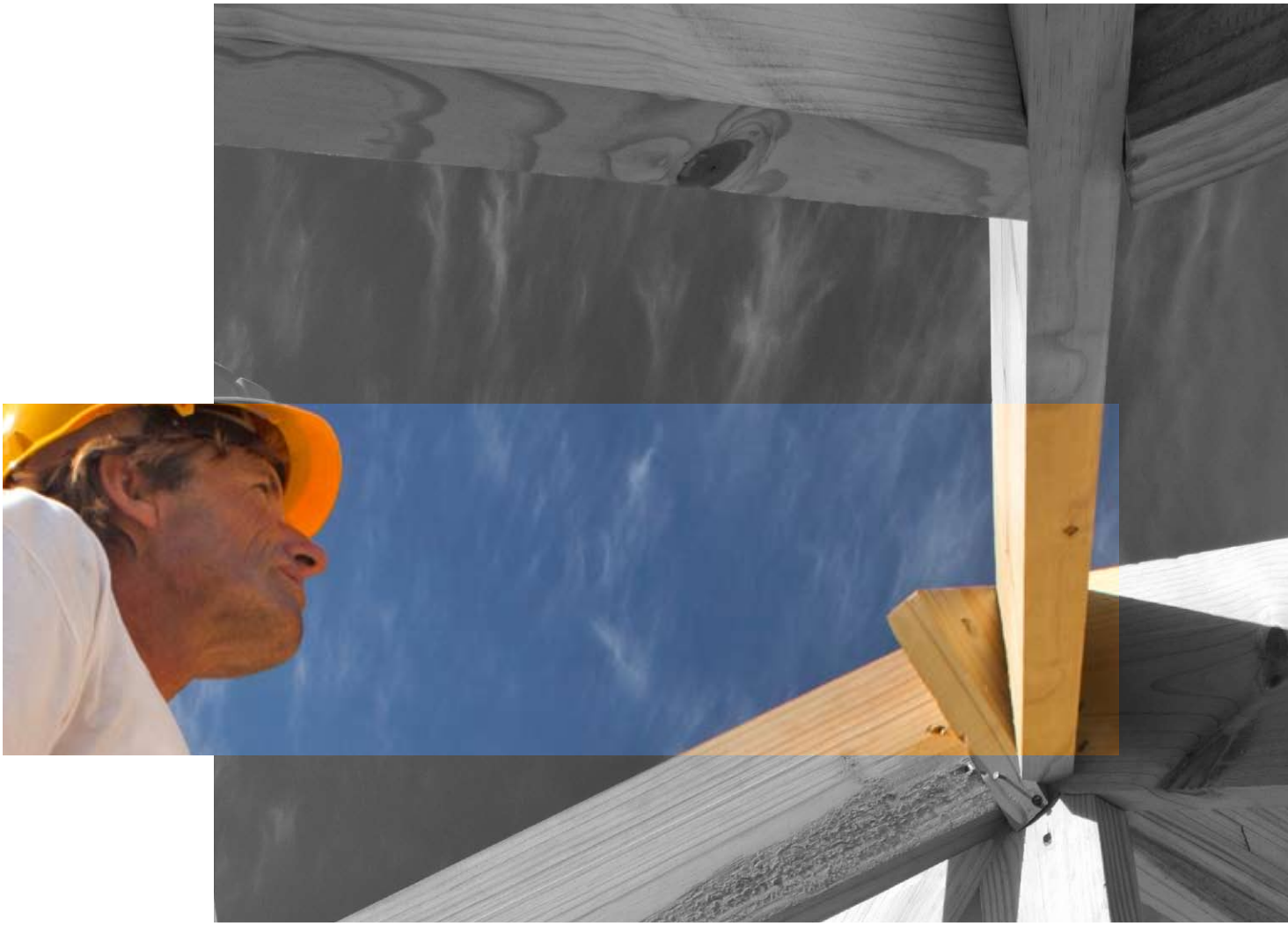
PEACE HILLS
INSURANCE



Peace Hills Insurance 2011 Annual Report

Resilience

Resilience:
an ability to recover from or adjust easily to misfortune or change

Merriam-Webster Dictionary

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Do not let what you cannot do interfere with what you can do.

John Wooden

The theme for this year's annual report is resilience and certainly this year has proven that Peace Hills is a very resilient company and that we can sustain diversity and challenges and remain competitive and financially healthy.

Chief
Marvin Yellowbird
Chairman of the Board

Resilience is the ability to recover quickly from adversity or misfortune. Even after the largest catastrophe in company history, Peace Hills has emerged to be a resilient company that has been able to sustain a diverse set of challenges and still rebound to become stronger.

The Slave Lake fires have had a major impact on our claims department and, in many ways, it reinforces to our staff the important part we play in the lives of our policyholders. The efficiency and professionalism with which we handled the claims is unprecedented in our industry. As you will see in the testimonials from our brokers and insured's, Peace Hills stands out amongst our competitors when it comes to the care and compassion provided to our clients. This was a difficult and yet rewarding year. We are pleased that we ended the year with a profit, which increased our retained earnings and improved the MCT to 325%.

I not only speak for myself, but all the Directors, when I send our most heartfelt appreciation to the staff for the commitment, dedication, and determination they demonstrated this year and especially for keeping their sense of humour and compassion for our insured's and our brokers. A job well done!

Chairman's Report

Once we believe in ourselves, we can risk curiosity, wonder, spontaneous delight, or any experience that reveals the human spirit.

E. E. Cummings

You will read throughout this report about the difficult issues that we encountered in 2011, however as the Chairman mentioned in his report this was a year that we demonstrated resilience. The Slave Lake fires, the weather related storms and the challenges to grow our business in an increasingly competitive environment.

Diane Brickner, CIP
President & CEO

There is a saying "What doesn't kill you makes you stronger" - well I'm sure that during the course of 2011 some of our claims staff thought we were working them to death, and trust me they worked very hard, as it was one of the most active claims years in our history. And it has made us stronger.

To be a strong and resilient company you need to have certain elements:

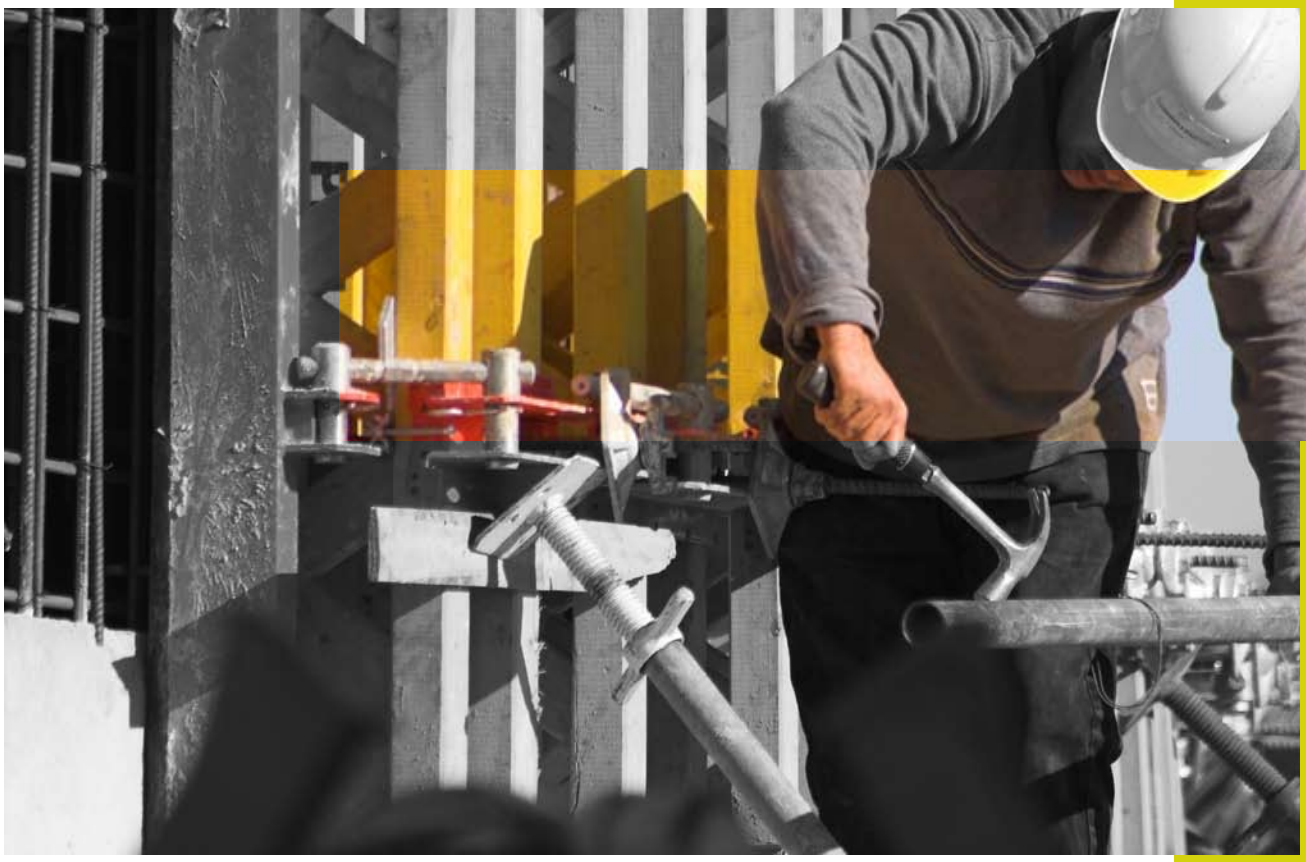
- A strong financial position – Peace Hills enjoys a minimum capital test of 325%. As a result of the Board decision to implement the Capital Management Strategy, which was introduced in 2009, and the commitment of the Board and Management to execute this plan, Peace Hills is today stronger, more financially sound, and better positioned to compete in our highly competitive industry.

- A clear and concise road map - In June 2011, the Board of Directors and Senior Management met and set the strategic goals and direction for the company. The focus of these goals was profit, shareholder engagement and growth. The management team have had an opportunity to work with these goals and each area of the organization has renewed their implementation plans to achieve the direction set by the Board.

- A corporate culture that is understood and embraced by the entire organization. Peace Hills has a unique and distinct culture and these shared values and beliefs are what hold the organization together and will make us so resilient to extraordinary challenges.

Throughout all these challenges, AM Best restored our B+ rating with a stable outlook and we have ended 2011 with the strongest MCT ratio to date. This puts Peace Hills in the best financial position in our history. As our 30th anniversary fast approaches, it will allow us to make some strategic enhancements to our business that will make us a better, stronger and more resilient company into the future.

President's Report



Life is a succession of lessons which must be lived to be understood.

Ralph Waldo Emerson

The year began with strong results and included an upgrade to our AM Best Rating to a financially secure rating of B+. As the year progressed, however, underwriting results were challenged by the increased level of weather related events, including the largest single event loss in company history being the Slave Lake fires. Despite this, 2011 ended with a profit and a very strong capital position.

Kathy Boychuk, CMA

Vice President, Finance

Gross written premiums were $178.6M up 3.7% from the previous year. After ceding premiums to various reinsurers, net earned premiums were $111.4M, which is up slightly over the previous year. The amount we retained on a net basis was similar to the previous year, however, due to the significant reinstatement premiums stemming from the Slave Lake catastrophe which reduced the gross revenues and consumed any growth in net premiums.

With a net loss ratio of 66.4%, we were challenged to remain profitable in property lines while better auto results helped to offset these losses. Again, we relied on our strong reinsurance program, as it assisted us through another active storm year. The net underwriting loss for the year was $5.2M down from a previous year underwriting income of $10.5M.

The year ended with a combined ratio of 106.5%, up from 92.4% in the previous year. The difference was almost entirely due to the deterioration in the loss ratio which ended 12 points higher than the previous year.

The Company maintained a high quality investment portfolio comprised mostly of bonds and Canadian equity. Investment income was was up from the previous year and we generated income of $8.9M consisting mainly of interest income and capital gains. After combining investment income with our underwriting profit, we achieved net income after tax for the year of $2.9M.

