SGI CANADA

Quarterly Report

June 2011

CORPORATE PROFILE

Vision

To be a company where every customer, employee, owner and business partner across Canada is proud to do business and work with us.

Values

Integrity	Conducting ourselves with honesty, trust and fairness
Caring	Acting with empathy, courtesy and respect
Innovation	Implementing creative solutions to achieve our vision

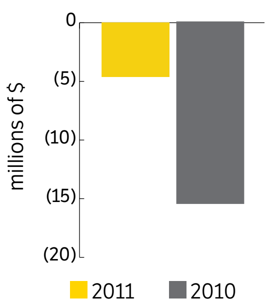
About SGI CANADA

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.

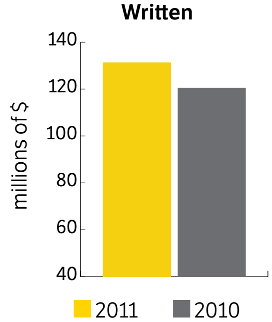
Financial Highlights

For the three months to June 30

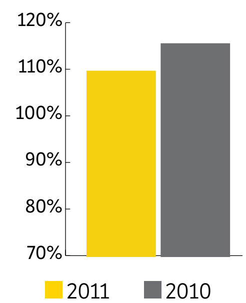
Net Loss



Net Premiums Written

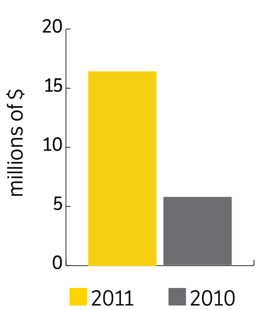


Combined Ratio

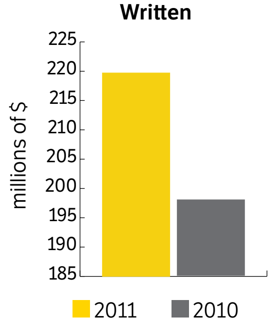


For the six months to June 30

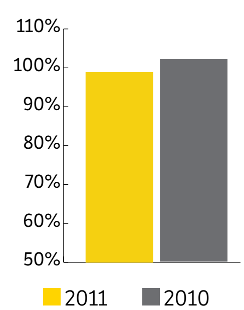
Net Income



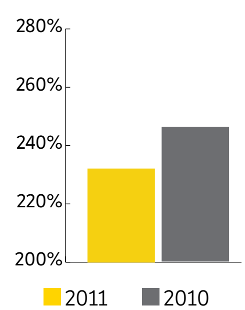
Net Premiums Written



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 six-month period ended June 30, 2011, and the SGI CANADA MD&A and annual audited financial statements and supporting notes as at and for the year ended December 31, 2010. All dollar amounts are in Canadian dollars. This MD&A reflects all information known to Management up to August 9, 2011.

Overview

	three months to June 30			six months to June 30		
(thousands of $)	2011	2010	Change	2011	2010	Change
Net premiums written	131,245	120,001	11,244	219,742	197,919	21,823
Net income (loss)	(4,591)	(15,485)	10,894	16,351	5,711	10,640
Combined ratio	109%	115%	-6%	99%	102%	-3%

The Corporation continues to experience strong premium growth, with the largest growth from Ontario with a 52.5% increase over the first six months of 2010. Premium growth would be even higher if not for an additional $4.3 million reinsurance premium which was triggered as a result of the Corporation's exposure to the Slave Lake, Alberta wildfire in May.

The combined ratio, while improved from the prior year, is higher than desired due to poor claims results in the second quarter. Claim costs were worse than expected primarily from catastrophe losses due to sewer back up claims from the flooding in the Weyburn and Estevan areas and fire losses from the Slave Lake, Alberta wildfire. In addition, Ontario claims results were worse than expected.

This is SGI's first year preparing financial statements using IFRS, and IFRS 1, *First-time adoption of International Financial Reporting Standards*, has been applied. The impact of this change is described in detail in note 4 of the financial statements.

Outlook

As the summer months are here, there is potential for storms in Saskatchewan, which can quickly and unfavourably impact profitability. In this respect, the profit generated in the first half of 2011 will benefit the Corporation heading into the summer months. To offset the impact of Saskatchewan summer storms, the Corporation uses reinsurance and spreads its insurance risk geographically.

With the Corporation's change to International Financial Reporting Standards (IFRS), it has reclassified its investments as fair value through profit and loss, which is expected to increase investment earnings volatility as unrealized gains/losses are recorded in net income. While investment earnings will fluctuate through the remainder of 2011, volatility caused by interest rate changes is expected to be offset by the impact on the discounting of claims liabilities. In addition, the Corporation continues to maintain its well diversified, high-quality investment portfolio and prudent investment management policies and processes.

Revenue

(thousands of $)	three months to June 30			six months to June 30		
	2011	2010	Change	2011	2010	Change
Premiums earned	109,338	100,176	9,162	216,391	196,955	19,436
Investment earnings	4,860	(366)	5,226	13,317	10,113	3,204

Premium growth in all operating segments resulted in a 9.9% increase in premium earnings for the first two quarters of 2011, as noted below:

Premiums earned by operating segment

(thousands of $)	three months to June 30			six months to June 30		
	2011	2010	Change	2011	2010	Change
Saskatchewan	79,171	76,360	2,811	158,035	151,289	6,746
Ontario	13,355	8,651	4,704	25,039	16,186	8,853
Alberta and Manitoba	11,684	10,474	1,210	23,154	20,353	2,801
Maritimes	5,128	4,691	437	10,163	9,127	1,036
Total	109,338	100,176	9,162	216,391	196,955	19,436

Premiums earned in Saskatchewan increased 4.5% in the first six months of 2011 with growth in agro, personal auto and personal lines products. Auto business provided the bulk of the 54.7% growth in premium earnings for the Ontario operating segment, as the policy base continues to grow. Alberta operations experienced premium earnings growth of 19.6%, with auto business contributing to the majority of the increase. In Manitoba, premiums increased 3.2%, a result of rate increases in personal lines business. Premium earnings in the Maritimes increased 11.4% in the first six months of the year, with the newer jurisdictions of New Brunswick and Nova Scotia providing most of the increase, largely a result of increased auto writings.

Investment earnings in the second quarter were $5.2 million higher than the same period in 2010. While equity markets were generally negative for the quarter, market value losses were lower than experienced last year. Bond returns were also better in the current quarter compared to 2010. While interest rates decreased during the quarter generating lower interest income, this was more than offset by positive market value gains on bonds.

Year-to-date investment earnings were $3.2 million higher than the same period in 2010. Although equity prices have retreated into slightly negative territory year-to-date, they performed better than the same period of 2010. Falling interest rates decreased interest income and generated gains from bonds although these amounts are lower than experienced last year. Overall, the year-to-date market value rate of return at June 30, 2011, was 1.7%, compared to 1.2% for same period of 2010.

Expenses

(thousands of $)	three months to June 30			six months to June 30		
	2011	2010	Change	2011	2010	Change
Claims incurred	76,710	77,122	(412)	132,016	125,695	6,321
Other expenses	42,882	38,426	4,456	81,733	75,023	6,710
	119,592	115,548	4,044	213,749	200,718	13,031
Loss ratio	70.2%	77.0%	-6.8%	61.0%	63.8%	-2.8%

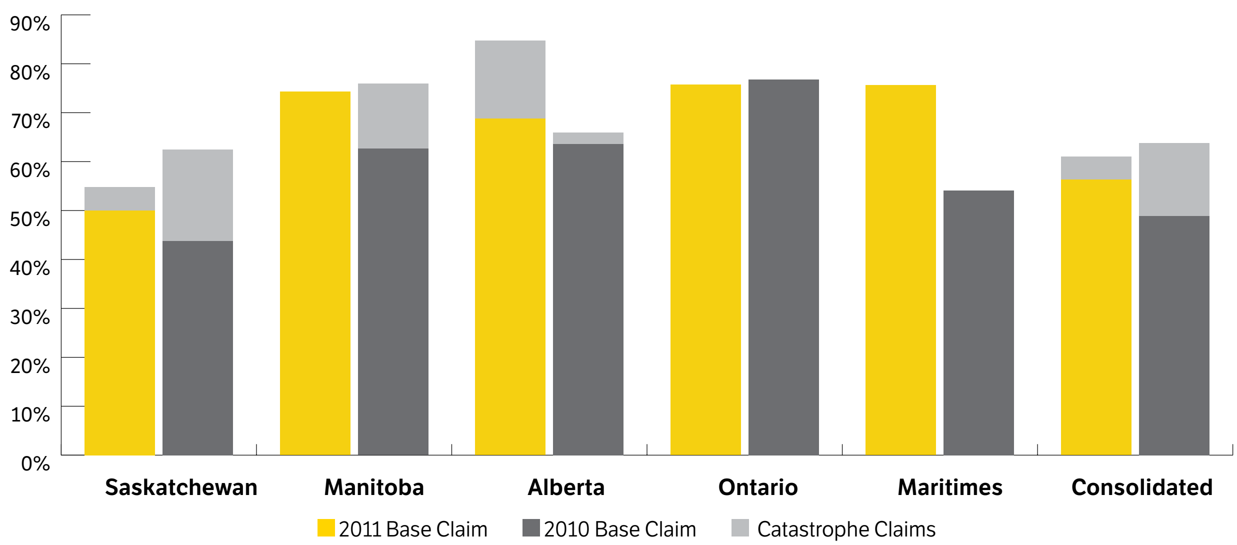
Expenses are comprised of claims incurred and other expenses, which include commissions, premium taxes, administrative expenses and Facility Association participation costs.

