COACHMAN INSURANCE COMPANY

2011
Annual Report

Coachman
INSURANCE COMPANY

RESPONSIBILITY FOR FINANCIAL STATEMENTS

The financial statements are the responsibility of Management and have been prepared in conformity with International Financial Reporting Standards. 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 her 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, 2012

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, 2011, 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 liabilities is 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.

Barb Addie
Baron Insurance Services Inc.
Fellow, Canadian Institute of Actuaries
Fellow, Casualty Actuarial Society

February 16, 2012

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 the statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, the statements of operations, changes in equity and cash flows for the years ended December 31, 2011, and December 31, 2010, 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 International Financial Reporting Standards, 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 the 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 in our audit 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, 2011, December 31, 2010, and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011, and December 31, 2010, in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants
Regina, Canada

February 16, 2012

STATEMENT OF FINANCIAL POSITION

	December 31 2011	December 31 2010	January 1 2010
Assets	(thousands of Canadian $)		
Cash and cash equivalents (note 5)	$ 6,406	$ 8,539	$ 5
Accounts receivable (note 6)	32,054	23,762	18,320
Investments under security lending program (note 7)	21,590	11,815	–
Investments (note 7)	92,896	76,438	84,597
Reinsurers' share of unearned premiums (note 10)	1,030	652	494
Unpaid claims recoverable from reinsurers (note 8)	33,207	23,148	25,748
Deferred policy acquisition costs (note 9)	4,958	3,354	2,499
Deferred tax asset (note 13)	2,576	1,587	1,616
	$ 194,717	$ 149,295	$ 133,279
Liabilities			
Accounts payable and accrued liabilities	$ 6,458	$ 4,885	$ 6,489
Amounts due to reinsurers	2,106	1,033	265
Unearned reinsurance commissions	337	225	173
Unearned premiums (note 10)	34,589	25,881	16,556
Provision for unpaid claims (note 8)	106,501	75,605	69,763
Deferred tax liability (note 13)	562	528	698
	150,553	108,157	93,944
Shareholder's equity			
Share capital (note 11)	1,000	1,000	1,000
Contributed surplus	30,600	30,600	30,600
Retained earnings	12,564	9,538	7,735
Total Equity	**44,164**	41,138	39,335
	$ 194,717	$ 149,295	$ 133,279

Commitments and contingencies (note 20)

(see accompanying notes)

Approved by the Board of Directors and signed on their behalf on February 16, 2012

Andrew R. Cartmell
Director

Randy Heise
Director

STATEMENT OF OPERATIONS

year ended December 31	2011	2010
	(thousands of Canadian $)	
Gross premiums written	$ 68,752	$ 48,399
Premiums written ceded to reinsurers	(5,716)	(3,335)
Net premiums written	63,036	45,064
Change in net unearned premiums (note 10)	(8,330)	(9,167)
Net premiums earned	**54,706**	35,897
Claims incurred (note 8)	39,099	27,078
Commissions	8,873	6,964
Administrative expenses	3,819	3,382
Premium taxes	1,858	1,224
Facility Association participation (note 19)	499	239
Total claims and expenses	**54,148**	38,887
Underwriting profit (loss)	**558**	(2,990)
Investment earnings (note 12)	3,829	5,722
Income before income taxes	**4,387**	2,732
Income taxes (note 13)	1,361	929
Net income and comprehensive income	**$ 3,026**	$ 1,803

(see accompanying notes)

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

(thousands of Canadian $)	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance as at December 31, 2009 (Canadian GAAP)	$ 1,000	$ 30,600	$ 316	$ 7,419	$ 39,335
First-time adoption of IFRS (note 4)	–	–	(316)	316	–
Balance as at January 1, 2010 (IFRS)	1,000	30,600	–	7,735	39,335
Net income and comprehensive income for the year ended December 31, 2010	–	–	–	1,803	1,803
Balance as at December 31, 2010	1,000	30,600	–	9,538	41,138
Net income and comprehensive income for the year ended December 31, 2011	–	–	–	3,026	3,026
Balance as at December 31, 2011	$ 1,000	$ 30,600	$ –	$ 12,564	$ 44,164

(see accompanying notes)

STATEMENT OF CASH FLOWS

year ended December 31	**2011**	2010
	(thousands of Canadian $)	
Cash provided by (used for):		
Operating activities		
Net income and comprehensive income	$ 3,026	$ 1,803
Non-cash items:		
Bond amortization	559	463
Net unrealized loss (gain) on change in market value of investments	1,246	(1,540)
Net realized gain on sale of investments	(745)	(576)
Deferred income taxes	(955)	(141)
Change in non-cash operating items (note 16)	22,029	10,528
	25,160	10,537
Investing activities		
Purchases of investments	(134,246)	(63,802)
Proceeds on sale of investments	106,953	61,799
	(27,293)	(2,003)
Increase (decrease) in cash and cash equivalents	**(2,133)**	8,534
Cash and cash equivalents, beginning of year	8,539	5
Cash and cash equivalents, end of year	**$ 6,406**	$ 8,539
Supplemental cash flow information:		
Interest received	$ 2,593	$ 2,652
Income taxes paid	$ 1,072	$ 564

