

SASKATCHEWAN AUTO FUND
QUARTERLY REPORT
MARCH 2008



MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis (MD&A) provides a review of the results of the operations of the Saskatchewan Auto Fund (the Auto Fund). This discussion and analysis should be read in conjunction with the unaudited financial statements and supporting notes as at and for the three month period ended March 31, 2008 along with the annual MD&A, annual audited financial statements and supporting notes at and for the year ended December 31, 2007. All dollar amounts are in Canadian dollars. This MD&A reflects all information known to SGI, the administrator of the Saskatchewan Auto Fund, up to April 30, 2008.

Quarterly Consolidated Financial Highlights

The following table highlights quarter over quarter results for the Auto Fund:

(\$ in 000's)

	2008		2007			2006			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net premiums earned	134,621	136,710	140,208	145,277	134,892	139,248	142,021	135,071	125,864
Claims incurred	133,965	173,002	114,485	116,191	128,539	123,987	99,121	105,705	120,259
Surplus/ (deficit)	(5,260)	(30,763)	19,897	23,473	(79,913)	20,397	47,563	24,288	(35,207)
Cash flow from (used in) operations	(30,369)	13,741	3,620	51,363	(110,543)	23,700	28,055	12,574	(18,394)
Investments	1,092,924	1,126,735	1,096,741	1,073,868	1,135,956	1,072,454	1,054,444	986,392	973,821
Provision for unpaid claims	830,151	824,086	777,887	776,701	773,670	763,554	755,984	737,092	737,397
Rate Stabilization Reserve	136,518	140,975	170,938	150,311	126,061	205,601	184,862	153,016	128,425

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2008:

- Premium earnings generally rise in the spring and summer months (quarters 2 and 3), largely a factor of increased premiums related to seasonal vehicles. A 7.1% rate reduction effective July 1, 2007 has impacted premium earnings in the third and fourth quarters of 2007 and the first quarter of 2008.
- Large deficits occurred during the first quarter of 2007 and 2006 as a result of rebates paid to policyholders of \$100 million and \$45 million respectively. With the exception of the first quarter, the Auto Fund generates positive cash flows from operations. Cash is typically low in the first quarter as the Auto Fund pays its annual premium taxes to the province in March and due to higher claim outflows from the winter driving season.

For the three months ended March 31, 2008

Statement of Operations

The Auto Fund recorded a decrease to the Rate Stabilization Reserve (RSR), before rebate to policyholders, of \$5,799,000 for the first three months of 2008 (2007 – increase of \$20,065,000). An adjustment of \$539,000 was recorded in the first quarter of 2008 for 2007 rebate cheques not cashed, resulting in an overall decrease to the RSR of \$5,260,000. For the same period in 2007, the overall decrease to the RSR after the 2007 rebate was \$79,913,000.

Net premiums written of \$129,695,000 decreased \$1,207,000, or 0.9%, in the first three months of 2008 as compared to 2007. The decrease is a result of a 7.1% rate reduction that became effective July 1, 2007. The effect of the rate reduction is offset by an increase in the number of vehicles being insured, combined with an increase in newer vehicles that cost more to insure. Vehicle insured years of 800,249 at March 31, 2008 represent growth of 3.9% over 2007.

Claims incurred were \$133,965,000 for the quarter, 4.2% higher than the \$128,539,000 recorded during the same period in 2007. The accident frequency of 113 collisions per 1,000 insured years for the first quarter is 4.6% higher than the 108 collisions per 1,000 insured years for the same period in 2007.

Other expenses, excluding claims incurred, were \$28,448,000, \$6,925,000 higher than 2007 (\$21,523,000). Issuer fees increased primarily as a result of a negotiated lump sum payment to the Auto Fund's independent issuers. The increase in administrative expenses of \$2,533,000 was mainly a result of higher salary costs and depreciation related to the first phase of implementation for Auto Fund information system redevelopment. Traffic safety program costs were ahead of 2007 largely due to higher salary costs in 2008.

Investment earnings for the first quarter of 2008 were \$16,504,000 (2007 – \$30,086,000), \$13,582,000 lower than the same period last year. Decreased earnings in 2008 were primarily a result of lower realized gains from the sale of equities. In 2007, significant gains were realized, partially a result of rebalancing the portfolio in the first quarter in order to generate the cash to fund the \$100 million rebate. The annualized cost-based rate of return at March 31, 2008, was 6.1%, compared to 12.2% for 2007.

