strength & balance

2009 Annual Report

We owe a debt of gratitude to our brokers and our staff for their dedication, enthusiasm and continued support throughout a very tremulous year.

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Chief Marvin Yellowbird
Chairman of the Board

2009 was a year of reflection and the Board of Directors took the opportunity to review our responsibilities and policies.

At the Annual Strategic Planning session in June, we completed and approved the 1st Peace Hills Insurance Enterprise Risk Management (ERM) plan. We identified potential events that may affect the company and put procedures in place to manage or mitigate these risks.

In order to meet the above objectives, and also to find someone to provide an independent and objective evaluation of internal controls, we decided to hire an Internal Auditor. In October we hired Trent Gibson, who is a Chartered Accountant and came to Peace Hills with previous auditing experience with an insurance company in Bermuda.

Another area that we recognized as needing additional support was the computer system and it became obvious that we needed someone that could take sole responsibility for the department at a senior executive level. In November 2009, we hired Harvey Schaerer as Vice President of Information Technology.

The Investment Committee of the Board contracted an investment consultant to assist the committee in reviewing our investment policy and procedures. This review will take place in the early part of 2010 and recommendations will be presented at the February Board of Directors meeting.

Although the start of 2009 was difficult for the company, we are pleased with the outcome at year end both from a financial position as well as the strength of support we have engaged that will assist the Board of Directors and management to continue building a strong organization.

On behalf of the Board of Directors we would like to express our appreciation to management and staff. We recognize the importance of their commitment and dedication that has successfully guided the company through a difficult year.

Chairman's Report

Diane Brickner, CIP
President & CEO

The Challenges we experienced in 2008 continued to plague us in the first quarter of 2009. The stock market kept falling until it reached its low at the end of March and so our underwriting results were less than satisfactory.

The reduction of the stock market, the real estate market, and the price of oil and gas created a slowdown in the economy, which we fully experienced in our geographic region of Western Canada. Despite rock bottom interest rates, we still underwent a prolonged economic slowdown. As many companies downsized, it was evident in our commercial auto and property books of business as both have seen limited or no growth this past year.

The next challenge we faced was the downgrade of the A.M. Best rating, even though our minimum capital test with the regulators' was 204%, well above the comfort zone set by the Superintendent. A communication plan was put in place to reassure the brokers that our financial position was strong and healthy and that we were committed to our strategic objectives of growing and prospering in Western Canada.

The market continues to be perplexing. Industry publications are filled with market deterioration and plummeting results, which lead us to believe the market should be hardening. The only increase we see in pricing is in personal property; the commercial market is still very aggressive.

What were the consequences of these challenges and what was the outlook for the rest of 2009 and into the future? First, as you may have read in the Chairman's report, the Investment Committee took a hard look at our investment policy and made some changes, including hiring an expert to work with the Committee. Given the likelihood of persistently low interest rates and the uncertainty over the future direction of the stock market, we continue to take a conservative approach to our investments.

As well, over the past 18 months we have increased personal property and farm rates 3 times, with the latest increase in December 2009. The accumulated increases were approximately 16% in personal property and 8% in farm business.

Finally, we have learned that our vision and values continue to guide us even in these times of change. If we can improve on them every day by learning and sharing with each other, by listening to our brokers and by valuing our employees, we can successfully overcome any adversity. In fact, our unchanging values are more of a competitive advantage as our industry evolves and consolidates.

We owe a debt of gratitude to our brokers and our staff for their dedication, enthusiasm and continued support throughout a very tremulous year.

President's Report

Kathy Boychuk, CMA
Vice President, Finance

One could say this was a year of ups and downs. The gross written premium was up ending the year at $165,724,108. This is growth of 6% year over year. Net earned premiums were $109,998,929 which is up 9% over the previous period as we earned the growth in premiums of the past twelve months. Our financial strength rating was down and 2009 became a year where we put our efforts towards growing our capital and strengthening our capital position.

We continued to struggle early in the year as the investment markets continued to drop and the economy fell into a recession. We adjusted rates, slowed our growth and took some of the risk out of our investment portfolio. These things, coupled with a strong reinsurance program, allowed us to work through the low points in the year.

As the year went on, the markets began to recover and underwriting results improved. Our investment portfolio which began the year with a market value well under cost, ended the year with a market value which had improved to exceed cost. This helped to improve results and strengthen our capital ratio since the calculation takes the current market value of investments into account.

Even after experiencing the largest catastrophe in the Company's history, the underwriting results were maintained, due in part to our strong reinsurance program. We ended the year with an underwriting profit of $2,627,227. We certainly benefited from the late year decision of the courts to uphold the Minor Injury Regulation and we had a significant release of reserves in December because of it. With a loss ratio that continues to outperform the industry, we ended the year with a combined ratio of 99.4%.

Combining the investment income with our underwriting profit we achieved net income after tax in the year of $3,173,911. Other comprehensive income was $3,614,865. Together these combined to increase our equity position to just over $49 million to end the year. This is a significant improvement over the previous year's results and produced an ROE of 7%. We continue to work to strengthen our financial position and improve our bottom line. Through the up and downs, Peace Hills Insurance remains a strong and healthy insurance company and celebrates a successful year of recovery.

Finance Report

Jamie Hotte, FCIP
Vice President, Underwriting & Marketing

Gross Written Premiums

Gross Written Premiums totaled $156,610,347. (excluding Facility Association premiums) which was an increase of 7% over 2008.

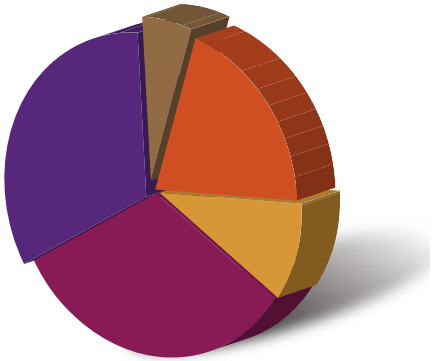
In Force Policies

Our policy count increased by 7% ending the year with 118,756 policies.

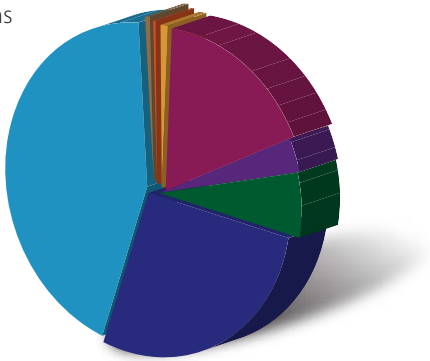
Underwriting Results

Underwriting results improved significantly in 2009 and we produced a net underwriting profit of $2,627,227. Gross loss ratio increased by 8 percentage points ending the year at 73%. Even though our gross loss ratio increased, our net results improved as one single summer storm in Alberta accounted for almost 7% of the gross loss ratio. Subsequently most of that loss was covered by our reinsurers.

