SGI CANADA
Quarterly Report
SEPTEMBER 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

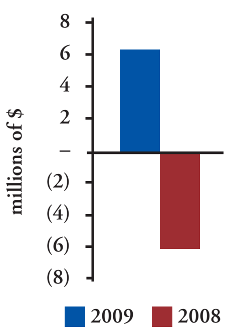
About SGI CANADA

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 1,900 people and its head office is located in Regina. Products are sold through a network of independent insurance brokers.

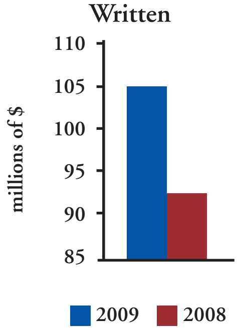
Financial Highlights

For the three months to September 30

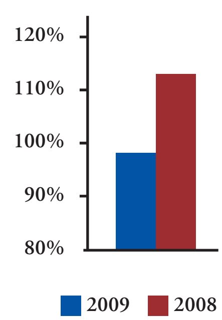
Net Income (Loss)



Net Premiums Written

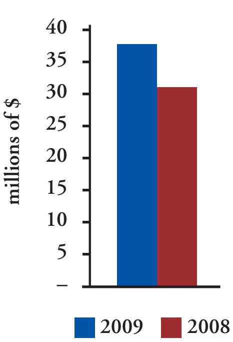


Combined Ratio

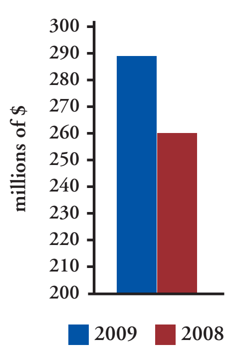


For the nine months to September 30

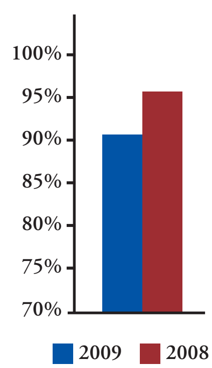
Net Income



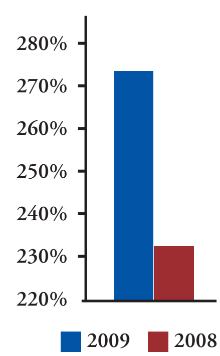
Net Premiums Written



Combined Ratio



MCT Ratio



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 nine-month period ended September 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 November 12, 2009.

Overview

(thousands of $ – except for percentages)

	three months to September 30			nine months to September 30		
	2009	2008	Change	2009	2008	Change
Net premiums written	104,872	93,043	11,829	289,581	261,447	28,134
Net income (loss)	6,431	(6,442)	12,873	37,322	30,921	6,401
Combined ratio	99.0%	113.5%	-14.5%	90.7%	96.2%	-5.5%

The Corporation continues to experience strong growth, specifically from Saskatchewan, as well as the markets of Alberta, New Brunswick and Nova Scotia. Consolidated underwriting profits are ahead of 2008, as indicated by the lower combined ratio. Year-to-date net income is ahead of the first nine months of 2008, primarily due to the absence of summer storms in Saskatchewan.

Outlook

SGI CANADA is well positioned leading into the fourth quarter as a result of strong underwriting results year to date, stemming from the lack of significant summer storms experienced in Saskatchewan. The Corporation remains focused on its insurance operations in all jurisdictions, including adequate pricing and diligent claims management. A focus on strong underwriting fundamentals and providing outstanding customer service to its brokers remains key to the Corporation's success.

The significant downturn in global capital markets that began in the last half of 2008 continues to impact SGI CANADA. Investment markets have seen a strong recovery through the second and third quarters of 2009. However, investment earnings continue to be impacted by earlier weakness as losses have been realized on sales of investments. As such, the Corporation is experiencing lower investment earnings compared to previous years. Uncertainty in the investment markets is expected to continue for the remainder of 2009. Despite the possible short-term volatility, the Corporation 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

	three months to September 30			nine months to September 30		
(thousands of $)	2009	2008	Change	2009	2008	Change
Premiums earned	94,468	85,651	8,817	272,389	247,607	24,782
Investment earnings	5,659	5,627	32	12,197	23,078	(10,881)

Consistent with the first two quarters of 2009, third quarter premium earnings continue to be strong with growth of 10%. All jurisdictions recorded growth in premium for the first nine months of 2009.

