

**SGI CANADA  
QUARTERLY REPORT  
JUNE 2010**

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## 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

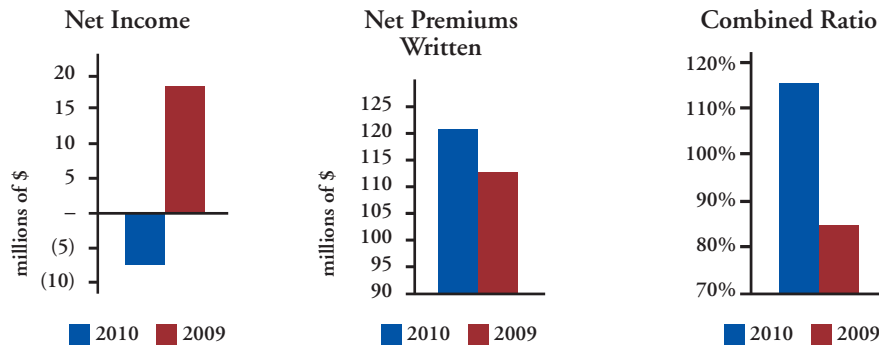
**Innovation** – Implementing creative solutions to achieve our vision

### About SGI CANADA

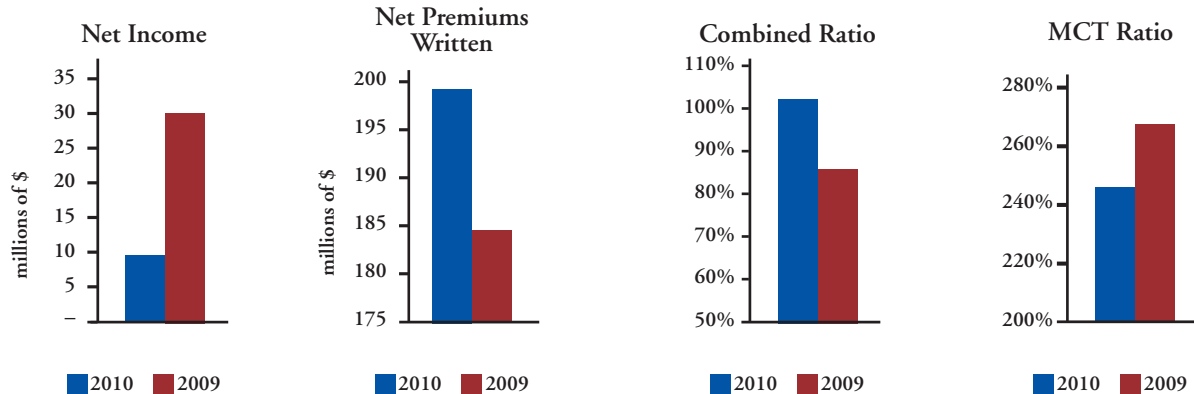
SGI CANADA is a dynamic and innovative company selling property and casualty insurance products. It currently operates as SGI CANADA in Saskatchewan, SGI CANADA Insurance Services Ltd. in Manitoba and Alberta, Coachman Insurance Company in Ontario and the Insurance Company of Prince Edward Island in Prince Edward Island, Nova Scotia and New Brunswick. The company employs about 1,800 people and its head office is located in Regina, Saskatchewan. 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, 2010, and the SGI CANADA MD&A and annual audited financial statements and supporting notes as at and for the year ended December 31, 2009. All dollar amounts are in Canadian dollars. This MD&A reflects all information known to Management up to August 10, 2010.*

### Overview

(thousands of \$ – except for percentages)

	three months to June 30			six months to June 30		
	2010	2009	Change	2010	2009	Change
Net premiums written	120,576	112,753	7,823	198,935	184,709	14,226
Net income (loss)	(7,006)	17,659	(24,665)	9,731	30,891	(21,160)
Combined ratio	115.0%	86.8%	28.2%	101.6%	86.2%	15.4%

The second quarter of 2010 was negatively impacted by significant storm activity in Saskatchewan, which contributed to a high combined ratio of 115% and a \$7.0 million net loss for the quarter. A strong first quarter in 2010 (\$16.7 million profit) partially mitigated the second quarter loss, resulting in a \$9.7 million profit for the first six months of 2010.

### Outlook

During the second quarter, Saskatchewan experienced unprecedented storm activity beginning with a windstorm in April, followed by significant storm activity in Maple Creek, Regina, Saskatoon, Yorkton and surrounding areas. With storms generally more predominant in the warm summer months of July and August, there continues to be potential for further losses through the third quarter. As a result of the storms, 2010 net income will be lower than in recent years. However, the Corporation is expecting to maintain profitability overall as a result of improving investment earnings and strong reinsurance protection. Additionally, the Corporation continues to spread its insurance risk across other geographic areas in Canada. The third quarter will see the Corporation focused on adjusting claims and working with our customers who have been impacted by the significant storm activity.

Investment markets experienced increased volatility during the second quarter of 2010. Although investment earnings have recovered significantly over 2009 levels, the Corporation is experiencing lower year-to-date investment earnings compared to 2008 and previous periods. Uncertainty in investment markets is expected to continue for the remainder of 2010. Despite the possible short-term volatility, the Corporation will stay the course with its equity exposure, as it maintains a well-diversified and high-quality investment portfolio. In order to protect the

Corporation from the expected rise in interest rates, the SGI CANADA and SCISL fixed income portfolios will be moved to short-term bond mandates. This change will better match the asset and liability portfolios, mitigating the overall impact of interest rate risk.

In recent years, SGI CANADA has paid a dividend of 65% of annual profit. However, the 2010 dividend rate has been approved at 100% of the annual profit. The Corporation's capital position is adequate to support the higher dividend rate through 2010.