(see accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

1. STATUS OF THE CORPORATION

Coachman Insurance Company (the Corporation, located at 802 The Queensway, Toronto, Ontario, Canada) 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 authorities. 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 77% (2010 – 69%) 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 and ultimately consolidated into the financial statements of Crown Investments Corporation of Saskatchewan.

2. BASIS OF PREPARATION

Statement of compliance

The financial statements for the year ended December 31, 2011, have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC). These are the Corporation's first annual audited financial statements using IFRS, and IFRS 1, *First-time Adoption of International Financial Reporting Standards*, has been applied.

The Corporation's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (GAAP). Canadian GAAP differs in some areas from IFRS. In preparing the financial statements, management has amended certain accounting and valuation methods previously applied in the Canadian GAAP financial statements to comply with IFRS. The comparative figures for 2010 have been restated to reflect these adjustments. Any adjustments as a result of differences between Canadian GAAP and IFRS have been reflected in the Corporation's opening statement of financial position as of January 1, 2010, the transition date. Certain information that is considered material to the understanding of the Corporation's financial statements along with reconciliations and descriptions of how the transition from Canadian GAAP to IFRS has affected the reported financial position, financial performance and cash flows are provided in note 4.

Basis of measurement

The financial statements have been prepared using the historical cost basis except for financial instruments. The methods used to measure the values of financial instruments are discussed further in note 3.

Statement of financial position classification

The statement of financial position has been prepared using the liquidity format in which the assets and liabilities are presented broadly in order of liquidity. The assets and liabilities comprise both current and non-current amounts.

Functional and presentation currency

These financial statements are presented in Canadian dollars, which is the Corporation's functional currency and are rounded to the nearest thousand unless otherwise noted.

Use of estimates and judgment

The preparation of financial statements in accordance with IFRS 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 and 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 8), and the valuation of accounts receivable (note 6), investments (note 7) and income taxes (note 13).

3. SIGNIFICANT ACCOUNTING POLICIES

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and 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 are recognized as a decrease to net income. Financial assets 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 and liabilities designated as available for sale or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as fair value through profit and loss. Accounts receivable are designated as loans and receivables. Accounts payable and accrued liabilities are designated as other financial liabilities. 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 based on model pricing techniques that effectively discount prospective cash flows to present value, taking into consideration duration, credit quality and liquidity. The fair value of pooled equity funds is based on the quoted market values of the underlying investments, based on the latest bid prices.

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

Investments under securities lending program

Securities lending transactions are entered into on a collateralized basis. The securities lent are not derecognized on the statement of financial position given that the risks and rewards of ownership are not transferred from the Corporation to the counterparties in the course of such transactions. The securities are reported separately on the statement of financial position on the basis that the counterparties may resell or re-pledge the securities during the time that the securities are in their possession.

Securities received from counterparties as collateral are not recorded on the statement of financial position given that the risks and rewards of ownership are not transferred from the counterparties to the Corporation in the course of such transactions.

Investment earnings

The Corporation recognizes interest and premium financing revenue as earned, pooled equity fund distributions when declared, realized gains and losses on investments when the investment has been sold and unrealized gains and losses based on the changes in market value of the investments held.

Interest revenue includes amortization of any premium or discount recognized at 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.

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 monetary and non-monetary investments designated as fair value through profit and loss are recognized in investment earnings. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums written

The Corporation's policies have all been classified upon inception as insurance contracts. An insurance contract is a contract that transfers significant insurance risk and, upon the occurrence of the insured event, causes the insurer to make a benefit payment to the insured party. The sale of policies generates premiums written, which are taken into income over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, an estimate of adjustment expenses to be incurred on these claims and a provision for adverse deviation in accordance with Canadian Institute of Actuaries standards. The provision has been calculated including the impact of discounting using a discount rate of 2.1% (December 31, 2010 – 2.67%). 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.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral using a liability adequacy test. The limit is calculated as 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.

Reinsurance ceded

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 for the current year. Deferred 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 deferred 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 deferred income tax asset if it is probable 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.

Leased assets

Leases where the Corporation does not assume substantially all of the risks and reward of ownership are classified as operating leases. The payments are expensed as they are incurred.

