

**SGI CANADA**  
**QUARTERLY REPORT**  
**JUNE 2007**

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

*Management's Discussion and Analysis (MD&A) provides a review of the results of the operations of SGI CANADA and its subsidiaries, SGI CANADA Insurance Services Ltd., the Insurance Company of Prince Edward Island (ICPEI) and Coachman Insurance Company (Coachman), collectively referred to as SGI CANADA or the Corporation. This discussion and analysis should be read in conjunction with the SGI CANADA unaudited consolidated financial statements and supporting notes as at and for the six month period ended June 30, 2007 and the SGI CANADA MD&A and annual audited financial statements and supporting notes as at and for the year ended December 31, 2006. All dollar amounts are in Canadian dollars. This MD&A reflects all information known to Management up to August 9, 2007.*

### Quarterly Consolidated Financial Highlights

The following table highlights quarter over quarter results for SGI CANADA:

(\$ in 000's)	2007		2006				2005		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Net premiums earned	75,639	73,917	75,873	73,310	71,391	70,233	72,212	70,740	69,592
Claims incurred	54,479	33,622	39,212	49,825	36,128	31,905	33,138	46,679	50,161
Net income (loss)	(2,701)	21,813	14,706	4,773	12,940	19,682	10,035	4,989	448
Cash flow from (used in) operations	21,883	(4,408)	25,117	21,279	14,462	(10,265)	17,381	12,805	22,178
Investments	447,488	467,557	444,464	430,368	399,055	404,383	400,071	396,223	363,614
Provision for unpaid claims	280,336	257,148	263,514	258,179	245,485	246,980	254,805	257,122	250,036

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2007:

- Net premiums earned generally increase on a quarter over quarter basis during the year, with this trend continuing in 2007.
- The second and third quarter results can be impacted by summer storm activity, given SGI CANADA's strong market presence in Saskatchewan. Significant summer storm activity in the second quarter of 2007 has adversely impacted results.
- Effective January 1, 2007 the carrying value of investments changed, such that most investments are now carried at fair value. This change in accounting policy and the impacts are discussed further within this MD&A and within the notes to the financial statements.

## For the three months ended June 30, 2007

### Consolidated Statement of Operations

SGI CANADA recorded a consolidated net loss of \$2,701,000 for the second quarter of 2007, a decrease of \$15,641,000 from the 2006 second quarter profit of \$12,940,000. The less favourable results in the second quarter of 2007 were a result of significant summer storm costs in Saskatchewan. No significant summer storm activity was experienced through the second quarter of 2006. Out-of-province operations contributed \$262,000 of second quarter profit, compared to \$3,163,000 in 2006.

Net premiums earned were \$75,639,000 in the second quarter, \$4,248,000 or 6.0% higher than the second quarter of 2006 (\$71,391,000). This growth over 2006 was mostly from Saskatchewan (\$2,554,000) and Alberta (\$1,380,000) operations. There were limited premiums in last year's second quarter for Alberta, as operations in the province had just begun in late June. In the second quarter of 2007, out-of-province operations accounted for 16% (2006 – 15%) of net premiums earned.

Consolidated claims incurred of \$54,479,000 for the quarter represented a \$18,351,000 (50.8%) increase over 2006, contributing to a consolidated loss ratio of 72.0% in the second quarter of 2007 compared to 50.6% in 2006. The second quarter of 2007 was adversely impacted by significant Saskatchewan seasonal storms (\$13,639,000 incurred), while no significant storms had occurred yet in 2006. Out-of-province claims incurred of \$8,417,000 also represented a significant increase over the second quarter of 2006 (\$4,246,000), primarily the result of increasing auto and commercial claim costs in Ontario and the Maritimes, and from expansion into Alberta. Alberta claims totalled \$1,148,000 during the second quarter of 2007, while in June 2006 no Alberta claims had yet been incurred. Ontario and Maritime claims increased, following low claims experience in 2006. The overall loss ratio on out-of-province operations increased to 68.4% in the second quarter of 2007 (2006 – 40.0%).

Other expenses for the second quarter of 2007, excluding claims incurred, were \$30,518,000, compared to \$26,827,000 in 2006, with the largest increases coming from administrative expense and commission expense. Administrative expenses of \$11,008,000 increased by \$2,115,000 from the second quarter of 2006, primarily a result of increased salary and benefits costs. The consolidated administrative expense ratio was 14.6% (2006 – 12.5%). Commission expense in the second quarter of 2007 was \$1,315,000 higher than the same period in 2006.

