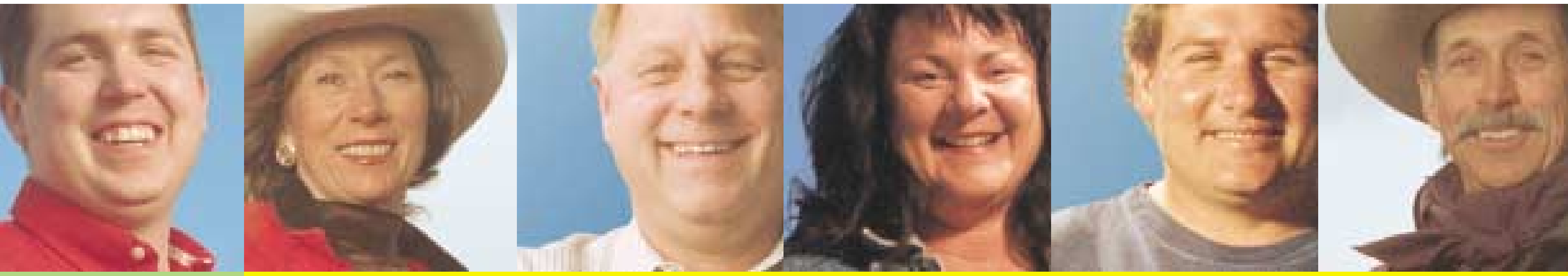
Western Financial Group



2001 ANNUAL REVIEW

Our community.
Our vision.
Our future.

Timeline

As one generation matures, another comes into being – in this regard companies are very much like people. In the few years since 1996, Hi-Alta Capital Inc., was born, grew and prospered. It reached across Western Canada, providing insurance services to over 140,000 people in over 40 towns and small cities.

But now the time has come for a change. We've grown, matured and learned a lot in the last six years, and we believe we've found a way to transform youthful growth into mature accomplishment – to assure our customers, shareholders and employees of a rewarding future.

Join us as we celebrate past accomplishments and anticipate future triumphs. We've become Western Financial Group – a tradition of individual attention, backed by a network of strength.

1905 Hi-Alta Agencies is founded in High River, Alberta to provide insurance, loans and asset management.

1970s Increasing competition requires greater specialization – Hi-Alta narrows its focus to insurance only.

1990s Winds of change blow through the financial services sector – insurers begin consolidating – in Europe, integrated financial services offering insurance, investments and banking spring up – in Canada, small town brokers feel the pressure to grow.

1996 Hi-Alta Capital Inc. goes public. The goal is to create Western Canada's largest network of insurance agencies, starting with one agency, Hi-Alta Agencies in High River.

2001 In just five short years, the Western Insurance Network has grown to be Western Canada's largest network of insurance agencies.

2002 Western Financial Group is created transforming Hi-Alta Capital Inc. into Western Canada's largest network of financial services agencies providing insurance, investments and agency banking.

Future Combining the advantages of local offices in towns and small cities with the buying power and influence of one of Western Canada's largest financial networks, Western Financial Group hopes to build a secure future for its shareholders, customers and employees.

Insurance

- Personal
- Commercial
- Automobile
- Home
- Farm
- Business
- Special risk
- Property
- Casualty
- Life
- Group benefits

Investments

- Mutual funds
- RESPs
- RRSPs
- Stocks and bonds
- Financial planning

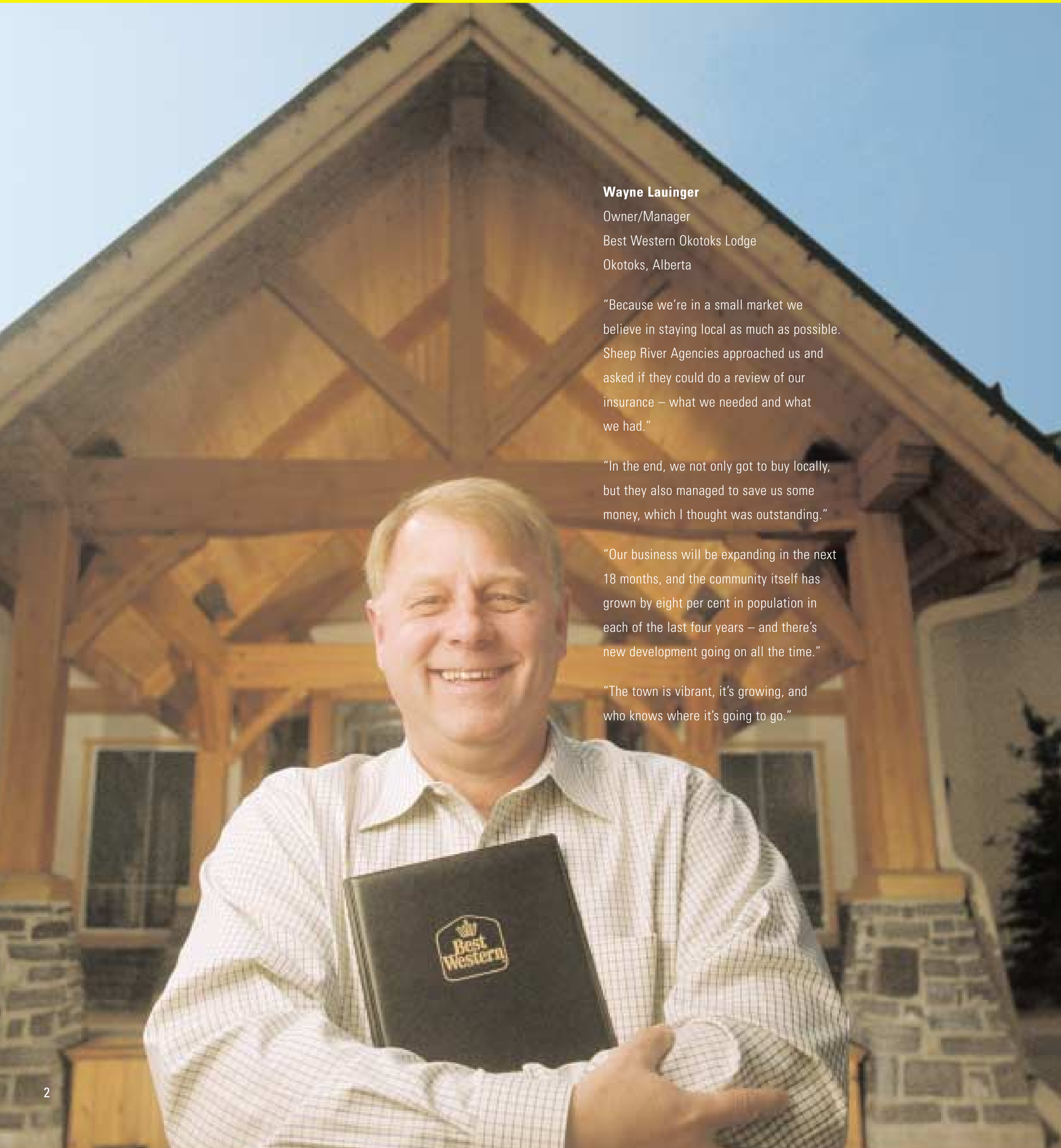
Agency Banking

- Term Deposits
- GICs
- RRSPs
- Mortgages

Since going public as Hi-Alta Capital in 1996, Western Financial Group has built the largest western-based insurance brokerage network in Western Canada. With offices in over 40 towns and small cities in British Columbia, Alberta, and Saskatchewan, Western Financial Group now serves a customer base of more than 140,000 people.

At the end of 2001, Western Financial Group had established premium sales of $135 million and gross revenues of $22.5 million. By the end of RRSP season in February 2002, the Company had gathered more than hundreds of millions of dollars of investments in the form of agency bank deposits, segregated funds and mutual funds from its client base.

After six years of profitable growth through acquisition, Western Financial Group is focusing on maximizing returns by strengthening its insurance mix, improving internal efficiency and integrating comprehensive financial products and services.