Future accounting policy changes

The following future changes to accounting standards will have applicability to the Corporation:

Insurance Contracts

IASB issued exposure draft ED/2010/8 Insurance Contracts (the ED) on July 30, 2010. The ED proposes a new standard on accounting for insurance contracts, which would replace IFRS 4, *Insurance Contracts*. The proposals represent the first comprehensive IFRS accounting model for insurance contracts and are expected to have a significant impact on the financial reporting of insurers. The ED does not propose an effective date for the new standard since the IASB plans additional deliberation on the effective dates of these proposals. The final standard is expected in 2012, with implementation not expected before 2015.

Financial Instruments

IFRS 9, *Financial Instruments*, was issued in November 2009 and modifies previous standard IAS 39, *Financial Instruments: Recognition and Measurement*. The new standard requires financial instruments to be measured at either fair value or amortized cost. Under the new standard, the existing categories for available for sale, held to maturity, and loans and receivables will be eliminated.

Equities will have the option to be designated as fair value through other comprehensive income, similar to the current available for sale designation, except that realized gains or losses would remain in accumulated other comprehensive income and impairment decisions would not be required. A fair value option (fair value through income, same as held for trading) will continue to be available on the condition that accounting mismatches are reduced.

The current standard requires adoption by January 2015, which has been deferred from the original adoption date of January 2013. While early adoption is permitted under the standard, the Office of the Superintendent of Financial Institutions (OSFI) has indicated that early adoption is not allowed. While the Corporation is not federally regulated, it generally follows OSFI's guidance in such matters.

Fair Value Measurement

In May 2011, the IASB published IFRS 13, *Fair Value Measurement*. IFRS 13 replaces the fair value measurement guidance contained in various standards with a single source of fair value measurement guidance. This standard may impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures.

IFRS 13 is applicable prospectively for annual periods beginning on or after January 1, 2013. Earlier application is permitted with disclosure of that fact. The Corporation is in the process of assessing the impact of IFRS 13 on its financial statements.

4. FIRST-TIME ADOPTION OF IFRS

Consistent with other Canadian publicly accountable enterprises, the Corporation is required to prepare its financial statements for the year ending December 31, 2011, in accordance with IFRS. The Corporation has accordingly restated its previously reported 2010 results and financial position.

IFRS 1, *First-time Adoption of International Financial Reporting Standards* – Exemptions

The Corporation is required to determine its IFRS accounting policies and apply them retrospectively to establish its opening statement of financial position under IFRS. However, IFRS 1, *First-time Adoption of International Financial Reporting Standards* provides a number of exemptions upon first-time adoption of IFRS. The Corporation has used the following exemptions in preparing the January 1, 2010, statement of financial position and December 31, 2011, financial statements:

Designation of previously recognized financial instruments

The Corporation has elected to use the IFRS 1 exemption available and change the classification of cash and cash equivalents and investments from available for sale to fair value through profit and loss.

Insurance Contracts

The Corporation has elected to disclose only five years of data in its loss development tables, consistent with the transitional provision of IFRS 4, *Insurance Contracts*. This will be increased in each subsequent year, until a full 10 years of information is included.

Leases

The Corporation has elected to use the IFRS 1 exemption available with regards to determining if an arrangement contains a lease. This exemption eliminates the requirement for the Corporation to reassess the determination of whether an arrangement contains a lease at the date of transition if the conclusion reached under Canadian GAAP is the same as the conclusion that would have been reached under IFRS.

Reconciliations from Canadian GAAP to IFRS

Total equity as at January 1, 2010

(thousands of Canadian $)	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance as at December 31, 2009 (Canadian GAAP)		$ 1,000	$ 30,600	$ 316	$ 7,419	$ 39,335
Investments – reclassification	(i)	–	–	(316)	316	–
Balance as at January 1, 2010 (IFRS)		$ 1,000	$ 30,600	$ –	$ 7,735	$ 39,335

Total equity as at December 31, 2010

(thousands of Canadian $)	Note	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total Equity
Balance as at December 31, 2010 (Canadian GAAP)		$ 1,000	$ 30,600	$ 1,379	$ 8,159	$ 41,138
Investments – reclassification	(i)	–	–	(1,379)	1,379	–
Balance as at December 31, 2010 (IFRS)		$ 1,000	$ 30,600	$ –	$ 9,538	$ 41,138