Overall, there is an accumulated unrealized gain after tax in our investment portfolio of $5.2M. This is down $0.2M during the year after realizing some of the previous year's gain. When added to net income, this brings the total comprehensive income for the year to $2.8M.

Our equity position rose to $73.7M. With the conversion to International Financial Reporting Standards, the Company elected to revalue the portion of the building that serves as investment property to fair value. This revaluation boosted the equity by $7.0M. The resulting average after-tax ROE was 4.7%. With our continued focus on capital management, we have maintained our capital ratio above our internal target and ended the year with an MCT ratio of 325%, well above the regulatory minimum which has re-affirmed our financial strength.

Although 2011 was a challenging year for us, our resilience will once again carry us into 2012 with determination to improve underwriting results. As we look forward to our 30th year of business, we remain committed to the strength of our broker force, our dedicated employees and will continue to build on our financial strength.

Finance Report

Only those who dare to fail greatly, can ever achieve greatly.

Robert F. Kennedy

In 2011, Peace Hills felt the departure of key personnel in the corporate underwriting department amidst an environment of persistent soft commercial lines, and of course, significant catastrophe activity.

Gross written premiums during the year, excluding the Auto Facility and Risk Sharing Pools, totaled $171.5M which was an increase of 4.1% from the prior year total of $164.8M. Total premiums ceded to the Alberta Risk Sharing Pool totaled $7.1M which was a 22.0% decrease from the prior year total of $9.1M.

The increase in premiums over the prior year is a result of increased rates in our personal property and farm lines of business as overall policy count has remained stable at 120,574 versus the prior year count of 120,780. This slight decrease in policy count is a reflection of our disciplined underwriting philosophy and the competitive commercial property/casualty and commercial auto markets previously mentioned.

We ended the year with a gross loss ratio of 80.1%, which was significantly higher than prior years and was driven by a number of large catastrophes during the year, most notably the Slave Lake fires. When Slave Lake is excluded, our normalized loss ratio is 63.0% which is in line with previous years.

In spite of the challenges faced in 2011, we continue to proactively seek new opportunities for growth in all branches and all lines of business, while maintaining our disciplined underwriting approach.

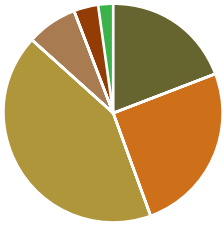
2011 Marketing and Underwriting Team

UNDERWRITING TEAM

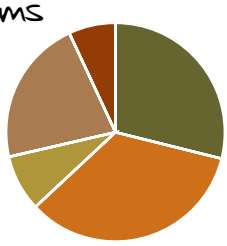
During the year, the Vice President of Underwriting and Marketing position was vacant for a period of time while the Company searched for a suitable candidate. During this time, the bench strength of the Company's underwriting team was tested and performed admirably, highlighting the depth of talent within our branches and corporate team. To assist with some of the strategic underwriting initiatives, the Company hired Grant Miner, a seasoned insurance veteran who has brought a tremendous amount of experience and knowledge to the team. We are looking forward to 2012 and implementing a number of initiatives that have been developed during the course of 2011.

Underwriting & Marketing Report

Gross Written Premiums
BY REGION 2011(in millions)



Gross Written Premiums
BY BUSINESS LINE(in millions)

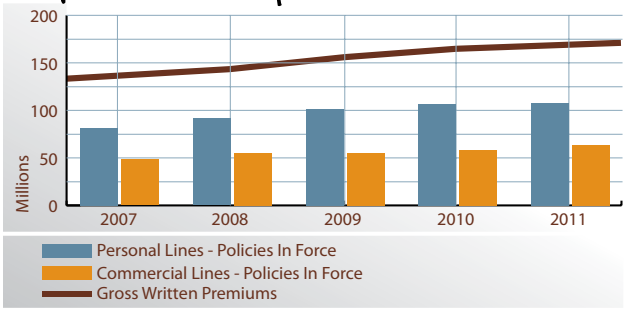


INDEPENDENT BROKER NETWORK

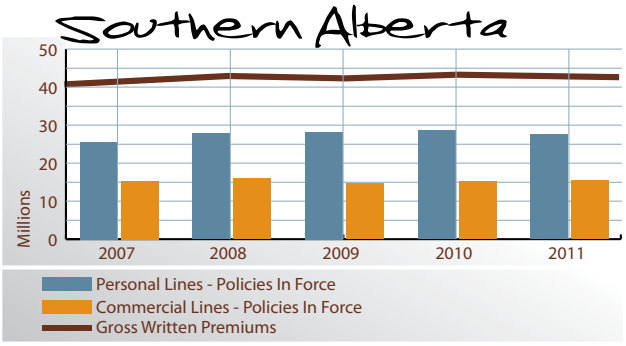
We remain devoted to our independent broker force which is our sole method of distribution, and would like to thank all of our brokers for their continued support. During 2011, we appointed eight new brokers during the year helping us write 16,172 new policies. Our total broker representation throughout Western Canada is now at 186 with 460 locations.

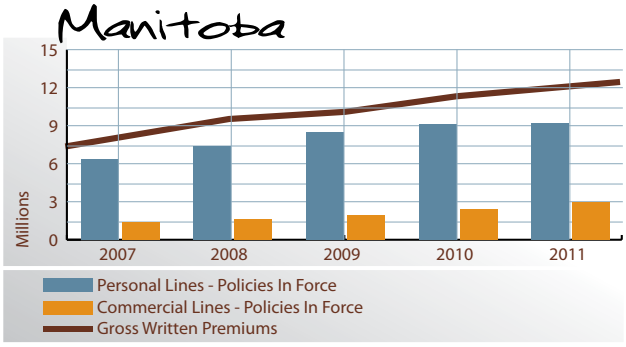
Province	Brokers	Locations
Alberta	123	215
British Columbia	36	187
Manitoba	17	52
Saskatchewan	8	29
Northern Territories	2	4

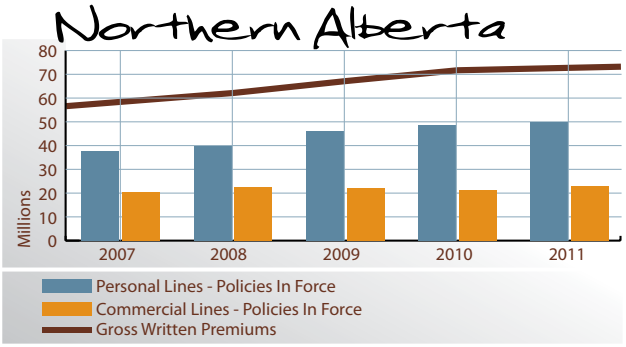
Peace Hills

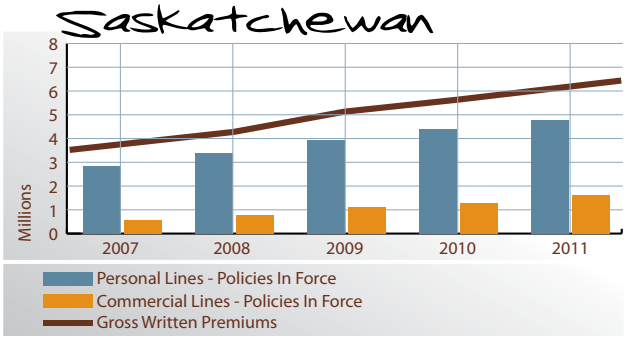


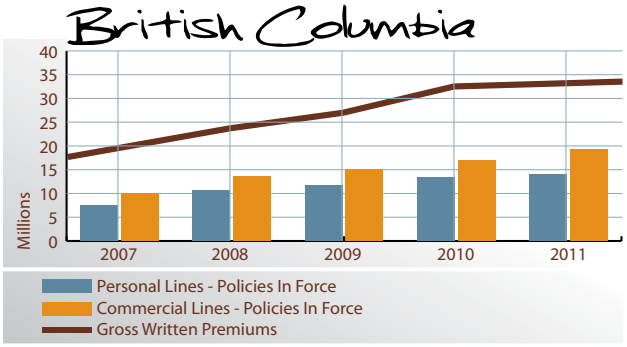
Underwriting & Marketing Report

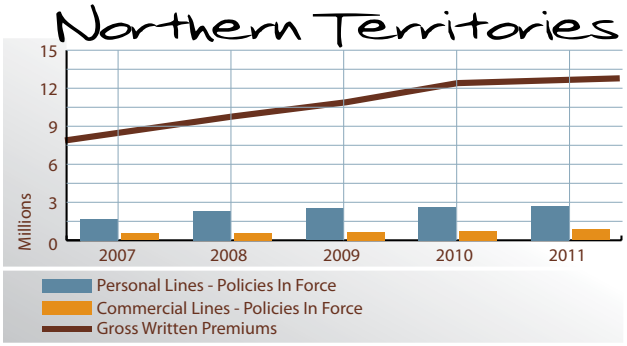

Southern Alberta
Millions
50
40
30
20
10
0
2007
2008
2009
2010
2011
Personal Lines - Policies In Force
Commercial Lines - Policies In Force
Gross Written Premiums


Manitoba
Millions
15
12
9
6
3
0
2007
2008
2009
2010
2011
Personal Lines - Policies In Force
Commercial Lines - Policies In Force
Gross Written Premiums


Northern Alberta
Millions
80
70
60
50
40
30
20
10
0
2007
2008
2009
2010
2011
Personal Lines - Policies In Force
Commercial Lines - Policies In Force
Gross Written Premiums


Saskatchewan
Millions
8
7
6
5
4
3
2
1
0
2007
2008
2009
2010
2011
Personal Lines - Policies In Force
Commercial Lines - Policies In Force
Gross Written Premiums

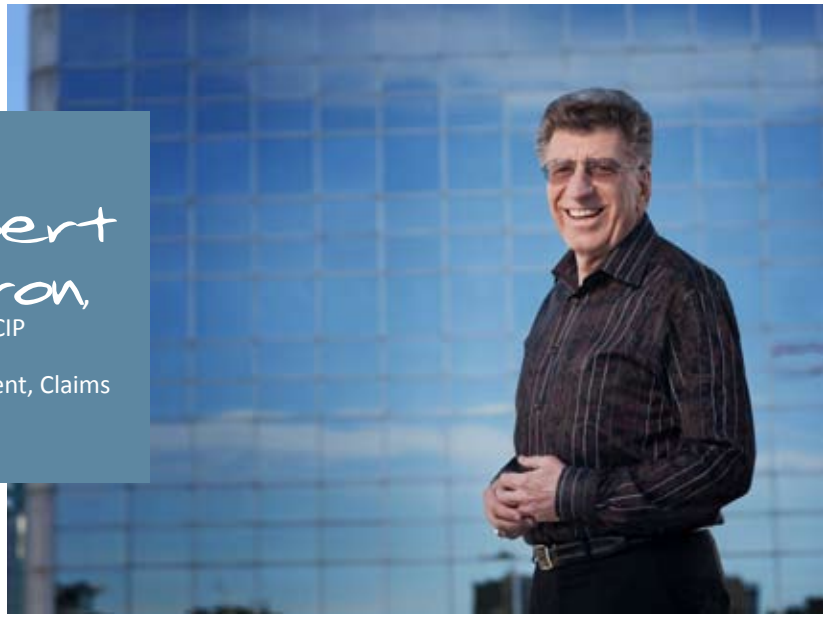

British Columbia
Millions
40
35
30
25
20
15
10
5
0
2007
2008
2009
2010
2011
Personal Lines - Policies In Force
Commercial Lines - Policies In Force
Gross Written Premiums


Northern Territories
Millions
15
12
9
6
3
0
2007
2008
2009
2010
2011
Personal Lines - Policies In Force
Commercial Lines - Policies In Force
Gross Written Premiums

Life is not a matter of holding good cards, but of playing a poor hand well.

Robert Louis Stevenson

The biggest story of the year was the May 15, 2011 Slave Lake fires. It was amazing that none of the residents were injured or killed. We were all reminded of the courage and bravery our wildfire fighters face when helicopter pilot Jean-Luc Deba gave the ultimate sacrifice in battling this massive blaze. Our condolences go out to the Deba family.