## Revenue

(thousands of \$)

	three months to June 30			six months to June 30		
	2010	2009	Change	2010	2009	Change
Premiums earned	100,751	90,477	10,274	197,971	177,921	20,050
Investment earnings	8,245	5,540	2,705	13,745	6,538	7,207

Consistent growth in all jurisdictions resulted in an 11% increase in premium earnings for the first two quarters of 2010, as noted below:

## Premiums earned by operating segment

(thousands of \$)

	three months to June 30			six months to June 30		
	2010	2009	Change	2010	2009	Change
Saskatchewan	76,853	72,150	4,703	152,150	142,394	9,756
Manitoba and Alberta	10,496	8,481	2,015	20,399	16,307	4,092
Maritimes	4,730	3,803	927	9,196	7,307	1,889
Ontario	8,672	6,043	2,629	16,226	11,913	4,313
Total	100,751	90,477	10,274	197,971	177,921	20,050

Premiums earned in Saskatchewan increased 7% in the first six months of 2010 with growth in personal lines and agro products providing the greater part of the increase. Increased auto business in Ontario and Alberta contributed the bulk of the increase in those operating segments. In the Maritimes, the newer markets in New Brunswick and Nova Scotia provided the majority of the increased premium earnings, largely a result of increased auto writings.

Investment earnings in the second quarter were significantly higher than the same period in 2009, primarily due to realized gains on the sale of equities. Although equity markets were negative in the quarter, strength in previous quarters helped generate capital gains. An investment write-down of \$370,000 was recorded in the second quarter of 2010, compared to no write-downs recorded during the same period of 2009. While 2010 interest income remained relatively stable with the 2009 period, capital gains on the sale of bonds decreased.

# SGI CANADA

Year-to-date investment earnings were significantly higher than the same period in 2009, due primarily to gains on common shares of \$3.2 million compared to losses of \$3.7 million in the same period of 2009. Also, year-to-date investment earnings include \$464,000 of investment write-downs compared to \$2.4 million in write-downs during the first six months of 2009. The annualized cost-based rate of return at June 30, 2010 was 4.0%, compared to 1.7% for 2009.

## Expenses

(thousands of \$ – except for percentages)

	three months to June 30			six months to June 30		
	2010	2009	Change	2010	2009	Change
Claims incurred	76,998	42,956	34,042	125,590	83,563	42,027
Other expenses	38,835	35,620	3,215	75,685	69,828	5,857
	<u>115,833</u>	<u>78,576</u>	<u>37,257</u>	<u>201,275</u>	<u>153,391</u>	<u>47,884</u>
Loss ratio	76.4%	47.5%	28.9%	63.4%	47.0%	16.4%

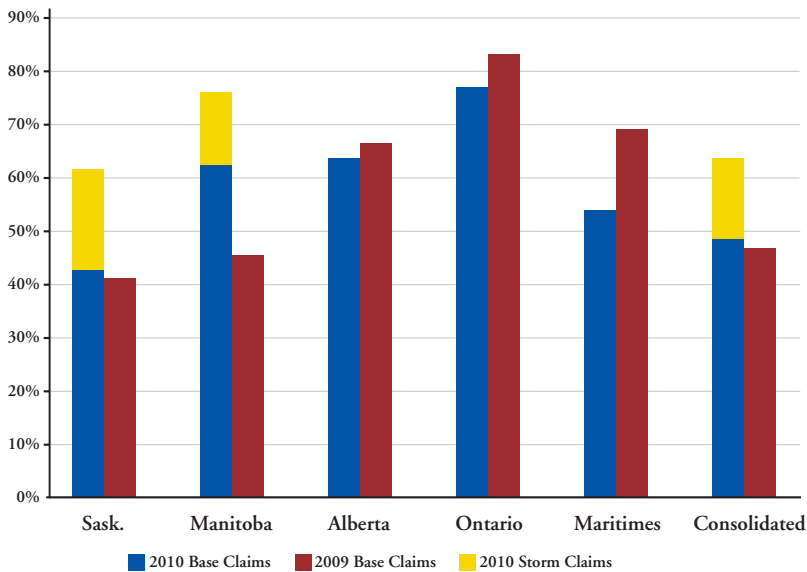
Expenses are comprised of claims incurred and other expenses, which include commissions, premium taxes, administrative expenses and Facility Association participation costs.

## Claims incurred

Second quarter claims incurred of \$77.0 million were \$34.0 million, or 79%, higher than 2009. This contributes to a consolidated loss ratio of 76.4% in the second quarter of 2010 compared to 47.5% in 2009. This increase was primarily a result of higher claim costs in Saskatchewan due to unprecedented storm activity. Saskatchewan storms resulted in claims incurred of \$28.2 million in 2010, whereas there were no storms recorded to this point in 2009. Out-of-province claims incurred were \$4.3 million higher than the second quarter of 2009, with Manitoba operations impacted by \$1.0 million in storm claims. The remaining increase in out-of-province claims was primarily from significant policy growth exposure in Alberta and Ontario, as the loss ratio for the second quarter has remained comparable at 72.7% (2009 – 71.2%).

Claims incurred totalled \$125.6 million for the first six months of 2010, a 50.3% increase from 2009. The consolidated loss ratio increased from 47.0% in 2009 to 63.4% in 2010, as detailed in the following chart.

**Loss Ratios**  
six months to June 30



Saskatchewan’s loss ratio of 62.0% has increased from last year’s six-month ratio of 41.7%, with the increase primarily related to the severe storms noted earlier.

Manitoba’s loss ratio increased to 75.8% from 45.3% in 2009, impacted by a severe rainstorm in late May as noted above. Further contributing to the increase were losses relating to several large property fires in 2010.

Alberta’s loss ratio is comparable to the prior year, decreasing slightly to 63.5% from 65.7% in 2009.