Investment earnings for the second quarter of 2007 were \$6,623,000, \$1,117,000 higher than the 2006 second quarter (\$5,506,000). The increase was a result of higher realized gains from the sale of equities and higher interest income. The annualized rate of return, excluding any unrealized gains, for the second quarter of 2007 was 6.1%, compared to 5.5% for the second quarter of 2006.

**For the six months ended June 30, 2007****Consolidated Statement of Operations**

To the end of June, SGI CANADA generated a consolidated net income of \$19,112,000, a \$13,510,000 decrease from the 2006 net income of \$32,622,000 for the same period. The decrease was primarily a result of higher claim costs from Saskatchewan operations due to summer storms. Saskatchewan operations posted a net income of \$16,682,000 to the end of June, \$10,884,000 lower than the prior year, while out-of-province operations generated \$2,430,000 of profits for the period compared to \$5,056,000 last year. Out-of-province operations account for 12.7% (2006 – 15.5%) of consolidated net income for 2007.

Year-to-date net premiums earned of \$149,556,000 increased \$7,932,000 or 5.6% over the net premiums earned in 2006 of \$141,624,000. Net premiums earned to the end of June from Saskatchewan operations (\$125,719,000) increased \$5,166,000 (4.3%) compared to last year. Premiums earned from out-of-province operations increased \$2,766,000 or 13.1% over last year, primarily from new Alberta business. Out-of-province operations represented 16% (2006 – 15%) of net premiums earned.

Claim costs totalled \$88,101,000 during the first six months of 2007, a \$20,068,000 or 29.5% increase from the same period in 2006. This increase is reflected in the 2007 consolidated loss ratio of 58.9% (2006 - 48.0%). In 2007, Saskatchewan storm costs of \$13,639,000 were incurred to the end of June, while no significant storms had occurred to June 30, 2006. In addition, out-of-province claims incurred of \$15,076,000 (2006 – \$10,527,000) increased by \$4,549,000 or 43.2% per cent, largely a result of increasing auto and commercial claim costs from Ontario and Maritime operations, as well as Alberta expansion. Alberta claims were \$1,711,000 to June 2007; while to the end of June 2006 no Alberta claims had been incurred. The out-of-province loss ratio to the end of June 2007 was 63.2% compared to 50.0% at June 2006.

Other expenses, excluding claims incurred, were \$57,733,000 to the end of June 2007, \$5,506,000 higher than expenses for the same period in 2006. The increase was primarily due to higher administrative expenses and commissions expense in 2006. Administrative expenses of \$19,576,000 in 2007 were \$2,842,000 higher than 2006, mainly due to higher salary and benefit costs in 2007. Commissions expense for the first six months of 2007 was \$2,188,000 higher than the same period in 2006, largely due to growth in premium.

Investment earnings for the six-month period ending June 30, 2007 were \$15,914,000 (2006 – \$12,675,000), \$3,239,000 higher than the results from 2006. The increased earnings in 2007 were a result of higher realized gains from the sale of equities and higher interest income. The annualized rate of return, excluding any unrealized gains or losses, was 7.4%, compared to 6.4% for 2006.

## **Consolidated Statement of Financial Position**

Total assets increased from \$662,463,000 at December 31, 2006 to \$679,160,000 at June 30, 2007. Cash and cash equivalents were \$14,023,000 higher at June 30 than the beginning of the year. Based on the outlook for the bond market, the Corporation decreased its bond holdings during the second quarter in favour of short-term investments, including increasing those with maturities less than 90 days, which are considered cash equivalents.

Total liabilities decreased \$9,652,000, primarily a result of significant cash outlays during the first half of 2007 related to premium taxes payable, the final payment on the 2006 dividend and various accounts payable payments. In addition, accounts payable decreased as a result of significant investment purchase transactions entered into prior to December 31, 2006, where the actual cash settlement did not occur until January 2007. Partially offsetting these decreases was an increase in the provision for unpaid claims, a result primarily attributable to an increase in claim reserves related to Saskatchewan summer storm claim activity during the month of June.

