

SGI CANADA
QUARTERLY REPORT
MARCH 2005



MANAGEMENT DISCUSSION AND ANALYSIS

For the Period Ended March 31, 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 three month period ended March 31, 2005 and the SGI CANADA MD&A and annual audited consolidated financial statements and supporting notes as at and for the year ended December 31, 2004.

Overview of Operations

SGI CANADA recorded consolidated net profit of \$19.7 million for the first quarter of 2005, \$3.4 million more than the first quarter of 2004. The net profit from Saskatchewan operations is \$18.3 million and operations from outside of Saskatchewan contribute \$1.4 million in profits.

For SGI CANADA and the industry in general, 2004 was a year of recovery and the strong underwriting performance has continued in the first quarter of 2005. Underwriting income is \$12.1 million to the end of March, versus underwriting income of \$7.7 million for the same period in 2004. Growth in premiums combined with a slight decline in claim costs for the first quarter of 2005 results in a combined ratio of 82.4 per cent (2004 – 88.0 per cent). Growth in underwriting income is partially offset by marginally lower investment earnings.

Premium Revenue

Net premiums earned for the first quarter of 2005 increased by \$4.7 million or 7 per cent from the first quarter of 2004, mainly due to growth in Saskatchewan premiums of \$4.3 million. The growth in Saskatchewan premiums is across all product lines.

Premium revenue from outside of Saskatchewan has increased slightly (3 per cent). The increase is a result of continued growth in Ontario and Manitoba property business, offset by a decline in Ontario and PEI auto business.

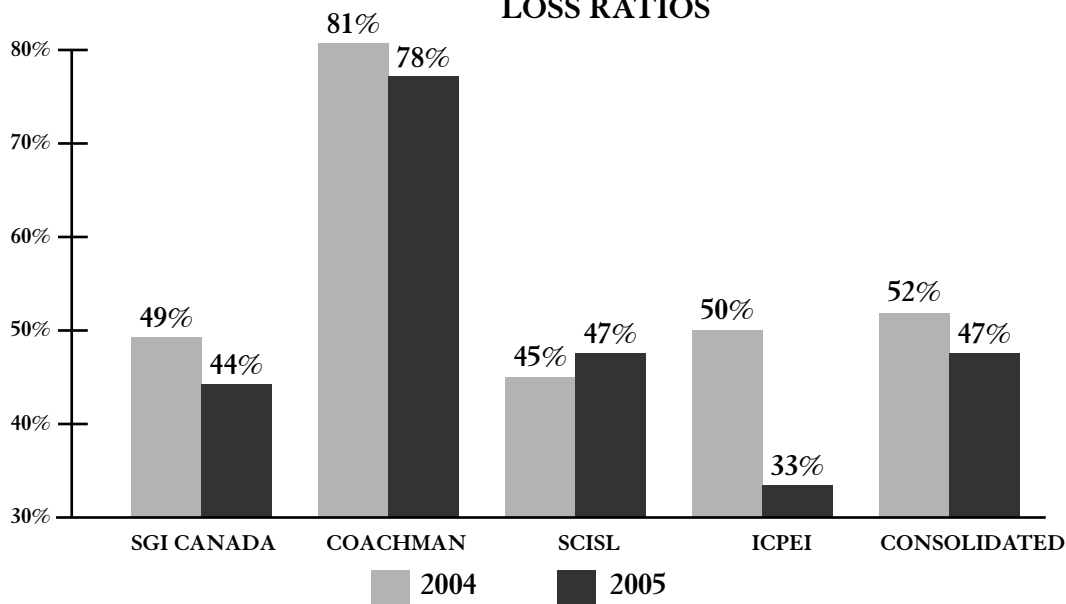
Claims Incurred

Claims costs of \$32.5 million for the first quarter of 2005 are slightly lower (\$853,000) than costs for the same period in 2004 despite the Corporation's growth in premiums.

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

SGI CANADA

LOSS RATIOS



The consolidated ratio of claim costs to premiums in 2005 has declined to 47.4 per cent from 52.2 per cent in 2004 and with the exception of SCISL, each company's loss ratio in 2005 is lower than the 2004 loss ratio. ICPEI's 2005 loss ratio is 33.3 per cent, significantly better than the 2004 loss ratio of 50.3 per cent and the loss ratio for Saskatchewan operations also declined from 49.1 per cent in 2004 to 44.2 per cent in 2005.

Expenses Excluding Claims Incurred

Expenses to the end of March, excluding claims incurred, are \$24.1 million in 2005, \$1.2 million more than expenses for the same period of 2004. The increase is mainly from commissions and taxes, which are directly correlated with growth in premiums.

Investments

Investment earnings for the first quarter of 2005 are \$8.5 million, \$874,000 lower than the same period in 2004, primarily due to realized gains on the sale of investments, which are \$1.0 million lower.

Unrealized gains at March 31, 2005 are \$16.7 million (March 31, 2004 – \$18.5 million). The annualized return on the investment portfolio for the three months ended March of 2005 is 8.4 per cent (2004 – 10.4 per cent).