Claims incurred

Although 2010 was the second most costly year on record (a result of significant storm activity in Saskatchewan), 2011 claims results have not improved dramatically. Storm claims are lower than experienced in 2010, although still significant this early in the summer storm season, at $7.5 million. In addition, claims results from out of province operations have generally been unfavourable.

Overall, claims incurred totalled $132.0 million for the first six months of 2011, a 5.0% increase from 2010; however, the consolidated loss ratio decreased from 63.8% in 2010 to 61.0% in 2011, as detailed in the following chart.

Loss Ratios – six months to June 30



Saskatchewan's loss ratio of 54.8% decreased from last year's six-month loss ratio of 62.5%, due to less severe storm activity compared to 2010. This is partially offset by worse loss ratios in personal and commercial auto, largely due to poor winter driving conditions in the first quarter of 2011.

Manitoba's loss ratio decreased slightly to 74.3% from 75.8% in 2010. While there has been no significant summer storm activity compared to 2010, there have been several significant property losses in the current year.

Alberta's loss ratio increased to 84.7% from 63.7% in 2010 as a result of the Slave Lake wildfire in May 2011. The wildfire in Slave Lake resulted in 79 claims totalling $14.1 million in direct claims incurred, all but $2.5 million of which has been ceded to reinsurers.

Ontario's loss ratio decreased slightly to 75.7% from 76.8% in 2010. While consistent with the prior year, both auto and property loss ratios have been higher than expected.

The Maritimes' loss ratio increased to 75.6% in 2011 from 54.1% in 2010, due to a significant number of property losses across all three provinces.

Other expenses

For the second quarter, other expenses increased $4.5 million compared to the same period in 2010. This is due primarily to a $3.9 million increase in commissions and premium taxes, a result of the premium growth experienced in the quarter.

For the first six months of 2011, other expenses increased by $6.7 million or 8.9% from 2010. Consistent with the second quarter increase, the majority is attributable to the growth of the business, with $5.9 million of the increase related to growth in commissions and premium taxes.

Balance Sheet Review

(thousands of $)	June 30 2011	December 31 2010	Change
Total assets	**926,679**	**905,273**	**21,406**
Key asset account changes:			
Cash and cash equivalents	6,330	27,809	(21,479)
Accounts receivable	144,013	138,527	5,486
Investments	612,336	591,331	21,005
Unpaid claims recoverable from reinsurers	54,297	44,635	9,662
Reinsurers' share of unearned premiums	16,525	9,835	6,690

The decline in cash and cash equivalents is discussed in the Cash Flow and Liquidity section that follows. Accounts receivable have increased, partially due to the premium growth, but also a result of the Canada Post strike, as several large payments due from brokers were not received until early July. The carrying value of investments increased by $21.0 million, reflecting the investment of positive cash flows from operations and the positive market value return during the period. The Slave Lake wildfire related claims are contributing to the growth in unpaid claims recoverable from reinsurers, with the increase largely representing amounts due under catastrophe reinsurance agreements. Reinsurers' share of unearned premiums is higher than at the end of 2010 as most annual reinsurance contracts are written during the first quarter of the year and earned over the remainder of the year. Additionally, re-instatement premiums were required as a result of the Slave Lake wildfire in the second quarter.

(thousands of $)	June 30 2011	December 31 2010	Change
Total liabilities	**666,199**	**644,716**	**21,483**
Key liability account changes:			
Accounts payable and accrued liabilities	38,421	43,337	(4,916)
Dividend payable	8,090	15,462	(7,372)
Premium taxes payable	9,668	18,856	(9,188)
Unearned premiums	251,141	241,100	10,041
Provision for unpaid claims	344,388	315,908	28,480

Accounts payable and accrued liabilities decreased, largely due to payments made during the first quarter related to 2010 broker bonuses. The lower dividend payable was a result of a large 2010 fourth quarter dividend payment to the province in the first quarter of 2011. Premium taxes payable decreased due to the annual 2010 premium taxes being paid in March 2011. The increase in unearned premiums is reflective of the premium growth. The provision for unpaid claims increased largely due to second quarter losses related to storm activity in Saskatchewan and the Slave Lake wildfire, the majority of which remains unpaid at June 30, 2011. The provision related to Ontario has also increased consistent with the growth in its auto book of business.

(thousands of $)	June 30 2011	December 31 2010	Change
Total equity	**258,157**	**258,129**	**28**
Key equity account changes:			
Retained earnings	178,157	178,129	28

Retained earnings remains consistent with the prior year as the $16.4 million consolidated net income is primarily offset by dividends declared of $16.2 million.

Cash Flow and Liquidity

	three months to June 30			six months to June 30		
(thousands of $)	2011	2010	Change	2011	2010	Change
Operating activities	22,720	14,419	8,301	21,824	10,852	10,972
Investing activities	(28,775)	3,102	(31,877)	(19,751)	22,515	(42,266)
Financing activities	(8,090)	(8,011)	(79)	(23,552)	(30,210)	6,658
Net cash flow	(14,145)	9,510	(23,655)	(21,479)	3,157	(24,636)

The second quarter generated strong operating cash flows largely from the continued growth in policies written across all jurisdictions. Cash from operating activities, as well as excess cash on hand, was reinvested in long-term investments and used to fund the $8.0 million dividend payment.

On a year-to-date basis, positive operating cash flows were generated in both 2011 and 2010. In addition to the positive cash flow generated, cash was drawn down during the first six months of 2011 by $21.5 million to fund purchases of long-term investments and $23.6 million of dividend payments. In 2010, 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

	June 30 2011	December 31 2010	Change
Minimum Capital Test	232%	246%	-14%

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. At June 30, 2011, the Corporation's MCT was in excess of the 150% minimum regulatory target. The decrease from December 31, 2010, is attributable to the challenging underwriting results experienced in the first half of 2011 and the dividend payments made during the year.

For further information on capital management, refer to note 8 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:

	2011		2010			
(thousands of $)	Q2	Q1	Q4	Q3	Q2	Q1
Net premiums earned	109,338	107,053	106,190	102,114	100,176	96,779
Claims incurred	76,710	55,306	51,743	68,695	77,122	48,573
Net income (loss)	(4,591)	20,942	24,490	19,136	(15,485)	21,196
Cash flow from (used in) operations	22,720	(896)	52,668	11,170	14,419	(3,567)
Investments	612,336	585,076	591,331	577,610	555,037	565,010
Provision for unpaid claims	344,388	312,852	315,908	334,578	324,922	326,308
Minimum Capital Test	232%	258%	247%	248%	246%	280%

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2011:

- 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 are anticipated to increase 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 directed to 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 significant privacy breaches, competition, catastrophic claim losses, transfer and acquisition of expertise, systems security, customer focus, broker partnership, product design and pricing, leadership, and market value losses. These risks are described in detail in the Corporation's 2010 Annual Report.

Accounting Matters

Adoption of International Financial Reporting Standards (IFRS)

This is the Corporation's first year producing financial statements using International Financial Reporting Standards (IFRS) and IFRS 1, *First-time adoption of International Financial Reporting Standards*, has been applied. Upon transition, the main impacts include the accounting for unrealized gains and losses on investments, discounting of unpaid claims, and measurement of property, plant and equipment. All investments are now designated as fair value through profit and loss rather than designated as available for sale. This results in changes in unrealized gains and losses on investments being recognized in the statement of operations, rather than through other comprehensive income. Previously, the Corporation did not discount its provision for unpaid claims for all lines of business. In transitioning to IFRS, the Corporation is changing this policy to discount the provision for unpaid claims for all lines of business. These two accounting changes were necessary as part of the Corporation's asset liability matching strategy to mitigate interest rate risk.

The Corporation also utilized 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, resulting in an increase to retained earnings at January 1, 2010, of $23,225,000.

Financial implications and other impacts of the transition to IFRS are described in detail in note 4 of the notes to the financial statements.

Critical accounting estimates and assumptions

There are no new critical accounting estimates or assumptions as compared to those discussed in the Corporation's 2010 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 2010 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 2010 Annual Report.

Future accounting standard changes

The International Accounting Standards Board has issued a new accounting standard, IFRS 9, *Financial Instruments*, that is scheduled to be effective for the Corporation on January 1, 2013, although this may be deferred based upon the effective date of IFRS 4, *Insurance Contracts*, which is now expected to be 2015. IFRS 9 simplifies the approach used in classifying financial assets by removing the available for sale category, which is currently available under IAS 39, *Financial Instruments: Classification and Measurement*.