Premiums earned by operating segment

	three months to September 30			nine months to September 30		
(thousands of $)	2009	2008	Change	2009	2008	Change
Saskatchewan	74,591	69,540	5,051	216,985	202,862	14,123
Alberta and Manitoba	9,268	6,950	2,318	25,575	18,717	6,858
Ontario	6,419	5,913	506	18,332	17,139	1,193
Maritimes	4,190	3,248	942	11,497	8,889	2,608
Total	94,468	85,651	8,817	272,389	247,607	24,782

Personal products (personal lines, agro and personal auto) have contributed the majority of the increase to premium earnings in Saskatchewan, largely a result of policy growth and increased property values. Alberta premium earnings increased 58% and provide the majority of the increase in the Manitoba and Alberta operating segment. The Maritimes also experienced considerable growth in premium earnings, primarily from auto products in New Brunswick and Nova Scotia.

Investment earnings in the third quarter of 2009 remained consistent with the same period in 2008. While equity markets were positive in the third quarter, investment earnings were impacted by market weakness from previous quarters, resulting in realized losses on the sale of investments and investment write-downs of $1.4 million. In bonds, falling interest rates decreased both short-term and long-term interest revenue, but provided significant capital gains.

Year-to-date investment earnings were lower than the same period in 2008, primarily due to losses on common shares of $4.0 million, as compared to $3.4 million in gains in the same period of 2008. Also, year-to-date investment earnings include $3.8 million of investment write-downs, as compared to $0.5 million during the first nine months of 2008. The annualized cost-based rate of return to September 30, 2009 was 2.3%, compared to 5.3% for the same period of 2008.

Expenses

(thousands of $ – except for percentages)

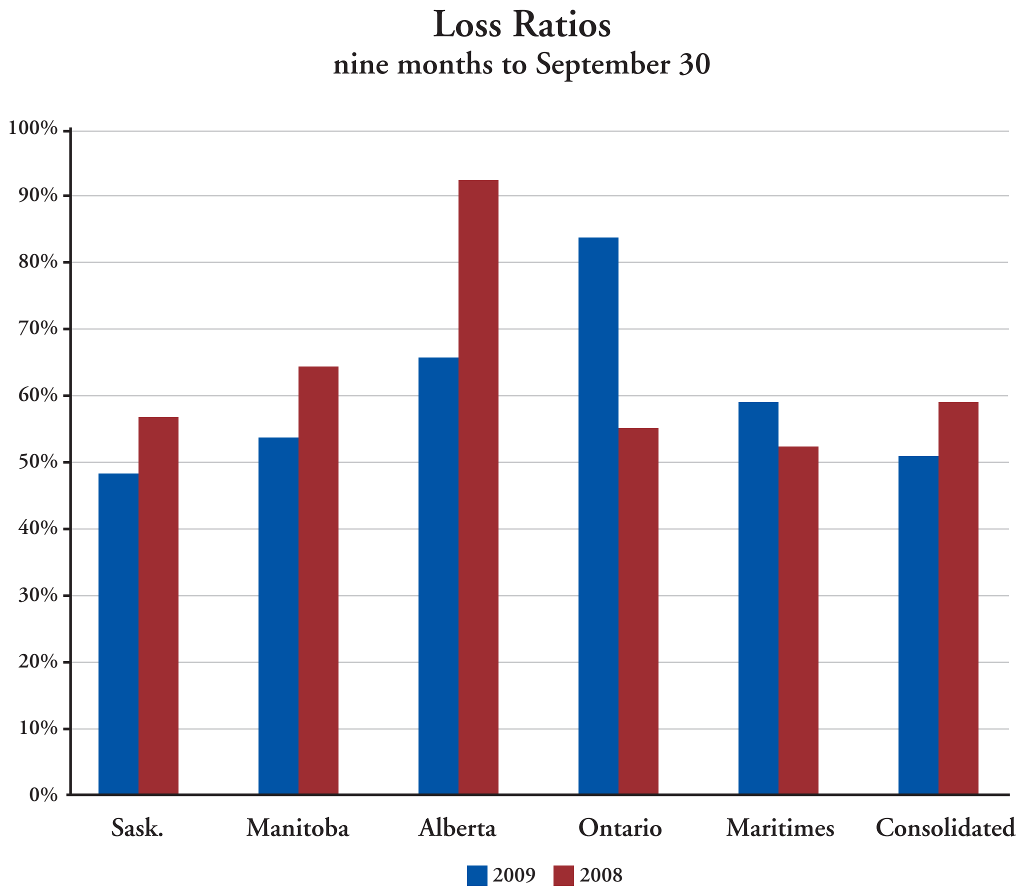
	three months to September 30			nine months to September 30		
	2009	2008	Change	2009	2008	Change
Claims incurred	56,912	63,593	(6,681)	140,475	142,421	(1,946)
Other expenses	36,643	33,578	3,065	106,471	95,888	10,583
	93,555	97,171	(3,616)	246,946	238,309	8,637
Loss ratio	60.2%	74.2%	-14.0%	51.6%	57.5%	-5.9%