## **Consolidated Statement of Cash Flows**

Cash and cash equivalents increased during the first six months of 2007 by \$14,023,000. While the Corporation experienced negative cash flow from operations in the first quarter of 2007, the Corporation generated \$21,883,000 of cash from operations in the second quarter resulting in cash generated from operations to date of \$17,475,000. In addition, investing activities resulted in positive cash of \$20,064,000. Cash resources of \$23,516,000 were used for the final instalment of the dividend on 2006 earnings (\$17,378,000) and the first instalment of the dividend on the 2007 earnings (\$6,138,000).

## **Change in Accounting Policies**

Given the nature of the Corporation's business, financial instruments make up a substantial portion of its balance sheet and are integral to its success. Related to the Corporation's financial instruments, commencing January 1, 2007, it adopted two new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA), Handbook Section 1530, Comprehensive Income and Section 3855, Financial Instruments – Recognition and Measurement. The standard requires all financial instruments to be classified as one of the following: held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities.

The impact of the change in accounting policies on the consolidated financial statements, are as follows:

## **Consolidated Statement of Financial Position**

The Corporation has classified all of its investments impacted by adoption of this section as available for sale. The available for sale classification requires these investments be recorded at fair value on the Statement of Financial Position. Any unrealized gains and losses on these

investments are recognized as accumulated other comprehensive income (AOCI) within Equity on the Statement of Financial Position.

At January 1, 2007, this change in accounting policy resulted in an opening adjustment that increased investments from \$444,464,000 to \$470,888,000, increased AOCI by \$25,795,000 and decreased the future income tax asset by \$629,000. This adjustment was required to recognize investments at fair value as of January 1, 2007.

The carrying value of investments decreased during the first half of 2007 from \$470,888,000 at January 1, 2007 to \$447,488,000 at June 30, 2007. AOCI also decreased from \$25,795,000 to \$19,480,000, representing the unrealized gains on investments as of July 30, 2007. The decline of \$6,315,000 is explained in the section below on the Consolidated Statement of Comprehensive Income.

#### **Consolidated Statement of Comprehensive Income**

The Consolidated Statement of Comprehensive Income is a new statement that reflects all sources of income, including net income and other comprehensive income. Other comprehensive income for the Corporation relates solely to the change in unrealized gains and losses on financial instruments designated as available for sale. The change in unrealized gains and losses is derived from the change in market value of investments, plus or minus any gains or losses realized during the period.

For the six months ended June 30, 2007, the change in unrealized gains and losses on financial instruments designated as available for sale was a decrease of \$6,315,000. This decrease was a result of realizing net gains of \$4,639,000 on investments sold during the period, while recording unrealized losses of \$1,676,000 on the investments held at June 30, 2007. The unrealized losses experienced were primarily from declines in the market value of bonds held, resulting from increases in bond yields during the quarter.

The total annualized rate of return, on a market value basis, is 4.0% for the six months ended June 30, 2007 (2006 – (0.2%)). This return includes both investment earnings for the period and the change in unrealized gains/losses.

#### **Consolidated Statement of Changes in Province of Saskatchewan's Equity**

The Consolidated Statement of Changes in Province of Saskatchewan's Equity is a new statement that presents those transactions that occurred during the quarter that impacted each separate component of the Province of Saskatchewan's Equity.

There have been no changes to equity advances for the quarter.

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Retained earnings increased during the year by \$6,982,000 as a result of net income for the quarter of \$19,112,000 less the first quarter dividend of \$6,138,000 paid at June 30, 2007 and the second quarter dividend payable to the Corporation's parent, Crown Investments Corporation of Saskatchewan, of \$6,138,000. Retained earnings also increased by \$146,000 as a result of a change in the actuarial determination of the provision for unpaid claims, which was required as a result of the change in accounting policies.

Accumulated other comprehensive income was \$19,480,000 at June 30, 2007, as a result of an opening adjustment of \$25,795,000 to revise investments to fair value at January 1, 2007. This opening adjustment was offset by an other comprehensive loss during the year of \$6,315,000.

The change in accounting policy is discussed in Note 2 to the consolidated financial statements.

### **Outlook**

The second quarter of 2007 marked the Corporation's first full year of operations in Alberta. The Corporation is pleased with its success in that market, which it will continue to build on through the remainder of 2007. The Ontario automobile market has been experiencing increased competition over the year, and the Corporation is meeting this challenge by focusing on its strong underwriting fundamentals and providing outstanding customer service to its brokers.

