

SGI CANADA
QUARTERLY REPORT
JUNE 2005



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the period ended June 30, 2005

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), collectively referred to as SGI CANADA or the Corporation. This discussion and analysis should be read in conjunction with the SGI CANADA unaudited consolidated financial statements and supporting notes as at and for the six-month period ended June 30, 2005, and the SGI CANADA annual MD&A and audited consolidated financial statements and supporting notes as at and for the year ended Dec. 31, 2004.

For the three months ended June 30, 2005 and 2004

Overview of Operations

SGI CANADA recorded a consolidated net profit of \$448,000 for the second quarter of 2005, \$11.6 million lower than the second quarter of 2004. Significant storm activity in Saskatchewan in the month of June contributed to Saskatchewan operations incurring a net loss of \$1.9 million for the quarter, compared to a \$11.2 million net profit for the same period in 2004. Operations from outside of Saskatchewan contributed \$2.3 million in profits for the second quarter in 2005 offsetting the losses experienced by the Saskatchewan operations.

Premium Revenue

During the second quarter of 2005, net premiums earned increased six per cent or \$4.0 million, compared to last year. Saskatchewan premiums increased \$4.3 million or eight per cent with growth across all product lines. Out-of-province premium revenue for the second quarter has decreased slightly (two per cent).

Claims Incurred

Claim costs of \$50.2 million for the second quarter of 2005 are \$15.7 million more than claim costs for the same period in 2004. Saskatchewan operations had an increase in claim costs of \$17.3 million, primarily due to more severe storm activity in the second quarter of 2005 than for the same period in 2004.

Claim costs in the second quarter from outside of Saskatchewan were \$1.6 million or 20 per cent lower than the second quarter of 2004.

Expenses Excluding Claims Incurred

Expenses for the second quarter of 2005, excluding claims incurred, are \$25.1 million, \$1.5 million more than expenses for the same period of 2004. The increase is mainly from commissions and premium taxes being \$1.3 million higher in 2005 than 2004, a direct result of the growth in premiums.

Investments

Investment earnings for the second quarter of 2005 are \$6.6 million, \$1.7 million more than for the same period in 2004, primarily due to realized gains on the sale of investments, which accounts for \$1.5 million of the variance.

For the six months ended June 30, 2005 and 2004

Overview of Operations

SGI CANADA has recorded a consolidated net profit of \$20.2 million year to date, \$8.2 million lower than the first half of 2004. This decrease is due to the Saskatchewan operations having a net profit of \$16.4 million in the first half of 2005, \$10.3 million lower than the same period last year. The lower profit from the Saskatchewan operations is mainly attributable to claim costs that were \$16.7 million higher in 2005 to the end of June than in 2004. Operations from outside of Saskatchewan continue to contribute strong profits, \$3.8 million for the first six months of 2005 versus \$1.7 million for the same period in 2004.

Premium Revenue

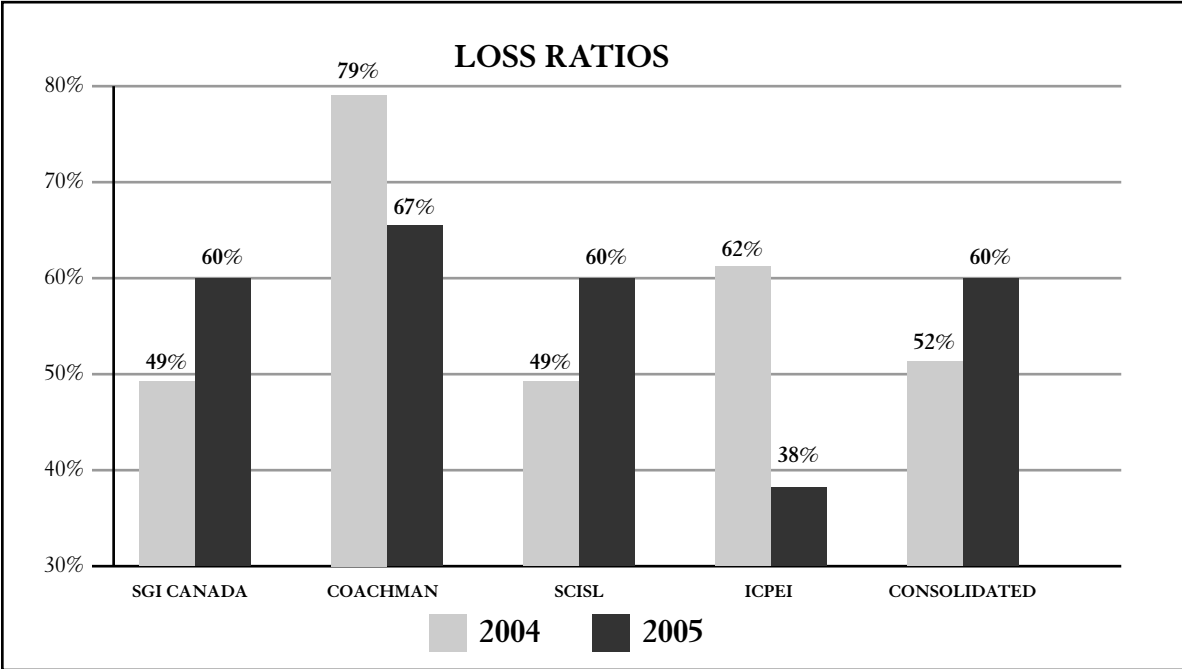
Net premiums earned at the end of June increased by \$8.7 million or seven per cent compared to the same period in 2004, with Saskatchewan personal lines, commercial lines and auto extension premiums showing the largest increases. Ontario and PEI auto premiums both decreased for the first six months of 2005 compared to the same period in 2004. The decline in Ontario auto premiums is offset by growth in the Ontario property business.

