

SGI CANADA
QUARTERLY REPORT
MARCH 2004



MANAGEMENT DISCUSSION AND ANALYSIS

For the Period Ended March 31, 2004 and 2003

Management's discussion and analysis (MD&A) provides a review of the results of the operations of SGI CANADA and its subsidiaries, SGI CANADA Insurance Services Ltd. (SCISL), the Insurance Company of Prince Edward Island (ICPEI) and Coachman Insurance Company (Coachman). This discussion and analysis should be read in conjunction with the SGI CANADA unaudited consolidated financial statements and supporting notes as at and for the three month period ended March 31, 2004 and the SGI CANADA MD&A and annual audited consolidated financial statements and supporting notes as at and for the year ended December 31, 2003. Throughout this discussion, "SGI CANADA" refers to SGI CANADA and all of its consolidated subsidiaries.

Overview of Operations

SGI CANADA recorded a \$16.3 million profit in the first quarter of 2004, more than double the 2003 first quarter profit of \$8.0 million. SGI CANADA and all of its subsidiaries were profitable in the first quarter of 2004. The improvement in financial results in 2004 is attributable to improved underwriting performance and stronger investment returns.

Improved underwriting results in the first quarter of 2004 are a continuation of the turn-around SGI CANADA recorded in 2003 when it realized an underwriting profit. After poor underwriting results in both 2001 and 2002 for SGI CANADA and the entire insurance industry, SGI CANADA implemented product changes in all jurisdictions that it operates in, which has resulted in a significant improvement in profitability over the last 15 months.

Premium Revenue

Net premiums earned for the first quarter of 2004 increased by over 12 per cent compared to the first quarter of 2003, with the majority of growth from Saskatchewan premiums, mainly from extension automobile and commercial lines premiums.

Coachman Ontario premiums earned declined slightly from \$7.6 million in the first quarter of 2003 to \$6.4 million in the first quarter of 2004. The decrease is due to a decline in automobile policies resulting from a revised underwriting focus implemented in 2003. The decline in the Ontario automobile premium revenue is partially offset by growth in Ontario property premiums, which the Corporation only began selling in the last half of 2002. Consequently, revenue from Ontario property business has grown substantially in the first quarter of 2004 in comparison to the same period in 2003.

Claims Incurred

Claim costs of \$33.3 million are essentially the same as 2004. However, with the growth in premium revenue, the 2004 first quarter loss ratio declined to 52.2 per cent compared to 58.4 per cent for the same period in 2003. The loss ratio improved for all companies with significant improvement in SCISL's loss ratio, which declined from 91.7 per cent in the first quarter of 2003 to 45.1 per cent in 2004. The loss ratios for Coachman and ICPEI also improved substantially with each company recording a decline in the 2004 first quarter loss ratio of over 10 per cent in comparison to the first quarter of 2003.

Expenses Excluding Claims Incurred

First quarter expenses excluding claims incurred for 2004 are \$22.9 million, an increase of \$2.2 million from 2003. However, 2004 expenses in relation to premiums earned declined slightly to 35.8 per cent in 2004 from 36.5 per cent in 2003.

Investments

Investment earnings for the first quarter of 2004 are \$9.3 million, compared to \$4.9 million in 2003. The increase is mainly due to gains on the sale of investments, which are \$5.6 million in 2004 versus \$1.8 million in 2003, with the majority of the increase from equity gains. Unrealized gains at March 31, 2004 are \$18.5 million (March 31, 2003 – \$19.8 million). The annualized return on the investment portfolio for the first quarter of 2004 is 10.4 per cent (2003 – 6.3 per cent).