The Corporation continues to maintain solid financial results to date, however, as we began to see in the second quarter, the summer storm season in Saskatchewan has the capability to quickly and unfavourably impact the bottom line. Going forward, the Corporation will continue to focus on its strategy of spreading insurance risk geographically, growing revenues and maintaining and creating jobs in Saskatchewan.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at June 30, 2007 and December 31, 2006

	<b>June 30</b>	<b>December 31</b>
	<b>2007</b>	<b>2006</b>
	<b>(unaudited)</b>	<b>(audited)</b>
	<u>                    </u>	
	(thousands of \$)	
<b>Assets</b>		
Cash and cash equivalents	\$ 38,077	\$ 24,054
Accounts receivable	90,753	97,622
Deferred policy acquisition costs	40,770	39,354
Future income taxes	2,835	3,150
Reinsurers' share of unearned premiums	10,670	8,173
Investments (note 3)	447,488	444,464
Net investment in capital leases	1,816	2,011
Goodwill	481	481
Unpaid claims recoverable from reinsurers	34,347	32,273
Property, plant and equipment	<u>11,923</u>	<u>10,881</u>
	<b><u>\$ 679,160</u></b>	<b><u>\$ 662,463</u></b>
<b>Liabilities</b>		
Accounts payable and accrued charges	\$ 15,274	\$ 34,696
Dividend payable	6,138	17,378
Premium taxes payable	7,059	13,439
Amounts due to reinsurers	7,282	4,892
Unearned reinsurance commissions	1,820	1,719
Unearned premiums	171,511	163,434
Provision for unpaid claims	<u>280,336</u>	<u>263,514</u>
	<b><u>489,420</u></b>	<b><u>499,072</u></b>
<b>Non-controlling interest</b>	<b><u>1,679</u></b>	<b><u>1,792</u></b>
<b>Province of Saskatchewan's equity</b>		
Equity advances	80,000	80,000
Retained earnings	88,581	81,599
Accumulated other comprehensive income (note 4)	<u>19,480</u>	<u>—</u>
	<b><u>188,061</u></b>	<b><u>161,599</u></b>
	<b><u>\$ 679,160</u></b>	<b><u>\$ 662,463</u></b>

(see accompanying notes)



# SGI CANADA

## CONSOLIDATED STATEMENT OF OPERATIONS

For the periods ended June 30, 2007 and 2006

	three months to June 30		six months to June 30	
	2007	2006	2007	2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(thousands of \$)		(thousands of \$)	
Gross premiums written	\$ 94,979	\$ 96,687	\$ 165,136	\$ 164,203
Net premiums written	\$ 95,101	\$ 90,731	\$ 154,941	\$ 150,301
<b>Net premiums earned</b>	<b>\$ 75,639</b>	<b>\$ 71,391</b>	<b>\$ 149,556</b>	<b>\$ 141,624</b>
Claims incurred	54,479	36,128	88,101	68,033
Commissions	15,935	14,620	31,071	28,883
Administrative expenses	11,008	8,893	19,576	16,734
Premium taxes	3,567	3,521	7,278	6,949
Facility Association participation (note 6)	8	(207)	(192)	(339)
<b>Total claims and expenses</b>	<b>84,997</b>	<b>62,955</b>	<b>145,834</b>	<b>120,260</b>
<b>Underwriting profit (loss)</b>	<b>(9,358)</b>	<b>8,436</b>	<b>3,722</b>	<b>21,364</b>
Investment earnings	6,623	5,506	15,914	12,675
<b>Income (loss) before income taxes and non-controlling interest</b>	<b>(2,735)</b>	<b>13,942</b>	<b>19,636</b>	<b>34,039</b>
Income tax (recovery)	(84)	755	389	1,079
<b>Income (loss) after income taxes and before non-controlling interest</b>	<b>(2,651)</b>	<b>13,187</b>	<b>19,247</b>	<b>32,960</b>
Non-controlling interest	50	247	135	338
<b>Net income (loss)</b>	<b>\$ (2,701)</b>	<b>\$ 12,940</b>	<b>\$ 19,112</b>	<b>\$ 32,622</b>

(see accompanying notes)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended June 30, 2007