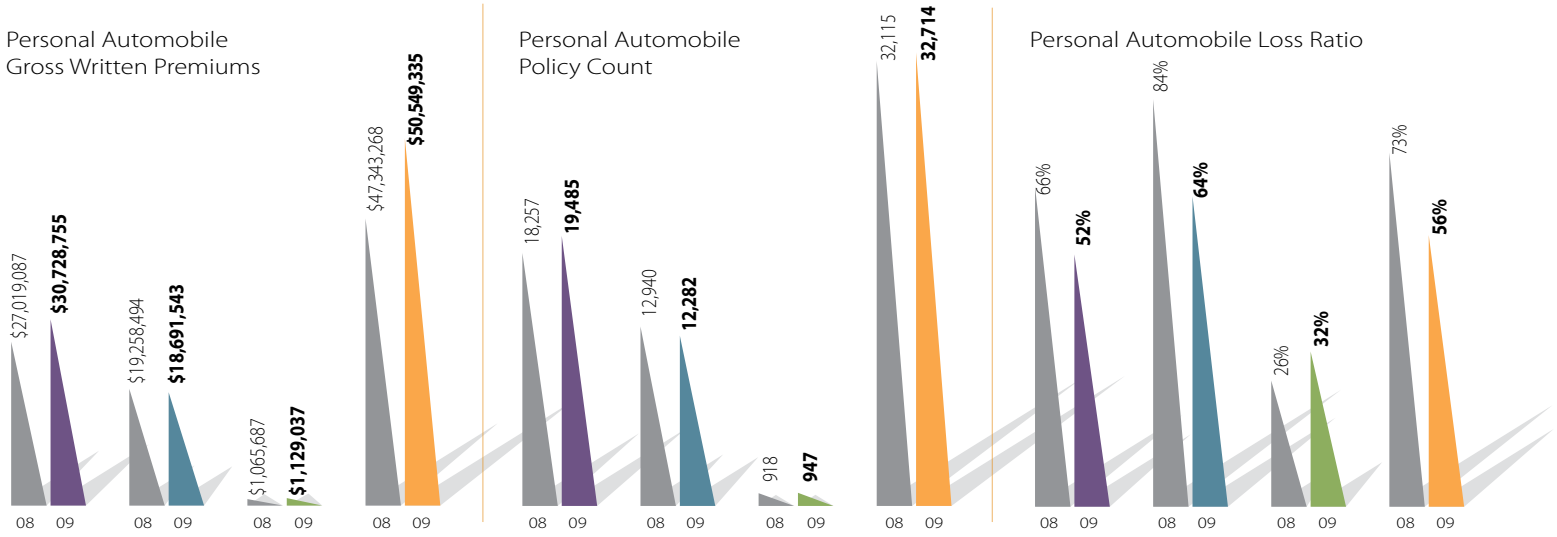
Gross Written Premiums
By Business Line



Gross Written Premiums
By Region



Underwriting & Marketing Report



Northern Alberta
Southern Alberta
NWT, Nunavut,Yukon
Combined

REVIEW OF EACH BUSINESS LINE

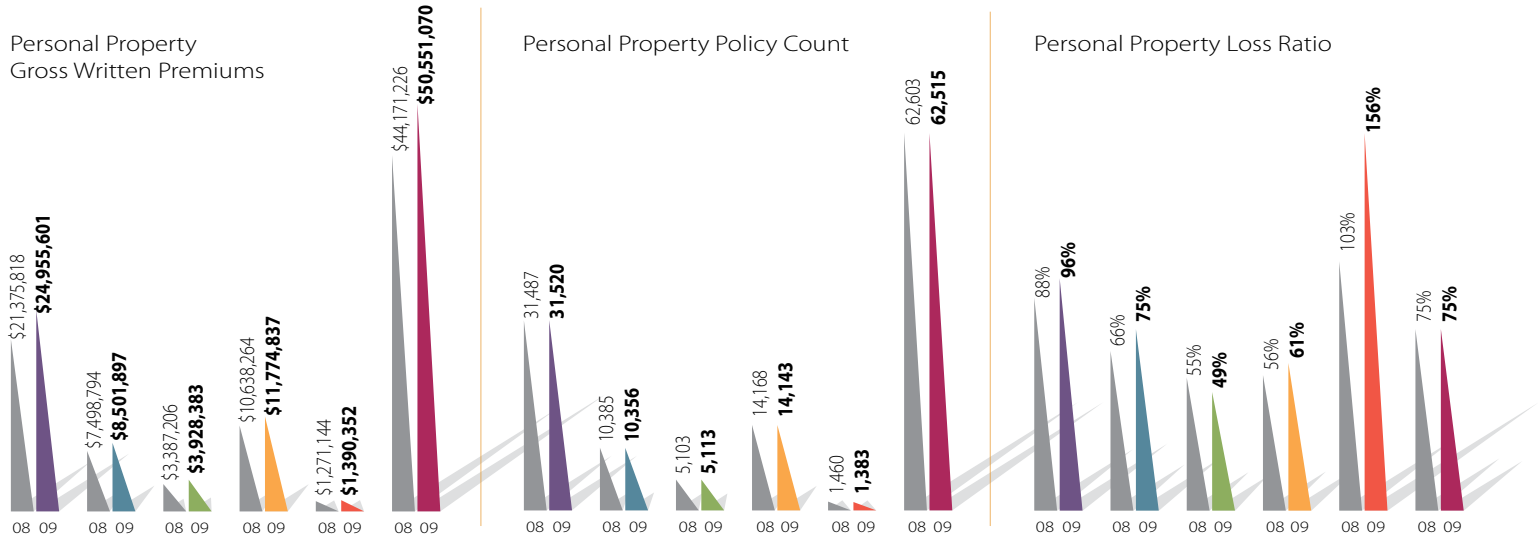
PERSONAL AUTOMOBILE

Gross written premiums, (excluding Facility Association and premiums) increased by 7% ending the year at $50,549,335. We ceded $8,920,164 of premium to the Alberta Risk Sharing Pool.

Our in force policies increased by almost 2% ending the year with 32,714 policies.

Our gross loss ratio decreased by 17 percentage points ending the year at 56%.

Underwriting & Marketing Report (con't)



PERSONAL PROPERTY

Gross written premiums increased by 14% ending the year at $50,551,070.

Our in force policies decreased by less than 1% ending the year at 62,515 policies.

Our gross loss ratio remained the same ending the year at 75%.