Ontario’s loss ratio decreased to 76.6% in 2010 (2009 – 82.5%), with the improvement resulting from personal and commercial property loss ratios. Auto results have deteriorated over the first six months of 2010, a result of higher injury claim severity and inherent uncertainty in the Ontario auto market.

The Maritimes’ loss ratio decreased to 53.7% in 2010 from 68.6% in 2009, primarily due to fewer house fires in the current year.

**Other expenses**

For the second quarter, other expenses increased \$3.2 million compared to the same period in 2009. This is primarily due to a \$2.4 million increase in commissions and premium taxes, a result of the premium growth experienced in the quarter.

For the first six months of 2010, other expenses have increased by \$5.9 million or 8.4% from 2009. Consistent with the second quarter of 2010, the majority of this is attributable to the growth of the business, with \$5.4 million of the increase related to growth in commissions and premiums taxes.

# SGI CANADA

## Balance Sheet Review

(thousands of \$)	<u>2010</u>	<u>2009</u>	<u>Change</u>
<b>Total assets</b>	<b>828,155</b>	<b>827,347</b>	<b>808</b>
Key asset account changes:			
Cash and cash equivalents	20,077	16,920	3,157
Investments	554,967	579,730	(24,763)
Reinsurers' share of unearned premiums	15,695	9,480	6,215
Unpaid claims recoverable from reinsurers	42,516	29,626	12,890

The increase in cash and cash equivalents are discussed in the Cash Flow and Liquidity section that follows. The carrying value of investments decreased primarily due to the sales of equities and bonds as is discussed in the Cash Flow and Liquidity section.

Reinsurers' share of unearned premiums is higher than at the end of 2009 as most annual reinsurance contracts are written during the first quarter of the year, and earned over the remainder of the year. Additionally, in 2010 re-instatement premiums were required as a result of the storm activity in the second quarter. Storm related claims also contribute to the growth in unpaid claims recoverable from reinsurers, with the increase largely representing amounts due under storm catastrophe reinsurance agreements.

(thousands of \$)	<u>2010</u>	<u>2009</u>	<u>Change</u>
<b>Total liabilities</b>	<b>604,633</b>	<b>599,246</b>	<b>5,387</b>
Key liability account changes:			
Accounts payable and accrued liabilities	21,343	39,476	(18,133)
Dividend payable	2,839	22,199	(19,360)
Unpaid claims	332,606	293,575	39,031

Accounts payable and accrued liabilities decreased, largely due to payments made related to 2009 broker bonuses and investment commitments that were payable at year-end. The dividend payable is lower due to the impact of storm activity on year-to-date net income. The provision for unpaid claims increased by \$39.0 million, largely due to losses related to the severe storm activity in Saskatchewan, the majority of which remain unpaid at June 30, 2010.

(thousands of \$)	<u>June 30 2010</u>	<u>December 31 2009</u>	<u>Change</u>
<b>Total equity</b>	<b>221,496</b>	<b>226,312</b>	<b>(4,816)</b>
Key equity account changes:			
Retained earnings	125,360	126,479	(1,119)
Accumulated other comprehensive income (loss)	16,136	19,833	(3,697)

Total equity decreased by \$4.8 million, attributable to decreases in both retained earnings and accumulated other comprehensive income (AOCI). The decrease in retained earnings is attributable to \$10.8 million of dividends declared, offset by the \$9.7 million profit realized to the end of June. The decline in AOCI of \$3.7 million is due primarily to realizing gains on the sale of investments in the first six months of 2010.

## Cash Flow and Liquidity

(thousands of \$)	three months to June 30			six months to June 30		
	2010	2009	Change	2010	2009	Change
Operating activities	14,419	25,208	(10,789)	10,852	16,174	(5,322)
Investing activities	3,102	(13,843)	16,945	22,515	(1,090)	23,605
Financing activities	(8,011)	(6,602)	(1,409)	(30,210)	(14,009)	(16,201)
Net cash flow	<u>9,510</u>	<u>4,763</u>	<u>4,747</u>	<u>3,157</u>	<u>1,075</u>	<u>2,082</u>

Cash generated from operating activities in the second quarter was \$10.8 million less than that generated in the second quarter of 2009 and, on a year-to-date basis, cash generated from operations is \$5.3 million lower. These variances are primarily a result of the significant claims activity experienced in 2010, resulting in higher paid claims.

Investing activities generated cash of \$3.1 million from the sale of long-term equity and bond investments in the second quarter, and \$22.5 million on a year-to-date basis.

The cash generated from both operations and investing activities was used to fund dividend payments with the excess invested in cash equivalent short-term investments.

## Capital

	six months to June 30	
	2010	2009
Minimum Capital Test Ratio	246%	265%

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. At June 30, 2010, the Corporation's MCT was 246% (December 31, 2009 – 254%), 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 \$)	2010		2009				2008		
	Q 2	Q 1	Q 4	Q 3	Q 2	Q 1	Q 4	Q 3	Q 2
Net premiums earned	100,751	97,220	98,166	94,468	90,477	87,444	88,282	85,651	81,989
Claims incurred	76,998	48,592	49,136	56,912	42,956	40,607	43,172	63,593	43,139
Net income (loss)	(7,006)	16,737	15,045	6,431	17,659	13,232	9,430	(6,442)	15,747
Cash flow from (used in) operations	14,419	(3,567)	33,361	18,897	25,208	(9,034)	34,163	11,937	20,834
Investments	554,967	564,926	579,730	566,248	519,335	489,212	506,114	484,208	490,130
Provision for unpaid claims	332,606	292,484	293,575	289,608	277,681	280,737	287,103	289,579	276,175
Minimum Capital Test	246%	280%	254%	273%	265%	232%	228%	234%	282%

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2010:

- Net premiums earned generally increase on a quarter-over-quarter basis during the year.
- The first quarter generally experiences lower claims incurred compared to the rest of the year. Claims incurred generally rise in the second and third quarters as a result of the summer storm season.
- With the exception of the first quarter, the Corporation generates positive cash flow from operations. Cash is typically low in the first quarter as the Corporation pays its annual premium taxes to the province in March. Operating cash flows are generally strong throughout the remaining nine months of the year and during these months excess cash generated is reinvested into investments.