Wayne Lauinger
Owner/Manager
Best Western Okotoks Lodge
Okotoks, Alberta

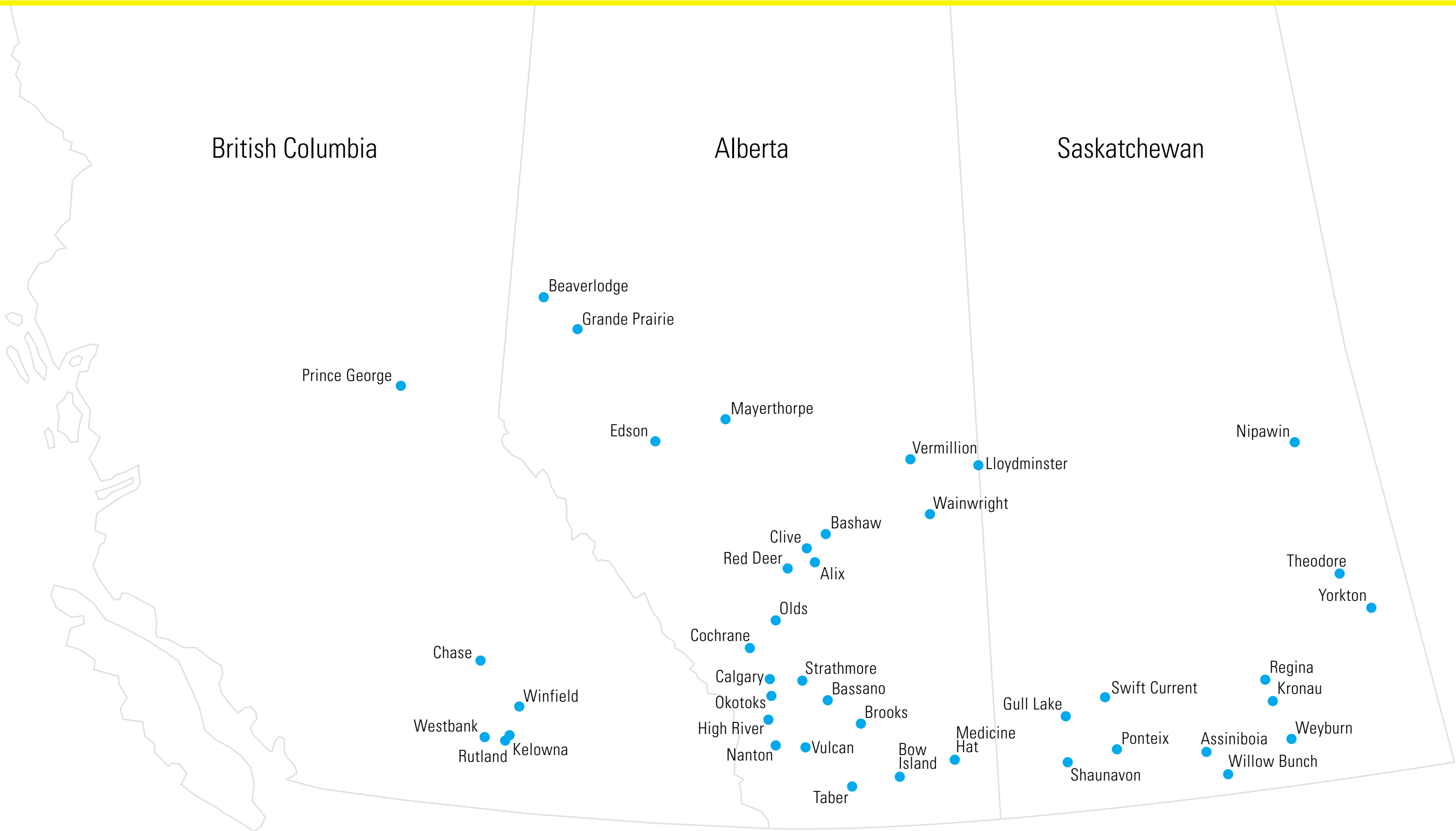
"Because we're in a small market we believe in staying local as much as possible. Sheep River Agencies approached us and asked if they could do a review of our insurance – what we needed and what we had."

"In the end, we not only got to buy locally, but they also managed to save us some money, which I thought was outstanding."

"Our business will be expanding in the next 18 months, and the community itself has grown by eight per cent in population in each of the last four years – and there's new development going on all the time."

"The town is vibrant, it's growing, and who knows where it's going to go."

Service area and offices



The origins of the Western Financial Group were in High River, Alberta. We got our start there in 1996, with Hi-Alta Agencies, a well-established western firm that has been in continuous operation since 1905. After just six years in business, the Western Financial Group network has grown to include agencies in over 40 towns and small cities across British Columbia, Alberta and Saskatchewan. Now the map of our operations should really be expanded in another dimension, as we add investment services and agency banking to our insurance services. Western Financial Group – a network of financial agencies serving the needs of towns and small cities across Western Canada.

Highlights

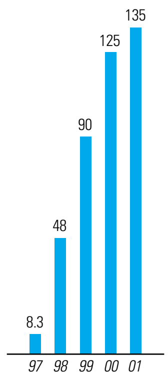
2001 FINANCIAL HIGHLIGHTS

- Revenue and earnings grew for the fifth consecutive year – revenue increased by 13%, net income increased by 113% as a result of increases in same-store revenues and operating margins, which rose from 17% in 2000 to 20% in 2001
- Western Financial Group's stock outperformed both the TSE 300 and the TSE Insurance Index in 2001
- Profit magazine rated Western Financial Group 24th in its Profit 100 ranking of Canada's fastest-growing companies, up from 32nd place the previous year

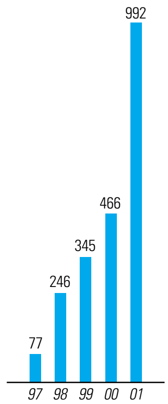
2001 OPERATING HIGHLIGHTS

- Western Financial Group acquired nine agencies in 11 communities in British Columbia, Alberta and Saskatchewan, bringing the total number of communities served to over 40
- As a result of a larger market and increased market share in previously established areas, the number of customers served rose 24% from 100,000 in 2000 to 124,000 in 2001
- The Company developed plans for its next stage of growth and development, which include more acquisitions, an expanded offering of financial products and services, and the launching of a network-wide, consumer-oriented branding strategy

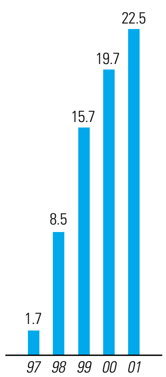
Premium Sales
($ million)



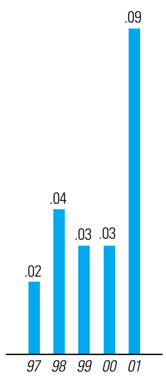
Net Income
($ thousand)



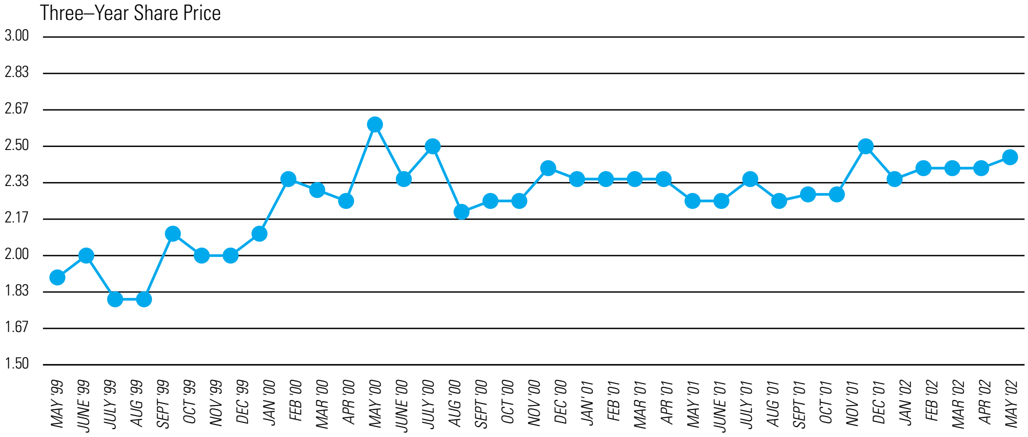
Revenue
($ million)



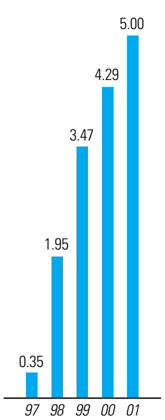
Earnings Per Share
($)



Three–Year Share Price



EBITDA
($ million)



Renie and Mac Blades
Ranchers
west of Nanton, Alberta

“We’ve been dealing with Hi-Alta Agencies in High River for 40 years. The people in the office are really good and they give us good service.”

“My mother and father dealt with Hi-Alta and I’m not sure if my grandfather did or not – he started this ranch in 1900.”

“There are quite a few decent sized ranches right in this area of southern Alberta, but it’s just hard for us to keep it all going.”

“It’s a beautiful area of the province but industry wants to develop it, and once you get roads all over the place it fragments the environment. As ranchers we’ve been good stewards of the land and the land’s the way it is because we’ve kept it that way for the last hundred years.”

A message from the President

Looking back over the past 12 months – and indeed, over the period from 1996 to today – I am reminded of a painting that hangs on the wall of my office. By an unknown western artist, it depicts a group of cowboys herding cattle toward a ranch, hidden in the foothills of the Rocky Mountains.

