

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.

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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

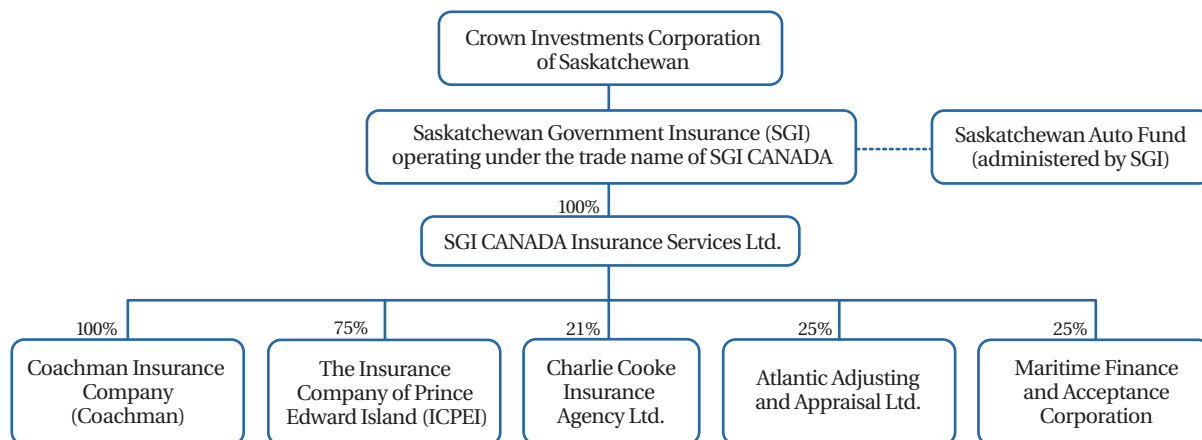
The *Automobile Accident Insurance Act* distinguished between the compulsory vehicle insurance program for the province (the Saskatchewan Auto Fund) and the competitive insurer offering additional property and casualty products (SGI CANADA).

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 Environment¹

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.

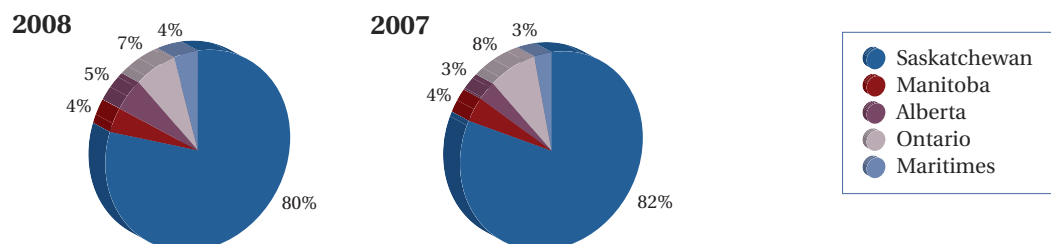
SGI CANADA uses a number of key performance indicators in its balanced scorecard to monitor the above initiatives to ensure that it is on course with its strategies:

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 industry³ 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.

³SGI 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.

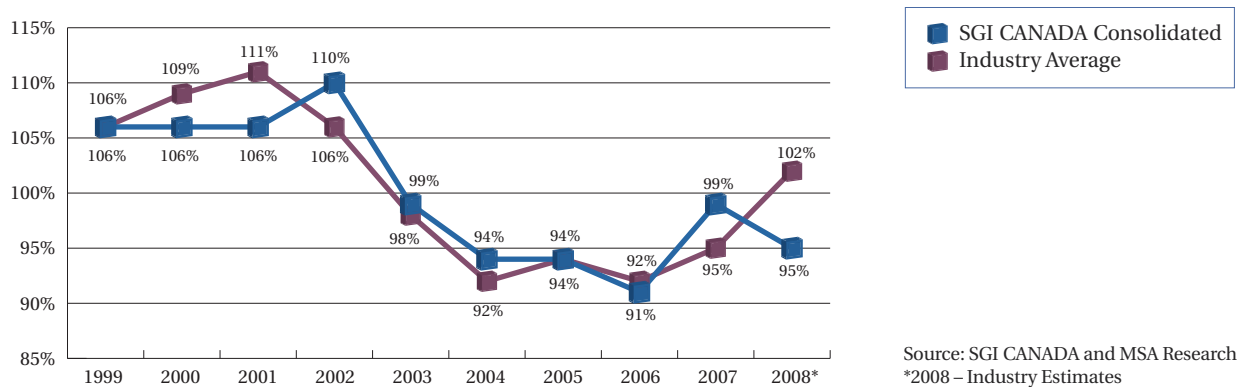
For 2009, the target again is for each legal entity of the Corporation to have an MCT at the average of the industry.

