ANNUAL

2010

REPORT

Coachman Insurance Company

Coachman

Responsibility for Financial Statements

The financial statements are the responsibility of Management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of Management, the financial statements fairly reflect the financial position, results of operations and cash flows of Coachman Insurance Company (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. 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 financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholders and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Andrew R. Cartmell
President and Chief Executive Officer

Jeff Stepan
Chief Financial Officer

February 16, 2011

Actuary's Report

To the Shareholder of Coachman Insurance Company

I have valued the policy liabilities of Coachman Insurance Company for its statement of financial position at December 31, 2010, and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

I am satisified that the data utilized for the valuation of these liablities are reliable and sufficient. I verified the consistency of the valuation data with the company financial records.

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

Cara Low

Cara Low
Assistant Vice-President, Corporate Actuary
Saskatchewan Government Insurance
Fellow, Canadian Institute of Actuaries

February 16, 2011

Independent Auditors' Report

To the Shareholder of Coachman Insurance Company

We have audited the accompanying financial statements of Coachman Insurance Company ("the Entity"), which comprise of the statement of financial position as at December 31, 2010, and the statements of operations, comprehensive income, changes in shareholder's equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of 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 financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Entity's preparation and fair presentation of the 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 financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Coachman Insurance Company as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 16, 2011

Statement of Financial Position

December 31	**2010**	2009
	(thousands of $)	
Assets		
Cash and cash equivalents (note 3)	$ 8,539	$ 3
Accounts receivable (note 4)	23,762	18,320
Deferred policy acquisition costs	3,354	2,499
Reinsurers' share of unearned premiums	652	494
Future income taxes (note 11)	1,059	918
Investments (note 5)	88,253	84,597
Unpaid claims recoverable from reinsurers	23,148	25,748
Property, plant and equipment (note 6)	–	2
	$ 148,767	$ 132,581
Liabilities		
Accounts payable and accrued liabilities	$ 4,724	$ 6,332
Amounts due to reinsurers	1,033	265
Unearned reinsurance commissions	225	173
Unearned premiums	26,042	16,713
Provision for unpaid claims (note 7)	75,605	69,763
	107,629	93,246
Shareholder's equity		
Share capital (note 8)	1,000	1,000
Contributed surplus	30,600	30,600
Retained earnings	8,159	7,419
Accumulated other comprehensive income	1,379	316
	41,138	39,335
	$ 148,767	$ 132,581

Commitments and contingencies (note 18)

(see accompanying notes)

On behalf of the Board:

Andrew R. Cartmell
Director

Randy Heise
Director

Statement of Operations

year ended December 31	**2010**	2009
	(thousands of $)	
Gross premiums written	$ 49,146	$ 31,712
Net premiums written	$ 45,162	$ 29,459
Net premiums earned	**$ 35,995**	$ 25,452
Claims incurred	27,078	21,516
Commissions	7,062	5,256
Administrative expenses	3,382	2,944
Premium taxes	1,224	869
Facility Association participation (note 17)	239	262
Total claims and expenses	**38,985**	30,847
Underwriting loss	**(2,990)**	(5,395)
Investment earnings (note 10)	4,182	4,634
Income (loss) before income taxes	**1,192**	(761)
Income tax expense (recovery) (note 11)	452	(270)
Net income (loss)	**$ 740**	$ (491)

(see accompanying notes)

Statement of Comprehensive Income

year ended December 31	2010	2009
	(thousands of $)	
Net income (loss)	**$ 740**	$ (491)
Other comprehensive income, net of income taxes:		
Net unrealized gain on available for sale financial assets arising during the year	2,116	3,028
Income tax expense	(656)	(999)
	1,460	2,029
Reclassification of net realized gains on sale of investments included in net income	(576)	(1,279)
Income tax expense	179	422
	(397)	(857)
Other comprehensive income	**1,063**	1,172
Comprehensive income	**$ 1,803**	$ 681

(see accompanying notes)

Statement of Changes in Shareholder's Equity

year ended December 31	2010	2009
	(thousands of $)	
Share capital		
Balance, end of year	**$ 1,000**	$ 1,000
Contributed surplus		
Balance, end of year	**$ 30,600**	$ 30,600
Retained earnings		
Balance, beginning of year	$ 7,419	$ 7,910
Net income (loss)	740	(491)
Balance, end of year	**$ 8,159**	$ 7,419
Accumulated other comprehensive income (loss)		
Balance, beginning of year	$ 316	$ (856)
Other comprehensive income	1,063	1,172
Balance, end of year	**$ 1,379**	$ 316
Total shareholder's equity	**$ 41,138**	$ 39,335

