SGI CANADA

2008 SGI CANADA annual report

www.sgicanada.ca

SGI CANADA

Vision

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

Values

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

About SGI CANADA

SGI CANADA is a dynamic and innovative company selling property and casualty insurance in seven provinces. It operates as SGI CANADA in Saskatchewan; SGI CANADA Insurance Services Ltd. in Alberta and Manitoba; Coachman Insurance Company in Ontario; and the Insurance Company of Prince Edward Island in New Brunswick, Nova Scotia and Prince Edward Island. Products are sold exclusively through independent insurance brokers in all jurisdictions. Visit SGI CANADA at www.sgicanada.ca.

Table of Contents

Letter of Transmittal

Regina, Saskatchewan
March, 2009

To His Honour,
The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of the Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of Saskatchewan Government Insurance for the year ended December 31, 2008, including the financial statements in the form required by the Treasury Board and in accordance with *The Saskatchewan Government Insurance Act*.

I have the Honour to be, Sir,

Your Obedient Servant,

Honourable Ken Cheveldayoff
Minister of Crown Corporations

Minister's Letter

It continues to be an exciting, rewarding time for CIC and its 12 subsidiary Crown corporations. Three Crowns were recognized for excellence in diversity by Maclean's magazine. In addition, six Crowns were among Saskatchewan's Top 15 Employers for 2009, as selected by the editors of Canada's Top 100 Employers. I take pride in the fact that our Crowns' workforces reflect our communities and are recognized as exceptional places to work.

SGI CANADA enjoyed its third most profitable year ever in 2008 as it continues to support the growth of Saskatchewan's economy. I am proud of the fact that SGI CANADA earned exceptional customer service ratings from its independent brokers.

My priority for the future remains the same: to ensure that Saskatchewan's Crown corporations remain publicly owned and provide high quality services at a low cost. This is a promise our Government made to the people of Saskatchewan, and it is a promise we will keep. A current theme in the Crown sector that I expect to continue is growth. By that I mean the changes required within the Crowns to sustain and support Saskatchewan's economic momentum. These changes range from investing in new infrastructure to expanding various services in line with the demand from both our residential and business communities.

Our new Saskatchewan First investment policy for the Crowns also reflects this theme. The policy recognizes that our growing economy presents increasing opportunity for investing in our own province. We will continue to move in that direction.

In 2009, SGI CANADA will focus on growing its business in a controlled and profitable manner in the provinces where it currently operates.

As you will see in this report, our Crown sector is financially healthy and ready to meet the challenges and opportunities of the coming years.

I am pleased to present SGI CANADA's 2008 Annual Report.

Honourable Ken Cheveldayoff
Minister of Crown Corporations

Chair's Letter

Thanks to our staff and broker partners, SGI CANADA once again experienced a successful year in 2008. By posting the third largest profit in our history, we have put the Corporation in a solid position for what will likely be a challenging year in 2009.

I thank our dedicated team of employees and top-notch network of independent brokers. They enable SGI CANADA to maintain its reputation for providing excellent customer service and superior products at competitive prices. I also acknowledge our management team for their commitment to SGI CANADA and for pulling together to deal with the unexpected departure during the year of our President and CEO.

The Board of Directors recognizes and thanks Jon Schubert for his numerous contributions to the success of the Corporation. SGI CANADA appreciates his hard work and many years of leadership, and we all wish him well in his new role. Special recognition should also be extended to Earl Cameron for demonstrating his commitment to SGI CANADA by serving in the role of Acting President and CEO.

Warren Sproule
Chair, SGI CANADA Board of Directors

President's Message

Financial position

For SGI CANADA, 2008 was a challenging and profitable year. The Corporation produced a solid profit of $40.4 million in 2008, positioning SGI CANADA well leading into 2009.

In early 2009, SGI CANADA revised its Vision to more accurately reflect its business strategy. This change allows SGI CANADA to focus on profitable growth in our existing markets in Saskatchewan, Alberta, Manitoba, Ontario and the Maritimes.

SGI CANADA's out-of-province investments continue to support its in-province operations as they improve the Corporation's geographic spread of risk.

SGI CANADA is committed to distributing its products exclusively through the independent broker network. This distribution model continues to bring the Corporation success, and we greatly appreciate the support of our brokers in all jurisdictions in which we operate.

SGI CANADA's out-of-province operations were profitable in 2008, and the Corporation has seen solid growth through its diversification strategy. We will continue seeking profitable growth in our out-of-province operations in the future.

Operations

In order to remain successful, SGI CANADA spreads its risk over different geographic regions. This helps the Corporation's financial results remain balanced. If one region has a profitable year, this could offset another region that experienced severe weather, resulting in a large number of claims.

Premium growth in 2008 out-of-province was 25% resulting in over $73 million in premium from outside Saskatchewan, which represents about 20% of SGI CANADA's overall premium for the year.

Looking at business in Saskatchewan, premiums written exceeded expectations due in part to improved economic conditions across the province. In addition, the summer storm season was an average one, which contributed positively to our underwriting profit.

SGI CANADA strives to provide superior customer service and, as such, we are committed to getting cash into our customers' hands quickly in storm situations.

Growth in the Alberta market continues to exceed expectations. Brokers in the province indicate they are pleased with the quality of service they receive from SGI CANADA. An outstanding appeal removing a cap on soft-tissue injury claims in Alberta has caused some uncertainty in that market. SGI CANADA placed additional funds in reserve for future claims, which contributed to the loss in Alberta operations in 2008.

Manitoba experienced growth in premiums and policy counts in 2008. Brokers continue to praise SGI CANADA's service, particularly Manitoba's claims department. Despite a higher than average frequency of fire losses, a small profit was recorded in 2008.

Ontario had a very profitable year despite soft market conditions, which had competitors reducing prices to gain market share. Coachman maintained its underwriting and pricing discipline, which allowed for a financially successful year.

The Insurance Company of Prince Edward Island (ICPEI) also had a profitable year, and experienced continued growth in New Brunswick and Nova Scotia. Court challenges are outstanding on the soft-tissue injury caps in the Maritimes as well, and reserves have been put in place to offset the potential impact of claims. Despite this, ICPEI realized a profit in 2008.

Broker partnerships

SGI CANADA's success is largely due to the hard work of its dedicated network of independent brokers. SGI CANADA values its relationship with its broker force. We are committed to providing them with superior service, and we continue receiving positive feedback from brokers in all regions.

SGI CANADA regularly holds broker council meetings in each jurisdiction it operates in. These councils allow us to receive feedback directly from our brokers. We have implemented many changes as a direct result of this input. Our brokers tell us that we remain very responsive as a company to their suggestions.

In July, SGI CANADA introduced a new Energy Pak product to meet the needs of Western Canada's oil and gas sector.

We want to make it easier to do business with us, so we made improvements to internal underwriting processes and created numerous billing enhancements. We also made enhancements to our seven broker websites.

Employees

SGI CANADA's success and growth in 2008 is also attributable to the continued efforts of its employees. The Corporation is committed to maintaining a work environment with engaged employees.

For the third consecutive year, the Corporation was listed as one of Saskatchewan's Top Employers and for the second consecutive year it was selected as one of Canada's Top 100 Employers. Making these lists is a reflection of our dedicated, talented and customer-focused staff.

We were also recognized as one of Canada's Best Diversity Employers and are the only Saskatchewan company to make the 2008 list.

Jon Schubert

SGI CANADA thanks past President and CEO Jon Schubert for his contributions to the Corporation. In October 2008, Jon accepted a position as President and CEO of the Insurance Corporation of British Columbia.

Jon began his career with SGI in 1976. He served as President and CEO from 2004 to 2008. Under his leadership, SGI CANADA produced strong financial results, diversified risk through growing the business, established clear visions and values, and enhanced focus on customer service. Jon was instrumental in establishing the President's Youth Advisory Council and the President's Employee Engagement Team.

As we move into 2009, there are many opportunities ahead for SGI CANADA. With these opportunities come challenges, and with the Corporation's strong strategies, goals and dedicated team of employees and brokers, I am confident that SGI CANADA will continue succeeding in 2009.

Earl G. Cameron
Acting President and CEO

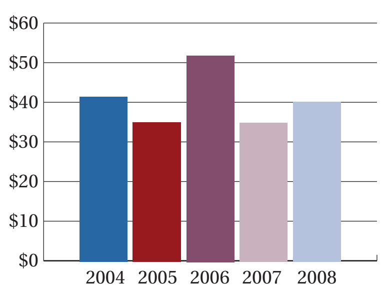
Five-year Review

SGI CANADA Consolidated

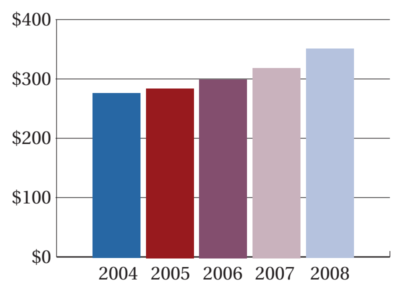
Millions of dollars except pre-tax return on equity and ratios.

	2004	2005	2006	2007	**2008**
Net premiums written	278.0	286.4	301.2	320.7	**353.4**
Net income	41.7	35.2	52.1	35.1	**40.4**
Total assets	528.9	598.2	662.5	707.2	**717.3**
Province of Saskatchewan's equity	106.0	143.4	161.6	189.0	**177.8**
Pre-tax return on equity	43.5%	28.9%	35.4%	22.2%	**22.6%**
Loss ratio	58.9%	57.8%	54.0%	60.9%	**55.3%**
Expense ratio	35.2%	36.1%	37.4%	38.7%	**39.2%**
Combined ratio	94.1%	93.9%	91.4%	99.6%	**94.5%**

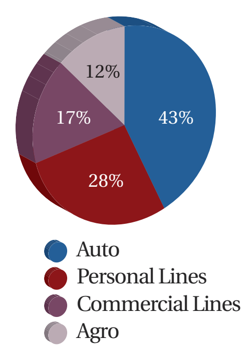
Net Income
millions of dollars



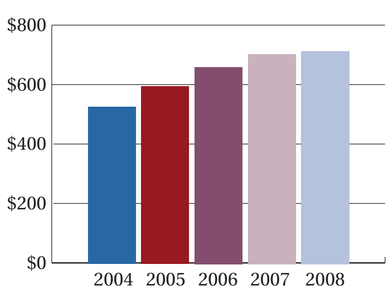
Net Premiums Written
millions of dollars



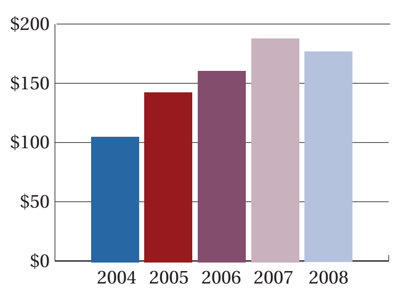
2008 Net Premiums Written
by product



Total Assets
millions of dollars



Province of Saskatchewan's equity
millions of dollars



Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) is the responsibility of management and reflects events known to management to February 24, 2009. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit and Finance Committee, comprised exclusively of independent directors. The Audit and Finance Committee's mandate can be found on the Corporation's website at www.sgi.sk.ca under About SGI. The Board of Directors approved this MD&A at its meeting on February 25, 2009, after a recommendation to approve was put forth by the Audit and Finance Committee.

Overview

The MD&A is structured to provide users of SGI CANADA's financial statements with insight into SGI CANADA (denoted as the Corporation) and the industry in which it operates. This section contains its strategies and its capability to execute the strategies, key performance drivers, 2008 results, liquidity and capital, critical accounting estimates, upcoming changes in announced accounting policies, risk management and the outlook for 2009. Information contained in the MD&A should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

Caution Regarding Forward-Looking Statements

Forward-looking statements include, among others, statements regarding SGI CANADA's objectives, strategies and capabilities 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 that it believes are appropriate in the circumstances. SGI CANADA deems that the assumptions built into the forward-looking statements are plausible; however, all factors should be considered carefully when making decisions with respect to the Corporation. Undue reliance should not be placed on the Corporation's forward-looking statements, which only apply as of the date of this MD&A document. The Corporation does not undertake to update any forward-looking statements that may be made from time to time by or on its behalf.

Table of Contents

Where SGI CANADA Came From

In 1944, the Government of Saskatchewan passed *The Saskatchewan Government Insurance Act* creating the provincial Crown corporation that is known today as SGI. SGI was created to rectify problems in the Saskatchewan insurance industry. At that point in time, poor economic conditions had driven many insurers out of the province.

SGI's mandate since its inception has been to provide comprehensive, affordable insurance protection to the people of Saskatchewan. In 1980, legislated changes to *The Saskatchewan Government Insurance Act, 1980* and

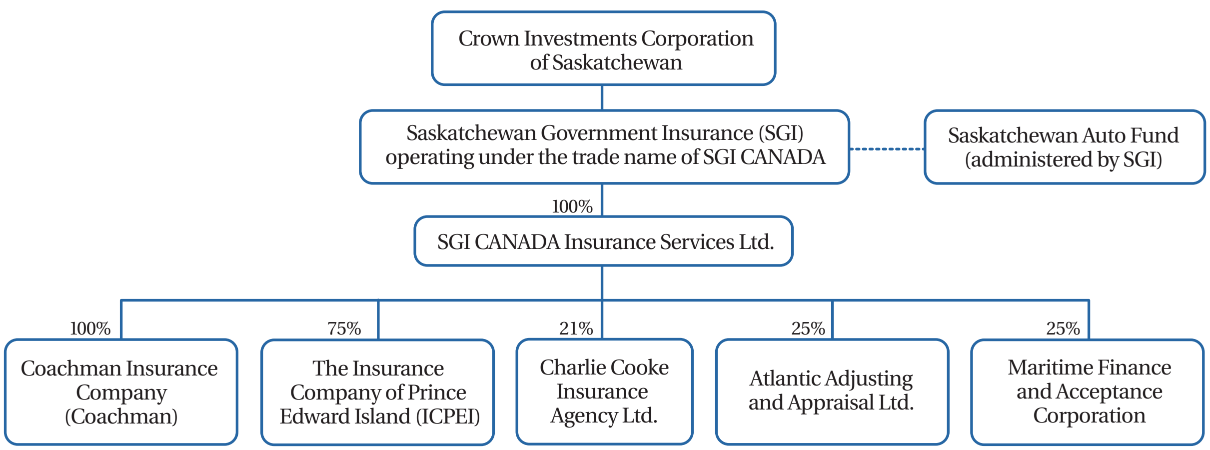
The Automobile Accident Insurance Act distinguished between the compulsory vehicle insurance program for the province (the Saskatchewan Auto Fund) and the competitive insurer offering additional property and casualty products (SGI CANADA).

SGI CANADA is the trade name that SGI operates under to provide competitive, quality property and casualty (P&C) insurance products in Saskatchewan. P&C product offerings include policies for automobile, home, farm and commercial enterprises. In addition, SGI CANADA, through its subsidiary SGI CANADA Insurance Services Ltd., offers similar products in six other provinces across Canada.

The SGI CANADA annual and quarterly reports are available on our website at www.sgicanada.ca under Corporate Profile.

The operations in provinces outside Saskatchewan are important to the Corporation in order to spread risk, maintain and create jobs in Saskatchewan, and increase economic returns for SGI CANADA's shareholder, Crown Investments Corporation of Saskatchewan (CIC). In 1993, SGI CANADA Insurance Services Ltd. began offering P&C insurance in Manitoba. In 2001, SGI CANADA Insurance Services Ltd. became the majority shareholder (75%) of the Insurance Company of Prince Edward Island (ICPEI) and also purchased 100% of the shares of Coachman Insurance Company (Coachman). Coachman operates in Ontario while ICPEI operates in Prince Edward Island, New Brunswick and Nova Scotia. SGI CANADA Insurance Services Ltd. has also been operating in Alberta since June 2006.

The Corporation is a provincial Crown corporation wholly owned by CIC. The following organizational chart illustrates the Corporation's ownership structure:



As a provincial Crown corporation, SGI CANADA is not subject to federal or provincial income taxes. Its subsidiaries are not provincial Crown corporations; thus they are subject to federal and provincial income taxes. The consolidated financial results of SGI CANADA are included in CIC's, its parent company's, consolidated financial statements.

At December 31, 2008, the Corporation employed over 1,800 people, including those employees who work directly for the Saskatchewan Auto Fund. SGI CANADA operates with a network of 263 independent brokers throughout Saskatchewan, as well as 237 brokers operating in Manitoba, Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia. SGI CANADA's corporate head office is located in Regina, Saskatchewan.

The Property and Casualty Insurance Business Environment[1]

At September 30, 2008, Canada's highly competitive P&C industry had approximately 215 private and government-owned insurers. The P&C industry covers all types of insurance other than life and health insurance. As in prior years, the automobile insurance sector continues to be the largest contributor to gross premium volume at almost half of all premiums, property insurance ranks second, followed by liability insurance and other insurance.

Insurance is a mechanism for spreading risk, for sharing the losses of the few among the many. Insurance makes the life of an individual or business enterprise more stable by allowing people and businesses to engage in many ventures without having to set aside reserves to meet the financial requirements that may arise from certain types of losses. Insurance also facilitates the granting of credit by protecting the investments of both lenders and borrowers.

Insurance can be considered as a large pool into which policyholders place their premiums.[2] This pool provides for payment of losses suffered by those who have claims, and for the cost of running the insurance company. Sometimes total premiums are insufficient to pay claims and operating expenses; however, insurers also use investment earnings to pay claims and keep premiums lower than they might otherwise be.

P&C insurance companies are supervised and regulated at the federal and provincial levels. The federal regulator, the Office of the Superintendent of Financial Institutions, is responsible for the solvency and stability of P&C insurance companies registered federally. Provincial authorities supervise the terms and conditions of insurance contracts and the licensing of companies, agents, brokers and adjusters, along with monitoring the solvency and stability of provincially registered companies. SGI CANADA's subsidiaries are provincially regulated insurance companies.

Since automobile insurance is compulsory in Canada, unlike home and business insurance, it is the most regulated area that P&C companies operate within. 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, which represents approximately 9.8% of the consolidated net premiums earned in 2008.

The industry is a major part of the social and economic fabric of Canada. P&C insurers invest mainly in domestic government bonds, corporate bonds, preferred shares and common stocks. Government regulations are in place for the P&C industry that require these investments to be made using a prudent person's viewpoint.

The P&C industry also utilizes reinsurance. Reinsurers, most of which are international organizations, spread risks by writing business with insurers in several countries and in many regions around the world. Insurance companies pay premiums to reinsurers in exchange for an agreement to have a proportion of their claims paid for them, particularly in the event of a major loss or catastrophe. Reinsurance is one of many tools used by insurers to guarantee that they will meet every obligation to pay legitimate claims. Recent disasters around the world have led to a decline in the amount of reinsurance available to insurers. As a result, Canadian insurance companies have had to pay higher prices for reinsurance.