Like those cowboys, our Company has been moving with hard work and determination toward a goal that may have seemed far-off at times. But again, like those cowboys, we have always had faith in our ability to reach our goal.

Today, I am proud to say, we have done what we set out to do: we have established the largest western-based integrated financial services network in Canada. We have broadened our product offering to include not just our outstanding selection of insurance products, but investment services and agency banking as well. And while building our network and broadening our services, we have also increased revenues, net income and earnings per share.

I believe that all these achievements promise even bigger and better things for the future, just as the clear sky in my painting promises good weather for the cowboys.

Looking ahead

Our Company is entering a new era, an era of expanded services, larger service area, and improved returns for all our stakeholders, whether you're a customer, investor or business partner.

As we enter this new era, the challenges that face us are no less complex or difficult than those of the past. To address those challenges will require intelligence, expertise and energy both from our local offices and our network as a whole. For example, premium rates are facing upward pressure, due to events that are entirely beyond our control.

To address this challenge, we will continue to work with our suppliers to ensure that we offer our customers products that truly address their needs. We will continue to utilize the buying power that our sizeable network gives us to ensure our clients pay the most reasonable rates possible. And, through computerized and personal networking, we will continue to integrate the strengths of our individual offices and personnel, to ensure that our customers enjoy the benefits of our broad range of expertise, no matter where they may live.

In all we do, we remain focused on providing superior service to our customers, ultimately strengthening our Company for all shareholders.

A new look for an old friend

To ensure that our customers and potential customers throughout Western Canada are familiar with our Company and its services, we have launched a thorough branding campaign. Now when most people think of "branding," they probably think of the sort of activity the cowboys I mentioned earlier might be involved in. Or they might think of the big-name commercial brands that dominate the ads on prime time TV.

But what we have in mind when we speak of our branding program is simply making the people in our market aware of what we stand for and how we do business. Because to us, branding means simply creating an expectation in people's minds, so that when they see our name they know what we stand for.

We are branding Western Financial Group by focusing on the key corporate values that have always governed our business – loyalty, respect, trust and personal service.

The brand attributes we want to reinforce include creating corporate excellence in a rural marketplace; building real assets; and maintaining solid, personal customer relationships.

We want existing and prospective customers to think of Western Financial Group as an established, integral part of the community; approachable, friendly and responsive to individual needs; knowledgeable, skilled and independent; and dependable and secure.

To operate successfully in the competitive financial services marketplace, it is essential to develop a brand that reinforces corporate stability, strength and unity. We want our customers to transfer their feelings of trust and confidence in their local insurance agency to the new, expanded Western Financial Group financial services agency.

To support our branding efforts, we have completely redesigned our signs, brochures, letterhead and business cards. We have retained our familiar logo with its mountains, foothills and wheat fields, because we believe it represents Western Canada better than any other symbol.

And above all, we want our customers to know that we identify with Western Canada, first and foremost. Again, the reason is clear: "…because we live here."

Acknowledgments

As we enter this new phase in the Company's development, I want to extend thanks, on behalf of myself and the board of directors, to all our staff in all our offices across the West. The extraordinary dedication, skill and effort that you have put into this Company have helped it to thrive and grow at an unprecedented rate.

In addition, special thanks are due to our shareholders and business partners, who have shared in our vision of a truly western-based financial services network.

Thank you, one and all, for your efforts in the past – I hope we can count on your continuing efforts as we move forward.

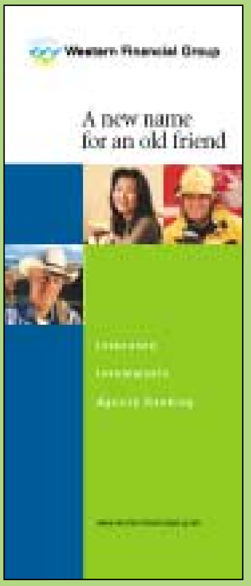
Thank you.

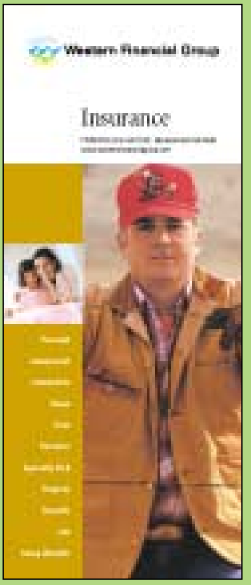
Sincerely,

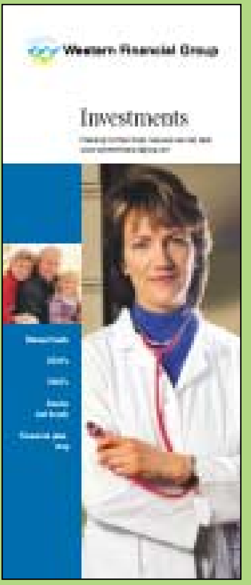
[signed]

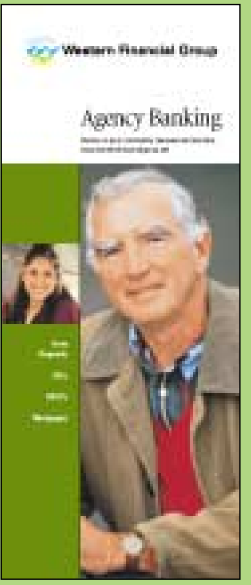
Scott Tannas
President & CEO
Western Financial Group

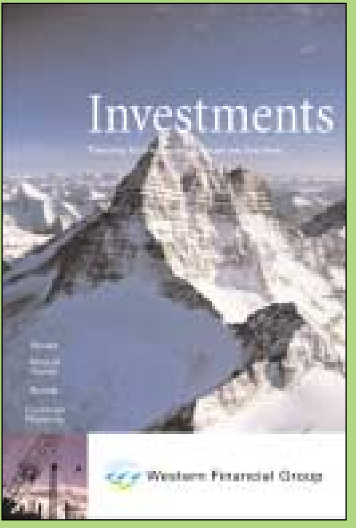
High River, Alberta
May 27, 2002

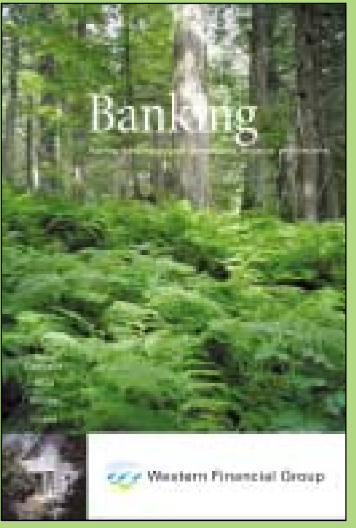


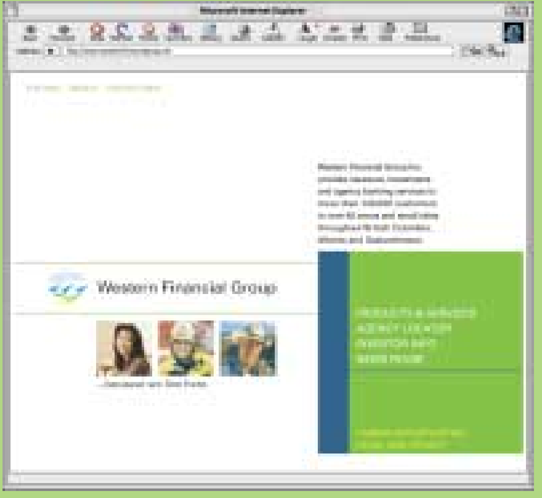












What we stand for

Our core values

At Western Financial Group, we believe that our success depends on being true to ourselves and our communities. When we consider the values that guide us in everything we do, every day and every hour, we find that those values can be summarized in a list that is both brief and profoundly important. Our core values are:

- Frankness
- Knowledge
- Accuracy
- Community involvement
- Results
- Customer advocacy
- Thoughtfulness

Our guiding principles

In addition to our core values, at Western Financial Group we are governed by a higher order of principles that relate, directly or indirectly, to every aspect of our business. These guiding principles are few in number, but their importance is inestimable.

Truthfulness: It is the foundation of our business. We believe that frank, accurate and honest communication is always in everyone's best interest.

Fairness: We are advocates for our customers and the trusted representatives for our suppliers. Our credibility rests on our determination to see that everyone gets what they deserve.

Value: Our skills and knowledge generate meaningful, positive results for all concerned. We will strive to be the best we can be.

Loyalty: We place our faith in long-term relationships, through thick and thin. We support our communities.

"In making these lists of values and principles, I am not prescribing attributes that people at Western Financial Group should embody in theory. Instead, I am describing qualities that I have found to be commonplace among my fellow workers throughout our network. Whether it's because we have all been formed by our experience in the towns and smaller cities where we live, or whether some other factors are at work I cannot say. All I know is, Western Financial Group has the very good fortune to have attracted people who genuinely share these values and principles, and exhibit them every day, whether they are at work, at home or at play."

