lightning

celebrating change


40
25
15

Management

George Boulay
Underwriting Manager,
British Columbia

John Bud
Information Systems Manager

Kathy Coogan
Controller

Jim Dyson
Underwriting Manager,
Southern Alberta

Donna Lee Genge
Personal Lines Manager,
Northern Alberta

Fergus Kavanagh
VP & Branch Manager,
Southern Alberta

Neil Klawitter
Branch Manager,
Northern Alberta

Daryl Kochan
Branch Manager,
British Columbia

Mary Mattern
Human Resources Manager

Keith McCullagh
Commercial Lines Manager,
Southern Alberta

Joan McMillan
Administration Manager,
Head Office & Northern Alberta

Rob Rogers
Commercial Lines Manager,
Northern Alberta

Gail Routh
Branch Manager,
MB, SK, NWT, Nunavut, Yukon

Julia Seguin
Administration Manager,
Southern Alberta

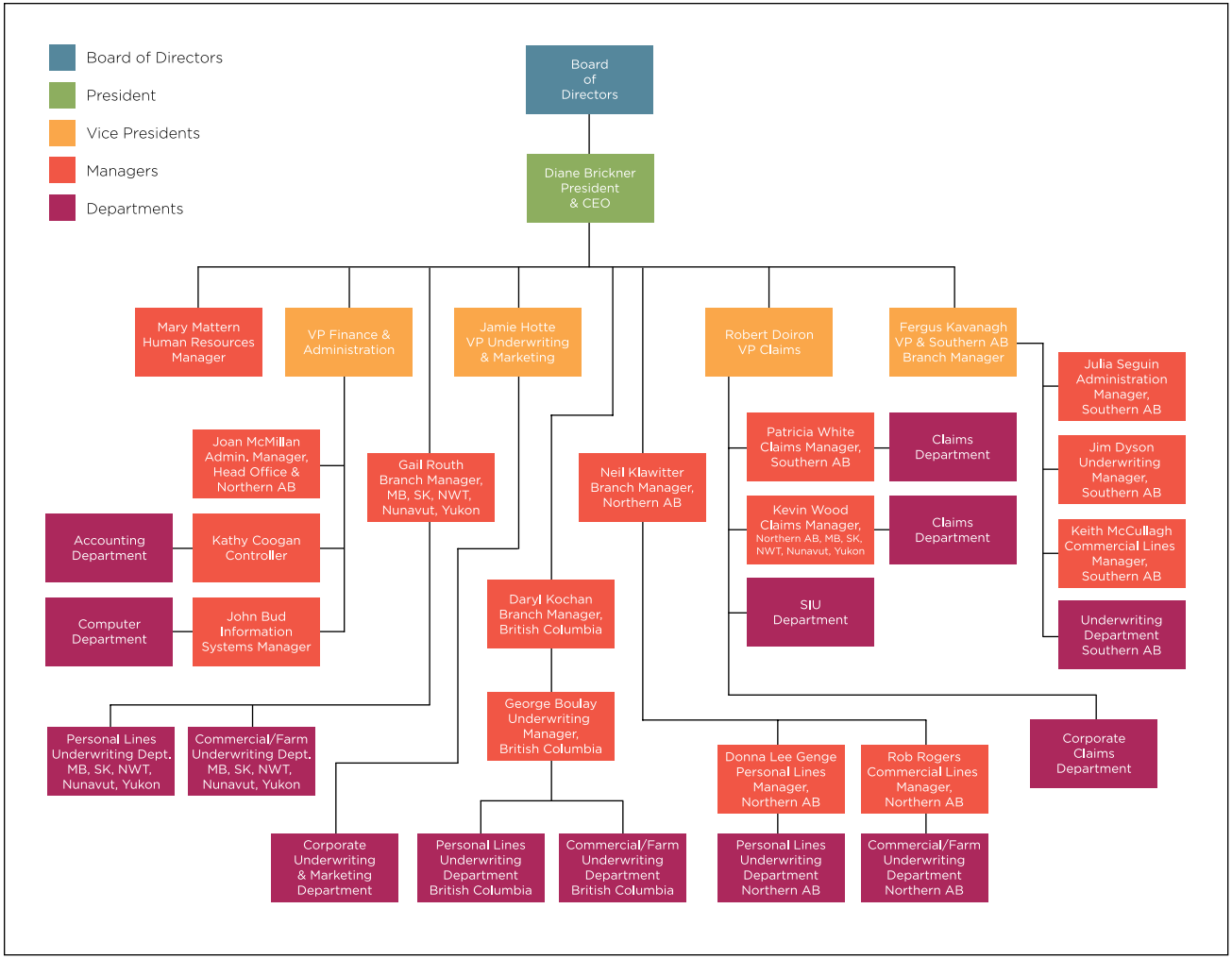
Pat White
Claims Manager,
Southern Alberta