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 apply only as of the date of this MD&A document.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	June 30 2011 (unaudited)	December 31 2010 (unaudited)	January 1 2010 (unaudited)
	(thousands of Canadian $)		
Assets			
Cash and cash equivalents	$ 6,330	$ 27,809	$ 16,920
Accounts receivable	144,013	138,527	136,083
Investments under security lending program (note 5)	108,514	78,141	40,139
Investments (note 5)	503,822	513,190	539,671
Unpaid claims recoverable from reinsurers	54,297	44,635	29,276
Reinsurers' share of unearned premiums	16,525	9,835	9,480
Deferred policy acquisition costs	56,189	56,204	52,412
Property, plant and equipment	31,683	32,252	31,971
Other assets	2,119	1,988	2,517
Deferred tax asset	3,187	2,692	2,531
	$ 926,679	$ 905,273	$ 861,000
Liabilities			
Accounts payable and accrued liabilities	$ 38,421	$ 43,337	$ 53,033
Dividend payable	8,090	15,462	22,199
Premium taxes payable	9,668	18,856	17,474
Amounts due to reinsurers	10,420	5,960	4,578
Unearned reinsurance commissions	3,165	3,183	3,051
Unearned premiums	251,141	241,100	217,678
Provision for unpaid claims	344,388	315,908	285,751
Deferred tax liability	906	910	1,125
	666,199	644,716	604,889
Province of Saskatchewan's equity			
Equity advances	80,000	80,000	80,000
Retained earnings	178,157	178,129	174,232
	258,157	258,129	254,232
Non-controlling interest	2,323	2,428	1,879
Total equity	**260,480**	260,557	256,111
	$ 926,679	$ 905,273	$ 861,000

(see accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
for the periods ended June 30, 2011 and 2010

	three months to June 30		six months to June 30	
	2011 (unaudited)	2010 (unaudited)	**2011 (unaudited)**	2010 (unaudited)
	(thousands of Canadian $)			
Gross premiums written	$ 139,894	$ 127,354	$ 244,842	$ 219,218
Premiums written ceded to reinsurers	(8,649)	(7,353)	(25,100)	(21,299)
Net premiums written	$ 131,245	$ 120,001	$ 219,742	$ 197,919
Change in net unearned premiums	(21,907)	(19,825)	(3,351)	(964)
Net premiums earned	**$ 109,338**	$ 100,176	**$ 216,391**	$ 196,955
Claims incurred	76,710	77,122	132,016	125,695
Commissions	24,021	20,610	45,822	40,830
Administrative expenses	13,490	13,313	25,438	25,169
Premium taxes	5,213	4,757	10,245	9,378
Facility Association participation (note 11)	158	(254)	228	(354)
Total claims and expenses	**119,592**	115,548	**213,749**	200,718
Underwriting profit (loss)	**(10,254)**	(15,372)	**2,642**	(3,763)
Investment earnings (loss) (note 6)	4,860	(366)	13,317	10,113
Income (loss) before income taxes	**(5,394)**	(15,738)	15,959	6,350
Income taxes (recovery)	(803)	(253)	(392)	639
Net income (loss)	**(4,591)**	(15,485)	**16,351**	5,711
Other comprehensive loss	**(248)**	(2,484)	**(248)**	(2,484)
Comprehensive income (loss)	**$ (4,839)**	$ (17,969)	**$ 16,103**	$ 3,227
Attributable to:				
The Province of Saskatchewan	(4,773)	(18,142)	16,208	3,080
Non-controlling interest	(66)	173	(105)	147
	$ (4,839)	$ (17,969)	**$ 16,103**	$ 3,227

(see accompanying notes)

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

for the periods ended

(in thousands of Canadian $)	Equity Advances	Accumulated Other Comprehensive Income	Retained Earnings	Province of Saskatchewan Equity	Non-Controlling Interest	Total Equity
Balance as at December 31, 2009 (Canadian GAAP) (unaudited)	$ 80,000	$ 19,833	$ 126,479	$ 226,312	$ 1,879	$ 228,191
First-time adoption of IFRS (note 4)	-	(19,833)	47,753	27,920	-	27,920
Balance as at January 1, 2010 (IFRS) (unaudited)	80,000	-	174,232	254,232	1,879	256,111
Net income for the period ended June 30, 2010	-	-	5,564	5,564	147	5,711
Other comprehensive income for the period ended June 30, 2010	-	-	(2,484)	(2,484)	-	(2,484)
Dividends	-	-	(10,850)	(10,850)	-	(10,850)
Balance as at June 30, 2010 (unaudited)	80,000	-	166,462	246,462	2,026	248,488
Net income for the six-month period from July 1, 2010 to December 31, 2010	-	-	43,224	43,224	402	43,626
Other comprehensive income for the six-month period from July 1, 2010 to December 31, 2010	-	-	1,113	1,113	-	1,113
Dividends	-	-	(32,670)	(32,670)	-	(32,670)
Balance as at December 31, 2010 (unaudited)	80,000	-	178,129	258,129	2,428	260,557
Net income for the period ended June 30, 2011	-	-	16,456	16,456	(105)	16,351
Other comprehensive loss for the period ended June 30, 2011	-	-	(248)	(248)	-	(248)
Dividends	-	-	(16,180)	(16,180)	-	(16,180)
Balance as at June 30, 2011 (unaudited)	$ 80,000	$ -	$ 178,157	$ 258,157	$ 2,323	$ 260,480

(see accompanying notes)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the periods ended June 30, 2011 and 2010

	three months to June 30		six months to June 30	
	2011 (unaudited)	2010 (unaudited)	**2011 (unaudited)**	2010 (unaudited)
	(thousands of Canadian $)			
Cash provided by (used for):				
Operating activities				
Net income (loss)	**$ (4,591)**	$ (15,485)	**$ 16,351**	$ 5,711
Non-cash items:				
Depreciation	1,622	1,287	3,123	2,602
Net realized gain on disposal of investments	(2,677)	(3,281)	(7,439)	(3,566)
Net unrealized loss on change in market value of investments	2,711	8,981	3,773	4,096
Deferred income taxes	(499)	(248)	(499)	76
Income from investments accounted for on the equity basis	-	(40)	-	(178)
Change in non-cash operating items (note 9)	26,154	23,205	6,515	2,111
	22,720	14,419	**21,824**	10,852
Investing activities				
Purchases of investments	(171,425)	(101,715)	(351,888)	(190,524)
Proceeds on sale of investments	143,344	105,525	332,888	213,886
Repayment of capital lease	-	133	142	263
Purchases of property, plant and equipment	(694)	(841)	(893)	(1,110)
	(28,775)	3,102	**(19,751)**	22,515
Financing activities				
Dividends paid	**(8,090)**	(8,011)	**(23,552)**	(30,210)
Increase (decrease) in cash and cash equivalents	**(14,145)**	9,510	**(21,479)**	3,157
Cash and cash equivalents, beginning of period	20,475	10,567	27,809	16,920
Cash and cash equivalents, end of period	**$ 6,330**	$ 20,077	**$ 6,330**	$ 20,077
Supplemental cash flow information:				
Income taxes paid	**$ 1,158**	$ 152	**$ 1,833**	$ 152

(see accompanying notes)

Notes to the Condensed Consolidated Financial Statements

June 30, 2011

1. NATURE OF OPERATIONS

Saskatchewan Government Insurance (the Corporation or SGI), which operates under the trade name of SGI CANADA (2260-11th Avenue, Regina, Saskatchewan, Canada), is incorporated, registered and conducts a property and casualty insurance business in the province of Saskatchewan and in other provinces of Canada through its wholly owned subsidiary SGI CANADA Insurance Services Ltd. SGI CANADA Insurance Services Ltd. operates directly in Alberta and Manitoba, in Ontario through its wholly owned subsidiary Coachman Insurance Company (Coachman) and in Prince Edward Island, New Brunswick and Nova Scotia through its 75% owned subsidiary, the Insurance Company of Prince Edward Island (ICPEI).

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia and represent approximately 16.5% (December 31, 2010 – 8.4 %) of the Corporation's consolidated net premiums earned.

SGI was established as a branch of the public service by *The Government of Saskatchewan Act, 1944*, reorganized pursuant to *The Saskatchewan Government Insurance Act, 1946*, and continued under the provisions of *The Saskatchewan Government Insurance Act, 1980*. SGI also acts as administrator of the Saskatchewan Auto Fund under the provisions of *The Automobile Accident Insurance Act*. As a provincial Crown corporation, the Corporation is not subject to federal or provincial income taxes; however, SGI CANADA Insurance Services Ltd., Coachman and ICPEI are subject to federal and provincial income taxes.

As a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the consolidated financial results of the Corporation are included in the consolidated financial statements of CIC. CIC is ultimately owned by the Government of Saskatchewan.

2. BASIS OF PREPARATION

Statement of compliance

The unaudited interim consolidated financial statements of the Corporation for the period ended June 30, 2011, have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, using accounting policies in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC). This is SGI's first year preparing financial statements using IFRS, and IFRS 1, *First-time adoption of International Financial Reporting Standards*, has been applied.

These unaudited interim consolidated financial statements do not include all of the note disclosures normally included in the annual consolidated financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual report for the year ended December 31, 2010. Full disclosures will be included in the Corporation's annual consolidated financial statements.

The interim consolidated financial statements have been prepared in accordance with the accounting policies the Corporation expects to adopt in its first annual financial statements prepared in accordance with IFRSs. These accounting policies are based on the IFRSs that the Corporation expects to be applicable at the time. The policies set out below were consistently applied to all the periods presented. The consolidated interim financial statements would normally include only those significant accounting policies that are different from those applied in the preceding annual audited consolidated financial statements. To assist readers in understanding the significant accounting policies of the Corporation under IFRS, a complete set of significant accounting policies has been provided.

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

Basis of measurement

The unaudited interim consolidated financial statements have been prepared using the historical cost basis except for financial instruments and certain items of land, buildings and building components which have been fair valued upon transition to IFRS using the deemed cost exemption, as discussed in note 4. The methods used to measure the values of financial instruments are discussed further in note 3.

Statement of financial position classification

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

Functional and presentation currency

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

Use of estimates and judgment

The preparation of the consolidated interim financial statements in accordance with IFRS 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, the deemed cost of certain items of land, buildings and building components (note 4), the carrying amounts of accounts receivable, investments (note 5), income taxes and employee future benefits (note 10).

