

**SGI CANADA
QUARTERLY REPORT
JUNE 2009**

CORPORATE PROFILE

Vision

We will be a leading, diversified property and casualty insurer by offering competitive, high-quality products and services in partnership with our brokers.

Values

Integrity – Conducting ourselves with honesty, trust and fairness

Caring – Acting with empathy, courtesy and respect

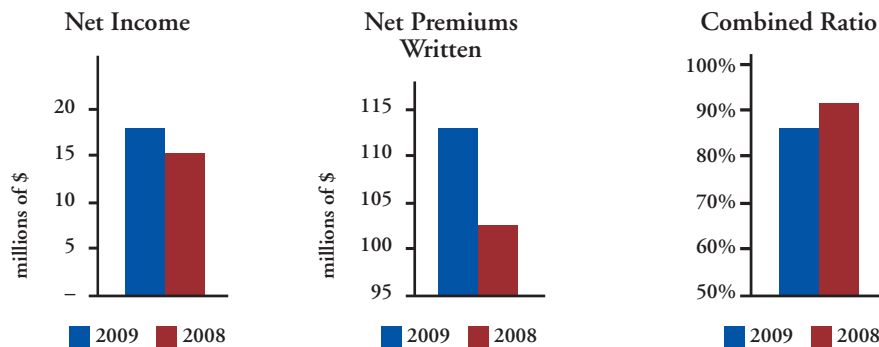
Innovation – Implementing creative solutions to achieve our vision

About SGI CANADA

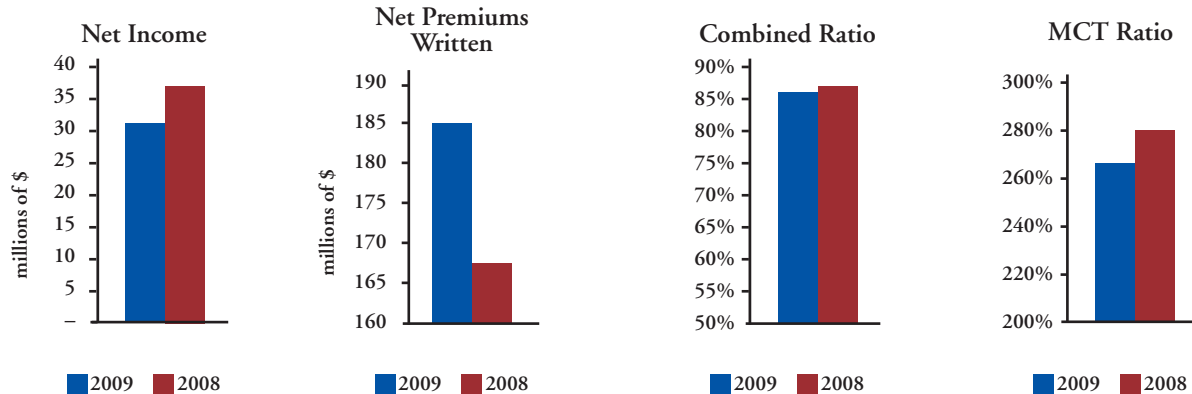
SGI CANADA is a dynamic and innovative company selling property and casualty insurance products. It currently operates as SGI CANADA in Saskatchewan, SGI CANADA Insurance Services Ltd. in Manitoba and Alberta, Coachman Insurance Company in Ontario and the Insurance Company of Prince Edward Island in Prince Edward Island, Nova Scotia and New Brunswick. The company employs about 1,800 people and its head office is located in Regina. Products are sold through a network of independent insurance brokers.

Financial Highlights

For the three months to June 30



For the six months to June 30



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 and Coachman Insurance Company, 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, 2009, and the SGI CANADA MD&A and annual audited financial statements and supporting notes as at and for the year ended December 31, 2008. All dollar amounts are in Canadian dollars. This MD&A reflects all information known to Management up to August 10, 2009.

Overview

(thousands of \$ – except for percentages)

	three months to June 30			six months to June 30		
	2009	2008	Change	2009	2008	Change
Net premiums written	112,753	102,815	9,938	184,709	168,404	16,305
Net income	17,659	15,747	1,912	30,891	37,363	(6,472)
Combined ratio	86.8%	91.7%	-4.9%	86.2%	87.1%	-0.9%

The Corporation continues to experience strong growth, specifically from Saskatchewan, as well as the newer markets of Alberta, New Brunswick and Nova Scotia. Consolidated underwriting profits are ahead of 2008, as indicated by the lower combined ratio. However, year-to-date net income is behind the first six months of 2008, primarily due to lower investment earnings.

Outlook

The summer storm season in Saskatchewan has the capability to quickly and unfavourably impact the bottom line. In this respect, the strong results generated so far in 2009 will benefit the Corporation heading into the summer months. To offset the impact of Saskatchewan summer storms, the Corporation spreads its insurance risk geographically.

Growth is expected to continue through 2009, especially in Alberta, New Brunswick and Nova Scotia. The Corporation will continue to focus on achieving its growth targets profitability through adequate pricing and diligent claims management. A focus on strong underwriting fundamentals and providing outstanding customer service to its brokers remains key to meeting the challenges presented in these markets.

The significant downturn in global capital markets that began in the last half of 2008 continues to impact SGI CANADA. The global investment markets did see some recovery through the second quarter of 2009. However, investment market values have not fully recovered and, as such, the Corporation is experiencing lower investment earnings compared to previous years. Uncertainty in the investment markets is expected to continue throughout 2009.

While the Corporation monitors the investment market environment closely, it will stay the course, as it maintains a well-diversified and high-quality investment portfolio, and follows prudent investment management policies and processes.