Kevin Wood
Claims Manager,
Northern Alberta, MB, SK,
NWT, Nunavut, Yukon

celebrating family

PEACE HILLS INSURANCE

Corporate Structure



celebrating 25 years

25th Anniversary Gala, September 20, 2007.

25th Anniversary Gala, September 20, 2007.

Powwow 2007, Hobbema, Alberta.

PEACE HILLS
INSURANCE

Financials

celebrating accomplishment

Management Statement

Peace Hills General Insurance Company • Year Ended December 31, 2007

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 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 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 "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 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 26, 2008

Diane Brickner, CIP
President & CEO

Kathy Coogan, CMA
Controller

Auditors' Report

Peace Hills General Insurance Company • Year Ended December 31, 2007

To the Shareholder of Peace Hills General Insurance Company:

We have audited the consolidated balance sheet of Peace Hills General Insurance Company as at December 31, 2007 and the consolidated statements of income and retained earnings, comprehensive income and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's Management. 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 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, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Edmonton, Canada
February 26, 2008

Chartered Accountants

Actuary's Report

Peace Hills General Insurance Company • Year Ended December 31, 2007

To the Shareholder 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, 2007 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.

Toronto, Ontario
February 26, 2008

Barbara Addie
Fellow, Canadian Institute of Actuaries

Consolidated Balance Sheet

Peace Hills General Insurance Company • At December 31, 2007

	2007	2006
Assets		
Cash and cash equivalents (note 2)	$ 26,261,089	$ 15,289,931
Accrued investment income	752,452	566,490
Investments (note 3)	90,593,352	82,976,912
Due from agents, brokers and policyholders	27,762,381	25,648,514
Due from other insurance companies	12,655,297	13,878,768
Income taxes receivable	1,592,136	-
Other receivables	1,592,407	1,467,886
Amounts recoverable from reinsurers:		
Unpaid claims and adjustment expenses (notes 5 and 6)	32,432,454	31,188,448
Unearned premiums	17,905,605	19,391,469
Salvage and subrogation	(193,665)	(192,752)
	50,144,394	50,387,165
Deferred policy acquisition costs	16,627,672	14,625,448
Future income taxes	534,212	3,750,947
Prepaid expenses and other assets	155,816	197,386
Capital assets (note 4)	7,176,953	5,807,739
	$ 235,848,161	$ 214,597,186
Liabilities and Shareholder's Equity		
Due to agents, brokers and policyholders	$ 3,226,834	$ 2,948,917
Due to other insurance companies	2,161,922	3,579,919
Expenses due and accrued (note 10)	2,541,750	1,393,717
Income taxes due and accrued	-	1,140,499
Other taxes due and accrued	5,926,087	5,183,931
Funds held for other insurance companies (note 16)	6,419,373	6,419,373
Bank loan payable (note 7)	2,118,500	2,280,500
Unearned premiums	66,192,351	58,871,313
Provision for unpaid claims and adjustment expenses (note 5)	87,718,691	85,362,054
Unearned reinsurance commissions	5,629,088	7,268,418
Other liabilities	152,745	185,205
	182,087,341	174,633,846
Shareholder's equity:		
Share capital (note 8)	2,000,000	2,000,000
Contributed surplus	9,362,250	9,362,250
Retained earnings	35,659,856	28,601,090
Accumulated other comprehensive income	6,738,714	-
	53,760,820	39,963,340
Commitments (note 11)		
Contingent liabilities (note 12)		
	$ 235,848,161	$ 214,597,186