Scott Tannas,
President & Chief Executive Officer
Western Financial Group

Susan Dulik
Owner, Pinot Reach Cellars
Kelowna, British Columbia

"The economy is hot in the Okanagan right now. There's construction going strong and people are continuing to move here because of the location and climate."

"I've been in the winery business since 1980 and my family has been dealing with Whillis-Harding, a member of the Western Financial Group, since probably the 1940s."

"I'm just extremely pleased with their service. It's personal service and I definitely like that. They're personal, they're nice, they're friendly, what they offer is excellent and it's totally competitive so I don't even shop anywhere else. I just trust them to give me the best rates."

"I think their service is absolutely excellent. I refer everyone I know to Whillis Harding – my winemaker just switched to them, because of their great service."

How we've grown

Western Financial Group has built its network of offices in rural Western Canada through friendly acquisitions. The Company targets rural insurance brokerages because of their stable client base, limited competition and generally higher profitability than urban agencies.

A complete family of financial services
From its headquarters in High River, Alberta, the Company provides its customers in British Columbia, Alberta and Saskatchewan with expertise in three business lines:

- Insurance – Property insurance, casualty insurance and life insurance are available.
- Investments – Mutual funds, financial advice and access to the stock market are provided through regional Western Financial Group offices.
- Agency Banking – Products such as term deposits and GICs are provided through arrangements with commercial banks.

The people of Western Financial Group
Western Financial Group's unwavering commitment to quality means building the Company through unification of outstanding people and companies.

As a result, Western Financial Group enjoys a network of dynamic, energetic professionals focused on success by providing extraordinary customer service.

Individual agencies operate in more than 40 towns and small cities throughout Western Canada. Western Financial Group aligns itself with western Canadian communities that are vibrant, prosperous and growing.

As of April 2002, Western Financial Group's employee base had increased to over 350 professionals. Employees enjoy the benefits of an Employee Share Ownership plan, to which more than 1/3 currently subscribe.

A story of independence and vision
The origins of Western Financial Group lay in the founding vision of Scott Tannas, a successful businessman who left the big city to return to his small-town roots. Since going public in 1996, the Company has recognized wonderful potential. The stock outperformed the TSE 300 and the TSE insurance index in 2001. Western Financial Group's shares are traded on the Toronto Stock Exchange under the symbol "WES."

In 2001, the Company announced the purchase of a 20 per cent interest in Jennings Capital Inc., giving Western Financial Group access to one of Western Canada's premiere financial groups. As a result, Western Financial Group is able to offer its customers financial advice and investment services throughout its vast network of services.

With the formation of the Western Financial Group in 2002, the Company's three business lines were rolled into one and given a new name and a new look. However, care was taken to maintain the quality products and personal service that established the Company's excellent reputation.

Smaller centres make major markets
By identifying itself with smaller markets throughout Western Canada, Western Financial Group has achieved an outstanding level of success. Since 1996, the Company's revenues have grown by more than 3,000 per cent to over $20 million.

Our vision of the future
During the past six years, the Company has grown from one to over 40 offices through the acquisition of quality insurance agencies. The Company will continue to build and expand the business based on the success of the strategic investments. There will remain a focus on friendly acquisitions, expansion of services and increasing market share through superior customer service.

In the course of developing the vision of being the one-stop shopping centre for financial services in towns and small cities across the West, Western Financial Group will work to establish relationships with new customers, new business partners and new investors.

Networking our knowledge
The ability to share information across the network also plays an important role. Now established, is a unified information system linking all the offices. This technology provides a resource for sharing expertise and information among the employees. The opportunity to standardize policies and procedures also allows for Company-wide efficiencies.

New products, new ideas
The foundation of the business is insurance but there is a plan to build on that by offering customers new and unique insurance products, custom-designed for large insurers. Currently, Western Financial Group is putting the finishing touches on a unique life insurance package, a joint venture with a major Canadian life insurer, that will be announced shortly.

There are other exciting new ventures underway at Western Financial Group. The Company is in the process of applying for a Canadian bank charter. A bank charter will allow significant expansion upon early success in agency banking.

Milestones achieved
There are many successes that have already been realized and are indicative of the Company's incredible recent growth. Proudly, the achievements can be attributed to the many stakeholders who believe in the vision and the capabilities of the Company. Western Financial Group is committed to being a leader in the industry. One recent accomplishment demonstrates this commitment. Western Financial Group is the largest farm and agribusiness insurance broker in Canada. This is only one of the first of many milestones the Company hopes to achieve.

The Western Communities Foundation

To us, the western provinces aren't just a market, "it's who we are." Because in addition to working in towns and small cities throughout Western Canada, we also live here. And we're proud to be part of the community, providing personalized, quality service and top-notch financial products.

To express our support for the community, Western Financial Group founded the Western Communities Foundation in 2001. The Foundation is a non-profit organization created and supported by Western Financial Group. The mission of the Foundation is to:

- Foster the development of community pride through sponsorship of worthy endeavours by teams or individuals in the various communities where the Company operates;
- Develop and enhance the infrastructure in these communities through public health, education and recreation; and
- Assist in the export of community products, expertise and financial support to parts of Canada or the world that are lacking in such benefits.

Community Heroes Program

Community Heroes is designed to provide recognition and sponsorship for exceptional people – heroes in our community.

Speed-skating champion Jeremy Wotherspoon is the first of many exceptional people we hope to help reach their dreams, and in doing so inspire others in our communities to pursue theirs. The 25-year-old from Red Deer has won five 1,000-metre and four 500-metre championships in the World Cup as well as three world sprint championships and a silver medal at the Winter Olympics in Nagano, Japan.

Community heroes will also recognize community volunteers and provide funding to charities and causes of their choice.

Community Infrastructure Donations

Already, the Western Communities Foundation has begun making a difference in our communities through significant support for local capital projects, including:

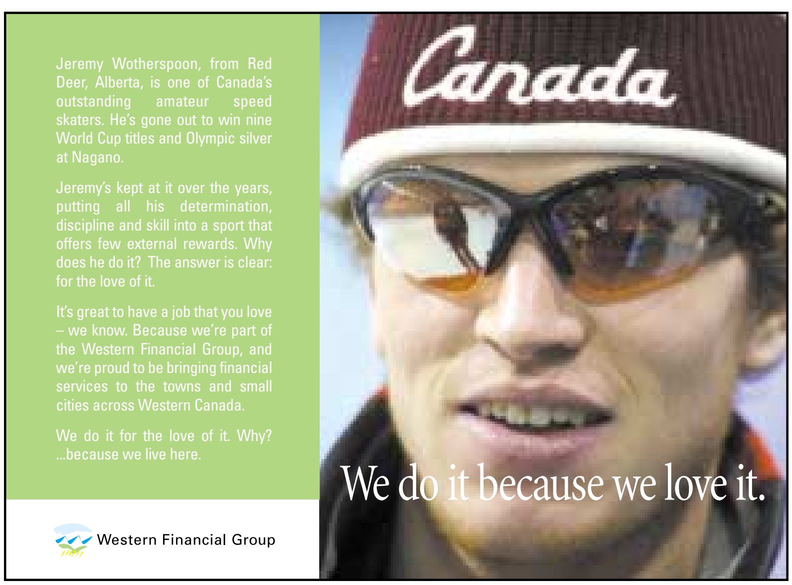
- The Olds swimming pool, Olds, Alberta
- The Western Financial Group Arena (agriculture, rodeo), High River, Alberta

Helping Hands Program

Helping Hands is a program designed to raise funds to assist the Foundation in achieving its objectives. A key component of the program will be fundraising by management and staff through events such as golf tournaments, raffles and other volunteer fundraising initiatives. We will also be encouraging our business partners to participate in *Helping Hands*.

In the weeks and months ahead, the Western Communities Foundation will be announcing more plans to help make the towns and small cities of Western Canada even better places to live. It's just one way to say "thank you," to all the friends and neighbours who have helped us along the way.

Jeremy Wotherspoon is the first of Western Financial Group's "Community Heroes." He will be featured in a series of newspaper ads throughout Western Canada.



Michelle and Darryl Whitcomb

Owners, Iron Creek Enterprises Inc., a log and lumber transportation business near Osoyoos, B.C.

"Kelowna is the nearest major centre, about 1 hour away. Kelowna is a very competitive town. That's where you're going to find better prices."

"So we were checking around for insurance rates and somebody told me to check with Whillis-Harding. I phoned them and their rates were better."

"The service is good and our agent's very personable. It's a good relationship, not strictly like a dry business relationship – he's friendly, eager to help."