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

Claims incurred

Third quarter claims incurred of $56.9 million were $6.7 million, or 10.5%, lower than 2008. The decrease in claim costs, combined with the growth in premiums, contributed to a consolidated loss ratio of 60.2% in the third quarter of 2009 compared to 74.2% in 2008. Claim costs from the Saskatchewan market were lower than the third quarter of 2008, primarily due to no significant summer storms in 2009. Out-of-province claims incurred were $3.2 million higher than the third quarter of 2008. The increase in out-of-province claims was primarily from continued diversification into Alberta and the Maritimes, and several large fire losses in Ontario. The overall loss ratio for out-of-province operations increased to 67.7% in the third quarter of 2009 (2008 – 63.5%).

Claims incurred totalled $140.5 million for the first nine months of 2009, a 1.4% decrease from 2008, due primarily to strong results in Saskatchewan. The consolidated loss ratio has decreased from 57.5% in 2008 to 51.6% in 2009, as outlined in the chart that follows.



Saskatchewan's loss ratio of 47.4% is down from last year's nine month ratio of 56.0%, with the decrease primarily related to no significant summer storms in 2009 and favourable developments on prior year claims.

Manitoba's loss ratio decreased from 64.8% in 2008 to 53.4% in 2009, as a high number of house fires contributed to an unexpectedly high loss ratio in 2008.

Alberta's loss ratio decreased from 92.5% in 2008 to 65.8% in 2009, primarily due to improved personal lines and standard auto results.

Ontario's loss ratio increased from 54.4% in 2008 to 83.9% in 2009, a result of several large house fires and summer storm related losses in 2009.

The Maritimes' loss ratio increased slightly from 52.5% in 2008 to 58.5% in 2009, due to an increase in losses from home products.

Other expenses

For the third quarter, other expenses increased $3.1 million compared to the same period in 2008. This was due to increases in commissions and premium taxes, commensurate with the premium growth experienced in the quarter.

Year-to-date, other expenses increased $10.6 million in 2009 compared to the prior year. The increase is due to higher commissions and premium taxes resulting from premium growth and an increase in administrative expenses related to higher salary and benefit costs.

Balance Sheet Review

(thousands of $)	September 30 2009	December 31 2008	Change
Total assets	**791,518**	**717,345**	**74,173**
Key asset account changes:			
Cash and cash equivalents	2,448	12,299	(9,851)
Accounts receivable	118,973	98,528	20,445
Investments	566,248	506,114	60,134

Total assets increased $74.2 million to the end of September. 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 due to the investment portfolio rebounding strongly throughout the year, with market values increasing in nearly all asset classes.

(thousands of $)	September 30 2009	December 31 2008	Change
Total liabilities	**555,122**	**537,650**	**17,472**
Key liability account changes:			
Unearned premiums	215,799	195,541	20,258
Provision for unpaid claims	289,608	287,103	2,505

Total liabilities increased $17.5 million to the end of September. The unearned premium increase is directly related to the increase in premiums written. The provision for unpaid claims increased by 0.9% due to the growth in policy base being largely offset by the mild Saskatchewan summer storm season and reserve reductions from favourable developments on prior year claims in Saskatchewan.