(see accompanying notes)

Statement of Cash Flows

year ended December 31	**2010**	2009
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income (loss)	$ 740	$ (491)
Non-cash items:		
Amortization	465	419
Net realized gain on sale of investments	(576)	(1,279)
Future income taxes	(141)	(283)
Change in non-cash operating items (note 14)	10,051	4,926
	10,539	3,292
Investing activities		
Purchases of investments	(63,802)	(68,457)
Proceeds on sale of investments	61,799	63,288
	(2,003)	(5,169)
Increase (decrease) in cash and cash equivalents	**8,536**	(1,877)
Cash and cash equivalents, beginning of year	3	1,880
Cash and cash equivalents, end of year	**$ 8,539**	$ 3
Supplemental cash flow information:		
Income taxes paid	$ 564	$ 360

(see accompanying notes)

Notes to the Financial Statements

December 31, 2010

1. STATUS OF THE CORPORATION

Coachman Insurance Company (the Corporation) was incorporated under the laws of Ontario on June 12, 1979. The Corporation holds an Ontario provincial insurers' licence under the *Insurance Act* (Ontario) and is licensed to conduct business in Ontario.

The Corporation's automobile insurance premium rates are regulated by provincial government authority. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile insurance premiums represent approximately 69% (2009 – 65%) of the Corporation's net premiums earned.

As a wholly-owned subsidiary of SGI CANADA Insurance Services Ltd., the financial results of the Corporation are included in its consolidated financial results.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles (GAAP).

In March 2009, the Canadian Accounting Standards Board reconfirmed that Canadian GAAP for publicly accountable enterprises, including Government Business Enterprises (GBEs), will be replaced by International Financial Reporting Standards (IFRS) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, these financial statements will be the last prepared by the Corporation as a GBE under pre-conversion Canadian GAAP, and the conversion to IFRS will be applicable to the Corporation's reporting for the year ended December 31, 2011, for which current and comparative information will be prepared under IFRS. The Corporation will also present an opening IFRS statement of financial position as at January 1, 2010, the Corporation's date of transition, as part of the Corporation's 2011 annual financial statements.

The following are considered to be the Corporation's significant accounting policies:

Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 7), investment valuation (note 5) and income taxes (note 11).

Financial assets and liabilities
The measurement basis for financial assets and financial liabilities depends on whether the financial asset or liability has been classified as held for trading, available for sale, held to maturity, loans and receivables or other financial liabilities. Financial assets or liabilities classified as held for trading are measured at fair value. Those changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income. However, unrealized losses considered other than temporary continue to be recognized as a decrease to net income. Financial assets or liabilities designated as held to maturity, loans and receivables or other financial liabilities are measured at amortized cost using the effective interest method. The Corporation has no financial assets or liabilities designated as held for trading or held to maturity.

The Corporation has designated its cash and cash equivalents and its investments as available for sale. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities are designated as other financial liabilities. The unpaid claims recoverable from reinsurers, amounts due to reinsurers and the provision for unpaid claims are exempt from the above requirement.

Investments
All investments are carried at fair value. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments. The fair value of bonds and debentures is determined using quoted market values based on the latest bid prices. The fair value of pooled equity funds is based on the quoted market values of the underlying investments, which is based on the latest bid prices.

The Corporation records its investment purchases and sales on a trade-date basis, which is the date when the transactions are entered into.

Investment earnings
The Corporation recognizes interest and premium financing revenue as earned, dividends when declared, pooled fund revenue when distributions are declared and investment gains and losses when realized.

Interest revenue includes amortization of any premium or discount recognized as of the date of purchase of the security. Amortization is calculated using the effective interest method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Transaction costs are included in the acquisition cost of individual investments. Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, a loss equivalent to the difference between cost and fair value is recorded in investment earnings as an investment write-down.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on investments designated as available for sale are included in other comprehensive income until realized, at which time they are reclassified from accumulated other comprehensive income to investment earnings. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums

Premiums written are taken into income over the terms of the related policies, which are no longer than 12 months. Unearned premiums represent the portion of premiums written relating to the unexpired terms of policies in force.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims at the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented net of cash on hand less outstanding cheques.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expenses over the term of the insurance policies to which they relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the asset is placed in service, over the estimated useful lives of the assets as follows:

Computer hardware and other equipment	3-5 years

3. CASH AND CASH EQUIVALENTS

	(thousands of $)	
	2010	2009
Money market investments	$ 6,626	$ 200
Cash on hand, net of outstanding cheques	1,913	(197)
Total cash and cash equivalents	$ 8,539	$ 3

The average effective interest rate on money market investments is 1.0% (2009 – 0.3%).