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Chairman, Board of Directors

Chairman, Audit Committee

Consolidated Statement of Income & Retained Earnings

Peace Hills General Insurance Company • Year Ended December 31, 2007

	2007	2006
Gross premiums written	$ 140,018,995	$ 127,720,188
Direct premiums written	$ 130,548,839	$ 117,580,520
Net premiums written	$ 88,245,456	$ 73,837,705
Net premiums earned (note 6)	$ 84,536,919	$ 70,487,844
Earned service charge revenue	1,655,556	1,469,281
Underwriting revenue	$ 86,192,475	$ 71,957,125
Expenses incurred (note 6):		
Claims (note 5)	50,313,596	41,084,300
Commissions	13,149,773	8,506,687
Premium and other taxes	4,066,110	3,693,461
Administrative expenses (note 10)	15,830,463	14,551,582
Total insurance expenses	83,359,942	67,836,030
Underwriting income	2,832,533	4,121,095
Investment income (expenses):		
Interest	3,327,927	2,739,563
Dividends	1,641,449	810,987
Gain on disposal of investments	3,379,568	2,138,714
Write down of investments	(406,102)	-
General investment expenses	(334,955)	(276,278)
Net investment income	7,607,887	5,412,986
Loss from PHI Properties Limited (note 9)	(270,650)	(146,053)
Income before income taxes	10,169,770	9,388,028
Income taxes:		
Current	2,132,605	3,977,342
Future	678,399	(497,216)
	2,811,004	3,480,126
Net income	7,358,766	5,907,902
Retained earnings, beginning of year	28,601,090	22,943,188
Dividends paid	(300,000)	(250,000)
Retained earnings, end of year	$ 35,659,856	$ 28,601,090

Consolidated Statement of Comprehensive Income

Peace Hills General Insurance Company • Year Ended December 31, 2007

	2007
Comprehensive Income	
Net income	$ 7,358,766
Unrealized gains and losses on available for sale financial assets	$ 1,274,923
Reclassification of realized gains and losses to net income	(3,379,568)
Net change in unrealized gain (loss)	(2,104,645)
Income taxes	785,833
Other comprehensive loss	(1,318,812)
Total comprehensive income	$ 6,039,954
Accumulated Other Comprehensive Income	
Balance, beginning of period	$ -
Impact of fair value measurement of available for sale financial instruments at January 1, 2007 (net of tax of $3,324,163)	8,057,526
Other comprehensive loss (net of tax of $785,833)	(1,318,812)
Total accumulated other comprehensive income	$ 6,738,714

Consolidated Statement of Cash Flows

Peace Hills General Insurance Company • Year Ended December 31, 2007

	2007	2006
Cash provided by (used in):		
Operations:		
Net income	$ 7,358,766	$ 5,907,902
Items not affecting cash:		
Future income taxes	678,399	(497,216)
Net realized gain on disposal of investments	(3,379,568)	(2,138,714)
Write down on investments	406,102	-
Amortization of bond premium (discount)	61,535	113,986
Amortization of capital assets	716,723	586,553
Gain on disposal of capital assets	(9,309)	(7,999)
Change in non-cash operating working capital:		
Deferred policy acquisition costs	(2,002,224)	(1,615,164)
Unpaid claims and adjustment expenses, net of recoverable from reinsurers	1,112,631	2,432,239
Unearned premiums, net of recoverable from reinsurers	8,742,143	3,349,864
Unearned reinsurance commissions	(1,639,330)	576,707
Net change in other non-cash balances	(3,108,623)	3,594,175
	8,937,245	12,302,333
Financing:		
Payment of dividends	(300,000)	(250,000)
Repayment of bank loan payable	(162,000)	(162,000)
	(462,000)	(412,000)
Investing:		
Investments sold or matured:		
Bonds and debentures	11,707,843	5,191,496
Common shares	15,667,258	11,374,531
Other investments	605,560	2,183,000
Investments acquired:		
Bonds and debentures	(14,309,116)	(3,466,883)
Common shares	(8,948,723)	(15,410,195)
Other investments	(150,281)	(6,074,927)
Purchase of capital assets	(2,213,740)	(1,612,094)
Proceeds on disposal of capital assets	137,112	79,940
	2,495,913	(7,735,132)
Net increase in cash and cash equivalents	$ 10,971,158	$ 4,155,201
Cash and cash equivalents, beginning of year	15,289,931	11,134,730
Cash and cash equivalents, end of year	$ 26,261,089	$ 15,289,931

See accompanying notes to consolidated financial statements.