(thousands of $)	September 30 2009	December 31 2008	Change
Total equity	**234,537**	**177,833**	**56,704**
Key equity account changes:			
Retained earnings	133,634	108,151	25,483
Accumulated other comprehensive income (loss)	20,903	(10,318)	31,221

Over the first nine months of 2009, equity increased $56.7 million. The increase in retained earnings is attributable to the $37.3 million consolidated net income less dividends declared of $11.8 million. The increase in accumulated other comprehensive income (AOCI) is a result of an increase in investment market values during the first nine months of 2009.

Cash Flow and Liquidity

	three months to September 30			nine months to September 30		
(thousands of $)	2009	2008	Change	2009	2008	Change
Operating activities	18,897	11,937	6,960	35,071	25,231	9,840
Investing activities	(29,823)	(14,032)	(15,791)	(30,913)	(22,466)	(8,447)
Financing activities	–	(6,273)	6,273	(14,009)	(23,082)	9,073
Net cash flow	(10,926)	(8,368)	(2,558)	(9,851)	(20,317)	10,466

The third quarter generated strong operating cash flows largely from the continued growth in policies written across all jurisdictions. The cash flow generated from operations, as well as excess cash on hand was used to fund additional long-term bond purchases.

On a year-to-date basis, the Corporation's strong operating results have led to positive operating cash flows, which combined with excess cash on hand have been used to fund additional long-term bond purchases and dividend payments of $14 million.

Capital

	nine months to September 30	
	2009	2008
Mininum Capial Test Ratio	273%	234%

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 September 30, 2009, the Corporation's MCT was 273% (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.

SGI CANADA

Quarterly Consolidated Financial Highlights

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

	2009			2008				2007	
(thousands of $)	Q 3	Q 2	Q 1	Q 4	Q 3	Q 2	Q 1	Q 4	Q 3
Net premiums earned	94,468	90,477	87,444	88,282	85,651	81,989	79,967	80,560	77,746
Claims incurred	56,912	42,956	40,607	43,172	63,593	43,139	35,689	34,640	64,825
Net income (loss)	6,431	17,659	13,232	9,430	(6,442)	15,747	21,616	25,011	(9,030)
Cash flow from (used in) operations	18,897	25,208	(9,034)	34,163	11,937	20,834	(7,540)	19,662	16,285
Investments	566,248	519,335	489,212	506,114	484,208	490,130	463,205	481,127	455,826
Provision for unpaid claims	289,608	277,681	280,737	287,103	289,579	276,175	278,721	285,567	298,932
Minimum Capital Test	273%	265%	232%	228%	234%	282%	283%	266%	234%

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. There have been no significant summer storms during 2009, resulting in significantly lower claims incurred in the third quarter of 2009 compared to 2008 and 2007.

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, claim 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 an IFRS conversion project ongoing. As part of the project a high-level IFRS implementation plan was developed, 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 will be completed by the end of 2009.

Caution Regarding Forward-Looking Statements

Forward-looking statements include 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 relevant 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.

Consolidated Statement of Financial Position

as at September 30, 2009 and December 31, 2008

	September 30 2009 (unaudited)	December 31 2008 (audited)
	(thousands of $)	
Assets		
Cash and cash equivalents	$ 2,448	$ 12,299
Accounts receivable	118,973	98,528
Deferred policy acquisition costs	52,086	47,662
Future income taxes	375	2,613
Reinsurers' share of unearned premiums	12,448	9,897
Investments (note 2)	566,248	506,114
Unpaid claims recoverable from reinsurers	25,914	26,455
Property, plant and equipment	8,728	9,336
Other assets	4,298	4,441
	$ 791,518	$ 717,345
Liabilities		
Accounts payable and accrued liabilities	$ 19,427	$ 23,287
Dividend payable	5,237	7,407
Premium taxes payable	13,127	15,908
Amounts due to reinsurers	9,019	5,388
Unearned reinsurance commissions	2,905	3,016
Unearned premiums	215,799	195,541
Provision for unpaid claims	289,608	287,103
	555,122	537,650
Non-controlling interest	1,859	1,862
Province of Saskatchewan's equity		
Equity advances	80,000	80,000
Retained earnings	133,634	108,151
Accumulated other comprehensive income (loss)	20,903	(10,318)
	234,537	177,833
	$ 791,518	$ 717,345