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated interim financial statements include the accounts of the Corporation and the consolidated accounts of its 100% owned subsidiaries, SGI CANADA Insurance Services Ltd. and Coachman, and its 75% owned subsidiary, ICPEI. All inter-company accounts and transactions have been eliminated on consolidation.

Financial assets and liabilities

The measurement basis for financial assets and financial liabilities depends on whether the financial assets and liabilities have been classified as fair value through profit and loss, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as fair value through profit and loss are measured at fair value and changes in fair value are recognized in net income. Financial assets classified as available for sale are measured at fair value with unrealized changes in fair value recorded in other comprehensive income; however, unrealized losses considered other than temporary are recognized as a decrease to net income. Financial assets designated as held to maturity, loans and receivables, or other financial liabilities are measured at amortized cost using the effective interest method. The Corporation has no financial assets and liabilities designated as available for sale or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as fair value through profit and loss, except for investments in associates, which are exempt from the above requirement. Accounts receivable are designated as loans and receivables. Accounts payable, dividend payable and premium taxes payable are designated as other financial liabilities. The accrued pension asset, unpaid claims recoverable from reinsurers, amounts due to reinsurers, and the provision for unpaid claims are exempt from the above requirement.

Investments

All investments are carried at fair value, except investments in associates which are accounted for using the equity method. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments. The bonds and debentures and common shares are level 1 financial assets and the fair value is determined based on quoted market values, based on the latest bid prices. The pooled equity funds are level 1 financial assets and the fair value is based on the quoted market values of the underlying investments, based on the latest bid prices. The pooled mortgage fund is a level 2 financial asset and the fair value is determined based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage.

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

Investments under securities lending program

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

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

Investment earnings

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

Interest revenue includes amortization of any premium or discount recognized at the date of purchase of the security. Amortization is calculated using the effective interest method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Transaction costs are expensed at the time of acquisition. Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the period end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized foreign exchange gains and/or losses arising on monetary and non monetary investments designated as fair value through profit and loss are recognized in investment earnings. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums written

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

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the period end date. The estimate includes the cost of reported claims, and claims incurred but not reported, an estimate of adjustment expenses to be incurred on these claims and a provision for adverse deviation in accordance with Canadian Institute of Actuaries standards. The provision has been calculated including the impact of discounting using a discount rate of 2.75% (December 31, 2010 – 2.86%). The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate, no longer than 12 months. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Reinsurance ceded

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes for the current year. Deferred income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any deferred income tax asset if it is probable that the asset will not be realized.

Employees' future benefits

The Corporation provides a defined benefit pension plan and a defined contribution pension plan that provide retirement benefits for its employees.

For the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to income.

For the defined benefit plan:

i. For the purpose of calculating the expected return on plan assets, those assets are valued at fair value, which approximates market value.
ii. Pension obligations are determined by an independent actuary using the projected unit credit method prorated on service and management's best estimate assumptions of expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing, based upon the consumer price index.
iii. The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.
iv. Unvested past service costs from plan amendments are amortized on a straight-line basis over the period of time until they become vested. Vested past service costs are expensed immediately.
v. Actuarial gains and losses are recognized in other comprehensive income in the period in which they arise.

The Corporation provides defined benefit service recognition plans for both management and in-scope (union) employees for the purpose of providing certain retirement benefits. The cost of the plans is determined using the projected unit credit method prorated on service. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for the defined benefit pension plan. Obligations under these plans are determined annually by an independent actuary.

Cash and cash equivalents

Cash and cash equivalents consist of money market investments with a maturity of 90 days or less from the date of acquisition, and are presented inclusive of cash on hand less outstanding cheques.

Property, plant and equipment

All classes of property, plant and equipment are recorded at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the asset. In the case of land, buildings and building components, fair value upon transition to IFRS has been used as the deemed cost.

The Corporation has not incurred any borrowing costs attributable to property, plant and equipment and therefore no borrowing costs have been capitalized.

The depreciation method, the useful lives and the residual values of the assets are reviewed at each reporting date. Repairs and maintenance are charged to the statement of operations in the period in which they have been incurred.

Depreciation is recorded in operations on a straight-line basis, commencing in the year the asset is available to be placed in service, over the estimated useful lives as follows:

Building	40 years
Building components	15-40 years
Computer hardware and other equipment	3-5 years

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Corporation's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the Statement of Operations.

Leased assets

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

Future accounting policy changes

The International Accounting Standards Board has issued a new accounting standard, IFRS 9, *Financial Instruments*, that is scheduled to be effective for the Corporation on January 1, 2013, although this may be deferred based upon the effective date of IFRS 4, *Insurance Contracts*, which is now expected to be 2015. IFRS 9 simplifies the approach used in classifying financial assets by removing the available for sale category, which is currently available under IAS 39, *Financial Instruments: Classification and Measurement*.

4. FIRST-TIME ADOPTION OF IFRS

Consistent with other Canadian publicly accountable enterprises, the Corporation is required to prepare its consolidated interim financial statements for the period ending June 30, 2011, in accordance with IFRS. The Corporation has accordingly restated its previously reported 2010 consolidated results and financial position.

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

The Corporation is required to determine its IFRS accounting policies and apply them retrospectively to establish its opening statement of financial position under IFRS. However, IFRS 1, *First-time Adoption of International Financial Reporting Standards*, provides a number of exemptions upon first-time adoption of IFRS. The Corporation has used the following exemptions in preparing the January 1, 2010, statement of financial position and June 30, 2011, interim financial statements:

Deemed cost

The Corporation has elected to use the IFRS 1 exemption available to determine the January 1, 2010, carrying value of its land and buildings. This exemption allows the Corporation to use the fair value, as determined through a recent valuation, as the carrying value.

Designation of previously recognized financial instruments

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

Business combinations

The Corporation has the option to apply IFRS 3, *Business Combinations*, retrospectively or prospectively from the transition date. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Corporation elected not to 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.

Employee defined benefit obligations

The Corporation has the option to retrospectively apply the corridor approach under IAS 19, *Employee Benefits*, for the recognition of actuarial gains and losses, or recognize all cumulative actuarial gains and losses, previously deferred under Canadian GAAP, in opening retained earnings at the transition date. The Corporation elected to recognize all cumulative actuarial gains and losses that existed at its transition date in opening retained earnings for all of its defined benefit plans.

The Corporation has the option to reduce disclosure to one year of comparative data in the year of transition, from the requirement of providing five years of history for the defined benefit obligation, plan assets and experience adjustments. The Corporation has elected to use this exemption and will increase the disclosure in each subsequent year, until a total of five years is presented.

Insurance contracts

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

Leases

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

Reconciliations from Canadian GAAP to IFRS

Total Equity as at January 1, 2010

(thousands of Canadian $)	Note	Equity Advance	Accumulated Other Comprehensive Income	Retained Earnings	Province of Saskatchewan's Equity	Non-Controlling Interest	Total equity
Balance as at December 31, 2009 (Canadian GAAP)		$ 80,000	$ 19,833	$ 126,479	$ 226,312	$ 1,879	$ 228,191
Employee benefits							
- IFRS 1	i)	-	-	(4,278)	(4,278)	-	(4,278)
- Past service costs	i)	-	-	(4,450)	(4,450)	-	(4,450)
Auto Fund constructive obligation	ii)	-	-	5,868	5,868	-	5,868
Property, plant and equipment	iii)	-	-	23,225	23,225	-	23,225
Investments - preferred shares	iv)	-	-	80	80	-	80
Investments - reclassification	v)	-	(19,833)	19,833	-	-	-
Provision for unpaid claims - discounting	vii)	-	-	7,475	7,475	-	7,475
Total adjustments		-	(19,833)	47,753	27,920	-	27,920
Balance as at January 1, 2010 (IFRS)		$ 80,000	$ -	$ 174,232	$ 254,232	$ 1,879	$ 256,111

Total Equity as at June 30, 2010

(thousands of Canadian $)	Note	Equity Advance	Accumulated Other Comprehensive Income	Retained Earnings	Province of Saskatchewan's Equity	Non-Controlling Interest	Total equity
Balance as at June 30, 2010 (Canadian GAAP)		$ 80,000	$ 16,136	$ 125,360	$ 221,496	$ 2,026	$ 223,522
Employee benefits							
- IFRS 1	i)	-	-	(4,238)	(4,238)	-	(4,238)
- Past service costs	i)	-	-	(4,059)	(4,059)	-	(4,059)
- Actuarial losses	i)	-	-	(2,484)	(2,484)	-	(2,484)
Auto Fund constructive obligation	ii)	-	-	5,573	5,573	-	5,573
Property, plant and equipment	iii)	-	-	22,705	22,705	-	22,705
Investments - preferred shares	iv)	-	-	69	69	-	69
Investments - reclassification	v)	-	(16,136)	16,136	-	-	-
Provision for unpaid claims - discounting	vii)	-	-	7,400	7,400	-	7,400
Total adjustments		-	(16,136)	41,102	24,966	-	24,966
Balance as at June 30, 2010 (IFRS)		$ 80,000	$ -	$ 166,462	$ 246,462	$ 2,026	$ 248,488

