

**SGI CANADA
QUARTERLY REPORT
MARCH 2006**



MANAGEMENT'S DISCUSSION AND ANALYSIS

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., 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, 2006 and the SGI CANADA MD&A and annual audited financial statements and supporting notes as at and for the year ended December 31, 2005. All dollar amounts are in Canadian dollars. This MD&A reflects all information known to Management up to May 10, 2006.

Quarterly Consolidated Financial Highlights

The following table highlights quarter over quarter results for SGI CANADA:

Quarterly Financial Highlights

(\$ in 000's)

	2006	2005				2004			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net premiums earned	70,233	72,212	70,740	69,592	68,605	69,788	68,242	65,571	63,886
Claims incurred	31,905	33,138	46,679	50,161	32,485	47,279	42,566	34,447	33,338
Net income	19,682	10,035	4,989	448	19,728	6,117	7,192	12,090	16,285
Cash flow from (used in) operations	(10,265)	17,381	12,805	22,178	1,767	18,555	23,896	13,634	(1,382)
Investments	404,383	400,071	396,223	363,614	351,523	346,267	327,257	306,378	299,237
Provision for unpaid claims	246,980	254,805	257,122	250,036	234,501	232,560	222,086	213,695	212,742

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2006:

- Premium earnings generally increase on a quarter-over-quarter basis during the year. Consistent with prior year results, the first quarter premiums earned are lower than recorded in the fourth quarter of 2005.
- Claim costs continue to drop in the first quarter, with a third consecutive decrease realized in 2006. This is largely the result of a stabilizing auto product in Ontario operations.

For the three months ended March 31, 2006

Consolidated Statement of Operations

SGI CANADA recorded a consolidated net income of \$19,682,000 for the first quarter of 2006, essentially on par with the 2005 first quarter profit of \$19,728,000. Out-of-province operations contributed \$1,893,000 or 9.6 per cent of the first quarter profit, compared to \$1,442,000 (7.3 per cent) in 2005. The improvement in out-of-province profits was largely attributable to improved results from Ontario operations, which saw a significant improvement in automobile underwriting results.

Net premiums earned of \$70,233,000 in the first quarter increased \$1,628,000 or 2.4 per cent from the first quarter of 2005 (\$68,605,000). The change is primarily attributable to growth in Saskatchewan operations, which saw premium earnings increase to \$59,774,000 (2005 – \$56,989,000). This represents growth of \$2,785,000 (4.9 per cent) across all product lines. The increase was partially offset by a decline in out-of-province auto premiums.

Claims incurred were \$31,905,000 for the quarter, \$580,000 lower than the first quarter of 2005. The consolidated loss ratio was 45.4 per cent at March 31, 2006, compared to 47.4 per cent for 2005. Claim costs from Saskatchewan operations were relatively stable, with claims of \$25,624,000 for the first three months of 2006 (2005 – \$25,211,000). The slight increase in Saskatchewan claim costs was mainly the result of an increase in commercial business claims, which had benefited from few significant losses and a large recovery in the first quarter of 2005. Out-of-province claims decreased \$993,000, primarily due to declining auto claim costs from Ontario operations. The loss ratio related to out-of-province business for 2006 was 60.1 per cent, compared to 62.6 per cent in 2005.

Other expenses for the first quarter of 2006, excluding claims incurred, are \$25,400,000, compared to \$24,056,000 in 2005. Expenses from Saskatchewan operations increased \$1,170,000, while out-of-province expenses increased by \$174,000. Contributing to the increase in other expenses was growth in commissions and premium taxes, which corresponds with the growth in the premium base. Administrative expenses of \$7,841,000 increased by \$740,000 from the first quarter of 2005, primarily a result of increased staffing costs and benefits. The consolidated administrative expense ratio was 11.2 per cent (2005 – 10.4 per cent).

Investment earnings for 2006 are \$7,169,000 (2005 – \$8,473,000), \$1,304,000 lower than the prior year primarily due to lower realized gains on the sale of investments. The annualized consolidated return on the investment portfolio for the three months ended March 31, 2006 was 6.0 per cent, compared to 8.4 per cent for 2005. Unrealized gains on the consolidated investment portfolio were \$22,060,000 at March 31, 2006 (March 31, 2005 – \$16,774,000).

Consolidated Statement of Cash Flows

In the first three months of 2006, cash from operations decreased by \$10,265,000, compared to an increase of \$1,767,000 for the first quarter of 2005. The first quarter decrease was primarily a result of higher claims, premium tax, and general accounts payable payments made during the quarter.