	<b>three months to June 30 2007 (unaudited)</b>	<b>six months to June 30 2007 (unaudited)</b>
	(thousands of \$)	
<b>Net income (loss)</b>	<b>\$ (2,701)</b>	<b>\$ 19,112</b>
<b>Other comprehensive loss, net of income taxes:</b>		
Net unrealized losses on available for sale financial assets arising during the period (net of taxes of \$386,000)	(4,228)	(1,676)
Reclassification for gains included in net income (net of tax recovery of \$80,000)	(912)	(4,639)
<b>Other comprehensive loss</b>	<b>(5,140)</b>	<b>(6,315)</b>
<b>Comprehensive income (loss)</b>	<b>\$ (7,841)</b>	<b>\$ 12,797</b>

(see accompanying notes)

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## CONSOLIDATED STATEMENT OF CHANGES IN PROVINCE OF SASKATCHEWAN'S EQUITY

For the periods ended June 30, 2007 and 2006

	three months to June 30 2007 (unaudited)		six months to June 30 2007 (unaudited)	
	2006 (unaudited)	2006 (unaudited)	2006 (unaudited)	2006 (unaudited)
	(thousands of \$)		(thousands of \$)	
<b>Equity Advances</b>				
<b>Balance, end of period</b>	<b><u>\$ 80,000</u></b>	<b><u>\$ 80,000</u></b>	<b><u>\$ 80,000</u></b>	<b><u>\$ 80,000</u></b>
<b>Retained earnings</b>				
Balance, beginning of period	\$ 97,420	\$ 77,550	\$ 81,599	\$ 63,364
Change in accounting policy (note 2)	–	–	146	–
Net income	(2,701)	12,940	19,112	32,622
Dividend	<u>(6,138)</u>	<u>(5,496)</u>	<u>(12,276)</u>	<u>(10,992)</u>
<b>Balance, end of period</b>	<b><u>\$ 88,581</u></b>	<b><u>\$ 84,994</u></b>	<b><u>\$ 88,581</u></b>	<b><u>\$ 84,994</u></b>
<b>Accumulated other comprehensive income</b>				
Balance, beginning of period	\$ 24,620	\$ –	\$ –	\$ –
Change in accounting policy (note 2)	–	–	25,795	–
Other comprehensive loss	<u>(5,140)</u>	<u>–</u>	<u>(6,315)</u>	<u>–</u>
<b>Balance, end of period</b>	<b><u>\$ 19,480</u></b>	<b><u>\$ –</u></b>	<b><u>\$ 19,480</u></b>	<b><u>\$ –</u></b>
<b>Total Province of Saskatchewan's equity</b>	<b><u>\$ 188,061</u></b>	<b><u>\$ 164,994</u></b>	<b><u>\$ 188,061</u></b>	<b><u>\$ 164,994</u></b>

(see accompanying notes)

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the periods ended June 30, 2007 and 2006

	three months to June 30		six months to June 30	
	2007	2006	2007	2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(thousands of \$)		(thousands of \$)	
<b>Cash provided by (used for):</b>				
<b>Operating activities</b>				
Net income	\$ (2,701)	\$ 12,940	\$ 19,112	\$ 32,622
Non-cash items:				
Amortization	332	637	719	1,348
Net realized gain on disposal of investments	(703)	(676)	(4,559)	(3,043)
Income (loss) attributable to non-controlling interest	(199)	247	(114)	338
Loss (income) from investments accounted for on the equity basis	(154)	(48)	(147)	(179)
Change in non-cash operating items (note 5)	<u>25,308</u>	<u>1,362</u>	<u>2,464</u>	<u>(26,889)</u>
	<u><b>21,883</b></u>	<u><b>14,462</b></u>	<u><b>17,475</b></u>	<u><b>4,197</b></u>
<b>Investing activities</b>				
Purchases of investments	(181,215)	(73,601)	(314,705)	(309,946)
Proceeds on sale of investments	196,668	79,247	336,052	313,299
Repayment of capital lease	99	89	195	176
Purchases of property, plant and equipment	<u>(1,470)</u>	<u>(89)</u>	<u>(1,478)</u>	<u>(105)</u>
	<u><b>14,082</b></u>	<u><b>5,646</b></u>	<u><b>20,064</b></u>	<u><b>3,424</b></u>
<b>Financing activities</b>				
Dividends paid	<u>(6,138)</u>	<u>(5,496)</u>	<u>(23,516)</u>	<u>(13,076)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	29,827	14,612	14,023	(5,455)
Cash and cash equivalents, beginning of period	<u>8,250</u>	<u>13,882</u>	<u>24,054</u>	<u>33,949</u>
<b>Cash and cash equivalents, end of period</b>	<u><b>\$ 38,077</b></u>	<u><b>\$ 28,494</b></u>	<u><b>\$ 38,077</b></u>	<u><b>\$ 28,494</b></u>