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $)	
	2010	2009
Due from insureds	$ 20,148	$ 12,987
Facility Association (note 17)	1,509	1,547
Due from SGI CANADA (note 15)	1,207	–
Due from reinsurers	356	214
Accrued investment income	316	346
Due from brokers	160	233
Other	66	70
Investment proceeds receivable	–	2,923
Total accounts receivable	$ 23,762	$ 18,320

Included in due from insureds is $17,531,000 (2009 – $10,642,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings over the period of the policy.

5. INVESTMENTS

The carrying values of the Corporation’s investments are as follows:

	(thousands of $)	
	2010	2009
Short-term investments	$ 11,443	$ 2,599
Bonds and debentures	61,465	67,933
Pooled equity funds:		
Canadian	7,268	6,725
United States	3,922	3,950
Non-North American	4,155	3,390
Total investments	$ 88,253	$ 84,597

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year, but greater than 90 days, from the date of acquisition. These investments have an average effective interest rate of 1.0% (2009 – 0.3%) and an average remaining term to maturity of 68 days (2009 – 85 days). The Corporation’s investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Bonds and debentures

The Corporation’s investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation’s investment policy limits its holdings for any one issuer, other than Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. No more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers and all securities must be in Canadian dollars.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	(thousands of $)			
	2010		2009	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ 1,433	1.4%	$ –	–
After one through five	28,727	2.2%	33,406	2.3%
Canadian provincial and municipal:				
After one through five	6,919	2.3%	7,851	2.8%
Canadian corporate:				
One or less	814	2.0%	2,374	1.8%
After one through five	18,039	2.7%	21,712	3.0%
After five	5,533	4.1%	2,590	4.1%
Total bonds and debentures	$ 61,465		$ 67,933	

Investments with a carrying value of $51,000 (2009 – $53,000) are held in trust as required by regulatory authorities.

Pooled funds

The Corporation owns units in Canadian, United States and non-North American pooled equity funds that have no fixed distribution rate. Fund returns are based on the success of the fund managers.

Unrealized loss positions

The following table presents available for sale investments with unrealized losses where the decline is considered temporary. The unrealized losses are recorded as a component of accumulated other comprehensive income.

	(thousands of $)			
	2010		2009	
	Carrying Value	Unrealized Losses	Carrying Value	Unrealized Losses
Bonds and debentures:				
Federal	$ –	$ –	$ 18,057	$ (70)
Provincial and municipal	862	(5)	3,755	(42)
Corporate	3,279	(17)	4,283	(8)
Pooled equity funds:				
Canadian	–	–	6,725	(338)
United States	–	–	3,950	(195)
Non–North American	–	–	3,390	(6)
	$ 4,141	$ (22)	$ 40,160	$ (659)

As at December 31, 2010, the cost of 10 (2009 – 11) available for sale investments exceeded their fair value by $22,000 (2009 – $659,000). The unrealized losses on the bonds and debentures arose primarily from changes in interest rates. For pooled equity funds, unrealized losses are primarily the result of investment-specific business environment factors associated with the underlying equity investments.

The Corporation conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a write-down is recorded in investment earnings when the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery. No investment write-downs were recorded during the current or prior year related to impairments that were considered other than temporary.

Determination of fair value

Fair value is best evidenced by an independent quoted market price for the same instrument in an active market. An active market is one where quoted prices are readily available, representing regularly occurring transactions. The determination of fair value requires judgment and is based on market information where available and appropriate. Fair value measurements are categorized into levels within a fair value hierarchy based on the nature of the inputs used in the valuation. All of the investments held by the Corporation are measured at fair value using quoted market prices which is the highest level of reliability of fair value.

6. PROPERTY, PLANT AND EQUIPMENT

The components of the Corporation's investment in property, plant and equipment, as well as related amortization, are as follows:

	(thousands of $)			
	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and other equipment	$ 774	$ 774	$ –	$ 2
Total	$ 774	$ 774	$ –	$ 2

Amortization for the year is $2,000 (2009 – $3,000) and is included in administrative expenses on the Statement of Operations.

7. PROVISION FOR UNPAID CLAIMS

Nature of unpaid claims

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and, therefore, estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date. Factors used to estimate the provision include the Corporation's experience with similar cases, historical claim payment trends, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a number of individuals, which necessarily involves risk that actual results may differ materially from the estimates.