The Corporation remains adequately capitalized and focused on its strategies.

Revenue

(thousands of \$)	three months to June 30			six months to June 30		
	2009	2008	Change	2009	2008	Change
Premiums earned	90,477	81,989	8,488	177,921	161,956	15,965
Investment earnings	5,540	9,241	(3,701)	6,538	17,451	(10,913)

The strong Saskatchewan economy and consistent growth in all out-of-province jurisdictions resulted in a steady increase of premium earnings for the first two quarters of 2009.

Premiums earned by operating segment

(thousands of \$)	three months to June 30			six months to June 30		
	2009	2008	Change	2009	2008	Change
Saskatchewan	72,150	67,219	4,931	142,394	133,322	9,072
Manitoba and Alberta	8,481	6,202	2,279	16,307	11,767	4,540
Maritimes	3,803	2,950	853	7,307	5,641	1,666
Ontario	6,043	5,618	425	11,913	11,226	687
Total	90,477	81,989	8,488	177,921	161,956	15,965

All jurisdictions provided solid growth in the first six months of 2009. Premium earnings from the Manitoba and Alberta operating segment increased by 39% primarily due to growth in Alberta. The Maritimes also experienced significant growth with an increase of 30%.

Investment earnings in the second quarter of 2009 were lower than the same period in 2008. This was due primarily to realized losses on common shares of \$839,000 in the second quarter, as compared to \$3.3 million of realized gains in the same period of 2008.

While equity markets were positive in the second quarter, investment earnings were impacted by market weakness from previous quarters, resulting in realizing losses on the sale of investments. In bonds, falling interest rates decreased both short-term and long-term interest revenue, but provided some capital gains.

Year-to-date investment earnings were lower than the same period in 2008, primarily due to losses on common shares of \$3.7 million, as compared to \$3.7 million in gains in the same period of 2008. Also, year-to-date investment earnings include \$2.4 million of investment write-downs recorded in the first quarter, with no write-downs during the first six months of 2008. The annualized cost-based rate of return at June 30, 2009 was 1.7%, compared to 6.4% for 2008.

SGI CANADA

Expenses

(thousands of \$ – except for percentages)

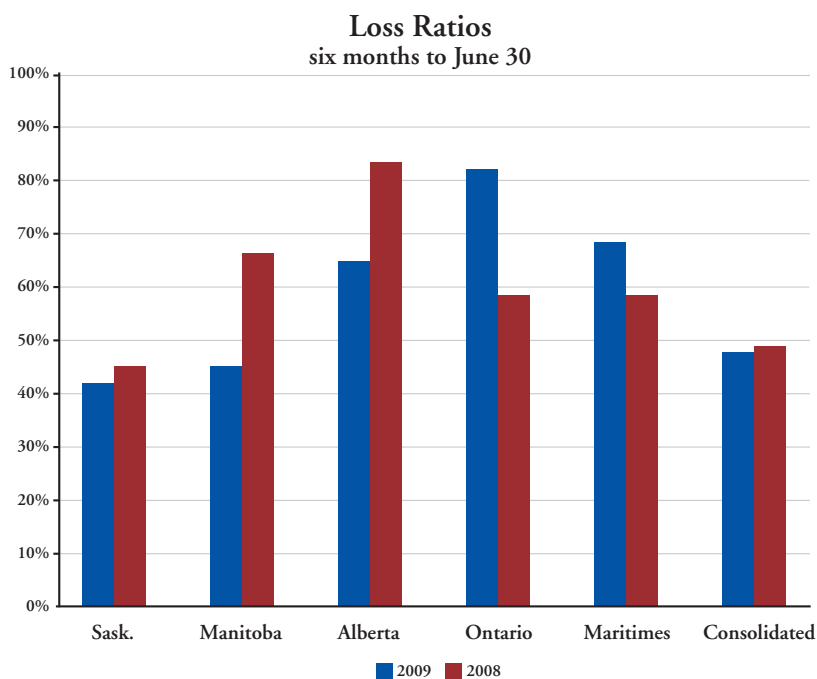
	three months to June 30			six months to June 30		
	2009	2008	Change	2009	2008	Change
Claims incurred	42,956	43,139	(183)	83,563	78,828	4,735
Other expenses	<u>35,620</u>	<u>32,049</u>	<u>3,571</u>	<u>69,828</u>	<u>62,310</u>	<u>7,518</u>
	<u>78,576</u>	<u>75,188</u>	<u>3,388</u>	<u>153,391</u>	<u>141,138</u>	<u>12,253</u>
Loss ratio	47.5%	52.6%	-5.1%	47.0%	48.6%	-1.6%

Expenses are comprised of claims incurred and other expenses, which include commissions, premium taxes, administrative expenses and Facility Association participation costs.

Claims incurred

Second quarter claims incurred of \$43.0 million were \$183,000, or 0.4%, lower than 2008. The growth in premiums, combined with the slight decrease in claims costs, contributed to a consolidated loss ratio of 47.5% in the second quarter of 2009 compared to 52.6% in 2008. Claims costs from the Saskatchewan market were lower than the second quarter of 2008, primarily due to favourable developments on prior year claims. Out-of-province claims incurred were \$3.3 million higher than the second quarter of 2008. The increase in out-of-province claims was primarily from continued expansion into Alberta and the Maritimes, and several large fire losses in Ontario. The overall loss ratio for out-of-province operations increased to 71.2% in the second quarter of 2009 (2008 – 66.1%).

Claims incurred totalled \$83.6 million for the first six months of 2009, a 6.0% increase from 2008. Despite the dollar increase over the prior year, the consolidated loss ratio decreased slightly from 48.6% in 2008 to 47.0% in 2009, as outlined in the chart below.