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 32.4% 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) Investments:

(i) General:

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

(ii) Bonds and debentures:

Investments in bonds and debentures are carried at amortized cost in 2006. The effective interest rate method is utilized to amortize discounts and premiums on investments in bonds and debentures. Interest income is recorded on an accrual basis over the term of the investment.

(iii) Common shares:

Investments in common shares are carried at cost in 2006. Dividend income on common shares is accrued on the ex-dividend date.

(iv) Other investments:

Investments in mutual funds, private equity and hedge funds are carried at cost in 2006.

1. Significant accounting policies, continued:

Bonds and debentures, common shares, and other investments are carried at fair value in 2007. For the change in accounting policy relating to investments, see Note 1(l).

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.

(d) 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.

(e) 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%
System software	Straight-line	10%

1. Significant accounting policies, continued:

(f) Provision for unpaid claims and adjustment expenses:

The provision for unpaid claims represents the amount 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 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.

(g) Salvage and subrogation:

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

(h) 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.

(i) 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.

1. Significant accounting policies, continued:

(j) Foreign currency translation:

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.

(k) 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 reporting period. Actual results could differ from those estimates.

(l) Change in accounting policies:

On January 1, 2007, the Company adopted the following new accounting standards that were issued by The Canadian Institute of Chartered Accountants (CICA): CICA Handbook Section 1506, "Accounting Changes"; Section 1530, "Comprehensive Income"; Section 3251, "Equity"; Section 3855, "Financial Instruments – Recognition and Measurement"; Section 3861, "Financial Instruments – Disclosure and Presentation"; and Section 3865, "Hedges". In accordance with the transitional provisions, these standards were accepted at the beginning of the year on a retroactive basis with no restatement of prior periods.

Section 1506 establishes criteria for changing accounting policies together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and the correction of errors. It includes the disclosure of a description and the impact of financial results of any new primary source of GAAP that has been issued but is not yet effective (see Note 1(m)).

Sections 1530 and 3251 establish standards for reporting and presenting comprehensive income. Comprehensive income comprises net income and other comprehensive income (OCI) and includes all changes in equity (net assets) of the Company during the year except those resulting from investment by and distribution to owners. Changes in unrealized gains and losses on available for sale (AFS) investments are recorded in OCI and included in accumulated other comprehensive income (AOCI) until recognized in net income.

1. Significant accounting policies, continued:

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. Under Section 3855, financial instruments must be classified as held for trading (HFT), held to maturity (HTM), loans and receivables, AFS financial assets or other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value, except for those classified as loans and receivables, HTM investments and other financial liabilities, which are measured at amortized costs using the effective interest rate method. Changes in fair value of HFT financial instruments are recorded in net income. Changes in fair value of AFS financial assets are recorded in OCI until the investment is sold or impaired, at which time the realized gain or loss will be recorded in net income.

Section 3861 establishes new standards for the presentation of financial instruments and non-financial derivatives and identifies the related information that should be disclosed.

Section 3865 describes when and how hedge accounting can be applied. The Company does not have any hedging relationships.

The Company is also required to identify and record separately on its balance sheet derivatives embedded in other financial instruments not classified as HFT (the host instrument). Prior to the adoption of this standard, such embedded derivatives were not accounted for separately from the host contract. The Company does not believe that they have any exposure to embedded derivatives that require separation at this time.

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. For common share and other investments, transaction costs are capitalized on initial recognition. Transaction costs relating to other financial assets and liabilities are expensed as incurred.