## 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 from diversification, claim provisions risk, financial markets risk, privacy risk, system availability and integrity 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 2009 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 2009 Annual Report.

### New accounting standards

There are no new accounting standards as compared to those discussed in the Corporation's 2009 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 2009 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 2009 Annual Report.

**Future accounting standard changes**

In February 2008, the 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 is considered to be a government business enterprise and therefore the Corporation and its subsidiaries are proceeding with the adoption of IFRS.

The Corporation has an IFRS conversion project ongoing that began with the development of a high-level IFRS implementation plan. The plan includes stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance, and accountability responsibilities and resource requirements. A steering committee is in place that includes senior level management who have the responsibility to ensure the project is adequately planned in sufficient detail, appropriate resources are available, necessary milestones are established and project progress is properly monitored. An external advisor has been engaged to assist with the conversion project. Regular reporting is provided by the project team to senior management, the Steering Committee and the Audit and Finance Committee of the Board of Directors.

The IFRS conversion project is progressing on schedule, in accordance with the plan. The 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 impacts 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, provided insight as to the most significant differences applicable to the Corporation, which include insurance contract classification and measurement, 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.

During the Detailed Assessment, completed in the fourth quarter of 2009, the Corporation selected IFRS accounting policies, made transitional elections and identified any information technology system requirements. This phase of the project was substantially completed December 31, 2009.

Set out below are the key areas where changes in accounting policies are expected to impact the Corporation's consolidated financial statements. The list and comments below should not be regarded as a complete list of all changes that will result from the transition to IFRS. The list is intended to highlight those areas believed to have the most significant financial impact to the Corporation at the time of writing this report.

### *Employee benefits*

The Corporation plans to utilize an election to recognize all cumulative actuarial gains and losses existing at the date of transition immediately in retained earnings. In addition, vested past service costs are required to be expensed immediately under IFRS, whereas these costs were deferred and amortized under Canadian GAAP. This change in accounting policy will also be adjusted at the date of transition through retained earnings.

On a go-forward basis, actuarial gains and losses are permitted to be recognized using one of the three options: the corridor method, immediately through profit or loss, or immediately in other comprehensive income. Previous IFRS updates indicated the Corporation planned to continue to use the corridor method upon transition. However, with the release of the employee benefits exposure draft, which proposes to eliminate the corridor method, the Corporation plans to recognize actuarial gains and losses immediately in other comprehensive income upon adoption of IFRS.

### *Financial instruments*

The Corporation plans to utilize the IFRS 1 election available, which allows it to change the designation of its financial instruments upon transition to IFRS. Upon transition, all investments are planned to be designated as fair value through profit and loss rather than their current designation as available for sale. This will result in changes in unrealized gains and losses on investments being recognized in the statement of operations, rather than through other comprehensive income.

*Business combinations*

The Corporation plans to utilize the IFRS 1 exemption, which allows the Corporation the option to apply IFRS 3, Business Combinations, prospectively from the transition date. If this exemption was not used, IFRS would require the restatement of all business combinations that occurred prior to the transition date. The Corporation will elect to not retrospectively apply IFRS 3, Business Combinations, to business combinations that occurred prior to the transition date and, as such, business combinations have not been restated. As a result of applying this exemption, goodwill and non-controlling interest arising on business combinations prior to the transition date have not been adjusted from the carrying value previously determined under Canadian GAAP.

*Insurance contracts*

The Corporation plans to utilize the IFRS 1 exemption, which allows the Corporation to disclose only five years of data in its loss development tables, consistent with the transitional provision of IFRS 4, Insurance Contracts. The disclosure will be increased in each subsequent year, until a full 10 years of information is included.

*Leases*

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

*Property, plant and equipment*

The Corporation plans to utilize the IFRS 1 election to measure its land and building as of the date of transition to IFRS at its fair value, and use that fair value as its deemed cost on a go forward basis.

**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.

# SGI CANADA

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at June 30, 2010 and December 31, 2009

	<b>June 30 2010 (unaudited)</b>	<b>December 31 2009 (audited)</b>
	(thousands of \$)	
<b>Assets</b>		
Cash and cash equivalents	\$ 20,077	\$ 16,920
Accounts receivable	126,626	125,334
Deferred policy acquisition costs	53,523	52,412
Future income taxes	1,330	1,406
Reinsurers' share of unearned premiums	15,695	9,480
Investments (note 2)	554,967	579,730
Unpaid claims recoverable from reinsurers	42,516	29,626
Property, plant and equipment	9,362	8,746
Other assets	<u>4,059</u>	<u>3,783</u>
	<b><u>\$ 828,155</u></b>	<b><u>\$ 827,437</u></b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$ 21,343	\$ 39,476
Dividend payable	2,839	22,199
Premium taxes payable	9,038	17,474
Amounts due to reinsurers	9,398	4,578
Unearned reinsurance commissions	3,015	3,051
Unearned premiums	226,394	218,893
Provision for unpaid claims	<u>332,606</u>	<u>293,575</u>
	<b><u>604,633</u></b>	<b><u>599,246</u></b>
<b>Non-controlling interest</b>	<b><u>2,026</u></b>	<b><u>1,879</u></b>
<b>Province of Saskatchewan's equity</b>		
Equity advances	80,000	80,000
Retained earnings	125,360	126,479
Accumulated other comprehensive income	<u>16,136</u>	<u>19,833</u>
	<b><u>221,496</u></b>	<b><u>226,312</u></b>
	<b><u>\$ 828,155</u></b>	<b><u>\$ 827,437</u></b>