The Property and Casualty Insurance Compensation Corporation (PACICC), a non-profit entity, was formed in 1988 to provide a reasonable level of recovery for policyholders and claimants under most policies issued by P&C companies in Canada in the unlikely event of the failure of a Canadian P&C company. The maximum amount a policyholder could recover from PACICC is $250,000 in respect of all claims arising from each policy issued by the insolvent insurer, and arising from a single occurrence. Policyholders may also claim 70% of unearned premiums that have been paid in advance to a maximum of $700 per policy.

Membership in PACICC is compulsory for most P&C insurers in Canada. SGI CANADA, SGI CANADA Insurance Services Ltd., Coachman and ICPEI are all members of PACICC. Members have contributed funds to PACICC so there is money available to pay claims immediately in the event of an insolvency occurring in the industry. Member insurers will provide additional funds, as required, to maintain PACICC. For more information on PACICC, visit its website at www.pacicc.com.

[1] Adapted from **"Facts About Property and Casualty Insurance In Canada"** prepared by the Insurance Bureau of Canada, *Facts 2008*.
[2] This and other terms are defined in the glossary included in this annual report. The glossary begins on page 79.

Strategic Direction

SGI CANADA's vision and values are as follows:

Vision

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

Values

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

Corporate Strategies

SGI CANADA's corporate strategies focus on maintaining its market share in Saskatchewan while diversifying operations profitably using a network of independent brokers to distribute its insurance products.

SGI CANADA's rationale for growth outside Saskatchewan is to diversify geographic risk, to return a profit to its shareholder, CIC, and to create and maintain jobs in Saskatchewan. Diversification is important because writing business solely in one geographic location, Saskatchewan, presents a significant risk exposure for an insurance company. Further growth opportunities within Saskatchewan, from an insurance perspective, are limited. Therefore, it is critical to the continued long-term success of SGI CANADA to increase its written premiums profitably outside Saskatchewan.

To meet its overriding strategic goals, the Corporation's main areas of strategic focus are:

- Competitive Business;
- Customer;
- People; and,
- Business Infrastructure.

These four areas are crucial to SGI CANADA's current and future success. Within them, the Corporation has specific strategic initiatives and has developed key targets to measure performance. The Corporation uses a balanced scorecard to monitor its performance and results. Balanced scorecard objectives provide a balanced evaluation of key operations and financial results, activities and achievements with both a short and long-term focus.

The following sections discuss key initiatives in each of the four areas of strategic focus, as well as related key performance indicators from the balanced scorecard. The balanced scorecard is reviewed annually to ensure its continued alignment with SGI CANADA's corporate strategies. Key performance targets are also reviewed and either updated or removed along with new performance targets being added.

Competitive Business

Key to the Corporation's success is its ability to grow while maintaining profitability in a highly competitive industry. Operations in provinces outside Saskatchewan continue to be crucial to SGI CANADA's diversification strategy; however, this strategy also includes maintaining the Corporation's large market share within Saskatchewan. It is a basic business principle for insurance companies to reduce the impact of significant losses by having diversified operations – both geographically and in product mix. Losses in one product or province can be made up through profits in other products and in other provinces. It is important for the Corporation to continue to diversify its insured risks, although it is understood that it is not possible for all segments or markets to be profitable each year. At December 31, 2008, approximately 20% of direct premiums written were from outside Saskatchewan, up 2% from 2007.

To be competitive in the P&C insurance industry in Canada, adequate capitalization is critical. This is not only important from a regulatory perspective, but to allow the Corporation to be flexible in its product offerings in a competitive marketplace. SGI CANADA's main sources of equity are from retained earnings and capital from its parent, CIC. There were no new capital advances to SGI CANADA from its parent during 2008. As well, there were no changes to the capital in the Corporation's subsidiaries during 2008. The Corporation uses the Minimum Capital Test, a balanced scorecard measure, to assess the adequacy of its capitalization.

While growth is key to long-term success, the Corporation overall must be profitable in order to sustain growth. The Corporation recognizes that it cannot lose sight of the Saskatchewan marketplace, the market where its success developed and that represents approximately 80% of its overall premium base. SGI CANADA strives to continue to grow profitable lines of business in Saskatchewan while maintaining its market share.

Profitable underwriting is dependent on a disciplined underwriting approach and historically SGI CANADA has been very successful. Its success comes from two areas: a large database of information in its underwriting system that allows it to properly assess risks; and, committed and experienced employees and brokers.

As well, effective utilization of reinsurance has been important as it allows the Corporation to write additional business without having to increase its capital base. Reinsurance also sets a maximum dollar limit on exposure to a claim or on a series of claims occurring from a common incident or catastrophe.

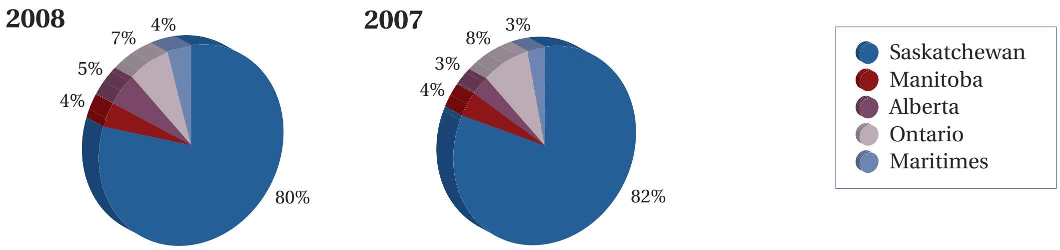
SGI CANADA uses a number of key performance indicators in its balanced scorecard to monitor the above initiatives to ensure that it is on course with its strategies:

Measure	2008 Target	2008 Results	2009 Target
Geographic diversification/the next $50 million of business	$73.2 million direct premiums are out-of-province	● $75.8 million direct premiums are out-of-province	$406.7 million total direct premiums from consolidated operations
Minimum Capital Test (consolidated entity)	Be at the industry average (316%)	○ 228%	Be at the industry average
Consolidated combined ratio	Less than 100%	● 94.5%	Less than 100%
Maintain Saskatchewan market share	40%	○ 39%	N/A
Pre-tax return on equity (consolidated entity)	23.9%	○ 22.6%	21.8%

Legend: ● achieved ○ did not achieve

Geographic diversification

The amount of business outside Saskatchewan measures the Corporation's success in diversifying its operations. The following chart indicates the amount of business by province based on direct premiums written (excluding Facility Association participation):



Diversification efforts were on target in 2008, with SGI CANADA exceeding its goal of $73.2 million in out-of-province direct premiums written in 2008. Alberta business contributed the majority of the growth in diversified operations, with $19.6 million in direct premiums written in 2008, compared to $11.1 million in 2007.

The target for 2009 is for consolidated direct premiums written of at least $406.7 million. The target represents an increase of 6.8% from 2008 direct premiums written of $380.8 million, anticipating growth in all operating segments in 2009.

Minimum Capital Test

The MCT is a regulatory measure used to assess a company's financial strength. The MCT is a risk-based capital adequacy framework that assesses the riskiness of assets, policy liabilities and off-balance sheet exposures by applying varying factors. From these calculations comes a ratio of capital available to capital required. The regulatory minimum for this ratio is 150%. That is, capital available has to be at least 50% more than capital required. The 50% cushion provides comfort for insurers to cope with volatility in markets and economic conditions, innovations in the industry, consolidation trends, international developments and to provide for risks not explicitly addressed including those related to systems, data, fraud, legal and other risks. The industry[3] average MCT at December 31, 2008 is not yet available, however it was 316% at December 31, 2007. Given the unprecedented global investment market decline during the latter half of 2008 and that insurance companies carry a significant portion of their asset base as investments, it is anticipated the industry average MCT will decline for 2008.

The following table shows MCT results by legal entity:

Company	December 31, 2008	December 31, 2007
SGI CANADA (consolidated)	228%	266%
SGI CANADA Insurance Services Ltd. (consolidated)	378%	444%
Coachman	433%	419%
ICPEI	297%	328%

The above table indicates that all companies have a strong MCT at the end of 2008, well above the regulatory minimum. Overall, the decrease in MCT scores from 2007 was primarily attributable to the unprecedented investment market declines that occurred over the last four months of 2008.

The decrease in SGI CANADA Insurance Services Ltd.'s consolidated MCT was also driven by the growing book of business primarily in Alberta and the Maritimes, and is a reflection of the need to maintain higher capital levels when a company is experiencing significant growth. SGI CANADA Insurance Services Ltd. is adequately capitalized to support the Corporation's continued diversification efforts in Alberta, Manitoba, Ontario and the Maritimes.

[3] SGI CANADA has defined "industry" for MCT and combined ratio purposes to represent P&C companies (both domestic and foreign branch) with NPW exceeding $6 million CDN and excludes all reinsurers, Lloyd's, Insurance Corporation of British Columbia, Manitoba Public Insurance and the Saskatchewan Auto Fund.

The 2008 industry average MCT is expected to decline consistent with the MCT of the SGI group of companies. Even after considering the impact of the 2008 investment market decline, SGI CANADA Insurance Services Ltd. and Coachman continue to maintain an MCT higher than the 2007 industry average.

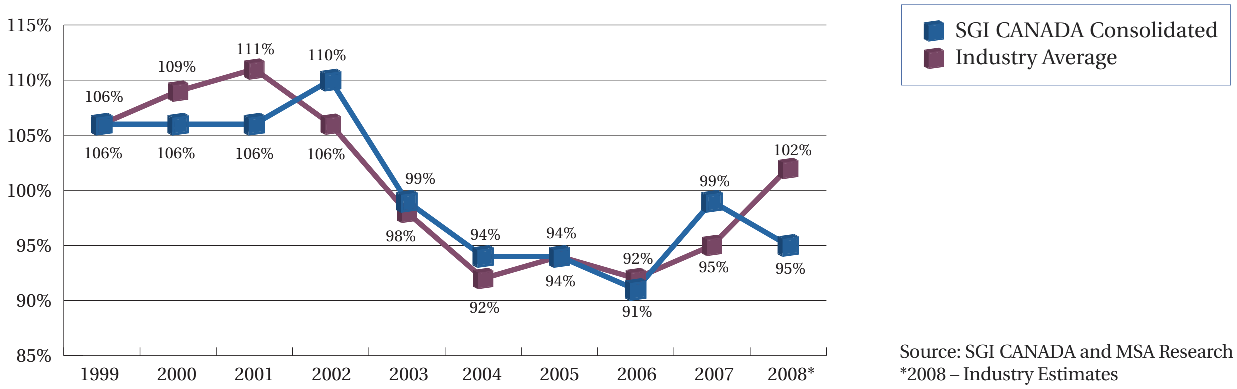
For 2009, the target again is for each legal entity of the Corporation to have an MCT at the average of the industry.

Consolidated combined ratio

This ratio is a key profitability measure for the Corporation. It measures the underwriting profit or loss for a company for a period of time. The combined ratio is calculated as total expenses (claims and other expenses, excluding income taxes and minority interest) divided by net premiums earned. Insurance companies attempt to achieve a ratio of less than 100%, which represents an underwriting profit.

As indicated in the table below, since 2003 the industry has been able to maintain a combined ratio less than 100%. The Corporation's average combined ratio over the period 1999-2008 is 100%, consistent with the industry average of 100%.

P&C Industry vs. SGI CANADA Combined Ratios



Source: SGI CANADA and MSA Research
*2008 – Industry Estimates

SGI CANADA's consolidated combined ratio for 2008 was 94.5%, exceeding its target of 100% and the prior year ratio of 99.1%. This is the sixth consecutive year that SGI CANADA has achieved a profit from its core activity of underwriting insurable risks.

While in recent years SGI CANADA has achieved a consolidated combined ratio below 100%, the Corporation understands that each jurisdiction may not reach that target every year. However, geographic diversification will help the Corporation limit its insurance risk in any one geographic area allowing it to maintain a strong combined ratio overall, at the same time as it may be experiencing high claim costs in certain markets. For instance, in 2007, high claim costs associated with significant summer storms resulted in Saskatchewan operations recording a combined ratio over 100%; however, strong underwriting results from other jurisdictions assisted the Corporation in maintaining a consolidated combined ratio under 100%.

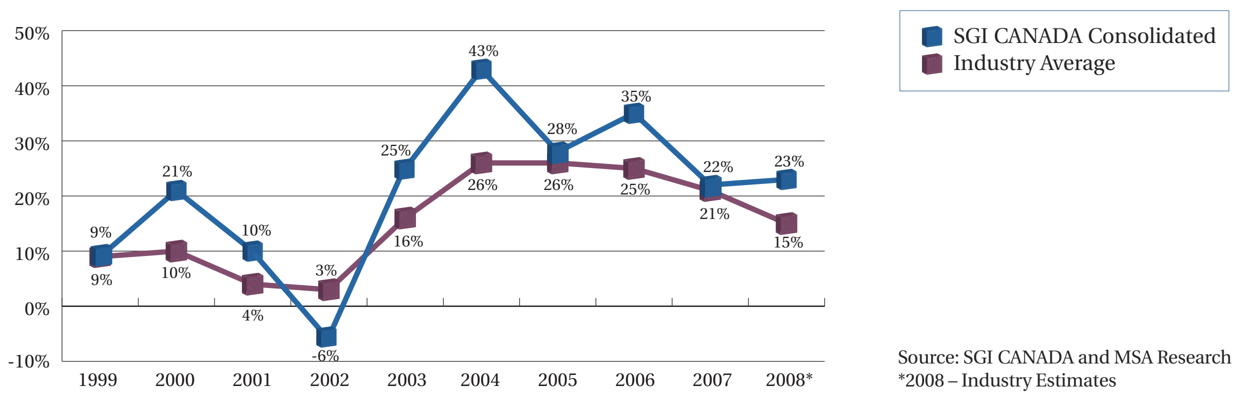
The 2009 target is again a consolidated combined ratio below 100%.

Maintain Saskatchewan market share
Maintaining the share of the Saskatchewan insurance market is important to the Corporation. Saskatchewan is the Corporation's home and is the base upon which its success has been built. This target is measured using the Superintendent of Insurance, Saskatchewan market share report for the prior year. The Corporation's Saskatchewan market share was 39% at December 31, 2008, slightly below its target of 40%.

While maintaining a strong market share in Saskatchewan continues to be important, this target has been removed from the 2009 balanced scorecard.

Return on equity
Return on equity (ROE) indicates the annual return on the investment made by SGI CANADA's shareholder. It is calculated as the ratio of income before income taxes to the average equity for the year excluding accumulated other comprehensive income.

P&C Industry vs. SGI CANADA Pre-Tax ROE



Source: SGI CANADA and MSA Research
*2008 – Industry Estimates

The industry pre-tax ROE for the year is estimated to be 15% based on data available to the end of the third quarter of 2008, the most recent time period available. For the year ended December 31, 2008, SGI CANADA's consolidated pre-tax ROE was 23%, 8% higher than the projected industry average. The Corporation's 10-year average ROE is 21% while the industry averaged 16% for the same time period.

As industry figures are not available on a timely basis, the ROE target for 2009 was revised. For 2009, the target is to achieve a consolidated ROE of 21.8%, based on the Corporation's consolidated budget estimates. The revised target will result in a more timely result being available.

Customer

Another area of strategic focus is the customer. In addition to policyholders, SGI CANADA considers its customers to be the independent insurance brokers it partners with to sell its products. The Corporation supports them by providing underwriting expertise and self-service capabilities through its broker web interfaces. SGI CANADA works closely with its brokers to obtain input and advice on the changing needs of policyholders.

Claims handling is completed internally as SGI CANADA is committed to providing high levels of customer service. This is based on the belief that personal service in handling claims results in better service to the policyholder and better control over claim costs.

SGI CANADA uses the following key performance indicators in its balanced scorecard to monitor customer initiatives to ensure it is on course with its strategies and in meeting the needs of both its brokers and policyholders:

Measure	2008 Target	2008 Results	2009 Target
Broker satisfaction survey – by province	90% broker satisfaction level	● 94.5% Saskatchewan; ● 95.7% Alberta; ● 97.3% Manitoba; ● 91.4% Ontario; ● 94.0% Maritimes	90% broker satisfaction level
Customer process improvement	New measure in 2009	New measure in 2009	Finalize e-services strategy

Legend: ● achieved ○ did not achieve

Broker satisfaction surveys

SGI CANADA conducts annual surveys in December with brokers in every jurisdiction it does business in, to determine the level of satisfaction they have with the services the Corporation provides to them. It strives for at least 90% of brokers indicating they rate SGI CANADA the same or better than the competition. For 2008, SGI CANADA exceeded its target with a 94.5% satisfaction rating from Saskatchewan brokers and a 90% or higher satisfaction rating from brokers outside of Saskatchewan.

The target for 2009 continues to be at least a 90% broker satisfaction level in all provinces that the Corporation operates in.

Customer process improvement

A key customer for SGI CANADA is its brokers. In support of this important customer, the Corporation strives to continually improve process and service for its brokers. The best opportunity for improving services is through the use of technology. SGI CANADA has begun development of a comprehensive e-services strategy to define the areas technology can best be used to enhance service to brokers.

The target for 2009 is to finalize the e-services strategy.

People

The Corporation's people strategies for 2008 focused on two areas: growing its people talent and building employee engagement.

In 2009, the Corporation has added new measures related to being a high-performance company. There are three key parts to being a high-performance organization. First, employees must clearly understand where the organization plans to go and how they fit into those plans. Second, each employee must clearly understand the results they are expected to achieve and they must deliver those results. Third, when they achieve those results, they must be recognized for their efforts. In 2009, the Corporation is adding two additional measures focusing on being a high-performance organization: the strategic clarity index and the recognition index.

Key performance indicators in the balanced scorecard to monitor the Corporation's people strategies are:

Measure	2008 Target	2008 Results	2009 Target
Grow people talent – new hires who are designated group members	25%	● 28.3%	25%
Employee value index	71%	○ 67.6%	72%
Strategic clarity index result	New measure in 2009	New measure in 2009	77.5%
Recognition index result	New measure in 2009	New measure in 2009	54%

Legend: ● achieved ○ did not achieve

Grow people talent
Provincial and corporate demographics demonstrate the need to recruit a workforce representative of the population. SGI CANADA strives to meet additional goals to help it achieve a truly representative workforce. The Corporation has established targets for all designated groups, including women in management, Aboriginal, people with disabilities and visible minorities. Results in all areas in 2008 were good, exceeding targets for most of the designated groups. The Corporation also targeted 25% of new hires be from designated groups and exceeded the target with 28.3%. SGI CANADA continues to target these areas in 2009.

Employee engagement
The Corporation recognizes that the key to achieving all its goals is employing the right people and giving them a good environment to work in. Therefore, it puts emphasis on building employee engagement. Results from the Corporation's 2005 employee survey were used to calculate a benchmark score for employee engagement of 64.8%. Beginning in December 2006, the Corporation began measuring employee engagement against the benchmark through an employee value index survey. The result for 2008 was an employee value index score of 67.6%, slightly lower than the 2008 target of 71.0%.

The goal for 2009 is a score of 72% and the Corporation will continue to put emphasis on achieving this important objective.

Strategic clarity index
Strategic clarity is achieved when employees understand the strategic direction of the corporation, they understand how their work contributes to achieving strategic goals and they understand the progress the corporation is making towards its strategic goals. The strategic clarity index measures how well employees believe SGI CANADA is achieving those three goals. Results from the 2008 employee survey were used to tabulate a benchmark strategic clarity index score of 76.5%.