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

Underwriting & Marketing Report (con't)

FARM PROPERTY

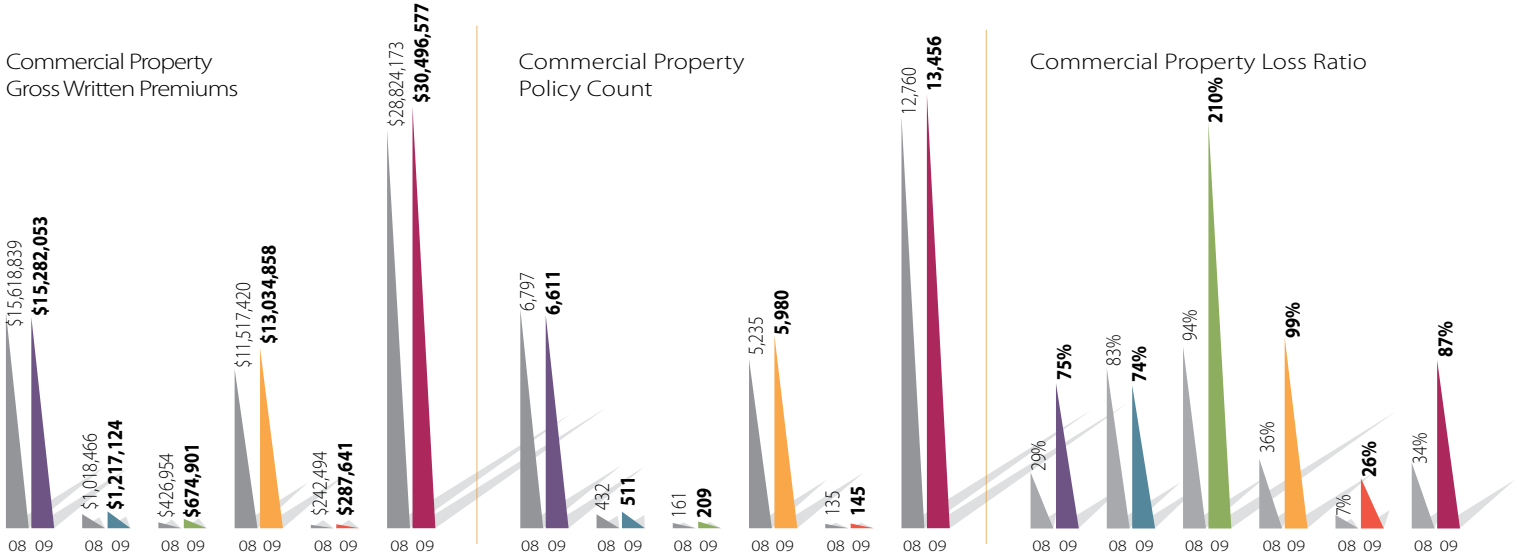
Gross written premiums increased by 12% ending the year at $9,123,483.

Our in force policies increased by less than 1% ending the year at 4,958 policies.

Our gross loss ratio increased by 5% ending the year at 96%.

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

Underwriting & Marketing Report (con't)



COMMERCIAL PROPERTY/CASUALTY

Gross written premiums increased by 6% to $30,061,443.

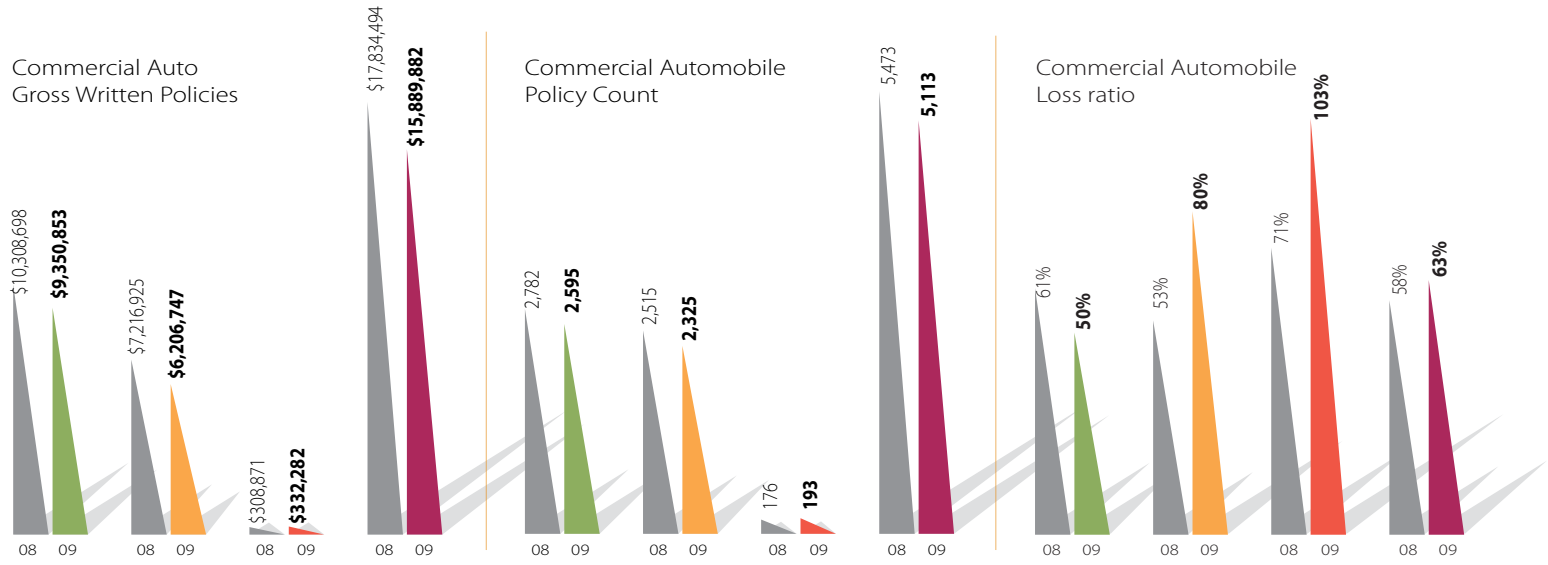
Our in force policies increased by almost 5% ending the year with 12,756 policies.

Our gross loss ratio increased by 53 percentage points ending the year at 87%. This increase was primarily due to a few very large losses.

We continued to see a very soft market throughout 2009.

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

Underwriting & Marketing Report (con't)



COMMERCIAL AUTOMOBILE

Gross written premiums decreased by 11% to $15,889,882.

Our in force policies decreased by almost 7% ending the year with 5,113 policies.

Our gross loss ratio increased by 5 percentage points ending the year at 63%.