Comprehensive income for the year ended December 31, 2010

	Canadian GAAP December 31 2010	Note	IFRS Adjustments	IFRS December 31 2010
		(thousands of Canadian $)		
Gross premiums written	$ 48,497	(ii)	$ (98)	$ 48,399
Premiums written ceded to reinsurers	(3,335)		–	(3,335)
Net premiums written	45,162		(98)	45,064
Change in net unearned premiums	(9,167)		–	(9,167)
Net premiums earned	**35,995**		(98)	**35,897**
Claims incurred	27,078		–	27,078
Commissions	7,062	(ii)	(98)	6,964
Administrative expenses	3,382		–	3,382
Premium taxes	1,224		–	1,224
Facility Association participation	239		–	239
Total claims and expenses	**38,985**		(98)	**38,887**
Underwriting loss	**(2,990)**		–	**(2,990)**
Investment earnings	4,182	(i)	1,540	5,722
Income before income taxes	**1,192**		1,540	**2,732**
Income taxes	452	(i)	477	929
Net income	**740**		1,063	**1,803**
Other comprehensive income:				
Unrealized gain on available for sale financial assets arising during the year	2,116	(i)	(2,116)	–
Income tax recovery	(656)	(i)	656	–
	1,460		(1,460)	–
Reclassification of net realized gains on sale of investments included in operations	(576)	(i)	576	–
Income tax expense	179	(i)	(179)	–
Other comprehensive loss	**1,063**		(1,063)	–
Comprehensive income	**$ 1,803**		$ –	**$ 1,803**

There is no impact on the deferred tax balances as a result of the adjustments in the above tables. Also, the adjustments have no impact on the cash flows of the Corporation. Explanations of the adjustments are as follows:

(i) Reclassification of investments
Upon adoption of IFRS, the Corporation has elected to use the IFRS 1 exemption available and change the designation of investments from available for sale to fair value through profit and loss.

At January 1, 2010, this reclassification of unrealized gains has resulted in a decrease in accumulated other comprehensive income of $316,000 and an increase in retained earnings of $316,000, net of tax impacts.

For the year ended December 31, 2010, this accounting policy difference resulted in a decrease to other comprehensive income and an increase to net income of $1,063,000. The total adjustment to accumulated other comprehensive income at December 31, 2010, was a decrease of $1,379,000 and an offsetting increase to retained earnings, net of tax impacts.

(ii) Customer loyalty program
IFRIC 13 *Customer Loyalty Programmes* requires that any amounts paid to a third party for a customer loyalty program be recorded as the net amount of any cash collected on behalf of the company offering the program. Under Canadian GAAP, the Corporation recorded the gross amount received as revenue and the amount paid to the third party as an expense when incurred.

For the year ended December 31, 2010, this accounting policy difference resulted in a decrease in premiums written and earned of $98,000 and a corresponding decrease in commissions expense.

5. CASH AND CASH EQUIVALENTS

	(thousands of Canadian $)	
	2011	2010
Money market investments	$ 4,770	$ 6,626
Cash on hand, net of outstanding cheques	1,636	1,913
Total cash and cash equivalents	$ 6,406	$ 8,539

The average effective interest rate on money market investments is 1.1% (2010 – 1.0%).

6. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of Canadian $)	
	2011	2010
Due from insureds	$ 26,703	$ 20,403
Service agreement	3,300	–
Facility Association (note 19)	1,530	1,509
Accrued investment income	431	316
Other	189	112
Due from reinsurers	162	356
Due from brokers	154	160
Due from SGI CANADA (note 18)	61	1,207
	32,530	24,063
Less: Allowance for doubtful accounts (note 14)	(476)	(301)
Total accounts receivable	$ 32,054	$ 23,762

Included in due from insureds is $23,499,000 (2010 – $17,531,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that is 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 using the effective interest method. The effective interest rate is 7.9% (2010 – 7.9%).

The $3.3 million service agreement receivable represents a recovery, based on legal action, from a certain party with involvement in a service agreement arrangement with the Corporation that expired in 2005. The amount was collected in January 2012. The Corporation is continuing legal action against certain other parties related to the service agreement.

7. INVESTMENTS

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

	(thousands of Canadian $) 2011	2010
Short-term investments	$ 17,532	$ 11,443
Bonds and debentures	58,135	49,650
Pooled equity funds:		
Canadian	7,575	7,268
United States	5,300	3,922
Non-North American	4,354	4,155
	92,896	76,438
Investments under securities lending program		
Bonds and debentures	21,590	11,815
Total investments	$ 114,486	$ 88,253

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 0.9% (2010 – 1.0%) and an average remaining term to maturity of 87 days (2010 – 68 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 securities of foreign issuers.

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 Canadian $)			
	2011		2010	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ 8,516	1.1%	$ 1,433	1.4%
After one through five	31,025	1.3%	28,727	2.2%
Canadian provincial & municipal:				
One or less	519	1.1%	–	–
After one through five	8,556	1.4%	6,919	2.3%
Canadian corporate:				
One or less	749	1.5%	814	2.0%
After one through five	23,436	2.2%	18,039	2.7%
After five	6,924	4.0%	5,533	4.1%
Total bonds and debentures	$ 79,725		$ 61,465	

Investments with a carrying value of $54,000 (2010 – $51,000) 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.