Outlook

Our results for the first quarter of 2005 continue to show strong underwriting performance, consistent with what was seen in 2004. This strong start to the year will benefit the Corporation against the risk of significant claims as we enter the summer storm season. 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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at March 31, 2005 and December 31, 2004

	March 31 2005 (unaudited)	December 31 2004 (audited)
	(thousands of \$)	
Assets		
Cash and cash equivalents	\$ 18,241	\$ 24,135
Accounts receivable	67,277	74,070
Deferred policy acquisition costs	32,776	35,371
Future income taxes	100	71
Reinsurers' share of unearned premiums	11,136	8,596
Investments (note 2)	351,523	346,267
Net investment in capital leases	2,621	2,700
Goodwill	481	481
Unpaid claims recoverable from reinsurers	28,924	27,914
Property, plant and equipment	<u>9,418</u>	<u>9,312</u>
	<u>\$ 522,497</u>	<u>\$ 528,917</u>
Liabilities		
Accounts payable and accrued charges	\$ 11,114	\$ 15,609
Dividend payable	5,204	5,932
Premium taxes payable	2,548	12,432
Amounts due to reinsurers	9,530	5,109
Unearned reinsurance commissions	1,544	1,564
Unearned premiums	136,364	148,431
Provision for unpaid claims	<u>234,501</u>	<u>232,560</u>
	<u>400,805</u>	<u>421,637</u>
Non-controlling interest	<u>1,124</u>	<u>1,236</u>
Province of Saskatchewan's equity		
Equity advances	55,000	55,000
Retained earnings	<u>65,568</u>	<u>51,044</u>
	<u>120,568</u>	<u>106,044</u>
	<u>\$ 522,497</u>	<u>\$ 528,917</u>

(see accompanying notes)

SGI CANADA

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the three months ended March 31, 2005 and 2004

	three months to March 31	
	2005	2004
	<u>(unaudited)</u>	<u>(unaudited)</u>
	(thousands of \$)	
Gross premiums written	\$ 61,519	\$ 59,706
Net premiums written	<u>\$ 54,206</u>	<u>\$ 51,742</u>
Net premiums earned	<u>\$ 68,605</u>	<u>\$ 63,886</u>
Claims incurred	32,485	33,338
Commissions	13,860	12,669
Administrative expenses	7,101	7,033
Premium taxes	3,311	3,108
Facility Association participation (note 4)	<u>(216)</u>	<u>77</u>
Total claims and expenses	<u>56,541</u>	<u>56,225</u>
Underwriting profit	12,064	7,661
Investment earnings	<u>8,473</u>	<u>9,347</u>
Income before income taxes and non-controlling interest	20,537	17,008
Income taxes	<u>672</u>	<u>521</u>
Income after income taxes and before non-controlling interest	19,865	16,487
Non-controlling interest	<u>137</u>	<u>202</u>
Net income	19,728	16,285
Retained earnings, beginning of period	51,044	37,504
Dividend	<u>(5,204)</u>	<u>(3,910)</u>
Retained earnings, end of period	<u>\$ 65,568</u>	<u>\$ 49,879</u>

(see accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended March 31, 2005 and 2004

	three months to March 31	
	2005	2004
	(unaudited)	(unaudited)
	(thousands of \$)	
Cash provided by (used for):		
Operating activities		
Net income	\$ 19,728	\$ 16,285
Non-cash items:		
Amortization	766	813
Realized gain on disposal of investments	(4,629)	(5,617)
Future income taxes	(29)	521
Investment write downs	95	–
Income attributable to non-controlling interest	137	202
Income from investments accounted for on the equity basis	(35)	–
Change in non-cash operating items (note 3)	<u>(14,266)</u>	<u>(13,586)</u>
	<u>1,767</u>	<u>(1,382)</u>
Investing activities		
Purchases of investments	(189,411)	(95,958)
Proceeds on sale of investments	188,269	94,204
Repayment of capital lease	79	71
Purchases of property, plant and equipment (net of proceeds)	<u>(417)</u>	<u>38</u>
	<u>(1,480)</u>	<u>(1,645)</u>
Financing activities		
Dividends paid	<u>(6,181)</u>	<u>(5,664)</u>
Decrease in cash and cash equivalents	(5,894)	(8,691)
Cash and cash equivalents, beginning of period	<u>24,135</u>	<u>29,090</u>
Cash and cash equivalents, end of period	<u>\$ 18,241</u>	<u>\$ 20,399</u>