The target for 2009 is a score of 77.5%.

Recognition index result
The Corporation recognizes that the achievements and efforts of employees is a key part of achieving high performance. The recognition index measures how well employees believe the corporation is recognizing their efforts and achievements. Results from the 2008 employee survey were used to tabulate a benchmark recognition index score of 52.9%.

The goal for 2009 is a score of 54%.

Business Infrastructure

A common pillar supporting all corporate strategies and initiatives is business infrastructure. To build on successes and deliver on goals, SGI CANADA's employees need the right infrastructure in place to support their work. To work efficiently and effectively, to be able to deliver what the business needs when the business needs it, they need the right computer systems and business processes. The strategies supporting "Business infrastructure" aim to meet those needs. These strategies impact all aspects of the Corporation's business.

The key performance indicators in the balanced scorecard to monitor the above initiatives are:

Measure	2008 Target	2008 Results	2009 Target
Availability of business systems	99.5% of designated hours of operation	● 99.7% of designated hours of operation	99.5% of designated hours of operation
Manage administrative expenses	13.9% of net premiums earned	● 13.1%	13.5%
Enhance enterprise risk management process	Gap analysis and develop action plan	● Gap analysis and action plan developed	Implement the action plan
CEO/CFO Certification	In compliance	● Progressing as planned	In compliance

Legend: ● achieved ○ did not achieve

Availability of business systems
The Corporation needs its computer systems available in order to operate its business. If these systems were unavailable for a significant amount of time, the business would suffer. To reduce the amount of potential down time, the Corporation has an agreement with a related party that provides alternative computing services in the event its systems were unavailable for a significant amount of time.

This measures the Corporation's success in having its computer business systems available for use by staff and brokers during specific hours of the day and for specific days of the week. For 2008, the target was exceeded and for 2009 the target is the same as 2008. This is reflective of the importance to operations of maintaining the availability of computer systems.

In addition, in 2008 the Corporation targeted to develop a business prioritization process. The Corporation has many important initiatives ongoing, and most require systems resources. This target is an important initiative towards ensuring systems resources are deployed effectively. The business prioritization process was completed during 2008.

Manage administrative expenses
To ensure effective use of resources, all aspects of the Corporation are expected to manage their allocated administrative expense budget such that the Corporation remains within its administrative expense ratio. The administrative expense ratio is total administrative expenses expressed as a percentage of net premiums earned. The actual administrative expense ratio is compared to budget administrative expense ratios within the specified time period. For 2008, SGI CANADA exceeded its target of a 13.9% administrative expense ratio.

The target for 2009 is 13.5%.

Enhance enterprise risk management program
The Corporation has been actively identifying, managing and prioritizing its risks for several years. Issues such as quantifying risks using actuarial modelling techniques will be explored to determine the benefits of this evolving process in risk management. In 2008, a gap analysis on the current process was completed with an industry expert in this field. An action plan was developed from that analysis and will be implemented in 2009. Given the nature of the insurance business, risk management is particularly important.

The target for 2009 is for the Corporation to implement the action plan.

CEO/CFO Certification
On an annual basis, starting in 2009, SGI CANADA's CEO and CFO will certify in the Corporation's annual report that the financial statements are accurate and that appropriate internal controls are in place over their financial reporting processes. This is a process common in public companies, that the entire Crown sector in Saskatchewan is implementing. It is an important process for public sector accountability and transparency, and is considered a corporate governance best practice. A corporate project was started in 2008 to ensure the Corporation will meet the requirements of CEO/CFO certification by the December 31, 2009 year-end. Through 2008 this project progressed as planned.

The target for 2009 is for the Corporation to be fully compliant.

Capability to Execute Strategies

Fundamental to the capability to execute corporate strategies, manage key performance drivers and deliver results are the Corporation's employees, brokers, technology and financial capital. They are discussed further below:

Employees

SGI CANADA's management team is experienced and knowledgeable about the Canadian P&C insurance market. Many of the Corporation's employees are long term with an average term of 16 years of employment, and the staff turnover rate for the last five years has averaged 6%. Due to this long tenure and low turnover, the Corporation has significant expertise in the core underwriting and claims handling areas of its business, as well as within its support areas. This expertise has contributed to SGI CANADA's superior loss ratio and combined ratio in the Saskatchewan market compared to the insurance industry overall. This expertise is also crucial to its success in markets outside Saskatchewan. Maintaining this expertise is key to meeting the challenges that will present themselves in the future.

SGI CANADA is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, nearly 29% of the Corporation's employees are expected to retire, or be eligible for retirement, by 2016. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of SGI CANADA's competitive position for the future. The Corporation has developed a workforce-planning model that includes Aboriginal employment, youth employment, management development and expanded performance management strategies. This model will assist in transitioning expertise as retirements occur.

The Corporation and Saskatchewan Insurance, Office and Professional Employees' Union, Local 397 (COPE 397) signed a three-year Collective Bargaining Agreement (CBA), running from January 1, 2007 to December 31, 2009, on June 12, 2007. The CBA covers the majority of non-management staff employed by the Corporation. The Corporation has not had a work stoppage since 1948 and it will continue to work with COPE 397 to ensure that this record continues into the future.

Brokers

SGI CANADA sells its products through a network of 263 independent brokers throughout Saskatchewan and 237 brokers throughout the rest of Canada. In order to continue delivering insurance products that customers desire, SGI CANADA works closely with brokers to obtain input and advice on the changing needs of customers. With the assistance of brokers, SGI CANADA is able to take a lead in delivering innovative insurance products to its customers.

SGI CANADA's brokers are well known in the communities in which they operate and they actively promote the Corporation's products and services. To support its brokers, the Corporation is continually enhancing broker web interfaces to make it easier for them to promote its products and to provide them with the self-service capabilities they have requested. Through 2009, the Corporation will be developing a comprehensive e-services strategy to define the areas technology can best be used to enhance service to brokers. The Corporation provides other services to ensure a strong commitment between brokers and SGI CANADA. This business model has brought the Corporation success in seven different markets in Canada and it will continue to market its products this way, building its broker relationships into the future.

Technology and Systems

SGI CANADA relies on its technology and systems to maintain its in-house underwriting system. Its general insurance system is flexible and can adapt to the changing competitive environment that SGI CANADA operates in. The Corporation has developed a large database of information in this system that provides a competitive advantage in assessing insurable risks. Management reporting systems are utilized to ensure management receives timely information regarding operations and to provide complete and accurate reporting to stakeholders and regulators. The Corporation monitors and responds to changes in technology to ensure that key areas are upgraded in a timely manner.

Capital and Liquidity

Adequate capitalization is crucial for insurers competing in the P&C insurance market in Canada. Not only is it important to ensure adequate funding is available to pay policyholder claims, but it allows a company to be flexible in its product offering mix in a competitive marketplace. In addition, regulators have certain capital requirements that must be met in order to sell P&C insurance in each province. Without adequate capitalization, SGI CANADA would not be capable of meeting its growth targets.

The Corporation's main sources of capital are retained earnings and cash injections in the form of equity advances from its parent, CIC. These equity advances form the Corporation's equity capitalization. There were no new equity advances to SGI CANADA from its parent in 2008 and there were no changes to the capital of the Corporation's subsidiaries during the same time period.

In Canada, either the Office of the Superintendent of Financial Institutions or provincial regulators regulate P&C insurers. The regulators require insurers to maintain a level of capital sufficient to achieve a target of 150% of a minimum capital test. SGI CANADA uses this test to assess its capital adequacy, as discussed in the Corporate Strategies section of this report. Management of the Corporation believes SGI CANADA and each of its subsidiaries is adequately capitalized to meet capital targets as well as to achieve targets for premium growth for the next five years.

Financial liquidity represents the ability of SGI CANADA's companies to fund future operations, pay claims in a timely manner and grow. A main indicator of liquidity is the cash flow generated from operating activities. This is a Canadian generally accepted accounting principle (GAAP) measurement and is reported on the Consolidated Statement of Cash Flows. For 2008, SGI CANADA generated consolidated operating cash flows of over $59 million. This cash flow is invested so that it is available to pay claims as they come due and also to meet its dividend requirements to its parent, CIC.

For the cash flow that the Corporation retains, its enabling legislation requires it to follow the same investment criterion that federally regulated P&C companies must follow. This means that the majority of the Corporation's investments are in highly liquid securities that can be sold in a timely manner in order to satisfy financial commitments. As at December 31, 2008, 41% (2007 – 51%) of the investment portfolio was in treasury bills and highly liquid bonds and debentures issued by the federal and provincial governments. The Corporation also invests in corporate bonds, a pooled mortgage fund, publicly traded North American equities and a non-North American pooled equity fund.

The Corporation's dividend policy requires that at least 65%, to a maximum of 90%, of its consolidated net income be paid as a dividend to CIC. During the current year, dividends of $26.2 million (2007 – $22.8 million) were declared, meeting this policy requirement. At the same time, adequate capital has been maintained within the Corporation to meet its capital targets and its financial obligations as they come due.

2008 Financial Results

For the Year Ended December 31, 2008

Overview of operations

SGI CANADA's consolidated net income before income taxes and non-controlling interest of $41.0 million in 2008 provided a strong pre-tax return on equity of 22.6%. This was higher than the $37 million earned in 2007, a result of increased profitability in Saskatchewan.

Pre-tax profit (loss) by operating segment
(thousands of $)

	2008	**% of pre-tax profit (loss)**	2007	% of pre-tax profit
SGI CANADA – Saskatchewan	$ 36,845	89.9%	$ 26,374	70.7%
Coachman (Ontario)	6,523	15.9%	8,206	22.0%
ICPEI (Maritimes)*	881	2.2%	1,198	3.2%
SGI CANADA – Manitoba and Alberta	(3,274)	(8.0%)	1,536	4.1%
Pre-tax profit (loss)	**$ 40,975**	**100.0%**	$ 37,314	100.0%

* ICPEI pre-tax profit is before non-controlling interest

Higher profits in Saskatchewan are primarily attributable to an increase in premium revenue and lower levels of summer storm claims. These were partially offset by a decrease in investment revenue. Coachman provided another solid return in 2008 with a slight increase in premiums through the year and continued strong claim results. ICPEI had significant premium growth from operations in New Brunswick and Nova Scotia; however, as these operations are still relatively new, did not add significantly to the overall profit compared to last year. Profitability was lower in the Manitoba and Alberta operations, primarily due to increased claims costs in 2008.

Premium revenue

Consolidated net premiums written in 2008 increased $32.8 million or 10% compared to 2007.

Net premiums written by operating segment
(thousands of $)

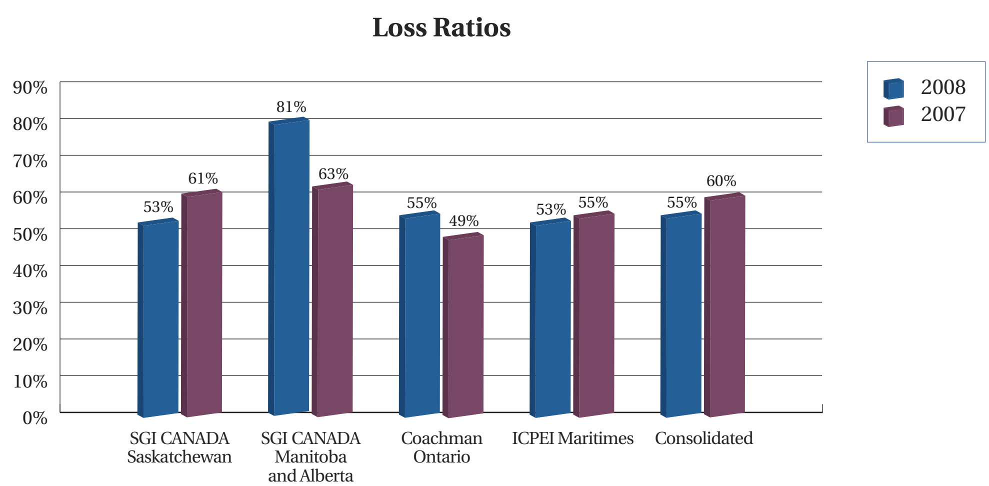
	2008	**% of net premium written**	2007	% of net premium written
SGI CANADA – Saskatchewan	$ 283,779	80.3%	$ 264,892	82.6%
SGI CANADA – Manitoba and Alberta	31,715	9.0%	21,859	6.8%
Coachman (Ontario)	23,693	6.7%	23,182	7.2%
ICPEI (Maritimes)	14,260	4.0%	10,744	3.4%
Net premiums written	**$ 353,447**	**100.0%**	$ 320,677	100.0%

Premiums from Saskatchewan operations increased 7% in 2008, while out-of-province operations saw an increase of 25% in premium writings compared to the prior year. The increase in Saskatchewan premiums written is from the expanding Saskatchewan economy resulting in growth in policy counts and increased property values, which increase the average premium per policy. Also contributing to the increase in premiums are SGI CANADA's newer markets of Alberta, New Brunswick and Nova Scotia. Net premiums written in the Manitoba operations increased 15% in 2008, while Ontario operations experienced a slight increase in net premiums written of 2% for the year.

When viewed on a line of business basis, the Corporation's consolidated split of business in 2008 was approximately 47% property (2007 – 46%), 43% auto (2007 – 44%) and 10% liability and other (2007 – 10%).

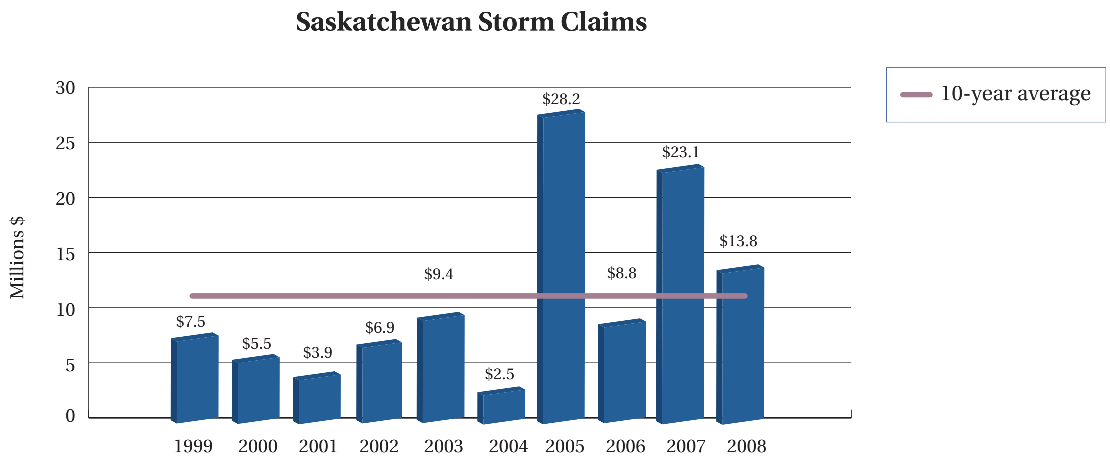
Claims incurred
Consolidated claims incurred decreased by $442,000 from $186.0 million in 2007 to $185.6 million in 2008. The decrease was primarily due to lower Saskatchewan claim costs from severe summer storm activity, partially offset by additional claims incurred related to growth in Alberta and the Maritimes.

The consolidated loss ratio of 55% decreased 5% from the 2007 level of 60%. The following table highlights the ratio of claim costs in relation to premiums earned, commonly known as loss ratio, for each operating segment:



Claim costs related to Saskatchewan operations decreased $13.1 million from $158.1 million in 2007 to $145.0 million in 2008 with a corresponding decrease in the loss ratio to 53% from 61%. The decrease was a reflection of significantly lower summer storm costs in 2008. Summer storm activity in 2007 resulted in one of the most severe summer storm seasons on record in terms of claim costs. Storm activity in 2008 resulted in claims of $13.8 million (2007 – $23.1 million), slightly higher than the 10-year average of $11.0 million.

The following graph shows the significance of storm claims over the past 10 years:



The loss ratio for Manitoba and Alberta operations increased from 63% to 81% in 2008, a result of several significant fire losses, higher than expected auto claim counts and one large commercial property loss.

The loss ratio for Ontario operations increased from 49% in 2007 to 55% in 2008, primarily a result of decreases to prior year claims reserves in 2007.

The loss ratio for the Maritimes operations is comparable to the prior year, as the Maritimes' loss ratio decreased from 55% in 2007 to 53% in 2008.

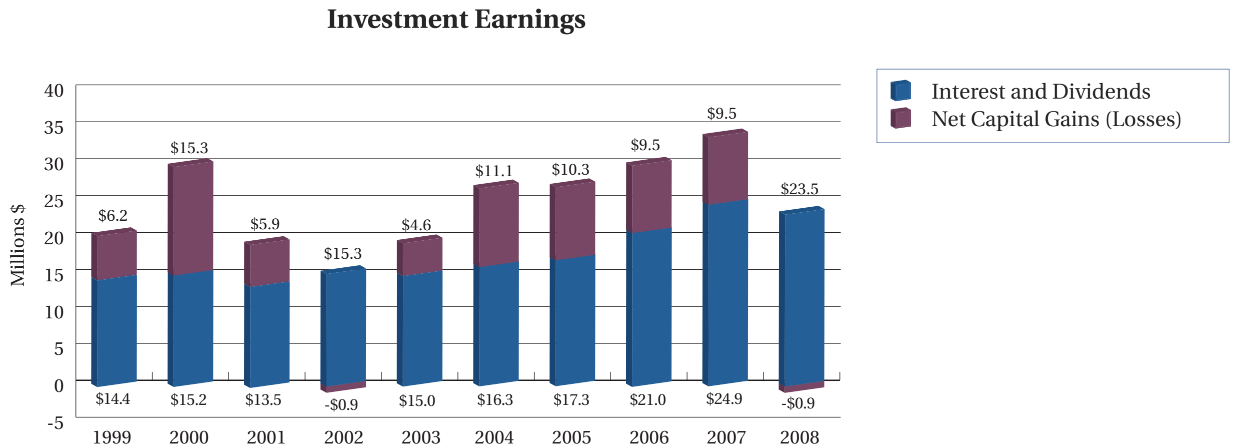
Expenses excluding claims incurred

Other expenses of $131.9 million increased $12.9 million in 2008. Of this increase, $9.0 million related to increased commissions and premium taxes. This increase was consistent with the growth in net premiums written. Administrative expenses increased $3.3 million in 2008 and the administrative expense ratio decreased to 13.1% from 13.2% in 2007. The growth in administrative expenses was primarily attributable to increased salary and benefit costs from negotiated increases contained in the Collective Bargaining Agreement. Also included in the 2008 underwriting results is a $487,000 loss related to participation in the Facility Association, while participation in the Facility Association for 2007 resulted in a profit of $133,000.

Investment earnings

Investment earnings contribute significantly to net income and help minimize volatility in insurance rates. Investment earnings consist of interest and dividend income, net of investment expenses, and realized gains (losses) on investments. The amount of realized gains or losses on sale of investments can fluctuate from year to year depending on the size of the unrealized gains in the portfolio, the changes in interest rates and the trading activity in the investment portfolio.