Total Equity as at December 31, 2010

(thousands of Canadian $)	Note	Equity Advance	Accumulated Other Comprehensive Income	Retained Earnings	Province of Saskatchewan's Equity	Non-Controlling Interest	Total equity
Balance as at December 31, 2010 (Canadian GAAP)		$ 80,000	$ 27,002	$ 131,315	$ 238,317	$ 2,428	$ 240,745
Employee benefits							
- IFRS 1	i)	-	-	(4,016)	(4,016)	-	(4,016)
- Past service costs	i)	-	-	(3,669)	(3,669)	-	(3,669)
- Actuarial losses	i)	-	-	(1,371)	(1,371)	-	(1,371)
Auto Fund constructive obligation	ii)	-	-	5,153	5,153	-	5,153
Property, plant and equipment	iii)	-	-	22,187	22,187	-	22,187
Investments - preferred shares	iv)	-	-	112	112	-	112
Investments - reclassification	v)	-	(27,002)	27,002	-	-	-
Provision for unpaid claims - discounting	vii)	-	-	1,416	1,416	-	1,416
Total adjustments		-	(27,002)	46,814	19,812	-	19,812
Balance as at December 31, 2010 (IFRS)		$ 80,000	$ -	$ 178,129	$ 258,129	$ 2,428	$ 260,557

Consolidated Comprehensive Loss for the three-month period from April 1 to June 30, 2010

(thousands of Canadian $)	Canadian GAAP June 30, 2010		IFRS Adjustments	IFRS June 30, 2010
Gross premiums written	$ 127,929	(vi)	$ (575)	$ 127,354
Premiums written ceded to reinsurers	(7,353)		-	(7,353)
Net premiums written	$ 120,576		$ (575)	$ 120,001
Change in net unearned premiums	(19,825)		-	(19,825)
Net premiums earned	**$ 100,751**		$ (575)	**$ 100,176**
		(iii)	15	
Claims incurred	76,998	(vii)	109	77,122
Commissions	21,185	(vi)	(575)	20,610
		(i)	(54)	
		(i)	(196)	
		(ii)	171	
Administrative expenses	13,147	(iii)	245	13,313
Premium taxes	4,757		-	4,757
Facility Association participation	(254)		-	(254)
Total claims and expenses	**115,833**		(285)	**115,548**
Underwriting loss	**(15,082)**		(290)	**(15,372)**
		(iv)	(15)	
Investment earnings	8,245	(v)	(8,596)	(366)
Loss before income taxes	**(6,837)**		(8,901)	**(15,738)**
Income tax recovery	(4)	(v)	(249)	(253)
Net loss	**(6,833)**		(8,652)	**(15,485)**
Other comprehensive loss:				
Actuarial loss on employee benefit plans	-	(i)	(2,484)	(2,484)
Unrealized loss on available for sale financial assets arising during the year	(5,654)	(v)	5,654	-
Income tax recovery	218	(v)	(218)	-
	(5,436)		5,436	-
Reclassification of net realized gains on sale of investments included in operations	(3,312)	(v)	3,312	-
Reclassification for investment write-downs included in operations	370	(v)	(370)	-
Income tax expense	31	(v)	(31)	-
	(2,911)		2,911	-
Other comprehensive loss	**(8,347)**		5,863	**(2,484)**
Comprehensive loss	**$ (15,180)**		$ (2,789)	**$ (17,969)**

Consolidated Comprehensive Income for the six-month period ended June 30, 2010

(thousands of Canadian $)	Canadian GAAP June 30, 2010		IFRS Adjustments	IFRS June 30, 2010
Gross premiums written	$ 220,234	(vi)	$ (1,016)	$ 219,218
Premiums written ceded to reinsurers	21,299		-	21,299
Net premiums written	$ 198,935		$ (1,016)	$ 197,919
Change in net unearned premiums	(964)		-	(964)
Net premiums earned	**$ 197,971**		$ (1,016)	**$ 196,955**
		(iii)	30	
Claims incurred	125,590	(vii)	75	125,695
Commissions	41,846	(vi)	(1,016)	40,830
		(i)	(40)	
		(i)	(391)	
		(ii)	295	
Administrative expenses	24,815	(iii)	490	25,169
Premium taxes	9,378		-	9,378
Facility Association participation	(354)		-	(354)
Total claims and expenses	**201,275**		(557)	**200,718**
Underwriting loss	**(3,304)**		(459)	**(3,763)**
		(iv)	(11)	
Investment earnings	13,745	(v)	(3,621)	10,113
Income before income taxes	**10,441**		(4,091)	**6,350**
Income taxes	563	(v)	76	639
Net income	**9,878**		(4,167)	**5,711**
Other comprehensive loss:				
Actuarial loss on employee benefit plans	-	(i)	(2,484)	(2,484)
Unrealized loss on available for sale financial assets arising during the year	(488)	(v)	488	-
Income tax recovery	37	(v)	(37)	-
	(451)		451	-
Reclassification of net realized gains on sale of investments included in operations	(3,597)	(v)	3,597	-
Reclassification for investment write-downs included in operations	464	(v)	(464)	-
Income tax expense	(113)	(v)	113	-
	(3,246)		3,246	-
Other comprehensive loss	**(3,697)**		1,213	**(2,484)**
Comprehensive income	**$ 6,181**		$ (2,954)	**$ 3,227**

Consolidated Comprehensive Income for the year ended December 31, 2010

(thousands of Canadian $)	Canadian GAAP Dec. 31, 2010		IFRS Adjustments	IFRS Dec. 31, 2010
Gross premiums written	$ 464,591	(vi)	$ (2,234)	$ 462,357
Premiums written ceded to reinsurers	34,031		-	34,031
Net premiums written	$ 430,560		$ (2,234)	$ 428,326
Change in net unearned premiums	(23,067)		-	(23,067)
Net premiums earned	**$ 407,493**		$ (2,234)	**$ 405,259**
		(iii)	57	
Claims incurred	240,017	(vii)	6,059	246,133
Commissions	86,019	(vi)	(2,234)	83,785
		(i)	(262)	
		(i)	(781)	
		(ii)	715	
Administrative expenses	49,902	(iii)	981	50,555
Premium taxes	19,279		-	19,279
Facility Association participation	(786)		-	(786)
Total claims and expenses	**394,431**		4,535	**398,966**
Underwriting profit	**13,062**		(6,769)	**6,293**
		(iv)	32	
Investment earnings	38,283	(v)	8,413	46,728
Income before income taxes	**51,345**		1,676	**53,021**
Income taxes	2,543	(v)	1,141	3,684
Net income	**48,802**		535	**49,337**
Other comprehensive income (loss):				
Actuarial loss on employee benefit plans	-	(i)	(1,371)	(1,371)
Unrealized gain on available for sale financial assets arising during the year	25,196	(v)	(25,196)	-
Income tax recovery	(1,566)	(v)	1,566	-
	23,630		(23,630)	-
Reclassification of net realized gains on sale of investments included in operations	(17,350)	(v)	17,350	-
Reclassification for investment write-downs included in operations	464	(v)	(464)	-
Income tax expense	425	(v)	(425)	-
	(16,461)		16,461	-
Other comprehensive income (loss)	**7,169**		(8,540)	**(1,371)**
Comprehensive income	**$ 55,971**		$ (8,005)	**$ 47,966**

There is no impact on the deferred tax balances as a result of the adjustments in the above tables. No adjustments having a tax impact have been made in SGI CANADA's subsidiaries, which are the only taxable entities within the SGI CANADA consolidated interim financial statements. Also, the adjustments have no impact on the cash flows of the Corporation. Explanations of the adjustments appear on the following pages.

i. Employee benefits

Upon adoption of IFRS, the Corporation has elected to use the IFRS 1 exemption available and recognize all cumulative unamortized actuarial gains and losses as at January 1, 2010, in retained earnings resulting in a decrease to retained earnings of $4,278,000.

For the three-month period from April 1, 2010 to June 30, 2010, this accounting policy difference resulted in a decrease to pension expense of $54,000.

For the six-month period ended June 30, 2010, this accounting policy difference resulted in a decrease to pension expense of $40,000. The total adjustment to retained earnings between Canadian GAAP and IFRS at June 30, 2010, was a decrease of $4,238,000.

For the year ended December 31, 2010, this accounting policy difference resulted in a decrease to pension expense of $262,000. The total adjustment to retained earnings between Canadian GAAP and IFRS at December 31, 2010, was a decrease of $4,016,000.

Also, IFRS requires vested past service costs be recognized as an expense immediately. As such, the Corporation has recognized all vested past service costs, deferred under Canadian GAAP, resulting in a decrease to retained earnings as at January 1, 2010, of $4,450,000.

For the three-month period from April 1, 2010 to June 30, 2010, this accounting policy difference resulted in a decrease to pension expense of $196,000.

For the six-month period ended June 30, 2010, this accounting policy difference resulted in a decrease to pension expense of $391,000. The total adjustment to retained earnings between Canadian GAAP and IFRS at June 30, 2010, was a decrease of $4,059,000.

For the year ended December 31, 2010, this accounting policy difference resulted in a decrease to pension expense of $781,000. The total adjustment to retained earnings between Canadian GAAP and IFRS at December 31, 2010, was a decrease of $3,669,000.

Upon adoption of IFRS, the Corporation has elected to recognize all actuarial gains/losses immediately in other comprehensive income. For the three and six month periods ending June 30, 2010, this accounting policy difference resulted in a decrease to other comprehensive income and retained earnings of $2,484,000, an increase to accounts payable of $586,000 and a decrease to other assets of $1,898,000. For the year ended December 31, 2010, this accounting policy difference resulted in a decrease to other comprehensive income and retained earnings of $1,371,000, an increase to accounts payable of $1,306,000 and a decrease to other assets of $65,000.

ii. Auto Fund constructive obligation

The Corporation allocates a portion of its retirement benefit costs associated with its defined benefit pension plan and defined benefit service recognition plans to the Saskatchewan Auto Fund for those employees of the Corporation who provide service to it (note 10). The employee benefit adjustments required in note (i) above result in the Auto Fund having a constructive obligation to the Corporation. The constructive obligation arises from events and transactions before the date of transition to IFRS and accordingly has been recognized directly in retained earnings. The impact to the Corporation at January 1, 2010, as a result of revising the allocation to the Auto Fund due to the employee benefit adjustments discussed in note (i), is an increase to retained earnings of $5,868,000 and an increase to accounts receivable of $5,868,000.