Robert Doiron, BA, CIP

Vice President, Claims

A unique approach was taken by the Edmonton claims office to deal with our single greatest catastrophe. They engaged a team of independent adjusters from Kelowna, BC to handle all our Slave Lake losses. The team from Knight Easton Adjusters garnered a wealth of experience having dealt with the Kelowna fires in 2003. Their experience enabled us to respond quickly and with a high level of expertise to the needs of the Slave Lake community. The ability to anticipate the requirements enabled us to engage a host of experts such as engineers, environmental contamination consultants, cost control experts, roofing experts and arborists. This instilled a high level of confidence in our clients that they were insured by the best company.

We had 114 losses of which 22 were totally destroyed. Those whose homes were total losses received comprehensive packages allowing them to proceed with their re-building in confidence.

The second biggest story centered on the number of catastrophe losses and the very late in the year southern Alberta windstorm.

Robert Doiron

Claims Report

The table below illustrates the nine catastrophe losses. We would normally expect that catastrophe season ends in August and at the very latest in early September. Our Calgary office organized our response quickly and effectively in spite of the late season surprise. Once again we proved to be industry leaders in our catastrophe response.

Claims Frequency/Severity

Claims frequency has remained stable. Severity on personal property has risen dramatically due to the Slave Lake catastrophe.

CLAIMS FREQUENCY BY BUSINESS LINE

Year	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm Property	ALL
2011	14.2%	5.3%	20.5%	8.8%	8.4%	**4.5%**
2010	14.0%	4.3%	20.1%	8.8%	7.7%	**8.3%**
2009	14.2%	5.5%	21.2%	10.7%	8.7%	**9.3%**
2008	13.8%	5.5%	19.8%	8.7%	8.9%	**8.9%**
2007	14.3%	6.2%	19.0%	9.5%	11.2%	**9.5%**

Loss Ratio

Our gross loss ratio in 2011 at 80.1% has deteriorated significantly over the previous four years. This is largely due to weather related losses. What isn't shown in the figures presented here are 12 weather events that did not hit our catastrophe threshold but contributed an additional 472 claims to the overall frequency rate.

CLAIMS SEVERITY BY BUSINESS LINE

Year	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm Property	ALL
2011	6,463	17,572	7,802	12,398	17,713	**11,726**
2010	6,521	10,034	6,721	8,218	20,678	**8,516**
2009	5,971	11,170	9,543	17,733	19,013	**9,995**
2008	7,469	11,005	9,288	8,006	17,984	**9,122**
2007	6,011	8,074	8,732	9,826	15,694	**7,695**

Staffing

In the end, it's all about the people. We are very fortunate to have excellent employees who have stepped up to the plate to deliver great service. The responses to the large number of weather events has been recognized by our clients and brokers. Thank you to every one of our claims staff who provide excellent delivery of the product we sell.

CATASTROPHIC STORMS

Date	Type	# of Claims	Incurred Loss
Nov. 27-29	Windstorm	373	**$3.5M**
Aug. 15-17	Hail Storm	106	**$1.2M**
July 29-31	Hail Storm	99	**$1.0M**
July 18-20	Hail/Sewer backup	208	**$3.0M**
July 11-13	Water	35	**$0.9M**
June 18-20	Water	72	**$0.8M**
June 17-19	Water/Hail	47	**$1.1M**
June 2-4	Water/Hail	96	**$0.9M**
May 15-22	Forest Fire	114	**$29.6M**

GROSS LOSS RATIOS
NORTHERN ALBERTA

Year	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm	ALL
2011	61.2%	217.9%	53.1%	45.6%	71.2%	**98.3%**
2010	55.3%	51.6%	45.6%	14.7%	113.6%	**50.2%**
2009	52.2%	96.2%	50.2%	102.3%	61.4%	**69.2%**
2008	66.4%	78.6%	60.6%	28.3%	52.7%	**61.6%**
2007	61.3%	57.9%	55.5%	44.5%	79.8%	**58.1%**

GROSS LOSS RATIOS
SASKATCHEWAN

Year	Personal Property	Commercial Property	Farm	ALL
2011	123.9%	76.3%	98.7%	**114.2%**
2010	126.1%	16.5%	167.4%	**114.9%**
2009	48.9%	209.6%	29.1%	**67.4%**
2008	55.4%	94.4%	62.1%	**59.6%**
2007	58.0%	27.5%	19.9%	**52.8%**

GROSS LOSS RATIOS
SOUTHERN ALBERTA

Year	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm	ALL
2011	56.5%	99.6%	44.5%	35.8%	149.0%	**70.2%**
2010	64.0%	84.7%	37.2%	31.0%	130.7%	**65.5%**
2009	64.3%	95.6%	79.7%	27.4%	181.0%	**76.1%**
2008	83.9%	102.9%	53.4%	29.7%	97.7%	**75.3%**
2007	60.6%	121.2%	70.0%	39.7%	129.7%	**74.0%**

GROSS LOSS RATIOS
MANITOBA

Year	Personal Property	Commercial Property	Farm	ALL
2011	63.3%	26.0%	156.1%	**64.3%**
2010	58.6%	43.4%	45.3%	**55.7%**
2009	74.7%	74.4%	61.6%	**73.8%**
2008	66.3%	83.4%	84.0%	**69.4%**
2007	82.5%	52.1%	99.1%	**80.3%**

GROSS LOSS RATIOS
BRITISH COLUMBIA

Year	Personal Property	Commercial Property	Farm	ALL
2011	51.8%	62.0%	27.9%	**55.4%**
2010	59.6%	43.2%	37.6%	**50.0%**
2009	60.8%	99.3%	43.4%	**78.1%**
2008	56.4%	35.7%	139.6%	**53.5%**
2007	45.6%	52.0%	70.3%	**51.0%**

GROSS LOSS RATIOS
NORTHERN TERRITORIES

Year	Personal Auto	Personal Property	Commercial Auto	Commercial Property	Farm	ALL
2011	40.7%	80.7%	16.1%	-5.3%	57.9%	**51.0%**
2010	51.9%	84.9%	41.4%	15.5%	-0.1%	**61.3%**
2009	31.7%	156.2%	102.6%	26.4%	7.8%	**92.9%**
2008	25.6%	103.1%	70.7%	7.4%	5.2%	**62.9%**
2007	37.2%	116.1%	20.3%	11.5%	-0.8%	**67.7%**

It may sound strange, but many champions are made champions by setbacks.

Bob Richards

The underlying philosophy of the company is rooted in providing excellence in service and our investment in technologies is no different. Our latest service offering, being unveiled in phases starting in early 2012, is phiX (Peace Hills Insurance Exchange) which is a single-entry, real-time, data exchange between various broker management systems to our system. This will enable brokers to seamlessly exchange information faster than before with the focus begin on providing efficiencies and reduced duplication for our brokers.

Harvey Schaerer, B.Sc.
VP, Information Technology

In addition to phiX, the company focused its efforts in 2011 in developing creative solutions to generate efficiencies and to lower costs. Brokers are now able to access required documents instantaneously through electronic mediums; specifically, they are able to download customer policies directly to their computers through a secure connection and achieve a completely paperless environment.

Finally, the company expanded its payment plan offerings from twice a month to any-day withdrawals for insureds on our monthly payment plan. This program provides consumers with choice and flexibility.

Looking ahead, the coming year will include the continued expansion of the capabilities within phiX to include property lines. Also, significant resources will be utilized in the implementation and integration of a new financial system software which will allow more efficient data transfer and analysis. Efforts will also continue in the establishment of an integrative sense of business intelligence tools that would allow easier access and analysis of insurance data.

Technology initiatives continue to be an integral part of our strategic plans and we will continue, as we have in 2011, to play an important role in finding ways to assist our employess and brokers in achieving more efficiencies in the way we do business.

HSchaerer

Technology Report

In order to succeed, people need a sense of self-efficacy, to struggle together with resilience to meet the inevitable obstacles and inequities of life.

Albert Bandura

Slave Lake

Slave Lake, Alberta, May 15, 2011

What began as a typical day quickly spiralled into a nightmarish scene of destruction for many residents of Slave Lake on Sunday, May 15, 2011. The quiet but prosperous Alberta town and its residents began the day like so many others – full of promise for the week ahead. By Monday, the town was a charred husk, the air heavy with the ashes of scorched wood and lives torn asunder.

Like many families, the Conrads viewed the creeping wildfire just southeast of the northern Alberta town as worrisome, but since there had been no evacuation notice, they were confident it was contained.

At approximately 5:00 p.m. that evening, the fire swiftly breached fire barriers designed to protect the town by 100 kilometres per hour winds, and roared toward residences and commercial properties as a seething inferno. Any desperate attempt at halting the blaze was met with failure, and chaos ensued.

"We received an urgent call from a friend that evening – "Get out now!" We fled with our children, our dog and one change of clothing", recalls Debbie Conrad, whose house was consumed by the raging flames.

By morning, it became clear just how much the blaze had destroyed. Roughly one-third of Slave Lake was in ruins, and ten percent of the town's residents were now homeless, many now possessing only the clothes on their backs and what little they could manage to flee with during the panicked exodus.

In the wake of this catastrophic devastation, Peace Hills knew this would be a disaster like no other. Yet, having responded to the Kelowna fires of 2003, our adjusters and restoration experts were ready to handle the monumental task at hand.

Our Catastrophe Team guided our clients through the claims process, and we issued cheques for temporary lodging and replacement of personal items, all the while helping our customers rebuild their homes, businesses and lives.

"We were very pleased with our broker, and our adjuster was good to work with and always right on top of things," says residents Norman and Diane Seatter. "In comparison to the experiences of other homeowners we have heard of, Peace Hills is the Wayne Gretzky of insurance companies."

Peace Hills customers David and Jackie Taylor echoed these sentiments. "Peace Hills was great. We were so happy with their promptness and how they handled our claim. We live in a small town and everyone talks about how great Peace Hills is."

Management and staff ensured claims processing were given top priority resulting in efficient claims handling. As a result, policyholders were properly indemnified for their loss and received the customer service they deserve.

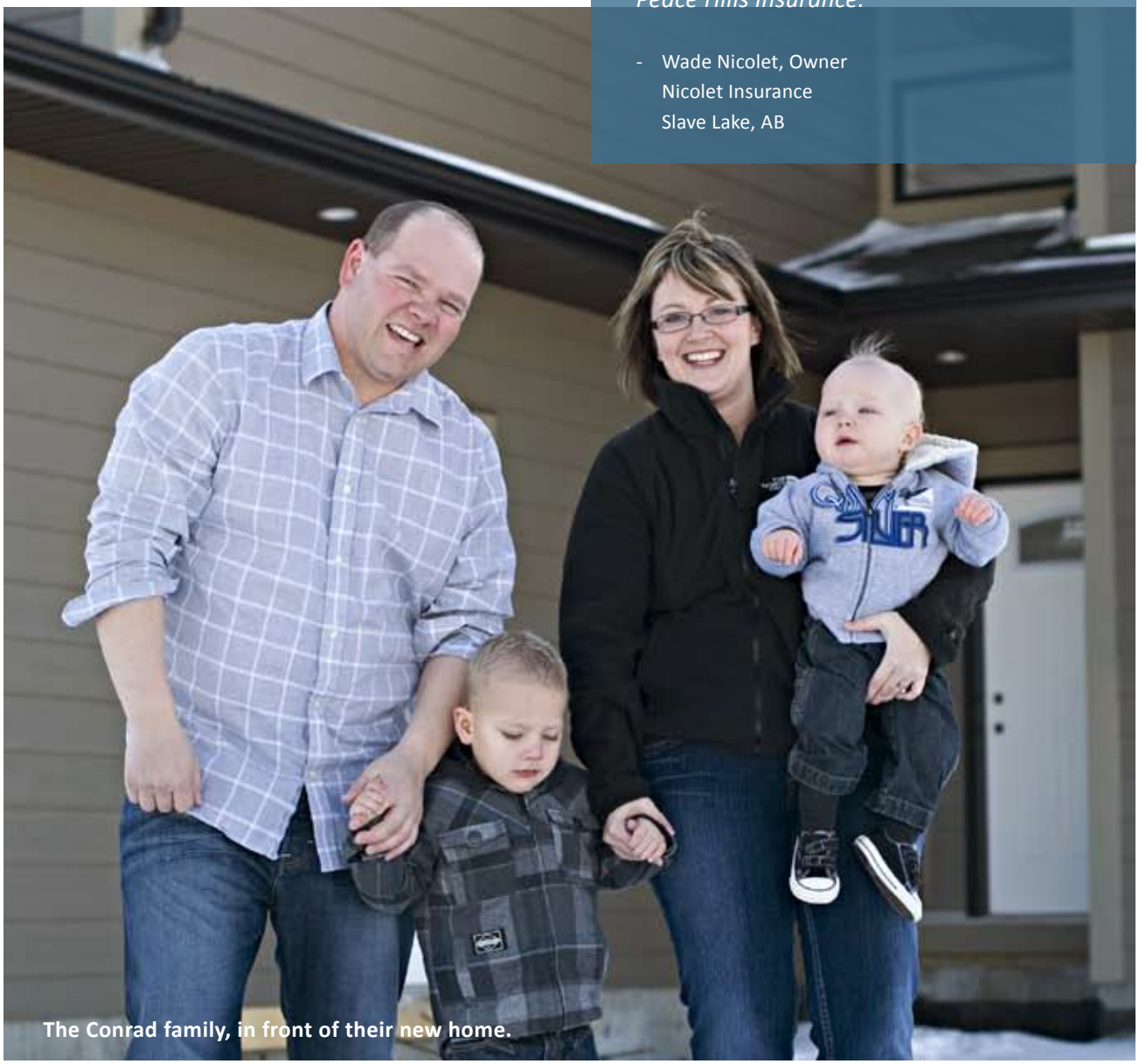
We at Knight Easton & Associates are appreciative of the support provided by Peace Hills and being given the opportunity to represent a company which cares for their policyholders.