(see accompanying notes)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****June 30, 2007****1. SIGNIFICANT ACCOUNTING POLICIES**

These unaudited consolidated financial statements do not include all of the disclosures included in the Corporation's annual audited consolidated financial statements. The accounting policies used in the preparation of these interim financial statements are in accordance with Canadian generally accepted accounting principles and are consistent with those described in the Corporation's 2006 annual audited consolidated financial statements, except as disclosed in Note 2. Accordingly, these interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation's 2006 Annual Report.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles 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 process is related to the actuarial determination of the provision for unpaid claims.

**2. CHANGE IN ACCOUNTING POLICIES**

Effective January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income and Section 3855, Financial Instruments – Recognition and Measurement.

**Comprehensive Income**

Section 1530 requires presentation of a Consolidated Statement of Comprehensive Income, as included in these Consolidated Financial Statements. Comprehensive income is comprised of net income, and other comprehensive income (OCI). OCI represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources, other than net income. The change in OCI is recorded as accumulated other comprehensive income (AOCI) on the Statement of Financial Position.

**Financial Instruments**

Section 3855 establishes standards for recognizing and measuring financial assets and financial liabilities. The measurement basis depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial instruments impacted by adoption of this section are measured in the Consolidated Statement of Financial Position at fair value, except for loans and receivables,

held to maturity investments and other financial liabilities that are measured at amortized cost. Financial instruments classified as held for trading are measured at fair value and changes in fair value are recognized in net income. Financial instruments classified as available for sale are measured at fair value with 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. The criteria to determine whether an unrealized loss is considered other than temporary has not changed under the new section.

Prior to January 1, 2007, the Corporation amortized the purchase discount or premium from its investments by utilizing the straight-line method over the expected life of the investment. By adopting Section 3855, as of January 1, 2007, the Corporation is now using the effective interest rate method to calculate the income from its investments.

As at January 1, 2007, all financial assets impacted by adoption of this section, included in investments have been designated as available for sale. All remaining financial assets impacted by the adoption of this section have been classified as loans and receivables, which are measured at amortized cost. All financial liabilities impacted by adoption of this section have been classified as other financial liabilities and are measured at amortized cost. The Corporation has no financial instruments designated as held for trading or held to maturity.

### **Initial Impact Upon Adoption of Sections 1530 and 3855**

The adoption of these new sections was applied as of January 1, 2007, without restatement of comparative figures. The effect of the adoption at January 1, 2007 was to increase the carrying value of investments from \$444,464,000 to \$470,888,000, increase AOCI by \$25,795,000 and decrease the future income taxes asset by \$629,000.

At January 1, 2007, the provision for unpaid claims decreased by \$146,000. This was due to the impact of the new sections on the actuarial determination of the provision for unpaid claims. An offsetting adjustment was recorded to opening retained earnings of \$146,000.

### 3. INVESTMENTS

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

	(thousands of \$)		
	June 30 2007	January 1 2007	December 31 2006
Short-term investments	\$ 24,437	\$ 19,846	\$ 19,846
Bonds and debentures	309,783	334,474	332,698
Canadian common shares	43,843	44,075	27,629
U.S. common shares	14,695	14,095	11,415
Pooled equity funds			
- Canadian	11,988	12,970	12,419
- United States	4,087	4,516	4,265
- non-North American	17,285	19,823	15,565
Preferred shares	735	735	735
Mortgages	<u>16,968</u>	<u>16,734</u>	<u>16,272</u>
	443,821	467,268	440,844
Investments accounted for on the equity basis	<u>3,667</u>	<u>3,620</u>	<u>3,620</u>
Total investments	<u>\$ 447,488</u>	<u>\$ 470,888</u>	<u>\$ 444,464</u>

As a result of adoption of CICA Handbook Section 3855 (Note 2), the basis for the carrying value for investments has changed effective January 1, 2007. The details of the determination of carrying amounts are as follows:

(i) Short-term investments:

Carrying amounts for short-term investments are based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments.