Outlook

SGI CANADA posted strong 2004 first quarter earnings from both improved underwriting results and investment earnings. While the first quarter results are encouraging, the Corporation will continue to focus on disciplined underwriting practices. Continued growth in the Ontario property book of business is anticipated as additional brokers are added. While the first quarter profit is extremely positive, due to the nature of the insurance industry it cannot be assumed that each quarter will be as strong. Events such as large losses, catastrophic summer storms and a downturn in investment markets can significantly impact the financial results of SGI CANADA.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at March 31, 2004 and December 31, 2003

| | March 31 2004 (unaudited) | December 31 2003 (audited) |
|---|--|---|
| | (thousands of \$) | |
| Assets | | |
| Cash and treasury bills | \$ 34,392 | \$ 41,789 |
| Accounts receivable | 64,063 | 67,366 |
| Deferred policy acquisition costs | 30,796 | 32,854 |
| Future income taxes | 1,184 | 1,180 |
| Unpaid claims recoverable from reinsurers | 27,447 | 24,782 |
| Reinsurers' share of unearned premiums | 12,532 | 7,296 |
| Investments (note 3) | 299,237 | 293,628 |
| Net investment in capital leases | 2,924 | 2,996 |
| Goodwill | 481 | 481 |
| Property, plant and equipment | <u>9,584</u> | <u>9,967</u> |
| | <u>\$482,640</u> | <u>\$482,339</u> |
| Liabilities | | |
| Accounts payable and accrued charges | \$ 12,972 | \$ 14,168 |
| Dividend payable | 3,910 | 5,664 |
| Future income taxes | 1,531 | 1,007 |
| Premium taxes payable | 2,590 | 11,637 |
| Amounts due to reinsurers | 10,274 | 5,218 |
| Provision for unpaid claims | 212,742 | 211,128 |
| Unearned reinsurance commissions | 1,393 | 1,442 |
| Unearned premiums | <u>129,943</u> | <u>137,366</u> |
| | <u>375,355</u> | <u>387,630</u> |
| Non-controlling interest | <u>2,406</u> | <u>2,205</u> |
| Province of Saskatchewan's equity | | |
| Equity advances | 55,000 | 55,000 |
| Retained earnings | <u>49,879</u> | <u>37,504</u> |
| | <u>104,879</u> | <u>92,504</u> |
| | <u>\$482,640</u> | <u>\$482,339</u> |

(see accompanying notes)

SGI CANADA

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the three months ended March 31, 2004 and 2003
(unaudited – thousands of \$)

| | three months to March 31 | |
|---|---------------------------------|-------------------------|
| | <u>2004</u> | <u>2003</u> |
| | (thousands of \$) | |
| Gross premiums written | \$ 60,510 | \$ 52,045 |
| Net premiums written | <u>\$ 51,742</u> | <u>\$ 42,841</u> |
| Net premiums earned | \$ 63,886 | \$ 56,683 |
| Claims incurred | 33,338 | 33,063 |
| Commissions | 12,669 | 10,987 |
| Premium taxes | 3,108 | 2,731 |
| Administrative expenses | 7,033 | 6,692 |
| Facility Association participation (note 5) | <u>77</u> | <u>293</u> |
| Total claims and expenses | <u>56,225</u> | <u>53,766</u> |
| Underwriting profit | 7,661 | 2,917 |
| Investment earnings | <u>9,347</u> | <u>4,941</u> |
| Income before taxes and non-controlling interest | 17,008 | 7,858 |
| Future income tax expense | 521 | 2 |
| Capital taxes | <u>–</u> | <u>6</u> |
| Income after taxes and before non-controlling interest | 16,487 | 7,850 |
| Non-controlling interest | <u>202</u> | <u>(112)</u> |
| Net income | 16,285 | 7,962 |
| Retained earnings, beginning of period | 37,504 | 30,084 |
| Dividend | <u>(3,910)</u> | <u>(2,633)</u> |
| Retained earnings, end of period | <u>\$ 49,879</u> | <u>\$ 35,413</u> |