- Knight Easton & Associates
  Independent Adjusters
  Kelowna, BC

Peace Hills would like to thank its staff, brokers, customers and Knight Easton and Associates for their exceptional measures in the wake of this catastrophe. Because losing your home or business is extraordinarily difficult, we took extraordinary measures to ensure the protection, support and relief of our clients during this most challenging of times.

Through the foresight and dedication to customer service by the management of Peace Hills Insurance to the clients of Slave Lake, Peace Hills Insurance not only exceeded our clients claim service expectations, but has created customer confidence to a point that new clients are coming into our office, specifically requesting to be insured with Peace Hills Insurance.

- Wade Nicolet, Owner
  Nicolet Insurance
  Slave Lake, AB



The Conrad family, in front of their new home.

Obstacles don't have to stop you. If you run into a wall, don't turn around and give up. Figure out how to climb it, go through it, or work around it.

Michael Jordan

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Calgary, AB T2P 4G8 Canada
Phone: (403) 262-7600
or 1-800-372-9295

Auditor

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Edmonton, AB T5J 3N5 Canada

Actuary

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

Company Profile

Chief Marvin Yellowbird
Chairman

Trevor Swampy
Vice Chairman

Patrick Buffalo
Secretary/Treasurer

Diane Brickner
President & CEO

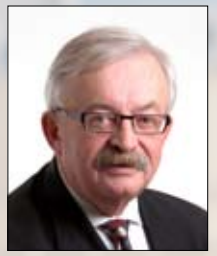
John Crier

Koren Lightning-Earle

Kurt Buffalo

Raymond Lightning
Elder

Bill Kordyback



John Szumlas

Julian Koziak

Laurie Powers

Willy Lightning

AUDIT/CONDUCT REVIEW COMMITTEE:

John Szumlas - Chair

Julian Koziak

Laurie Powers

Bill Kordyback

GOVERNANCE/COMPENSATION COMMITTEE:

Patrick Buffalo - Chair

Trevor Swampy , John Crier

Koren Lightning-Earle, John Szumlas

Marvin Yellowbird

Diane Brickner (Governance)

INVESTMENT/PHI PROPERTIES LTD. COMMITTEE:

John Crier - Chair

Patrick Buffalo, Willy Lightning

Julian Koziak, Kurt Buffalo

Marvin Yellowbird, Laurie Powers

Bill Kordyback

Board Of Directors & Committees

2011 BOARD OF DIRECTORS REPORTING REQUIREMENTS

Audit/Conduct Review Committee
The purpose of the Committee is to review and report on the Company financial statements, appoint the Company actuary, establish procedures and review transactions with related parties, and oversee risk management.

Governance/Compensation Committee
The purpose of the Governance and Compensation Committee is to review: all governance related activities; provide an effective mechanism for enhancing government and industry relations, review matters affecting the company's human resources and compensation programs, and report their findings with recommendations to the Board of Directors.

Investment/PHI Properties Ltd. Committee
The purpose of the Committee is to review all investment activities of the Company and to annually report their findings with recommendations to the Board of Directors.

DIRECTOR	MEMBER SINCE	ATTENDANCE					HONORARIUMS
		1	2	3	4	5	
Chief Marvin Yellowbird, ICD.D Board Chairman	1999	4/8		5/5	2/5	1/2	$34,900
Trevor Swampy, ICD.D Vice Chairman	1996	7/8		5/5			$20,000
Patrick Buffalo, ICD.D Secretary/Treasurer, Governance/Conduct Committee Chair	1985 1999	8/8		5/5	5/5		$28,500
John Crier Investment/PHI Properties Committee Chair	1989	8/8		5/5	5/5		$26,500
John Szumlas, HC Director: Audit/Conduct Committee Chair	2003	8/8	6/6	5/5			$26,450
Diane Brickner, CIP, ICD.D President & CEO	1990	8/8		5/5		2/2	$0
Julian Koziak, QC Director	1993	8/8	6/6		5/5		$25,500
Bill Kordyback, ICD.D Director	2003	8/8	6/6		5/5		$25,500
Laurie Powers, CA, ICD.D Director	2010	8/8	6/6		5/5		$25,500
Kurt Buffalo Director	2011	6/6			3/3	1/3	$19,500
Willy Lightning Director	2011	6/6			3/3	2/3	$19,450
Koren Lightning-Earle, BA, LLB Director	2011	5/6		2/2		3/3	$17,650
Raymond Lightning Elder *non voting privileges	2008	7/8					$15,850

1 – Board of Directors
2 – Audit/Conduct Review Committee
3 – Governance/Compensation Committee
4 – Investment/PHI Properties Ltd. Committee
5 – Other

Attendance - determined from January 1 – December 31 (AGM attendance included).
Honorariums – per meeting fee, cheque signing fees, retainer fees.

Directors Report card

Diane Brickner, CIP
President & CEO

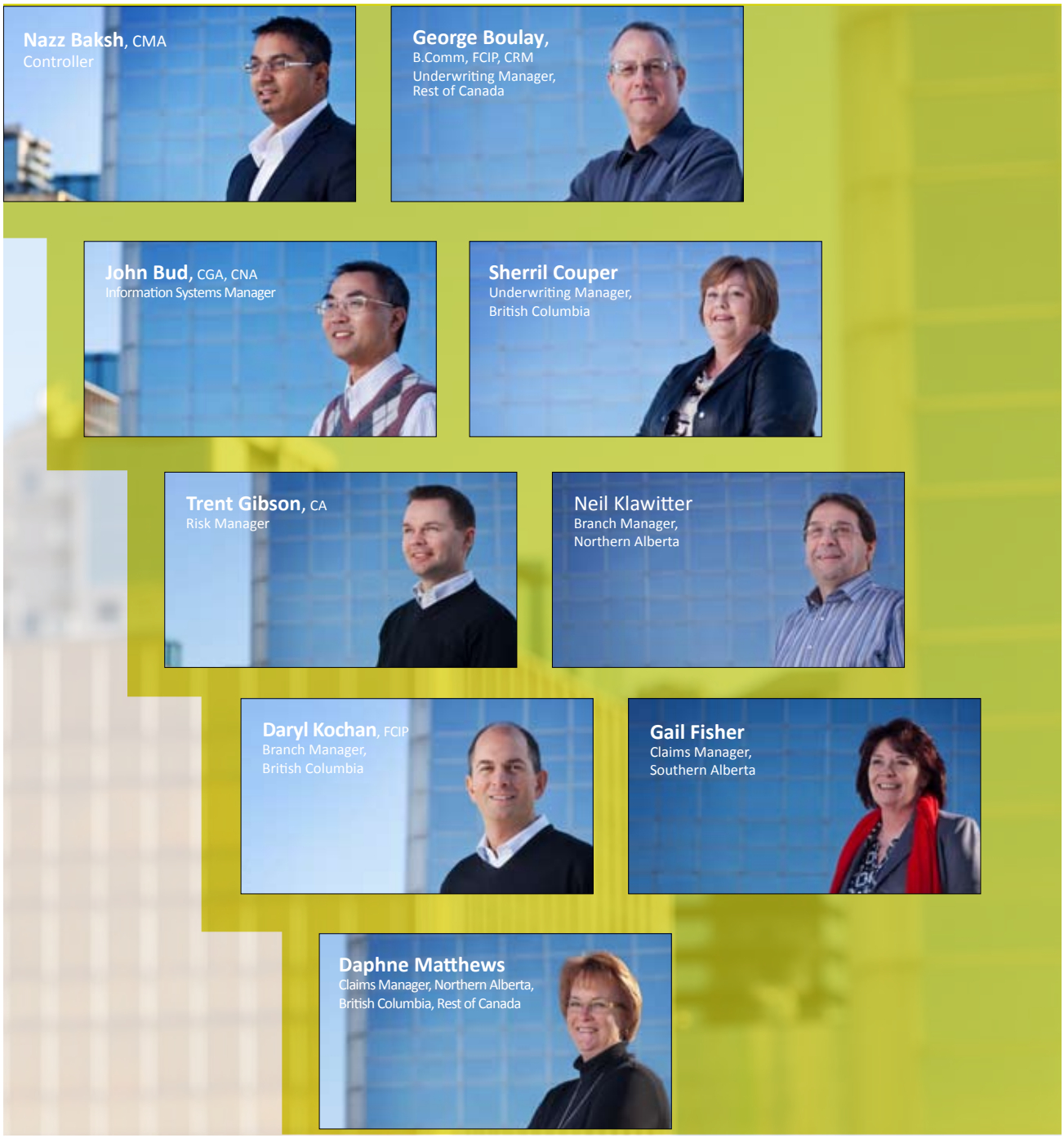
Kathy Boychuk, CMA
VP, Finance

Robert Doiron, BA, CIP
VP, Claims

Mary Clinton, CHRP
VP, Human Resources
& Administration

Harvey Schaerer, B.Sc.
VP, Information Technology

Executive


Nazz Baksh, CMA
Controller
George Boulay,
B.Comm, FCIP, CRM
Underwriting Manager,
Rest of Canada
John Bud, CGA, CNA
Information Systems Manager
Sherril Couper
Underwriting Manager,
British Columbia
Trent Gibson, CA
Risk Manager
Neil Klawitter
Branch Manager,
Northern Alberta
Daryl Kochan, FCIP
Branch Manager,
British Columbia
Gail Fisher
Claims Manager,
Southern Alberta
Daphne Matthews
Claims Manager, Northern Alberta,
British Columbia, Rest of Canada