Securities lending program

Through its custodian, the Corporation participates in an investment securities lending program for the purpose of generating fee income. Non-cash collateral of at least 102% of the market value of the loaned securities is retained by the Corporation until the loaned securities have been returned. The market value of the loaned securities is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. In addition, the custodian provides indemnification against any potential losses in the securities lending program. While in the possession of counterparties, the loaned securities may be resold or re-pledged by such counterparties.

At December 31, 2011, the Corporation held collateral of $22,670,000 (2010 – $12,406,000) for the loaned securities.

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. The Corporation's pooled equity funds are measured at fair value using quoted market prices, which is considered level 1, the highest level of reliability of fair value. Short-term investments and bonds and debentures are considered level 2. During the year, no investments were transferred between levels.

8. CLAIMS INCURRED AND PROVISION FOR UNPAID CLAIMS

Claims incurred

	(thousands of Canadian $)					
	2011			2010		
	Current year	Prior years	Total	Current year	Prior years	Total
Gross claims incurred	$ 51,087	$ 712	$ 51,799	$ 31,370	$ (1,502)	$ 29,868
Ceded claims incurred	6,573	6,127	12,700	3,398	(608)	2,790
Net claims incurred	$ 44,514	$ (5,415)	$ 39,099	$ 27,972	$ (894)	$ 27,078

Current year claims relate to events that occurred in the current financial year. Prior year claims incurred relate to adjustments for the reassessment of the estimated cost for claim events that occurred in all previous financial periods.

Net provision for unpaid claims

	(thousands of Canadian $)	
	2011	2010
Net unpaid claims, beginning of year – discounted	$ 52,457	$ 44,015
Discount, beginning of the year	(2,007)	(1,881)
Net unpaid claims, beginning of year – undiscounted	50,450	42,134
Payments made during the year relating to:		
Prior year claims	(8,044)	(9,031)
Prior year Facility Association claims	(433)	(365)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(5,415)	(894)
Prior year estimated unpaid Facility Association claims	94	(91)
Net unpaid for claims of prior years – undiscounted	36,652	31,753
Provision for claims occurring in the current year	31,268	18,277
Provision for Facility Association claims occurring in the current year	572	420
Net unpaid claims, end of year – undiscounted	68,492	50,450
Discount, end of year	4,802	2,007
Net unpaid claims, end of year – discounted	$ 73,294	$ 52,457

The net provision for unpaid claims of $73,294,000 (2010 – $52,457,000) consists of the gross provision for unpaid claims of $106,501,000 (2010 – $75,605,000) less unpaid claims recoverable from reinsurers of $33,207,000 (2010 – $23,148,000).

The provision for unpaid claims and unpaid claims recoverable from reinsurers are carried on a discounted basis. The resulting carrying amount is considered to be an indicator of fair value as there is no ready market for trading insurance contract liabilities.

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, 2011, 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 $1,181,000 (2010 – $1,371,000).

9. DEFERRED POLICY ACQUISITION COSTS

	(thousands of Canadian $) 2011	2010
Deferred policy acquisition costs, beginning of the year	$ 3,354	$ 2,499
Increase (decrease) from liability adequacy test	162	(738)
Acquisition costs deferred during the year	11,993	8,720
Previously deferred acquistion costs charged to operations during the year	(10,551)	(7,127)
Deferred policy acquisition costs, end of the year	$ 4,958	$ 3,354

10. UNEARNED PREMIUMS

(thousands of Canadian $)

	Gross Unearned Premiums		Reinsurer's Share of Unearned Premiums		Net Unearned Premiums	
	2011	2010	2011	2010	2011	2010
Unearned premiums beginning of the year	$ 25,881	$ 16,556	$ 652	$ 494	$ 25,229	$ 16,062
Premiums written during the year	68,752	48,399	5,716	3,335	63,036	45,064
Premiums earned	(60,044)	(39,074)	(5,338)	(3,177)	(54,706)	(35,897)
Change in net unearned premiums	8,708	9,325	378	158	8,330	9,167
Unearned premiums end of the year	$ 34,589	$ 25,881	$ 1,030	$ 652	$ 33,559	$ 25,229

11. SHARE CAPITAL

Authorized:

Unlimited number of common shares with no par value.