- Northern Alberta
- Southern Alberta
- NWT, Nunavut,Yukon
- Combined

Underwriting & Marketing Report (con't)

PROVINCIAL REPORTS

Alberta

Gross written premiums increased by 5% to $111,262,352.
Policies in force increased by 2% ending the year at 78,046.
Our gross loss ratio increased by 5 percentage points ending the year at 72%.

Manitoba

Gross written premiums increased by 14% to $10,401,919.
Policies in force increased by less than 1% ending the year at 11,286.
Our gross loss ratio increased by 5 percentage points ending the year at 74%.

Saskatchewan

Gross written premiums increased by 21% to $5,033,342.
Policies in force increased by just over 1% ending the year at 5,539.
Our gross loss ratio increased by 7 percentage points ending the year at 67%.

British Columbia

Gross written premiums increased by 11% to $26,747,244.
Policies in force increased by 3% ending the year at 21,209.
Our gross loss ratio increased by 24 percentage points ending the year at 78%.

Northwest Territories

Gross written premiums decreased by 14% to $1,324,042.
Policies in force decreased by 24% ending the year at 1,155.
Our gross loss ratio increased by 4 percentage points ending the year at 104%.

Yukon

Gross written premiums increased by 46% to $1,322,028.
Policies in force increased by 48% ending the year at 1,018.
Our gross loss ratio increased by 35 percentage points ending the year at 87%.

Nunavut

Gross written premiums increased by 8% to $485,372.
Policies in force increased by just over 1% ending the year at 503.
Our gross loss ratio increased by 114 percentage points ending the year at 75%.

RATE CHANGES

The following rate changes were implemented late in 2008 and during 2009.

Business Line	Nov. 2008	Dec. 2008	July 2009	Nov. 2009	Dec. 2009
Personal Auto	2.51%	0.00%	1.91%	-2.51%	0.00%
Personal Property	0.00%	7.68%	3.31%	0.00%	5.06%
Farm Property	0.00%	4.99%	2.03%	0.00%	1.14%

Marketing and our Brokerage Force

Our overall growth of 7% met our budgeted growth for 2009. We wrote 20,077 new policies during 2009. Competition was tough throughout the year and our Marketing Teams and our Brokers had to work hard to achieve this growth. I would like to thank them for their dedication and hard work.

Retention

Due to a very competitive market and our rate increases, our retention was down by 3 percentage points ending the year at 84%.

Independent Brokerage Network

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

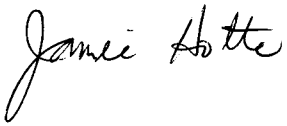
During 2009 we appointed 22 new brokers. Over the year there were some acquisitions and consolidation. Even though the number of brokers has increased, the number of locations has decreased by 2 locations.

We were represented by 176 brokers with 366 locations throughout western Canada.

PROVINCE	BROKERS	LOCATIONS
British Columbia	28	109
Alberta	123	192
Saskatchewan	7	20
Manitoba	16	41
NWT, Yukon & Nunavut	2	4

Our Underwriting Teams

After a very disappointing underwriting year in 2008, results improved significantly in 2009. This improvement was primarily due to two things: increased pricing in some business lines and focus on underwriting. I would like to extend my gratitude and appreciation to all of our underwriting teams for a job well done!



Underwriting & Marketing Report (con't)

Robert Doiron, BA, CIP
Vice President, Claims

There were two major stories coming out of 2009, the Supreme Court Decision on the Minor Injury Regulation (MIR) and the August 1 – 3 Catastrophe loss in southern Alberta.

Alberta Minor Injury Regulation

On December 18, 2009 the Supreme Court denied leave to appeal to the plaintiffs alleging the MIR was unconstitutional and should be struck down. This meant the indexed $4,000 cap for pain and suffering on minor injuries is constitutional and will remain in place in Alberta. At Peace Hills, we have been reserving our minor injury files with a cushion in case the cap was declared unconstitutional. We were able to draw down those reserves to reflect this decision. We fully expect the MIR to be challenged in other ways by imaginative plaintiff counsel but for the time being we will celebrate this very good news.

Storms

This is not such a good news story. August 1 – 3, 2010 we experienced the largest catastrophe loss in corporate history. By year end, we had 911 claims (isn't 911 an interesting number) reported, ringing in at $10,613,307. The good news part is our staff did a tremendous job of closing 60% of these files by year end.

We also experienced a significant storm in Manitoba. This one had 226 claims for a total of $2,690,540.

Claims Frequency by Business Line

Year	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm Property	Garage	All Lines
2009	14%	6%	21%	11%	9%	19%	9%
2008	14%	4%	20%	9%	8%	7%	8%
2007	14%	5%	21%	9%	9%	NA	9%

Claims Report

2009 frequency without catastrophes

Personal Property	5%
Commercial Property	10%
Farm Property	6%

The items which stand out with regard to frequency are the property lines which were affected by a large catastrophe loss occurring August 1, 2009 and a smaller one on August 13, 2009. The combined total number of catastrophe claims was 1,137. Garage business is a small volume therefore subject to wider fluctuations.

The volume of large commercial losses (>$100,000) have steadily increased over the last three years:

2007	5
2008	11
2009	17

Claims Severity by Business Line

Year	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm Property	Garage	All Lines
2009	5,743	11,418	6,635	13,280	18,005	6,414	10,249
2008	6,022	11,562	7,829	8,793	18,203	5,009	9,570
2007	5,783	8,348	6,471	13,772	14,896	5,680	9,158

2009 severity without catastrophes

Personal Property	$11,048
Commercial Property	$13,333
Farm Property	$16,611

The standout in severity is Commercial Property. To isolate the main drivers behind the increase in severity we reviewed losses > $100,000. To put this into context it should be recognized that there was a $4,620,000 increase to a 2007 liability reserve in 2009. The other main contributors in 2009 were a $2,555,190 restaurant fire loss and a significant increase in losses over $100,000.