(see accompanying notes)

## CONSOLIDATED STATEMENT OF OPERATIONS

for the periods ended June 30, 2010 and 2009

	three months to June 30		six months to June 30	
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(thousands of \$)		(thousands of \$)	
Gross premiums written	<u>\$ 127,929</u>	<u>\$ 117,022</u>	<u>\$ 220,234</u>	<u>\$ 200,964</u>
Net premiums written	<u>\$ 120,576</u>	<u>\$ 112,753</u>	<u>\$ 198,935</u>	<u>\$ 184,709</u>
<b>Net premiums earned</b>	<b><u>\$ 100,751</u></b>	<b><u>\$ 90,477</u></b>	<b><u>\$ 197,971</u></b>	<b><u>\$ 177,921</u></b>
Claims incurred	76,998	42,956	125,590	83,563
Commissions	21,185	19,223	41,846	37,329
Administrative expenses	13,147	11,808	24,815	23,746
Premium taxes	4,757	4,328	9,378	8,524
Facility Association participation (note 8)	<u>(254)</u>	<u>261</u>	<u>(354)</u>	<u>229</u>
<b>Total claims and expenses</b>	<b><u>115,833</u></b>	<b><u>78,576</u></b>	<b><u>201,275</u></b>	<b><u>153,391</u></b>
<b>Underwriting profit (loss)</b>	<b>(15,082)</b>	<b>11,901</b>	<b>(3,304)</b>	<b>24,530</b>
Investment earnings (note 3)	<u>8,245</u>	<u>5,540</u>	<u>13,745</u>	<u>6,538</u>
<b>Income (loss) before income taxes and non-controlling interest</b>	<b>(6,837)</b>	<b>17,441</b>	<b>10,441</b>	<b>31,068</b>
Income taxes (recovery)	<u>(4)</u>	<u>(166)</u>	<u>563</u>	<u>298</u>
<b>Income (loss) after income taxes and before non-controlling interest</b>	<b>(6,833)</b>	<b>17,607</b>	<b>9,878</b>	<b>30,770</b>
Non-controlling interest	<u>173</u>	<u>(52)</u>	<u>147</u>	<u>(121)</u>
<b>Net income (loss)</b>	<b><u>\$ (7,006)</u></b>	<b><u>\$ 17,659</u></b>	<b><u>\$ 9,731</u></b>	<b><u>\$ 30,891</u></b>

(see accompanying notes)

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

for the periods ended June 30, 2010 and 2009

	three months to June 30		six months to June 30	
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(thousands of \$)		(thousands of \$)	
<b>Net income (loss)</b>	<b>\$ (7,006)</b>	<b>\$ 17,659</b>	<b>\$ 9,731</b>	<b>\$ 30,891</b>
<b>Other comprehensive income (loss), net of income taxes:</b>				
Unrealized gain (loss) on available for sale financial assets arising during the period	(5,654)	16,602	(488)	12,561
Income tax recovery (expense)	218	(1,088)	37	(1,019)
	(5,436)	15,514	(451)	11,542
Reclassification of net realized loss (gain) on sale of investments included in operations	(3,312)	291	(3,597)	2,084
Reclassification for investment write-downs included in operations	370	–	464	2,446
Income tax expense (recovery)	31	4	(113)	81
	(2,911)	295	(3,246)	4,611
<b>Other comprehensive income (loss)</b>	<b>(8,347)</b>	<b>15,809</b>	<b>(3,697)</b>	<b>16,153</b>
<b>Comprehensive income (loss)</b>	<b>\$ (15,353)</b>	<b>\$ 33,468</b>	<b>\$ 6,034</b>	<b>\$ 47,044</b>

(see accompanying notes)

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

for the periods ended June 30, 2010 and 2009

	three months to June 30		six months to June 30	
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(thousands of \$)		(thousands of \$)	
<b>Equity advances</b>				
<b>Balance, end of period</b>	<b>\$ 80,000</b>	<b>\$ 80,000</b>	<b>\$ 80,000</b>	<b>\$ 80,000</b>
<b>Retained earnings</b>				
Balance, beginning of period	\$ 135,205	\$ 114,781	\$ 126,479	\$ 108,151
Net income (loss)	(7,006)	17,659	9,731	30,891
Dividend	<u>(2,839)</u>	<u>—</u>	<u>(10,850)</u>	<u>(6,602)</u>
<b>Balance, end of period</b>	<b>\$ 125,360</b>	<b>\$ 132,440</b>	<b>\$ 125,360</b>	<b>\$ 132,440</b>
<b>Accumulated other comprehensive income (loss)</b>				
Balance, beginning of period	\$ 24,483	\$ (9,974)	\$ 19,833	\$ (10,318)
Other comprehensive income (loss)	<u>(8,347)</u>	<u>15,809</u>	<u>(3,697)</u>	<u>16,153</u>
<b>Balance, end of period</b>	<b>\$ 16,136</b>	<b>\$ 5,835</b>	<b>\$ 16,136</b>	<b>\$ 5,835</b>
<b>Total Province of Saskatchewan's equity</b>	<b>\$ 221,496</b>	<b>\$ 218,275</b>	<b>\$ 221,496</b>	<b>\$ 218,275</b>

(see accompanying notes)