Issued and fully paid:	(thousands of Canadian $) 2011	2010
10,000 common shares	$ 1,000	$ 1,000

12. INVESTMENT EARNINGS

The components of investment earnings are as follows:

(thousands of Canadian $)	2011	2010
Interest	$ 2,154	$ 2,160
Premium financing	2,027	1,303
Net realized gain on sale of investments	745	576
Pooled equity fund distributions	361	313
Net unrealized gain (loss) on change in market value of investments	(1,246)	1,540
Total investment earnings	4,041	5,892
Investment expenses	(212)	(170)
Net investment earnings	$ 3,829	$ 5,722

13. INCOME TAXES

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

(thousands of Canadian $)	2011	2010
Current	$ 2,316	$ 1,070
Deferred	(955)	(141)
Total income taxes	$ 1,361	$ 929

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 Canadian $)	2011	2010
Income before income taxes	$ 4,387	$ 2,732
Combined federal and provincial tax rate	28.25%	31.00%
Computed tax expense based on combined rate	$ 1,239	$ 847
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(42)	(42)
Changes in enacted tax rates	163	123
Non-deductible expenses for tax purposes	18	13
Other	(17)	(12)
Total income tax expense	$ 1,361	$ 929

During 2011 there has been a decrease in the combined tax rate to 28.25% from 31.00%, primarily as a result of federal legislation that decreased the federal rate in 2011.

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

Deferred Tax Asset	(thousands of Canadian $)		
	Provision for unpaid claims	Other	Total
At January 1, 2010	$ 1,605	$ 11	$ 1,616
Charge to income for the year	(27)	(2)	(29)
At December 31, 2010	1,578	9	1,587
Credit (charge) to income for the year	992	(3)	989
At December 31, 2011	$ 2,570	$ 6	$ 2,576

Deferred Tax Liability	(thousands of Canadian $)		
	Unpaid claims recoverable from reinsurers	Investments	Total
At January 1, 2010	$ 400	$ 298	$ 698
Credit to income for the year	(73)	(97)	(170)
At December 31, 2010	327	201	528
Charge (credit) to income for the year	109	(75)	34
At December 31, 2011	$ 436	$ 126	$ 562

14. INSURANCE AND FINANCIAL RISK MANAGEMENT

Insurance risk arises with respect to the adequacy of the Corporation's insurance premium rates and provision for unpaid claims (consisting of underwriting and actuarial risks). The nature of insurance operations also result in significant financial risks, as the Corporation's statement of financial position consists primarily of financial instruments. The financial risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Insurance Risk

Underwriting risk

The Corporation manages its insurance risk through its underwriting and reinsurance strategies within an overall strategic planning process. Pricing is based on assumptions with regards to past experiences and trends. Exposures are managed by having documented underwriting limits and criteria, product diversification and reinsurance.

Diversification

The Corporation writes property, liability and motor risks over a 12-month period. The most significant risks arise from weather-related events, such as summer storms. The Corporation attempts to mitigate risk by offering different lines of insurance products.

The concentration of insurance risk by line of business is summarized below by reference to unpaid claims liabilities:

	(thousands of Canadian $)					
	Gross		Reinsurance Recoverable		Net	
	2011	2010	2011	2010	2011	2010
Automobile	$ 82,224	$ 61,810	$ 28,288	$ 21,964	$ 53,936	$ 39,846
Property	7,972	5,074	1,401	457	6,571	4,617
Liability	7,801	4,747	1,488	206	6,313	4,541
Facility Association (note 19)	1,672	1,446	–	–	1,672	1,446
Discount	6,832	2,528	2,030	521	4,802	2,007
Total	$ 106,501	$ 75,605	$ 33,207	$ 23,148	$ 73,294	$ 52,457

Reinsurance

The Corporation also seeks to reduce losses that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk with SGI CANADA and other insurers. The policy of underwriting and reinsuring contracts of insurance limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of Canadian $)	
	2011	2010
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 Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

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 Canadian $)	
	2011	2010
Premiums earned	$ 5,338	$ 3,177
Claims incurred	12,700	2,790
Commissions and premium taxes	211	214

Actuarial Risk

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.

The significant assumptions used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends and claim development patterns, 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, which necessarily involves risk that actual results may differ materially from the estimates.

The following table shows the development of the estimated net provision for unpaid claims relative to the current estimate of ultimate claim costs for the five most recent accident years as estimated at each reporting date.

	(thousands of Canadian $)					
	2007	2008	2009	2010	2011	Total
Net Ultimate Loss						
At end of accident year	$ 14,763	15,455	21,124	24,595	38,463	
One year later	14,219	13,663	19,916	24,658		
Two years later	14,278	14,146	20,526			
Three years later	14,326	13,598				
Four years later	14,006					
Cumulative loss development	(757)	(1,857)	(598)	63	n/a	
Cumulative loss development as a % of original ultimate loss	–5.1%	–12.0%	–2.8%	0.3%	n/a	
Current estimate of net ultimate loss	$ 14,006	13,598	20,526	24,658	38,463	$ 111,251
Cumulative paid	(10,430)	(9,430)	(13,686)	(12,433)	(9,639)	(55,618)
Net provision for unpaid claims for the 5 most recent accident years	$ 3,576	4,168	6,840	12,225	28,824	$ 55,633
Reconciliation						
Net undiscounted claims outstanding for accident years 2006 and prior						5,912
Loss adjusting expense reserve						3,956
Provision for adverse deviation and discounting						4,802
Facility Association						1,672
Other reconciling items						660
Health levy						504
Gross subrogation recoveries						155
						$ 73,294