Management

Karri McCann
Commercial Lines Manager,
Southern Alberta

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

Carol Paul
Personal Lines Manager,
Northern Alberta

Gail Routh, CIP
Branch Manager,
Rest of Canada

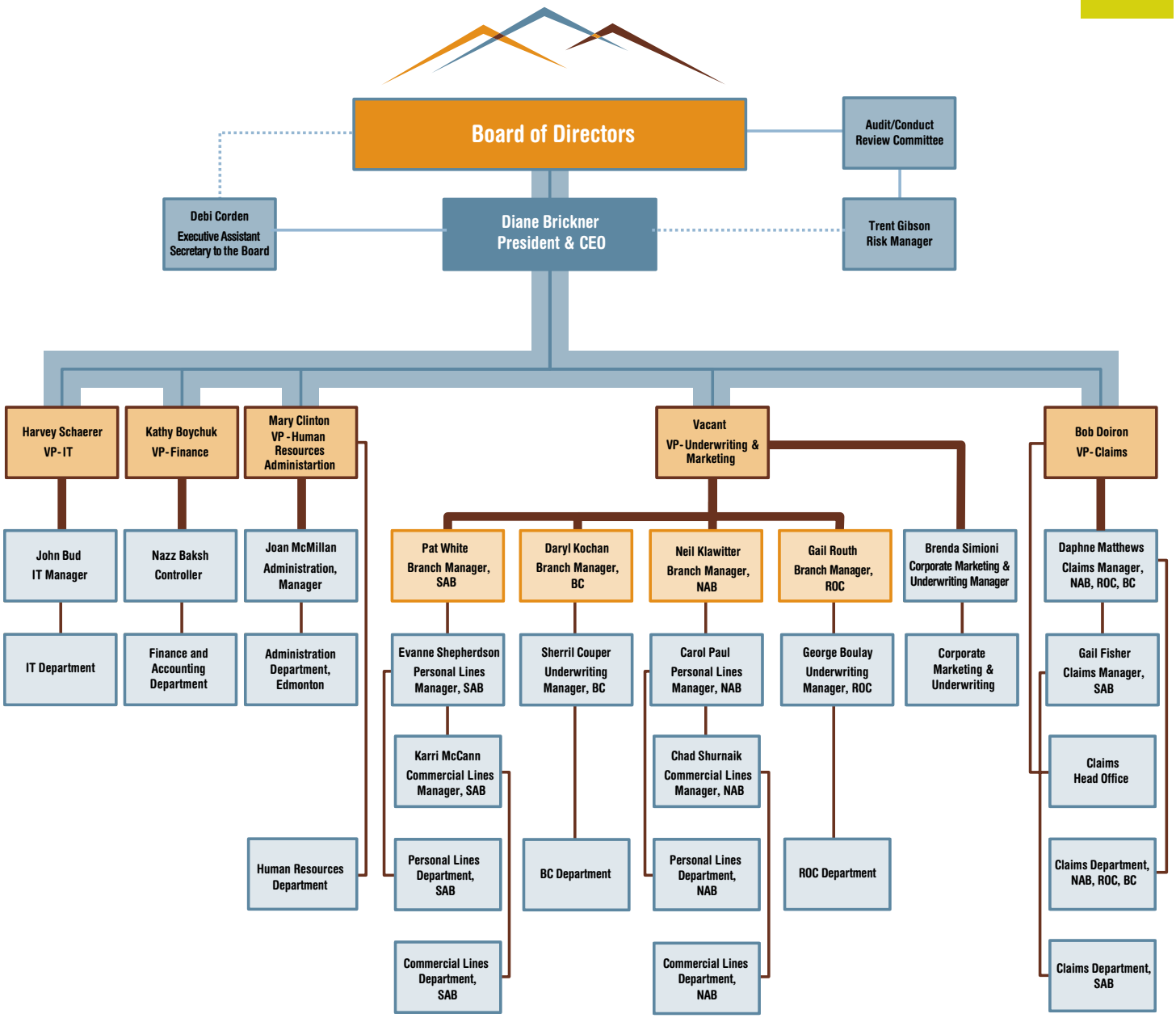
Evanne Sheperdson
Personal Lines Manager,
Southern Alberta

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

Brenda Simioni
Corporate Underwriting
& Marketing Manager

Patricia White, CIP
Branch Manager,
Southern Alberta

Management



Legend

NAB - Northern Alberta
SAB - Southern Alberta
ROC - Rest of Canada
BC - British Columbia

Corporate Structure

It is not the strongest
of the species that survive,
nore the most intelligent,
but the one most
responsive to change

Charles Darwin

Financial Statements

Table of Contents

Management Statement on Responsibility for Financial Reporting

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

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

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

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

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

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

Diane Brickner, CIP
President and CEO

Kathy Boychuk, CMA
Vice President, Finance

February 23, 2012, Edmonton, AB, Canada

Independent Auditor's Report

To the Shareholder of Peace Hills General Insurance Company

We have audited the accompanying consolidated financial statements of Peace Hills General Insurance Company and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of changes in shareholder's equity, income, comprehensive income, and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Peace Hills General Insurance Company and its subsidiary as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants

Edmonton, Alberta
February 23, 2012

Independent Auditor's Report

Baron Insurance Services Inc.

To the Shareholders of Peace Hills General Insurance Company:

I have valued the policy liabilities of Peace Hills General Insurance Company for its balance sheet as at December 31, 2011 and their changes in its statement of income for the year then ended, in accordance with accepted actuarial practice, including selection of appropriate assumptions and
methods.

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

Barbara Addie
Fellow, Canadian Institute of Actuaries

Toronto, Ontario
February 23, 2012

Actuary's Report

Peace Hills General Insurance Company
Consolidated Statement of Financial Position
As at December 31, 2011
(in thousands)

	2011	2010	January 1 2010
ASSETS			
Cash and cash equivalents (Note S)	15,965	16,454	44,939
Accrued investment income	736	794	799
Available-for-sale financial assets (Note 6)	126,450	128,247	92,003
Due from agents, brokers and policyholders	33,367	32,858	33,039
Due from other insurance companies	10,770	10,051	9,009
Other receivables (Note 7)	6,398	2,516	2,483
Reinsurance Recoverables:			
Unpaid claims and adjustment expenses (Note 13)	51,472	39,335	47,651
Unearned premiums	23,705	20,917	18,856
Salvage and subrogation	(272)	(219)	(284)
Deferred policy acquisition costs (Note 8)	21,231	20,381	19,273
Income taxes recoverable	1,721	-	-
Prepaid expenses and other assets	317	231	269
Capital assets {Note 9)	5,684	6,204	5,177
Intangible assets (Note 9)	1,411	1,631	1,615
Investment property (Note 10)	7,679	7,679	7,679
Deferred income tax assets (Note 23)	336	133	288
TOTAL ASSETS	**306,970**	**287,212**	**282,796**
LIABILITIES			
Due to agents, brokers and policyholders	4,388	4,141	3,838
Due to other insurance companies	-	1,849	2,534
Expenses due and accrued	2,486	2,917	2,472
Income taxes payable	-	3,466	2,358
Other taxes due and accrued	6,677	6,132	5,573
Funds held for other insurance companies (Note 11)	6,419	6,419	6,419
Bank loan payable	-	-	1,795
Unearned premiums and service charges (Note 12)	85,671	82,320	79,128
Unpaid claims and adjustment expenses (Note 13)	119,108	100,384	115,197
Unearned reinsurance commissions	7,473	7,322	6,452
Deferred income tax liabilities (Note 23)	1,008	959	999
	233,230	**215,909**	**226,765**
Commitments (Note 17)			
Contingent liabilities (Note 18)			
SHAREHOLDER'S EQUITY			
Share capital (Note 19)	2,000	2,000	2,000
Share premium (Note 19)	9,362	9,362	9,362
Retained earnings	57,204	54,597	42,189
Accumulated other comprehensive income	5,174	5,344	2,480
	73,740	**71,303**	**56,031**
TOTAL LIABILITIES AND EQUITY	**306,970**	**287,212**	**282,796**

Approved by the Board of Directors

Director

Director

Peace Hills General Insurance Company
Consolidated Statement of Changes in Shareholder's Equity
For the year ending December 31, 2011
(in thousands)

	Share Capital	Share Premium	Retained Earnings	AOCI	TOTAL
At January 1, 2010	**2,000**	**9,362**	**42,189**	**2,480**	**56,031**
Net income	-	-	12,408	-	12,408
Other comprehensive income	-	-	-	2,864	2,864
Dividends Paid	-	-	-	-	-
At December 31, 2010	**2,000**	**9,362**	**54,597**	**5,344**	**71,303**
Net income	-	-	2,928	-	2,928
Other comprehensive loss	-	-	-	(170)	(170)
Dividends Paid	-	-	(321)	-	(321)
At December 31, 2011	**2,000**	**9,362**	**57,204**	**5,174**	**73,740**

Peace Hills General Insurance Company
Consolidated Statement of Income
For the year ended December 31, 2011
(in thousands)

	2011	2010
Gross premiums written	178,619	172,340
Direct premiums written	170,435	163,015
Net premiums written	111,919	112,343
Net premiums earned	111,361	111,232
Earned service charge revenue	1,999	2,006
Underwriting revenue	113,360	113,238
Expenses incurred		
Claims	73,985	60,229
Commissions	19,304	18,110
Premium and other taxes	5,866	5,430
Administrative (Note 25)	19,453	19,016
	118,608	102,785
Underwriting income (loss)	(5,248)	10,453
Investment income (expenses)		
Interest	4,704	4,178
Dividends	457	543
Gain on disposal of investments	4,517	3,004
Write down of investments	(318)	(141)
Investment fees	(448)	(405)
	8,912	7,179
Loss from PHI Properties Limited (Note 14)	(138)	(124)
Income before income taxes	3,526	17,508
Income taxes (Note 23)		
Current	698	4,933
Future	(100)	167
	598	5,100
Net income for the year	**2,928**	**12,408**

Peace Hills General Insurance Company
Consolidated Statement of Comprehensive Income (Loss)
For the year ended December 31, 2011
(in thousands)

	2011	2010
Net income	**2,928**	**12,408**
Other comprehensive income		
Available-for-sale investments:		
Net gain arising on revaluation of available-for-sale financial assets during the year	4,564	6,986
Reclassification of adjustments relating to available-for-sale financial assets disposed of in the year	(4,198)	(2,925)
Foreign exchange adjustment on available-for-sale financial assets (net)	-	(179)
Net change in unrealized gains and losses	366	3,882
Income taxes	(536)	(1,018)
Other comprehensive income (loss)	**(170)**	**2,864**
Total comprehensive income	**2,758**	**15,271**

Peace Hills General Insurance Company
Consolidated Statement of Cash Flows
For the year ended December 31, 2011
(in thousands)

	2011	2010
Operating activities		
Net income	2,928	12,408
Items not affecting cash:		
Deferred income taxes	(100)	167
Net realized loss (gain) on disposal of investments	(4,517)	(3,004)
Write down on investments	318	141
Amortization of bond premium (discount)	110	55
Amortization of capital and intangible assets	1,008	904
Loss (gain) on disposal of capital assets	25	37
	(228)	10,708
Change in non-cash working capital items:		
Deferred policy acquisition costs	(850)	(1,108)
Unpaid claims and adjustments expenses, net of recoverable from reinsurers	6,587	(6,497)
Unearned premiums, net of recoverable from reinsurers	557	1,111
Unearned reinsurance commissions	151	870
Net change in other non-cash balances	(8,342)	(388)
	(2,125)	**4,696**
Investing activities		
Investments sold or matured:		
Bonds and debentures	220,671	181,586
Common shares	16,855	25,066
Other investments	9	133
Investments acquired:		
Bonds and debentures	(218,868)	(212,403)
Common shares	(12,415)	(23,836)
Other investments	-	(100)
Purchase of capital and intangible assets	(317)	(2,101)
Proceeds on disposal of capital assets	24	117
Loans to third parties	(4,343)	-
Loan repayment from third parties	341	152
	1,957	**(31,386)**
Financing activities		
Payment of dividends	(321)	-
Repayment of bank loan payable	-	(1,795)
	(321)	**(1,795)**
Increase (decrease) in cash and cash equivalents	(489)	(28,485)
Cash and cash equivalents – Beginning of year	16,454	44,939
Cash and cash equivalents – End of year	**15,965**	**16,454**

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. The address of its registered office is #300, 10709 Jasper Avenue, Edmonton, Alberta, Canada, T5J 3N3.

1. Significant Accounting Policies

The principal accounting policies adopted by Peace Hills General Insurance Company (the "Company") in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The preparation of financial statements in compliance with IFRS requires the use of certain assumptions and critical accounting estimates and requires management to exercise professional judgment in the application of accounting policies. These estimates are subject to uncertainty. The areas where significant judgments and estimates have been made in preparing the financial statements and their effect have been disclosed in note 3.