On adoption of the new standards, at January 1, 2007, the Company classified all of its investments as AFS. The adjustment to increase the carrying value of these investments from cost ($82,976,912) to fair value ($94,358,601) has been recorded as an opening adjustment to AOCI, net of incomes taxes, of $8,057,526.

Accounts receivable and all other financial assets excluding investments are classified as loans and receivables, while the bank loan payable, expenses due and accrued and all other financial liabilities are classified as other financial liabilities, all of which are measured at amortized cost.

1. Significant accounting policies, continued:

A summary of the impact on the balance sheet of adopting the new standards follows:

	As at December 31, 2006	Adjustment on adoption of new Standards	As at January 1, 2007
Cash and cash equivalents	$ 15,289,931	$ -	$ 15,289,931
Bonds and debentures	41,165,155	926,877	42,092,032
Common shares	37,919,829	10,453,456	48,373,285
Other investments	3,891,928	1,356	3,893,284
Future income taxes	3,750,947	(3,324,163)	426,784
Retained earnings	28,601,090	-	28,601,090
AOCI	-	8,057,526	8,057,526

There was no impact on reported net income for the year ended December 31, 2006 or opening retained earnings at January 1, 2007.

(m) Future change in accounting policies:

The CICA issued new accounting standards that are effective for the Company beginning January 1, 2008: Section 1535, "Capital Disclosures"; Section 3862, "Financial Instruments Disclosures"; and Section 3863, "Financial Instruments – Presentation".

Section 1535 requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the Company's objectives, policies and processes for managing capital.

Sections 3862 and 3863 will replace Section 3861 once adopted. The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the Company's financial position and performance, the nature and extent of risks arising from financial instruments, related interest, dividends, losses and gains and the circumstances in which financial assets and financial liabilities are offset.

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:

	2007	2006
Cash	$ 1,192,065	$ 1,338,719
Bank term deposits, maturities in three months or less, at rates of interest varying between 3.8% to 4.7%	25,069,024	13,951,212
	$ 26,261,089	$ 15,289,931

3. Investments:

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

					2007
	Cost	Amortized discount/ premium	Gross unrealized gains	Gross unrealized losses	Fair Value Carrying amount
Bonds and debentures	$ 43,258,854	$ 195,180	$ 1,163,523	$ 245,832	$ 44,371,725
Common shares	35,026,905	-	10,308,876	2,656,058	42,679,723
Other investments	3,436,649	-	212,694	107,439	3,541,904
	$ 81,722,408	$ 195,180	$ 11,685,093	$ 3,009,329	$ 90,593,352

					2006
	Cost Carrying amount	Amortized discount/ premium	Gross unrealized gains	Gross unrealized losses	Fair value
Bonds and debentures	$ 41,165,155	$ 460,381	$ 1,014,881	$ 548,385	$ 42,092,032
Common shares	37,919,829	-	11,105,902	652,446	48,373,285
Other investments	3,891,928	-	49,467	48,111	3,893,284
	$ 82,976,912	$ 460,381	$ 12,170,250	$ 1,248,942	$ 94,358,601

3. Investments, continued:

(a) Bonds and debentures – interest rate risk:

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

		2007		2006	
	Interest receivable basis	Effective rates (% range)	Coupon rates (% range)	Effective rates (% range)	Coupon rates (% range)
Government of Canada	Semi-annual	3.36 to 10.38%	3.75 to 5.75%	2.94 to 9.24%	3.00 to 7.25%
Canadian provincial, municipal and public authorities	Semi-annual	2.70 to 6.87%	3.30 to 7.50%	2.58 to 6.87%	3.30 to 7.50%
Canadian corporate	Semi-annual	3.43 to 9.03%	4.20 to 8.30%	3.43 to 9.03%	4.20 to 8.30%

The company holds $1,600,000 (2006 - $2,730,000) in bonds that have a variable rate of return.