(see accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended March 31, 2004 and 2003
(unaudited – thousands of \$)

| | three months to March 31 | |
|---|---------------------------------|-------------------------|
| | <u>2004</u> | <u>2003</u> |
| | (thousands of \$) | |
| Cash provided by (used for): | | |
| Operating activities | | |
| Net income | \$ 16,285 | \$ 7,962 |
| Non-cash items: | | |
| Amortization | 813 | 1,017 |
| Realized gain on disposal of investments and capital assets | (5,617) | (1,789) |
| Income from equity investment | – | (73) |
| Investment write downs | – | 225 |
| Income (loss) attributable to non-controlling interest | 202 | (112) |
| Change in non-cash operating items (note 4) | <u>(13,065)</u> | <u>(12,246)</u> |
| | <u>(1,382)</u> | <u>(5,016)</u> |
| Investing activities | | |
| Purchases of investments | (95,958) | (163,252) |
| Proceeds on sale of investments | 94,204 | 163,336 |
| Repayment of capital lease | 71 | 65 |
| Purchases of capital assets | <u>38</u> | <u>(720)</u> |
| | <u>(1,645)</u> | <u>(571)</u> |
| Financing activities | | |
| Dividends paid | <u>(5,664)</u> | <u>–</u> |
| Decrease in cash and cash equivalents | (8,691) | (5,587) |
| Cash and cash equivalents: | | |
| Balance, beginning of year | <u>29,090</u> | <u>16,763</u> |
| Balance, end of year | 20,399 | 11,176 |
| Plus treasury bills greater than 91 days to maturity from acquisition date | <u>13,993</u> | <u>11,831</u> |
| Cash and treasury bills per statement of financial position | <u>\$ 34,392</u> | <u>\$ 23,007</u> |

(see accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2004

1. STATUS OF THE CORPORATION

The status of Saskatchewan Government Insurance (the Corporation) is substantially the same as the last year-end. Refer to the annual statements.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles. The accounting policies used in the preparation of these financial statements are consistent with, and should be read in conjunction with, the Corporation's audited financial statements for the year ended December 31, 2003.

3. INVESTMENTS

The components of the Corporation's investments are as follows:

| | (thousands of \$) | | | |
|--|-------------------|------------------|-------------------|------------------|
| | March 31, 2004 | | December 31, 2003 | |
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Bonds and debentures | \$231,280 | \$239,066 | \$218,481 | \$223,092 |
| Common shares | 39,863 | 49,558 | 45,332 | 60,070 |
| Preferred shares | 343 | 347 | 343 | 344 |
| Pooled equity fund | 9,964 | 10,332 | 11,677 | 11,613 |
| Mortgages | <u>14,536</u> | <u>15,223</u> | <u>14,430</u> | <u>14,947</u> |
| | 295,986 | 314,526 | 290,263 | 310,066 |
| Investments accounted for on an equity basis | <u>3,251</u> | <u>3,251</u> | <u>3,365</u> | <u>3,365</u> |
| Total investments | <u>\$299,237</u> | <u>\$317,777</u> | <u>\$293,628</u> | <u>\$313,431</u> |

4. CASH FLOWS

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

| | (thousands of \$) | |
|---|--------------------|--------------------|
| | 2004 | 2003 |
| three months to March 31 | | |
| Change in non-cash operating items: | | |
| Accounts receivable | \$ 3,303 | 3,281 |
| Deferred policy acquisition costs | 2,058 | 1,810 |
| Unpaid claims recoverable from reinsurers | (2,665) | (944) |
| Reinsurers' share of unearned premiums | (5,236) | (3,990) |
| Future income taxes | 521 | - |
| Accounts payable and accrued charges | (1,196) | (1,470) |
| Premium taxes payable | (9,047) | (7,836) |
| Amounts due to reinsurers | 5,056 | 3,159 |
| Provision for unpaid claims | 1,614 | 3,072 |
| Unearned reinsurance commissions | (50) | 50 |
| Unearned premiums | <u>(7,423)</u> | <u>(9,378)</u> |
| | <u>\$ (13,065)</u> | <u>\$ (12,246)</u> |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. FACILITY ASSOCIATION

Through its subsidiaries, the Corporation is a participant in various risk sharing pools whereby most companies in the industry share resources to provide insurance for high risks.