These consolidated financial statements were approved by the Board of Directors on February 23, 2012.

Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention as modified to include the fair valuation of certain financial instruments and investment property to the extent required or permitted as set out in the relevant accounting policies.

The functional currency is denominated in Canadian dollars and the amounts in the notes are shown in Canadian dollars, rounded to the nearest thousand dollars, unless otherwise stated. The consolidated statement of financial position is presented broadly in order of liquidity and certain comparative figures have been reclassified to conform to the presentation adopted in the current period.

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.

Financial Assets

The Company classifies its financial assets into the following categories: available-for-sale or loans and receivables.

Available-for-sale Investments

Debt securities (bonds and debentures) and equity shares (common shares) are classified as available-for-sale and recognized in the statement of financial position at their fair value. Transaction costs relating to the purchase of bonds, along with premiums and discounts, are recorded as part of the carrying value of the bonds at the date of purchase and amortized using the effective interest rate method, while transaction costs that relate to common shares are capitalized on initial recognition.

Purchases and sales of securities and other financial assets are recognized on trade date, being the date that the Company is committed to purchase or sell an asset.

Gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognized directly in Other Comprehensive Income (OCI), until the financial asset is either sold, becomes impaired or matures, at which time the cumulative gain or loss previously recognized in OCI is recognized in the statement of income. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. When there is objective evidence that the asset is impaired, the cumulative loss that has been recognized directly in equity is removed from equity and recognized in profit or loss, even though the financial asset has not been derecognized.

Derecognition occurs when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Fair value measurements on the statement of financial position are classified in a hierarchy consisting of three levels for disclosure purposes. The three levels are based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. 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 that are derived principally from, or corroborated with, observable market data through correlation or other means
Level 3:	Fair value is based on valuation techniques that require one or more significant unobservable inputs.

Loans and Receivables

Financial assets other than available-for-sale investments are classified as loans and receivables. Loans and receivables are initially recorded at fair value and subsequently measured at amortized cost.

Interest Income

Interest income and expense for all interest-bearing financial instruments are recognized within investment income and finance costs in the statement of income using the effective interest rate method.

Dividend Income

Dividend income for available-for-sale equities is recognized when the right to receive payment is established. This is the ex-dividend date for equity securities.

Financial Liabilities

Financial liabilities are classified as other financial liabilities and are initially recorded at fair value and subsequently measured at amortized cost.

Insurance Contracts

The Company issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risk. As a general guideline, the Company defines as significant insurance risk, the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Revenue Recognition

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

Deferred Policy Acquisition Costs

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.

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 statement of financial position date. A provision is also made for management's calculation of factors affecting future development of unpaid claims including claims incurred but not reported (IBNR) based on the volume of business currently in force and the historical experience on claims. The provision for adjustment expenses represents the estimated ultimate expected cost of investigating, resolving and processing these claims. As permitted by the Alberta Superintendent of Insurance, 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 regularly 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.

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.

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.

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 equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investing or other purposes.

Non-Financial Assets

Capital Assets

Capital assets are carried at cost less accumulated amortization. Amortization of capital assets is provided using the following methodologies and annualized rates.

Asset Description	Value Method	Depreciation Method	Rate
Land	Fair value	Non-depreciating	
Building	Historical cost	Straight-line	3%
Leasehold improvements	Historical cost	Straight-line	Lease Term
Office equipment	Historical cost	Declining balance	20%
Computer infrastructure equipment	Historical cost	Declining balance	20%
Computer equipment	Historical cost	Straight-line	33%
Software	Historical cost	Straight-line	20%
Artwork	Historical cost	Non-depreciating	
Automobiles	Historical cost	Declining balance	30%

Intangible Assets

Intangible assets consist of certain acquired and internally developed software associated with the production of identifiable and unique software products controlled by the Company, and that will generate economic benefits exceeding costs beyond one year, some of which may not have yet been put into use. Intangible assets are amortized using the straight-line method over an estimated useful life of ten years. Amortization commences when the asset is available for use.

Investment Property

Investment property is held for long-term rental yields and capital appreciation, and is measured at fair value. Its fair value is assessed on a periodic basis, based on active market prices as determined periodically by an independent valuation expert. Changes in the fair value of the investment property are recognized in profit and loss.

If the investment property or portion thereof becomes owner-occupied, the portion is reclassified as capital assets, and its fair value at the date of reclassification becomes its deemed cost upon which future depreciation expense is based.

Impairment of Non-Financial Assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such assets are considered to be impaired, the impairment recognized is the amount by which the carrying amount of the assets exceeds its fair value.

The carrying values of assets are written down by the amount of any impairment and this loss is recognized in the statement of income in the period in which it occurs. A previously recognized impairment loss relating to a fixed asset may be reversed in part or in full when a change in circumstances leads to a change in the estimates used to determine the fixed asset's recoverable amount.

Income Taxes

Income taxes are accounted for using the liability method. Under this method, deferred 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.

Income tax payable on taxable profits is recognized as an expense in the period in which the profits arise. Income tax recoverable on tax allowable losses is recognized as an asset only to the extent that it is regarded as recoverable by offset against current or future taxable profits. Deferred tax is provided in full, using the liability method, on temporary timing differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and legislation enacted, or substantially enacted, by the statement of financial position date and is expected to apply when the deferred tax asset is realized or the deferred tax liability is settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

Leases

Leases where the lessor retains a significant portion of risks and rewards of ownership are classified as operating leases. Rentals under operating leases (net of any incentives received) are charged to the statement of income on a straight-line basis over the period of the lease.

Assets, held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalized as tangible fixed assets and are depreciated over the shorter of the lease term and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the statement of income over the period of the leases at a constant rate.

Foreign Currency Translation

Foreign exchange gains and losses resulting from the translation and settlement of foreign currency items are recognized in the statement of income.

Translation differences on items classified as available-for-sale (for example, equity securities) are not recognized in the statement of income but are included in net gains (losses) within Other Comprehensive Income until the sale of the asset, at which time they are transferred to the statement of income as part of the overall gain or loss on sale of the item.

Comprehensive Income

Comprehensive income comprises net income and other reserves and includes all changes in fair value of available-for-sale investments. Changes in unrealized gains and losses on available-for-sale investments are recorded in Other Comprehensive Income.

2. First-time IFRS Adoption

The Company has adopted IFRS effective January 1, 2011 and the consolidated financial statements for the year ended December 31, 2011 are the first annual consolidated financial statements that comply with IFRS. Prior to the adoption of IFRS, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Upon transition to IFRS, the Company has adopted the provisions of IFRS 1, "First-time Adoption of IFRS", in preparing its opening statement of financial position as of the date of transition, January 1, 2010, resulting in presentation differences and adjustments. These adjustments, as prescribed by IFRS 1, were recognized directly though retained earnings upon transition and have been applied retrospectively to the date of transition.

IFRS 1 grants limited exemptions from the requirements in specified areas where the cost of complying with the standards would likely exceed the benefits to users of financial statements. IFRS 1 also prohibits retrospective application of IFRS in some areas, particularly where retrospective application would require judgments by management about past conditions after the outcome of a particular transaction is already known.

IFRS Mandatory Exemption

Estimates

Hindsight was not used to create or revise estimates. Accordingly, the estimates previously made by the Company under previous Canadian GAAP were not revised for application of IFRS except where necessary to reflect any difference in accounting policies.

IFRS Optional Exemptions

Capital Assets

IFRS 1 allows a first-time adopter to elect to use either the fair value or a previous GAAP revaluation of an item of capital asset at, or before, the transition date to IFRS as deemed cost at the date of revaluation. The Company elected to use fair value as the deemed cost at the date of transition for the own-use portion of land of a multi-purpose property. At January 1, 2010, the fair value of the own-use land was $1,936, which resulted in an adjustment to carrying value of $1,600.

Insurance Contracts

The Company has elected to apply the transitional provisions of IFRS 4, "Insurance Contracts" which allows the Company to continue to use its current accounting policies under Canadian GAAP for insurance contracts. IFRS 4 also permits the Company to continue to apply its existing policies for measuring insurance liabilities, subject to a liability adequacy test.

Borrowing Costs

The Company has elected not to apply IAS 23, "Borrowing Costs", to qualifying assets acquired, produced or constructed with a commencement date prior to the date of transition.

Significant Changes to Accounting Policies under IFRS

The following explains the significant differences between the previous historical Canadian GAAP accounting policies and the current IFRS accounting policies applied by the Company.

Investment Property

IAS 40, "Investment Properties", allows investment properties to be accounted for based on the fair value model or the cost model. For the investment property portion of the Company's multi-use property, the Company has elected to use the fair value model. At January 1, 2010, the fair value of the investment property portion was $7,679, which resulted in an adjustment to carrying value of $6,390. Under the fair value model, depreciation is not recorded.

Reconciliations

The following table sets out a reconciliation of total equity under previous Canadian GAAP as at January 1, 2010 and December 31, 2010 to total equity under IFRS:

As at	**January 1, 2010**	**December 31, 2010**
Total equity under Canadian GAAP	**49,041**	**64,272**
Transitional Adjustments:		
Fair value adjustment for investment property	6,390	6,436
Fair value adjustment for own-use land	1,600	1,600
	7,990	8,036
Tax effect of the above adjustments	(999)	(1,005)
Total adjustment to equity	6,991	7,031
Total equity under IFRS	**56,032**	**71,303**

The following table sets out a reconciliation of total comprehensive income under previous GAAP to IFRS for the year ended December 31, 2010:

	2010
Total comprehensive income under previous Canadian GAAP	**15,231**
Transitional Adjustment:	
Depreciation reversal on investment property	46
	46
Tax effect of the above adjustments	(5)
Total adjustment to comprehensive income	41
Total comprehensive income under IFRS	**15,272**

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In the preparation of the Company's consolidated financial statements, management has made a number of estimates and judgments, the more critical of which are discussed below:

Provision for unpaid claims and adjustment expenses

The provision for unpaid claims and adjustment expenses is valued based on Canadian accepted actuarial practice, which is designed to ensure the Company establishes an appropriate provision to cover the ultimate net cost of insured losses. These estimates are based on an independent opinion of a qualified actuary.

The determination of this provision, which includes unpaid claims, adjustment expenses, expected salvage and subrogation and the related reinsurers' share of each claim, requires an assessment of future claims development. This assessment takes into account the consistency of the Company's claim handling procedures, the best-known information available, the characteristics of the business line, historical trends, other pertinent factors and the normal delay inherent in claims reporting. This provision is an estimate and, as such, is subject to variability that may arise from future events, such as the receipt of additional claims information, changes in judicial interpretation of contracts or significant changes in frequency and severity of claims. This estimate is principally based on the Company's historical experience and may be revised as additional experience becomes available, which would be reflected in the statement of income for the period in which the change occurred.

Also included in this provision is an estimate for events that have been incurred but not reported (IBNR) and for adverse deviation (PFAD) relating to claims development.

Fair value of investment property

Investment property is valued using the discounted cash flow (DCF) approach, as completed by qualified valuators or updated by management based on market rates. The last independent professional valuation was completed on June 30, 2010. Key estimates and assumptions regarding the discounted cash flows include expected future lease payments, occupancy rates, operating costs and capital expenditures, as well as applicable discount rates and capitalization rates.

If the market rentals were assumed in the DCF analysis to increase or decrease by 10% from management's estimates, the carrying amount of investment property would be an estimated $702 higher or lower, respectively. If the discount rate used in the DCF analysis were to increase or decrease by 10%, the carrying amount of investment property would be an estimated $697 lower or higher, respectively.

Impairment of available-for-sale financial assets

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Company evaluates among other factors, the normal volatility in market prices, the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flow. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and financing and operational cash flows.

The Company recorded a $318 write-down of investments in the year. Had all the declines in fair values below cost been considered significant or prolonged, the Company would suffer an additional loss of $768 to earnings before taxes.