(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 issuers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	2007		2006	
Term to maturity	Principal amount	Fair Value Carrying amount	Principal amount	Cost Carrying amount
Government of Canada:				
Due in one year or less	$ 3,640,000	$ 3,643,276	$ 4,540,000	$ 4,586,222
Between one and five years	10,105,000	10,101,197	12,935,000	12,995,919
After five years	11,245,000	10,724,292	6,060,000	5,711,093
Canadian provincial, municipal and public authorities:				
Due in one year or less	-	-	630,000	630,225
Between one and five years	2,015,000	2,050,827	1,355,000	1,403,981
After five years	7,520,000	8,537,372	4,550,000	4,817,404
Canadian corporate:				
Due in one year or less	3,410,000	3,408,215	1,170,000	1,178,032
Between one and five years	3,945,000	4,052,588	7,460,000	7,582,219
After five years	1,810,000	1,853,958	2,310,000	2,260,060
	$ 43,690,000	$ 44,371,725	$ 41,010,000	$ 41,165,155

3. Investments, continued:

(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 assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 640,000	$ –	$ 640,000	$ 640,000
Building	2,474,026	450,459	2,023,567	1,734,831
Building improvements	1,386,473	830,677	555,796	694,744
Automotive equipment	607,021	296,809	310,212	424,080
Leasehold improvements	826,324	204,914	621,410	349,570
Office equipment and computer software	2,552,311	1,491,668	1,060,643	843,998
System software	1,965,325	–	1,965,325	1,120,516
	$ 10,451,480	$ 3,274,527	$ 7,176,953	$ 5,807,739

Amortization of capital assets of $635,054 (2006 – $517,201) is included in administrative expenses. Amortization of the building of $81,669 (2006 – $69,352) is included in rental expenses (Note 9). Capital assets include software development costs and leasehold improvements of $1,965,325 (2006 - $1,288,675) that are not being amortized as they are 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 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.

5. Unpaid claims and adjustment expenses, continued:

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.

On February 8, 2008 the Alberta Court of Queen's Bench determined that the Alberta Minor Injury Regulation, which capped the amount of a claim for pain and suffering damages in the event of a minor injury at $4,000, was unconstitutional. The result of this decision was to in effect determine that the Minor Injury Regulation was of no force and effect. As a result of this decision, the Company has increased its provision for unpaid claims in anticipation of the possibility that these types of claims may now settle at increased amounts. This decision is currently under appeal by the Crown.

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

	Property	Automobile	2007 Total	2006 Total
Provision for unpaid claims and adjustment expenses, beginning of year:				
Gross	$ 21,942,822	$ 63,419,232	$ 85,362,054	$ 82,531,449
Reinsurance ceded	10,200,674	20,987,774	31,188,448	30,790,084
Net provisions, beginning of year	11,742,148	42,431,458	54,173,606	51,741,365
Net incurred claims and claim adjustment expenses:				
Provision for insured events of current year	22,105,181	32,361,271	54,466,452	44,920,231
Decrease in provision for insured events of prior years	(334,459)	(3,818,397)	(4,152,856)	(3,835,931)
Total net incurred	21,770,722	28,542,874	50,313,596	41,084,300
Net payments attributable to:				
Current year events	(10,740,400)	(17,490,767)	(28,231,167)	(20,858,096)
Prior year events	(7,423,675)	(13,546,123)	(20,969,798)	(17,793,965)
Total net payments	(18,164,075)	(31,036,890)	(49,200,965)	(38,652,061)
Net provision for unpaid claims and adjustment expenses, end of year	15,348,795	39,937,442	55,286,237	54,173,606
Reinsurance ceded, end of year	13,844,022	18,588,432	32,432,454	31,188,448
Gross provision for unpaid claims and adjustment expenses, end of year	$ 29,192,817	$ 58,525,874	$ 87,718,691	$ 85,362,054

5. Unpaid claims and adjustment expenses, continued:

(c) The Company estimates that the fair value of the gross provision for unpaid claims and adjustment expenses is $87,596,891 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 unfavorable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers.

Failure of reinsurers to honor 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 $425,000 (2006 - $375,000) 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 $40,000,000 (2006 - $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:

	2007	2006
Net premiums earned reduced by	$ 43,789,247	$ 42,324,222
Claims incurred reduced by	15,869,350	24,538,884
Commissions and premium taxes reduced by	9,238,458	11,645,446

7. Bank loan payable:

PHI Properties Limited, the Company's wholly-owned subsidiary, owns an office building in Edmonton. The building purchase and the subsequent building improvements were 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. Annual principal payments of $162,000 are due until the maturity of the loan on May 31, 2011.