Statement of Comprehensive Loss

For the three months ended March 31, 2008, a comprehensive loss of \$14,447,000 was recorded, consisting of the decrease to the RSR of \$5,260,000 and an other comprehensive loss of \$9,187,000. The other comprehensive loss is a result of gains on the sale of investments of \$7,217,000 which were reclassified to net income, as investments were sold during the three month period. In addition, the investment portfolio experienced unrealized losses of \$1,970,000 during the period, primarily a result of decreasing prices in equities.

Statement of Financial Position

Total assets were \$1,339,527,000 at the end of the first quarter of 2008, a decrease of \$32,179,000 from the end of 2007 (\$1,371,706,000), largely due to a decrease in investments. Investments decreased \$33,811,000 in the first quarter, resulting from negative operating cash flows (as described below in the Statement of Cash Flows section).

Liabilities decreased by \$17,732,000 in the first quarter of 2008, primarily due to a decrease in premium taxes payable. This was a result of the Auto Fund's 2007 premium tax payment of \$28,078,000 to the province in March 2008.

Statement of Cash Flows

While the Auto Fund's operating activities generated a decrease to the RSR of \$5,260,000 for the first quarter, the Auto Fund generated a total negative cash flow of \$30,369,000. This was primarily a result of claim outflows due to winter driving and the annual premium tax payment in the first quarter.

Investing activities provided \$30,526,000 through the sale of investments in order to fund negative operating cash flows of \$30,369,000.

Outlook

The Auto Fund is in a sound financial position, despite the \$5,260,000 decrease to the Rate Stabilization Reserve for the first three months of 2008. The Rate Stabilization Reserve continues to be strong, at \$136,518,000, which is marginally above its target capital level.

The Auto Fund will continue on a customer-focused path, with 2008 marking the eighth consecutive year of no rate increases, and safe driving discount programs expected to return nearly \$80 million to Saskatchewan customers.

STATEMENT OF FINANCIAL POSITION

as at March 31, 2008 and December 31, 2007

	March 31 2008 <u>(unaudited)</u>	December 31 2007 <u>(audited)</u>
	(thousands of \$)	
Assets		
Cash and cash equivalents	\$ 31,106	\$ 30,949
Accounts receivable	140,747	139,337
Deferred policy acquisition costs	19,380	20,270
Prepaid expenses and inventories	5,826	4,914
Investments (note 2)	1,092,924	1,126,735
Net investment in capital lease	2,566	2,747
Property, plant and equipment	<u>46,978</u>	<u>46,754</u>
	<u>\$1,339,527</u>	<u>\$1,371,706</u>
Liabilities		
Accounts payable and accrued charges	\$ 17,341	\$ 18,704
Premium taxes payable	6,512	28,078
Unearned premiums	259,670	260,538
Provision for unpaid claims	<u>830,151</u>	<u>824,086</u>
	<u>1,113,674</u>	<u>1,131,406</u>
Equity		
Rate Stabilization Reserve	136,518	140,975
Redevelopment Reserve	30,222	31,025
Accumulated other comprehensive income	<u>59,113</u>	<u>68,300</u>
	<u>225,853</u>	<u>240,300</u>
	<u>\$1,339,527</u>	<u>\$1,371,706</u>

Commitments (note 8)

(see accompanying notes)

STATEMENT OF OPERATIONS

For the periods ended March 31, 2008 and 2007

	three months to March 31	
	2008	2007
	<u>(unaudited)</u>	<u>(unaudited)</u>
	(thousands of \$)	
Gross premiums written	\$ 129,695	\$ 130,902
Net premiums written	<u>\$ 129,695</u>	<u>\$ 130,902</u>
Net premiums earned	<u>\$ 134,621</u>	<u>\$ 134,892</u>
Claims incurred	133,965	128,539
Issuer fees	9,294	5,482
Administrative expenses	9,755	7,222
Premium taxes	6,787	6,773
Traffic safety programs	<u>2,612</u>	<u>2,046</u>
Total claims and expenses	<u>162,413</u>	<u>150,062</u>
Underwriting loss	(27,792)	(15,170)
Investment earnings (note 3)	16,504	30,086
Other income (note 4)	<u>5,489</u>	<u>5,149</u>
Increase (decrease) to Rate Stabilization Reserve before rebate to policyholders	(5,799)	20,065
Rebate to policyholders	<u>539</u>	<u>(99,978)</u>
Decrease to Rate Stabilization Reserve	<u>\$ (5,260)</u>	<u>\$ (79,913)</u>