4. Future Changes in Accounting Policies

The following new standards or amendments have been issued but are not yet effective. The Company is assessing the impact of the pronouncements on its results and financial position:

a) Standards effective to the Company for the year commencing January 1, 2012:

- IAS 12, “Income taxes”, was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. Previous guidance in SIC 21, “Income taxes – recovery of revalued non-depreciable assets”, will no longer apply to investment properties carried at fair value and the amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 12, which is withdrawn.

b) Standards effective to the Company for the year commencing January 1, 2013:

- IAS 1, “Presentation of financial statements”, is amended to change the disclosure of items presented in other comprehensive income, including a requirement to separate items presented in other comprehensive income into two groups based on whether or not they may be recycled to profit or loss in the future.
- IFRS 7, “Financial Instruments: Disclosures”, is amended to enhance disclosure requirements related to offsetting financial assets and financial liabilities.
- IFRS 10, “Consolidated financial statements”, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.
- IFRS 11, “Joint arrangements”, is a change to joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and

joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- IFRS 12, "Disclosures of interests in other entities", includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
- IFRS 13, "Fair value measurement", aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS.

c) Standards effective for fiscal periods commencing on or after January 1, 2015:

- IFRS 9, "Financial instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of income, unless this creates an accounting mismatch.

5. Cash and Cash Equivalents

	2011	2010	January 1 2010
Cash	625	7,440	13,729
Bank term deposits	15,340	9,014	31,210
	15,965	**16,454**	**44,939**

The effective interest rate on short-term bank deposits varied from 0.8% to 1.6% (2010: 0.9% to 1.2%; January 1, 2010: 0.9% to 1.6%) and has an average maturity of 20 days.

6. Available for Sale Financial Assets

		2011				
	Level	Cost	Amortized Discount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value Carrying Amount
Bonds and Debentures	2	100,048	648	6,321	(141)	106,876
Common Shares	1	18,925	-	1,123	(627)	19,421
Other Investments	2	153	-	-	-	153
		119,126	648	7,444	(768)	126,450

		2010				
		Cost	Amortized Discount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value Carrying Amount
Bonds and Debentures	2	99,458	537	2,834	(316)	102,513
Common Shares	1	21,668	-	4,038	(133)	25,573
Other Investments	2	161	-	-	-	161
		121,287	537	6,872	(449)	128,247

		January 1, 2010				
		Cost	Amortized Discount	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value Carrying Amount
Bonds and Debentures	2	66,808	482	1,995	(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
		88,921	482	4,289	(1,690)	92,003

Bonds and debentures – principal amount and carrying amount

The principal amount and carrying amount 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.

	2011		2010		January 1, 2010	
Term maturity	**Principal amount**	**Fair value carrying amount**	**Principal amount**	**Fair value carring amount**	**Principal amount**	**Fair value carring amount**
Government of Canada:						
Due in one year or less	463	469	5,680	5,694	4,426	4,445
Between one and five years	15,708	15,896	8,037	8,240	9,357	9,690
After five years	12,394	13,602	14,831	15,487	12,949	13,262
Provincial:						
Due in one year or less	-	-	-	-	-	-
Between one and five years	857	1,010	-	-	5,660	6,112
After five years	30,221	33,091	31,457	32,777	10,790	11,103
Canadian corporate:						
Due in one year or less	4,066	4,077	-	-	2,105	2,132
Between one and five years	16,022	16,552	11,774	11,996	12,771	13,333
After five years	20,317	22,179	27,679	28,319	8,750	8,911
	100,048	106,876	99,458	102,513	66,808	68,988
Due in one year or less	**4,529**	**4,546**	**5,680**	**5,694**	**6,531**	**6,577**
Between one and five years	**32,586**	**33,458**	**19,811**	**20,236**	**27,788**	**29,135**
After five years	**62,933**	**68,872**	**73,967**	**76,583**	**32,489**	**33,276**
	100,048	**106,876**	**99,458**	**102,513**	**66,808**	**68,988**

Bonds and Debentures – Interest Rate Risk

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

		2011		2010		January 1, 2010	
Interest Receivable Basis	Bond Description	Effective rates (% range)	Coupon rates (% range)	Effective rates (% range)	Coupon rates (% range)	Effective rates (% range)	Coupon rates (% range)
Semi-annual	Government of Canada	0.86 to 5.49	1.50 to 5.75	1.15 to 7.37	1.00 to 5.75	0.11 to 7.37	3.75 to 5.75
Semi-annual	Provincial	2.08 to 5.45	3.15 to 7.60	2.08 to 6.87	4.00 to 7.60	1.72 to 6.87	3.30 to 7.50
Semi-annual	Canadian Corporate	0.74 to 15.07	1.10 to 10.25	2.55 to 9.03	3.05 to 9.98	2.55 to 9.03	4.71 to 8.30

The Company holds $1,600 (2010: $1,600; January 1, 2010: $1,600) in bonds that have a variable rate of return.

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.

7. Other Receivables

The Company has made loans to some of its insurance brokers in the amount of $5,218. The loans bear interest at varying rates ranging from 4.0 to 5.0% (2010: 4.0%; January 1, 2010: 4.0%). Annual principal payments of $655 are due each year. The loans have differing maturity dates ranging from February 28, 2013 to July 31, 2023. Prepayment can occur without notice. The outstanding loans at December 31, 2011 are $4,480 (2010: $478; January 1, 2010: $630). During the year ended December 31, 2011, the Company has written premiums from these brokers of $4,085 (2010: $3,508).

8. Deferred Policy Acquisition Costs

	2011	2010
As of January 1	**20,381**	**19,273**
Additions	43,536	40,854
Expensed during the year	(42,686)	(39,746)
As of December 31	**21,231**	**20,381**

9. Capital and Intangible Assets

	Land	Building	Leaseholds	Office Equipment	Computing & Software	Automobiles	CAPITAL ASSETS TOTAL	INTANGIBLES ASSETS TOTAL
Net Book Value, Jan 1, 2010	**1,936**	**1,094**	**953**	**440**	**654**	**100**	**5,177**	**1,615**
Additions	-	-	1,293	299	273	-	**1,865**	**236**
Disposals	-	-	-	(0)	(75)	(78)	**(153)**	**-**
Amortization expense	-	(52)	(345)	(109)	(162)	(17)	**(685)**	**(220)**
Net Book Value, Dec 31, 2010	**1,936**	**1,042**	**1,901**	**630**	**690**	**5**	**6,204**	**1,631**
At January 1, 2010								
Cost	1,936	1,442	3,765	1,801	1,148	31	**10,123**	**2,275**
Accumulated amortization	-	(400)	(1,864)	(1,171)	(458)	(26)	**(3,919)**	**(644)**
Net Book Value, Dec 31, 2010	**1,936**	**1,042**	**1,901**	**630**	**690**	**5**	**6,204**	**1,631**
Net Book Value, Dec 31, 2010								
Additions	-	-	14	70	233	-	**317**	**-**
Disposals	-	-	-	(22)	(27)	-	**(49)**	**-**
Amortization expense	-	(51)	(426)	(127)	(182)	(2)	**(788)**	**(220)**
Net Book Value, Dec 31, 2011	**1,936**	**991**	**1,489**	**550**	**714**	**3**	**5,684**	**1,411**
At December 31, 2011								
Cost	1,936	1,442	3,779	1,652	1,276	31	**10,116**	**2,275**
Accumulated amortization	-	(451)	(2,290)	(1,102)	(562)	(28)	**(4,432)**	**(864)**
Net Book Value, Dec 31, 2011	**1,936**	**991**	**1,489**	**550**	**714**	**3**	**5,684**	**1,411**

10. Investment Property

	Land	Building	TOTAL
Balance as of January 1, 2010	**1,744**	**5,934**	**7,679**
Balance as of December 31, 2010	**1,744**	**5,934**	**7,679**
Balance as of December 31, 2011	**1,744**	**5,934**	**7,679**

11. Alberta Risk Sharing Pool and Facility Association Residual Market

The Company is a participant in the Alberta Risk Sharing Pool (ARSP) and Facility Association Residual Market (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 has included in its accounts the following aggregate amounts in respect of its share in the ASRP and FARM:

Assets	**2011**	**2010**
Due from other insurance companies	5,889	6,753
Amounts recoverable from reinsurers	2,315	2,524
Deferred policy acquisition costs	1,002	1,118
	9,206	10,395
Liabilities		
Provision for unpaid claims and adjustment expenses	10,703	11,133
Unearned premiums and reinsurance commissions	3,597	4,022
Due to other insurance companies	-	855
Other taxes due and accrued	62	53
	14,362	16,063
Revenues		
Premiums earned	6,935	6,833
Expenses		
Claims	4,183	3,219
Commissions	1,618	1,681
Premium and other taxes	498	469
Administrative	251	253
	6,550	5,622

The Company holds its proportionate share of excess funds from FARM as part of its investment portfolio in the amount of $6,419 (2010: $6,419; January 1, 2010: $6,419). These funds will be returned to FARM over time as needed to facilitate payment of the related policyholder claims.

Premiums ceded to the ARSP for the year ended December 31, 2011 were $7,123 (2010: $7,556).

12. UNEARNED PREMIUMS AND SERVICE CHARGES

	2011		2010	
	Gross	Net	Gross	Net
As of January 1	**82,320**	**61,403**	**79,128**	**60,272**
Premiums written (ceded)	178,619	111,919	172,340	112,343
Premiums earned	(175,273)	(111,361)	(169,168)	(111,232)
Change in unearned service charges	5	5	20	20
As of December 31	**85,671**	**61,966**	**82,320**	**61,403**

13. UNPAID CLAIMS AND ADJUSTMENT EXPENSES

Activity in the provision for unpaid claims and adjustment expenses, by line of business, is summarized below:

	Property	Auto	2011	2010
Provision for unpaid claims and adjustment expenses – Beginning of year:				
Gross	49,782	50,602	**100,384**	**115,197**
Reinsurance ceded	(25,350)	(13,986)	**(39,336)**	**(47,651)**
Net provisions – Beginning of year	24,432	36,616	**61,048**	**67,546**
Net incurred claims and claim adjustment expenses:				
Provision for insured events of current year	42,204	31,210	**73,414**	**65,051**
Increase (decrease) in provision for insured events of prior years	1,228	(657)	**571**	**(4,822)**
Total net incurred	43,432	30,553	**73,985**	**60,229**
Net payments attributable to:				
Current year events	(19,963)	(19,031)	**(38,994)**	**(35,912)**
Prior year events	(16,320)	(12,083)	**(28,403)**	**(30,815)**
Total net payments	(36,283)	(31,114)	**(67,397)**	**(66,727)**
Net provision for unpaid claims and adjustment expenses – End of year	31,581	36,055	**67,636**	**61,048**
Reinsurance ceded – End of year	47,962	3,510	**51,472**	**39,335**
	79,543	**39,565**	**119,108**	**100,384**

The Company estimates that the fair value of the gross provision for unpaid claims and adjustment expenses is $121,961 (2010: $101,205; January 1, 2010: $116,689) as determined on a discounted basis by the appointed actuary.

Claims Development (gross)

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims. The top half of each table illustrates how the Company's estimate of total claims incurred for each year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the consolidated statement of financial position.

Reporting Year (Gross)	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Estimate of ultimate claims costs:											
At end of reporting year	57,337	50,032	48,102	58,813	53,381	66,903	77,514	90,381	87,263	128,008	717,734
1 year later	57,947	49,495	47,245	58,900	52,831	68,361	80,938	88,073	86,852		590,642
2 years later	57,921	49,835	47,814	59,711	53,902	74,660	80,889	86,419			511,151
3 years later	58,519	50,506	48,883	60,604	54,665	71,974	83,081				428,232
4 years later	59,286	51,268	49,300	61,228	54,687	70,998					346,767
5 years later	59,603	51,829	49,801	61,240	54,567						277,040
6 years later	60,189	52,205	50,069	61,645							224,108
7 years later	60,112	52,158	50,244								162,514
8 years later	60,433	52,486									112,919
9 years later	60,586										60,586
Current estimate of cumulative claims	60,586	52,486	50,244	61,645	54,567	70,998	83,081	86,419	86,852	128,008	734,886
Cumulative payments to date	(60,126)	(52,008)	(49,476)	(59,197)	(52,783)	(68,758)	(75,432)	(82,338)	(75,603)	(62,601)	(638,322)
Liability recognized in the statement of financial position	460	478	768	2,448	1,784	2,240	7,649	4,081	11,249	65,407	96,564
IBNR	24	90	150	241	447	804	1,548	1,958	2,538	3,434	11,234
Facility				483	128	105	197	147	273	425	1,758
RSP					1,244	990	1,369	1,442	1,534	2,366	8,944
Reserve in respect of prior years											608
Total reserve included in the statement of financial position											**119,108**

Claims Development (net)

The following table considers claim liabilities after recovery from various reinsurers. The Company continues to benefit from reinsurance that was purchased in prior years and these include excess of loss reinsurance coverage.