Saskatchewan's loss ratio of 41.7% is down from last year's six month ratio of 45.2%, with the decrease primarily related to favourable developments on prior year claims.

Manitoba's loss ratio decreased from 66.4% in 2008 to 45.3% in 2009, as a high number of house fires contributed to an unexpectedly high loss ratio in 2008.

Alberta's loss ratio decreased from 83.7% in 2008 to 65.7% in 2009, primarily due to improved personal lines and standard auto results.

Ontario's loss ratio increased from 57.9% in 2008 to 82.5% in 2009, a result of several large house fires in 2009.

The Maritimes' loss ratio increased from 57.5% in 2008 to 68.6% in 2009, primarily due to four large house fires in the first six months of 2009.

Other expenses

For the second quarter, other expenses increased \$3.6 million compared to the same period in 2008. This was largely due to increases in commissions and premium taxes, commensurate with the premium growth experienced in the quarter.

Year-to-date, other expenses are \$7.5 million higher in 2009 than in the prior year. This is due to increases in commissions and premium taxes resulting from premium growth, and an increase in administrative expenses related primarily to higher salary and benefit costs.

Balance Sheet Review

(thousands of \$)	<u>June 30 2009</u>	<u>December 31 2008</u>	<u>Change</u>
Total assets	747,792	717,345	30,447
Key asset account changes:			
Accounts receivable	114,970	98,528	16,442
Investments	519,335	506,114	13,221

Total assets increased \$30.4 million in the first six months of 2009. Accounts receivable increased primarily as a result of an increase in the amounts due from brokers and growth in the amount of premiums being financed, which is reflective of the growing book of business.

The carrying value of investments increased \$13.2 million, primarily due to the investment portfolio rebounding strongly from a very weak first quarter, with market values increasing in nearly all asset classes.

SGI CANADA

(thousands of \$)	June 30 2009	December 31 2008	Change
Total liabilities	527,776	537,650	(9,874)
Key liability account changes:			
Provision for unpaid claims	277,681	287,103	(9,422)

Total liabilities decreased \$9.9 million in the first six months of 2009. The provision for unpaid claims decreased, largely due to reserve reductions from favourable developments on prior year claims in Saskatchewan. In addition, a large portion of the 2007 and 2008 Saskatchewan summer storm claims were unpaid as at December 31, 2008 and have since been settled.

(thousands of \$)	June 30 2009	December 31 2008	Change
Total equity	218,275	177,833	40,442
Key equity account changes:			
Retained earnings	132,440	108,151	24,289
Accumulated other comprehensive income (loss)	5,835	(10,318)	16,153

Over the first six months of 2009, equity increased \$40.4 million. The increase in retained earnings is attributable to the \$30.9 million consolidated net income less dividends declared of \$6.6 million. The increase in accumulated other comprehensive income is a result of an increase in investment market values.

Cash Flow and Liquidity

(thousands of \$)	three months to June 30			six months to June 30		
	2009	2008	Change	2009	2008	Change
Operating activities	25,208	20,834	4,374	16,174	13,294	2,880
Investing activities	(13,843)	(27,544)	13,701	(1,090)	(8,434)	7,344
Financing activities	(6,602)	(6,274)	(328)	(14,009)	(16,809)	2,800
Net cash flow	<u>4,763</u>	<u>(12,984)</u>	<u>17,747</u>	<u>1,075</u>	<u>(11,949)</u>	<u>13,024</u>

After experiencing negative operating cash flow in the first quarter due to significant annual payments (e.g., premium taxes), the second quarter generated strong operating cash flows largely from the continued growth in policies written across all jurisdictions. The cash flow generated from operations in the second quarter was \$4.4 million higher than the second quarter of 2008.

During the second quarter of 2008, cash from operating activities, as well as excess cash on hand, was reinvested in longer-term securities. In the second quarter of 2009, cash from operating activities was used to fund additional long-term bond purchases and increase cash on hand by \$4.8 million.

On a year-to-date basis, positive operating cash flows were generated in both 2009 and 2008. At June 30, 2009 cash is relatively consistent with the beginning of the year, growing by \$1.1 million. In 2008 cash was drawn down by \$11.9 million to fund purchases of longer-term investments.

Capital

(thousands of \$)	six months to June 30		
	2009	2008	2007
Minimum Capital Test Ratio	265%	282%	267%

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. At June 30, 2009, the Corporation's MCT was 265% (December 31, 2008 – 228%), which is in excess of the 150% minimum regulatory target. For further information on capital management, refer to note 5 of the notes to the consolidated financial statements for the quarter.

Quarterly Consolidated Financial Highlights

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

(thousands of \$)	2009		2008				2007		
	Q 2	Q 1	Q 4	Q 3	Q 2	Q 1	Q 4	Q 3	Q 2
Net premiums earned	90,477	87,444	88,282	85,651	81,989	79,967	80,560	77,746	75,639
Claims incurred	42,956	40,607	43,172	63,593	43,139	35,689	34,640	64,825	54,479
Net income (loss)	17,659	13,232	9,430	(6,442)	15,747	21,616	25,011	(9,030)	(2,701)
Cash flow from (used in) operations	25,208	(9,034)	34,163	11,937	20,834	(7,540)	19,662	16,285	21,883
Investments	519,335	489,212	506,114	484,208	490,130	463,205	481,127	455,826	447,488
Provision for unpaid claims	277,681	280,737	287,103	289,579	276,175	278,721	285,567	298,932	280,336
Minimum Capital Test	265%	232%	228%	234%	282%	283%	266%	234%	267%

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2009:

- Net premiums earned generally increase on a quarter-over-quarter basis during the year, with this trend continuing in 2009.
- The second and third quarter results can be impacted by summer storm activity, given SGI CANADA's strong market presence in Saskatchewan. This was the case in 2007 when significant summer storm activities adversely impacted second and third quarter results.