Financial Risk

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 SGI Board of Directors, based on a recommendation from the Investment Committee of the Board. The SIP&G provides guidelines to the investment manager for the asset mix of the portfolio regarding quality and quantity of debt, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. SGI receives regular reporting from the investment manager and custodian regarding compliance with the SIP&G. The investment manager's performance is evaluated based on return objectives, including realized and unrealized capital gains and losses plus income from all sources, and goals stated in 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, 2011, is limited to the carrying value of the financial assets recognized as follows:

	(thousands of Canadian $) 2011	2010
Cash and cash equivalents	$ 6,406	$ 8,539
Accounts receivable	32,054	23,762
Fixed income investments [1]	97,257	72,908
Unpaid claims recoverable from reinsurers	33,207	23,148

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

Cash and cash equivalents include money market investments of $4,770,000 and cash on hand, net of outstanding cheques of $1,636,000 (2010 – money market investments of $6,626,000 and cash on hand, net of outstanding cheques of $1,913,000). 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 Canadian $) 2011	2010
Current	$ 31,957	$ 23,783
30–59 days	94	33
60–89 days	37	21
Greater than 90 days	442	226
Subtotal	32,530	24,063
Allowance for doubtful accounts	(476)	(301)
Total	$ 32,054	$ 23,762

Provisions for credit losses are maintained in an allowance account and are 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 Canadian $) 2011	2010
Allowance for doubtful accounts, opening balance	$ 301	$ 233
Accounts written off	(136)	(138)
Current period provision	311	206
Allowance for doubtful accounts, ending balance	$ 476	$ 301

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 Canadian $)			
	2011		2010	
Credit Rating	Fair Value	Makeup of Portfolio	Fair Value	Makeup of Portfolio
AAA	$ 42,378	53.2%	$ 33,531	54.5%
AA	19,809	24.8%	13,647	22.2%
A	13,286	16.7%	10,681	17.4%
BBB	4,252	5.3%	3,606	5.9%
Total	$ 79,725	100.0%	$ 61,465	100.0%

Within bond 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 one holding of a province is over 20% of the market value of the bond portfolio.

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, bonds and debentures and the mortgage pooled fund. Changes in interest rates also impact the provision for unpaid claims and unpaid claims recoverable from reinsurers. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on discounting of claims incurred.

It is estimated that a 100 basis point increase/decrease in interest rates would have the following impact:

	(thousands of Canadian $)			
	100 basis point increase		100 basis point decrease	
	2011	2010	2011	2010
Investment earnings	$ (1,810)	$ (1,798)	$ 1,810	$ 1,798
Claims incurred	(1,848)	(1,264)	1,848	1,264
Net income (loss)	38	(534)	(38)	534

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 EAFE (Europe, Australasia and Far East) 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, 2011, the Corporation's exposure to U.S. equities, through its U.S. equity pooled fund, was 4.6% (2010 – 4.4%) and its exposure to non-North American equities, through its non-North American equity pooled fund was 3.8% (2010 – 4.7%).

At December 31, 2011, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $530,000 (2010 – $392,000) decrease/increase in net income and retained earnings. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a $435,000 (2010 – $415,000) decrease/increase in net income and retained earnings.

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 EAFE markets. Equities comprise 15.0% (2010 – 17.4%) 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 investments. 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 Canadian $)	
Asset Class	2011	2010
Canadian pooled equity fund	$ +/- 3,060	$ +/- 2,849
U.S. pooled equity fund	+/- 1,431	+/- 1,036
Non-North American pooled equity fund	+/- 1,550	+/- 1,438

Liquidity risk

Liquidity risk is the risk that 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, 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 estimated contractual maturities of the Corporation's financial assets and liabilities at December 31:

(thousands of Canadian $)	2011						
	Carrying amount	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Financial assets							
Accounts receivable	$ 32,054	$ –	$ 19,672	$ 12,382	$ –	$ –	$ –
Investments	114,486	17,229	26,048	1,268	14,447	48,570	6,924
Unpaid claims recoverable from reinsurers	33,207	–	6,301	4,960	7,349	10,927	3,670
	$ 179,747	$ 17,229	$ 52,021	$ 18,610	$ 21,796	$ 59,497	$ 10,594
Financial liabilities							
Accounts payable and accrued liabilities	$ 6,458	$ –	$ 6,458	$ –	$ –	$ –	$ –
Amounts due to reinsurers	2,106	–	2,106	–	–	–	–
Provision for unpaid claims	106,501	–	17,995	13,697	21,510	38,601	14,698
	$ 115,065	$ –	$ 26,559	$ 13,697	$ 21,510	$ 38,601	$ 14,698