Claims Incurred

Claim costs of \$82.6 million are \$14.9 million higher than last year, due to the higher claim costs for Saskatchewan operations. Saskatchewan operations claim costs of \$68.9 million in 2005 are \$16.7 million more than the same period last year, primarily due to storm activity in the second quarter of 2005 that has resulted in \$17.5 million of losses to the end of June.

Claim costs for the first half of 2005 from outside of Saskatchewan were \$1.8 million or 12 per cent lower than the first half of 2004.

The following table highlights the ratio of claim costs in relation to premiums (loss ratio) for each company.



While SGI CANADA and SCISL's loss ratios have increased due to the severe storms experience in Saskatchewan and parts of Manitoba, Coachman and ICPEI are experiencing improved loss ratios year to date. Overall, due to our significant market presence in Saskatchewan, the consolidated year-to-date loss ratio has increased from 52 per cent in 2004 to 60 per cent in 2005.

Expenses Excluding Claims Incurred

Expenses excluding claims incurred are \$49.2 million in the first six months of 2005, \$2.7 million more than expenses for the same period in 2004. The increase is due to higher commissions and premium taxes, which is a direct result of the growth in premiums. Overall, the 2005 expenses in relation to premiums earned has declined slightly to 35.6 per cent compared to 36.0 per cent in 2004.

Investments

Investment earnings for the first half of 2005 are \$15.1 million, \$827,000 more than the same period in 2004, primarily due to realized gains on the sale of investments. The annualized return on the investment portfolio for the first six months of 2005 is 7.3 per cent compared to 7.7 per cent for 2004. Unrealized gains at June 30, 2005 are \$23.4 million (June 30, 2004 - \$12.2 million).

Outlook

Strong results in the first five months of 2005 combined with solid profits from out-of-province operations have offset losses that occurred in June from significant summer storms in Saskatchewan and parts of Manitoba. Our priority continues to be rate adequacy in all jurisdictions in which we sell insurance and to focus on out-of-province expansion to spread our concentration of risk, grow revenue and profits and create jobs.

In June 2005, the Alberta government passed legislation that allows government insurers to operate in that province. Through its 100 per cent owned subsidiary, SGI CANADA Insurance Services Ltd., SGI will be applying for an Alberta insurers licence in the third quarter of 2005 with the intent of beginning operations in that market in early 2006.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at June 30, 2005 and Dec. 31, 2004

	June 30 2005 (unaudited)	Dec. 31 2004 (audited)
	(thousands of \$)	
Assets		
Cash and cash equivalents	\$ 23,870	\$ 24,135
Accounts receivable	72,634	74,070
Deferred policy acquisition costs	35,728	35,371
Future income taxes	71	71
Reinsurers' share of unearned premiums	9,558	8,596
Investments (note 2)	363,614	346,267
Net investment in capital lease	2,541	2,700
Goodwill	481	481
Unpaid claims recoverable from reinsurers	29,186	27,914
Property, plant and equipment	<u>10,576</u>	<u>9,312</u>
	<u>\$ 548,259</u>	<u>\$ 528,917</u>
Liabilities		
Accounts payable and accrued charges	\$ 12,018	\$ 15,609
Dividends payable	5,203	5,932
Premium taxes payable	6,187	12,432
Amounts due to reinsurers	6,312	5,109
Unearned reinsurance commissions	1,600	1,564
Unearned premiums	149,816	148,431
Provision for unpaid claims	<u>250,036</u>	<u>232,560</u>
	<u>431,172</u>	<u>421,637</u>
Non-controlling interest	<u>1,274</u>	<u>1,236</u>
Province of Saskatchewan's equity		
Equity advances	55,000	55,000
Retained earnings	<u>60,813</u>	<u>51,044</u>
	<u>115,813</u>	<u>106,044</u>
	<u>\$ 548,259</u>	<u>\$ 528,917</u>