"He's treated us like we're important clients and we're not big time or anything. We're just a small family business but he treats us like we're just as important as some of their bigger clients."

From left to right: Bill Rogers, Scott Tannas,
Tom Dutton, Catherine Rogers

Meet our management team

Scott Tannas
President &
Chief Executive Officer

Born and raised in High River, Alberta, Scott initially joined the travel and tourism business in Calgary and became Vice President of an expanding tour operation, before establishing his own successful Calgary based management consulting Company in 1988. Between 1988 and 1993, Tannas Tourism Strategies conducted successful projects for senior management at some of Canada's leading companies.

In 1993, Scott acquired a partnership in Hi-Alta Insurance and recognized the potential for acquisition and consolidation in the rural sector of the insurance brokerage industry. Together, with industry and community leaders, he founded Hi-Alta Capital Inc. in 1996 as a junior capital pool corporation and acquired Hi-Alta Agencies.

Scott has been nominated for a number of awards as a result of the success of Hi-Alta Capital, including Entrepreneur of the Year in Alberta.

Catherine Rogers
Chief Financial Officer &
Vice President, Finance & Administraton

Catherine Rogers received her degree in Accounting and Finance from Miseracordia University in Pennsylvania. She held several positions in accounting in the hotel, resort and airline industries, culminating in her appointment as Chief Financial Officer for US Air Express in 1990.

In 1993, she joined Montgomery Ward stores travel agency chain as their Chief Financial Officer.

Catherine joined Hi-Alta Capital in 1997 as Comptroller, and was promoted to Vice President, Finance, Administration and Automation in 1998, and Chief Financial Officer in 1999.

Bill Rogers
Vice President,
Corporate Development

Bill Rogers graduated from Brock University with honours and joined Wardair Canada in Toronto in 1971. His career in retail customer service commenced in 1974 when he was appointed Regional Manager for Alberta for Wardair, based in Calgary.

During these formative years, Bill learned first hand the power of customer loyalty and trust, born of exceptional service.

After more than 20 years as a senior executive in the airline and retail agency business in Canada and the USA, Bill returned to Alberta to join Hi-Alta Capital as Vice President, Corporate Development in September 1997. He holds a CAIB designation in Property and Casualty insurance.

Tom Dutton
President & Chief Operating Officer,
WFG Agency Network Inc.

Tom Dutton is a graduate of the University of Saskatchewan with a Bachelor of Arts degree. His career includes 15 years as an owner/partner of his own insurance brokerage and senior executive positions with one of Canada's largest insurance brokerage firms. He is a past president of the Insurance Brokers Association of Saskatchewan and holds the CCIB insurance designation.

In January 1999, his firm, Independent Agencies, became the first Saskatchewan member of the Western Insurance Network. Independent Agencies has consistently been the leading general insurance and financial services firm in the Yorkton market and, since joining the Western Insurance Network, has been a model for the successful integration of insurance, investments and agency banking services.

Tom continued as President of Independent Agencies until September 2001, when he accepted the position of President and Chief Operating Officer of WFG Agency Network Inc., Western Financial Group's primary operating subsidiary.

Dan Meyer
Partner, HiTech Fluid Systems Ltd.,

"My family insures everything with Western Financial Group – they handle all our Company insurance and my personal insurance, too. And they've always been good for us - their treatment of us has been excellent."

"Although Western Financial Group is constantly growing, they're still not losing sight of what makes them good – their ability to continue to embrace small-town values."

Dan and the others represent the customers of the future for Western Financial Group. To continue being successful, the Company needs to recognize and respond to the ever-changing needs of these clients. Western Financial Group is committed to thoroughly understanding the scope of insurance, investment and banking products and services available to satisfy the next generation customers.

Auditors' Report

TO THE SHAREHOLDERS OF WESTERN FINANCIAL GROUP INC. (FORMERLY HI-ALTA CAPITAL INC.):

We have audited the consolidated balance sheets of Western Financial Group Inc. (formerly Hi-Alta Capital Inc.) as at December 31, 2001 and 2000 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

March 8, 2002 [signed]
High River, Alberta Chartered Accountants

CONSOLIDATED BALANCE SHEETS

Years ended December 31, 2001 and 2000

	2001	2000
Assets		
Current assets		
Cash and cash equivalents (note 4)	**$ 7,973,208**	$ 3,060,871
Accounts receivable (note 5)	**9,144,107**	8,755,894
Prepaid expenses	**588,760**	501,797
	17,706,075	12,318,562
Deferred charges (note 6)	**1,068,336**	983,295
Other assets (note 7)	**1,520,536**	571,390
Property, plant and equipment (note 8)	**4,484,206**	4,040,274
Goodwill and other intangible assets (note 9)	**33,600,517**	29,516,505
	$ 58,379,670	$ 47,430,026
Liabilities		
Current liabilities		
Accounts payable and accrued	**$ 8,987,291**	$ 8,034,975
Income taxes payable	**378,626**	246,642
Current portion of long-term debt (note 10)	**1,797,000**	801,800
Current portion of obligation under capital leases (note 11)	**119,042**	191,725
	11,281,959	9,275,142
Long-term debt (note 10)	**17,727,826**	15,649,128
Obligation under capital leases (note 11)	**90,515**	88,225
Future income taxes (note 12)	**310,099**	247,057
	29,410,399	25,259,552
Shareholders' Equity		
Share capital (note 13)	**19,907,958**	14,143,670
Other paid in capital (note 14)	**7,996,523**	7,640,424
Retained earnings	**1,064,790**	386,380
	28,969,271	22,170,474
	$ 58,379,670	$ 47,430,026

Approved by the Board:

[signed]
Director
S. Tannas

[signed]
Director
G. Speirs

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years ended December 31, 2001 and 2000

	2001	2000
Revenue		
Commissions (note 14)	**$ 22,144,919**	$ 19,704,877
Investment income	**304,255**	92,903
	22,449,174	19,797,780
Operating expenses	**17,990,426**	16,374,641
Operating income	**4,458,748**	3,423,139
Gain on sale of goodwill and other intangible assets	**544,023**	–
Gain on sale of investments	**–**	793,597
Interest and financing costs on long-term debt	**(1,609,180)**	(1,673,315)
Amortization of goodwill and other intangible assets	**(848,987)**	(778,330)
Amortization of property, plant and equipment	**(664,986)**	(639,669)
Income before income taxes	**1,879,618**	1,125,422
Income taxes (note 12)	**887,798**	659,967
Net income for the year	**991,820**	465,455
Retained earnings, beginning of year	**386,380**	381,767
Excess on cancellation of shares (note 13)	**(71,110)**	(208,667)
Increase in other paid in capital, net of tax (note 14)	**(242,300)**	(252,175)
Retained earnings, end of year	**$ 1,064,790**	$ 386,380
Earnings per share (note 16)		
Basic	**$ 0.09**	$ 0.03
Diluted	**$ 0.07**	$ 0.03

CONSOLIDATED STATEMENTS OF CASH FLOW

Years ended December 31, 2001 and 2000

		2001		2000
Cash provided by (used in) operations				
Net income for the year	**$**	**991,820**	$	465,455
Non-cash items				
Amortization of goodwill and intangible assets		**848,987**		778,330
Amortization of property, plant and equipment		**664,986**		639,669
Future income taxes		**358,451**		239,550
Amortization of deferred charges		**57,899**		76,197
Non-cash interest expense		**247,751**		231,745
Share of investees income		**(40,729)**		–
Gain on disposal of goodwill and other intangibles		**(544,023)**		–
Gain on disposal of investments		**–**		(793,597)
		2,585,142		1,637,349
Accounts receivable		**375,352**		(1,310,489)
Prepaid expenses		**(86,963)**		(300,732)
Accounts payable and accrued		**(75,062)**		403,623
Income taxes		**245,783**		264,132
		3,044,252		693,883
Cash provided by (used in) investments				
Other assets		**(629,628)**		4,709,063
Net assets acquired in business acquisitions		**(4,712,149)**		(3,944,407)
Property, plant and equipment purchases		**(832,634)**		(536,723)
Proceeds on disposal of goodwill		**1,338,573**		–
		(4,835,838)		227,933
Cash provided by (used in) financing				
Repayments of long-term debt		**(2,814,577)**		(8,132,463)
Issuance of debentures		**–**		1,660,000
Advances of long-term debt		**4,758,532**		6,000,000
Repurchase of share capital		**(232,428)**		(805,530)
Repayment of capital lease		**(240,626)**		(226,778)
Deferred finance charges		**(407,584)**		(94,286)
Net proceeds on issuance of share capital		**5,640,606**		56,430
		6,703,923		(1,542,627)
Increase in cash for the year		**4,912,337**		(620,811)
Cash and cash equivalents, beginning of year		**3,060,871**		3,681,682
Cash and cash equivalents, end of year	**$**	**7,973,208**	$	3,060,871
Supplemental Disclosure of Cash Flow Information				
Interest paid	**$**	**1,361,431**	$	1,678,613
Income taxes paid	**$**	**303,982**	$	151,374

1. Operations

The Company was incorporated in the province of Alberta as 674658 Alberta Inc. on November 15, 1995, and is engaged in the acquisition and operation of insurance and financial service brokerage businesses and also holds interests in travel agency operations in rural Western Canada.