Risk Management

Understanding and managing risk is fundamental to the Corporation's success. Risks that the Corporation manages in order to reduce the impact on its operations and profitability include low tolerance for loss risk, claims reserves risk, system generated policies risk, privacy risk, recruitment, retention and engagement risk, and responsiveness to business needs risk. These risks remain unchanged from the previous year-end and are described in detail in the Corporation's 2008 Annual Report.

Accounting Matters

Critical Accounting Estimates and Assumptions

There are no new critical accounting estimates or assumptions as compared to those discussed in the Corporation's 2008 Annual Report.

New Accounting Standards

There are no new Accounting Standards as compared to those discussed in the Corporation's 2008 Annual Report.

Related Party Transactions

There have been no material changes to the Corporation's related party arrangements during the quarter. For further details on the Corporation's related party arrangements, refer to the 2008 Annual Report.

Off Balance Sheet Arrangements

SGI CANADA, in its normal course of operations, enters into certain transactions that are not required to be recorded on its Consolidated Statement of Financial Position, commonly referred to as the balance sheet. These items include litigation, structured settlements and a long-term telecommunications contract. There have been no new off balance sheet arrangements during the quarter. For further details on off balance sheet arrangements, refer to the 2008 Annual Report.

Future accounting standard changes

In February 2008, the Canadian Institute of Chartered Accountants (CICA) Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation and its subsidiaries, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian generally accepted accounting principles (GAAP) for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures.

The Corporation has commenced an IFRS conversion project including the development of a high-level IFRS implementation plan, which includes stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance and accountability responsibilities, and resource requirements. A Steering Committee, with representation from senior level management, is in place to ensure the project is adequately

planned in sufficient detail, appropriate resources are available, necessary milestones are established and the project's progress is properly monitored. An external advisor has been engaged to assist with the conversion project. The project team provides regular reporting to senior management, the Steering Committee and the Audit and Finance Committee of the Board of Directors.

The IFRS conversion project consists of four phases: Project Initiation and Initial Assessment, Detailed Assessment, Design and Execution. The Corporation has completed the Project Initiation and Initial Assessment stage which involved a high-level preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, approval of the project charter and a high level project plan, and the development of an IFRS training plan.

The Initial Assessment, completed in the first quarter of 2009, has provided insight as to the most significant differences applicable to the Corporation. The significant differences have been identified as insurance contract classification and measurement, IFRS 1 – First time adoption, financial instruments, property, plant and equipment, joint ventures, employee future benefits, consolidation and minority interest, provisions and leases, as well as the more extensive presentation and disclosure requirements under IFRS.

The Corporation is currently progressing through the Detailed Assessment phase, which involves preparing an in-depth analysis of the IFRS accounting policies, selecting IFRS accounting policies and IFRS 1 elections, preparing a communication plan and identifying technology system requirements. This phase of the project is to be completed by December 31, 2009.

The impact of IFRS on the Corporation's processes, systems, internal controls over financial reporting and disclosures, future financial position and results of operations are not reasonably determinable. Draft impacts on future financial position and results of operations, processes, systems and controls, as well as draft IFRS financial statement presentation formats are anticipated in the latter half of 2009.

Caution Regarding Forward-Looking Statements

Forward-looking statements include, among others, statements regarding SGI CANADA's objectives and strategies, and its ability to achieve them. Forward-looking statements are based on estimations and assumptions made by the Corporation in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. SGI CANADA deems that the assumptions built into the forward-looking statements are plausible; however, undue reliance should not be placed on the Corporation's forward-looking statements, which only apply as of the date of this MD&A document.

SGI CANADA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at June 30, 2009 and December 31, 2008

	June 30 2009 (unaudited)	December 31 2008 (audited)
	(thousands of \$)	
Assets		
Cash and cash equivalents	\$ 13,374	\$ 12,299
Accounts receivable	114,970	98,528
Deferred policy acquisition costs	49,468	47,662
Future income taxes	1,676	2,613
Reinsurers' share of unearned premiums	11,960	9,897
Investments (note 2)	519,335	506,114
Unpaid claims recoverable from reinsurers	23,441	26,455
Property, plant and equipment	8,923	9,336
Other assets	<u>4,645</u>	<u>4,441</u>
	<u>\$ 747,792</u>	<u>\$ 717,345</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 23,598	\$ 23,287
Dividend payable	-	7,407
Premium taxes payable	8,439	15,908
Amounts due to reinsurers	10,556	5,388
Unearned reinsurance commissions	2,754	3,016
Unearned premiums	204,748	195,541
Provision for unpaid claims	<u>277,681</u>	<u>287,103</u>
	<u>527,776</u>	<u>537,650</u>
Non-controlling interest	<u>1,741</u>	<u>1,862</u>
Province of Saskatchewan's equity		
Equity advances	80,000	80,000
Retained earnings	132,440	108,151
Accumulated other comprehensive income (loss)	<u>5,835</u>	<u>(10,318)</u>
	<u>218,275</u>	<u>177,833</u>
	<u>\$ 747,792</u>	<u>\$ 717,345</u>