(ii) Bonds and debentures:

The carrying value for bonds and debentures is fair value. The fair values are considered to approximate quoted market values, based on the latest bid prices.

(iii) Pooled equity funds:

Pooled equity funds are carried at fair value, which is considered to approximate the quoted market values of the underlying investments, based on the latest bid prices.

(iv) Common shares:

Common shares are carried at fair value, which is considered to approximate quoted market values from recognized stock exchanges, based on the latest bid prices.

(v) Preferred shares:

The preferred shares are carried at cost, as their fair value cannot be estimated reliably, as there is no quoted market price.

(vi) Mortgages:

Mortgages are carried at the fair value, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using current interest rates.

(vii) Investments accounted for on the equity basis:

Investments accounted for on the equity basis are exempt from the new Handbook Section 3855, and continue to be accounted for on the equity basis, whereby the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

#### 4. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income consists solely of unrealized gains and losses on available for sale financial assets.

#### 5. CHANGE IN NON-CASH OPERATING ITEMS

	(thousands of \$)			
	three months to June 30		six months to June 30	
	2007	2006	2007	2006
Accounts receivable	\$ (12,148)	\$ (14,787)	\$ 6,869	\$ (11,191)
Deferred policy acquisition costs	(3,760)	(3,669)	(1,416)	(1,881)
Reinsurers' share of unearned premiums	1,874	1,587	(2,502)	(2,692)
Unpaid claims recoverable from reinsurers	(5,356)	1,291	(2,074)	665
Accounts payable and accrued charges	2,268	(1,224)	(19,429)	(8,404)
Premium taxes payable	4,171	3,891	(6,379)	(6,056)
Amounts due to reinsurers	(2,719)	(2,283)	2,391	468
Unearned reinsurance commissions	148	182	100	167
Unearned premiums	17,780	17,869	8,082	11,355
Provision for unpaid claims	<u>23,050</u>	<u>(1,495)</u>	<u>16,822</u>	<u>(9,320)</u>
	<u>\$ 25,308</u>	<u>\$ 1,362</u>	<u>\$ 2,464</u>	<u>\$ (26,889)</u>



# SGI CANADA

## 6. FACILITY ASSOCIATION

Through its subsidiaries, the Corporation is a participant in various risk-sharing pools whereby most companies in the industry share resources to provide insurance for high risks.

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

	(thousands of \$)			
	three months to June 30		six months to June 30	
	2007	2006	2007	2006
Net premiums written	\$ 353	\$ 499	\$ 549	\$ 787
Net premiums earned	\$ 277	\$ 382	\$ 549	\$ 800
Claims incurred	261	103	322	339
Commissions	17	22	39	59
Premium taxes	10	12	19	26
Administrative expenses	49	65	88	117
Total claims and expenses	337	202	468	541
Underwriting profit (loss)	(60)	180	81	259
Investment earnings	52	27	111	80
Net profit (loss)	\$ (8)	\$ 207	\$ 192	\$ 339

## 7. SEGMENTED INFORMATION

The Corporation provides property and casualty insurance through four operating segments: Saskatchewan, Manitoba and Alberta, Ontario and the Maritimes (where Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). The performance of each operating segment is reported separately to the Corporation's Board of Directors. These operating segments correspond with the legal entities that make up the Corporation, as listed below:

- (i) SGI CANADA in Saskatchewan;
- (ii) SGI CANADA Insurance Services Ltd. in Manitoba and Alberta;
- (iii) Coachman Insurance Company in Ontario; and,
- (iv) The Insurance Company of Prince Edward Island in Prince Edward Island, New Brunswick and Nova Scotia.

# SGI CANADA

<b>three months to June 30</b>	(thousands of \$)					
<b>2007</b>	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	\$ 76,778	\$ 5,628	\$ 9,286	\$ 3,409	\$ –	\$ 95,101
Net premiums earned	63,333	4,253	5,790	2,263	–	75,639
Claims incurred	46,062	3,529	3,949	939	–	54,479
Other expenses	25,439	1,964	2,061	1,054	–	30,518
Underwriting profit (loss)	(8,168)	(1,240)	(220)	270	–	(9,358)
Investment earnings	5,205	407	842	169	–	6,623
Income before the following:	(2,963)	(833)	622	439	–	(2,735)
Income taxes	–	(250)	–	166	–	(84)
Non-controlling interest	–	–	–	–	50	50
Net income	\$ (2,963)	\$ (583)	\$ 622	\$ 273	\$ (50)	\$ (2,701)
Total assets	\$477,057	\$ 80,641	\$119,282	\$ 30,720	\$ (28,540)	\$679,160
Shareholder's equity	\$119,011	\$ 32,316	\$ 30,074	\$ 8,339	\$ (1,679)	\$188,061