# SGI CANADA

## CONSOLIDATED STATEMENT OF CASH FLOWS

for the periods ended June 30, 2010 and 2009

	three months to June 30		six months to June 30	
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	(thousands of \$)		(thousands of \$)	
<b>Cash provided by (used for):</b>				
<b>Operating activities</b>				
Net income (loss)	\$ (7,006)	\$ 17,659	\$ 9,731	\$ 30,891
Non-cash items:				
Amortization	763	683	1,554	1,229
Net realized loss (gain) on sale of investments	(3,281)	291	(3,566)	2,084
Future income taxes	(248)	–	76	–
Investment write-downs	370	–	464	2,446
Income (loss) attributable to non-controlling interest	173	(52)	147	(121)
Income from investments accounted for on the equity basis	(40)	(42)	(178)	(149)
Change in non-cash operating items (note 6)	23,688	6,669	2,624	(20,206)
	<b>14,419</b>	<b>25,208</b>	<b>10,852</b>	<b>16,174</b>
<b>Investing activities</b>				
Purchases of investments	(101,715)	(91,558)	(190,524)	(183,701)
Proceeds on sale of investments	105,525	77,605	213,886	182,306
Repayment of capital lease	133	121	263	238
Disposals (purchases) of property, plant and equipment	(841)	(11)	(1,110)	67
	<b>3,102</b>	<b>(13,843)</b>	<b>22,515</b>	<b>(1,090)</b>
<b>Financing activities</b>				
Dividends paid	(8,011)	(6,602)	(30,210)	(14,009)
<b>Increase in cash and cash equivalents</b>	<b>9,510</b>	<b>4,763</b>	<b>3,157</b>	<b>1,075</b>
Cash and cash equivalents, beginning of period	10,567	8,611	16,920	12,299
<b>Cash and cash equivalents, end of period</b>	<b>\$ 20,077</b>	<b>\$ 13,374</b>	<b>\$ 20,077</b>	<b>\$ 13,374</b>

(see accompanying notes)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2010

### 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 2009 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 2009 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. The project is on schedule and the Corporation is currently finalizing the impact that the adoption of IFRS will have on the financial statements.

# SGI CANADA

## 2. INVESTMENTS

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

	(thousands of \$)	
	June 30 2010	December 31 2009
Short-term investments	\$ —	\$ 18,933
Bonds and debentures	394,230	393,128
Canadian common shares	66,948	68,330
U.S. common shares	19,053	22,637
Pooled funds:		
Canadian equity	15,597	17,287
United States equity	5,930	7,529
Non-North American equity	27,625	26,747
Mortgage	24,512	23,067
Preferred shares	735	735
Investments accounted for on the equity basis	<u>337</u>	<u>1,337</u>
Total investments	<u>\$ 554,967</u>	<u>\$ 579,730</u>

### Investments accounted for on the equity basis

During the quarter, the Corporation disposed of its 21.25% ownership interest in Charlie Cooke Insurance Agency Ltd. (CCIA) for proceeds of \$1,146,000. After recording income of \$160,000 during the first five months of the year, the net book value of CCIA was \$1,177,000, resulting in a net loss on sale of \$31,000. The purchasers are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The transaction was in the normal course of operations.

The Corporation, through its subsidiary ICPEI, loaned the purchasers \$1,146,000 in order to fund their purchase of the CCIA shares. The loan requires ten equal annual payments of \$128,790, including principal and interest, beginning on March 31, 2011. The loan accrues interest at an effective annual rate of 2.25% and is secured by a general security agreement covering all assets of CCIA. The loan is included as a component of accounts receivable and its fair value is considered to equal its book value.

The Corporation continues to have a 25% ownership interest in Atlantic Adjusting & Appraisals Ltd. and Maritime Finance & Acceptance Corporation.

### Unrealized loss positions

The following table presents available for sale investments with unrealized losses at June 30, 2010 where the decline is considered temporary. The unrealized losses are recorded as a component of accumulated other comprehensive income.

	(thousands of \$)			
	as at June 30, 2010		as at December 31, 2009	
	Carrying Value	Gross Unrealized	Carrying Value	Gross Unrealized
		Losses		Losses
Bonds and debentures:				
Federal	\$ 10,166	\$ (4)	\$ 87,165	\$ (491)
Provincial and municipal	8,463	(15)	20,956	(247)
Corporate	899	(41)	29,046	(365)
Canadian common shares	16,967	(1,519)	7,694	(465)
U.S. common shares	9,305	(1,110)	7,176	(498)
Pooled funds:				
Canadian equity	15,597	(1,608)	17,287	(1,807)
United States equity	5,930	(454)	7,529	(195)
Non-North American equity	27,625	(3,494)	26,747	(296)
	\$ 94,952	\$ (8,245)	\$ 203,600	\$ (4,364)

As at June 30, 2010, the cost of 66 (December 31, 2009 – 131) available for sale investments exceeded their fair value by \$8,245,000 (December 31, 2009 – \$4,364,000). 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 six months to June 30, 2010, investment write-downs of \$464,000 (June 30, 2009 – \$2,446,000) were recorded related to impairments that were considered other than temporary.

#### **Determination of fair value**

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

Level 1 – Where quoted prices are readily available from an active market.

Level 2 – Valuation model not using quoted prices, but still using predominantly observable market inputs, such as market interest rates.

Level 3 – Models using inputs that are not based on observable market data.

# SGI CANADA

(thousands of \$)

	June 30, 2010			December 31, 2009		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Short-term investments	\$ –	\$ –	\$ –	\$ 18,933	\$ –	\$ 18,933
Bonds and debentures	394,230	–	394,230	393,128	–	393,128
Canadian common shares	66,948	–	66,948	68,330	–	68,330
U.S. common shares	19,053	–	19,053	22,637	–	22,637
Pooled funds:						
Canadian equity	15,597	–	15,597	17,287	–	17,287
United States equity	5,930	–	5,930	7,529	–	7,529
Non-North American equity	27,625	–	27,625	26,747	–	26,747
Mortgage	–	24,512	24,512	–	23,067	23,067
	<u>\$ 529,383</u>	<u>\$ 24,512</u>	<u>\$ 553,895</u>	<u>\$ 554,591</u>	<u>\$ 23,067</u>	<u>\$ 577,658</u>

Preferred shares and investments accounted for on the equity basis are not included in the above fair value hierarchy table as the preferred shares are carried at cost and the investments accounted for on the equity basis are recorded using the equity method.