2. Accounting Policies

a) Basis of Consolidation – these consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiary companies.

b) Accounting Estimates – preparation of these consolidated financial statements requires management to make certain estimates and assumptions that affect amounts reported and disclosed in the consolidated financial statements and related notes. Actual amounts could differ from those estimates.

c) Cash and Cash Equivalents – cash and cash equivalents include cash, marketable securities, and demand operating loans.

d) Working Capital – accounts receivable consists of amounts owing from customers for policies written prior to year end. Accounts payable includes amounts owing to insurance companies in respect of these policies.

e) Deferred Charges – deferred charges include costs related to the start up of new businesses, development of new products and costs of obtaining debt financing (*Note 6*). Amounts are being amortized on a straight line basis commencing in the year of deferral, except for start up costs which commence when the pre-operating period is over. Financing costs are amortized over the term of the respective debt. Other deferred charges are amortized over five years.

f) Investments – entities which are not controlled and which the Company has the ability to exercise significant influence over, referred to as affiliated companies, are accounted for using the equity method.

g) Property, Plant and Equipment – property, plant and equipment are recorded at cost and are being amortized over their estimated useful lives on a diminishing balance basis, except for leasehold improvements and franchise fees which are amortized on a straight line basis, commencing in the month after addition up to and excluding the month of disposal, at the annual rates detailed in Note 8.

h) Goodwill and Intangible Assets – goodwill represents the excess of consideration paid over the fair value of net tangible assets acquired in business acquisitions prior to June 30, 2001 and related costs of acquisition. Intangible assets include purchased customer contracts and related customer relationships.

Goodwill and intangible assets are being amortized on a straight line basis over 40 years except for goodwill and indefinite life intangible assets acquired after July 1, 2001 which are not amortized in accordance with the Company's change in accounting policy (*Note 21*).

The recoverability of goodwill and intangible assets is based on an estimate of fair value determined using estimated undiscounted future net cash flows. Due to the long-term nature of assumptions made, it is possible that estimates of anticipated net cash flows of the business and estimated remaining life of goodwill and intangible assets could be reduced and the impact on the financial statements for future periods could be material.

i) Income Taxes – income taxes are calculated using the liability method of tax accounting. In providing for corporate income taxes, temporary differences between the tax basis of assets or liabilities and their carrying amounts are reflected as future income taxes. The tax rate anticipated to be in effect when these temporary differences reverse is used to calculate future income taxes.

j) Convertible Subordinated Debentures – convertible subordinated debentures are recorded in part as debt (*Note 10*) and in part as equity (*Note 14*) when the Company has the right to repay the debenture by issuing shares.

The debt component consists of the present value of the future interest payments remaining. The equity component consists of the present value of the principal amount of the debenture and the value attributed to the holder's option to convert the principal balance into common shares measured at fair value when the convertible debentures were originally issued.

The amount allocated to the conversion option will be accreted over the term of the debenture as a charge to income or equity based on the respective components of the debenture. The equity component is disclosed as other paid in capital in shareholders' equity.

k) Financial Instruments

Fair value

For certain of the Company's financial instruments, including cash, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, the carrying amounts approximate fair value due to the immediate or short-term maturity of these financial instruments. The current value of long-term debt approximates the fair value based on an analysis of current and prevailing market rates.

Interest rate risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its bank term loan payable.

Credit rate risk

The Company is exposed to credit rate risk with respect to its marketable securities and accounts receivable. Accounts receivable risk is minimized by the Company's large customer base, which covers all consumer and business sectors in British Columbia, Saskatchewan and Alberta. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. Marketable securities risk is mitigated by restricting both the type and the term of investments. The Company only invests in preferred shares of Canadian corporations and institutions with large capitalization and acceptable liquidity to reduce credit risk.

l) Revenue Recognition – insurance commission revenue represents the net profits earned by the Company on insurance policies sold after deducting the cost of premiums paid to insurance companies. Revenue is recognized when the insurance policy is sold and the amount of the commission earned is determinable. Subsequent commission adjustments, such as policy endorsements or cancellations, are recognized upon notification from the insurance Company.

Contingent profits on insurance policies written are recognized in the year the policies are written and the amounts are determinable.

Investment income earned on amounts received from customers in advance of premium payments made is included in operating income.

m) Stock-based Compensation – no compensation costs have been recognized in the financial statements for share options granted to employees and directors.

The matching contribution made by the Company under the employee share ownership plan is being amortized over the vesting period of the shares commencing in the month of contribution.

n) Earnings Per Share – basic earnings per share are calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per common share are presented using the treasury stock method and are calculated by dividing net earnings applicable to common shares by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued.

3. Business Acquisitions

All business acquisitions are accounted for using the purchase method whereby the assets and liabilities have been recorded at fair market values and the operating results have been included in the Company's financial statements from the effective date of purchase.

December 31, 2001

During the year ended December 31, 2001, the Company acquired all of the outstanding shares of the following insurance brokerage and travel agency businesses: Island Agencies Ltd., Bashaw Agencies (1991) Ltd., Wes Fulton Agencies Ltd., Financial Growth Inc., Fiddler Agencies Ltd., Assiniboia Agencies Ltd., Buchan Agencies Ltd., Cochrane Insurance Ltd., and certain of the assets of Mayerthorpe Agencies, Sheep River Agencies, and Rambaut Agencies.

December 31, 2000

During the year ended December 31, 2000, the Company acquired all of the outstanding shares of the following insurance brokerage and travel agency businesses: Wilson Krochuk Broadbent Agencies Ltd., Prairie Agencies Ltd., Shackleton Insurance Ltd., Eldon Ray Insurance & Real Estate Ltd., Scottsville Insurance Inc., Whillis Harding Financial Services Inc., and Highwood Travel 88 Ltd.

Net assets acquired in business acquisitions

	2001	2000
Current assets	**$ 577,212**	$ 514,301
Property, plant and equipment	**176,272**	82,576
Goodwill and other intangible assets	**6,078,692**	4,966,064
Accounts payable and accrued	**(1,028,084)**	(786,333)
Long-term debt	**(1,091,943)**	–
	4,712,149	4,776,608
Cash acquired	**627,589**	671,023
	$ 5,339,738	$ 5,447,631
Consideration		
Common shares (2000 – 406,934)		800,507
Cash	**$ 5,339,738**	$ 4,647,124
	$ 5,339,738	$ 5,447,631

Goodwill and other intangible assets of $1,100,035 were acquired after July 1, 2001 and are not amortized. Of the amount assigned to goodwill and intangible assets, $482,310 (2000 – $26,625) is considered deductible for tax purposes.

4. Cash and Cash Equivalents

	2001	2000
Cash	**$ 3,186,572**	$ 1,702,890
Investment in preferred shares (no loan outstanding at December 31, 2001; December 31, 2000 – net of loan in the amount of $734,139). (Market value December 31, 2001 – $4,835,381; December 31, 2000 – $1,417,995)	**4,786,636**	1,357,981
	$ 7,973,208	$ 3,060,871

5. Accounts Receivable

Accounts receivable includes contingent profits accrued of $312,300 (2000 - $218,500) on insurance policies that may not be received for up to five years from the year the policy is written. Actual amounts received may vary from the amount recorded based on actual claims history and administration costs.