Reporting Year (Net)	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Total**
Estimate of ultimate claims costs:											
At end of reporting year	37,230	32,702	28,267	35,660	34,525	44,305	55,084	57,076	56,543	65,310	446,702
1 year later	36,787	30,928	27,571	34,316	33,502	45,221	57,081	55,198	55,932		376,536
2 years later	36,732	31,251	28,210	34,357	34,477	46,082	56,657	54,279			322,045
3 years later	37,290	31,770	28,930	35,056	34,964	45,563	59,540				273,113
4 years later	37,307	32,267	29,071	35,500	34,933	45,728					214,806
5 years later	37,583	32,686	29,328	35,376	35,301						170,274
6 years later	37,740	32,973	29,449	35,605							135,767
7 years later	37,720	32,952	29,578								100,250
8 years later	37,814	33,210									71,024
9 years later	37,927										37,927
Current estimate of cumulative claims	37,927	33,210	29,578	35,605	35,301	45,728	59,540	54,279	55,932	65,310	452,410
Cumulative payments to date	(37,590)	(32,852)	(29,067)	(34,355)	(34,000)	(43,933)	(54,360)	(51,195)	(48,978)	(35,280)	(401,610)
Liability recognized in the statement of financial position	337	358	511	1,250	1,301	1,795	5,180	3,084	6,954	30,030	50,800
IBNR	16	63	105	129	270	549	1,023	1,406	2,054	2,005	7,620
Facility				362	96	89	167	125	232	362	1,434
RSP					933	841	1,164	1,225	1,304	2,011	7,478
Reserve in respect of prior years											304
Total reserve included in the statement of financial position											**67,636**

14. PHI Properties Limited – Statement of Operations

	2011	2010
Revenue		
Rental Income	1,842	1,701
Intercompany elimination	(1,011)	(889)
	831	812
Expenses		
Operations	861	828
Amortization	51	51
Other	88	79
Loan Interest	-	15
Intercompany elimination	(31)	(37)
	969	936
Operating income (loss)	**(138)**	**(124)**

15. 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, 2011 was $760 (2010: $781).

16. Related Party Transactions

Key Management Compensation

The Company's Directors and Executive are considered to be persons who have the authority and responsibility for planning, directing and controlling the Company. The compensation amounts for the year were:

	2011	2010
Salaries and other short-term employee benefits	1,627	1,830
Other long-term employee benefits	355	133
	1,982	**1,963**

Donations

The Company made donations 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 and amount to $179 (2010: $169).

17. COMMITMENTS

Operating Lease Commitments

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

	2011	2010
Within 1 year	713	622
Within 2 years	646	595
Within 3 years	582	524
Within 4 years	453	490
In excess of 5 years	35	384
Operating lease payments represent :		
Contractual obligations on rental payments	1,987	2,111
Rentals for vehicles and equipment under operating lease agreements	442	504

The Company is also responsible for its proportionate share of operating costs under the terms of the premises leases. The leases have varying terms, escalation clauses and renewal rights.

Capital Commitments

The Company anticipates capital commitments of $1,350 in the upcoming fiscal year.

18. CONTINGENT LIABILITIES

The Company, like all other insurers, is subject to litigation in the normal course of its business. The Company does not believe that such litigation will have a material effect on its profit or loss and financial condition.

The Company has provided loan guarantees of $900 (2010: $900; January 1, 2010: $900) to unrelated parties with terms ending in the year 2021. In the event of a default, the Company will realize a recovery on the assets of the entities for which guarantees have been made.

19. SHARE CAPITAL AND DIVIDENDS

	Shares ('000s)	Ordinary Shares	Share Premium	TOTAL
At January 1, 2010	*20*	2,000	9,362	11,362
At December 31, 2010	*20*	2,000	9,362	11,362
At December 31, 2011	*20*	2,000	9,362	11,362

The total authorized number of shares is twenty thousand with a par value of $ 100 per share. All issued shares are fully paid. All shares are held by Samson Management Limited.

20. FINANCIAL RISK MANAGEMENT

The Board of Directors ensures that management has appropriate and reasonable risk management processes in place. Through the Audit/Conduct Review Committee, the Board oversees such risk management procedures and controls and management is responsible for carrying them out. The most significant risks that the Company must manage with respect to unpaid claims and other financial instruments are product and pricing, underwriting and liability, catastrophe and reinsurance, credit, market and liquidity risks.

Credit risk

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash and cash equivalents, including outstanding receivables from policy holders and reinsurers, investments, and committed transactions. 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 investments in bonds and debentures are rated A or above, except for $3,442 (2010: $1,742; January 1, 2010: $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 statement of financial position, as well as the loan guarantee disclosed in Note 18.

Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument may fluctuate due to changes in interest rates. The Company is exposed to interest rate risk through investments in bonds and debentures, which are sensitive to changes in interest rates.

At December 31, 2011, a 1% change in interest rates, with all other variables held constant, could impact the fair value of bonds and debentures by $8,559 (2010: $7,648). The change would be recognized in other comprehensive income.

Market risk

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

At December 31, 2011, a 10% change in the equity holdings in the Company's investment portfolio, with all other variables held constant, would have an estimated effect on the fair values of common shares and other investments of $1,947 (2010: $2,573). The change would be recognized in other comprehensive income.

The Company holds foreign currency denominated common shares and other investments in the amount of $5,657 (2010: $6,066; January 1, 2010: $4,055). A 10% change in the value of the United States Dollar would affect the fair value of the investments by $566 (2010: $607).

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.

Prudent liquidity management implies maintaining sufficient cash and available funding through an adequate amount of committed credit facilities. Liquidity risk is managed by maintaining a highly liquid investment portfolio. In addition,

at December 31, 2011, the Company had $15,965 (2010: $16,454; January 1, 2010: $44,939) of cash and cash equivalents.

The payment obligations associated with the financial liabilities on the statement of financial position are generally expected to be discharged during in the next fiscal year. More than half of the provision for unpaid claims and adjustment expense is expected to be settled the coming year.

Fair Values

Unless otherwise stated, the fair value of all financial assets and financial liabilities are considered to approximate their carrying values.

21. CAPITAL RISK MANAGEMENT

The Company's capital management objective is to ensure that the Company is capitalized in a manner which provides a strong financial position for its policyholders and exceeding the regulatory capital requirement in order to build long-term shareholder value. Quarterly, the Board of Directors review available capital as defined for regulatory purposes to ensure it is meeting regulatory requirements. Management performs a similar review on a monthly basis.

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, share premium, 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, 2011 with a ratio of 325% (2010 Canadian GAAP: 306%; January 1, 2010 Canadian GAAP: 242%).

22. INSURANCE RISK MANAGEMENT

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The Company is at risk for losses in the event that incomplete or incorrect assumptions or information are used when pricing, issuing or reserving for insurance products. Insurance risks include underwriting and liability risk, product and pricing risk and catastrophe and reinsurance risk.

Underwriting and liability risk

Underwriting and liability risk is the exposure to financial loss resulting from the selection and approval of risks to be insured, the retention and transfer of risks, the reserving and adjudication of claims, and the management of contractual and non-contractual product options.

The Company has specific underwriting guidelines for risk eligibility and establishes a line guide to ensure that the limits of insurance for a particular risk do not exceed the Company's net retention or maximum written limits. Net retention is the maximum amount of insurance that the Company will retain on a single exposure. Coverage in excess of its net retention is reinsured up to its maximum written limits.

Notes 3 and 13 provide further information on the uncertainties in estimating the provision for unpaid claims and adjustment expenses, as well as the historical development of claims over time.

Product and pricing risk

Product and pricing risk is the risk of financial loss from entering into insurance contracts when the liabilities assumed exceed the expectation reflected in the pricing of the insurance product. The Company prices its products, with the assistance of its external actuary, by taking into account several factors, including claims frequency, severity trends, product line expense ratios, special risk factors, capital requirements and investment income. These factors are reviewed and adjusted as needed on a regular basis to ensure they are reflective of current trends and market climate.

The Company writes compulsory automobile business that is subject to regulation which comprises approximately 22.9% (2010: 24.3%) of net premiums written. These 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 (note 11). Certain benefit payments are also subject to provincial government regulation including automobile accident benefits.

Catastrophe and reinsurance risk

Catastrophes and large loss events can have a significant effect on the Company's operating results and financial condition. Catastrophic loss risk is the exposure to loss resulting from multiple claims arising out of a single catastrophic event. Potential events include perils such as earthquake, tornado, wind or hail. 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 risks, in various areas of exposure, with other insurers. The Board of Directors has approved and annually reviews the reinsurance policy which deals with the types of reinsurance programs placed and the practices management follows in managing and placing these programs.

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 $638 (2010: $553) in the event of a claim or a catastrophe, excluding reinstatement fees when applicable. In addition, the Company has catastrophe reinsurance having an upper limit of $120,000 (2010: $85,000).

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

	2011	2010
Net premium earned reduced by	55,729	48,611
Claims incurred reduced by	60,741	30,086
Commissions and premiums taxes reduced by	12,774	11,986

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. All reinsurers are rated A- or above.

23. INCOME TAXES

The provision for income taxes reflects an effective tax rate that differs from the combined tax rate for Canadian federal and provincial corporate taxes for the following:

Income Tax Expense

	2011	2010
Current income taxes		
Current taxes on income for the year	1,173	4,931
Current taxes referring to previous years	7	2
Transfer from accumulated other comprehensive income	(482)	-
	698	4,933
Deferred income taxes		
Current deferred taxes	(142)	167
Adjustment in respect of prior years	42	-
	(100)	167
Total income tax expense	**598**	**5,100**

Reconciliation to Statutory Income Tax Rate

A reconciliation of income tax calculated at the statutory tax rate with the income tax provision at the effective tax rate in the financial statements for the years ended December 31 is summarized in the following table:

	2011	2010
Income before income taxes	3,526	17,508
Provision for income taxes at the statutory income tax rate (26.8%; 2010: 28.4%)	945	4,972
Impact of tax rate changes for deferred income taxes	82	161
Non-deductible expenses	61	79
Non-taxable investment income	(82)	(112)
Other including permanent differences	(408)	-
	598	**5,100**

Composition of Deferred Income Taxes

The deferred income tax assets and liabilities comprise the following:

	2011	2010	January 1, 2010
Provision for unpaid claims and adjustment expenses	859	766	848
Tax losses carried forward	21	21	21
Available for sale financial assets	(95)	(160)	(247)
Capital and Intangible Assets	(388)	(447)	(321)
Other	(61)	(47)	(13)
Deferred income tax assets	**336**	**133**	**288**
Investment Property	1,008	959	999
Deferred income tax liabilities	**1,008**	**959**	**999**
Deferred tax asset to be recovered greater than 12 months	336	133	288
Deferred tax liabilities to be recovered greater than 12 months	1,008	959	999

24. Supplemental Cash Flow Information

	2011	2010
Cash paid for:		
Interest	-	11
Income taxes	6,476	4,911
Cash received from:		
Dividends	458	494
Interest	4,660	4,245
Income taxes	1	16

25. Administrative Expenses

	2011	2010
Salaries and employee benefits	12,121	11,806
Directors renumeration	403	405
Professional fees	325	378
Occupancy	860	841
Information technology	328	294
Inspections and investigations	577	493
Bureaus and associations	651	612
Allowance for doubtful accounts	109	105
Amortization	957	854
Other expenses	3,122	3,228
	19,453	**19,016**

26. Subsequent Event

The Board of Directors declared and paid a dividend to the shareholder of $369 on February 23, 2012.

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