Investment earnings in 2008 of $22.5 million were $11.9 million or 34.5% lower than the previous year's earnings of $34.4 million. Investment earnings consisted of $23.5 million in interest and dividends (2007 – $24.9 million), and $924,000 in net capital losses (2007 – $9.5 million net capital gain).



Due to the strength of the markets and the success of the investment manager in selecting stocks, investment write-downs were a minor consideration in prior years. This changed with the market downturn in the last half of 2008 resulting in total investment write-downs of $5.7 million (2007 – $312,000). Given the time necessary to recoup losses and the size of some losses, it was determined prudent to write-down the value of these investments in 2008.

Of note for 2008 is the large decrease in capital gains, reversing the trend of the last few years. Gains are dependent on investment market conditions and trading activity of the investment manager. Gains were strong in years prior to 2008 due, in general, to favourable investment markets. Market conditions deteriorated significantly in 2008 as equity markets around the globe generated large losses and bonds produced only average results.

		Annual index returns ending December 31 (%)	
Asset Class	**Benchmark Index**	**2008**	**2007**
Canadian equities	S&P/TSX Composite	-33.0	9.8
U.S. equities	S&P 500 ($C)	-21.2	-10.5
Non-North American equities	MSCI EAFE ($C)	-29.2	-5.7
Bonds	DEX Universe Bond	6.4	3.7
Short-term bonds	DEX Short-term Bond	8.6	4.1

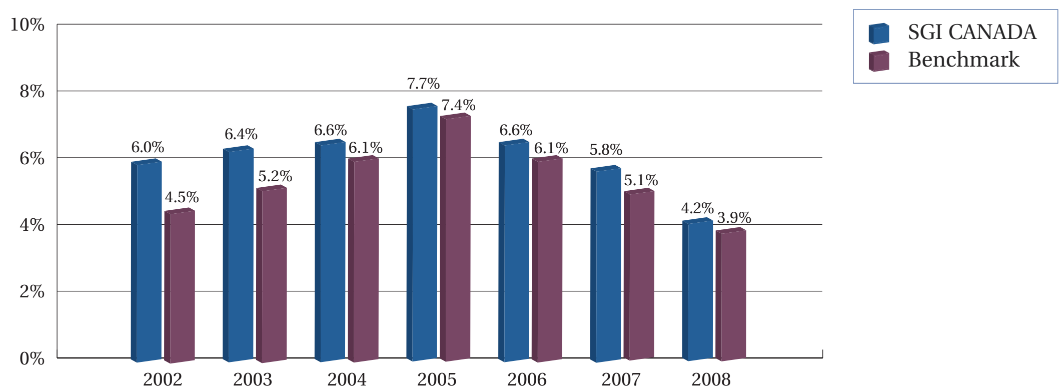
Equity market losses in 2008 were widespread with the TSX Composite Index declining 33%, the S&P 500 falling 39% (21% in Canadian dollar terms) and non-North American equities, the EAFE Index, falling 40% in aggregate local currency terms (29% in Canadian dollar terms). While foreign equities markets were weak over the last six months of 2008, the corresponding decrease in the Canadian dollar helped mitigate losses compared to local currency returns.

For the four years prior to 2008, interest and dividend income had been increasing as a result of the overall increase in the size of the investment portfolio. However, the significant drop in interest rates and the flight to safety in low yielding provincial and federal bonds over the past year has caused market yields to decrease.

For purposes of portfolio management, a market-based rate of return is calculated which captures all interest and dividend income, as well as the impact of the change in market value of securities, both realized and unrealized. In 2008, the portfolio's market-based return was -2.0% compared to 3.7% in the prior year. The decrease in 2008 from 2007 was a result of large negative returns in each of the Canadian, U.S. and non-North American equity markets.

The primary investment performance objective of the portfolio is to earn a market-based return in excess of a benchmark portfolio return. The asset mix for the benchmark portfolio is set by the Board to be consistent with SGI CANADA's risk profile and is reviewed on an annual basis. In addition, each subsidiary has its own investment portfolio with a policy consistent with its risk profile. The investment manager is permitted to vary the actual asset class weights around the benchmark portfolio, within the policy asset mix guidelines. The benchmark portfolio return is calculated by applying the benchmark portfolio weights to capital market index returns. While the portfolio's rate of return is compared to the benchmark portfolio return on a quarterly basis, the performance measure is expected to be met over four years, a long enough period to capture a full market cycle. This longer-term measure is appropriate as it recognizes that the effectiveness of investment management styles varies depending on the market environment. Performance relative to the benchmark portfolio varies from year to year, but over rolling four-year periods, investment performance remains satisfactory as illustrated in the following graph.

Rolling Four-Year Market-based Returns
SGI CANADA vs. Benchmark Portfolio



The annual relative performance measure under-performed the benchmark in 2008 by 0.7% due to weak relative equity returns. In addition, the flight to high quality bonds and the resulting under-performance of corporate securities generated under-performance in bonds. While detrimental to performance in 2008, over the long term equity exposure has historically produced higher returns than bonds. More importantly, as the economy regains positive momentum, equities tend to lead the advance by 6-12 months and should provide an opportunity to outperform bonds.

Income taxes

The Corporation's out-of-province legal entities, SGI CANADA Insurance Services Ltd., Coachman and ICPEI, are subject to corporate income tax, while SGI CANADA is not. On a consolidated basis, SGI CANADA recorded a tax expense of $471,000 in 2008 compared to an expense of $2.1 million in 2007. This results in a negligible tax rate when compared to consolidated pre-tax income, primarily due to income from Saskatchewan operations and certain investment earnings being non-taxable, as well as SGI CANADA Insurance Services Ltd. incurring a loss for tax purposes during the year.

During 2008, SGI CANADA Insurance Services Ltd. incurred a loss for tax purposes which resulted in non-capital loss carry-forwards of approximately $5.5 million that expire in 2018, and the benefit of which has been recorded in the financial statements. At December 31, 2007, Coachman had a $5.9 million balance of non-capital tax loss carry-forwards, which were used in their entirety during 2008.

Consolidated Statement of Comprehensive Income

(thousands of $)

	2008	2007	Change
Net income	40,351	35,093	5,258
Other comprehensive loss	(25,327)	(10,786)	(14,541)
Total comprehensive income	**15,024**	**24,307**	**(9,283)**

Comprehensive income is the sum of net income and other items that must bypass the statement of operations because they have not been realized (other comprehensive income or loss). For the Corporation, this includes unrealized gains and losses from available for sale investments. These unrealized gains and losses are not part of net income, yet are important enough to be included in comprehensive income, giving the user a more comprehensive picture of the organization as a whole.

In 2008, comprehensive income was $25.3 million lower than net income. This is a result of the unprecedented market declines which occurred during 2008, which resulted in a significant decline in the market value of the investment portfolio and unrealized losses during the year.

Consolidated Statement of Cash Flows

(thousands of $)

	2008	2007	Change
Operating activities	59,394	53,422	5,972
Investing activities	(52,734)	(12,828)	(39,906)
Financing activities	(29,355)	(29,654)	299
Change in cash and cash equivalents	**(22,695)**	**10,940**	**(33,635)**

Operating activities

Cash from operations contributed $59.4 million in 2008 compared to $53.4 million in 2007. Significant increases in operating cash from growth in premiums written in Saskatchewan, Alberta and the Maritimes was only partially offset by corresponding growth in claims paid.

Investing activities

Each legal entity's excess cash from operating activities is invested in its own investment portfolio. The investment manager actively trades each investment portfolio in the capital markets following the conditions set out in each legal entity's Statement of Investment Policies and Goals. For 2008, the investment manager purchased investments on a consolidated basis worth $616.8 million (2007 – $822.4 million) and received proceeds from the sale of investments of $563.4 million (2007 – $809.4 million), resulting in a consolidated net purchase of investments of $53.4 million (2007 – $13.0 million).

Financing activities

Financing activities during the year related solely to dividends paid during the year of $29.4 million (2007 – $29.7 million). The Corporation's dividend policy is to pay between 65% and 90% of the Corporation's consolidated net income for the year as a dividend to CIC.

Cash and cash equivalents

Cash and cash equivalents decreased by $22.7 million in 2008. At December 31, 2007, the Corporation held significant cash equivalent money market investments, a portion of which were reinvested in longer-term investments in 2008, resulting in the decline in cash and cash equivalents. These cash equivalents and the cash generated from operations ($59.4 million) were the primary sources of cash used to fund the net purchase of investments of $53.4 million and the dividends paid of $29.4 million.

Consolidated Statement of Financial Position

(thousands of $)

	2008	2007	Change
Total assets	**717,345**	**707,169**	**10,176**
Key asset account changes:			
Investments	506,114	481,127	24,987
Accounts receivable	98,528	88,372	10,156
Deferred policy acquisition costs	47,662	43,347	4,315
Unpaid claims recoverable from reinsurers	26,455	33,824	(7,369)
Cash and cash equivalents	12,299	34,994	(22,695)

Investments

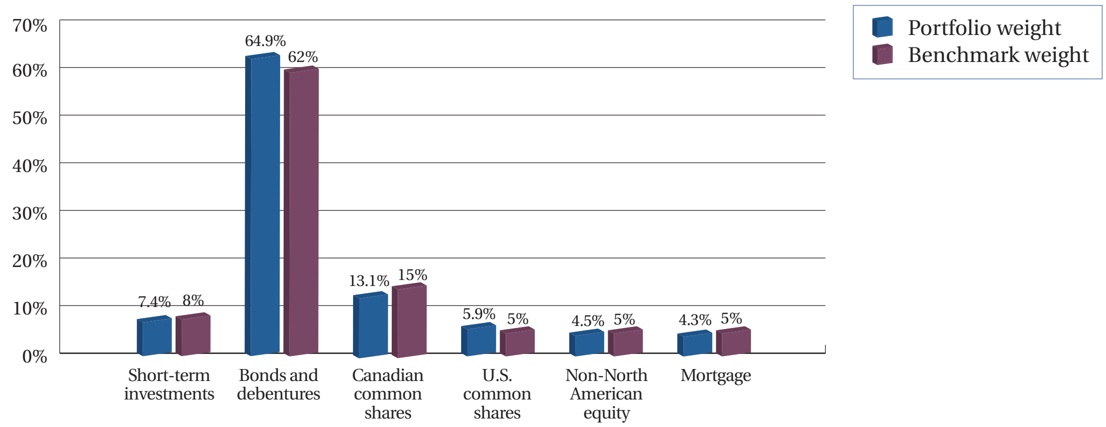
The carrying value of investments increased by $25.0 million during the year, primarily a result of positive operating cash flows during the year of $59.4 million, partially offset by a decline in the market value of investments. At December 31, 2008, investments included net unrealized losses of $12.3 million, compared to net unrealized gains of $15.0 million in 2007. The unrealized losses at December 31, 2008 are primarily related to pooled equity funds and common shares.

The Corporation's investment strategy is based on prudence, regulatory guidelines and claim settlement patterns with a view to maximizing long-term returns utilizing a conservative investment portfolio. The portfolio's asset mix strategy is set by the Board through a detailed assessment of the Corporation's risk tolerance. The asset mix strategy takes into consideration the current and expected conditions of the capital markets and the historic return and risk profile of various asset classes. In order to achieve the long-term investment goals, the portfolio must invest in asset classes that provide an attractive risk-return profile over the medium to long term. Over shorter periods, however, performance of these asset classes can be volatile. Such was the case in 2008. Nevertheless, the longer-term focus remains appropriate, balancing the need for capital preservation in the short term with the desire for portfolio growth over the longer term.

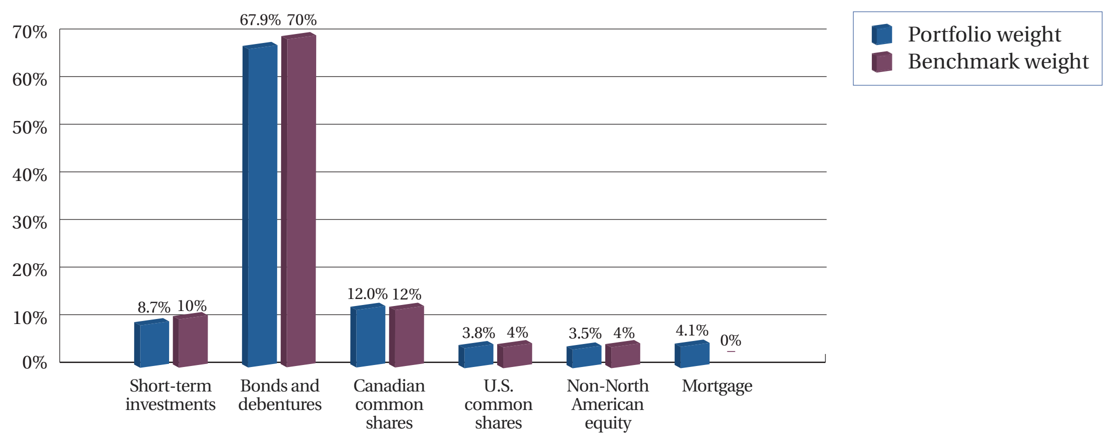
The asset mix strategy is formally documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document provides guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment performance expectations, among others. Management monitors and enforces compliance with the investment policy. No material compliance deviations were noted in 2008.

The Corporation's investment portfolio is managed by external investment managers. The portfolio is invested in short-term investments, bonds, mortgages and equities. Equities consist of Canadian, U.S. and non-North American equities. The Corporation's subsidiaries hold their Canadian and U.S. equities through pooled equity funds, while all the Corporation's non-North American equities are held through a pooled equity fund.

SGI CANADA Asset Mix (%)
As at December 31, 2008



SGI CANADA Asset Mix (%)
As at December 31, 2007



The benchmark portfolio weights changed slightly in 2008. Effective December 1, 2008, the equity exposure increased from 20% to 25% reflecting the Corporation's favourable capital position and increased risk tolerance. Within fixed income, a 5% weight was added in mortgages to reflect the higher yield on those securities. In addition, the short-term investment weight was reduced slightly from 10% to 8% to reflect the portfolio's lower cash requirement. The offset to these changes was in bonds where the weight decreased from 70% to 62%.

Accounts receivable
Accounts receivable increased $10.1 million in 2008 largely a result of an increase in amounts due from insureds and brokers. These increases are a direct result of increases to premium volumes in all jurisdictions, especially Saskatchewan and Alberta.

Deferred policy acquisition costs
Deferred policy acquisition costs increased $4.3 million during the year. The increase is due to an increase in prepaid commissions and prepaid premiums, a direct result of increased premium volume.

Unpaid claims recoverable from reinsurers
Unpaid claims recoverable from reinsurers decreased $7.4 million in 2008. The decrease is related to reductions to ceded IBNR provisions on prior year claims recoverable, combined with collections during the year on the commutation of an adverse loss reinsurance agreement.

Cash and cash equivalents

Cash and cash equivalents at December 31, 2008 was $12.3 million (2007 – $35.0 million), a decrease of $22.7 million. The sources of the change in cash and cash equivalents for the year are discussed in the above section Consolidated Statement of Cash Flows. Cash equivalents consist of money market investments such as treasury bills, banker's acceptances, discount notes or other liquid short-term investments that have a maturity of 90 days or less from the date of acquisition.

(thousands of $)

	2008	2007	Change
Total liabilities	**537,650**	**516,423**	**21,227**
Non-controlling interest	**1,862**	**1,709**	**153**
Key liability account changes:			
Unearned premium	195,541	176,604	18,937
Accounts payable and accrued charges	23,287	21,530	1,757
Provision for unpaid claims	287,103	285,567	1,536
Premium taxes payable	15,908	14,408	1,500
Dividend payable	7,407	10,535	(3,128)

Unearned premiums

Unearned premiums increased $18.9 million during the year, a result of increased premium volume. Of the increase, 57% (2007 – 58%) related to premium growth from Saskatchewan and 43% (2006 – 42%) related to out-of-province business. Alberta's premium growth in 2008 contributed $4.8 million or 25% of the increase in consolidated unearned premiums.

Accounts payable and accrued charges

Accounts payable and accrued charges increased $1.8 million, a result of a $2.0 million increase in broker bonuses payable at December 31, 2008. Broker bonuses for Saskatchewan brokers were $1.6 million higher than last year, primarily a result of the significant improvement in the loss ratio for 2008 compared to 2007.

Provision for unpaid claims

This liability reflects the estimated ultimate costs of claims reported but not settled, along with claims incurred but not reported. The December 31, 2008 provision for unpaid claims increased $1.5 million from the end of last year. This is due to the significant growth in Alberta which recorded an increase to unpaid claims of $8.4 million in 2008, offset partially by a $3.8 million decrease to unpaid claims in Saskatchewan, primarily related to the lower summer storm costs in 2008. In addition, actuarial valuations performed during 2008 resulted in reductions to the provision for prior year unpaid claims.

The process to determine this liability is complex as it takes into consideration numerous variables that are subject to the outcome of future events. Any change in estimates is reflected as claims incurred on the Consolidated Statement of Operations.

Premium taxes payable

Premium taxes payable at December 31, 2008 were $1.5 million higher than at December 31, 2007. The increase is a direct result of increases to premium volumes, primarily from Saskatchewan and Alberta.

Dividends payable

Dividends payable to CIC were $3.1 million lower at the end of 2008 compared to the end of 2007. No dividend was paid to CIC for the third quarter of 2007 due to significant losses from summer storms in June of 2007. However, financial results improved in the latter part of 2007 which resulted in a larger dividend payable at the end of 2007.

(thousands of $)

	2008	2007	Change
Province of Saskatchewan's equity	**177,833**	**189,037**	**(11,204)**
Key equity account changes:			
Accumulated other comprehensive income (loss)	(10,318)	15,009	(25,327)
Retained earnings	108,151	94,028	14,123

Accumulated other comprehensive income (loss) (AOCI)

AOCI represents the unrealized gains or losses recorded on available for sale investments (net of tax). For the Corporation, this includes its entire investment portfolio, excluding investments accounted for on the equity basis. AOCI decreased primarily due to the capital market deterioration that has developed since September.

Retained earnings

The increase in retained earnings is attributable to the $40.4 million consolidated net income less the annual dividend to CIC of $26.2 million. The Corporation's dividend was 65% of net income, consistent with its dividend policy.

For the Three Months Ended December 31, 2008

SGI CANADA prepares public quarterly financial reports for the first three quarters of each year. These reports are available on its website at www.sgicanada.ca. Click on the Corporate Profile link and follow the links in the Financial Report section. The following is the Corporation's analysis of the 2008 fourth quarter results:

SGI CANADA recorded consolidated net income of $9.4 million for the fourth quarter (2007 – $25.0 million), a decrease of $15.6 million when compared to the fourth quarter of 2007. The decrease in net income was attributable to a significant decline in investment earnings combined with higher loss ratios for the quarter.

Consolidated net premiums earned in the fourth quarter of 2008 increased $7.7 million or 10% from the fourth quarter of 2007. The increase in net premiums earned was primarily due to growth in the Saskatchewan and Alberta markets.