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



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

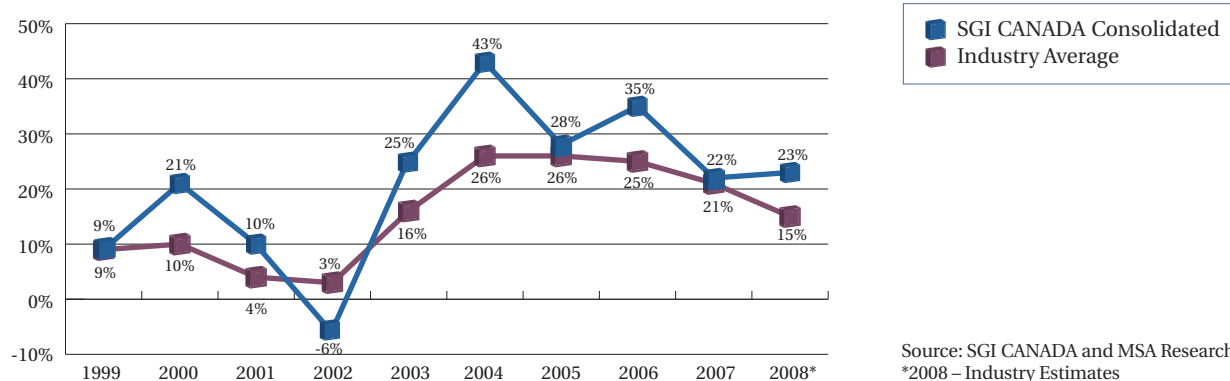
Maintaining the share of the Saskatchewan insurance market is important to the Corporation. Saskatchewan is the Corporation's home and is the base upon which its success has been built. This target is measured using the Superintendent of Insurance, Saskatchewan market share report for the prior year. 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



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	<ul style="list-style-type: none"> ● 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%

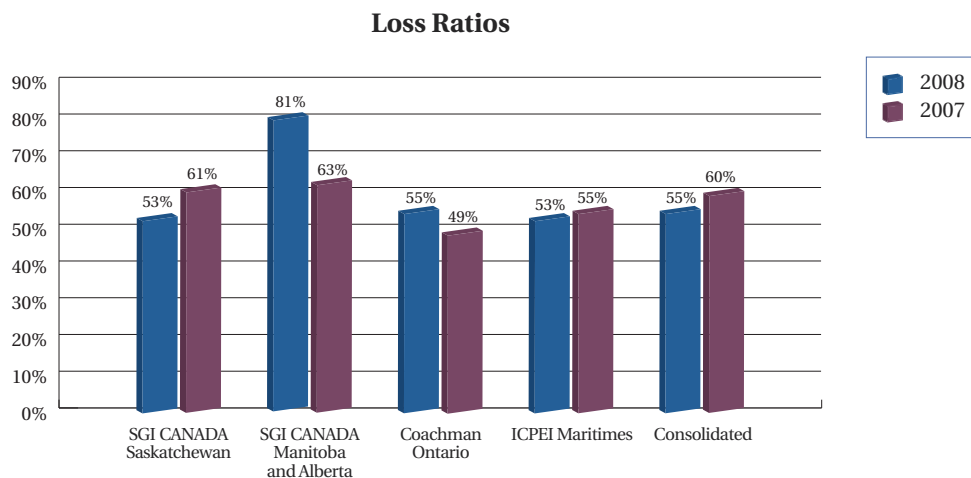
Premiums from Saskatchewan operations increased 7% in 2008, while out-of-province operations saw an increase of 25% in premium writings compared to the prior year. The increase in Saskatchewan premiums written is from the expanding Saskatchewan economy resulting in growth in policy counts and increased 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