(see accompanying notes)

STATEMENT OF COMPREHENSIVE LOSS

For the periods ended March 31, 2008 and 2007

	three months to March 31	
	2008	2007
	(unaudited)	(unaudited)
	(thousands of \$)	
Decrease to Rate Stabilization Reserve	\$ (5,260)	\$ (79,913)
Other comprehensive loss		
Net unrealized gains (losses) on available for sale financial assets arising during the period	(1,970)	7,615
Reclassification for gains included in decrease to Rate Stabilization Reserve	(7,217)	(19,162)
Other comprehensive loss	(9,187)	(11,547)
Comprehensive loss	\$ (14,447)	\$ (91,460)

(see accompanying notes)

STATEMENT OF CHANGES IN EQUITY

For the periods ended March 31, 2008 and 2007

	three months to March 31	
	2008	2007
	<u>(unaudited)</u>	<u>(unaudited)</u>
	(thousands of \$)	
Rate Stabilization Reserve		
Balance, beginning of period	\$ 140,975	\$ 205,601
Decrease to Rate Stabilization Reserve	(5,260)	(79,913)
Appropriation from Redevelopment Reserve	<u>803</u>	<u>373</u>
Balance, end of period	<u>\$ 136,518</u>	<u>\$ 126,061</u>
Redevelopment Reserve		
Balance, beginning of period	\$ 31,025	\$ 33,704
Appropriation to Rate Stabilization Reserve	<u>(803)</u>	<u>(373)</u>
Balance, end of period	<u>\$ 30,222</u>	<u>\$ 33,331</u>
Accumulated other comprehensive income		
Balance, beginning of period	\$ 68,300	\$ –
Change in accounting policy	–	104,363
Other comprehensive loss	<u>(9,187)</u>	<u>(11,547)</u>
Balance, end of period	<u>\$ 59,113</u>	<u>\$ 92,816</u>
Total Equity	<u>\$ 225,853</u>	<u>\$ 252,208</u>

STATEMENT OF CASH FLOWS

For the periods ended March 31, 2008 and 2007

	three months to March 31	
	2008	2007
	(unaudited)	(unaudited)
	(thousands of \$)	
Cash provided by (used for):		
Operating activities		
Decrease to Rate Stabilization Reserve	\$ (5,260)	\$ (79,913)
Non-cash items:		
Amortization	1,272	716
Realized net gain on disposal of investments	(7,217)	(19,162)
Change in non-cash operating items (note 7)	<u>(19,164)</u>	<u>(12,184)</u>
	<u>(30,369)</u>	<u>(110,543)</u>
Investing activities		
Purchases of investments	(363,636)	(268,990)
Proceeds on sale of investments	395,248	319,169
Repayment of capital lease	181	164
Purchases of property, plant and equipment	<u>(1,267)</u>	<u>(3,214)</u>
	<u>30,526</u>	<u>47,129</u>
Increase (decrease) in cash and cash equivalents	157	(63,414)
Cash and cash equivalents, beginning of period	<u>30,949</u>	<u>24,748</u>
Cash and cash equivalents, end of period	<u>\$ 31,106</u>	<u>\$ (38,666)</u>
Cash and cash equivalents is comprised of:		
Cash and cash equivalents	\$ 31,106	\$ 49,080
Bank overdraft	<u>—</u>	<u>(87,746)</u>
Cash and cash equivalents, end of period	<u>\$ 31,106</u>	<u>\$ (38,666)</u>

(see accompanying notes)

NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2008

1. SIGNIFICANT ACCOUNTING POLICIES

These unaudited financial statements do not include all of the disclosures included in the Auto Fund's annual audited 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 used in the preparation of the Auto Fund's 2007 annual audited financial statements, except as noted below. Accordingly, these interim financial statements should be read in conjunction with the audited financial statements included in the Auto Fund's 2007 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 and investment valuation.

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 Auto Fund'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 Auto Fund'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 Auto Fund's operating results.