Claims incurred were $43.2 million for the fourth quarter of 2008, $10.1 million or 30% higher than 2007. A significant contribution to the increase in the quarter were claim costs from Saskatchewan and Alberta which increased $3.4 million and $2.1 million respectively compared to the prior year, reflective of the significant policy growth achieved in 2008. As well, fourth quarter claim costs in Ontario were $2.8 million higher than last year, a result of a larger prior year redundancy being recorded in the fourth quarter of 2007.

Other expenses for the fourth quarter of 2008, excluding claims incurred, were $36.0 million, $4.9 million more than the corresponding quarter last year. The increase related to commissions and premium taxes that totalled $23.4 million (2007 – $20.7 million) for the quarter along with higher administration expenses of $12.1 million (2007 – $10.3 million). The increase in commissions and premium taxes corresponded with the growth in premiums written, while the growth in administrative expenses is primarily attributable to increased salary and benefit costs combined with the timing of costs incurred in Saskatchewan. Also included in the fourth quarter underwriting results in 2008 is a $517,000 loss related to participation in the Facility Association, while participation in the Facility Association for the fourth quarter of 2007 resulted in a loss of $20,000.

Quarterly Consolidated Financial Highlights

The following table highlights quarter over quarter results for the Corporation:

	2008					2007				
(thousands of $)	Q4	Q3	Q2	Q1	**Year**	Q4	Q3	Q2	Q1	**Year**
Net premiums earned	88,282	85,651	81,989	79,967	**335,889**	80,560	77,746	75,639	73,917	**307,862**
Claims incurred	43,172	63,593	43,139	35,689	**185,593**	33,108	64,825	54,479	33,622	**186,034**
Net income (loss)	9,430	(6,442)	15,747	21,616	**40,351**	25,011	(9,030)	(2,701)	21,813	**35,093**
Cash flow from (used in) operations	34,163	11,937	20,834	(7,540)	**59,394**	19,662	16,285	21,883	(4,408)	**53,422**
Investments	506,114	484,208	490,130	463,205		481,127	455,826	447,488	467,557	
Provision for unpaid claims	287,103	289,579	276,175	278,721		285,567	298,932	280,336	257,148	
Minimum Capital Test	228%	234%	282%	283%		266%	234%	267%	296%	

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2008:

- Net premiums earned have increased consistently each quarter, as can be seen in the quarterly results for both 2008 and 2007.

- Claims incurred typically peak in both the second and third quarters due to summer hailstorms and flooding that can occur in Saskatchewan and Manitoba. Although this holds true for 2008, this seasonality is even more pronounced in 2007, which was one of the worst years ever for severe summer storm activity.

- Quarter over quarter, the Corporation generally generates positive cash flows from operations. Usually in the first quarter of each year, there is a negative cash flow that is a result of higher payments for claims from the prior year's storms and the payment of annual premium taxes.

Impact of New Accounting Standards

Current year accounting standard changes

Effective January 1, 2008, three new presentation and disclosure standards were adopted: Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures* (Section 1535); Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862); and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863).

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results.

Sections 3862 and 3863 replaced Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*. The new disclosure standards increase the disclosures related to financial instruments and the nature, extent and management of the Corporation's risks arising from financial instruments. The presentation standards carry forward unchanged the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results.

Future accounting standard changes

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

The Corporation has commenced an IFRS conversion project including the development of a high level IFRS implementation plan which include stakeholder identification, milestones and deadlines, planned scope and approach, risks and mitigations, project governance and accountability responsibilities, and resource requirements. An external advisor has been engaged to assist with the conversion project. Board members have been briefed on IFRS, in general, and on the Corporation's project plan.

Certain management have participated in IFRS training seminars. An initial assessment has been completed of those international financial reporting standards with the highest potential for impact. Based on the analysis to date, the most significant areas of priority relate to insurance contract classification and measurement, IFRS 1 – First time adoption, financial instruments, property, plant and equipment, joint ventures, employee future benefits, consolidation and minority interest, leases and financial statement presentation and disclosures. At this time, the impact of IFRS on the Corporation's processes, systems, internal controls over financial reporting and disclosures, future financial position and results of operations are not reasonably determinable. Draft impacts on processes, systems and controls as well as draft IFRS financial statement presentation formats are anticipated in the later half of 2009.

As part of the IFRS implementation, the Corporation plans to make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

Related Party Transactions

The Corporation is related in terms of common ownership to all Government of Saskatchewan ministries, agencies, boards, commissions, Crown corporations, and jointly controlled and significantly influenced corporations and enterprises. Transactions with these entities were entered into in the normal course of business and are settled at prevailing market prices under normal trade terms. Further details regarding these related party transactions are disclosed in note 17 of the consolidated financial statements.

SGI CANADA is the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. SGI CANADA incurs administrative and claim adjustment expenses on behalf of the Auto Fund which are charged to the Auto Fund. Amounts incurred by SGI CANADA and charged to the Auto Fund were $104.7 million (2007 – $96.7 million) and accounts payable were $2.6 million (2007 – $3.0 million).

The Corporation, as the lessor, has an interest in a capital lease in Prince Albert, Saskatchewan with the Ministry of Government Services, a provincial government ministry. This lease expires in April 2011. Further details of this lease are provided in note 7 to the consolidated financial statements.

The Corporation has direct premiums that are brokered through Charlie Cooke Insurance Agency Ltd. (CCIA), pays loss adjustment fees to Atlantic Adjusting & Appraisals Ltd. and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation. These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the loss adjustment expenses paid are routine operating transactions in the normal course of business. Details of the transactions and amounts outstanding are included in note 17 to the consolidated financial statements.

In 2007, the Corporation provided CCIA a $450,000 loan for the purpose of purchasing a brokerage. The terms of the agreement provide for repayment in six annual instalments of $75,000 and require CCIA to maintain minimum premium limits. The loan was originally recorded at its fair value of $381,000, calculated by discounting the scheduled instalments at an interest rate that reflects the term and credit risk associated with the loan. At December 31, 2008 the loan is recorded at its amortized cost of $326,000. During the year, $75,000 was repaid and interest revenue of $20,000 was recorded through investment earnings.

During the year board members were appointed who are partners in organizations that provided $19,000 of professional services to the Corporation. In addition, one board member was appointed during the year who owns an organization that sells insurance policies of the Corporation. Premiums written during the year from this organization amounted to $4.2 million and the associated accounts receivable at December 31, 2008 was

$932,000. Commissions related to these premiums were $843,000. The above noted transactions are routine operating transactions in the normal course of business.

One of the Corporation's subsidiaries, ICPEI, has a director who is the owner of an organization that provided professional services to ICPEI. During the current year, these services amounted to $16,000 (2007 – $21,000). These transactions are routine operating transactions in the normal course of operations.

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. These items are discussed below and in notes 8 and 21 to the consolidated financial statements.

The Corporation, as is common in the P&C insurance industry, is subject to litigation arising in the normal course of its operations, primarily in claim settlements. SGI CANADA is of the opinion that current litigation will not have a material impact on its operations, financial position or cash flows.

Also, the Corporation and its subsidiaries, in the normal course of settling claims, settle some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for its claimants. This is a common practice in the P&C industry. The net present value of the scheduled payments at December 31, 2008 was $50.7 million (2007 – $48.2 million). The Corporation provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the Corporation considers the likelihood of such default as being extremely remote.

The Corporation has secured a long-term telecommunications contract with a related provincial Crown corporation that started in 2005 and is scheduled to end in 2011. At December 31, 2008, the remaining commitment under these contracts was $243,000 (2007 – $556,000). Each of the Corporation's subsidiaries are committed to leases on their office premises. Annual commitments related to these leases range between $242,000 to $400,000 over the next five years.

Critical Accounting Estimates

This discussion and analysis of the Corporation's financial condition and results of operations are based upon its consolidated financial statements as presented in this annual report. These consolidated financial statements have been prepared in accordance with Canadian GAAP, as recommended by the Canadian Institute of Chartered Accountants. Significant accounting policies are contained in note 2 to the consolidated financial statements. Certain of these policies involve critical accounting estimates because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

The Corporation has discussed the development, selection and application of its key accounting policies and the critical accounting estimates and assumptions they involve with the Audit and Finance Committee of the Board of Directors, and the Audit and Finance Committee has reviewed the disclosures described in this section. The most significant critical accounting estimates involve the provision for unpaid claims, impairment of investments, reinsurance, income taxes and employees' future benefits.

Provision for unpaid claims

A provision for unpaid claims is maintained to cover the estimated ultimate liability for losses and loss adjustment expenses for reported claims and claims incurred but not yet reported (IBNR) as at the end of each accounting period. The initial provision is determined on the reported facts filed with the claim and then revised regularly, as more information on the claim becomes known. The provision does not represent the exact calculation of the liability owing to claimants, but is an estimate developed using Canadian accepted actuarial practices and Canadian insurance regulatory requirements. The estimate reflects an expectation of the ultimate cost of settlement and administration of claims. It involves an assessment based on the facts and circumstances of the events reported in the claim, the Corporation's experience with similar claims, historical trends involving claim payments, claim severity, the effect of inflation on reported and future claims, court decisions and the time frame anticipated to settle and pay the claim.

This provision is refined on a continual basis as prior fiscal year claims are settled and additional claims are reported and settled. There may be significant time delays from the occurrence of the insured event and when it is reported. If this occurs near the year-end date, estimates are made as to the value of these claims based on information known to the Corporation. As well, uncertainty exists for reported claims that are not settled, as all necessary information may not be available. Thus, with the level of uncertainty involved in the claim process until the final settlement occurs, current reserves may not be sufficient. As permitted by Canadian GAAP, the Corporation only discounts long-term disability claims included in this provision. Any adjustments to these estimates, both positive (a redundancy or excess) and negative (a deficiency) are included in the provision for unpaid claims and are reflected as claims incurred in the current year's Consolidated Statement of Operations.

Impairment of investments

When the market value of an investment falls below its cost, accounting standards require an assessment of whether the impairment in value is temporary or other than temporary. If it is determined that the impairment is other than temporary, the investment must be written down to market value. Management performs a quarterly analysis of investment holdings to determine if declines in market value of a particular investment are other than temporary. This analysis includes:

- identifying all security holdings in an unrealized loss position that have existed for at least 12 months;

- evaluating the size of the loss, both in percentage and absolute dollar terms relative to the market outlook for the security; and,

- for debt securities, evaluating the credit ratings from third-party security rating agencies or evaluating any change in payments on the security.

Investments are written down to market value if it is determined that the loss is other than temporary, or if the investment manager has plans for disposition of the security in the near term.

Reinsurance

Reinsurance recoverable includes amounts for expected recoveries related to claim liabilities, as well as the portion of the reinsurance premium that has not yet been earned. The cost of reinsurance is accounted for over the terms of the underlying reinsurance policies using assumptions consistent with those used to account for the policies. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves and are reported in the Consolidated Statement of Financial Position. The ceding of insurance does not discharge the Corporation's primary liability to its insureds. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions.

Income taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the consolidated financial statements. In determining the provision for income taxes, the Corporation interprets tax legislation in a variety of jurisdictions and makes assumptions about the expected timing of the reversal of future tax assets and liabilities and the valuation of future income tax assets.

Management makes assumptions regarding the value of future tax assets using a valuation allowance. This allowance is based on management's assessment of whether it is more likely than not that the Corporation will utilize tax assets before they expire. This assessment is based on expected future earnings, tax rates, the amount of taxable income in future years and the timing of the reversal of future tax liabilities. No valuation allowance has been recorded in the current or prior year.

Employees' future benefits
The Corporation's benefit expense for its defined benefit pension plan and defined benefit service recognition plans is calculated by the Corporation's external benefits actuary utilizing management's best estimate of critical assumptions. These critical assumptions consist of: expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing. Management reviews and adjusts these assumptions as required on an annual basis. The financial impact from changing these assumptions along with actual experience being different from the assumptions are reflected in income on the Consolidated Statement of Operations.

The end of period discount rate is determined at each year-end using market rates of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

Further details of the Corporation's defined benefit plans are contained in note 16 to the consolidated financial statements.

Risk Management

Risk management is a process for recognizing and addressing risks that could affect the achievement of strategic objectives. Risks are events that represent potential threats to meeting strategic objectives, and conversely help identify opportunities.

On an annual basis, management identifies primary risk factors for SGI CANADA. More analysis is conducted on each risk factor by identifying specific risk events and the resulting impact on the company. Each risk event is given a rating of high, medium or low based on the likelihood of the event occurring, in the absence of any controls, and severity of the consequences if it did occur. A "high" risk is one that would have severe consequences to SGI CANADA.

Mitigating factors for each risk are then identified, along with the status of the mitigating factor, that is, whether it is presently done, or it is in progress. This process results in a risk profile for SGI CANADA. The risk profile is reviewed, and input provided, by the Audit and Finance Committee of the Board of Directors. SGI's Audit Services department also uses the risk profile in developing its annual work plan, which provides an assurance component to SGI CANADA's risk management process. The inclusion of the Audit Services department in the risk management process, as well as the identification of risk owners, helps ensure that the mitigating measures are implemented and kept current.

The following risks are those that could have the most serious impact to SGI CANADA's strategic objectives, and that are managed to reduce those impacts. This is not an exhaustive list of all risks SGI CANADA faces.

Low tolerance for loss
The financial performance of diversification operations, particularly those with a small policy base, will fluctuate based on claims activity. This will particularly be the case at the start-up stages of these operations.

SGI CANADA will continue to closely monitor and manage its diversification operations to reduce the risk of poor operating results. In addition, business decisions in the subsidiaries are analyzed, taking into account the lower tolerance for risk on these operations. Examples of this are more conservative investment policies and reinsurance programs, and choosing to limit policy volume growth in favour of profitable pricing.

Claims reserves
Difficulty in forecasting claims could lead to inappropriate pricing decisions, the misstating of financial results or an inability to meet claims runoffs.

Conducting in-house actuarial reviews three times a year is expected to mitigate this risk. Accounting guidelines now require that the external auditor hire an independent actuary to review the actuarial valuation. In addition, the department's controls over financial reporting are being reviewed as part of the Corporation's CEO/CFO Certification project. As well, an actuarial pricing department was established in 2008 to place a higher priority on product pricing.

System generated policies
Improperly rating and charging customers on their policies could result in fines, damage to reputation, loss of income and loss of policies to competitors.

To ensure that the controls over these processes are adequate, an independent review was conducted to identify opportunities for improvement and a working committee is implementing its recommendations. In addition, there is now a rate coordinator responsible for the rate change process for the standard auto programs.

Privacy
Employees divulging confidential or private information and the inappropriate or unauthorized use of private information by third parties are privacy risks for SGI CANADA. As well, improper storage, retention and disposal of corporate information and controls over customer credit card information are also privacy risks. Safeguarding the privacy of customer information is a high priority. A breach of privacy could place the Corporation in an awkward and embarrassing position with adverse legal consequences.

A number of structures have already been established to address this issue including the tracking of employee use of information and a screening policy for employees dealing with sensitive information. Other supporting structures that have been established are the development of a privacy framework and the implementation of the whistleblower hotline. SGI CANADA is in the process of implementing industry standards for handling of payment card information and working on a data storage, retention and disposal project.

Recruitment, retention and engagement
Lack of requisite knowledge, skills, or experience by staff, or low satisfaction or morale, may affect achievement of business objectives.

To mitigate this risk, SGI CANADA monitors competitors' salary and benefits, has implemented competency based recruitment, ensures succession planning, analyzes employee turnover, and is currently providing employee recognition training and funding. In addition, SGI has applied for employer recognition awards and has received visibility as a top employer.

Responsiveness to business needs
Inability to make business changes in the time frames required could mean the Corporation would not remain competitive or could not meet regulatory and government deadlines.

Competing with other property and casualty insurers across Canada requires that SGI CANADA be able to respond quickly to changes in the market and take advantage of opportunities. As a result, the risk of responsiveness to business needs is rated as high because of its impact on SGI CANADA's competitive position. An improved planning and project prioritization process is in place to improve response times.

Outlook for 2009

While 2008 produced strong overall underwriting profits, it also had many challenges, and the Corporation expects to continue to face many challenges through 2009.

As 2008 came to an end it became clear that the general economic environment across most of the country was worsening. The most significant impact related to the poor economic environment is the unprecedented downturn in capital markets that occurred in the latter half of the year. The downturn resulted in both lower investment market values and lower investment earnings, an experience consistent throughout the insurance industry. The financial uncertainty in investment markets will likely continue through 2009. While the Corporation monitors the investment market environment closely, it plans to stay the course, as it maintains a well diversified investment portfolio and prudent investment management policies and processes.

Through 2008, Saskatchewan managed to avoid most of the downward economic pressures experienced by the rest of the country, which can be seen in premium growth resulting from higher property values and increasing numbers of insured vehicles. In 2009, there is potential for slower growth in both property and auto business. As well, Saskatchewan operations always face a significant risk of severe summer storms resulting in increased claim costs. Recent years have seen an increase in the frequency and severity of storms, and this trend is expected to continue. Barring significant storm activity in 2009, SGI CANADA expects another strong year of profitability from its Saskatchewan operations.

The Ontario marketplace is expected to harden in 2009, specifically in the auto segment, as the industry is experiencing high loss ratios and is expected to have pronounced rate increases in 2009. In addition, a review of the auto insurance legislation, Bill 198, will result in increased uncertainty in the auto market. The Corporation will monitor developments on any changes to this legislation.

The Corporation expects to experience controlled growth in its newer markets of Alberta, New Brunswick and Nova Scotia as it continues to spread its geographic insurance risk in those jurisdictions. These markets are still relatively new to the Corporation and, as expected with new markets, have not yet added significantly to overall underwriting profits. The Corporation will continue to focus on ensuring adequate pricing in order to achieve its growth targets profitably. This is consistent with its expectation that the marketplace overall will harden, as insurance companies attempt to improve poor loss ratios. Related to this, the Corporation will focus on diligently managing its claims in order to maintain costs, while providing customers with excellent customer service. Automobile injury claims costs will remain difficult to predict as a result of the continued uncertainty resulting from the challenge to the Alberta injury cap.

In February 2008, the Alberta Court of Queen's Bench ruled that the entire Minor Injury Regulation 123/04 was null and void. This ruling removed the $4,000 cap on soft tissue injuries that was enacted in October 2004 in Alberta. This ruling continues to be under appeal, leading to uncertainty regarding automobile injury costs in Alberta, but also in other jurisdictions that have injury cap legislation, like the Maritimes.

While the Corporation will continue to face many challenges in 2009, it will remain focused on strong underwriting fundamentals and providing outstanding customer service to its brokers.

Responsibility for Financial Statements

The consolidated financial statements are the responsibility of Management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of Management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Saskatchewan Government Insurance (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Earl G. Cameron Acting President and CEO	Don Thompson Chief Financial Officer

February 24, 2009

Actuary's Report

To the Board of Directors of Saskatchewan Government Insurance

I have valued the policy liabilities of SGI CANADA for its consolidated statement of financial position at December 31, 2008 and their change in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of some policy liabilities not reflect the time value of money, which is permissible under Canadian generally accepted accounting principles for financial reporting purposes. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.