(see accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS

for the periods ended June 30, 2009 and 2008

	three months to June 30		six months to June 30	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(thousands of \$)		(thousands of \$)	
Gross premiums written	<u>\$ 117,022</u>	<u>\$ 106,465</u>	<u>\$ 200,964</u>	<u>\$ 184,310</u>
Net premiums written	<u>\$ 112,753</u>	<u>\$ 102,815</u>	<u>\$ 184,709</u>	<u>\$ 168,404</u>
Net premiums earned	<u>\$ 90,477</u>	<u>\$ 81,989</u>	<u>\$ 177,921</u>	<u>\$ 161,956</u>
Claims incurred	42,956	43,139	83,563	78,828
Commissions	19,223	17,044	37,329	33,590
Administrative expenses	11,808	11,066	23,746	20,976
Premium taxes	4,328	3,959	8,524	7,824
Facility Association participation (note 8)	<u>261</u>	<u>(20)</u>	<u>229</u>	<u>(80)</u>
Total claims and expenses	<u>78,576</u>	<u>75,188</u>	<u>153,391</u>	<u>141,138</u>
Underwriting profit	11,901	6,801	24,530	20,818
Investment earnings (note 3)	<u>5,540</u>	<u>9,241</u>	<u>6,538</u>	<u>17,451</u>
Income before income taxes and non-controlling interest	17,441	16,042	31,068	38,269
Income tax expense (recovery)	<u>(166)</u>	<u>262</u>	<u>298</u>	<u>841</u>
Income after income taxes and before non-controlling interest	17,607	15,780	30,770	37,428
Non-controlling interest	<u>(52)</u>	<u>33</u>	<u>(121)</u>	<u>65</u>
Net income	<u>\$ 17,659</u>	<u>\$ 15,747</u>	<u>\$ 30,891</u>	<u>\$ 37,363</u>

(see accompanying notes)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the periods ended June 30, 2009 and 2008

	three months to June 30		six months to June 30	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(thousands of \$)		(thousands of \$)	
Net income	\$ 17,659	\$ 15,747	\$ 30,891	\$ 37,363
Other comprehensive income (loss), net of income taxes:				
Unrealized gains (losses) on available for sale financial assets arising during the period	16,602	(294)	12,561	695
Income tax recovery (expense)	(1,088)	192	(1,019)	(206)
	15,514	(102)	11,542	489
Reclassification of net realized losses (gains) on sale of investments included in operations	291	(3,828)	2,084	(6,352)
Reclassification for investment write-downs included in operations	–	–	2,446	–
Income tax expense (recovery)	4	(29)	81	273
	295	(3,857)	4,611	(6,079)
Other comprehensive income (loss)	15,809	(3,959)	16,153	(5,590)
Comprehensive income	\$ 33,468	\$ 11,788	\$ 47,044	\$ 31,773

(see accompanying notes)

CONSOLIDATED STATEMENT OF CHANGES IN PROVINCE OF SASKATCHEWAN'S EQUITY

for the periods ended June 30, 2009 and 2008

	three months to June 30		six months to June 30	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(thousands of \$)		(thousands of \$)	
Equity advances				
Balance, end of period	<u>\$ 80,000</u>	<u>\$ 80,000</u>	<u>\$ 80,000</u>	<u>\$ 80,000</u>
Retained earnings				
Balance, beginning of period	\$ 114,781	\$ 109,370	\$ 108,151	\$ 94,028
Net income	17,659	15,747	30,891	37,363
Dividend	<u>—</u>	<u>(6,274)</u>	<u>(6,602)</u>	<u>(12,548)</u>
Balance, end of period	<u>\$ 132,440</u>	<u>\$ 118,843</u>	<u>\$ 132,440</u>	<u>\$ 118,843</u>
Accumulated other comprehensive income (loss)				
Balance, beginning of period	\$ (9,974)	\$ 13,378	\$ (10,318)	\$ 15,009
Other comprehensive income (loss)	<u>15,809</u>	<u>(3,959)</u>	<u>16,153</u>	<u>(5,590)</u>
Balance, end of period	<u>\$ 5,835</u>	<u>\$ 9,419</u>	<u>\$ 5,835</u>	<u>\$ 9,419</u>
Total Province of Saskatchewan's equity	<u>\$ 218,275</u>	<u>\$ 208,262</u>	<u>\$ 218,275</u>	<u>\$ 208,262</u>

(see accompanying notes)

SGI CANADA

CONSOLIDATED STATEMENT OF CASH FLOWS

for the periods ended June 30, 2009 and 2008

	three months to June 30		six months to June 30	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(thousands of \$)		(thousands of \$)	
Cash provided by (used for):				
Operating activities				
Net income	\$ 17,659	\$ 15,747	\$ 30,891	\$ 37,363
Non-cash items:				
Amortization	683	601	1,229	916
Net realized loss (gain) on disposal of investments	291	(3,828)	2,084	(6,352)
Investment write-downs	-	-	2,446	-
Income (loss) attributable to non-controlling interest	(52)	33	(121)	65
Income from investments accounted for on the equity basis	(42)	(25)	(149)	(160)
Change in non-cash operating items (note 6)	6,669	8,306	(20,206)	(18,538)
	25,208	20,834	16,174	13,294
Investing activities				
Purchases of investments	(91,558)	(159,203)	(183,701)	(355,351)
Proceeds on sale of investments	77,605	131,744	182,306	346,752
Repayment of capital lease	121	108	238	215
Disposals (purchases) of property, plant and equipment	(11)	(193)	67	(50)
	(13,843)	(27,544)	(1,090)	(8,434)
Financing activities				
Dividends paid	(6,602)	(6,274)	(14,009)	(16,809)
Increase (decrease) in cash and cash equivalents	4,763	(12,984)	1,075	(11,949)
Cash and cash equivalents, beginning of period	8,611	36,029	12,299	34,994
Cash and cash equivalents, end of period	\$ 13,374	\$ 23,045	\$ 13,374	\$ 23,045

(see accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2009

1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited consolidated interim 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 (GAAP) and are consistent with those used in the preparation of the Corporation's 2008 annual audited consolidated financial statements. Accordingly, these interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation's 2008 Annual Report.