2. INVESTMENTS

The carrying values of the Auto Fund's investments were as follows:

	(thousands of \$)	
	March 31 2008	December 31 2007
Short-term investments	\$ 47,703	\$ 55,309
Bonds and debentures	630,909	651,662
Canadian common shares	160,140	168,996
U.S. common shares	62,041	58,949
Pooled funds:		
Non-North American equity	54,645	58,655
Mortgage	69,059	66,289
Real estate	60,095	58,543
Total available for sale investments	<u>1,084,592</u>	<u>1,118,403</u>
Income-producing property	<u>8,332</u>	<u>8,332</u>
Total investments	<u>\$1,092,924</u>	<u>\$1,126,735</u>

The following table presents available for sale investments with unrealized losses at March 31, 2008 where the decline is considered temporary. Unrealized losses are recorded as a component of accumulated other comprehensive income.

	(thousands of \$)			
	<u>as at March 31, 2008</u>		<u>as at December 31, 2007</u>	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Bonds and debentures				
Federal	\$ 30,318	\$ (52)	\$ —	\$ —
Provincial	19,742	(239)	44,126	(527)
Municipal	—	—	8,649	(70)
Corporate	67,524	(1,709)	129,109	(3,084)
Canadian common shares	41,740	(4,920)	40,792	(3,260)
U.S. common shares	<u>21,250</u>	<u>(2,461)</u>	<u>14,017</u>	<u>(1,782)</u>
Total available for sale investments	<u>\$ 180,574</u>	<u>\$ (9,381)</u>	<u>\$ 236,693</u>	<u>\$ (8,723)</u>

The unrealized losses on the bonds and debentures arose primarily from changes in interest rates. For equities, unrealized losses are primarily the result of timing of the market prices or investment specific business environment factors. Since the Auto Fund has the ability to hold these securities until there is a recovery of fair value, which may be at maturity for bonds and debentures, these unrealized losses are considered temporary in nature.

The Auto Fund conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a write down is recorded in investment earnings when the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery.

3. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of \$)	
	three months to March 31	
	<u>2008</u>	<u>2007</u>
Net realized gain on sale of investments	\$ 7,217	\$ 19,162
Interest	8,229	9,353
Pooled equity funds	(81)	291
Dividends	936	976
Income producing property	136	219
Capital lease	<u>67</u>	<u>85</u>
Total investment earnings	<u>\$ 16,504</u>	<u>\$ 30,086</u>

Cash inflows from the income producing property are \$136,000 (2007 – \$219,000).

4. OTHER INCOME

The components of other income are as follows:

	(thousands of \$)	
	three months to March 31	
	<u>2008</u>	<u>2007</u>
Payment option fees	\$ 3,536	\$ 3,452
Net earnings on salvage sales	<u>1,953</u>	<u>1,697</u>
Total other income	<u>\$ 5,489</u>	<u>\$ 5,149</u>

The Auto Fund offers a Short-Term Vehicle Registration and Insurance Plan which allows customers to choose the number of months they wish to insure and register their vehicle. Another payment option, AutoPay, allows customers to have equal monthly withdrawals made from their bank accounts for their vehicle registration and insurance. The fees charged for the payment options are included in other income.

5. FINANCIAL RISK MANAGEMENT

The nature of the Auto Fund's operations result in a balance sheet that consists primarily of financial instruments. The risks that arise are credit risk, market risk (consisting of interest rate risk, foreign exchange risk and equity price risk) and liquidity risk.

Significant financial risks are related to the Auto Fund's investments. These financial risks are managed by having a Statement of Investment Policies and Goals (SIP&G), which is approved annually by the SGI Board of Directors, based on a recommendation from the Investment Committee of the Board. The SIP&G provides guidelines for the Auto Fund's investment manager for the asset mix of the portfolio regarding quality and quantity of debt, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different types of investments and in domestic and foreign markets.

Credit Risk

The Auto Fund's credit risk arises primarily from two distinct sources: accounts receivable and certain investments. The maximum credit risk to which the Auto Fund is exposed as at March 31, 2008 is limited primarily to the fair value of those financial assets recognized as follows:

	(thousands of \$'s)			
	March 31, 2008		December 31, 2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 31,106	\$31,106	\$ 30,949	\$ 30,949
Accounts receivable ¹	139,399	139,399	138,055	138,055
Fixed income investments ²	747,671	747,671	773,260	773,260

¹ The carrying value and fair value excludes the accrued pension benefit asset of \$1,348,000 (Dec. 31, 2007 – \$1,282,000)

² Includes short-term investments, bonds and debentures, and the mortgage pooled fund

Cash and cash equivalents include short-term investments of \$31,028,000 (December 31, 2007 – \$30,791,000) that mature within 90 days from the date of acquisition. All short-term investments have a credit rating of R-1.