Cara Low

Cara Low
Assistant Vice President, Corporate Actuary
Saskatchewan Government Insurance
Fellow, Canadian Institute of Actuaries

February 24, 2009

Auditors' Report

To the Members of the Legislative Assembly Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Government Insurance as at December 31, 2008 and the consolidated statements of operations, comprehensive income, changes in Province of Saskatchewan's equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 24, 2009

Consolidated Statement of Financial Position

December 31	2008	2007
	(thousands of $)	
Assets		
Cash and cash equivalents (note 3)	$ 12,299	$ 34,994
Accounts receivable (note 4)	98,528	88,372
Deferred policy acquisition costs	47,662	43,347
Future income taxes (note 12)	2,613	1,903
Reinsurers' share of unearned premiums	9,897	8,862
Investments (note 5)	506,114	481,127
Unpaid claims recoverable from reinsurers (note 8)	26,455	33,824
Property, plant and equipment (note 6)	9,336	10,154
Other assets (note 7)	4,441	4,586
	$ 717,345	$ 707,169
Liabilities		
Accounts payable and accrued liabilities	$ 23,287	$ 21,530
Dividend payable	7,407	10,535
Premium taxes payable	15,908	14,408
Amounts due to reinsurers	5,388	5,330
Unearned reinsurance commissions	3,016	2,449
Unearned premiums	195,541	176,604
Provision for unpaid claims (note 8)	287,103	285,567
	537,650	516,423
Non-controlling interest	**1,862**	1,709
Province of Saskatchewan's equity		
Equity advances (note 9)	80,000	80,000
Retained earnings	108,151	94,028
Accumulated other comprehensive income (loss)	(10,318)	15,009
	177,833	189,037
	$ 717,345	$ 707,169

Commitments and contingencies (note 21)
(see accompanying notes)

On behalf of the Board:

Warren Sproule
Chairperson, Board of Directors

Anne Lavack
Director

Consolidated Statement of Operations

year ended December 31	2008	2007
	(thousands of $)	
Gross premiums written	$ 380,824	$ 339,528
Net premiums written	$ 353,447	$ 320,677
Net premiums earned (note 10)	**$ 335,889**	$ 307,862
Claims incurred (note 10)	185,592	186,034
Commissions (note 10)	71,311	63,503
Administrative expenses (note 10)	44,009	40,717
Premium taxes (note 10)	16,056	14,850
Facility Association participation (note 19)	487	(133)
Total claims and expenses	**317,455**	304,971
Underwriting profit	**18,434**	2,891
Investment earnings (note 11)	22,541	34,423
Income before income taxes and non-controlling interest	**40,975**	37,314
Income taxes (note 12)	471	2,055
Income after income taxes and before non-controlling interest	**40,504**	35,259
Non-controlling interest	153	166
Net income	**$ 40,351**	$ 35,093

(see accompanying notes)

Consolidated Statement of Comprehensive Income

year ended December 31	2008	2007
	(thousands of $)	
Net income	**$ 40,351**	$ 35,093
Other comprehensive loss, net of income taxes:		
Unrealized loss on available for sale financial assets arising during the year	(28,201)	(1,894)
Future income tax recovery on unrealized losses	1,610	723
	(26,591)	(1,171)
Reclassification of net realized gains on sale of investments included in operations	(4,741)	(9,809)
Reclassification for investment write-downs included in operations	5,665	312
Income tax expense (recovery)	340	(118)
	1,264	(9,615)
Other comprehensive loss	**(25,327)**	(10,786)
Comprehensive income	**$ 15,024**	$ 24,307

(see accompanying notes)

Consolidated Statement of Changes in Province of Saskatchewan's Equity

year ended December 31	2008	2007
	(thousands of $)	
Equity advances		
Balance, end of year	**$ 80,000**	$ 80,000
Retained earnings		
Balance, beginning of year	$ 94,028	$ 81,599
Change in accounting policy	–	146
Net income	40,351	35,093
Dividend	(26,228)	(22,810)
Balance, end of year	**$108,151**	$ 94,028
Accumulated other comprehensive income (loss)		
Balance, beginning of year	$ 15,009	$ –
Change in accounting policy	–	25,795
Other comprehensive loss	(25,327)	(10,786)
Balance, end of year	**$ (10,318)**	$ 15,009
Total Province of Saskatchewan's equity	**$177,833**	$ 189,037

(see accompanying notes)

Consolidated Statement of Cash Flows

year ended December 31	2008	2007
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income	$ 40,351	$ 35,093
Non-cash items:		
Amortization	1,596	1,175
Net realized gain on disposal of investments	(5,345)	(9,809)
Future income taxes	673	1,000
Investment write-downs	5,665	312
Non-controlling interest	153	(83)
Loss (income) from investments accounted for on the equity basis	(187)	788
Change in non-cash operating items (note 15)	16,488	24,946
	59,394	53,422
Investing activities		
Purchases of investments	(616,745)	(822,421)
Proceeds on sale of investments	563,360	809,445
Repayment of capital lease	442	400
Disposals (purchases) of property, plant and equipment	209	(252)
	(52,734)	(12,828)
Financing activities		
Dividends paid	**(29,355)**	(29,654)
Increase (decrease) in cash and cash equivalents	**(22,695)**	10,940
Cash and cash equivalents, beginning of year	34,994	24,054
Cash and cash equivalents, end of year	**$ 12,299**	$ 34,994
Supplemental cash flow information:		
Income taxes paid	$ 1,000	$ 1,823

(see accompanying notes)

Notes to the Consolidated Financial Statements

December 31, 2008

1. Nature of Operations

Saskatchewan Government Insurance (the Corporation or SGI), which operates under the trade name of SGI CANADA, 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 9.8% (2007 – 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.

2. Significant Accounting Policies

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles (GAAP). The following are considered to be the Corporation's significant accounting policies:

Change in accounting policies

Effective January 1, 2008, three new presentation and disclosure standards were adopted: Canadian Institute of Chartered Accountants (CICA) Handbook Section 1535, *Capital Disclosures* (Section 1535); Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862); and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863).

Section 1535 requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. As this standard only addresses disclosure requirements, there is no impact on the Corporation's operating results.

Sections 3862 and 3863 replaced Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*. The new disclosure standards increase the disclosures related to financial instruments and the nature, extent and management of the Corporation's risks arising from financial instruments. The presentation standards carry forward unchanged the former presentation requirements. As these standards only address disclosure and presentation requirements, there is no impact on the Corporation's operating results.

Consolidation

The consolidated 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.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 8), investment valuation (note 5), income taxes (note 12), and employee future benefits (note 16).

Financial assets and liabilities

The CICA Handbook, Section 3855, establishes standards for recognizing and measuring financial assets and financial liabilities. The measurement basis depends on whether the financial assets and liabilities have been classified as held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial assets and liabilities classified as held for trading 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 continue to be 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 held for trading or held to maturity.

The Corporation has designated its cash and cash equivalents and investments as available for sale, except for investments accounted for on the equity basis, which are exempt from Section 3855. Accounts receivable are designated as loans and receivables. Accounts payable, dividend payable and premium taxes payable are designated as other financial liabilities. The net investment in capital lease, the accrued pension asset, unpaid claims recoverable from reinsurers, amounts due to reinsurers, and the provision for unpaid claims are exempt from Section 3855.

Investments

All investments are carried at fair value, except preferred shares and investments accounted for on the equity basis. 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 fair value of bonds and debentures and common shares is determined based on quoted market values, based on the latest bid prices. The fair value of pooled equity funds is based on the quoted market values of the underlying investments, based on the latest bid prices. The fair value of the pooled mortgage fund is based on the market values of the underlying mortgage investments, calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using interest rates which reflect the term and credit risk associated with the mortgage.

Preferred shares are carried at cost as the fair value cannot be estimated reliably. Investments accounted for on the equity basis are recorded using the equity method, whereby the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

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

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, and investment gains and losses when realized.

Interest revenue includes amortization of any premium or discount recognized at 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 included in the acquisition cost of individual investments. Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, a loss equivalent to the difference between cost and fair value is recorded in investment earnings as an investment write-down.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Unrealized foreign exchange gains and/or losses arising on investments designated as available for sale are included in other comprehensive income until realized, at which time they are reclassified from accumulated other comprehensive income to investment earnings. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums

Premiums written 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 year-end date. The estimate includes the cost of reported claims, and claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting, except for long-term disability claims. 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.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

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 payable for the current year. Future 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 future 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 future income tax asset if it is more likely than not that the asset will not be realized.

Employee future benefits

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

Under 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 benefit 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) Past service costs from plan amendments and the transitional asset are amortized on a straight-line basis over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

(v) The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

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 benefit method prorated on service.

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 net of cash on hand less outstanding cheques.

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. 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.

Net investment in capital lease

Investment earnings related to the direct financing lease are recognized in a manner that produces a constant rate of return on the investment in the lease. The net investment in the lease is composed of net minimum lease payments less unearned finance income.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Building	40 years
Computer hardware, system costs 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.

Future accounting policy changes

The CICA issued a new accounting standard that will become effective for the Corporation on January 1, 2009. The standard is Handbook Section 3064, *Goodwill and Intangible Assets* (Section 3064). Section 3064 reinforces that assets are recorded only if they meet the definition and recognition criteria for an asset and clarifies the application of the concept of matching costs with revenues. The standards concerning goodwill are unchanged from former Section 3062. The standard is not expected to have a material impact on the consolidated financial statements.

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Corporation, will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Corporation has commenced an IFRS conversion project including initiating the development of a high level IFRS implementation plan. An external advisor has been engaged by the Corporation to assist with the development of this plan and to perform a detailed review of major differences between current Canadian GAAP and IFRS. Work is in the early stages and, as a result, the impact on the Corporation's future financial position and results of operations is not reasonably determinable. However, such impact may be material. As part of the IFRS implementation, the Corporation plans to make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation date.

3. Cash and Cash Equivalents

	(thousands of $)	
	2008	2007
Money market investments	$ 18,860	$ 39,905
Cash on hand, net of outstanding cheques	(6,561)	(4,911)
Total cash and cash equivalents	$ 12,299	$ 34,994

The average effective interest rate on money market investments is 1.4% (2007 – 4.3%).

4. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of $) 2008	2007
Due from insureds	$ 51,917	$ 45,745
Due from brokers	33,666	31,307
Facility Association (note 19)	3,806	3,675
Accrued investment income	3,411	3,620
Income taxes	2,166	949
Due from reinsurers	1,554	911
Amounts recoverable on claims paid	1,351	1,104
Computer purchase plan	377	566
Other	280	495
Total accounts receivable	$ 98,528	$ 88,372

Included in due from insureds is $50,088,000 (2007 – $43,219,000) of financed premiums receivable, which represents the portion of policyholders' monthly premium payments that are not yet due. The majority of policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment earnings that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized in investment earnings over the period of the policy.

5. Investments

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

	(thousands of $) 2008	2007
Short-term investments	$ 37,361	$ 41,863
Bonds and debentures	327,598	325,170
Canadian common shares	51,533	43,750
U.S. common shares	22,171	13,779
Pooled funds:		
Canadian equity	13,809	12,888
United States equity	7,361	4,612
Non-North American equity	22,510	16,813
Mortgage	21,706	19,535
Preferred shares	735	735
Investments accounted for on the equity basis	1,330	1,982
Total investments	$506,114	$481,127

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

Short-term investments

Short-term investments are comprised of money market investments with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 1.9% (2007 – 4.3%) and an average remaining term to maturity of 69 days (2007 – 109 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Bonds and debentures

The Corporation's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. Foreign currency exposure is limited to 5% of the market value of the bond portfolio and no more than 10% of the market value of the bond portfolio shall be invested in securities of foreign issuers.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

	(thousands of $)			
	2008		2007	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ 19,847	4.1%	$ –	–
After one through five	79,841	3.7%	154,873	4.3%
After five	6,480	4.2%	9,812	4.6%
Canadian provincial and municipal:				
One or less	4,688	5.3%	–	–
After one through five	34,775	5.6%	35,455	5.5%
After five	32,493	5.1%	28,501	5.0%
Canadian corporate:				
One or less	6,190	4.8%	6,427	4.5%
After one through five	94,374	5.0%	49,429	5.0%
After five	48,910	5.0%	40,673	4.7%
Total bonds and debentures	$ 327,598		$ 325,170	

Common shares

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 2.5% (2007 – 2.0%).

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's common shares portfolio. As well, no one holding may represent more than 10% of the voting shares of any corporation.

Pooled funds

The Corporation owns units in Canadian, United States and non-North American pooled equity funds and a pooled mortgage fund. These pooled funds have no fixed distribution rate. Fund returns are based on the success of the fund managers.

Preferred shares

The preferred share investment is a private placement and is not traded on a listed exchange. It provides for a 6.75% annual dividend payable semi-annually for the first five years. The rights of these shares will allow the holder to convert the preferred shares into that entity's common shares or allows the entity to redeem the preferred shares starting in June 2009. The effective dividend rate is 6.8% (2007 – 6.8%).

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's portfolio. As well, no one holding may represent more than 10% of the voting shares of any corporation.

Investments accounted for on the equity basis

Through a subsidiary, the Corporation has a 21.25% ownership interest in Charlie Cooke Insurance Agency Ltd., and a 25% ownership interest in Atlantic Adjusting & Appraisals Ltd. and Maritime Finance & Acceptance Corporation.

The Corporation had an 8% ownership interest in a crop hail insurance business and the right to receive an additional 16% of the net income or loss from this business through preferred share ownership in other crop hail insurance companies. During the year, the Corporation disposed of these ownership interests for cash consideration of $1,310,000, resulting in a net gain on sale of $604,000.

The fair value of investments accounted for on the equity basis is considered to approximate book value.

Unrealized loss positions

The following table presents available for sale investments with unrealized losses where the decline is considered temporary. The unrealized losses are recorded as a component of accumulated other comprehensive income (loss).

	(thousands of $)			
	2008		2007	
	Carrying Value	Unrealized Losses	Carrying Value	Unrealized Losses
Bonds and debentures:				
Federal	$ 6,559	$ (39)	$ 69,871	$ (217)
Provincial and municipal	9,145	(196)	29,911	(293)
Corporate	80,443	(3,507)	73,849	(1,417)
Canadian common shares	30,105	(6,066)	9,488	(766)
U.S. common shares	13,336	(1,031)	3,281	(385)
Pooled funds:				
Canadian equity	13,809	(5,707)	–	–
United States equity	7,361	(914)	–	–
Non-North American equity	22,510	(4,909)	–	–
	$183,268	$ (22,369)	$186,400	$ (3,078)

As at December 31, 2008, the cost of 128 (2007 – 91) available for sale investments exceeded their fair value by $22,369,000 (2007 – $3,078,000). The unrealized losses on the bonds and debentures arose primarily from changes in interest rates. For Canadian and U.S. common shares and pooled funds, the unrealized losses are primarily the result of investment-specific business environment factors associated with the underlying equity investments.

The Corporation conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a write-down is recorded in investment earnings when the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery. During the year, investment write-downs of $5,665,000 (2007 – $312,000) (note 11) were recorded related to impairments of Canadian and U.S. common shares that were considered other than temporary.

6. Property, Plant and Equipment

The components of the Corporation's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows:

	(thousands of $)			
		2008		2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 972	$ –	$ 972	$ 972
Building	23,136	14,861	8,275	9,051
Computer hardware, system costs and other equipment	15,978	15,889	89	131
Total	$ 40,086	$ 30,750	$ 9,336	$ 10,154

Amortization for the year is $609,000 (2007 – $979,000) and is included in administrative expenses on the Consolidated Statement of Operations.

7. Other Assets

Other assets are comprised of the following:

	(thousands of $)	
	2008	2007
Prepaid expenses	$ 1,416	$ 1,866
Accrued pension asset (note 16)	1,375	628
Net investment in capital lease	1,169	1,611
Goodwill	481	481
Total	$ 4,441	$ 4,586

Net investment in capital lease

The Corporation, as lessor, has a 37% interest in a lease agreement with the Ministry of Government Services, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Saskatchewan. The lease transfers substantially all benefits and risks associated with the ownership of the property to the lessee. The total minimum lease payments receivable under the lease agreement are $1,311,000 (2007 – $1,894,000), payable at $583,000 per year. Unearned income at December 31, 2008 is $141,000 (2007 – $283,000).

The fair value of the net investment in the capital lease is $1,351,000 (2007 – $1,833,000). The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

8. Provision for Unpaid Claims

Nature of unpaid claims

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 year-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 year-end date.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends, 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 and on the judgment and opinions of a number of individuals, which necessarily involves risk that actual results may differ materially from the estimates.

Changes in the estimate for the provision for unpaid claims are as follows:

	(thousands of $) 2008	2007
Net unpaid claims, beginning of year	$ 251,743	$ 231,241
Change in accounting policies	–	(146)
Payments made during the year relating to:		
Prior year claims	(76,165)	(65,871)
Prior year service agreement claims	(1,383)	(3,215)
Prior year Facility Association claims	(988)	(624)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(13,233)	(3,846)
Prior year estimated unpaid service agreement claims	(93)	(1,532)
Prior year estimated unpaid Facility Association claims	52	63
Net unpaid for claims of prior years	159,933	156,070
Provision for claims occurring in the current year	99,778	95,186
Provision for Facility Association claims occurring in the current year	937	487
Net unpaid claims, end of year	$ 260,648	$ 251,743

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has not been provided because it is not practicable to determine fair value with sufficient reliability.

Type of unpaid claims

The provision for unpaid claims is summarized by line of business as follows:

(thousands of $)	2008			2007		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	$ 137,823	$ 18,252	$ 119,571	$ 136,545	$ 23,913	$ 112,632
Property	58,910	2,703	56,207	61,205	4,410	56,795
Liability	75,696	5,500	70,196	72,256	5,501	66,755
Assumed	7,942	–	7,942	8,313	–	8,313
Service agreement	3,041	–	3,041	4,518	–	4,518
Facility Association (note 19)	3,691	–	3,691	2,730	–	2,730
Total	$ 287,103	$ 26,455	$ 260,648	$ 285,567	$ 33,824	$ 251,743

Included in the provision for unpaid claims are discounted amounts for certain injury accident benefits in the amount of $10,944,000 (2007 – $12,746,000). These claims have been discounted using a rate of 6% (2007 – 6%) which reflects the expected claim settlement patterns and SGI's projected rate of return on its investment portfolio.

Included in the above amount is a provision for adverse development in the amount of $954,000 (2007 – $953,000).

Assumed claims

The provision for unpaid claims includes a provision for unpaid reinsurance assumed claims of $7,942,000 (2007 – $8,313,000). The Corporation discontinued its practice of underwriting reinsurance assumed business in 1985, but remains financially responsible for claims run-off on assumed contracts.

Service agreement

During 1998, a subsidiary of the Corporation, Coachman, issued an insurance policy to a vehicle rental company (the rental company). The policy provided bodily injury liability coverage on the rental company's vehicles being driven by its customers. The rental company paid Coachman an annual premium under this policy between $100,000 and $120,000. At the same time, Coachman made an agreement that allowed the rental company to settle and pay all claims submitted by its customers. Because the insurance coverage was in the name of Coachman, the rental company was required to report to Coachman quarterly on the status of all reported claims and the provision for unpaid claims. As security to guarantee the provision for unpaid claims, a trust account was to be maintained in an amount that would meet the funding of the outstanding liabilities related to the policy.