(see accompanying notes)

Consolidated Statement of Operations

for the periods ended September 30, 2009 and 2008

	three months to September 30		**nine months to September 30**	
	2009	2008	**2009**	2008
	(**unaudited**)	(unaudited)	(**unaudited**)	(unaudited)
	(thousands of $)		(thousands of $)	
Gross premiums written	$ 112,349	$ 101,112	$ 313,313	$ 285,422
Net premiums written	$ 104,872	$ 93,043	$ 289,581	$ 261,447
Net premiums earned	**$ 94,468**	$ 85,651	**$ 272,389**	**$ 247,607**
Claims incurred	56,912	63,593	140,475	142,421
Commissions	19,841	18,463	57,170	52,053
Administrative expenses	11,992	10,962	35,738	31,938
Premium taxes	4,493	4,103	13,017	11,927
Facility Association participation (note 8)	317	50	546	(30)
Total claims and expenses	**93,555**	97,171	**246,946**	**238,309**
Underwriting profit (loss)	**913**	(11,520)	**25,443**	**9,298**
Investment earnings (note 3)	5,659	5,627	12,197	23,078
Income (loss) before income taxes and non-controlling interest	**6,572**	(5,893)	**37,640**	**32,376**
Income taxes	23	464	321	1,305
Income (loss) after income taxes and before non-controlling interest	**6,549**	(6,357)	**37,319**	**31,071**
Non-controlling interest	118	85	(3)	150
Net income (loss)	**$ 6,431**	$ (6,442)	**$ 37,322**	**$ 30,921**

(see accompanying notes)

Consolidated Statement of Comprehensive Income (Loss)

for the periods ended September 30, 2009 and 2008

	three months to September 30		**nine months to September 30**	
	2009	2008	**2009**	2008
	(**unaudited**)	(unaudited)	(**unaudited**)	(unaudited)
	(thousands of $)		(thousands of $)	
Net income (loss)	**$ 6,431**	$ (6,442)	**$ 37,322**	$ 30,921
Other comprehensive income (loss), net of income taxes:				
Unrealized gains (losses) on available for sale financial assets arising during the period	17,268	(19,796)	29,829	(19,101)
Income tax recovery (expense)	(1,302)	1,572	(2,321)	1,366
	15,966	(18,224)	27,508	(17,735)
Reclassification of net realized gains on sale of investments included in operations	(2,257)	(633)	(173)	(6,985)
Reclassification for investment write-downs included in operations	1,359	485	3,805	485
Income tax recovery	–	35	81	308
	(898)	(113)	3,713	(6,192)
Other comprehensive income (loss)	**15,068**	(18,337)	**31,221**	(23,927)
Comprehensive income (loss)	**$ 21,499**	$ (24,779)	**$ 68,543**	$ 6,994

(see accompanying notes)

Consolidated Statement of Changes in Province of Saskatchewan's Equity

for the periods ended September 30, 2009 and 2008

	three months to September 30		nine months to September 30	
	2009	2008	**2009**	2008
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	(thousands of $)		(thousands of $)	
Equity advances				
Balance, end of period	**$ 80,000**	$ 80,000	**$ 80,000**	$ 80,000
Retained earnings				
Balance, beginning of period	$ 132,440	$ 118,843	$ 108,151	$ 94,028
Net income (loss)	6,431	(6,442)	37,322	30,921
Dividend	(5,237)	(6,273)	(11,839)	(18,821)
Balance, end of period	**$ 133,634**	$ 106,128	**$ 133,634**	$ 106,128
Accumulated other comprehensive income (loss)				
Balance, beginning of period	$ 5,835	$ 9,419	$ (10,318)	$ 15,009
Other comprehensive income (loss)	15,068	(18,337)	31,221	(23,927)
Balance, end of period	**$ 20,903**	$ (8,918)	**$ 20,903**	$ (8,918)
Total Province of Saskatchewan's equity	**$ 234,537**	$ 177,210	**$ 234,537**	$ 177,210

(see accompanying notes)