8. Share capital:

	2007	2006
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. PHI Properties Limited:

	2007	2006
Rental income	$ 773,092	$ 797,814
Expenses:		
Operations	671,100	649,538
Amortization	81,669	69,352
Interest	142,492	138,904
Other	148,481	86,073
Total expenses	1,043,742	943,867
Net loss	$ (270,650)	$ (146,053)

10. Related party transactions:

The Company donated $1,172,312 (2006 - $1,889,418) to individual members and organizations of the Samson Cree Nation, which is the ultimate shareholder of the Company. These donations are included in administrative expenses of which $1,000,000 is included in expenses due and accrued.

11. Commitments:

Operating lease commitments:

The Company has contractual obligations expiring at various dates in 2008 to 2013 in respect of rents payable on leased premises and equipment as follows:

Year ending December 31:	
2008	$ 207,147
2009	174,739
2010	167,340
2011	146,947
2012 and thereafter	214,200

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 $900,000 (2006 - $1,600,000) 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:

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 rate risk through the bank loan payable bearing interest at bank prime rate plus 0.25%.

Credit risk

The Company is exposed to credit risk through its investment securities and amounts receivable from policyholders and reinsurers. The Company has policies to limit and monitor its exposures to individual issuers and classes of issuers of investment securities. 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.

Asset and liability matching

The Company is exposed to changes in the value of its fixed income securities and policy liabilities to the extent that market interest rates change; the risk of losses to the extent that the sale of a security prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows; the risk that future inflation of policyholder cash flows exceed returns on long-dated investment securities; and foreign currency risks with respect to investments denominated in foreign currencies.

To mitigate these risks, the Company has policies to ensure that the assets and liabilities are broadly matched in terms of their duration and currency. The Company's exposures are monitored on a regular basis and actions are taken to balance positions when approved risk tolerance limits are exceeded. The Company holds foreign currency denominated common shares and other investments in the amount of $14,001,032 (2006 - $14,535,626).

14. Supplemental cash flow information:

	2007	2006
Cash paid for:		
Interest	$ 142,492	$ 138,904
Income taxes	4,886,099	2,953,689
Cash received from:		
Dividends	1,644,599	810,987
Interest	3,451,436	2,719,425
Income taxes	26,868	2,133,292

15. Alberta Risk Sharing Pool and Facility Association Residual Market:

The Company is a participant in the Alberta Risk Sharing Pool and Facility Association Residual Market ("ARSP" and "FARM"). Both the ARSP and FARM 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 proportionately consolidates 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:

	2007	2006
Assets:		
Due from other insurance companies	$ 7,613,791	$ 8,091,299
Amounts recoverable from reinsurers	3,490,471	4,872,783
Deferred policy acquisition costs	1,554,879	1,693,983
	12,659,141	14,658,065
Liabilities:		
Provision for unpaid claims and adjustment expenses	12,137,914	13,410,635
Unearned premiums	5,466,001	6,080,498
Due to other insurance companies	791,261	1,324,661
Other taxes due and accrued	96,445	74,132
	18,491,621	20,899,926
Revenues:		
Premiums earned	9,112,249	8,980,288
Expenses:		
Claims	3,539,180	5,940,577
Commissions	2,274,649	2,384,313
Premium and other taxes	719,933	669,911
Administrative expenses	309,677	289,509
	$ 6,843,439	$ 9,284,310

16. Funds due to FARM:

FARM reduced its role in investing funds on behalf of participating companies. As a result the Company received its proportionate share of these funds and they are currently held by the Company 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.

17. Subsequent events:

The Board of Directors declared a dividend to the shareholder of $200,000 on January 18, 2008 which will be paid in February 2008.

The Company has also entered into a loan agreement with an unrelated party subsequent to December 31, 2007 to provide a loan in the amount of $875,000.

18. Comparative figures:

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