For the three-month period from April 1, 2010 to June 30, 2010, this accounting policy difference resulted in an increase to administrative expenses of $171,000.

For the six-month period ended June 30, 2010, this accounting policy difference resulted in an increase to administrative expenses of $295,000. The total adjustment to retained earnings between Canadian GAAP and IFRS at June 30, 2010, was an increase of $5,573,000.

For the year ended December 31, 2010, this accounting policy difference resulted in an increase to administrative expenses of $715,000. The total adjustment to retained earnings between Canadian GAAP and IFRS at December 31, 2010, was an increase of $5,153,000.

iii. Property, plant and equipment

Upon transition to IFRS, the Corporation has elected to use the IFRS 1, deemed cost exemption which allows the Corporation to measure any item of property, plant and equipment at January 1, 2010, using fair value. The Corporation has elected to use fair value as deemed cost for its land and building.

A valuation was performed effective January 1, 2010, which resulted in a fair value of the building of $28,640,000 compared to a net book value under Canadian GAAP of $7,443,000 and a fair value of land of $3,000,000 compared to net book value under Canadian GAAP of $972,000. The use of the deemed cost exemption resulted in a total increase in retained earnings and property plant and equipment of $23,225,000 as at January 1, 2010.

For the three-month period from April 1, 2010 to June 30, 2010, this accounting policy difference resulted in a net increase to depreciation expense of $260,000, of which $245,000 is allocated to administrative expenses and $15,000 is allocated to claims incurred. Total depreciation was $524,000, less $264,000 allocated to the Saskatchewan Auto Fund for related space usage.

For the six-month period ended June 30, 2010, this accounting policy difference resulted in a net increase to depreciation expense of $520,000, of which $490,000 is allocated to administrative expenses and $30,000 is allocated to claims incurred. Total depreciation for the period was $1,048,000, less $528,000 allocated to the Saskatchewan Auto Fund for related space usage. The adjustment to retained earnings at June 30, 2010, was an increase of $22,705,000.

For the year ended December 31, 2010, this accounting policy difference resulted in a net increase to depreciation expense of $1,038,000, of which $981,000 is allocated to administrative expenses and $57,000 is allocated to claims incurred. Total depreciation for the period was $2,094,000, less $1,056,000 allocated to the Saskatchewan Auto Fund for related space usage. The adjustment to retained earnings at December 31, 2010, was an increase of $22,187,000.

iv. Fair value of preferred shares

Upon transition to IFRS, the Corporation is required to measure its investment in preferred shares at fair value whereas under Canadian GAAP the Corporation carried the preferred shares at cost. The fair value of the preferred shares is $815,000 at January 1, 2010, compared to the carrying value, at historical cost, under Canadian GAAP of $735,000, resulting in an increase to retained earnings and investments of $80,000.

For the three-month period from April 1, 2010 to June 30, 2010, this accounting policy difference resulted in a decrease to net income of $15,000.

For the six-month period ended June 30, 2010, this accounting policy difference resulted in a decrease to net income of $11,000. The total adjustment to retained earnings and investments at June 30, 2010, was an increase of $69,000.

For the year ended December 31, 2010, this accounting policy difference resulted in an increase to net income of $32,000. The total adjustment to retained earnings at December 31, 2010, was an increase of $112,000.

v. Reclassification of investments

Upon adoption of IFRS, the Corporation has elected to use the IFRS 1 exemption available and change the designation of investments from available for sale to fair value through profit and loss. At January 1, 2010, this reclassification of unrealized gains has resulted in a decrease in accumulated other comprehensive income of $19,833,000 and an increase in retained earnings of $19,833,000, net of tax.

For the three-month period from April 1, 2010 to June 30, 2010, this accounting policy difference resulted in an increase to other comprehensive income and a decrease to net income of $8,347,000, net of tax impacts.

For the six-month period ended June 30, 2010, this accounting policy difference resulted in an increase to other comprehensive income and a decrease to net income of $3,697,000, net of tax impacts. The total adjustment to accumulated other comprehensive income at June 30, 2010, was a decrease of $16,136,000 and an offsetting increase to retained earnings.

For the year ended December 31, 2010, this accounting policy difference resulted in a decrease to other comprehensive income and an increase to net income of $7,169,000, net of tax. The total adjustment to accumulated other comprehensive income at December 31, 2010, was a decrease of $27,002,000 and an offsetting increase to retained earnings.

vi. Customer loyalty program

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

For the three-month period from April 1, 2010 to June 30, 2010, this accounting policy difference resulted in decrease in premiums earned of $575,000 and a corresponding decrease in commissions expense.

For the six-months ended June 30, 2010, this accounting policy difference resulted in a decrease in premiums earned of $1,016,000 and a corresponding decrease in commissions expense.

For the year ended December 31, 2010, this accounting policy difference resulted in a decrease in premiums written and earned of $2,234,000 and a corresponding decrease in commissions expenses.

vii. Discounting of provision for unpaid claims

Under Canadian GAAP, the Corporation did not discount its provision for unpaid claims for all lines of business. In transitioning to IFRS, the Corporation is changing this policy to discount the provision for unpaid claims, and the associated unpaid claims recoverable from reinsurers, for all lines of business. At January 1, 2010, this change in accounting policy resulted in a decrease in the provision for unpaid claims of $7,824,000, a decrease in the unpaid claims recoverable from reinsurers of $349,000 and a net increase in retained earnings of $7,475,000.

For the three-month period from April 1, 2010, to June 30, 2010, this accounting policy change resulted in an increase in the provision for unpaid claims of $61,000, a decrease in the unpaid claims recoverable from reinsurers of $48,000 and a net increase in claims incurred of $109,000.

For the six-months period ended June 30, 2010, this accounting policy difference resulted in an increase in the provision for unpaid claims of $139,000, an increase in the unpaid claims recoverable from reinsurers of $64,000 and a net increase in claims incurred of $75,000. The total impact on retained earnings was an increase of $7,400,000.

For the year ended December 31, 2010, this accounting policy difference resulted in an increase in the provision for unpaid claims of $6,912,000, an increase in the unpaid claims recoverable from reinsurers of $853,000 and a net increase in claims incurred of $6,059,000. The total impact on retained earnings was an increase of $1,416,000.

5. INVESTMENTS

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

(thousands of Canadian $)	June 30 2011	December 31 2010	January 1 2010
Investments			
Short-term investments	$ 37,548	$ 43,011	$ 18,933
Bonds and debentures	295,616	306,997	360,540
Canadian common shares	58,232	56,934	61,869
U.S. common shares	25,151	22,665	21,547
Pooled funds:			
Canadian equity	18,711	18,007	17,287
United States equity	9,208	7,413	7,529
Non-North American equity	33,364	32,162	26,747
Mortgage	25,992	25,154	23,067
Preferred shares	-	847	815
Investments in associates	-	-	1,337
	503,822	513,190	539,671
Investments under securities lending program			
Bonds and debentures	97,195	59,988	32,588
Canadian common shares	10,649	17,724	6,461
U.S. common shares	670	429	1,090
	108,514	78,141	40,139
Total investments	$ 612,336	$ 591,331	$ 579,810

Securities lending program

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

At June 30, 2011, the Corporation held collateral of $113,940,000 (December 31, 2010 - $82,048,000) for the loaned securities.

Fair value hierarchy

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.

	June 30, 2011			December 31, 2010		
(thousands of Canadian $)	Level 1	Level 2	Total	Level 1	Level 2	Total
Short-term investments	$ 37,548	$ -	$ 37,548	$ 43,011	$ -	$ 43,011
Bonds and debentures	392,811	-	392,811	366,985	-	366,985
Canadian common shares	68,881	-	68,881	74,658	-	74,658
U.S. common shares	25,821	-	25,821	23,094	-	23,094
Pooled funds:						-
Canadian equity	18,711	-	18,711	18,007	-	18,007
United States equity	9,208	-	9,208	7,413	-	7,413
Non-North American equity	33,364	-	33,364	32,162	-	32,162
Mortgage	-	25,992	25,992	-	25,154	25,154
Preferred shares	-	-	-	-	847	847
	$ 586,344	$ 25,992	$ 612,336	$ 565,330	$ 26,001	$ 591,331

6. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	three months to June 30		six months to June 30	
(thousands of Canadian $)	2011	2010	2011	2010
Net realized gain on sale of investments	$ 2,677	$ 3,281	$ 7,439	$ 3,566
Interest	2,785	3,477	5,664	7,017
Premium financing	1,292	1,042	2,534	2,051
Pooled fund distributions	537	494	1,040	932
Dividends	460	480	814	860
Interest on net investment in capital lease	47	13	51	29
Investments in associates	-	40	-	178
Net unrealized loss on change in market value of investments	(2,711)	(8,981)	(3,773)	(4,096)
Total investment earnings	$ 5,087	$ (154)	$ 13,769	$ 10,537
Investment expenses	(227)	(212)	(452)	(424)
Net investment earnings	$ 4,860	$ (366)	$ 13,317	$ 10,113