Claims Report (con't)

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Vancouver, BC V6E 3X2 Canada
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or 1-877-408-4708

EDMONTON OFFICE

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

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Calgary, AB T2P 4G8 Canada
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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

AUDIT/CONDUCT REVIEW COMMITTEE:

Pat Buffalo (Chair), Florence Buffalo, Bill Kordyback, Julian Koziak, Dennis Leonard, John Szumlas

GOVERNANCE/COMPENSATION COMMITTEE:

Trevor Swampy (Chair), Pat Buffalo, John Crier, Bill Kordyback, Dennis Leonard, John Szumlas, Marvin Yellowbird

INVESTMENT/PHI PROPERTIES LTD. COMMITTEE:

John Crier (Chair), Pat Buffalo, Lena Cutknife, Bill Kordyback, Julian Koziak, Dennis Leonard, Trevor Swampy, Marvin Yellowbird

Chief Marvin Yellowbird
Chairman

Diane Brickner
President & CEO

Trevor Swampy
Vice Chairman

Pat Buffalo
Secretary/Treasurer

Florence Buffalo

John Crier

Lena Cutknife

Bill Kordyback

Julian Koziak

Dennis Leonard

John Szumlas

Raymond Lightning
Elder

Board of Directors

Executive

Diane Brickner, CIP
President & CEO

Jamie Hotte, FCIP
VP, Underwriting & Marketing

Kathy Boychuk, CMA
VP, Finance

Robert Doiron, BA, CIP
VP, Claims

Mary Clinton, CHRP
VP, Human Resources & Administration

Harvey Schaerer, B.sc.
VP, Information Technology

Management

Nazz Baksh, CMA
Controller

George Boulay,
B.Comm, FCIP, CRM
Underwriting Manager, BC

John Bud, CGA, CNA
Information Systems Manager

Jim Dyson, FCIP
Underwriting Manager,
Southern Alberta

Fergus Kavanagh
VP & Branch Manager,
Southern Alberta

Neil Klawitter
Branch Manager,
Northern Alberta

Daryl Kochan, FCIP
Branch Manager,
British Columbia

Karri McCann
Commercial Lines Manager,
Southern Alberta

Joan McMillan
Administration Manager,
Head Office & Northern Alberta

Jeff Mowatt
Claims Manager, Northern Alberta,
MB, SK, NWT, Nunavut, Yukon

Carol Paul
Personal Lines Manager,
Northern Alberta

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

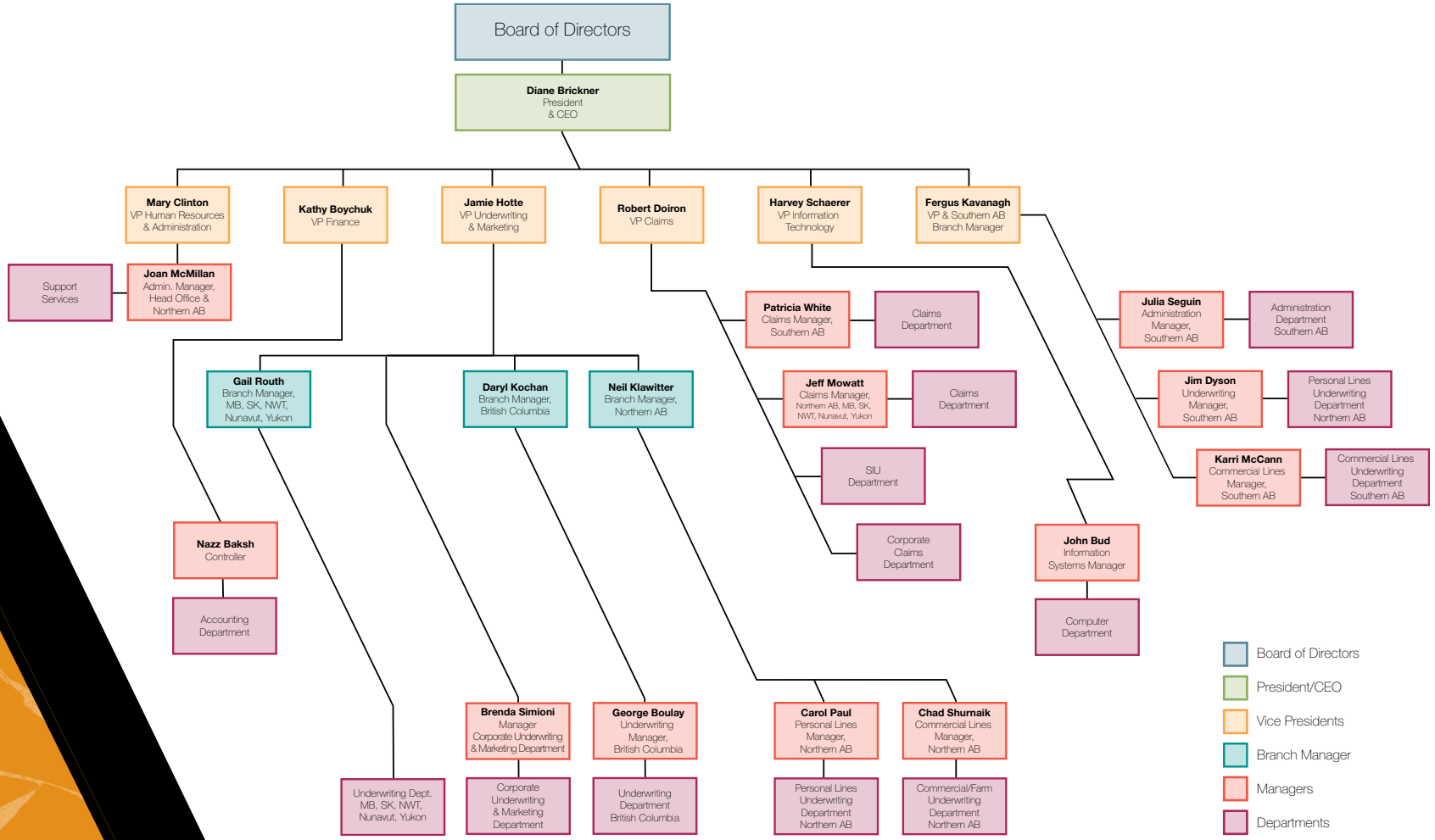
Julia Seguin
Administration Manager,
Southern Alberta

Chad Shumaik,
B.Comm, FCIP, CRM
Commercial Lines Manager, N. AB

Brenda Simioni
Manager, Corporate Underwriting
& Marketing

Pat White, CIP
Claims Manager,
Southern Alberta

Corporate Structure



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Management Statement on Responsibility for Financial Reporting

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

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

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

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

The actuary has been appointed by the Board of Directors pursuant to the Act. The actuary is required to carry out a valuation of the policy liabilities recorded by the Company in its consolidated financial statements and report thereon to the shareholder. Policy liabilities consist of the provisions for and reinsurance recovery of unpaid claims and adjustment expenses on insurance policies in force, including provisions for salvage and subrogation, and future obligations on the unearned portion of insurance policies in force, including deferred policy acquisition costs. The valuation is made in accordance with accepted actuarial practice, as well as any other matter specified in any direction that may be made by regulatory authorities. The actuary, in her verification of the management information provided by the Company used in the valuation, also makes use of the work of the external auditors. The actuary's report outlines the scope of her work and opinion.