(see accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 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 \$)			
	March 31, 2005		December 31, 2005	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Short-term investments	\$ 17,199	\$ 17,199	\$ 6,932	\$ 6,932
Bonds and debentures	269,675	272,193	271,518	275,744
Pooled equity fund	10,193	10,623	10,193	10,459
Canadian common shares	24,954	35,808	28,386	41,827
U.S. common shares	11,101	13,328	10,323	12,824
Preferred shares	—	—	290	297
Mortgages	<u>14,464</u>	<u>15,118</u>	<u>14,607</u>	<u>15,289</u>
	347,586	364,269	342,249	363,372
Investments accounted for on the equity basis	<u>3,937</u>	<u>3,937</u>	<u>4,018</u>	<u>4,018</u>
Total investments	<u>\$351,523</u>	<u>\$368,206</u>	<u>\$346,267</u>	<u>\$367,390</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. CHANGE IN NON-CASH OPERATING ITEMS

<u>three months to March 31</u>	(thousands of \$)	
	<u>2005</u>	<u>2004</u>
Accounts receivable	\$ 6,793	\$ 3,303
Deferred policy acquisition costs	2,595	2,058
Unpaid claims recoverable from reinsurers	(1,010)	(2,665)
Reinsurers' share of unearned premiums	(2,540)	(5,236)
Accounts payable and accrued charges	(4,495)	(1,196)
Premium taxes payable	(9,884)	(9,047)
Amounts due to reinsurers	4,421	5,056
Provision for unpaid claims	1,941	1,614
Unearned reinsurance commissions	(20)	(50)
Unearned premiums	<u>(12,067)</u>	<u>(7,423)</u>
	<u>\$ (14,266)</u>	<u>\$ (13,586)</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:

<u>three months to March 31</u>	(thousands of \$)	
	<u>2005</u>	<u>2004</u>
Net premiums written	<u>\$ 471</u>	<u>\$ 330</u>
Net premiums earned	<u>\$ 679</u>	<u>\$ 844</u>
Claims incurred	364	823
Commissions	56	65
Premium taxes	22	27
Administrative expenses	<u>70</u>	<u>86</u>
Total claims and expenses	<u>512</u>	<u>1,001</u>
Underwriting profit (loss)	167	(157)
Investment earnings	<u>49</u>	<u>80</u>
Net profit (loss)	<u>\$ 216</u>	<u>\$ (77)</u>

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 Corporations 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 March 31

(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	\$ 45,321	\$ 1,285	\$ 6,180	\$ 1,420	\$ —	\$ 54,206
Net premiums earned	\$ 56,989	\$ 2,698	\$ 6,837	\$ 2,081	\$ —	\$ 68,605
Claims incurred	25,211	1,259	5,323	692	—	32,485
Other expenses	20,604	1,074	1,941	437	—	24,056
Underwriting profit (loss)	11,174	365	(427)	952	—	12,064
Investment earnings	7,112	284	864	213	—	8,473
Income before income taxes and non-controlling interest	18,286	649	437	1,165	—	20,537
Income taxes	—	228	—	444	—	672
Non-controlling interest	—	—	—	—	137	137
Net income	\$ 18,286	\$ 421	\$ 437	\$ 721	\$ (137)	\$ 19,728
Total assets	\$ 371,931	\$ 38,129	\$ 106,795	\$ 23,916	\$ (18,274)	\$ 522,497
Shareholder's equity	\$ 94,472	\$ 8,721	\$ 12,586	\$ 5,913	\$ (1,124)	\$ 120,568

SGI CANADA

three months to March 31

(thousands of \$)

<u>2004</u>	<u>SGI CANADA</u>	<u>SCISL</u>	<u>Coachman</u>	<u>ICPEI</u>	<u>Consolidation</u> <u>Adjustments</u>	<u>Total</u>
Net premiums written	\$ 42,359	\$ 1,229	\$ 6,647	\$ 1,507	\$ —	\$ 51,742
Net premiums earned	\$ 52,675	\$ 2,496	\$ 6,438	\$ 2,277	\$ —	\$ 63,886
Claims incurred	25,842	1,125	5,226	1,145	—	33,338
Other expenses	<u>19,468</u>	<u>953</u>	<u>1,944</u>	<u>522</u>	<u>—</u>	<u>22,887</u>
Underwriting profit (loss)	7,365	418	(732)	610	—	7,661
Investment earnings	<u>8,131</u>	<u>152</u>	<u>870</u>	<u>194</u>	<u>—</u>	<u>9,347</u>
Income before income taxes and non-controlling interest	15,496	570	138	804	—	17,008
Income taxes	—	214	—	307	—	521
Non-controlling interest	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>202</u>	<u>202</u>
Net income	<u>\$ 15,496</u>	<u>\$ 356</u>	<u>\$ 138</u>	<u>\$ 497</u>	<u>\$ (202)</u>	<u>\$ 16,285</u>
Total assets	<u>\$ 353,136</u>	<u>\$ 20,468</u>	<u>\$ 85,482</u>	<u>\$ 22,370</u>	<u>\$ (4,601)</u>	<u>\$ 476,855</u>
Shareholder's equity	<u>\$ 83,528</u>	<u>\$ 7,688</u>	<u>\$ 10,606</u>	<u>\$ 5,463</u>	<u>\$ (2,406)</u>	<u>\$ 104,879</u>

6. COMPARATIVE FINANCIAL INFORMATION

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