Consolidated Statement of Cash Flows

for the periods ended September 30, 2009 and 2008

	three months to September 30		nine months to September 30	
	2009	2008	**2009**	2008
	(**unaudited**)	(unaudited)	(**unaudited**)	(unaudited)
	(thousands of $)		(thousands of $)	
Cash provided by (used for):				
Operating activities				
Net income (loss)	$ 6,431	$ (6,442)	$ 37,322	$ 30,921
Non-cash items:				
Amortization	549	496	1,778	1,412
Net realized gain on disposal of investments	(2,257)	(633)	(173)	(6,985)
Investment write-downs	1,359	485	3,805	485
Income (loss) attributable to non-controlling interest	118	85	(3)	150
Income from investments accounted for on the equity basis	(52)	(22)	(201)	(182)
Change in non-cash operating items (note 6)	12,749	17,968	(7,457)	(570)
	18,897	11,937	**35,071**	25,231
Investing activities				
Purchases of investments	(146,336)	(122,703)	(330,037)	(478,054)
Proceeds on sale of investments	116,235	108,549	298,541	455,301
Repayment of capital lease	123	112	361	327
Disposals (purchases) of property, plant and equipment	155	10	222	(40)
	(29,823)	(14,032)	**(30,913)**	(22,466)
Financing activities				
Dividends paid	–	(6,273)	**(14,009)**	(23,082)
Decrease in cash and cash equivalents	**(10,926)**	(8,368)	**(9,851)**	(20,317)
Cash and cash equivalents, beginning of period	13,374	23,045	12,299	34,994
Cash and cash equivalents, end of period	**$ 2,448**	$ 14,677	**$ 2,448**	$ 14,677

(see accompanying notes)

Notes to the Consolidated Financial Statements (unaudited)

September 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 commenced an IFRS conversion project in 2008 and is working on the detailed assessment phase of the conversion project which includes finalizing the impact that the adoption of IFRS will have on the financial statements.

2. INVESTMENTS

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

	(thousands of $) September 30 2009	December 31 2008
Short-term investments	$ 29,330	$ 37,361
Bonds and debentures	374,997	327,598
Canadian common shares	64,189	51,533
U.S. common shares	22,304	22,171
Pooled funds:		
Canadian equity	16,386	13,809
United States equity	7,394	7,361
Non-North American equity	26,909	22,510
Mortgage	22,656	21,706
Preferred shares	735	735
Investments accounted for on the equity basis	1,348	1,330
Total investments	$ 566,248	$ 506,114

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

	(thousands of $) as at September 30, 2009		as at December 31, 2008	
	Carrying Value	Gross Unrealized Losses	Carrying Value	Gross Unrealized Losses
Bonds and debentures:				
Federal	$ 2,412	$ (3)	$ 6,559	$ (39)
Provincial and municipal	2,322	(15)	9,145	(196)
Corporate	6,651	(296)	80,443	(3,507)
Canadian common shares	8,442	(769)	30,105	(6,066)
U.S. common shares	8,252	(1,088)	13,336	(1,031)
Pooled funds:				
Canadian equity	16,387	(2,363)	13,809	(5,707)
United States equity	6,936	(215)	7,361	(914)
Non-North American equity	428	(73)	22,510	(4,909)
	$ 51,830	$ (4,822)	$ 183,268	$ (22,369)

As at September 30, 2009, the cost of 67 (December 31, 2008 – 128) available for sale investments exceeded their fair value by $4,822,000 (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. During the quarter, investment write-downs of $1,359,000 (September 30, 2008 – $485,000) were recorded related to impairments that were considered other than temporary.

3. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)			
	three months to September 30		nine months to September 30	
	2009	2008	2009	2008
Interest	$ 3,433	$ 4,119	$ 10,436	$ 12,488
Premium financing	919	795	2,603	2,299
Pooled fund distributions	123	489	1,706	1,350
Dividends	419	195	1,387	688
Investments accounted for on the equity basis	51	22	199	182
Net realized gain on sale of investments	2,257	633	173	6,985
Interest on net investment in capital lease	22	34	76	110
Investment write-downs	(1,359)	(485)	(3,805)	(485)
Total investment earnings	5,865	5,802	12,775	23,617
Investment expenses	(206)	(175)	(578)	(539)
Net investment earnings	$ 5,659	$ 5,627	$ 12,197	$ 23,078