Accounts receivable primarily relate to financed premiums receivable and amounts recoverable on paid claims. Balances are outstanding from customers, diversified among residential, farm and commercial customers, along with motor licence issuers within Saskatchewan. Accounts receivable consist of balances outstanding for one year or less. Provisions for credit losses are maintained in an allowance account and are regularly reviewed by the Auto Fund. Amounts are written off once reasonable collection efforts have been exhausted. An Auto Fund customer can not complete a driver's license or vehicle transaction without making arrangements for payment of outstanding balances, including balances previously written off.

Details of the allowance account are as follows:

	(thousands of \$)	
	three months ended	twelve months ended
	March 31 2008	December 31 2007
Allowance for doubtful accounts, opening balance	\$ 40,359	\$ 40,589
Accounts written off	(780)	(7,587)
Current period provision	<u>864</u>	<u>7,357</u>
Allowance for doubtful accounts, closing balance	<u>\$ 40,443</u>	<u>\$ 40,359</u>

The allowance for doubtful accounts includes \$32,698,000 (December 31, 2007 – \$32,739,000) related to amounts recoverable on paid claims from uninsured motorists, motorists in breach of their coverage or other insurance companies.

Credit risk within investments is primarily related to short-term investments, bonds and debentures and mortgage pooled fund. It is managed through an investment policy that limits debt instruments to those of high credit quality (minimum rating for bonds and debentures is BBB, and for short-term investments is R-1) along with limits to the maximum notional amount of exposure with respect to any one issuer.

Credit ratings for bond and debenture investments are as follows:

<u>Credit Rating</u>	<u>March 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Fair Value</u> (thousands of \$)	<u>Makeup of</u> <u>Portfolio (%)</u>	<u>Fair Value</u> (thousands of \$)	<u>Makeup of</u> <u>Portfolio (%)</u>
AAA	\$ 309,937	49.2	\$ 394,122	60.5
AA	181,861	28.8	122,628	18.8
A	124,325	19.7	124,473	19.1
BBB	<u>14,786</u>	<u>2.3</u>	<u>10,439</u>	<u>1.6</u>
Total	<u>\$ 630,909</u>	<u>100.0</u>	<u>\$ 651,662</u>	<u>100.0</u>

Within bond and debentures portfolio, there are no holdings from one issuer, other than the Government of Canada or a Canadian province, over 10% of the market value of the combined bond and short-term investment portfolios. No one holding of a province is over 20% of the market value of the bond portfolio.

The Auto Fund's investment in a mortgage pooled fund is subject to credit risk as its value is impacted by the credit risk of the underlying mortgages. This risk is limited by restrictions within its investment policy, which include single loan limits, and diversification by property type and geographic regions within Canada.

Market Risk

Market risk represents the potential for loss from changes in the value of financial instruments. Value can be affected by changes in interest rates, foreign exchange rates and equity prices. Market risk impacts the value of the Auto Fund's investments.

Interest rate risk

The Auto Fund is exposed to changes in interest rates in its fixed income investments, including short term investments, bonds and debentures, and the mortgage pooled fund. Duration is a measure used to estimate the extent market values of fixed income instruments change with changes in interest rates. Using this measure, it is estimated that a 100 basis point increase in interest rates would decrease other comprehensive income and accumulated other comprehensive income by approximately \$43 million at March 31, 2008, representing 5.7% of the \$748 million fair value fixed income investments.

Foreign exchange

The Auto Fund is subject to changes in the U.S./Canadian dollar exchange rate on its U.S. equity investment portfolio and its EAFE (Europe, Australia and Far East) currencies through its investment in the non-North American Pooled Fund. Exposure to both U.S. equities and non-North American equities is limited to a maximum 7% each of the market value of the total investment portfolio. At March 31, 2008, the Auto Fund's exposure to U.S. equities was 5.7% (December 31, 2007 – 5.2%) and its exposure to non-North American equities was 5.0% (December 31, 2007 – 5.2%).