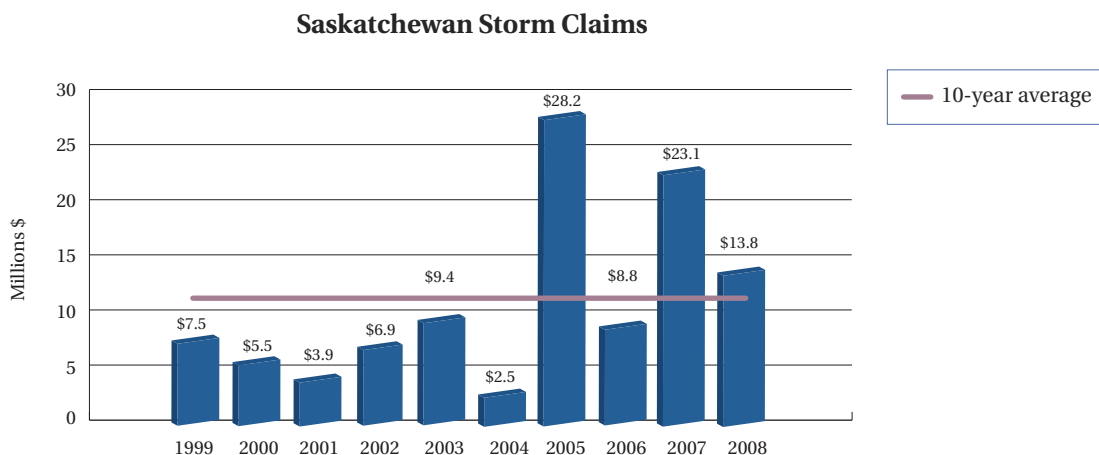
Consolidated claims incurred decreased by \$442,000 from \$186.0 million in 2007 to \$185.6 million in 2008. The decrease was primarily due to lower Saskatchewan claim costs from severe summer storm activity, partially offset by additional claims incurred related to growth in Alberta and the Maritimes.

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

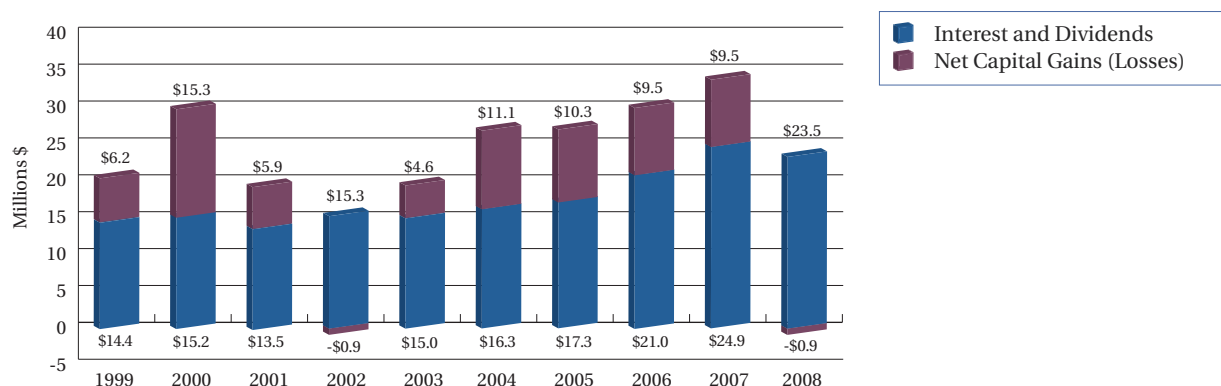
Other expenses of \$131.9 million increased \$12.9 million in 2008. Of this increase, \$9.0 million related to increased commissions and premium taxes. This increase was consistent with the growth in net premiums written. Administrative expenses increased \$3.3 million in 2008 and the administrative 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).

Investment Earnings



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.

Asset Class	Benchmark Index	Annual index returns ending December 31 (%)	
		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