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

Diane Brickner, CIP
President and CEO

Kathy Boychuk, CMA
Vice President, Finance

February 24, 2010, Edmonton, Canada

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, 2009 and the consolidated statements of operations, retained earnings, comprehensive income (loss) and accumulated other comprehensive income (loss) 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, 2009 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
Chartered Accountants

Edmonton, Canada
February 24, 2010

Auditors' Report

Baron Insurance Services Inc.

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, 2009 and their changes in its statement of income for the year then ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

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

Barbara Addie
Fellow, Canadian Institute of Actuaries

February 24, 2010
Toronto, Ontario

Actuaries' Report

Peace Hills General Insurance Company
For The Year Ended December 31, 2009
(in Thousands)

	2009 $	2008 $
ASSETS		
Cash and cash equivalents (note 2)	44,939	43,379
Accrued investment income	799	851
Investments (note 3)	92,003	71,379
Due from agents, brokers and policyholders	33,039	32,758
Due from other insurance companies	9,009	8,589
Income taxes recoverable	-	6,997
Other receivables	2,483	2,123
Amounts recoverable from reinsurers		
Unpaid claims and adjustment expenses (notes 5 and 6)	47,651	31,628
Unearned premiums	18,856	15,396
Salvage and subrogation	(284)	(244)
Deferred policy acquisition costs	19,273	18,131
Future income taxes	288	547
Prepaid expenses and other assets	269	165
Capital assets (note 4)	4,867	5,276
Intangible assets (note 4)	1,615	1,835
	274,807	238,810
LIABILITIES		
Due to agents, brokers and policyholders	3,838	3,219
Due to other insurance companies	2,534	250
Expenses due and accrued	2,472	1,707
Income taxes payable	2,358	-
Other taxes due and accrued	5,573	5,913
Funds held for other insurance companies (note 18)	6,419	6,419
Bank loan payable (note 7)	1,795	1,957
Unearned premiums	79,128	73,885
Provision for unpaid claims and adjustment expenses (note 5)	115,197	97,548
Unearned reinsurance commissions	6,452	5,630
Other liabilities	-	30
	225,766	196,558
Commitments (note 12)		
Contingent liabilities (note 13)		
SHAREHOLDER'S EQUITY		
Share capital (note 8)	2,000	2,000
Contributed surplus	9,362	9,362
Retained earnings	35,199	32,025
Accumulated other comprehensive income (loss)	2,480	(1,135)
	49,041	42,252
	274,807	231,810

Approved by the Board of Directors

Director

Director

Consolidated Balance Sheet

Peace Hills General Insurance Company
For The Year Ended December 31, 2009
(in Thousands)

	2009 $	2008 $
Balance – Beginning of year	32,025	35,660
Net earnings (loss) for the year	3,174	(3,435)
Dividends paid	-	(200)
Balance – End of year	35,199	32,025

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

Peace Hills General Insurance Company
For The Year Ended December 31, 2009
(in Thousands)

	2009 $	2008 $
Gross premiums written	**165,724**	**156,051**
Direct premiums written	**156,804**	**147,184**
Net premiums written	111,717	111,297
Net premiums earned (note 6)	109,999	101,262
Earned service charge revenue	1,964	1,820
Underwriting revenue	111,963	103,082
Expenses incurred (note 6)		
Claims (note 5)	66,222	67,081
Commissions	19,611	16,723
Premium and other taxes	5,103	4,659
Administrative	18,400	17,633
	109,336	106,096
Underwriting income (loss)	2,627	(3,014)
Investment income (expenses)		
Interest	2,596	3,049
Dividends	789	1,418
Loss on disposal of investments	(636)	(5,405)
Write down of investments	(328)	(178)
General investment expenses	(338)	(346)
	2,083	(1,462)
Loss from PHI Properties Limited (note 9)	(393)	(219)
Earnings (loss) before income taxes	4,317	(4,695)
Income taxes		
Current	814	(1,278)
Future	329	18
	1,143	(1,260)
Net earnings (loss) for the year	3,174	(3,435)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Operations

	2009 $	2008 $
Comprehensive income (loss)		
Net earnings (loss) for the year	3,174	(3,435)
Unrealized gains and losses on available for sale financial assets	4,579	(16,815)
Reclassification of realized gains and losses to operations	636	5,405
Net change in unrealized gains and losses	5,215	(11,410)
Income taxes	(1,600)	3,537
Other comprehensive income (loss)	3,615	(7,873)
Total comprehensive income (loss)	6,789	(11,308)
Accumulated other comprehensive income (loss)		
Balance – Beginning of year	(1,135)	6,739
Other comprehensive loss	3,615	(7,873)
Total accumulated other comprehensive income (loss)	2,480	(1,135)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income (Loss)

	2009 $	2008 $
Cash provided by (used in)		
Operating activities		
Net earnings for the year	3,174	(3,435)
Items not affecting cash:		
Future income taxes	329	18
Net realized loss on disposal of investments	636	5,405
Write down on investments	328	178
Amortization of bond premium (discount)	236	41
Amortization of capital and intangible assets	945	1,011
Loss on disposal of capital assets	68	186
	5,716	3,404
Change in non-cash working capital items:		
Deferred policy acquisition costs	(1,142)	(1,503)
Unpaid claims and adjustments expenses, net of recoverable from reinsurers	1,626	10,634
Unearned premiums, net of recoverable from reinsurers	1,718	10,154
Unearned reinsurance commissions	822	1
Net change in other non-cash balances	9,975	(6,259)
	18,715	16,431
Financing activities		
Payment of dividends	-	(200)
Repayment of bank loan payable	(162)	(162)
	(162)	(362)
Investing activities		
Investments sold or matured:		
Bonds and debentures	9,928	8,710
Common shares	9,635	18,170
Other investments	1,092	2,473
Investments acquired:		
Bonds and debentures	(30,877)	(11,413)
Common shares	(6,360)	(14,487)
Other investments	(27)	(1,274)
Purchase of capital and intangible assets	(421)	(1,206)
Proceeds on disposal of capital assets	37	75
	(16,993)	1,048
Increase in cash and cash equivalents	**1,560**	**17,117**
Cash and cash equivalents – Beginning of year	**43,379**	**26,262**
Cash and cash equivalents – End of year	**44,939**	**43,379**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

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 26.7% of net premiums written. The Company's automobile insurance premiums can be impacted by mandatory rate roll backs and mandatory rate assessments as legislated by provincial law and by regulation in certain provinces. This could result in lower future premium rates or reductions to premium rates charged by the Company. In addition, the Company is required, under certain provincial legislation, to participate in risk sharing pools which may impact positively or negatively upon underwriting results. Certain benefit payments are also subject to provincial government regulation including automobile accident benefits.

c) Cash and cash equivalents

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

d) Investments

i) General

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

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

ii) Bonds and debentures

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

iii) Common shares and other investments

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

iv) Impaired assets

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

e) Premiums earned and deferred policy acquisition costs

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

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

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

f) Loans and receivables

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

g) Capital assets and Intangible assets

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

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

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

h) Provision for unpaid claims and adjustment expenses

The provision for unpaid claims represents the estimated amount needed to provide for the ultimate expected cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. The provision for adjustment expenses represents the estimated ultimate expected cost of investigating, resolving and processing these claims. As permitted by the Superintendent of Insurance of Alberta, the provision estimations do not take into consideration the time value of money, or make explicit provision for adverse deviation. These estimates are necessarily subject to uncertainty and are selected from a wide range of possible outcomes.