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CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the periods ended June 30, 2005 and 2004
(unaudited)

	three months to June 30		six months to June 30	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(thousands of \$)		(thousands of \$)	
Gross premiums written	\$ 88,051	\$ 85,425	\$149,570	\$145,935
Net premiums written	<u>\$ 84,419</u>	<u>\$ 80,898</u>	<u>\$138,625</u>	<u>\$132,640</u>
Net premiums earned	<u>\$ 69,592</u>	<u>\$ 65,571</u>	<u>\$138,197</u>	<u>\$129,457</u>
Claims incurred	50,161	34,447	82,646	67,785
Commissions	14,247	13,129	28,107	25,798
Administrative expenses	7,769	7,415	14,870	14,448
Premium taxes	3,369	3,155	6,680	6,263
Facility Association participation (note 4)	<u>(275)</u>	<u>(129)</u>	<u>(491)</u>	<u>(52)</u>
Total claims and expenses	<u>75,271</u>	<u>58,017</u>	<u>131,812</u>	<u>114,242</u>
Underwriting profit (loss)	(5,679)	7,554	6,385	15,215
Investment earnings	<u>6,597</u>	<u>4,896</u>	<u>15,070</u>	<u>14,243</u>
Income before income taxes and non-controlling interest	918	12,450	21,455	29,458
Income taxes	<u>320</u>	<u>403</u>	<u>992</u>	<u>924</u>
Income after income taxes and before non-controlling interest	598	12,047	20,463	28,534
Non-controlling interest	<u>150</u>	<u>(43)</u>	<u>287</u>	<u>159</u>
Net income	448	12,090	20,176	28,375
Retained earnings, beginning of period	65,568	49,879	51,044	37,504
Dividend	(5,203)	(3,911)	(10,407)	(7,821)
Related party transaction	<u>—</u>	<u>(1,049)</u>	<u>—</u>	<u>(1,049)</u>
Retained earnings, end of period	<u>\$ 60,813</u>	<u>\$ 57,009</u>	<u>\$ 60,813</u>	<u>\$ 57,009</u>

(see accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the periods ended June 30, 2005 and 2004
(unaudited)

	three months to June 30		six months to June 30	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	(thousands of \$)		(thousands of \$)	
Cash provided by (used for):				
Operating activities				
Net income	\$ 448	\$ 12,090	\$ 20,176	\$ 28,375
Non-cash items:				
Amortization	593	1,006	1,359	1,819
Realized gain on disposal of investments	(2,615)	(1,142)	(7,244)	(6,759)
Future income taxes	29	354	—	875
Investment write downs	254	—	349	—
Income (loss) attributable to non-controlling interest	150	(43)	287	159
Income from investments accounted for on the equity basis	(56)	(108)	(91)	(108)
Change in non-cash operating items (note 3)	<u>23,375</u>	<u>1,477</u>	<u>9,109</u>	<u>(12,109)</u>
	<u>22,178</u>	<u>13,634</u>	<u>23,945</u>	<u>12,252</u>
Investing activities				
Purchases of investments	(208,821)	(133,759)	(398,232)	(229,717)
Proceeds on sale of investments	198,764	122,332	387,033	216,536
Repayment of capital lease	81	73	160	144
Purchases of property, plant and equipment	<u>(1,369)</u>	<u>(285)</u>	<u>(1,786)</u>	<u>(247)</u>
	<u>(11,345)</u>	<u>(11,639)</u>	<u>(12,825)</u>	<u>(13,284)</u>
Financing activities				
Dividends paid	<u>(5,204)</u>	<u>(3,910)</u>	<u>(11,385)</u>	<u>(9,574)</u>
Increase (decrease) in cash and cash equivalents	5,629	(1,915)	(265)	(10,606)
Cash and cash equivalents, beginning of period	<u>18,241</u>	<u>20,399</u>	<u>24,135</u>	<u>29,090</u>
Cash and cash equivalents, end of period	<u>\$ 23,870</u>	<u>\$ 18,484</u>	<u>\$ 23,870</u>	<u>\$ 18,484</u>

(see accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

June 30, 2005

1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited consolidated financial statements do not include all of the disclosures included in the Corporation's annual audited consolidated financial statements. The accounting policies used in the preparation of these interim financial statements are in accordance with Canadian generally accepted accounting principles and are consistent with those described in the Corporation's 2004 annual audited consolidated financial statements. Accordingly, these interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation's 2004 annual report.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the provision for unpaid claims.