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

| <u>three months to March 31</u> | (thousands of \$) | |
|---------------------------------|-------------------|-----------------|
| | <u>2004</u> | <u>2003</u> |
| Gross premiums written | \$ 330 | \$ 590 |
| Net premiums written | \$ 330 | \$ 590 |
| Net premiums earned | \$ 844 | \$ 511 |
| Claims incurred | 823 | 687 |
| Commissions | 65 | 60 |
| Premium taxes | 27 | 15 |
| Administrative expenses | <u>86</u> | <u>55</u> |
| Total claims and expenses | <u>1,001</u> | <u>817</u> |
| Underwriting loss | (157) | (306) |
| Investment earnings | <u>80</u> | <u>13</u> |
| Net loss | <u>\$ (77)</u> | <u>\$ (293)</u> |

6. SEGMENTED INFORMATION

The Corporation's operating segments are managed as separate legal entities, with the performance of each entity reported separately to the Corporation's Board.

The Corporation's operating segments sell property and casualty insurance in various jurisdictions as follows:

- (i) SGI CANADA in Saskatchewan;
- (ii) SGI CANADA Insurance Services Ltd. (SCISL) in Manitoba;
- (iii) Coachman Insurance Company (Coachman) in Ontario; and
- (iv) The Insurance Company of Prince Edward Island (ICPEI) in Prince Edward Island and New Brunswick.

SGI CANADA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

three months to March 31

(thousands of \$)

| 2004 | SGI CANADA | SCISL | Coachman | ICPEI | Total |
|---|-------------------|--------------|-----------------|--------------|------------------|
| Gross premiums written | \$ 49,777 | \$ 2,015 | \$ 6,897 | \$ 1,821 | \$ 60,510 |
| Net premiums earned | \$ 52,675 | \$ 2,496 | \$ 6,438 | \$ 2,277 | \$ 63,886 |
| Claims and expenses | 45,310 | 2,078 | 7,170 | 1,667 | 56,225 |
| Underwriting profit (loss) | 7,365 | 418 | (732) | 610 | 7,661 |
| Investment earnings | 8,131 | 152 | 870 | 194 | 9,347 |
| | 15,496 | 570 | 138 | 804 | 17,008 |
| Income taxes | — | 214 | — | 307 | 521 |
| Net profit before non-controlling interest | \$ 15,496 | \$ 356 | \$ 138 | \$ 497 | 16,487 |
| Non-controlling interest | | | | | 202 |
| Consolidated net profit | | | | | <u>\$ 16,285</u> |
| Loss ratio | 49.0% | 45.1% | 81.2% | 50.3% | 52.2% |
| Expense ratio | 37.0% | 38.2% | 30.2% | 22.9% | 35.8% |
| Combined ratio | 86.0% | 83.3% | 111.4% | 73.2% | 88.0% |
| Total assets | \$353,136 | \$ 20,628 | \$ 86,309 | \$ 22,567 | \$482,640 |

three months to March 31

(thousands of \$)

| 2003 | SGI CANADA | SCISL | Coachman | ICPEI | Total |
|--|-------------------|--------------|-----------------|--------------|-----------------|
| Gross premiums written | \$ 44,699 | \$ 1,793 | \$ 3,787 | \$ 1,766 | \$ 52,045 |
| Net premiums earned | \$ 44,899 | \$ 2,079 | \$ 7,649 | \$ 2,056 | \$ 56,683 |
| Claims and expenses | 40,131 | 2,683 | 9,100 | 1,852 | 53,766 |
| Underwriting profit (loss) | 4,768 | (604) | (1,451) | 204 | 2,917 |
| Investment earnings | 4,046 | 67 | 694 | 134 | 4,941 |
| | 8,814 | (537) | (757) | 338 | 7,858 |
| Income taxes | — | (133) | — | 141 | 8 |
| Net profit (loss) before non-controlling interest | \$ 8,814 | \$ (404) | \$ (757) | \$ 197 | 7,850 |
| Non-controlling interest | | | | | (112) |
| Consolidated net profit | | | | | <u>\$ 7,962</u> |
| Loss ratio | 50.9% | 91.7% | 92.4% | 61.1% | 58.4% |
| Expense ratio | 38.5% | 37.3% | 26.6% | 29.0% | 36.5% |
| Combined ratio | 89.4% | 129.0% | 119.0% | 90.1% | 94.9% |
| Total assets | \$340,692 | \$ 17,200 | \$ 68,911 | \$ 18,870 | \$445,673 |