Changes in the estimates for the provision for unpaid claims are as follows:

	(thousands of $)	
	2010	2009
Net unpaid claims, beginning of year	$ 44,015	$ 40,710
Payments made during the year relating to:		
Prior year claims	(9,417)	(9,028)
Prior year Facility Association claims	(365)	(454)
Excess relating to:		
Prior year estimated unpaid claims	(894)	(2,293)
Prior year estimated unpaid Facility Association claims	(90)	(67)
Net unpaid for claims of prior years	33,249	28,868
Provision for unpaid claims occurring in the current year	18,764	14,822
Provision for unpaid Facility Association claims occurring in the current year	444	325
Net unpaid claims, end of year	$ 52,457	$ 44,015

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has not been provided because it is not practicable to determine fair value with sufficient reliability.

Type of unpaid claims

The provision for unpaid claims is summarized by type of claim as follows:

	(thousands of $)					
	2010			2009		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	$ 64,052	$ 22,480	$ 41,572	$ 57,477	$ 24,741	$ 32,736
Property	5,183	456	4,727	5,709	444	5,265
Liability	4,853	212	4,641	5,048	563	4,485
Facility Association (note 17)	1,517	–	1,517	1,529	–	1,529
Total	$ 75,605	$ 23,148	$ 52,457	$ 69,763	$ 25,748	$ 44,015

Structured settlements
The Corporation settles some long-term disability claims by purchasing annuities from various financial institutions. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the financial institutions default on the scheduled payments. As at December 31, 2010, no information has come to the Corporation's attention that would suggest any weakness or failure in the financial institutions from which it has purchased the annuities. The net present value of the scheduled payments as of the year-end date is $1,371,000 (2009 – $1,551,000).

8. SHARE CAPITAL

Authorized:
Unlimited number of common shares with no par value.

	(thousands of $)	
Issued and fully paid:	**2010**	2009
10,000 common shares	$ 1,000	$ 1,000

9. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation underwrites and reinsures contracts of insurance with SGI CANADA and other reinsurers, which limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $)	
	2010	2009
General liability and property	$ 500	$ 500
Automobile – liability	500	500
Catastrophe – automobile physical damage	1,000	1,000
Catastrophe – other	1,000	1,000

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, and commissions and premium taxes:

	(thousands of $)	
	2010	2009
Premiums earned	$ 3,177	$ 2,226
Claims incurred	2,790	7,416
Commissions and premium taxes	214	187

10. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)	
	2010	2009
Interest	$ 2,160	$ 2,323
Premium financing	1,303	904
Net realized gain on sale of investments	576	1,279
Pooled equity fund distributions	313	286
Total investment earnings	4,352	4,792
Investment expenses	(170)	(158)
Net investment earnings	$ 4,182	$ 4,634

11. INCOME TAXES

The Corporation's provision for income tax expense (recovery) is as follows:

	(thousands of $)	
	2010	2009
Current	$ 593	$ 13
Future	(141)	(283)
Total income tax expense (recovery)	$ 452	$ (270)

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	(thousands of $)	
	2010	2009
Income (loss) before income taxes	$ 1,192	$ (761)
Combined federal and provincial tax rate	31.00%	33.00%
Computed tax expense (recovery) based on combined rate	$ 369	$ (251)
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(42)	(44)
Changes in enacted tax rates	123	50
Non-deductible expenses for tax purposes	13	14
Other	(11)	(39)
Total income tax expense (recovery)	$ 452	$ (270)

The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are presented below:

	(thousands of $)	
	2010	2009
Future income tax assets		
Provision for unpaid claims	$ 1,578	$ 1,605
Other	9	11
Total future income tax assets	1,587	1,616
Future income tax liabilities		
Investments	201	298
Unpaid claims recoverable from reinsurers	327	400
Total future income tax liabilities	528	698
Net future income tax assets	$ 1,059	$ 918

12. FINANCIAL RISK MANAGEMENT

The nature of the Corporation's operations result in a statement of financial position that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors. The SIP&G provides guidelines to the investment manager for the asset mix of the portfolio regarding quality and quantity of investments using a prudent person approach. The asset mix guidelines help reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. The Corporation receives regular reporting from the investment manager and custodian regarding compliance with the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from its customers, brokers and reinsurers) and certain investments. The maximum credit risk to which it is exposed at December 31, 2010, is limited to the carrying value of the financial assets recognized as follows:

	2010	2009
Cash and cash equivalents	$ 8,539	$ 3
Accounts receivable	23,762	18,320
Fixed income investments [1]	72,908	70,532
Unpaid claims recoverable from reinsurers	23,148	25,748

[1] Includes short-term investments and bonds and debentures

In addition, the Corporation is exposed to credit risk associated with its structured settlements as described separately in the notes to the financial statements.