7. INSURANCE AND FINANCIAL RISK MANAGEMENT

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

Insurance risk

Underwriting risk

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

Diversification

The Corporation writes property, liability and motor risks over a 12-month period. The most significant risks arise from weather-related events, such as severe summer storms. The Corporation attempts to mitigate risk by conducting business in a number of provinces across Canada and by offering different lines of insurance products. The concentration of insurance risk by line of business is summarized below by reference to unpaid claims liabilities:

	Gross		Reinsurance Recoverable		Net	
(thousands of Canadian $)	June 30 2011	Dec. 31 2010	June 30 2011	Dec. 31 2010	June 30 2011	Dec. 31 2010
Automobile	$ 157,763	$ 148,458	$ 17,857	$ 16,020	$ 139,906	$ 132,438
Property	100,122	85,897	30,659	23,126	69,463	62,771
Liability	68,695	67,244	4,175	4,274	64,520	62,970
Assumed	7,787	7,769	-	-	7,787	7,769
Facility Association	4,452	4,296	-	-	4,452	4,296
Discounting	5,569	2,244	1,606	1,215	3,963	1,029
Total	$ 344,388	$ 315,908	$ 54,297	$ 44,635	$ 290,091	$ 271,273

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

	Gross		Reinsurance Recoverable		Net	
(thousands of Canadian $)	June 30 2011	Dec. 31 2010	June 30 2011	Dec. 31 2010	June 30 2011	Dec. 31 2010
Saskatchewan	$ 194,213	$ 197,492	$ 25,847	$ 29,726	$ 168,366	$ 167,766
Ontario	89,229	75,605	15,794	13,935	73,435	61,670
Alberta	34,282	19,531	12,277	752	22,005	18,779
Maritimes	18,003	15,694	240	108	17,763	15,586
Manitoba	8,661	7,586	139	114	8,522	7,472
Total	$ 344,388	$ 315,908	$ 54,297	$ 44,635	$ 290,091	$ 271,273

Reinsurance

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

(thousands of Canadian $)	2011	2010
Dwelling and farm property	$ 750	$ 750
Unlicensed vehicles	750	750
Commercial property	1,000	1,000
Autombile and general liability	1,500	1,500
(subject to filling an annual aggregate deductible of)	1,500	1,500
Property catastrophe (health care)	7,500	7,500
Property catastrophe (non-health care)	8,500	8,500

The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency.

Actuarial risk

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the period end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the period-end date.

The significant assumptions used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends and claim development patterns, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim, the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors, which necessarily involves risk that actual results may differ materially from the estimates.

Financial risk

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

Significant financial risks are related to the Corporation's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the SGI Board of Directors, based on a recommendation from the Investment Committee of the Board. The SIP&G provides guidelines to the investment manager for the asset mix of the portfolio regarding quality and quantity of debt, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different asset classes and in domestic and foreign markets. SGI receives regular reporting from the investment manager and custodian regarding compliance with the SIP&G. The investment manager's performance is evaluated based on return objectives, including realized and unrealized capital gains and losses plus income from all sources, and goals stated in the SIP&G.

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from its customers, brokers and reinsurers) and certain investments. The maximum credit risk to which it is exposed is limited to the carrying value of the financial assets summarized as follows:

	June 30 2011	December 31 2010
(thousands of Canadian $)	Carrying Value	Carrying Value
Cash and cash equivalents	$ 6,330	$ 27,809
Accounts receivable	144,013	138,527
Fixed income investments [1]	456,351	435,150
Unpaid claims recoverable from reinsurers	54,297	44,635

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

Cash and cash equivalents include money market investments of $10,869,000 less cash on hand, net of outstanding cheques of $4,539,000 (December 31, 2010 – money market investments of $26,448,000 plus cash on hand, net of outstanding cheques of $1,361,000). 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, along with amounts from brokers across the provinces that the Corporation operates in. Accounts receivable consist of balances outstanding for one year or less.

(thousands of Canadian $)	June 30 2011	December 31 2010
Current	$ 142,487	$ 137,242
30 - 59 days	595	594
60 - 89 days	270	253
Greater than 90 days	5,728	5,551
Subtotal	149,080	143,640
Allowance for doubtful accounts	(5,067)	(5,113)
Total	$ 144,013	$ 138,527

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 Canadian $)	six months ended June 30 2011	twelve months ended December 31 2010
Allowance for doubtful accounts, opening balance	$ 5,113	$ 6,261
Accounts written off	(957)	(2,134)
Current period provision	911	986
Allowance for doubtful accounts, ending balance	$ 5,067	$ 5,113

Credit risk within investments is related primarily 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 debentures are as follows:

	June 30, 2011		December 31, 2010	
Credit Rating	Fair Value (thousands of $)	Makeup of Portfolio (%)	Fair Value (thousands of $)	Makeup of Portfolio (%)
AAA	$ 221,599	56.4	$ 197,639	53.9
AA	99,965	25.5	82,539	22.5
A	50,858	12.9	65,765	17.9
BBB	20,389	5.2	21,042	5.7
Total	$ 392,811	100.0	$ 366,985	100.0

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

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

Credit risk associated with reinsurers is managed through regular monitoring of credit ratings of the reinsurers utilized by the Corporation. Reinsurers' credit ratings range from AA+ to A- based on the most recent ratings by A.M. Best.

Market risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk primarily impacts the value of investments.

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures, and the mortgage pooled fund. Changes in interest rates also impact the provision for unpaid claims and unpaid claims recoverable from reinsurers. The impact that a change in interest rates has on investment income will be partially offset by the impact the change in interest rates has on discounting of claims incurred.

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

	100 basis point increase		100 basis point decrease	
(thousands of Canadian $)	June 30 2011	December 31 2010	June 30 2011	December 31 2010
Investment earnings	(10,625)	(11,529)	11,073	11,529
Claims incurred	(6,850)	(6,569)	6,850	6,599
Net income (loss)	(3,775)	(4,960)	4,223	4,930

Foreign exchange risk

The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investments, purchases of goods and services that are denominated in U.S. dollars, and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to EAFE (Europe, Australasia and Far East) currencies through its investment in the non-North American 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 in associates accounted for using the equity method and preferred shares. At June 30, 2011, the Corporation's exposure to U.S. equities was 5.7% (December 31, 2010 – 5.2%) and its exposure to non-North American equities was 5.4% (December 31, 2010 – 5.4%).

At June 30, 2011, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $3.6 million (December 31, 2010 - $3.1 million) decrease/increase in net income and retained earnings. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a $3.3 million (December 31, 2010 - $3.2 million) decrease/increase in net income and retained earnings. As U.S. common shares, the U.S. equity pooled fund and the non-North American equity pooled fund are classified as fair value through profit and loss, any unrealized changes due to foreign currency are recorded in net income.

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 25.5% (December 31, 2010 – 26.4%) of the carrying value of the Corporation's total investments. Individual stock holdings are diversified by geography, industry type and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Corporation's common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

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

	(thousands of Canadian $)	
Asset Class	June 30, 2011	December 31, 2010
Canadian pooled equity fund and Canadian common shares	+/- $ 33,502	+/- $ 36,613
U.S. pooled equity fund and U.S. common shares	+/- 9,528	+/- 8,054
Non-North American pooled equity fund	+/- 11,437	+/- 11,128

The Corporation's equity investments are classified as fair value through profit and loss and as such, any unrealized changes in their fair value are recorded in the statement of operations.

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.

8. CAPITAL MANAGEMENT

The Corporation's primary objectives when managing capital are to ensure adequate funding is available to pay policyholder claims, be flexible in its product offerings and support its growth strategies, while providing an adequate return to its shareholder. Its main sources of capital are retained earnings and cash injections in the form of equity advances from its parent, CIC. There were no changes to the Corporation's capital structure during the period.

The Corporation uses a common industry measurement, the Minimum Capital Test (MCT), to monitor its capital adequacy. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required.

SGI CANADA is not a regulated insurer; however, its subsidiaries, SGI CANADA Insurance Services Ltd., Coachman Insurance Company and the Insurance Company of Prince Edward Island, are subject to rate regulation related to their automobile premiums. Regulators require insurers to maintain a level of capital sufficient to achieve an MCT of 150% or higher based on the risk profile of the insurer and its business. At June 30, 2011, the Corporation's MCT was 232% (December 31, 2010 - 247%). There have been no changes to the Corporation's capital management processes and measures since the prior year-end.

9. CHANGE IN NON-CASH OPERATING ITEMS

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

	three months to June 30		six months to June 30	
(thousands of Canadian $)	2011	2010	2011	2010
Accounts receivable	$ (22,322)	$ (20,947)	$ (5,626)	$ (3,423)
Unpaid claims recoverable from reinsurers	(11,777)	(14,554)	(9,662)	(12,955)
Reinsurers' share of unearned premiums	1,640	346	(6,690)	(6,215)
Deferred policy acquisition costs	(2,945)	(4,304)	15	(1,111)
Other assets	(545)	1,323	(273)	1,330
Accounts payable and accrued liabilities	4,753	(3,430)	(5,024)	(18,213)
Premium taxes payable	5,571	5,270	(9,188)	(8,436)
Amounts due to reinsurers	(203)	(242)	4,460	4,820
Unearned reinsurance commissions	179	81	(18)	(36)
Unearned premiums	20,267	19,479	10,041	7,179
Provision for unpaid claims	31,536	40,183	28,480	39,171
	$ 26,154	$ 23,205	$ 6,515	$ 2,111

10. EMPLOYEE SALARIES AND BENEFITS

The Corporation incurs salary costs, retirement benefit costs associated with its defined benefit pension plan, defined contribution plan and its defined benefit service recognition plans and other benefits costs. The Corporation allocates a portion of these costs to the Saskatchewan Auto Fund for those employees of the Corporation who provide service to it based on a cost allocation framework. These amounts have been disclosed separately in this note.