The agreement with the rental company expired on March 31, 2005. Subsequent to the expiration of the contract, the rental company filed for voluntary receivership. During the receivership proceedings, it was determined that the rental company had not reported claims correctly to Coachman, nor had it deposited the correct amounts in the trust account. Coachman has since collected the balance held in the trust account of $1,235,000.

Coachman is continuing legal action against certain of the parties involved to recover the shortfall related to this service agreement. Any recovery will be accounted for in the year of receipt.

Structured settlements

The Corporation settles some long-term disability claims by purchasing annuities from various financial institutions. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Consolidated Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee to the claimants in the event the financial institutions default on the scheduled payments. As at December 31, 2008, no information has come to the Corporation's attention that would suggest any weakness or failure in the financial institutions from which it has purchased annuities. The net present value of the scheduled payments as of the year-end date is $50,660,000 (2007 – $48,222,000).

9. Equity Advances

The Corporation does not have share capital. However, the Corporation has received equity advances from its parent, CIC, to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

10. Underwriting Policy and Reinsurance Ceded

The Corporation 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 $)	
	2008	2007
Dwelling and farm property	$ 500	$ 500
Unlicensed vehicles	500	500
Commercial property	1,000	1,000
Automobile and general liability	1,000	1,000
(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. The following table sets out the amount by which reinsurance ceded has reduced (increased) the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

	(thousands of $)	
	2008	2007
Premium earned	$ 26,338	$ 24,168
Claims incurred	1,066	11,070
Commissions and premium taxes	3,014	2,524
Administrative expenses	(1,200)	1,230

11. Investment Earnings

The components of investment earnings are as follows:

	(thousands of $)	
	2008	2007
Interest	$ 15,826	$ 17,425
Net realized gain on sale of investments	5,345	9,809
Premium financing	3,113	2,819
Pooled fund distributions	2,499	4,164
Dividends	1,094	937
Investments accounted for on the equity basis	187	(602)
Interest on net investment in capital lease	142	183
Investment write-downs	(5,665)	(312)
Total investment earnings	$ 22,541	$ 34,423

Investment write-downs by category are as follows:

	(thousands of $)	
	2008	2007
Canadian common shares	$ (4,825)	$ (64)
U.S. common shares	(840)	(248)
Total investment write-downs	$ (5,665)	$ (312)

12. Income Taxes

The Corporation's provision for (recovery of) income taxes is as follows:

	(thousands of $) 2008	2007
Current	$ (202)	$ 1,055
Future	673	1,000
Total income taxes	$ 471	$ 2,055

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes and non-controlling interest.

The reasons for the differences are as follows:

	(thousands of $) 2008	2007
Income before income taxes and non-controlling interest	$ 40,975	$ 37,314
Combined federal and provincial tax rate	35.78%	36.01%
Computed tax expense based on combined rate	$ 14,661	$ 13,437
Increase (decrease) resulting from:		
Changes to enacted tax rates	52	29
Non-deductible expenses for tax purposes	33	30
Earnings not subject to taxation	(14,252)	(9,569)
Valuation allowance	–	(1,896)
Other	(23)	24
Total income taxes	$ 471	$ 2,055

The tax effects of temporary differences that give rise to significant portions of the future income tax assets and future income tax liabilities are presented below:

	(thousands of $) 2008	2007
Future income tax assets		
Tax loss carryforward	$ 1,620	$ 1,993
Provision for unpaid claims	2,074	1,836
Other	26	29
Total future income tax assets	3,720	3,858
Future income tax liabilities		
Investments	655	1,158
Unpaid claims recoverable from reinsurers	452	797
Total future income tax liabilities	1,107	1,955
Net future income tax assets	$ 2,613	$ 1,903

The Corporation has non-capital loss carry-forwards of approximately $5,492,000 that expire in 2018 (2007 – $5,949,000 that expire in 2015).

13. Financial Risk Management

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

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

Credit risk

The Corporation's credit risk arises primarily from two distinct sources: accounts receivable (from its customers, brokers and reinsurers) and certain investments. The maximum credit risk to which it is exposed at December 31, 2008 is limited to the carrying value of the financial assets summarized as follows:

	(thousands of $)	
	2008	2007
	Carrying Value	Carrying Value
Cash and cash equivalents	$ 12,299	$ 34,994
Accounts receivable	98,528	88,372
Fixed income investments [1]	386,665	386,568
Unpaid claims recoverable from reinsurers	26,455	33,824

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

Cash and cash equivalents include money market investments of $18,860,000 less cash on hand, net of outstanding cheques of $6,561,000 (2007 – money market investments of $39,905,000 less cash on hand, net of outstanding cheques of $4,911,000). 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 SGI CANADA operates in. Accounts receivable consist of balances outstanding for one year or less.

	(thousands of $)	
	2008	2007
Current	$ 98,410	$ 88,004
30-59 days	542	410
60-89 days	281	216
Greater than 90 days	4,195	4,679
Subtotal	103,428	93,309
Allowance for doubtful accounts	(4,900)	(4,937)
Total	$ 98,528	$ 88,372

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 $) 2008	2007
Allowance for doubtful accounts, opening balance	$ 4,937	$ 4,593
Accounts written off	(1,912)	(1,223)
Current period provision	1,875	1,567
Allowance for doubtful accounts, ending balance	$ 4,900	$ 4,937

Credit risk within investments is primarily related to short-term investments, bonds and debentures, and the mortgage pooled fund. It is managed through the investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer. Credit ratings for the bonds and debentures are as follows:

	(thousands of $) 2008		2007	
Credit Rating	Fair Value	Makeup of Portfolio	Fair Value	Makeup of Portfolio
AAA	$ 143,326	43.8%	$ 202,995	62.4%
AA	88,265	26.9%	65,640	20.2%
A	85,422	26.1%	55,111	17.0%
BBB	10,585	3.2%	1,424	0.4%
Total	$ 327,598	100.0%	$ 325,170	100.0%

Within bond 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.

Through its custodian, the Corporation participates in an investment security lending program. Collateral of at least 102% of the market value of the loaned securities is held for the loan. This collateral is marked to market on a daily basis. In addition, the custodian provides indemnification against any potential losses in the securities lending program. At December 31, 2008 the Corporation had $47,636,000 (2007 – $64,338,000) of securities loaned under the program and held collateral of $50,638,000 (2007 – $69,165,000).

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

Market risk

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

Interest rate risk

The Corporation is exposed to changes in interest rates in its fixed income investments, including short-term investments, bonds and debentures, and the mortgage pooled fund. It is estimated that a 100 basis point increase/decrease in interest rates would decrease/increase other comprehensive income and accumulated other comprehensive income by $14.0 million at December 31, 2008, representing 3.6% of the $386.7 million fair value of fixed income investments.

Foreign exchange risk
The Corporation is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investments, purchases of goods and services that are denominated in U.S. dollars, and a portion of claims and reinsurance receivables and payables denominated in U.S. dollars. Also, the Corporation is exposed to 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 accounted for on the equity basis and preferred shares. At December 31, 2008, the Corporation's exposure to U.S. equities was 5.9% (2007 – 3.8%) and its exposure to non-North American equities was 4.5% (2007 – 3.5%).

At December 31, 2008, a 10% appreciation/depreciation in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a $3.0 million decrease/increase in other comprehensive income and accumulated other comprehensive income. A 10% appreciation/depreciation in the Canadian dollar versus the EAFE currencies would result in approximately a $2.3 million decrease/increase in other comprehensive income and accumulated other comprehensive income. As U.S. common shares, the U.S. equity pooled fund and the non-North American equity pooled fund are classified as available for sale, any unrealized changes due to foreign currency are recorded as other comprehensive income and do not directly impact net income until the investment is sold.

The Corporation's exposure to foreign exchange risk within its bond and debenture portfolio is limited to a maximum 5% of the market value of the bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The Corporation's exposure to exchange rate risk resulting from the purchase of goods and services, and claims and reinsurance receivables and payables, are not considered material to the operations of the Corporation.

Equity prices
The Corporation is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 23.5% (2007 – 19.2%) 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 following table indicates the approximate change that would be expected to both other comprehensive income and accumulated other comprehensive income based on changes in the Corporation's benchmark indices at December 31, 2008:

	(Change in thousands of $)	
Change in Equity Benchmarks	10% increase	10% decrease
S&P/TSX Composite Index	$ 6,534	$ (6,534)
S&P 500 Index	2,953	(2,953)
MSCI EAFE Index	2,251	(2,251)

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.

The following summarizes the estimated contractual maturities of the Corporation's financial liabilities at December 31:

(thousands of $)	2008					
	Carrying amount	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years
Accounts payable and accrued liabilities	$ 23,287	$ 23,287	$ –	$ –	$ –	$ –
Dividend payable	7,407	7,407	–	–	–	–
Premium taxes payable	15,908	15,908	–	–	–	–
Amounts due to reinsurers	5,388	5,033	140	215	–	–
Provision for unpaid claims	287,103	78,436	40,468	42,756	65,341	60,102
	$ 339,093	$ 130,071	$ 40,608	$ 42,971	$ 65,341	$ 60,102

(thousands of $)	2007					
	Carrying amount	0-6 months	7-12 months	1-2 years	3-5 years	More than 5 years
Accounts payable and accrued liabilities	$ 21,530	$ 21,530	$ –	$ –	$ –	$ –
Dividend payable	10,535	10,535	–	–	–	–
Premium taxes payable	14,408	14,408	–	–	–	–
Amounts due to reinsurers	5,330	4,435	895	–	–	–
Provision for unpaid claims	285,567	78,016	40,251	45,527	64,992	59,781
	$ 337,370	$ 128,924	$ 41,146	$ 45,527	$ 64,992	$ 59,781

14. Capital Management

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

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

SGI CANADA is not a regulated insurer, however, its subsidiaries, SGI CANADA Insurance Services Ltd., Coachman Insurance Company and the Insurance Company of Prince Edward Island, are subject to rate regulation related to their automobile premiums. Regulators require insurers to maintain a level of capital sufficient to achieve an MCT of 150%. The Corporation's objective is to maintain capital sufficient to achieve the industry average MCT, a level in excess of the regulatory minimum. The Corporation has established an objective to maintain its MCT at a level based upon the Canadian insurance industry. For 2008 that target was an MCT level of 316% (2007 – 307%). At December 31, 2008, the Corporation's MCT was 228% (2007 – 266%). There have been no changes to the Corporation's capital management processes and measures since the prior year end.

15. Change in Non-Cash Operating Items

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

	(thousands of $) 2008	2007
Accounts receivable	$ (10,014)	$ 7,938
Deferred policy acquisition costs	(4,315)	(3,993)
Reinsurers' share of unearned premiums	(1,035)	(689)
Unpaid claims recoverable from reinsurers	7,369	(1,551)
Other assets	(297)	(953)
Accounts payable and accrued liabilities	2,182	(13,166)
Premium taxes payable	1,500	969
Amounts due to reinsurers	58	438
Unearned reinsurance commissions	567	145
Unearned premiums	18,937	13,755
Provision for unpaid claims	1,536	22,053
	$ 16,488	$ 24,946

16. Employee Future Benefits

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 have been disclosed separately in this note.

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 December 31, 2007. The next valuation is anticipated to have a valuation date of December 31, 2010.

The actuarial valuation includes a provision for uncommitted and ad hoc benefit increases, and is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate. Results from the latest valuation as at December 31, 2007, projected to December 31, 2008, and the major assumptions used in the valuation, are as follows:

	2008	2007
Economic assumptions:		
Discount rate – beginning of period	5.50%	5.00%
Discount rate – end of period	7.50%	5.50%
Expected return on plan assets	6.25%	6.25%
Inflation rate	2.50%	2.50%
Expected salary increase	3.50%	3.50%
Post-retirement index	50% of CPI	50% of CPI
Remaining service life of active members in years (EARSL)	3	3

Information about the Corporation's defined benefit pension plan is as follows:

	(thousands of $) 2008	2007
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	$ 41,242	$ 45,215
Current service cost	235	220
Interest cost	2,205	2,159
Benefits paid	(3,040)	(4,458)
Change in actuarial assumptions	(5,691)	(1,817)
Experience loss (gain)	580	(77)
Accrued benefit obligation, end of year	$ 35,531	$ 41,242

	(thousands of $) 2008	2007
Plan assets		
Fair value of plan assets, beginning of year	$ 42,724	$ 45,740
Actual return on plan assets	(4,349)	1,273
Employer contributions	133	113
Employee contributions	65	56
Benefits paid	(3,040)	(4,458)
Fair value of plan assets, end of year	$ 35,533	$ 42,724
Funded status – plan surplus	$ 2	$ 1,482
Unamortized transitional asset	(611)	(1,219)
Unamortized net actuarial losses	4,759	2,724
Valuation allowance	–	(964)
Accrued pension asset	$ 4,150	$ 2,023

As at December 31, 2008, $1,375,000 (2007 – $628,000) of the accrued pension asset has been recorded by the Corporation (note 7) and $2,775,000 (2007 – $1,395,000) has been allocated to the Saskatchewan Auto Fund.

The asset allocation of the defined benefit pension plan assets is as follows:

		Per cent of Plan Assets at December 31	
Asset Category	Target Range	2008	2007
Short-term investments	3 - 20%	5%	9%
Bonds and debentures	40 - 70%	54%	52%
Canadian equities	10 - 30%	15%	15%
U.S. equities	Total foreign	15%	12%
Non-North American equities	18 - 30%	11%	12%

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

	(thousands of $) 2008	2007
Current service cost	$ (170)	$ (164)
Interest cost	(2,205)	(2,159)
Expected return on pension plan assets	2,591	2,725
Amortization of net transitional asset	608	608
Amortization of actuarial gains	205	205
Valuation allowance	957	(964)
Pension income	$ 1,986	$ 251

During the year, $1,330,000 (2007 – $173,000) of the pension income was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining $656,000 (2007 – $78,000) of pension income in administrative expenses on the Consolidated Statement of Operations.

Defined contribution pension plan

The Corporation also 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.

Pension expense for the defined contribution pension plan is $5,272,000 (2007 – $4,867,000). During the year, $3,730,000 (2007 – $3,218,000) of pension expense was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining $1,542,000 (2007 – $1,649,000) of pension expense in administrative expenses on the Consolidated Statement of Operations.

Defined benefit service recognition plans

Significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation at December 31 are:

	2008	2007
Discount rate	7.40%	5.25%
Expected salary increase	6.00 - 8.00% in 2009 3.5% thereafter	6.00 - 8.00% in 2008 and 2009 3.5% thereafter
EARSL – management	12	12
EARSL – in-scope	12	12

Information about the defined benefit service recognition plans is as follows:

	(thousands of $) 2008	2007
Benefit expense	$ 3,218	$ 3,035
Accrued benefit obligation	$ 15,445	$ 17,950
Unamortized past service costs, net actuarial losses and transitional asset	(6,122)	(10,103)
Accrued benefit liability	$ 9,323	$ 7,847

As at December 31, 2008, $6,243,000 (2007 – $5,411,000) of the accrued benefit liability was allocated to the Saskatchewan Auto Fund. The Corporation has recorded the remaining $3,080,000 (2007 – $2,436,000) of accrued benefit liability in accounts payable and accrued liabilities on the Consolidated Statement of Financial Position.

17. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year-end are as follows:

	(thousands of $)	
Category	2008	2007
Accounts receivable	$ 644	$ 595
Deferred policy acquisition costs	7,598	7,072
Investments	6,741	4,035
Accounts payable and accrued liabilities	71	117
Dividends payable	7,407	10,535
Premium taxes payable	14,807	13,764
Unearned premiums	2,019	1,974
Provision for unpaid claims	1,544	1,357
Gross premiums written	4,514	4,707
Gross premiums earned	4,511	4,499
Claims incurred	1,781	1,463
Administrative expenses	2,137	1,961
Premium taxes	14,280	13,367
Investment earnings	290	268

The Corporation acts as administrator of the Saskatchewan Auto Fund. Administrative and loss adjustment expenses incurred by the Corporation are allocated to the Corporation and the Saskatchewan Auto Fund directly or on the basis of specific distributions. Amounts incurred by the Corporation and charged to the Saskatchewan Auto Fund were $104,699,000 (2007 – $96,657,000) and accounts payable were $2,635,000 (2007 – $3,007,000).

The Corporation has direct premiums that are brokered through Charlie Cooke Insurance Agency Ltd. (CCIA), pays claim adjusting fees to Atlantic Adjusting & Appraisals Ltd. (AAA) and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation (MFAC). These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business.

In 2007, the Corporation provided CCIA a $450,000 loan for the purpose of purchasing a brokerage. The terms of the agreement provide for repayment in six annual instalments of $75,000 and require CCIA to maintain minimum premium limits. The loan was originally recorded at its fair value of $381,000, calculated by discounting the scheduled instalments at an interest rate that reflects the term and credit risk associated with the loan. At December 31, 2008 the loan is recorded at its amortized cost of $326,000. During the year, $75,000 was repaid and interest revenue of $20,000 was recorded through investment earnings.

Transactions and amounts outstanding between the Corporation and CCIA, AAA and MFAC at year-end are as follows:

	(thousands of $)	
Category	2008	2007
Accounts receivable	$ 978	$ 928
Accounts payable and accrued liabilities	107	648
Premiums written	10,737	8,651
Claims incurred	–	387
Commissions	2,468	1,838
Premiums financed	3,841	3,471

During the year, board members were appointed who are partners in organizations that provided $19,000 of professional services to the Corporation. In addition, one board member was appointed during the year who owns an organization that sells insurance policies of the Corporation. Premiums written during the year from this organization amounted to $4,190,000 and the associated accounts receivable at December 31, 2008 was $932,000. Commissions related to these premiums were $843,000. The above noted transactions are routine operating transactions in the normal course of business.

One of the Corporation's subsidiaries, ICPEI, has a director who is the owner of an organization that provided professional services to ICPEI. During the current year, these services amounted to $16,000 (2007 – $21,000). These transactions are routine operating transactions in the normal course of operations.

Other related party transactions are described separately in the notes to the consolidated financial statements.

18. Fair Values

The fair value of financial assets and liabilities, other than investments (note 5), net investment in capital lease (note 7), unpaid claims and unpaid claims recoverable from reinsurers (note 8 and 10) approximate carrying value due to their immediate or short-term nature.

19. 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:

	(thousands of $)	
	2008	2007
Gross premiums written	$ 3,052	$ 1,006
Net premiums earned	$ 2,706	$ 1,094
Claims incurred	2,464	831
Commissions	118	100
Premium taxes	87	36
Administrative expenses	684	199
Total claims and expenses	3,353	1,166
Underwriting loss	(647)	(72)
Investment earnings	160	205
Net income (loss)	$ (487)	$ 133
Facility Association receivable	$ 3,806	$ 3,675
Unearned premiums	797	462
Provision for unpaid claims	3,691	2,730
Facility Association payable	3,504	3,526

20. Segmented Information

The Corporation provides property and casualty insurance through four operating segments: Saskatchewan, Manitoba and Alberta, Ontario and the Maritimes (where Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). These operating segments correspond with the legal entities that make up the Corporation, as discussed in note 1. The performance of each operating segment is reported separately to the Corporation's Board of Directors.