4. FINANCIAL RISK MANAGEMENT

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

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

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

	(thousands of $)	
	September 30 2009 Carrying Value	December 31 2008 Carrying Value
Cash and cash equivalents	$ 2,448	$ 12,299
Accounts receivable	118,973	98,528
Fixed income investments [1]	426,983	386,665
Unpaid claims recoverable from reinsurers	25,914	26,455

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

Cash and cash equivalents include money market investments of $8,200,000 less cash on hand, net of outstanding cheques of $5,752,000 (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 $)	
	nine months ended September 30 2009	twelve months ended December 31 2008
Allowance for doubtful accounts, opening balance	$ 4,900	$ 4,937
Accounts written off	(1,312)	(1,912)
Current period provision	1,838	1,875
Allowance for doubtful accounts, ending balance	$ 5,426	$ 4,900

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:

	September 30, 2009		December 31, 2008	
Credit Rating	Carrying Value (thousands of $)	Makeup of Portfolio (%)	Carrying Value (thousands of $)	Makeup of Portfolio (%)
AAA	$ 183,598	49.0	$ 143,326	43.8
AA	82,182	21.9	88,265	26.9
A	89,617	23.9	85,422	26.1
BBB	19,600	5.2	10,585	3.2
Total	$ 374,997	100.0	$ 327,598	100.0

Within the bond and debenture portfolio, 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 $17 million at September 30, 2009 (December 31, 2008 – $14 million), representing 3.9% of the $427 million (December 31, 2008 – 3.6%, $387 million) of fixed income investments.

Foreign exchange

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 September 30, 2009, the Corporation's exposure to U.S. equities was 5.2% (December 31, 2008 – 5.9%) and its exposure to non-North American equities was 4.8% (December 31, 2008 – 4.5%).

At September 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 $3 million decrease/increase in other comprehensive income and accumulated other comprehensive income. As U.S. common shares, the U.S. equity pooled fund and 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 prices

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 September 30, 2009:

	(Change in thousands of $)	
Change in Equity Benchmarks	10% increase	10% decrease
S&P/TSX Composite Index	$ 8,058	$ (8,058)
S&P 500 Index	2,970	(2,970)
MSCI EAFE Index	2,691	(2,691)

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.

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, Crown Investments Corporation (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 September 30, 2009, the Corporation's MCT was 273% (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

	(thousands of $)			
	three months to September 30		nine months to September 30	
	2009	2008	2009	2008
Accounts receivable	$ (4,003)	$ (7,186)	$ (20,445)	$ (22,573)
Deferred policy acquisition costs	(2,618)	(2,078)	(4,424)	(3,930)
Reinsurers' share of unearned premiums	(488)	(1,209)	(2,551)	(4,116)
Unpaid claims recoverable from reinsurers	(2,473)	3,009	541	7,791
Other assets	222	293	(220)	(212)
Accounts payable and accrued liabilities	(4,171)	(2,251)	(3,860)	(1,838)
Premium taxes payable	4,688	4,253	(2,781)	(2,460)
Amounts due to reinsurers	(1,537)	970	3,631	3,842
Unearned reinsurance commissions	151	62	(111)	342
Unearned premiums	11,051	8,701	20,258	18,572
Provision for unpaid claims	11,927	13,404	2,505	4,012
	$ 12,749	$ 17,968	$ (7,457)	$ (570)

7. EMPLOYEE FUTURE BENEFITS

The costs incurred during the quarter associated with the Corporation's defined benefit pension plan and 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 September 30		nine months to September 30	
	2009	2008	2009	2008
Costs incurred	$ 729	$ 637	$ 2,187	$ 1,910
Allocated to:				
SGI CANADA	258	216	773	649
Saskatchewan Auto Fund	471	421	1,414	1,261
	$ 729	$ 637	$ 2,187	$ 1,910

8. 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 September 30		nine months to September 30	
	2009	2008	2009	2008
Net premiums written	$ 1,324	$ 473	$ 3,561	$ 2,699
Net premiums earned	$ 1,165	$ 443	$ 3,047	$ 2,259
Claims incurred	1,178	387	2,697	1,639
Commissions	66	22	97	48
Premium taxes	64	14	95	70
Administrative expenses	238	106	833	600
Total claims and expenses	1,546	529	3,722	2,357
Underwriting loss	(381)	(86)	(675)	(98)
Investment earnings	64	36	129	128
Net profit (loss)	$ (317)	$ (50)	$ (546)	$ 30

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.