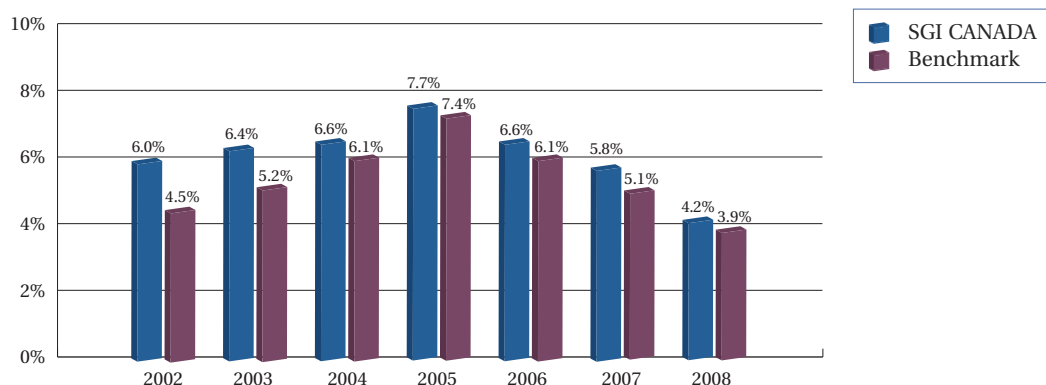
Equity market losses in 2008 were widespread with the TSX Composite Index declining 33%, the S&P 500 falling 39% (21% in Canadian dollar terms) and non-North American equities, the EAFE Index, falling 40% in aggregate local currency terms (29% in Canadian dollar terms). While foreign equities markets 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

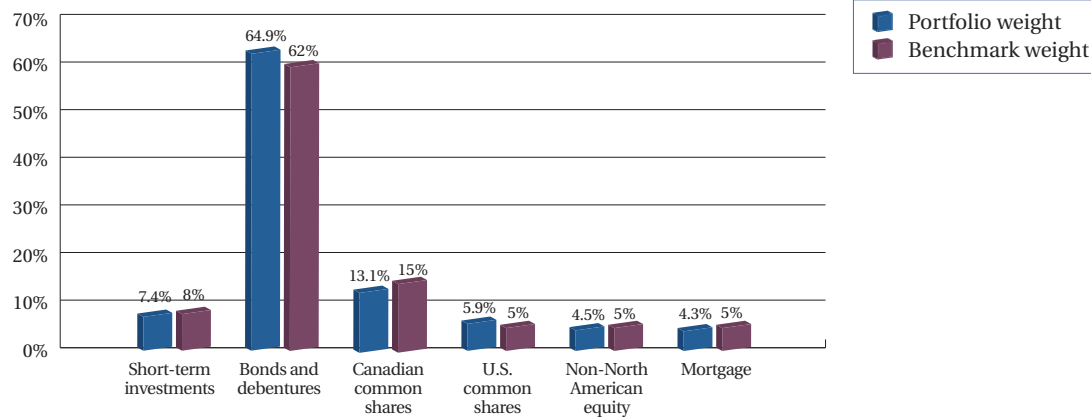
The carrying value of investments increased by \$25.0 million during the year, primarily a result of positive operating cash flows during the year of \$59.4 million, partially offset by a decline in the market value of investments. At December 31, 2008, investments included net unrealized losses of \$12.3 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.

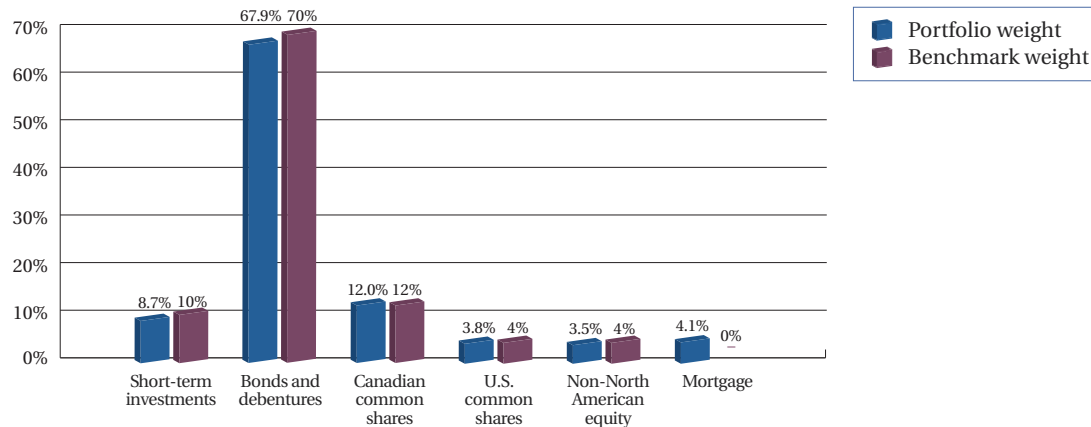
The asset mix strategy is formally documented in the Statement of Investment Policies and Goals. In addition to capturing the asset mix strategy, this document provides guidance on permissible investments, quality and quantity guidelines, conflicts of interest, related party transactions and investment 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:

(thousands of \$)	2008					2007				
	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.