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

i) Salvage and subrogation

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

j) Reinsurance ceded

Premiums, claims and expenses are recorded net of amounts ceded to, and recoverable from, reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims and adjustment expenses and on unearned premiums are recorded on a gross basis as "amounts recoverable from reinsurers".

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

k) Financial liabilities

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

l) Income taxes

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

m) Foreign currency translation

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

n) Comprehensive income

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

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

o) Use of estimates

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

p) Change in accounting policies

Commencing January 1, 2009, the Company adopted the new CICA Handbook Section 3064 – Goodwill and Intangible Assets, which replaces Section 3062 – Goodwill and Intangible Assets and Section 3450 – Research and Development Costs. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard requires that an intangible asset should be recognized only if the asset is identifiable, the entity has control of the asset, the asset is expected to generate future economic benefits and the costs can be reliably measured.

The adoption of this standard did not result in a change in the recognition of the Company's assets and has had no effect on net income. However, the Company has retroactively reclassified intangible assets relating to software with net book value of $1,615 as at December 31, 2009 (December 31, 2008 – $1,835) from "Capital Assets" to "Intangible Assets" on the consolidated balance sheet.

CICA Handbook section 3862, Financial Instruments – Disclosures, was amended to enhance the disclosure requirements regarding fair value measurements and the liquidity risk of financial instruments. These amendments require enhanced disclosures about inputs to fair value measurement, including their classification that prioritizes the inputs to fair value measurement into a hierarchy. The prioritization is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are:

- Level 1: Unadjusted quoted prices for identical assets or liabilities in an active market
- Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs, or inputs that are derived principally from, or corroborated with, observable market data through correlation or other means; and
- Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs.

In 2009, the CICA issued various amendments to Section 3855 which further reduced differences between International Financial Reporting Standards ("IFRS") and GAAP. As a result of these amendments, debt instruments not quoted in an active market may be classified as loans. In addition, the new guidance requires reversing an impairment loss relating to an available-for-sale debt instrument when, in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized.

These amendments require retrospective application to January 1, 2009, however no impairment losses have been recorded by the Company on any of the debt instruments held so this change has no impact on the Company's assets and net income.

q) Future change in accounting policies

During 2008, the CICA Accounting Standards Board confirmed that IFRS will replace Canadian GAAP effective January 1, 2011 for Canadian publicly accountable entities. The Company will be required to adopt IFRS for fiscal periods commencing January 1, 2011 and is currently assessing the potential impact of this change and developing a plan accordingly.

2 Cash and cash equivalents

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

	2009	2008
	$	$
Cash	13,729	928
Bank term deposits, maturing in 3 months or less, at rates of interest varying between 0.9% to 1.6%	31,210	42,451
	44,939	43,379

3 Investments

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

					2008
	Cost	Amortized discount/ premium	Gross unrealized gains	Gross unrealized losses	Fair value carrying amount
	$	$	$	$	$
Bonds and debentures	46,120	184	2,417	(466)	48,255
Common shares	26,014	-	1,055	(5,336)	21,733
Other investments	1,380	-	47	(36)	1,391
	73,514	184	3,519	(5,838)	71,379

a) Bonds and debentures – principal amount and carrying amount

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

	2009		2008	
Term maturity	**Principal amount $**	**Fair value carrying amount $**	**Principal amount $**	**Fair value carrying amount $**
Government of Canada				
Due in one year or less	4,415	4,445	3,065	3,145
Between one and five years	9,060	9,690	9,225	9,952
After five years	12,305	13,262	8,510	8,704
Canadian provincial, municipal and public authorities				
Due in one year or less	-	-	2,015	2,050
Between one and five years	5,475	6,112	3,475	3,903
After five years	10,195	11,103	9,820	10,755
Canadian corporate				
Due in one year or less	2,065	2,132	1,520	1,520
Between one and five years	12,415	13,333	6,675	6,841
After five years	8,438	8,911	1,651	1,385
	64,368	68,988	45,956	48,255

b) Bonds and debentures – interest rate risk

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

		2009		2008	
	Interest receivable basis	**Effective rates (% range)**	**Coupon rates (% range)**	**Effective rates (% range)**	**Coupon rates (% range)**
Government of Canada	Semi-annual	0.11 to 7.37	3.75 to 5.75	3.43 to 10.38	3.75 to 5.75
Canadian provincial, municipal and public authorities	Semi-annual	1.72 to 6.87	3.30 to 7.50	2.70 to 6.87	3.30 to 7.50
Canadian corporate	Semi-annual	2.55 to 9.03	4.71 to 8.30	3.48 to 9.03	4.20 to 8.30

The Company holds $1,600 (2008 – $1,600) in bonds that have a variable rate of return.

c) Common shares and other investments

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

4 Capital and Intangible assets

			2008	2007
	Cost	Accumulated amortization	Net	Net
	$	$	$	$
Land	640	-	640	640
Building	2,741	662	2,079	2,177
Building improvements	1,386	1,109	277	417
Automotive equipment	390	291	99	172
Leasehold improvements	1,085	410	675	820
Office equipment and software	2,578	1,481	1,097	1,050
	8,820	3,953	4,867	5,276
Intangible assets: System software	2,039	424	1,615	1,835
Total Capital and Intangible assets	10,859	4,377	6,482	7,111

Amortization of capital and intangible assets of $848 (2008 – $897) is included in administrative expenses. Amortization of building of $97 (2008 – $114) is included in rental expenses (note 9).