6. Deferred Charges

	Cost	Accumulated Amortization	Net Book Value
2001			
Start up, reorganization and other costs	**$ 742,015**	**$ 242,843**	**$ 499,172**
Financing costs (Note 18)	**1,212,219**	**643,055**	**569,164**
	$ 1,954,234	**$ 885,898**	**$ 1,068,336**
2000			
Start up, reorganization and other costs	$ 447,054	$ 208,192	$ 238,862
Financing costs	1,214,377	469,944	744,433
	$ 1,661,431	$ 678,136	$ 983,295

7. Other Assets

	2001	2000
Notes receivable, non-interest bearing and due on demand from Jennings Capital Inc., a corporation in which a director holds an interest. These notes have been postponed and subordinated to all other indebtedness of the corporation. The Company has indicated it will not request repayment within the next fiscal year. A portion of this note has been repaid subsequent to year end (*Note 19*).	**$ 800,000**	$ 400,000
Promissory note, repayable at $5,198 per month including interest at 5% per annum. Security provided consists of a general security agreement over all of the assets of Kennedy Insurance Ltd. and a guarantee from its shareholder. Due June, 2006.	**230,135**	
Vendor financing for the balance from the sale of assets of Alpine Agencies Ltd. Interest free until January 1, 2004, thereafter annual payments of $9,000 commencing in December, 2004 including interest at 4% per annum. Balance due December, 2007.	**226,257**	
Investment in affiliated Company.	**164,418**	123,689
Demand promissory note due from an officer of a subsidiary covering relocation expenses. This note is non-interest bearing and may be partially repaid with proceeds from the sale of the former residence. Any balance remaining will be forgiven over a period of three years. Security provided consists of a charge over property owned by the officer.	**61,667**	
Deposits and future costs for business acquisitions that closed subsequent to year end.	**38,059**	47,701
	$ 1,520,536	$ 571,390

8. Property, Plant and Equipment

	Rate	Cost	Accumulated Amortization	Net Book Value
2001				
Land		**$ 233,538**		**$ 233,538**
Buildings	**5%**	**1,176,734**	**$ 167,397**	**1,009,337**
Leaseholds	**10%**	**1,100,945**	**197,156**	**903,789**
Franchise fee	**10%**	**20,894**	**19,266**	**1,628**
Furniture and equipment	**20%**	**976,150**	**398,246**	**577,904**
Computer hardware and software	**20-30%**	**2,453,412**	**1,013,637**	**1,439,775**
Leased assets	**20-30%**	**549,561**	**250,379**	**299,182**
Automotive	**30%**	**20,056**	**1,003**	**19,053**
		$ 6,531,290	**$ 2,047,084**	**$ 4,484,206**
2000				
Land		$ 204,230		$ 204,230
Buildings	5%	994,884	$ 118,308	876,576
Leaseholds	10%	868,928	134,792	734,136
Franchise fee	10%	40,765	24,239	16,526
Furniture and equipment	20%	815,835	292,586	523,249
Computer hardware and software	20-30%	1,973,843	629,931	1,343,912
Leased assets	30%	548,345	206,700	341,645
		$ 5,446,830	$ 1,406,556	$ 4,040,274

9. Goodwill and Other Intangible Assets

	Cost	Accumulated Amortization	Net Book Value
2001			
Goodwill and other intangible assets	**$ 36,243,175**	**$ 2,642,658**	**$ 33,600,517**
2000			
Goodwill and other intangible assets	$ 31,321,836	$ 1,805,331	$ 29,516,505

10. Long-term Debt

	2001	2000
$6,000,000 subordinated convertible redeemable debentures, interest payable semi-annually at 10% per annum. Convertible at the option of the holder, at any time prior to maturity, into common shares of the Company at a conversion price of $3.80 per share. Redeemable at par after June 30, 2000 if the 20 day weighted average price of the shares of the Company is not less than $6.00 per share. Due June, 2003.	**$ 6,000,000**	$ 6,000,000
$5,000,000 subordinated convertible redeemable debenture, interest payable semi-annually at 4% per annum. Convertible at the option of the holder, at any time prior to maturity, into common shares of the Company at a conversion price of $3.25 per share. This debenture is considered to be recorded at fair value due to the existence of a business development agreement with the holder that would have the effect of reducing the effective interest rate. Due January, 2010. As this debenture includes an equity component related to the holder's conversion option, $380,000 was recorded as other paid in capital on issuance (*Note 14*).	**4,696,000**	4,658,000
$10,000,000 subordinated convertible redeemable debenture, interest payable semi-annually at 4% per annum. Convertible at the option of the holder, at any time prior to maturity, into common shares of the Company at a conversion price of $3.00 per share. At any time after March 31, 2001, the Company may redeem the debentures at par if the shares of the Company have traded at $3.90 or on maturity the Company may repay the debenture by issuing shares, provided that the ratio of EBITDA to the combined principal and interest payments for the quarter immediately preceding the maturity date is 1.25 to 1. This debenture is considered to be recorded at fair value due to the existence of a business development agreement with the holder that would have the effect of reducing the effective interest rate. Due March 2009. This debenture is considered to have an equity component and therefore $6,835,000 was recorded as other paid in capital on issuance (*Note 14*).	**2,294,625**	2,611,125
Bank term loan bearing interest at bank prime plus 1% per annum. Although due on demand, the bank has agreed to accept repayments in fifty-four equal monthly installments of $45,600 plus an amount equal to 25% of surplus cash flow at the end of each fiscal quarter. Due May, 2006.	**2,416,793**	
Bank term loan bearing interest at bank prime plus 1% per annum. Although due on demand, the bank has agreed to accept repayments in fifty-four equal monthly installments of $27,800 beginning March 1, 2002 plus an amount equal to 25% of surplus cash flow at the end of each quarter commencing in 2002. Due September, 2007.	**1,500,804**	
Bank term loan. Repayable in monthly installments of $62,500 plus interest at bank prime plus 1% per annum plus an amount equal to 25% of surplus cash flow at the end of each fiscal quarter. Due February, 2004.	**1,260,000**	2,375,000
Bank term loan bearing interest at bank prime plus 1% per annum. Although due on demand, the bank has agreed to accept repayments in fifty-four equal monthly installments of $13,200 plus an amount equal to 25% of surplus cash flow at the end of each fiscal quarter. Due April, 2006.	**686,592**	

10. Long-term Debt CONT'D

	2001	2000
Security provided for the above bank loans consist of a general security agreement covering all assets, and a demand collateral first mortgage over land and buildings. The effective interest rate on these loans was 5% at December 31, 2001.		
Promissory notes, interest payable annually at various rates ranging from 7% to 8% per annum. Due between January and December 2002. On maturity, the Company expects to renew these notes on the same or similar terms.	**670,012**	806,803
	19,524,826	16,450,928
Portion due within next fiscal year.	**(1,797,000)**	(801,800)
	$ 17,727,826	$ 15,649,128

Estimated principal repayments of long-term debt, assuming renewal on the same or similar terms, in each of the next five years are as follows:

2002	$ 1,797,000
2003	$ 7,557,000
2004	$ 1,046,000
2005	$ 1,039,000
2006	$ 448,000

11. Obligation Under Capital Leases

Under the terms of equipment leases expiring April, 2001 to March, 2004, the Company is committed to total minimum annual lease payments, including interest from 9% to 13.85%, as follows:

	2001	2000
2001		$ 206,764
2002	**$ 142,593**	72,916
2003	**88,664**	22,723
2004	**15,440**	
Total minimum lease payments	**246,697**	302,403
Less amount representing interest	**(37,140)**	(22,453)
Principal portion of lease obligations	**209,557**	279,950
Portion due within next fiscal year	**(119,042)**	(191,725)
	$ 90,515	$ 88,225

12. Income Taxes

	2001	2000
Future income taxes	**$ 358,451**	$ 239,550
Current income taxes	**529,347**	420,417
	$ 887,798	$ 659,967

The Company's actual income tax expense differs from the expected income tax expense as follows:

		2001		2000
	%	**Amount**	%	Amount
Expected income tax expense:	**43**	**$ 808,200**	44	$ 495,200
Non-deductible portion of amortization of goodwill:	**18**	**340,600**	27	307,500
Non-taxable income and deductible expenses:	**(14)**	**(261,002)**	(13)	(142,733)
Actual income tax expense:	**47**	**$ 887,798**	58	$ 659,967

The major components of future income tax liability using the combined federal and provincial tax rates of 43% (2000 - 44%) are as follows:

	2001	2000
Property, plant and equipment	**$ 327,405**	$ 384,457
Goodwill and other intangibles	**199,220**	55,500
Deferred charges	**166,918**	215,500
Share issuance costs	**(383,444)**	(266,700)
Tax loss carryforwards		(141,700)
	$ 310,099	$ 247,057

13. Share Capital

Authorized shares

Unlimited number of common, without nominal or par value

Unlimited number of first preferred

Unlimited number of second preferred

	Number	Amount
Issued common shares Balance December 31, 1999	8,439,459	$ 13,711,709
Common shares issued for:		
Cash pursuant to stock options exercised	56,075	56,430
Partial consideration for acquisition of investment in affiliated Company	44,091	97,000
Business acquisitions (*Note 3*)	406,934	800,506
Cancelled under the terms of an issuer bid	(359,770)	(521,975)
Balance, December 31, 2000	8,586,789	14,143,670
Common shares issued for:		
Cash pursuant to stock options exercised	10,540	4,216
Cash pursuant to prospectus offering	3,040,475	6,384,998
Share issuance costs net of tax benefit of $285,000 (*Note 18*)		(463,608)
Cancelled under the terms of an issuer bid	(98,029)	(161,318)
Balance, December 31, 2001	11,539,775	$ 19,907,958

Escrowed Shares – Common shares issued as consideration for business acquisitions are subject to certain escrow provisions which restrict their trading. As at December 31, 2001, 756,176 (December 31, 2000 – 1,557,646) shares were being held in escrow.