(thousands of Canadian $)	2010						
	Carrying amount	No stated maturity	0 - 6 months	7 - 12 months	1 - 2 years	3 - 5 years	More than 5 years
Financial assets							
Accounts receivable	$ 23,762	$ –	$ 14,579	$ 9,183	$ –	$ –	$ –
Investments	88,253	15,345	12,308	1,382	11,147	42,538	5,533
Unpaid claims recoverable from reinsurers	23,148	–	4,066	3,282	5,288	7,689	2,823
	$ 135,163	$ 15,345	$ 30,953	$ 13,847	$ 16,435	$ 50,227	$ 8,356
Financial liabilities							
Accounts payable and accrued liabilities	$ 4,885	$ –	$ 4,885	$ –	$ –	$ –	$ –
Amounts due to reinsurers	1,033	–	1,033	–	–	–	–
Provision for unpaid claims	75,605	–	13,059	10,061	15,765	26,437	10,283
	$ 81,523	$ –	$ 18,977	$ 10,061	$ 15,765	$ 26,437	$ 10,283

15. 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 equity advances 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 of 150% or higher based on the risk profile of the insurer and its business. At December 31, 2011, the Corporation's MCT was 268% (2010 – 330%). There have been no changes to the Corporation's capital management processes and measures since the prior year-end.

16. CHANGE IN NON-CASH OPERATING ITEMS

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

	(thousands of Canadian $) 2011	2010
Accounts receivable	$ (8,292)	$ (5,442)
Reinsurers' share of unearned premiums	(378)	(158)
Unpaid claims recoverable from reinsurers	(10,059)	2,600
Deferred policy acquisition costs	(1,604)	(855)
Accounts payable and accrued liabilities	1,573	(1,604)
Amounts due to reinsurers	1,073	768
Unearned reinsurance commissions	112	52
Unearned premiums	8,708	9,325
Provision for unpaid claims	30,896	5,842
	$ 22,029	$ 10,528

17. EMPLOYEE SALARIES AND BENEFITS

The Corporation incurs salaries and benefits expenses. It allocates expenses incurred to the various operating functions, and has therefore included the various employee salaries and benefits expenses in different line items on the statement of operations, including claims incurred and administrative expenses. The total salaries and benefits expenses incurred during the year are as follows:

	(thousands of Canadian $) 2011	2010
Salaries	$ 2,177	$ 1,696
Other benefits	395	291
Total salaries and benefits	$ 2,572	$ 1,987

18. 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"). All transactions are settled at prevailing market prices under normal trade terms.

The Corporation has elected to take a partial exemption under IAS 24 *Related Party Disclosures,* which allows government-related entities to limit the extent of disclosures about related party transactions with government or other government-related entities.

SGI CANADA provides management and administrative services to the Corporation as well as being one of its reinsurers (note 14). Administrative and loss adjusting expenses incurred by SGI CANADA and charged to the Corporation were $1,997,000 (2010 – $1,910,000) and accounts receivable are $61,000 (2010 – $1,207,000). Reinsurance ceded to SGI CANADA has decreased premiums earned by $3,059,000 (2010 – $1,826,000) and decreased claims incurred by $6,117,000 (2010 – increase of $341,000).

Key management personnel compensation

Key management personnel are those individuals having authority over the Corporation's planning, directing and controlling activities. Certain of the individuals performing these functions are executive employees of the Corporation's parent, SGI CANADA. Compensation for these individuals is paid by SGI CANADA and a portion allocated to the Corporation on the basis of a cost allocation formula.

	(thousands of Canadian $)	
	2011	2010
Salaries and other short-term employee benefits	$ 191	$ 76
Post-employment benefits	12	5
	$ 203	$ 81

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

19. 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 Canadian $)	
	2011	2010
Gross premiums written	$ 796	$ 340
Net premiums earned	$ 650	$ 337
Claims incurred	895	489
Commissions	46	33
Premium taxes	20	10
Administrative expenses	214	91
Total claims and expenses	1,175	623
Underwriting loss	(525)	(286)
Investment earnings	26	47
Net loss	$ (499)	$ (239)
Facility Association receivable	$ 1,530	$ 1,509
Unearned premiums	306	160
Facility Association payable	1,520	1,520
Provision for unpaid claims	1,672	1,446

20. COMMITMENTS AND CONTINGENCIES

The Corporation has a lease for its office premises expiring December 31, 2013, at an annual rent of $249,000.

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.

21. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2010 balances have been reclassified to conform to 2011 financial statement presentation.

Coachman

INSURANCE COMPANY