<b>three months to June 30</b>	(thousands of \$)					
<b>2006</b>	Saskatchewan	Manitoba	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	\$ 73,248	\$ 3,511	\$ 11,339	\$ 2,633	\$ –	\$ 90,731
Net premiums earned	60,779	2,876	5,667	2,069	–	71,391
Claims incurred	31,882	1,654	2,481	111	–	36,128
Other expenses	23,275	1,143	1,887	522	–	26,827
Underwriting profit (loss)	5,622	79	1,299	1,436	–	8,436
Investment earnings	4,155	332	854	165	–	5,506
Income before the following:	9,777	411	2,153	1,601	–	13,942
Income taxes	–	145	–	610	–	755
Non-controlling interest	–	–	–	–	247	247
Net income	\$ 9,777	\$ 266	\$ 2,153	\$ 991	\$ (247)	\$ 12,940
Total assets	\$411,079	\$ 70,394	\$122,110	\$ 27,590	\$ (24,911)	\$606,262
Shareholder's equity	\$106,688	\$ 31,065	\$ 20,868	\$ 8,023	\$ (1,650)	\$164,994

# SGI CANADA

six months to June 30

(thousands of \$)

2007	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	\$126,651	\$ 8,192	\$ 15,075	\$ 5,023	\$ –	\$154,941
Net premiums earned	125,719	7,966	11,519	4,352	–	149,556
Claims incurred	73,025	5,421	7,590	2,065	–	88,101
Other expenses	48,389	3,586	4,027	1,731	–	57,733
Underwriting profit (loss)	4,305	(1,041)	(98)	556	–	3,722
Investment earnings	12,377	944	2,159	434	–	15,914
Income before the following:	16,682	(97)	2,061	990	–	19,636
Income taxes	–	14	1	374	–	389
Non-controlling interest	–	–	–	–	135	135
Net income	<u>\$ 16,682</u>	<u>\$ (111)</u>	<u>\$ 2,060</u>	<u>\$ 616</u>	<u>\$ (135)</u>	<u>\$ 19,112</u>
Total assets	<u>\$477,057</u>	<u>\$ 80,641</u>	<u>\$119,282</u>	<u>\$ 30,720</u>	<u>\$ (28,540)</u>	<u>\$679,160</u>
Shareholder's equity	<u>\$119,011</u>	<u>\$ 32,316</u>	<u>\$ 30,074</u>	<u>\$ 8,339</u>	<u>\$ (1,679)</u>	<u>\$188,061</u>

six months to June 30

(thousands of \$)

2006	Saskatchewan	Manitoba	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	\$121,607	\$ 4,842	\$ 19,804	\$ 4,048	\$ –	\$150,301
Net premiums earned	\$120,553	\$ 5,747	\$ 11,250	\$ 4,074	\$ –	\$141,624
Claims incurred	57,506	3,635	5,771	1,121	–	68,033
Other expenses	45,049	2,271	3,828	1,079	–	52,227
Underwriting profit (loss)	17,998	(159)	1,651	1,874	–	21,364
Investment earnings	9,568	785	1,904	418	–	12,675
Income before the following:	27,566	626	3,555	2,292	–	34,039
Income taxes	–	209	–	870	–	1,079
Non-controlling interest	–	–	–	–	338	338
Net income	<u>\$ 27,566</u>	<u>\$ 417</u>	<u>\$ 3,555</u>	<u>\$ 1,422</u>	<u>\$ (338)</u>	<u>\$ 32,622</u>
Total assets	<u>\$411,079</u>	<u>\$ 70,394</u>	<u>\$122,110</u>	<u>\$ 27,590</u>	<u>\$ (24,911)</u>	<u>\$606,262</u>
Shareholder's equity	<u>\$106,688</u>	<u>\$ 31,065</u>	<u>\$ 20,868</u>	<u>\$ 8,023</u>	<u>\$ (1,650)</u>	<u>\$164,994</u>