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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, investment valuation, income taxes and employee future benefits.

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Corporation has commenced an IFRS conversion project. The project is in the early stages and, as a result, the impact on the Corporation's future financial position and results of operations is not reasonably determinable. However, the impact may be material.

SGI CANADA

2. INVESTMENTS

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

	(thousands of \$)	
	June 30 2009	December 31 2008
Short-term investments	\$ 16,214	\$ 37,361
Bonds and debentures	353,516	327,598
Canadian common shares	58,391	51,533
U.S. common shares	20,940	22,171
Pooled funds:		
Canadian equity	14,911	13,809
United States equity	7,168	7,361
Non-North American equity	24,254	22,510
Mortgage	21,841	21,706
Preferred shares	735	735
Investments accounted for on the equity basis	<u>1,365</u>	<u>1,330</u>
Total investments	<u>\$ 519,335</u>	<u>\$ 506,114</u>

The following table presents available for sale investments with unrealized losses at June 30, 2009 where the decline is considered temporary. The unrealized losses are recorded as a component of accumulated other comprehensive loss.

	(thousands of \$)			
	<u>as at June 30, 2009</u>		<u>as at December 31, 2008</u>	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
Bonds and debentures:				
Federal	\$ 19,817	\$ (256)	\$ 6,559	\$ (39)
Provincial and municipal	7,248	(218)	9,145	(196)
Corporate	17,073	(1,144)	80,443	(3,507)
Canadian common shares	13,957	(1,505)	30,105	(6,066)
U.S. common shares	10,945	(966)	13,336	(1,031)
Pooled funds:				
Canadian equity	14,911	(3,838)	13,809	(5,707)
United States equity	7,168	(1,109)	7,361	(914)
Non-North American equity	<u>24,255</u>	<u>(3,164)</u>	<u>22,510</u>	<u>(4,909)</u>
	<u>\$ 115,374</u>	<u>\$ (12,200)</u>	<u>\$ 183,268</u>	<u>\$ (22,369)</u>

As at June 30, 2009, the cost of 73 (December 31, 2008 – 128) available for sale investments exceeded their fair value by \$12,184,000 (December 31, 2008 – \$22,369,000). The unrealized losses on the bonds and debentures arose primarily from changes in interest rates. For Canadian and U.S. common shares and pooled funds, the unrealized losses are primarily the result of investment-specific business environment factors associated with the underlying equity investments.

The Corporation conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a write-down is recorded in investment earnings when the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include: the length of time and extent to which fair value has been below cost; financial condition and near-term prospects of the issuer; and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery.

3. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of \$)			
	three months to June 30		six months to June 30	
	2009	2008	2009	2008
Interest	\$ 3,445	\$ 3,640	\$ 7,003	\$ 8,369
Premium financing	852	760	1,684	1,504
Pooled fund distributions	1,157	884	1,583	861
Dividends	497	250	968	493
Investments accounted for on the equity basis	41	25	148	160
Interest on net investment in capital lease	26	37	54	76
Net realized gain (loss) on sale of investments	(291)	3,828	(2,084)	6,352
Investment write-downs	<u>—</u>	<u>—</u>	<u>(2,446)</u>	<u>—</u>
Total investment earnings	\$ 5,727	\$ 9,424	\$ 6,910	\$ 17,815
Investment expenses	<u>(187)</u>	<u>(183)</u>	<u>(372)</u>	<u>(364)</u>
Net investment earnings	<u>\$ 5,540</u>	<u>\$ 9,241</u>	<u>\$ 6,538</u>	<u>\$ 17,451</u>

4. FINANCIAL RISK MANAGEMENT

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

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the Corporation's Board of Directors, based on a recommendation from the Board's Investment Committee. 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.

SGI CANADA

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 June 30, 2009 is limited to the carrying value of the financial assets summarized as follows:

	(thousands of \$)	
	June 30	December 31
	<u>2009</u>	<u>2008</u>
	<u>Carrying Value</u>	<u>Carrying Value</u>
Cash and cash equivalents	\$ 13,374	\$ 12,299
Accounts receivable	114,970	98,528
Fixed income investments ¹	391,571	386,665
Unpaid claims recoverable from reinsurers	23,441	26,455

¹ Includes short-term investments, bonds and debentures, and the mortgage pooled fund

Cash and cash equivalents include money market investments of \$15,600,000 less cash on hand, net of outstanding cheques of \$2,226,000 (December 31, 2008 – money market investments of \$18,860,000 less cash on hand, net of outstanding cheques of \$6,561,000). 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, farm and commercial customers, along with amounts from brokers across the provinces that SGI CANADA operates in. Accounts receivable consist of balances outstanding for one year or less. Provisions for credit losses are maintained in an allowance account and regularly reviewed by the Corporation. Amounts are written off once reasonable collection efforts have been exhausted.

Details of the allowance account are as follows:

	(thousands of \$)	
	six months ended	twelve months ended
	<u>June 30 2009</u>	<u>December 31 2008</u>
Allowance for doubtful accounts, beginning of period	\$ 4,900	\$ 4,937
Accounts written off	(866)	(1,912)
Current period provision	<u>803</u>	<u>1,875</u>
Allowance for doubtful accounts, end of period	<u>\$ 4,837</u>	<u>\$ 4,900</u>

Credit risk within investments is primarily related to short-term investments, bonds and debentures, and the mortgage pooled fund. 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 bonds and debenture investments are as follows:

Credit Rating	June 30, 2009		December 31, 2008	
	Carrying Value (thousands of \$)	Makeup of Portfolio (%)	Carrying Value (thousands of \$)	Makeup of Portfolio (%)
AAA	\$ 163,862	46.4	\$ 143,326	43.8
AA	81,743	23.0	88,265	26.9
A	88,991	25.2	85,422	26.1
BBB	18,920	5.4	10,585	3.2
Total	<u>\$ 353,516</u>	<u>100.0</u>	<u>\$ 327,598</u>	<u>100.0</u>

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

The unit value of the mortgage pooled fund is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its own investment policy, which include single loan limits, diversification by property type and geographic regions within Canada.