### 3. INVESTMENT EARNINGS

The components of investment earnings are as follows:

(thousands of \$)

	three months to June 30		six months to June 30	
	2010	2009	2010	2009
Interest	\$ 3,477	\$ 3,445	\$ 7,017	\$ 7,003
Net realized gain (loss) on sale of investments	3,281	(291)	3,566	(2,084)
Premium financing	1,042	852	2,051	1,684
Pooled fund distributions	494	1,157	932	1,583
Dividends	480	497	860	968
Investments accounted for on the equity basis	40	41	178	148
Interest on net investment in capital lease	13	26	29	54
Investment write-downs	<u>(370)</u>	<u>–</u>	<u>(464)</u>	<u>(2,446)</u>
Total investment earnings	\$ 8,457	\$ 5,727	\$ 14,169	\$ 6,910
Investment expenses	<u>(212)</u>	<u>(187)</u>	<u>(424)</u>	<u>(372)</u>
Net investment earnings	<u>\$ 8,245</u>	<u>\$ 5,540</u>	<u>\$ 13,745</u>	<u>\$ 6,538</u>

#### 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 and specifics 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 June 30, 2010 is limited to the carrying value of the financial assets summarized as follows:

	(thousands of \$)	
	June 30 2010	December 31 2009
	<u>Carrying Value</u>	<u>Carrying Value</u>
Cash and cash equivalents	\$ 20,077	\$ 16,920
Accounts receivable	126,626	125,334
Fixed income investments <sup>1</sup>	418,742	435,128
Unpaid claims recoverable from reinsurers	42,516	29,626

<sup>1</sup> Includes short-term investments, bonds and debentures, and the mortgage pooled fund

Cash and cash equivalents include money market investments of \$25,893,000 less cash on hand, net of outstanding cheques of \$5,816,000 (December 31, 2009 – money market investments of \$22,300,000 less cash on hand, net of outstanding cheques of \$5,380,000). 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.

# SGI CANADA

Details of the allowance account are as follows:

	(thousands of \$)	
	six months ended June 30 2010	twelve months ended December 31 2009
	<u>        </u>	<u>        </u>
Allowance for doubtful accounts, opening balance	\$ 6,261	\$ 4,900
Accounts written off	(1,179)	(1,430)
Current period provision	<u>272</u>	<u>2,791</u>
Allowance for doubtful accounts, ending balance	<u>\$ 5,354</u>	<u>\$ 6,261</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, 2010		December 31, 2009	
	Carrying Value (thousands of \$)	Makeup of Portfolio (%)	Carrying Value (thousands of \$)	Makeup of Portfolio (%)
AAA	\$ 214,945	54.5%	\$ 202,557	51.5%
AA	84,145	21.3%	84,534	21.5%
A	75,479	19.2%	86,160	21.9%
BBB	<u>19,661</u>	<u>5.0%</u>	<u>19,877</u>	<u>5.1%</u>
Total	<u>\$ 394,230</u>	<u>100.0%</u>	<u>\$ 393,128</u>	<u>100.0%</u>

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.

Through its custodian, the Corporation participates in an investment security lending program. Collateral of at least 102% of the market value of the loaned securities is held for the loan. This collateral is marked to market on a daily basis. In addition, the custodian provides indemnification against any potential losses in the securities lending program. At June 30, 2010, the Corporation had \$76,024,000 (December 31, 2009 – \$40,139,000) of securities on loan under the program and held collateral of \$79,825,000 (December 31, 2009 – \$42,149,000).

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 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 \$18.8 million at June 30, 2010 (December 31, 2009 – \$18.1 million), representing 4.5% of the \$418.7 million (December 31, 2009 – 4.2%, \$435.1 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 June 30, 2010, the Corporation's exposure to U.S. equities was 4.5% (December 31, 2009 – 5.2%) and its exposure to non-North American equities was 5.0% (December 31, 2009 – 4.6%).

At June 30, 2010, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$2.6 million (December 31, 2009 – \$3.0 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 \$2.8 million (December 31, 2009 – \$2.7 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.



# SGI CANADA

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 24.5% (December 31, 2009 – 24.7%) 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 Corporation's equity price risk is assessed using Value at Risk (VaR), a statistical technique that measures the potential change in the value of an asset class. The VaR has been calculated based on volatility over a four-year period, using a 95% confidence level. As such, it is expected that the annual change in the portfolio market value will fall within the range outlined in the following table 95% of the time (19 times out of 20 years).

Asset Class	(thousands of \$)	
	June 30 2010	December 31 2009
Canadian pooled equity fund and Canadian common shares	\$ +/- 31,814	\$ +/- 32,877
U.S. pooled equity fund and U.S. common shares	+/- 6,512	+/- 7,542
Non-North American pooled equity fund	+/- 9,172	+/- 9,147

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

### **Liquidity risk**

Liquidity risk is the risk 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, although they can be negative in the first quarter as a result of annual premium tax payments.