2. INVESTMENTS

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

	(thousands of \$)			
	June 30, 2005		Dec. 31, 2004	
	<u>Carrying Value</u>	<u>Estimated Fair Value</u>	<u>Carrying Value</u>	<u>Estimated Fair Value</u>
Short-term investments	\$ 19,647	\$ 19,647	\$ 6,932	\$ 6,932
Bonds and debentures	280,032	287,649	271,518	275,744
Pooled equity fund	10,193	10,720	10,193	10,459
Canadian common shares	24,224	36,329	28,386	41,827
U.S. common shares	11,133	13,744	10,323	12,824
Preferred shares	—	—	290	297
Mortgages	<u>14,392</u>	<u>14,898</u>	<u>14,607</u>	<u>15,289</u>
	359,621	382,987	342,249	363,372
Investments accounted for on the equity basis	<u>3,993</u>	<u>3,993</u>	<u>4,018</u>	<u>4,018</u>
Total investments	<u>\$363,614</u>	<u>\$386,980</u>	<u>\$346,267</u>	<u>\$367,390</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. CHANGE IN NON-CASH OPERATING ITEMS

	(thousands of \$)			
	three months to June 30		six months to June 30	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Accounts receivable	\$ (5,357)	\$ (19,501)	\$ 1,436	\$ (16,198)
Deferred policy acquisition costs	(2,952)	(3,064)	(357)	(1,006)
Unpaid claims recoverable from reinsurers	(262)	749	(1,272)	(1,916)
Reinsurers' share of unearned premiums	1,578	1,896	(962)	(3,340)
Future income taxes	—	—		
Accounts payable and accrued charges	904	4,999	(3,591)	3,803
Premium taxes payable	3,639	3,477	(6,245)	(5,570)
Amounts due to reinsurers	(3,218)	(1,781)	1,203	3,275
Provision for unpaid claims	15,535	953	17,476	2,567
Unearned reinsurance commissions	56	158	36	108
Unearned premiums	<u>13,452</u>	<u>13,591</u>	<u>1,385</u>	<u>6,168</u>
	<u>\$ 23,375</u>	<u>\$ 1,477</u>	<u>\$ 9,109</u>	<u>\$ (12,109)</u>

4. 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:

	(thousands of \$)			
	three months to June 30		six months to June 30	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net premiums written	<u>\$ 236</u>	<u>\$ 833</u>	<u>\$ 707</u>	<u>\$ 1,163</u>
Net premiums earned	<u>\$ 34</u>	<u>\$ 675</u>	<u>\$ 713</u>	<u>\$ 1,519</u>
Claims incurred	(285)	428	79	1,251
Commissions	16	24	72	89
Premium taxes	3	23	25	50
Administrative expenses	<u>29</u>	<u>101</u>	<u>99</u>	<u>187</u>
Total claims and expenses	<u>(237)</u>	<u>576</u>	<u>275</u>	<u>1,577</u>
Underwriting profit	271	99	438	(58)
Investment earnings	<u>4</u>	<u>30</u>	<u>53</u>	<u>110</u>
Net profit	<u>\$ 275</u>	<u>\$ 129</u>	<u>\$ 491</u>	<u>\$ 52</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. 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.

three months to June 30	(thousands of \$)					
2005	SGI CANADA	SCISL	Coachman	ICPEI	Consolidation Adjustments	Total
Net premiums written	\$ 71,166	\$ 3,421	\$ 7,222	\$ 2,610	\$ —	\$ 84,419
Net premiums earned	\$ 58,402	\$ 2,771	\$ 6,332	\$ 2,087	\$ —	\$ 69,592
Claims incurred	43,711	2,014	3,551	885	—	50,161
Other expenses	21,672	1,099	1,861	478	—	25,110
Underwriting profit (loss)	(6,981)	(342)	920	724	—	(5,679)
Investment earnings	5,108	263	979	247	—	6,597
Income (loss) before income taxes and non-controlling interest	(1,873)	(79)	1,899	971	—	918
Income taxes	—	(50)	—	370	—	320
Non-controlling interest	—	—	—	—	150	150
Net income (loss)	\$ (1,873)	\$ (29)	\$ 1,899	\$ 601	\$ (150)	\$ 448
Total assets	\$ 397,062	\$ 38,988	\$ 105,737	\$ 25,406	\$ (18,934)	\$ 548,259
Shareholders' equity	\$ 87,395	\$ 8,694	\$ 14,485	\$ 6,513	\$ (1,274)	\$ 115,813