Cash and cash equivalents include money market investments of $6,626,000 and cash on hand, net of outstanding cheques of $1,913,000 (2009 – money market investments of $200,000 less cash on hand, net of outstanding cheques of $197,000). The money market investments mature within 90 days from the date of acquisition and have a credit rating of R-1.

Accounts receivable are primarily from customers, diversified among residential and commercial, along with amounts from brokers. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of $)	
	2010	2009
Current	$ 23,783	$ 18,287
30-59 days	33	42
60-89 days	21	15
Greater than 90 days	226	209
Subtotal	24,063	18,553
Allowance for doubtful accounts	(301)	(233)
Total	$ 23,762	$ 18,320

Provisions for credit losses are maintained in an allowance account and regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance account are as follows:

	(thousands of $)	
	2010	2009
Allowance for doubtful accounts, opening balance	$ 233	$ 265
Accounts written off	(138)	(188)
Current period provision	206	156
Allowance for doubtful accounts, ending balance	$ 301	$ 233

Credit risk within investments is related primarily to short-term investments and bonds and debentures. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB and for short-term investments is R-1), along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for the bond and debenture investments are as follows:

(thousands of $)

	2010			2009		
Credit Rating		Fair Value	Makeup of Portfolio		Fair Value	Makeup of Portfolio
AAA	$	33,531	54.5%	$	37,919	55.8%
AA		13,647	22.2%		11,764	17.3%
A		10,681	17.4%		14,604	21.5%
BBB		3,606	5.9%		3,646	5.4%
Total	$	61,465	100.0%	$	67,933	100.0%

Within bonds and debentures, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No single holding of a province is over 20% of the market value of the bond portfolio.

Through its custodian, the Corporation participates in an investment security lending program. Collateral of at least 102% of the market value of the loaned securities is held for the loan. This collateral is marked to market on a daily basis. In addition, the custodian provides indemnification against any potential losses in the securities lending program. At December 31, 2010, the Corporation had $11,815,000 (2009 - nil) of securities on loan under the program and held collateral of $12,406,000 (2009 - nil).

Credit risk associated with reinsurers is managed through regular monitoring of credit ratings of the reinsurers utilized by the Corporation. Reinsurers' credit ratings range from AA+ to A- based on the most recent ratings by A.M. Best.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments and bonds and debentures. It is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase other comprehensive income and accumulated other comprehensive income by $1,798,000 at December 31, 2010 (2009 – $2,096,000), representing 2.5% of the $72,908,000 (2009 – 3.0%, $70,532,000) fair value of fixed income investments.

Foreign exchange
The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. pooled equity fund, purchases of goods and services that are denominated in U.S. dollars, and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to Europe, Australasia and Far East (EAFE) currencies through its investment in the non-North American pooled equity fund. Exposure to both the U.S. equity and non-North American equity markets is limited to a maximum 7% each of the market value of the total investment portfolio. At December 31, 2010, the Corporation's exposure to U.S. equities, through its U.S. equity pooled fund, was 4.4% (2009 – 4.7%) and its exposure to non-North American equities, through its non-North American equity pooled fund, was 4.7% (2009 – 4.0%).

At December 31, 2010, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $392,000 (2009 – $395,000) decrease/increase in other comprehensive income and accumulated other comprehensive income. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a $415,000 (2009 – $339,000) decrease/increase in other comprehensive income and accumulated other comprehensive income. As the U.S. pooled equity fund and the non-North American pooled equity fund are classified as available for sale, any unrealized changes due to foreign currency are recorded as other comprehensive income and do not directly impact net income until the investment is sold.

There is no exposure to foreign exchange risk within the Corporation's bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, is not considered material to the operations of the Corporation.

Equity prices
The Corporation is exposed to changes in equity prices in Canadian, U.S. and non-North American equity markets. Equities comprise 17.4% (2009 – 16.6%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been calculated based on volatility over a four-year period, using a 95% confidence level. As such, it is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

	(thousands of $)	
Asset Class	**2010**	2009
Canadian pooled equity fund	$ +/- 2,849	$ +/- 2,582
U.S. pooled equity fund	+/- 1,036	+/- 987
Non-North American pooled equity fund	+/- 1,438	+/- 1,160

The Corporation's equity investments are classified as available for sale and as such, any unrealized changes in their fair value are recorded as other comprehensive income and do not directly impact net income until the investment is sold.