Consolidated Statement of Financial Position

Total assets decreased by \$16,537,000 to \$581,631,000 in the first quarter, a result of decreasing cash and cash equivalents, as discussed in the section above.

Outlook

A solid profit and strong underwriting results achieved in the first quarter positions SGI CANADA well leading into the second quarter and beyond for 2006. However, as was seen in 2005, summer storm season in Saskatchewan has the capability to quickly and unfavourably impact the bottom line. In this respect, the strong results generated will be to the benefit of the Corporation heading into the spring and summer months. The second quarter of 2006 will see SGI CANADA begin operations in Alberta, consistent with the Corporation's strategy of spreading insurance risk geographically, growing revenues and creating jobs in Saskatchewan.

SGI CANADA

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at March 31, 2006 and December 31, 2005

	March 31	Dec. 31
	2006	2005
	(unaudited)	(audited)
	(thousands of \$)	
Assets		
Cash and cash equivalents	\$ 13,882	\$ 33,949
Accounts receivable	71,533	75,129
Deferred policy acquisition costs	34,975	36,763
Future income taxes	2,809	2,809
Reinsurers' share of unearned premiums	11,762	7,483
Investments (note 2)	404,383	400,071
Net investment in capital leases	2,285	2,372
Goodwill	481	481
Unpaid claims recoverable from reinsurers	28,041	27,415
Property, plant and equipment	<u>11,480</u>	<u>11,696</u>
	<u>\$ 581,631</u>	<u>\$ 598,168</u>
Liabilities		
Accounts payable and accrued charges	\$ 10,693	\$ 17,873
Dividend payable	5,496	7,269
Premium taxes payable	2,837	12,784
Amounts due to reinsurers	9,336	6,585
Unearned reinsurance commissions	1,516	1,531
Unearned premiums	145,820	152,334
Provision for unpaid claims	<u>246,980</u>	<u>254,805</u>
	<u>422,678</u>	<u>453,181</u>
Non-controlling interest	<u>1,403</u>	<u>1,623</u>
Province of Saskatchewan's equity		
Equity advances	80,000	80,000
Retained earnings	<u>77,550</u>	<u>63,364</u>
	<u>157,550</u>	<u>143,364</u>
	<u>\$ 581,631</u>	<u>\$ 598,168</u>

(see accompanying notes)

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

For the three months ended March 31, 2006 and 2005

	three months to March 31	
	2006	2005
	<u>(unaudited)</u>	<u>(unaudited)</u>
	(thousands of \$)	
Gross premiums written	\$ 67,516	\$ 61,519
Net premiums written	<u>\$ 59,570</u>	<u>\$ 54,206</u>
Net premiums earned	<u>\$ 70,233</u>	<u>\$ 68,605</u>
Claims incurred	31,905	32,485
Commissions	14,263	13,860
Administrative expenses	7,841	7,101
Premium taxes	3,428	3,311
Facility Association participation (note 4)	<u>(132)</u>	<u>(216)</u>
Total claims and expenses	<u>57,305</u>	<u>56,541</u>
Underwriting profit	12,928	12,064
Investment earnings	<u>7,169</u>	<u>8,473</u>
Income before income taxes and non-controlling interest	20,097	20,537
Income taxes	<u>324</u>	<u>672</u>
Income after income taxes and before non-controlling interest	19,773	19,865
Non-controlling interest	<u>91</u>	<u>137</u>
Net income	19,682	19,728
Retained earnings, beginning of period	63,364	51,044
Dividend	<u>(5,496)</u>	<u>(5,204)</u>
Retained earnings, end of period	<u>\$ 77,550</u>	<u>\$ 65,568</u>

(see accompanying notes)

SGI CANADA

CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended March 31, 2006 and 2005

	three months to March 31	
	2006	2005
	<u>(unaudited)</u>	<u>(unaudited)</u>
	(thousands of \$)	
Cash provided by (used for):		
Operating activities		
Net income	\$ 19,682	\$ 19,728
Non-cash items:		
Amortization	711	766
Realized gain on disposal of investments	(2,367)	(4,629)
Future income taxes	-	(29)
Investment write downs	-	95
Income attributable to non-controlling interest	91	137
Income from investments accounted for on the equity basis	(131)	(35)
Change in non-cash operating items (note 3)	<u>(28,251)</u>	<u>(14,266)</u>
	<u>(10,265)</u>	<u>1,767</u>
Investing activities		
Purchases of investments	(236,345)	(189,411)
Proceeds on sale of investments	234,052	188,269
Repayment of capital lease	87	79
Purchases of property, plant and equipment	<u>(16)</u>	<u>(417)</u>
	<u>(2,222)</u>	<u>(1,480)</u>
Financing activities		
Dividends paid	<u>(7,580)</u>	<u>(6,181)</u>
Decrease in cash and cash equivalents	(20,067)	(5,894)
Cash and cash equivalents, beginning of period	<u>33,949</u>	<u>24,135</u>
Cash and cash equivalents, end of period	<u>\$ 13,882</u>	<u>\$ 18,241</u>