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. It is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase other comprehensive income and accumulated other comprehensive income by \$16 million at June 30, 2009 (December 31, 2008 – \$14 million), representing 4.2% of the \$392 million (December 31, 2008 – 3.6%, \$387 million) of fixed income investments.

Foreign exchange risk

The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investments, purchases of goods and services that are denominated in U.S. dollars and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to Europe, Australasia and Far East (EAFE) currencies through its investment in the non-North American equity pooled fund. Exposure to both U.S. equities and non-North American equities is limited to a maximum 7% each of the market value of the total investment portfolio, excluding investments accounted for on the equity basis and preferred shares. At June 30, 2009, the Corporation's exposure to U.S. equities was 5.4% (December 31, 2008 – 5.9%) and its exposure to non-North American equities was 4.7% (December 31, 2008 – 4.5%).

At June 30, 2009, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$3 million (December 31, 2008 – \$3 million) decrease/increase in other comprehensive income and accumulated other comprehensive income. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a \$2 million (December 31, 2008 – \$2 million) decrease/increase in other comprehensive income and accumulated other comprehensive income. As U.S. common shares, the U.S. equity pooled fund and the non-North American equity pooled fund are classified as available for sale, any unrealized changes due to foreign currency are recorded as other comprehensive income and do not directly impact net income until the investment is sold.

The Corporation's exposure to foreign exchange risk within its bond and debenture portfolio is limited to a maximum 5% of the market value of the 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, are not considered material to the operations of the Corporation.

Equity price risk

The Corporation is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 24.4% (December 31, 2008 – 23.5%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's common share portfolio, and no one holding represents more than 10% of the voting shares of any corporation.

The following table indicates the approximate change that would be expected to both other comprehensive income and accumulated other comprehensive income, based on changes in the Corporation's benchmark indices at June 30, 2009:

<u>Change in Equity Benchmarks</u>	(Change in thousands of \$)	
	<u>10% increase</u>	<u>10% decrease</u>
S&P/TSX Composite Index	\$ 7,330	\$ (7,330)
S&P 500 Index	2,811	(2,811)
MSCI EAFE Index	2,425	(2,425)

As all equity investments are classified as available-for-sale, all changes in prices are recorded as other comprehensive income and do not directly impact net income until an investment is sold. No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

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.

5. 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, CIC. 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.

SGI CANADA is not a regulated insurer, however, its subsidiaries, SGI CANADA Insurance Services Ltd., Coachman Insurance Company and the Insurance Company of Prince Edward Island are subject to rate regulation related to their automobile premiums. Regulators require insurers to maintain a level of capital sufficient to achieve an MCT of 150%. At June 30, 2009, the Corporation's MCT was 265% (December 31, 2008 – 228%). There have been no changes to the Corporation's capital management processes and measures since the prior year-end.

6. CHANGE IN NON-CASH OPERATING ITEMS

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

	(thousands of \$)			
	three months to June 30		six months to June 30	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Accounts receivable	\$ (20,005)	\$ (17,465)	\$ (16,442)	\$ (15,387)
Deferred policy acquisition costs	(4,411)	(4,238)	(1,806)	(1,852)
Reinsurers' share of unearned premiums	2,796	1,863	(2,063)	(2,907)
Unpaid claims recoverable from reinsurers	2,510	2,746	3,014	4,782
Other assets	(271)	(465)	(442)	(505)
Accounts payable and accrued liabilities	6,461	6,801	311	413
Premium taxes payable	4,930	4,569	(7,469)	(6,713)
Amounts due to reinsurers	(2,293)	(2,707)	5,168	2,872
Unearned reinsurance commissions	118	268	(262)	280
Unearned premiums	19,890	19,480	9,207	9,871
Provision for unpaid claims	(3,056)	(2,546)	(9,422)	(9,392)
	<u>\$ 6,669</u>	<u>\$ 8,306</u>	<u>\$ (20,206)</u>	<u>\$ (18,538)</u>

7. EMPLOYEE FUTURE BENEFITS

The costs incurred during the quarter associated with the Corporation's defined benefit pension plan, its defined benefit service recognition plans and the allocation of costs to the Saskatchewan Auto Fund for those employees of the Corporation who provide service to it are as follows:

	(thousands of \$)			
	three months to June 30		six months to June 30	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Costs incurred	<u>\$ 1,192</u>	<u>\$ 597</u>	<u>\$ 1,910</u>	<u>\$ 1,273</u>
Allocated to:				
SGI CANADA	395	189	649	433
Saskatchewan Auto Fund	<u>797</u>	<u>408</u>	<u>1,261</u>	<u>840</u>
	<u>\$ 1,192</u>	<u>\$ 597</u>	<u>\$ 1,910</u>	<u>\$ 1,273</u>