The Corporation allocates expenses incurred to the various operating functions. The Corporation includes employee salaries and benefits in the claims incurred and administrative expense line on the statement of operations. The total salary and benefits expenses incurred during the year are as follows:

	three months to June 30		six months to June 30	
(thousands of Canadian $)	2011	2010	2011	2010
Salaries	$ 27,036	$ 27,097	$ 53,371	$ 54,260
Defined contribution pension plan	1,483	1,512	2,954	2,944
Defined benefit pension plan	(37)	19	(75)	38
Defined benefit service recognition plans	567	577	1,135	1,154
Other benefits	4,261	4,038	7,708	7,510
Total salaries and benefits	33,310	33,243	65,093	65,906
Less: allocation to Saskatchewan Auto Fund	(20,909)	(20,903)	(40,859)	(41,569)
Salaries and benefits incurred in SGI CANADA	$ 12,401	$ 12,340	$ 24,234	$ 24,337

Defined contribution pension plan

The Corporation has employees who are members of the Capital Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to matching employee contributions of 5.5% to the plan.

Defined benefit pension plan

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to operations on the basis of actuarial valuations, the most recent valuation being as of January 1, 2010. The next valuation is anticipated to have a valuation date of December 31, 2012.

Pension expense for the defined benefit pension plan is as follows:

	three months to June 30		six months to June 30	
(thousands of Canadian $)	2011	2010	2011	2010
Current service cost	$ 22	$ 22	$ 44	$ 44
Interest cost	429	460	857	921
Expected return on pension plan assets	(488)	(482)	(976)	(964)
Valuation allowance	-	19	-	37
Pension expense	$ (37)	$ 19	$ (75)	$ 38

Defined benefit service recognition plans

Pension expense for the defined benefit service recognition plans is as follows:

(thousands of Canadian $)	three months to June 30 2011	three months to June 30 2010	six months to June 30 2011	six months to June 30 2010
Current service cost	$ 229	$ 201	$ 458	$ 403
Interest cost	190	228	381	455
Amortization of plan changes and past service costs	148	148	296	296
Pension expense	$ 567	$ 577	$ 1,135	$ 1,154

Actuarial losses recognized in other comprehensive loss

Other comprehensive loss results from changes to actuarial assumptions used to calculate the liabilities of the employee benefit plans and differences in the actual return on employee benefit plan assets versus estimated returns on these assets. The discount rate is the only key assumption that changed during the period, as follows:

Discount rate	Defined Benefit Pension Plan	Defined Benefit Service Recognition Plans
December 31, 2009	5.30%	5.00% - 5.40%
June 30, 2010	5.00%	4.50% - 4.80%
December 31, 2010	4.90%	4.30% - 4.50%
June 30, 2011	4.80%	4.20% - 4.40%

Actuarial losses recognized in other comprehensive loss are as follows:

(thousands of Canadian $)	2011	2010
Cumulative actuarial losses, January 1	$ 5,406	$ 4,278
Recognized in the first quarter	-	-
Recognized during the second quarter	248	2,484
Cumulative actuarial losses, June 30	$ 5,654	$ 6,762

Allocation to Saskatchewan Auto Fund

The Corporation incurs retirement benefit costs associated with its defined benefit pension plan, defined contribution plan and its defined benefit service recognition plans. The Corporation allocates a portion of these costs to the Saskatchewan Auto Fund for those employees of the Corporation who provide service to it. These amounts are recovered by the Corporation as part of its cost allocation process.

Key management personnel

Key management personnel are those persons having authority over the planning, directing and controlling activities of the Corporation, and include Board Members, the President and Chief Executive Officer, and Vice-Presidents of the Corporation. Key management personnel compensation is comprised of:

	three months ended June 30		six months ended June 30	
(thousands of Canadian $)	2011	2010	2011	2010
Salaries and benefits	$ 1,244	$ 1,075	$ 1,930	$ 1,662
Post-employment benefits	8	13	16	25
Contributions to defined contribution pension plan	63	55	123	106
	$ 1,315	$ 1,143	$ 2,069	$ 1,793

11. FACILITY ASSOCIATION PARTICIPATION

Through its subsidiaries, the Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

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

	three months to June 30		six months to June 30	
(thousands of Canadian $)	2011	2010	2011	2010
Gross premiums written	$ 1,068	$ 2,052	$ 1,688	$ 2,515
Net premiums earned	$ 832	$ 1,612	$ 1,544	$ 2,194
Claims incurred	686	789	1,310	1,041
Commissions	88	119	108	246
Premium taxes	26	51	48	69
Administrative expenses	229	412	376	521
Total claims and expenses	1,029	1,371	1,842	1,877
Underwriting profit (loss)	(197)	241	(298)	317
Investment earnings	39	13	70	37
Net income (loss)	$ (158)	$ 254	$ (228)	$ 354

12. SEGMENTED INFORMATION

The Corporation provides property and casualty insurance through four operating segments located across Canada: Saskatchewan, Manitoba and Alberta, Ontario, and the Maritimes (where Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). These operating segments correspond with the geographical regions that SGI CANADA operates. The performance of each operating segment is reported separately to the Corporation's Board of Directors.

The product offerings vary across the segments, but all products offered are considered property and casualty insurance.

three months to June 30, 2011

(thousands of Canadian $)	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 93,645	$ 13,735	$ 17,135	$ 6,730	$ -	$ 131,245
Net premiums earned	79,171	11,684	13,356	5,127	-	109,338
Claims incurred	52,787	9,616	10,354	3,953	-	76,710
Other expenses	31,635	4,115	5,327	1,805	-	42,882
Underwriting loss	(5,251)	(2,047)	(2,325)	(631)	-	(10,254)
Investment earnings	2,719	408	1,417	316	-	4,860
Loss before the following:	(2,532)	(1,639)	(908)	(315)	-	(5,394)
Income tax recovery	-	(450)	(256)	(97)	-	(803)
Net loss	$ (2,532)	$ (1,189)	$ (652)	$ (218)	$ -	$ (4,591)

three months to June 30, 2010

(thousands of Canadian $)	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 88,535	$ 12,840	$ 12,057	$ 6,569	$ -	$ 120,001
Net premiums earned	76,361	10,474	8,651	4,690	-	100,176
Claims incurred	59,734	7,348	7,862	2,178	-	77,122
Other expenses	30,365	3,579	2,772	1,710	-	38,426
Underwriting profit (loss)	(13,738)	(453)	(1,983)	802	-	(15,372)
Investment earnings	(1,253)	239	449	199	-	(366)
Income (loss) before the following:	(14,991)	(214)	(1,534)	1,001	-	(15,738)
Income taxes (recovery)	-	(104)	(475)	326	-	(253)
Net income (loss)	$ (14,991)	$ (110)	$ (1,059)	$ 675	$ -	$ (15,485)

six months to June 30, 2011

(thousands of Canadian $)	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 155,233	$ 22,227	$ 32,024	$ 10,258	$ -	$ 219,742
Net premiums earned	158,035	23,154	25,039	10,163	-	216,391
Claims incurred	88,037	17,342	18,953	7,684	-	132,016
Other expenses	61,606	8,068	8,509	3,550	-	81,733
Underwriting profit (loss)	8,392	(2,256)	(2,423)	(1,071)	-	2,642
Investment earnings	8,924	1,244	2,617	532	-	13,317
Income (loss) before the following:	17,316	(1,012)	194	(539)	-	15,959
Income taxes (recovery)	-	(282)	55	(165)	-	(392)
Net income (loss)	$ 17,316	$ (730)	$ 139	$ (374)	$ -	$ 16,351
Total assets	$ 621,952	$ 128,329	$ 172,108	$ 45,775	$ (41,485)	$ 926,679
Total liabilities	$ 452,038	$ 90,245	$ 130,833	$ 34,568	$ (41,485)	$ 666,199
Province of Saskatchewan's equity	$ 169,913	$ 38,565	$ 41,276	$ 10,726	$ (2,323)	$ 258,157

six months to June 30, 2010

(thousands of Canadian $)	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 146,821	$ 20,160	$ 21,000	$ 9,938	$ -	$ 197,919
Net premiums earned	151,289	20,353	16,186	9,127	-	196,955
Claims incurred	94,486	13,839	12,429	4,941	-	125,695
Other expenses	59,529	6,983	4,929	3,582	-	75,023
Underwriting profit (loss)	(2,726)	(469)	(1,172)	604	-	(3,763)
Investment earnings	6,818	1,467	1,418	410	-	10,113
Income before the following:	4,092	998	246	1,014	-	6,350
Income taxes	-	236	74	329	-	639
Net income	$ 4,092	$ 762	$ 172	$ 685	$ -	$ 5,711
Total assets	$ 695,462	$ 149,690	$ 140,256	$ 39,683	$ (163,799)	$ 861,292
Total liabilities	$ 446,560	$ 66,787	$ 100,749	$ 29,972	$ (33,748)	$ 610,320
Province of Saskatchewan's equity	$ 248,902	$ 82,903	$ 39,507	$ 9,711	$ (130,051)	$ 250,972

13. COMPARATIVE FINANCIAL INFORMATION

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