(see accompanying notes)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2006

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 2005 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 2005 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, 2006		Dec. 31, 2005	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Short-term investments	\$ 25,130	\$ 25,130	\$ 20,676	\$ 20,676
Bonds and debentures	300,756	299,324	313,899	315,266
Pooled equity funds	24,666	27,933	10,451	11,808
Canadian common shares	23,563	40,644	23,979	40,256
U.S. common shares	11,665	14,376	11,423	14,108
Mortgages	<u>14,559</u>	<u>14,992</u>	<u>15,629</u>	<u>16,212</u>
	400,339	422,399	396,057	418,326
Investments accounted for on the equity basis	<u>4,044</u>	<u>4,044</u>	<u>4,014</u>	<u>4,014</u>
Total investments	<u>\$ 404,383</u>	<u>\$ 426,443</u>	<u>\$ 400,071</u>	<u>\$ 422,340</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

3. CHANGE IN NON-CASH OPERATING ITEMS

three months to March 31	(thousands of \$)	
	2006	2005
Accounts receivable	\$ 3,596	\$ 6,793
Deferred policy acquisition costs	1,788	2,595
Reinsurers' share of unearned premiums	(4,279)	(2,540)
Unpaid claims recoverable from reinsurers	(626)	(1,010)
Accounts payable and accrued charges	(7,180)	(4,495)
Premium taxes payable	(9,947)	(9,884)
Amounts due to reinsurers	2,751	4,421
Unearned reinsurance commissions	(15)	(20)
Unearned premiums	(6,514)	(12,067)
Provision for unpaid claims	(7,825)	1,941
	\$(28,251)	\$(14,266)

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:

three months to March 31	(thousands of \$)	
	2006	2005
Net premiums written	\$ 288	\$ 471
Net premiums earned	\$ 418	\$ 679
Claims incurred	236	364
Commissions	37	56
Premium taxes	14	22
Administrative expenses	52	70
Total claims and expenses	339	512
Underwriting profit	79	167
Investment earnings	53	49
Net profit	\$ 132	\$ 216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

5. SEGMENTED INFORMATION

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

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

<u>three months to March 31 2006</u>	(thousands of \$)					Consolidation	Total
	Saskatchewan	Manitoba	Ontario	Maritimes	Adjustments		
Net premiums written	<u>\$ 48,359</u>	<u>\$ 1,331</u>	<u>\$ 8,465</u>	<u>\$ 1,415</u>	<u>\$ –</u>		<u>\$ 59,570</u>
Net premiums earned	59,774	2,871	5,583	2,005	–		70,233
Claims incurred	25,624	1,981	3,290	1,010	–		31,905
Other expenses	<u>21,774</u>	<u>1,128</u>	<u>1,941</u>	<u>557</u>	<u>–</u>		<u>25,400</u>
Underwriting profit (loss)	12,376	(238)	352	438	–		12,928
Investment earnings	<u>5,413</u>	<u>453</u>	<u>1,050</u>	<u>253</u>	<u>–</u>		<u>7,169</u>
Income before income taxes and non-controlling interest	17,789	215	1,402	691	–		20,097
Income taxes	–	64	–	260	–		324
Non-controlling interest	–	–	–	–	91		91
Net income	<u>\$ 17,789</u>	<u>\$ 151</u>	<u>\$ 1,402</u>	<u>\$ 431</u>	<u>\$ (91)</u>		<u>\$ 19,682</u>
Total assets	<u>\$392,023</u>	<u>\$ 68,588</u>	<u>\$118,701</u>	<u>\$ 26,976</u>	<u>\$ (24,657)</u>		<u>\$581,631</u>
Shareholder's equity	<u>\$102,407</u>	<u>\$ 30,800</u>	<u>\$ 18,714</u>	<u>\$ 7,032</u>	<u>\$ (1,403)</u>		<u>\$157,550</u>

SGI CANADA

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

three months to March 31 2005	(thousands of \$)					Consolidation Adjustments	Total
	Saskatchewan	Manitoba	Ontario	Maritimes			
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	