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

three months to June 30

(thousands of \$)

<u>2004</u>	<u>SGI CANADA</u>	<u>SCISL</u>	<u>Coachman</u>	<u>ICPEI</u>	<u>Consolidation Adjustments</u>	<u>Total</u>
Net premiums written	\$ 66,326	\$ 3,149	\$ 8,876	\$ 2,547	\$ —	\$ 80,898
Net premiums earned	\$ 54,137	\$ 2,559	\$ 6,661	\$ 2,214	\$ —	\$ 65,571
Claims incurred	26,371	1,349	5,097	1,630	—	34,447
Other expenses	20,131	990	1,938	511	—	23,570
Underwriting profit (loss)	7,635	220	(374)	73	—	7,554
Investment earnings	3,554	622	566	154	—	4,896
Income before income taxes and non-controlling interest	11,189	842	192	227	—	12,450
Income taxes	—	317	—	86	—	403
Non-controlling interest	—	—	—	—	(43)	(43)
Net income	\$ 11,189	\$ 525	\$ 192	\$ 141	\$ 43	\$ 12,090
Total assets	\$ 375,662	\$ 22,776	\$ 88,240	\$ 23,509	\$ (7,368)	\$ 502,819
Shareholders' equity	\$ 88,465	\$ 8,214	\$ 10,798	\$ 5,603	\$ (1,072)	\$ 112,008

six months to June 30

(thousands of \$)

<u>2005</u>	<u>SGI CANADA</u>	<u>SCISL</u>	<u>Coachman</u>	<u>ICPEI</u>	<u>Consolidation Adjustments</u>	<u>Total</u>
Net premiums written	\$ 116,487	\$ 4,706	\$ 13,402	\$ 4,030	\$ —	\$ 138,625
Net premiums earned	\$ 115,390	\$ 5,469	\$ 13,169	\$ 4,169	\$ —	\$ 138,197
Claims incurred	68,920	3,274	8,874	1,578	—	82,646
Other expenses	42,277	2,172	3,802	915	—	49,166
Underwriting profit	4,193	23	493	1,676	—	6,385
Investment earnings	12,220	547	1,843	460	—	15,070
Income before income taxes and non-controlling interest	16,413	570	2,336	2,136	—	21,455
Income taxes	—	178	—	814	—	992
Non-controlling interest	—	—	—	—	287	287
Net income	\$ 16,413	\$ 392	\$ 2,336	\$ 1,322	\$ (287)	\$ 20,176
Total assets	\$ 397,062	\$ 38,988	\$ 105,737	\$ 25,406	\$ (18,934)	\$ 548,259
Shareholders' equity	\$ 87,395	\$ 8,694	\$ 14,485	\$ 6,513	\$ (1,274)	\$ 115,813

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six months to June 30

(thousands of \$)

2004	SGI CANADA	SCISL	Coachman	ICPEI	Consolidation Adjustments	Total
Net premiums written	\$108,685	\$ 4,378	\$ 15,523	\$ 4,054	\$ —	\$132,640
Net premiums earned	\$106,812	\$ 5,055	\$ 13,099	\$ 4,491	\$ —	\$129,457
Claims incurred	52,213	2,474	10,323	2,775	—	67,785
Other expenses	39,599	1,943	3,882	1,033	—	46,457
Underwriting profit (loss)	15,000	638	(1,106)	683	—	15,215
Investment earnings	11,685	774	1,436	348	—	14,243
Income before income taxes and non-controlling interest	26,685	1,412	330	1,031	—	29,458
Income taxes	—	531	—	393	—	924
Non-controlling interest	—	—	—	—	159	159
Net income	\$ 26,685	\$ 881	\$ 330	\$ 638	\$ (159)	\$ 28,375
Total assets	\$375,662	\$ 22,776	\$ 88,240	\$ 23,509	\$ (7,368)	\$502,819
Shareholders' equity	\$ 88,465	\$ 8,214	\$ 10,798	\$ 5,603	\$ (1,072)	\$112,008

6. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2004 balances have been reclassified to conform to 2005 financial statement presentation.