Cancellation of Share Capital – During the year, the Company acquired 98,029 (2000 – 359,770) shares pursuant to a normal course issuer bid for cash consideration of $232,428 (2000 – $805,742). The shares were then cancelled by the Company. The excess of cash consideration over the assigned value of these shares has been recorded as a charge to retained earnings.

Stock Options – The Company has a fixed stock option plan under which it may grant options to directors, officers, employees and consultants for up to 10% of the issued and outstanding shares to an aggregate maximum of 1,600,000 common shares. The option price is equivalent to the share market price on the date granted.

	2001		2000	
		Weighted Average		Weighted Average
	Share Options	**Exercise Price**	Share Options	Exercise Price
Outstanding, beginning of year	**772,040**	**$ 2.35**	775,740	$ 2.25
Granted	**120,000**	**$ 2.40**	100,000	$ 2.30
Exercised	**(10,540)**	**$ 0.40**	(56,075)	$ 1.01
Cancelled	**(334,000)**	**$ 2.64**	(47,625)	$ 2.20
Outstanding, end of year	**547,500**	**$ 2.22**	772,040	$ 2.35
Exercisable, end of year	**362,500**		384,540	
Available for grant, end of year	**606,478**		206,179	

The following table summarizes information about fixed stock options outstanding at December 31, 2001.

Range	Number Outstanding	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$2.00 - $2.50	535,000	2.8 years	$ 2.20	355,000	$ 2.12
$3.20	12,500	1.75	$ 3.20	7,500	$ 3.20
	547,500			362,500	

Employee Share Ownership Plan – During the year, the Company implemented an Employee Share Ownership Plan which enables substantially all employees to purchase common stock of the Company. Eligible employees make personal contributions to the plan up to 5% of their earnings which are matched by the Company. Personal and Company matching contributions are used to acquire common stock in the Company at market prices. All acquisitions are for shares currently issued and there is no commitment under the plan for the Company to issue additional shares.

14. Other Paid In Capital

	2001	2000
Principal portion of debenture repayable in shares (net of issue costs)	$ 7,220,523	$ 6,864,424
Conversion options	776,000	776,000
	$ 7,996,523	$ 7,640,424

The principal portion of the debenture repayable in shares is being accreted over its term through a charge to retained earnings.

15. Revenue

Revenue earned during the year ended December 31, 2000 includes $120,000 in respect of a one-time incentive commission earned by the Company for entering into an agreement to transfer certain lines of business to an insurance Company.

16. Earnings Per Share

December 31, 2001	**Income**	**Shares**	**Per Share**
Net income for the year	**$ 991,280**	**8,799,486**	
Increase in other paid in capital net of tax	**(242,300)**		
Basic earnings per share	**$ 749,520**	**8,799,486**	**$ 0.09**
Effect of dilutive securities			
Stock options	–	**22,554**	
4% convertible debentures	**350,280**	**6,078,929**	
Basic earnings per share	**$ 1,099,800**	**14,900,969**	**$ 0.07**

10% convertible debentures in the amount of $6,000,000 have not been included in the computation of diluted earnings per share because the financing costs (after tax) per common share obtainable on conversion, exceeds basic earnings per share.

16. Earnings Per Share

December 31, 2000		Income	Shares		Per Share
Net income for the year	$	465,455	8,313,044		
Increase in other paid in capital net of tax		(252,175)			
Basic earnings per share	$	213,280	8,313,044	$	0.03
Effect of dilutive securities					
Stock options			43,934		
Diluted earnings per share	$	213,280	8,356,978	$	0.03

The following convertible debentures have not been included in the computation of diluted earnings per share because the financing costs (after tax) per common share obtainable on conversion, exceeds basic earnings per share:

- 10% convertible debentures in the amount of $6,000,000
- 4% convertible debentures in the amount of $15,000,000

Non-dilutive options to purchase 96,500 common shares at $2.70 and $3.20 per share were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares for the year.

17. Segmented Information

The Company operates principally in the insurance brokerage industry in Western Canada.

18. Related Party Transactions

Related parties include directors, officers and their related companies. The prices and term of transactions with related parties are in accordance with normal business practice.

During the year ended December 31, 2001, the Company paid $139,625 to a Company in which a director holds an interest for services rendered as its agent in a special warrant financing. This amount is included in share issuance costs (*Note 12*).

During the year ended December 31, 2000, the Company paid $62,503 to a Company in which a director holds an interest. Of this amount, $9,003 related to commissions earned on investment and issuer bid transactions and $53,500 related to costs of obtaining financing and included in deferred charges (Note 6).

19. Subsequent Events

Effective January 15, 2002, the Company acquired an equity interest in Jennings Capital Inc., a corporation in which a director holds an interest, in exchange for 500 First Preferred Series One shares and the cancellation of a portion of the subordinated notes receivable (Note 7) in the amount of $436,637. The balance of notes receivable in the amount of $363,363 has been converted to a shareholder loan receivable and is subordinated to all other indebtedness of the corporation.

Effective January 16, 2002, the Company authorized an unlimited number of First Preferred Shares Series One having a redemption value of $1,000 per share. These shares have a fixed cumulative dividend of 4% and may be redeemed at any time by the Company. After December 31, 2005 the holders may request redemption of up to 66% of their shares annually.

On February 26, 2002, the Company closed a public offering of 9% convertible unsecured debentures due February 28, 2007 in the amount of $7,000,000. Each debenture will be convertible into common shares of the Company at the rate of $2.50 per common share (subject to adjustment in certain events). On maturity, the Company may repay the debentures by issuing shares at a conversion price of 95% of the 20 day weighted average trading price of its shares. In connection with this offering, the Company paid a commission of $116,896 to Jennings Capital Inc., an affiliated Company.

Subsequent to year end, the Company acquired all of the outstanding shares of the following insurance brokerage and travel agency businesses: ISI Insurance Services Inc. and certain assets of AON Insurance Agencies, Okotoks Travel and Olds Travel. The total cost of these acquisitions was $2,350,000. Goodwill and other intangible assets in the amount of $2,312,328 have been recognized of which $1,012,500 is expected to be deductible for tax purposes.

20. Comparative Figures

Certain comparative figures presented have been reclassified to conform with the current year's presentation.

21. Changes in Accounting Policies

Effective January 1, 2001, the Company has retroactively changed its method of reporting earnings per share to conform to the new recommendations of the Canadian Institute of Chartered Accountants. Previously, the Company used the imputed earnings method of calculating fully diluted earnings per share and now follows the treasury method. This change in accounting policy has caused no change to previously reported earnings per share amounts.

Effective July 1, 2001, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for business combinations. Under the new recommendation, the principal change is the recognition of intangible assets, when they satisfy certain conditions, apart from goodwill. This change has been applied prospectively.

Effective July 1, 2001, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for amortization of goodwill and intangible assets acquired in business combinations completed after July 1, 2001. Under the new recommendation, goodwill and intangible assets with an indefinite life are not amortized, but are tested for impairment annually. Commencing January 1, 2002, impairment will be determined by comparing fair value to the carrying amount of the asset. This change has been applied prospectively.

DIRECTORS & OFFICERS

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Chairman of the Board of Directors
Montreal, Quebec

Scott A. Tannas
Director, President and Chief Executive Officer
High River, Alberta

Catherine A. Rogers
Corporate Secretary, Chief Financial Officer,
Vice President, Finance and Administration
High River, Alberta

Gabor Jellinek [2]
Director
Montreal, Quebec

Robert G. Jennings [1]
Director
Calgary, Alberta

Linda I. Lively
Director
Nanton, Alberta

David E. Jenkins [1]
Director
Edmonton, Alberta

Gregg J. Speirs [1]
Director
Calgary, Alberta

Robert P. Vickerstaff [2]
Director
Vancouver, British Columbia

Thomas C. Dutton
Director
High River, Alberta

Philip L. Webster
Director
Montreal, Quebec

1 Member of the Audit Committee
2 Member of the Compensation Committee

KEY PERSONNEL, HEAD OFFICE

Scott A. Tannas
President and Chief Executive Officer
Western Financial Group

Catherine A. Rogers
Vice President, Finance and Administration
and Chief Financial Officer
Western Financial Group

R. William Rogers
Vice President, Corporate Development
Western Financial Group

Thomas C. Dutton
President and Chief Operating Officer
WFG Agency Network Inc.

SOLICITORS

Macleod Dixon LLP
Calgary, Alberta

TRANSFER AGENT

Computershare Investor Services Inc.
Calgary, Alberta

AUDITORS

Catalyst LLP Chartered Accountants
and Consultants
High River and Calgary, Alberta

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: WES

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