Liquidity risk

Liquidity risk is the risk the Corporation is unable to meet its financial obligations as they fall due. Cash resources are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claims liabilities, are short-term in nature, and due within one year. The Corporation generally maintains positive overall cash flows through cash generated from operations as well as cash generated from its investing activities.

The following summarizes the contractual maturities of the Corporation's financial liabilities at December 31:

(thousands of $)	**2010**					
	Carrying amount	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years
Accounts payable and accrued liabilities	$ 4,724	$ 4,724	$ –	$ –	$ –	$ –
Amounts due to reinsurers	1,033	1,031	2	–	–	–
Provision for unpaid claims	75,605	12,502	9,745	14,987	24,830	13,541
	$ 81,362	$ 18,257	$ 9,747	$ 14,987	$ 24,830	$ 13,541

(thousands of $)	2009					
	Carrying amount	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years
Accounts payable and accrued liabilities	$ 6,332	$ 6,282	$ 50	$ –	$ –	$ –
Amounts due to reinsurers	265	264	1	–	–	–
Provision for unpaid claims	69,763	11,517	9,069	13,761	22,410	13,006
	$ 76,360	$ 18,063	$ 9,120	$ 13,761	$ 22,410	$ 13,006

13. CAPITAL MANAGEMENT

The Corporation's primary objectives when managing capital is to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholder. Its main sources of capital are retained earnings and cash injections in the form of contributed surplus from its parent, SGI CANADA Insurance Services Ltd. There were no changes to the Corporation's capital structure during the period.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

The Corporation is a regulated insurer and, as such, is subject to rate regulation related to its automobile premiums. Regulators require insurers to maintain a level of capital sufficient to achieve an MCT ratio based on the risk profile of the insurer and its insurance business, generally at or above 150%. At December 31, 2010, the Corporation's MCT was 330% (December 31, 2009 –385%). There have been no changes to the Corporation's capital management processes and measures since the prior year-end.

14. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2010	2009
Accounts receivable	$ (5,442)	$ (5,638)
Deferred policy acquisition costs	(855)	146
Reinsurers' share of unearned premiums	(158)	(27)
Unpaid claims recoverable from reinsurers	2,600	(4,594)
Accounts payable and accrued liabilities	(2,085)	3,100
Amounts due to reinsurers	768	19
Unearned reinsurance commissions	52	21
Unearned premiums	9,329	4,000
Provision for unpaid claims	5,842	7,899
	$ 10,051	$ 4,926

15. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year-end are as follows:

	(thousands of $)	
Category	**2010**	2009
Accounts receivable	$ 5	$ 5
Investments	1,141	1,162
Investment earnings	41	39
Administrative expenses	301	–

SGI CANADA provides management and administrative services to the Corporation as well as being one of its reinsurers (note 9). Administrative and loss adjusting expenses incurred by SGI CANADA and charged to the Corporation were $1,910,000 (2009 – $1,636,000) and accounts receivable are $1,207,000 (2009 – $76,000 payable). Reinsurance ceded to SGI CANADA has decreased premiums earned by $1,826,000 (2009 – $1,136,000) and increased claims incurred by $341,000 (2009 – decrease of $2,583,000).

Other related party transactions are disclosed separately in the notes to the financial statements.

16. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial assets and liabilities, other than investments (note 5), provision for unpaid claims and unpaid claims recoverable from reinsurers (notes 7 and 9), approximate carrying value due to their immediate or short-term nature.

17. FACILITY ASSOCIATION PARTICIPATION

The Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)	
	2010	2009
Gross premiums written	$ 340	$ 251
Net premiums earned	$ 337	$ 284
Claims incurred	489	513
Commissions	33	26
Premium taxes	10	9
Administrative expenses	91	65
Total claims and expenses	623	613
Underwriting loss	(286)	(329)
Investment earnings	47	67
Net loss	$ (239)	$ (262)
Facility Association receivable	$ 1,509	$ 1,547
Unearned premiums	160	157
Provision for unpaid claims	1,517	1,529
Facility Association payable	1,520	1,520

18. COMMITMENTS AND CONTINGENCIES

The Corporation has a lease for its office premises expiring December 31, 2013, at an annual rent of $220,000.

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operation of the Corporation.

19. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2009 balances have been reclassified to conform to 2010 financial statement presentation.

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