At March 31, 2008, a 10% weakening in the Canadian dollar versus U.S. dollar exchange rate would result in approximately a \$6.2 million increase in other comprehensive income and accumulated other comprehensive income. A 10% weakening in the Canadian dollar versus EAFE currencies would result in approximately a \$5.5 million increase in other comprehensive income and accumulated other comprehensive income. As the U.S. equity and non-North American Pooled Fund investments are classified as available for sale, any unrealized changes due to foreign currency are recorded as other comprehensive income and do not directly impact net income until the investment is sold.

The Auto Fund's exposure to foreign exchange risk within its bond and debenture portfolio is limited to a maximum 5% of the market value of the bond and debenture portfolio. As well, no more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers.

The Auto Fund's exposure to exchange rate risk resulting from the purchase of goods and services, is not considered material to the operations of the Auto Fund.

Equity prices

The Auto Fund is exposed to changes in equity prices in Canadian, U.S. and EAFE markets. Equities comprise 25.3% (December 31, 2007 – 25.4%) of the carrying value of the Auto Fund's total investments. Individual stock holdings are diversified by geography, industry type

and corporate entity. No one investee or related group of investees represents greater than 10% of the market value of the Auto Fund’s common share portfolio. As well, no one holding represents more than 10% of the voting shares of any corporation.

The following table indicates the approximate change that would be expected to both other comprehensive income and accumulated other comprehensive income based on changes in the Auto Fund’s benchmark indices at March 31, 2008:

<u>Change in Equity Benchmarks</u>	<u>(Change in thousands of \$)</u>	
	<u>10% increase</u>	<u>10% decrease</u>
S&P/TSX Composite Index	\$ 16,014	\$ (16,014)
S&P 500 Index	6,204	(6,204)
MSCI EAFE Index	5,465	(5,465)

As all equity investments are classified as available for sale, all changes in prices are recorded as other comprehensive income and do not directly impact net income until an investment is sold. No derivative financial instruments have been used to alter the effects of market changes and fluctuations.

Liquidity risk

Liquidity risk is the risk that the Auto Fund is unable to meet its financial obligations as they fall due. Cash resources of the Auto Fund are managed on a daily basis based on anticipated cash flows. The majority of financial liabilities, excluding certain unpaid claims liabilities, are short-term in nature, due within one year. The Auto Fund generally maintains positive overall cash flows through cash generated from operations as well as cash generated from its investing activities.

6. CAPITAL MANAGEMENT

The primary objectives of capital management for the Auto Fund is to maintain an adequate balance in its Rate Stabilization Reserve (RSR) to assist in achieving consistency and stability in rates so that customers are not subject to ongoing price fluctuations or large rate increases. The Auto Fund uses a common industry measurement called the Minimum Capital Test (MCT) to establish a target for the RSR. The MCT is a risk-based capital adequacy formula that assesses risks to assets, policy liabilities and off-balance sheet exposures by applying various factors to determine a ratio of capital available over capital required. The Auto Fund’s target is a range of 100% – 125%. At March 31, 2008, the MCT was 128%.

The Auto Fund’s legislation restricts how it can raise capital and mandates the benefits it is to provide to policyholders. The Auto Fund does not receive money from the province nor from SGI, the administrator of the Auto Fund, and it does not pay dividends to the province or its administrator. The Auto Fund cannot go to public capital markets to issue debt or common shares. It uses premiums and fees from its operations, along with income generated from its investment portfolio, to fund future operations.

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There have been no changes to the Auto Fund's capital management processes and measures since the prior year end.

7. CHANGE IN NON-CASH OPERATING ITEMS

	(thousands of \$)	
	three months to March 31	
	2008	2007
Accounts receivable	\$ (1,410)	\$ 9,543
Prepaid expenses and inventories	(912)	(1,104)
Deferred policy acquisition costs	890	434
Accounts payable and accrued charges	(1,363)	(12,826)
Premium taxes payable	(21,566)	(21,558)
Unearned premiums	(868)	3,211
Provision for unpaid claims	6,065	10,116
	<u>\$ (19,164)</u>	<u>\$ (12,184)</u>

8. COMMITMENTS

The Auto Fund has contractual obligations to provide funding to Saskatchewan health organizations for costs associated with research and rehabilitation for those involved in automobile collisions. The funding to be provided over the next five years is anticipated to be \$67,046,000.