5 Unpaid claims and adjustment expenses

a) Nature of unpaid claims and adjustment expenses

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

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

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

	Property	Automotive	2009	2008
	$	$	$	$
Provision for unpaid claims and adjustment expenses – Beginning of year				
Gross	34,912	62,636	97,548	87,719
Reinsurance ceded	13,478	18,149	31,627	32,432
Net provisions – Beginning of year	21,434	44,487	65,921	55,287
Net incurred claims and claim adjustment expenses				
Provision for insured events of current year	34,538	31,283	65,821	64,639
Increase (decrease) in provision for insured events of prior years	2,312	(1,912)	400	2,442
Total net incurred	36,850	29,371	66,221	67,081
Net payments attributable to				
Current year events	(15,470)	(18,567)	(34,037)	(32,477)
Prior year events	(15,859)	(14,700)	(30,559)	(23,971)
Total net payments	(31,329)	(33,267)	(64,596)	(56,448)
Net provision for unpaid claims and adjustment expenses – End of year	26,955	40,592	67,546	65,920
Reinsurance ceded – End of year	30,559	17,092	47,651	31,628
	57,514	57,683	115,197	97,548

c) The Company estimates that the fair value of the gross provision for unpaid claims and adjustment expenses is $116,689 (2008 – $98,876) as determined on a discounted basis by the appointed actuary.

6 Underwriting policy and reinsurance ceded

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophe or other events that cause unfavourable underwriting results by reinsuring certain levels of risk, in various areas of exposure, with other insurers.

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

The Company follows the policy of underwriting and reinsuring contracts of insurance that limit the net exposure of the Company to a maximum amount on any one loss of $553 (2008 – $637) 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 $65,000 (2008 – $65,000).

The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

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

	2009 $	2008 $
Net premium earned reduced by	41,626	38,397
Claims incurred reduced by	13,694	19,645
Commissions and premiums taxes reduced by	8,998	8,509

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 are due until the maturity of the loan on May 31, 2011.

8 Share capital

Authorized

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

Issued

	2009	2008
	$	$
20,000 common shares	2,000	2,000

9 PHI Properties Limited – Statement of Operations

	2009	2008
	$	$
Rental income	769	784
Expenses		
Operations	765	729
Amortization	97	114
Interest	44	106
Other	256	54
	1,162	1,003
Net loss	(393)	(219)

10 Pension plan

The Company maintains a defined contribution pension plan and other post retirement benefits for certain employees, which is funded by employer and employee contributions. Contributions are expensed as paid or accrued as earned. Pension expense included in Administrative expenses for the year ended December 31, 2009 was $751 (2008 – $557).

11 Related party transactions

The Company donated $173 (2008 – $150) to individual members and organizations of the Samson Cree Nation, which is the ultimate shareholder of the Company.

12 Commitments

Operating lease commitments

The Company has contractual obligations expiring at various dates in 2010 to 2015 in respect of rents payable on leased premises and equipment as follows:

	$
2010	498
2011	463
2012	440
2013	438
2014 and thereafter	821

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

13 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 (2008 – $900) to unrelated parties with terms ending in the year 2021. In the event of a default the Company will realize recovery on the assets of the entities for which guarantees have been made.

14 Financial risk management objectives and policies

Credit risk

Credit risk refers to the risk of financial loss from the failure of a counterparty/debtor to honour its obligation to the Company. The Company is exposed to credit risk through its investment securities and amounts receivable from agents, brokers, policyholders and reinsurers. The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits and single issuer limits. Compliance with the investment policy is monitored by the Investment Committee of the Board of Directors. All of the Company's term deposits and bonds and debentures are rated A or above, except for $1,843, which are rated BBB.

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

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

The Company's maximum credit exposure is the carrying value of the financial assets recorded on the balance sheet, as well as the loan guarantee disclosed in Note 13.

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%.

At December 31, 2009, a 1% change in interest rates, with all other variables held constant, could impact the fair value of bonds and debentures by $3,371 (2008 – $2,437). The change would be recognized in other comprehensive income. In addition, a 1% change in interest rates would have an impact of $18 (2008 – $20) annually on interest expense and cash flow related to the bank loan payable.

Market risk

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

At December 31, 2009, a 10% change in the equity market indices, with all other variables held constant, would have an estimated effect on the fair values of common shares and other investments of $2,302 (2008 – $2,300). The change would be recognized in other comprehensive income.

The Company holds United States Dollar denominated common shares and other investments in the amount of $4,055 (2008 – $7,681). A 10% change in the value of the United States Dollar would affect the fair value of the investments by $406 (2008 – $768).

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its cash obligations as they fall due. The Company does not have material liabilities that can be called unexpectedly. Claims and claims adjustment expenses and administrative expenses are funded by current operating cash flows which normally exceed cash requirements. The timing and amount of catastrophe claims events are inherently unpredictable and may create increased liquidity requirements. Liquidity risk is managed by maintaining a highly liquid investment portfolio. In addition, at December 31, 2009, the Company had $44,939 of cash and cash equivalents.

The payment obligations associated with the financial liabilities on the balance sheet are generally expected to be discharged during the 2010 fiscal year. The exception to this is the liability for the bank loan payable (note 7), the funds held for other insurance companies (note 18) and the provision for unpaid claims and adjustment expenses of which 90% is expected to be settled in the next five years. More than half of the provision for unpaid claims and adjustment expenses is expected to be settled the coming year.

15 Capital management

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

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

The financial strength of property and casualty insurers is measured by regulators using the Minimum Capital Test ("MCT"). This test compares a company's capital, which includes accumulated other comprehensive income, against the risk profile of the company. Various factors are applied to many different elements including assets, policy liabilities, and the type of invested assets. The Company's regulators in the Province of Alberta require that each company attain a minimum MCT ratio of 150%. The Company was in compliance with this requirement as at December 31, 2009 with a ratio of 242.6% (2008 – 208.7%).

16 Supplemental cash flow information

	2009 $	2008 $
Cash paid for		
Interest	44	106
Income taxes	157	1,809
Cash received from		
Dividends	773	1,413
Interest	2,548	3,153
Income taxes	7,075	1,352

17 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 associations of insurers which provide automobile insurance for owners and operators of motor vehicles who may otherwise have difficulty obtaining such insurance.

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

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

	2009	2008
	$	$
Assets:		
Due from other insurance companies	6,927	7,043
Amounts recoverable from reinsurers	2,935	3,559
Deferred policy acquisition costs	1,220	1,387
	11,082	11,989
Liabilities:		
Provision for unpaid claims and adjustment expenses	12,576	14,442
Unearned premiums	4,386	4,979
Due to other insurance companies	745	827
Other taxes due and accrued	51	73
	17,758	20,321
Revenues:		
Premiums earned	8,254	8,692
Expenses:		
Claims	3,650	8,112
Commissions	1,957	2,114
Premium and other taxes	484	589
Administrative	323	356
	6,414	11,171

18 Funds due to FARM

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

19 Variable interest entity

In 2008, the Company made a loan to one of its insurance brokers in the amount of $875. The loan bears interest at prime plus 1% (3.25% at December 31, 2009). Annual principal payments of $88 are due until maturity of the loan on February 28, 2013. Prepayment can occur without notice.

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

During the year ended December 31, 2009, the Company has written premiums from the broker of $1,702 (2008 – $1,548).