(thousands of $)

2008	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 283,779	$ 31,715	$ 23,693	$ 14,260	$ –	$ 353,447
Net premiums earned	$ 273,874	$ 26,441	$ 23,169	$ 12,405	$ –	$ 335,889
Claims incurred	145,006	21,291	12,670	6,625	–	185,592
Other expenses	106,791	10,880	8,346	5,846	–	131,863
Underwriting profit (loss)	22,077	(5,730)	2,153	(66)	–	18,434
Investment earnings	14,768	2,456	4,370	947	–	22,541
Income (loss) before the following:	36,845	(3,274)	6,523	881	–	40,975
Income taxes (recovery)	–	(1,564)	1,841	194	–	471
Non-controlling interest	–	–	–	–	153	153
Net income (loss)	$ 36,845	$ (1,710)	$ 4,682	$ 687	$ (153)	$ 40,351
Total assets	$ 513,631	$ 98,487	$ 116,284	$ 34,211	$ (45,268)	$ 717,345
Shareholder's equity	$ 103,531	$ 28,798	$ 38,654	$ 8,712	$ (1,862)	$ 177,833

(thousands of $)

2007	Saskatchewan	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 264,892	$ 21,859	$ 23,182	$ 10,744	$ –	$ 320,677
Net premiums earned	$ 257,384	$ 18,162	$ 22,836	$ 9,480	$ –	$ 307,862
Claims incurred	158,137	11,380	11,287	5,230	–	186,034
Other expenses	99,563	7,776	7,734	3,864	–	118,937
Underwriting profit (loss)	(316)	(994)	3,815	386	–	2,891
Investment earnings	26,690	2,530	4,391	812	–	34,423
Income before the following:	26,374	1,536	8,206	1,198	–	37,314
Income taxes	–	407	1,189	459	–	2,055
Non-controlling interest	–	–	–	–	166	166
Net income	$ 26,374	$ 1,129	$ 7,017	$ 739	$ (166)	$ 35,093
Total assets	$ 518,389	$ 94,496	$ 117,355	$ 32,511	$ (55,582)	$ 707,169
Shareholder's equity	$ 113,824	$ 33,744	$ 34,816	$ 8,362	$ (1,709)	$ 189,037

21. Commitments and Contingencies

The Corporation is committed to a related party until 2011 for a telecommunications contract. At December 31, 2008, the remaining commitment is $243,000 (2007 – $556,000).

The Corporation is committed to annual payments under operating leases for buildings as follows:

	(thousands of $)
2009	$ 399
2010	400
2011	380
2012	294
2013	242
Thereafter	22

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operations of the Corporation.

22. Comparative Financial Information

For comparative purposes, certain 2007 balances have been reclassified to conform to 2008 financial statement presentation.

Corporate Governance

The Canadian Securities Administrators and securities regulators across Canada have implemented governance policies for publicly traded companies. National Policy 58-201 and National Instrument 58-101 came into effect on June 30, 2005. While Saskatchewan Government Insurance is not publicly traded and therefore not required to comply with these guidelines, they provide an excellent benchmark to measure good governance practices.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
Composition of the Board 1. The board should have a majority of independent directors.	Yes. The Board of Directors is constituted of a majority of independent directors.
2. The chair of the board should be an independent director. Where this is not appropriate, an independent director should be appointed to act as "lead director." However, either an independent chair or an independent lead director should act as the effective leader of the board and ensure that the board's agenda will enable it to successfully carry out its duties.	Yes. The Chair of the Board is an independent director.
Meetings of Independent Directors 3. The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance.	Yes. The Board of Directors has meetings in-camera, during which no management is in attendance, at every Board and committee meeting, as well as on an as-required basis. There are no non-independent directors on the current Board.
Board Mandate 4. The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for:	Yes. The Board has approved Terms of Reference (Mandate) which explicitly acknowledge responsibility for the stewardship of the Corporation.
(a) to the extent feasible, satisfying itself as to the integrity of the chief executive officer (the CEO) and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the organization;	Yes. The Board has approved the corporate values to which all employees, including the CEO and senior management, are expected to operate.
(b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;	Yes. The Board of Directors holds an annual multi-day strategic planning session. This session provides the basis of the Corporation's strategic plan and initiatives, as well as direction to management in the formation of Corporation's operating budget and goals. Further, the Board is provided with periodic updates during the year on the progress of the corporate strategic initiatives.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
(c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks;	Yes. The Board of Directors undertakes a process to identify the principal risks of the business, to achieve a proper balance between risks incurred and potential returns and to oversee the implementation of appropriate systems to manage the risks. The Board of Directors has charged the Audit and Finance committee with responsibility for this function and it reports to the Board on those risks on at least an annual basis.
(d) succession planning (including appointing, training and monitoring senior management);	Yes. The Board of Directors has charged the Governance and Human Resources committee with responsibility for reviewing the Corporation's succession plan. The committee reviews the plan on an annual basis and reports its findings to the Board.
(e) adopting a communication policy for the issuer;	Yes. The Corporation has a formal communications policy which has been approved by the Board of Directors.
(f) the issuer's internal control and management information systems; and	Yes.
(g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer.	Yes.
The written mandate of the board should also set out: (i) measures for receiving feedback from stakeholders (e.g., the board may wish to establish a process to permit stakeholders to directly contact the independent directors), and	Yes. the Corporation also undertakes research annually on behalf of the Board.
(ii) expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials.	Position descriptions for directors were developed and approved.
In developing an effective communication policy for the issuer, issuers should refer to the guidance set out in *National Policy 51-201 Disclosure Standards*.	

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
Position Descriptions 5. The board should develop clear position descriptions for the chair of the board and the chair of each board committee. In addition, the board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.	Position descriptions for directors were developed and approved. A position description for the CEO has been developed and approved. The Board has developed and approved corporate goals and objectives.
Orientation and Continuing Education 6. The board should ensure that all new directors receive a comprehensive orientation. All new directors should fully understand the role of the board and its committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its directors). All new directors should also understand the nature and operation of the issuer's business.	Yes. The Terms of Reference for the Board specify the responsibility for director training, which has been delegated to the Governance committee. New directors receive an orientation which provides a overview of the Corporation, its operations and its industry. Further, directors are educated on the role of the Board, its committees and the expectation of directors. The director position description describes a director's responsibilities.
7. The board should provide continuing education opportunities for all directors, so that individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.	Yes. The Board provides opportunities for all directors to increase their knowledge of issues and subjects facing the Corporation. Further, Crown Investments Corporation provides annual director training opportunities to all Crown corporation directors.
Code of Business Conduct and Ethics 8. The board should adopt a written code of business conduct and ethics (a code). The code should be applicable to directors, officers and employees of the issuer. The code should constitute written standards that are reasonably designed to promote integrity and to deter wrongdoing. In particular, it should address the following issues:	Yes. The Board has adopted a written Code of Conduct for Directors and a Corporate Code of Ethics and Conduct which is applicible to directors, officers and employees.
(a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;	Yes. Conflicts of interest are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(b) protection and proper use of corporate assets and opportunities;	Yes. The protection and proper use of corporate assets and opportunities are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(c) confidentiality of corporate information;	Yes. The confidentiality of corporate information is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
(d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees;	Yes. The fair dealing with customers, suppliers, competitors and employees is addressed in the Corporate Code of Ethics and Conduct.
(e) compliance with laws, rules and regulations; and	Yes. The compliance with laws, rules and regulations is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(f) reporting of any illegal or unethical behaviour.	Yes. The reporting of any illegal or unethical behaviour is addressed in the Corporate Code of Ethics and Conduct, and more specifically in the Whistleblower Policy.
9. The board should be responsible for monitoring compliance with the code. Any waivers from the code that are granted for the benefit of the issuer's directors or executive officers should be granted by the board (or a board committee) only.	Yes. The Human Resources committee receives an annual report concerning compliance with the code. On an as required basis, the Human Resources committee may grant a waiver from the code.
Although issuers must exercise their own judgment in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a director or executive officer which constitutes a material departure from the code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-102 requires every material change report to include a full description of the material change. Where a material departure from the code constitutes a material change to the issuer, we expect that the material change report will disclose, among other things: • the date of the departure(s), • the party(ies) involved in the departure(s), • the reason why the board has or has not sanctioned the departure(s), and • any measures the board has taken to address or remedy the departure(s).	Not applicable.
Nomination of Directors 10. The board should appoint a nominating committee composed entirely of independent directors.	Yes. The Board has charged the Governance committee with the responsibility of the nomination of directors. The committee is comprised entirely of independent directors.
11. The nominating committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to	Yes. The Governance committee's charter is contained within the Terms of Reference.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
individual members and subcommittees), and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.	
12. Prior to nominating or appointing individuals as directors, the board should adopt a process involving the following steps:	
(a) Consider what competencies and skills the board, as a whole, should possess. In doing so, the board should recognize that the particular competencies and skills required for one issuer may not be the same as those required for another.	Yes. The Governance committee undertakes a skills assessment on an annual basis.
(b) Assess what competencies and skills each existing director possesses. It is unlikely that any one director will have all the competencies and skills required by the board. Instead, the board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each director, as these may ultimately determine the boardroom dynamic.	Yes. The Governance committee undertakes a needs assessment on an annual basis.
The board should also consider the appropriate size of the board, with a view to facilitating effective decision-making.	Yes. The Governance committee reviews and recommends the size of the Board.
In carrying out each of these functions, the board should consider the advice and input of the nominating committee.	Yes. The Governance committee reports regularly to the Board and when required makes recommendations. It should be noted however that director appointments are made by Order-in-Council.
13. The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees for the next annual meeting of shareholders.	Yes. The Governance committee has a recruitment and selection process which it undertakes prior to making recommendations for appointments to the Board of Directors and Crown Investments Corporation.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
14. In making its recommendations, the nominating committee should consider:	
(a) the competencies and skills that the board considers to be necessary for the board, as a whole, to possess;	Yes. The Governance committee reviews the competencies and skills required for the Board as a whole.
(b) the competencies and skills that the board considers each existing director to possess; and	Yes. The Governance committee reviews the competencies and skills of each of the directors.
(c) the competencies and skills each new nominee will bring to the boardroom.	Yes. The Governance committee reviews the competencies and skills of nominee directors.
The nominating committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a board member.	Yes. During the recruitment and selection process, the Governance committee ensures that potential nominees understand the requirements and have sufficient time and resources to devote to the Board member responsibilities.
Compensation 15. The board should appoint a compensation committee composed entirely of independent directors.	Yes. The Board has delegated the responsibilities for compensation to the Human Resources committee.
16. The compensation committee should have a written charter that establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members or subcommittees), and the manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.	Yes. The Human Resources committee's charter is contained within the Terms of Reference. The committee has the authority to engage and compensate any outside advisor it may determine is necessary to carry out its duties.
17. The compensation committee should be responsible for:	
(a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the board with respect to) the CEO's compensation level based on this evaluation;	Yes. The Human Resources committee undertakes a detailed CEO evaluation on an annual basis. As part of that evaluation, the committee reviews corporate goals and objectives and evaluates the CEO's performance against those goals and objectives. The findings of the evaluation and any compensation changes resulting from the review are recommended to the Board.
(b) making recommendations to the board with respect to non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and	Yes. The Human Resources committee reviews and recommends to the Board and Crown Investments Corporation any changes to compensation.

National Policy 58-201 Corporate Governance Guidelines

Guideline	Saskatchewan Government Insurance
(c) reviewing executive compensation disclosure before the issuer publicly discloses this information.	Not applicable. Individuals reporting to the CEO, which includes all executive members, are required by legislation to file and report any changes in their compensation to the Clerk of the Saskatchewan Legislature within a 14-day period of time. Further, by policy of the Crown and Central Agencies committee of the Legislature, the Corporation is required to file an annual payee list which also contains the compensation of all members of the executive.
Regular Board Assessments 18. The board, its committees and each individual director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider:	Yes. The Board conducts on a rotational basis peer assessments and reviews of the Board and the Chair.
(a) in the case of the board or a board committee, its mandate or charter, and	Yes. The Board and its committees review their terms of reference on an as needed basis and at least every three years.
(b) in the case of an individual director, the applicable position description(s), as well as the competencies and skills each individual director is expected to bring to the board.	Yes. The Board has a position description for directors, further, individual director's skills and competencies are reviewed as part of the regular assessments.

Independence
The matter of "independence from management" is based upon the definition set by the Canadian Securities Administrators (CSA) and utilized by publicly traded companies in the industry. None of the directors have worked with or for the Corporation, or have direct material contracts or relationships with the Corporation, or have received remuneration from the Corporation in excess of the fees and compensation as directors and committee members or as directors of subsidiaries of the Corporation. However, the Chair of the Board of Directors is a partner in a law firm that has performed legal services for the Corporation in 2008, and is thereby deemed to have a material indirect relationship with the Corporation under the above standard. The Corporation's owner has managed this issue through the development of a protocol regarding lawyers serving on Crown Investments Corporation subsidiary Crown corporation Boards of Directors. Although not in strict compliance with the CSA standards, this protocol adopts the principle that directors must be free from any material relationship that may interfere with the director's ability to exercise independent judgment in the best interests of the Corporation or to influence the choice of law firms. Given the smaller local market in Saskatchewan for legal services, the protocol restricts directors from any direct material relationship, but allows a limited indirect relationship subject to the qualifications of the protocol, such as pre-approval of legal services by an independent Board committee, declarations of conflict, no direct benefit to the director and restriction of information to that director. The Corporation's General Counsel reviews all charges related to the provision of legal services by external counsel. The General Counsel in turn reports to the Governance committee of the Board on any new matters undertaken by the director's law firm, other than those that are substantially similar to matters previously performed by the law firm in question. The Board Chair, Warren Sproule, is a lawyer who is subject to this protocol. All other directors, including the Vice-Chair of the Board, are independent of management. At each Board and committee meeting, the directors meet in-camera without the presence of management.

Board of Directors

Warren Sproule, Chair
Lawyer, Kanuka Thuringer LLP
Regina, SK

Anne Lavack, Vice-Chair
Dean, Faculty of Business Administration
Paul J. Hill School of Business
Kenneth Levene Graduate School of Business
University of Regina
Regina, SK

Merin Coutts
Sales Manager, Shaw Cable, Saskatchewan Division
Saskatoon, SK

Howard Crofts
Chartered Accountant, Meyers Norris Penny
Regina, SK

Dwight Dunn
Manager, Western Financial Group
Wolseley, SK

W.J.A. (Bill) Heidt
Retired insurance professional
Kelowna, BC

Rick Kennedy
Regional Director, Great-West Life
Saskatoon, SK

Tyrone Klewchuk
Businessman
Yorkton, SK

Rick Orr
Mortgage Broker
Prince Albert, SK

Rick Smith
Senior Vice President, Henderson Insurance
Moose Jaw, SK

Jeff Sterzuk
Chief Operating Officer, Impact Society
Calgary, AB

Rick Watson
Watson Tractor
Regina, SK

Vice-Presidents

Earl G. Cameron
Acting President and CEO
Vice-President, Claims and Salvage

John Dobie
Vice-President, Canadian Operations

Randy Heise
Vice-President, Underwriting

Don Thompson
Chief Financial Officer

Dwain Wells
Vice-President, Systems and Facilities

Sherry Wolf
Vice-President, Auto Fund

Glossary of Terms

Broker — A person who negotiates insurance policies on behalf of the insurance company, receiving a commission from the insurance company for policies placed and other services rendered.

Casualty insurance — One of the three main groups of insurance products (the others are life insurance and property insurance). This type of insurance is primarily concerned with losses caused by injuries to others than the policyholder and the resulting legal liability imposed on the insured.

Catastrophe reinsurance — A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.

Cede, Cedant, Ceding company — An insurance company that transfers some or all of the risks in active policies to another company cedes its business. The company transferring its risks is known as the cedant or ceding company.

Claims incurred — The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in IBNR reserve for the same period of time.

Combined ratio — A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100%, there was a profit from underwriting activities while over 100% represents a loss from underwriting.

Facility Association — Participation in automobile risk-sharing pools whereby P&C insurance companies share resources to provide insurance coverage to high-risk individuals or businesses.

GAAP — Generally accepted accounting principles. These are defined in the Handbook prepared by the Canadian Institute of Chartered Accountants.

Gross premiums written (GPW) — Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.

IBNR reserve — Abbreviation for “incurred but not reported.” A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.

Loss ratio (Claims ratio) — Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.

Minimum Capital Test (MCT) — A solvency ratio used by regulators to assess a company’s financial strength. This ratio measures capital requirements in relation to the degree of risk undertaken by a particular company. The minimum amount required by this ratio, as determined by the regulators, is 1.5 or 150% of capital available over capital required.

Net premiums earned (NPE) — The portion of net premiums written that is recognized for accounting purposes as revenue during a period.

Net premiums written (NPW)	Gross premiums written for a given period of time less premiums ceded to reinsurers during such period.
Net risk ratio (NRR)	A ratio of net premiums written to equity. This ratio indicates the ability of a company's financial resources to withstand adverse underwriting results. The regulatory guideline is a ratio of 3.0 or lower.
Premium	The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.
Premium tax	A tax collected by insurance companies from policyholders and paid to various provincial and territorial governments. It is calculated as a percentage of gross premiums written.
Property insurance	One of the three main groups of insurance products (the others are life insurance and casualty insurance). This type of insurance provides coverage to a policyholder for an insurable interest in tangible property for property loss, damage or loss of use.
Prudent person	A common law standard against which those investing the money of others are judged against.
Redundancy & Deficiency	Claims reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency while a decrease to the original reserve is called a redundancy.
Reinsurance	In its simplest form, insurance for an insurance company. It is an agreement where the reinsurer agrees to indemnify the ceding company against all or a portion of the insurance or reinsurance risk underwritten by the ceding company under one or more policies.
Reinsurer	A company that purchases the cedant risk in the reinsurance contract.
Underwriting	The process of reviewing applications submitted for insurance coverage, deciding whether to insure all or part of the coverage requested and calculating the related premium for the coverage offered.
Underwriting capacity	The maximum amount that a company can underwrite. It is based on retained earnings and investment capital held by the company. Using reinsurance allows a company to increase its underwriting capacity as it reduces the company's exposure to particular risks.
Underwriting profit/loss	The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.
Unearned premiums	The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of its insurance policies that are deferred to subsequent accounting periods.

In Memoriam

Neita Elford, Supervisor, Product Administrative Services, Regina Head Office, passed away on February 24, 2008 at the age of 53 after a courageous battle with cancer. Neita worked at SGI CANADA for nearly 15 years and will be deeply missed by her family, friends and colleagues.

SGI CANADA Head Office 2260-11th Ave. Regina, SK S4P 0J9
www.sgicanada.ca 306-751-1200 1-800-667-8015