## 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 ratio based on the risk profile of the insurer and its insurance business, generally at or above 150%. At June 30, 2010, the Corporation's MCT was 246% (December 31, 2009 – 254%). 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 \$)		(thousands of \$)	
	three months to June 30		six months to June 30	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Accounts receivable	\$ (18,955)	\$ (20,005)	\$ (1,292)	\$ (16,442)
Deferred policy acquisition costs	(4,304)	(4,411)	(1,111)	(1,806)
Reinsurers' share of unearned premiums	346	2,796	(6,215)	(2,063)
Unpaid claims recoverable from reinsurers	(14,602)	2,510	(12,890)	3,014
Other assets	(603)	(271)	(615)	(442)
Accounts payable and accrued liabilities	(3,346)	6,461	(18,133)	311
Premium taxes payable	5,270	4,930	(8,436)	(7,469)
Amounts due to reinsurers	(242)	(2,293)	4,820	5,168
Unearned reinsurance commissions	81	118	(36)	(262)
Unearned premiums	19,921	19,890	7,501	9,207
Provision for unpaid claims	<u>40,122</u>	<u>(3,056)</u>	<u>39,031</u>	<u>(9,422)</u>
	<u>\$ 23,688</u>	<u>\$ 6,669</u>	<u>\$ 2,624</u>	<u>\$ (20,206)</u>

# SGI CANADA

## 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 June 30		six months to June 30	
	2010	2009	2010	2009
Costs incurred	<u>\$ 845</u>	<u>\$ 1,192</u>	<u>\$ 1,622</u>	<u>\$ 1,910</u>
Allocated to:				
SGI CANADA	266	395	510	649
Saskatchewan Auto Fund	<u>579</u>	<u>797</u>	<u>1,112</u>	<u>1,261</u>
	<u>\$ 845</u>	<u>\$ 1,192</u>	<u>\$ 1,622</u>	<u>\$ 1,910</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	
	2010	2009	2010	2009
Net premiums written	<u>\$ 2,052</u>	<u>\$ 1,897</u>	<u>\$ 2,515</u>	<u>\$ 2,237</u>
Net premiums earned	<u>\$ 1,612</u>	<u>\$ 1,486</u>	<u>\$ 2,194</u>	<u>\$ 1,882</u>
Claims incurred	789	1,234	1,041	1,519
Commissions	119	12	246	31
Premium taxes	51	19	69	31
Administrative expenses	<u>412</u>	<u>517</u>	<u>521</u>	<u>595</u>
Total claims and expenses	<u>1,371</u>	<u>1,782</u>	<u>1,877</u>	<u>2,176</u>
Underwriting profit (loss)	241	(296)	317	(294)
Investment earnings	<u>13</u>	<u>35</u>	<u>37</u>	<u>65</u>
Net profit (loss)	<u>\$ 254</u>	<u>\$ (261)</u>	<u>\$ 354</u>	<u>\$ (229)</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.

<b>three months to June 30</b>	(thousands of \$)					
	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
<b>2010</b>						
Net premiums written	\$ 89,028	\$ 12,862	\$ 12,077	\$ 6,609	\$ –	\$120,576
Net premiums earned	\$ 76,853	\$ 10,496	\$ 8,672	\$ 4,730	\$ –	\$100,751
Claims incurred	59,611	7,348	7,861	2,178	–	76,998
Other expenses	30,693	3,601	2,792	1,749	–	38,835
Underwriting profit (loss)	(13,451)	(453)	(1,981)	803	–	(15,082)
Investment earnings	6,532	564	925	224	–	8,245
Income (loss) before the following:	(6,919)	111	(1,056)	1,027	–	(6,837)
Income taxes (recovery)	–	(11)	(327)	334	–	(4)
Non-controlling interest	–	–	–	–	173	173
Net income (loss)	\$ (6,919)	\$ 122	\$ (729)	\$ 693	\$ (173)	\$ (7,006)

<b>three months to June 30</b>	(thousands of \$)					
	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
<b>2009</b>						
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)	\$ 17,884	\$ 329	\$ (400)	\$ (206)	\$ 52	\$ 17,659

# SGI CANADA

<b>six months to June 30 2010</b>	(thousands of \$)						
	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Consolidation Adjustments	Total	
Net premiums written	<u>\$147,682</u>	<u>\$ 20,206</u>	<u>\$ 21,041</u>	<u>\$ 10,006</u>	<u>\$ –</u>	<u>\$198,935</u>	
Net premiums earned	\$152,150	\$ 20,399	\$ 16,226	\$ 9,196	\$ –	\$197,971	
Claims incurred	94,382	13,838	12,429	4,941	–	125,590	
Other expenses	<u>60,038</u>	<u>7,030</u>	<u>4,968</u>	<u>3,649</u>	<u>–</u>	<u>75,685</u>	
Underwriting profit (loss)	(2,270)	(469)	(1,171)	606	–	(3,304)	
Investment earnings	<u>10,772</u>	<u>928</u>	<u>1,705</u>	<u>340</u>	<u>–</u>	<u>13,745</u>	
Income before the following:	8,502	459	534	946	–	10,441	
Income taxes	–	90	166	307	–	563	
Non-controlling interest	–	–	–	–	147	147	
Net income	<u>\$ 8,502</u>	<u>\$ 369</u>	<u>\$ 368</u>	<u>\$ 639</u>	<u>\$ (147)</u>	<u>\$ 9,731</u>	
Total assets	<u>\$580,851</u>	<u>\$101,482</u>	<u>\$139,503</u>	<u>\$ 40,067</u>	<u>\$ (33,748)</u>	<u>\$828,155</u>	
Shareholder's equity	<u>\$138,549</u>	<u>\$ 35,755</u>	<u>\$ 39,508</u>	<u>\$ 9,710</u>	<u>\$ (2,026)</u>	<u>\$221,496</u>	

<b>six months to June 30 2009</b>	(thousands of \$)						
	Saskatchewan	Manitoba & Alberta	Ontario	Maritimes	Consolidation Adjustments	Total	
Net premiums written	<u>\$145,394</u>	<u>\$ 16,939</u>	<u>\$ 14,110</u>	<u>\$ 8,266</u>	<u>\$ –</u>	<u>\$184,709</u>	
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	<u>56,015</u>	<u>6,423</u>	<u>4,035</u>	<u>3,355</u>	<u>–</u>	<u>69,828</u>	
Underwriting profit (loss)	27,030	522	(1,959)	(1,063)	–	24,530	
Investment earnings	<u>2,924</u>	<u>1,260</u>	<u>1,944</u>	<u>410</u>	<u>–</u>	<u>6,538</u>	
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>	