(thousands of $)

three months to September 30 2009	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 80,817	$ 12,010	$ 6,960	$ 5,085	$ –	$104,872
Net premiums earned	$ 74,591	$ 9,268	$ 6,419	$ 4,190	$ –	$ 94,468
Claims incurred	43,460	6,199	5,541	1,712	–	56,912
Other expenses	28,801	3,556	2,258	2,028	–	36,643
Underwriting profit (loss)	2,330	(487)	(1,380)	450	–	913
Investment earnings	4,278	(312)	1,428	265	–	5,659
Income (loss) before the following:	6,608	(799)	48	715	–	6,572
Income taxes (recovery)	–	(236)	16	243	–	23
Non-controlling interest	–	–	–	–	118	118
Net income (loss)	$ 6,608	$ (563)	$ 32	$ 472	$ (118)	$ 6,431

(thousands of $)

three months to September 30 2008	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 75,477	$ 9,418	$ 4,218	$ 3,930	$ –	$ 93,043
Net premiums earned	$ 69,540	$ 6,950	$ 5,913	$ 3,248	$ –	$ 85,651
Claims incurred	53,359	5,991	2,821	1,422	–	63,593
Other expenses	27,258	2,689	2,117	1,514	–	33,578
Underwriting profit (loss)	(11,077)	(1,730)	975	312	–	(11,520)
Investment earnings	3,967	506	945	209	–	5,627
Income (loss) before the following:	(7,110)	(1,224)	1,920	521	–	(5,893)
Income taxes (recovery)	–	(359)	643	180	–	464
Non-controlling interest	–	–	–	–	85	85
Net income (loss)	$ (7,110)	$ (865)	$ 1,277	$ 341	$ (85)	$ (6,442)

(thousands of $)

nine months to September 30 2009	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$226,211	$ 28,950	$ 21,070	$ 13,350	$ –	$289,581
Net premiums earned	$216,985	$ 25,575	$ 18,332	$ 11,497	$ –	$272,389
Claims incurred	102,809	15,561	15,378	6,727	–	140,475
Other expenses	84,816	9,979	6,293	5,383	–	106,471
Underwriting profit (loss)	29,360	35	(3,339)	(613)	–	25,443
Investment earnings	7,202	948	3,372	675	–	12,197
Income before the following:	36,562	983	33	62	–	37,640
Income taxes	–	289	11	21	–	321
Non-controlling interest	–	–	–	–	(3)	(3)
Net income	$ 36,562	$ 694	$ 22	$ 41	$ 3	$ 37,322
Total assets	$563,735	$106,705	$124,862	$ 37,929	$ (41,713)	$791,518
Shareholder's equity	$155,307	$ 31,894	$ 40,133	$ 9,062	$ (1,859)	$234,537

(thousands of $)

nine months to September 30 2008	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$210,149	$ 22,406	$ 18,247	$ 10,645	$ –	$261,447
Net premiums earned	$202,862	$ 18,717	$ 17,139	$ 8,889	$ –	$247,607
Claims incurred	113,615	14,823	9,319	4,664	–	142,421
Other expenses	78,007	7,782	6,208	3,891	–	95,888
Underwriting profit (loss)	11,240	(3,888)	1,612	334	–	9,298
Investment earnings	17,540	1,697	3,144	697	–	23,078
Income (loss) before the following:	28,780	(2,191)	4,756	1,031	–	32,376
Income taxes (recovery)	–	(645)	1,593	357	–	1,305
Non-controlling interest	–	–	–	–	150	150
Net income (loss)	$ 28,780	$ (1,546)	$ 3,163	$ 674	$ (150)	$ 30,921
Total assets	$494,742	$ 98,380	$117,977	$ 35,675	$ (33,074)	$713,700
Shareholder's equity	$102,126	$ 31,358	$ 36,898	$ 8,687	$ (1,859)	$177,210

10. COMPARATIVE FINANCIAL INFORMATION

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