8. FACILITY ASSOCIATION PARTICIPATION

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	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Net premiums written	<u>\$ 1,897</u>	<u>\$ 1,988</u>	<u>\$ 2,237</u>	<u>\$ 2,226</u>
Net premiums earned	<u>\$ 1,486</u>	<u>\$ 1,563</u>	<u>\$ 1,882</u>	<u>\$ 1,816</u>
Claims incurred	1,234	1,103	1,519	1,252
Commissions	12	4	31	26
Premium taxes	19	48	31	56
Administrative expenses	<u>517</u>	<u>443</u>	<u>595</u>	<u>494</u>
Total claims and expenses	<u>1,782</u>	<u>1,598</u>	<u>2,176</u>	<u>1,828</u>
Underwriting loss	(296)	(35)	(294)	(12)
Investment earnings	<u>35</u>	<u>55</u>	<u>65</u>	<u>92</u>
Net profit (loss)	<u>\$ (261)</u>	<u>\$ 20</u>	<u>\$ (229)</u>	<u>\$ 80</u>

9. 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:

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

SGI CANADA

(thousands of \$)

three months to June 30 2009	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	\$ 88,009	\$ 10,866	\$ 8,316	\$ 5,562	\$ -	\$112,753
Net premiums earned	\$ 72,150	\$ 8,481	\$ 6,043	\$ 3,803	\$ -	\$ 90,477
Claims incurred	29,904	5,118	5,637	2,297	-	42,956
Other expenses	28,145	3,421	2,040	2,014	-	35,620
Underwriting profit (loss)	14,101	(58)	(1,634)	(508)	-	11,901
Investment earnings	3,783	524	1,037	196	-	5,540
Income (loss) before the following:	17,884	466	(597)	(312)	-	17,441
Income taxes (recovery)	-	137	(197)	(106)	-	(166)
Non-controlling interest	-	-	-	-	(52)	(52)
Net income (loss)	<u>\$ 17,884</u>	<u>\$ 329</u>	<u>\$ (400)</u>	<u>\$ (206)</u>	<u>\$ 52</u>	<u>\$ 17,659</u>

(thousands of \$)

three months to June 30 2008	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	\$ 81,702	\$ 8,284	\$ 8,262	\$ 4,567	\$ -	\$102,815
Net premiums earned	\$ 67,219	\$ 6,202	\$ 5,618	\$ 2,950	\$ -	\$ 81,989
Claims incurred	33,380	4,504	3,572	1,683	-	43,139
Other expenses	26,005	2,703	2,050	1,291	-	32,049
Underwriting profit (loss)	7,834	(1,005)	(4)	(24)	-	6,801
Investment earnings	7,496	512	1,008	225	-	9,241
Income (loss) before the following:	15,330	(493)	1,004	201	-	16,042
Income taxes (recovery)	-	(144)	336	70	-	262
Non-controlling interest	-	-	-	-	33	33
Net income (loss)	<u>\$ 15,330</u>	<u>\$ (349)</u>	<u>\$ 668</u>	<u>\$ 131</u>	<u>\$ (33)</u>	<u>\$ 15,747</u>

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six months to June 30 2009	(thousands of \$)					Consolidation	Total
	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Adjustments		
Net premiums written	\$145,394	\$ 16,939	\$ 14,110	\$ 8,266	\$ –		\$184,709
Net premiums earned	\$142,394	\$ 16,307	\$ 11,913	\$ 7,307	\$ –		\$177,921
Claims incurred	59,349	9,362	9,837	5,015	–		83,563
Other expenses	56,015	6,423	4,035	3,355	–		69,828
Underwriting profit (loss)	27,030	522	(1,959)	(1,063)	–		24,530
Investment earnings	2,924	1,260	1,944	410	–		6,538
Income (loss) before the following:	29,954	1,782	(15)	(653)	–		31,068
Income taxes (recovery)	–	525	(5)	(222)	–		298
Non-controlling interest	–	–	–	–	(121)		(121)
Net income (loss)	<u>\$ 29,954</u>	<u>\$ 1,257</u>	<u>\$ (10)</u>	<u>\$ (431)</u>	<u>\$ 121</u>		<u>\$ 30,891</u>
Total assets	<u>\$534,913</u>	<u>\$100,749</u>	<u>\$119,277</u>	<u>\$ 35,890</u>	<u>\$ (43,037)</u>		<u>\$747,792</u>
Shareholder's equity	<u>\$141,016</u>	<u>\$ 31,170</u>	<u>\$ 39,422</u>	<u>\$ 8,408</u>	<u>\$ (1,741)</u>		<u>\$218,275</u>

six months to June 30 2008	(thousands of \$)					Consolidation	Total
	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Adjustments		
Net premiums written	\$134,672	\$ 12,988	\$ 14,029	\$ 6,715	\$ –		\$168,404
Net premiums earned	\$133,322	\$ 11,767	\$ 11,226	\$ 5,641	\$ –		\$161,956
Claims incurred	60,256	8,832	6,498	3,242	–		78,828
Other expenses	50,749	5,093	4,091	2,377	–		62,310
Underwriting profit (loss)	22,317	(2,158)	637	22	–		20,818
Investment earnings	13,573	1,191	2,199	488	–		17,451
Income (loss) before the following:	35,890	(967)	2,836	510	–		38,269
Income taxes (recovery)	–	(286)	950	177	–		841
Non-controlling interest	–	–	–	–	65		65
Net income (loss)	<u>\$ 35,890</u>	<u>\$ (681)</u>	<u>\$ 1,886</u>	<u>\$ 333</u>	<u>\$ (65)</u>		<u>\$ 37,363</u>
Total assets	<u>\$501,288</u>	<u>\$ 98,371</u>	<u>\$118,482</u>	<u>\$ 35,482</u>	<u>\$ (34,093)</u>		<u>\$719,530</u>
Shareholder's equity	<u>\$131,822</u>	<u>\$ 32,884</u>	<u>\$ 36,706</u>	<u>\$ 8,624</u>	<u>\$ (1,774)</u>		<u>\$208,262</u>

10. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2008 balances have been reclassified to conform to 2009 financial statement presentation.