

Consolidated Financial Statements of

EGI FINANCIAL HOLDINGS INC.

March 31, 2008

EGI FINANCIAL HOLDINGS INC.
Consolidated Balance Sheets
(in \$ thousands)

Assets	March 31 2008	December 31 2007
	(unaudited)	
Cash and short-term deposits	\$ 20,216	\$ 22,785
Investments (note 3)	243,717	238,310
Reinsurers' share - unearned premiums	3,071	3,602
- provision for unpaid claims (note 4)	49,570	48,461
Accounts receivable	23,105	25,382
Income taxes recoverable	6,261	3,278
Due from insurance companies	7,269	6,199
Deferred policy acquisition costs	10,854	15,530
Capital assets	1,418	1,250
Future income taxes	2,600	2,674
Prepaid expenses and other assets	2,971	2,613
	<u>\$371,052</u>	<u>\$370,084</u>
Liabilities		
Bank indebtedness (note 8)	\$ 19,550	\$ 19,550
Provision for unpaid claims (note 4)	184,329	169,091
Unearned premiums	55,677	69,190
Unearned commission	246	291
Accounts payable and accrued liabilities	4,159	5,444
Payable to insurance companies	2,233	3,894
Other liabilities	548	953
	<u>266,742</u>	<u>268,413</u>
Shareholders' Equity		
Share capital (note 7)	46,170	46,040
Contributed surplus	274	247
Retained earnings	55,197	53,193
Accumulated other comprehensive income	2,669	2,191
	<u>104,310</u>	<u>101,671</u>
	<u>\$371,052</u>	<u>\$370,084</u>

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Income
for the Quarters Ended March 31
(in \$ thousands, except per share amounts)

	2008 (unaudited)	2007 (unaudited)
Revenue:		
Direct written and assumed premiums	<u>\$34,936</u>	<u>\$30,196</u>
Net written and assumed premiums	<u>32,422</u>	<u>28,323</u>
Net earned premiums	45,559	24,790
Investment income	<u>4,587</u>	<u>2,601</u>
	<u>\$50,146</u>	<u>\$27,391</u>
Expenses		
Incurred claims	31,163	15,131
Acquisition costs	11,588	5,630
Operating expenses	3,205	2,725
Interest expense	<u>302</u>	<u>-</u>
	<u>46,258</u>	<u>23,486</u>
Income before income taxes	3,888	3,905
Income tax expense	<u>1,302</u>	<u>1,378</u>
Net income	<u>\$ 2,586</u>	<u>\$ 2,527</u>
Earnings per share (note 9)		
Net income per share	\$0.27	\$0.26
Net income per diluted share	\$0.25	\$0.24

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Changes in Shareholders' Equity
and Comprehensive Income
for the Quarters ended March 31
(in \$ thousands)

	2008	2007
	(unaudited)	(unaudited)
Share capital		
Balance, beginning of period	\$ 46,040	\$45,833
Common shares issued	130	19
Balance, end of period	<u>46,170</u>	<u>45,852</u>
Contributed surplus		
Balance, beginning of period	247	149
Stock options – granted	43	27
– exercised	(16)	(2)
Balance, end of period	<u>274</u>	<u>174</u>
Retained earnings		
Balance, beginning of period	53,193	40,059
Net income	2,586	2,527
Dividends – Common shares	(582)	(482)
Balance, end of period	<u>55,197</u>	<u>42,104</u>
Accumulated other comprehensive income		
Balance beginning of period	2,191	-
Transition adjustment – financial instruments	-	5,173
Other comprehensive income	478	134
Balance, end of period	<u>2,669</u>	<u>5,307</u>
Shareholders' equity, end of period	<u>\$104,310</u>	<u>\$93,437</u>
Comprehensive income		
Net income	2,586	2,527
Other comprehensive income, net of taxes		
Change in unrealized gains on available-for-sale securities:		
Net unrealized gains on available-for-sale securities	991	399
Reclassification of net realized gains to net income	(786)	(265)
Unrealized gains on translating financial statement of self-sustaining foreign operations	273	-
Other comprehensive income	478	134
Total comprehensive income	<u>\$ 3,064</u>	<u>\$ 2,661</u>

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Cash Flows
for the Quarters Ended March 31
(in \$ thousands)

	2008	2007
	(unaudited)	(unaudited)
Cash provided by (used in):		
Operating activities:		
Net income	\$ 2,586	\$ 2,527
Items not involving cash:		
Amortization of capital assets	139	100
Amortization of premium on bonds	82	123
Realized gains on investments	(1,415)	(384)
Other	43	27
	<u>1,435</u>	<u>2,393</u>
Net change in other non-cash balances	<u>(103)</u>	<u>(162)</u>
	<u>1,332</u>	<u>2,231</u>
Financing activities		
Issue of common shares	114	17
Common share dividends	(582)	(482)
	<u>(468)</u>	<u>(465)</u>
Investing activities:		
Purchase of capital assets	(307)	(228)
Purchase of investments	(61,118)	(47,274)
Sale/maturity of investments	57,992	36,317
	<u>(3,433)</u>	<u>(11,185)</u>
Decrease in cash and short-term deposits	\$ (2,569)	\$ (9,419)
Cash and short-term deposits, beginning of period	<u>22,785</u>	<u>17,153</u>
Cash and short-term deposits, end of period	<u>\$ 20,216</u>	<u>\$ 7,734</u>
Supplementary information		
Income taxes paid	\$ 4,327	\$ 4,691
Interest paid	\$ 302	\$ -

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements
(unaudited, in \$ thousands except per share amounts)

1 Organization and Basis of Presentation

These interim consolidated financial statements include the accounts of EGI Financial Holdings Inc. and its subsidiaries (the “Company”) and have not been reviewed by the Company’s external auditors. They do not include all disclosures required by Canadian generally accepted accounting principles for annual financial statements, and accordingly, should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2007 as set out on pages 46 to 66 of the Company’s 2007 Annual Report. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies, except as described in note 2 below, as were used for the Company’s consolidated financial statements for the year ended December 31, 2007.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the periods covered by the financial statements. The principal financial statement components subject to measurement uncertainty include the provision for claims, other than temporary declines in the value of investments and the carrying value of future tax assets. Actual results could differ from those estimates.

The Company is principally engaged, through its subsidiaries, in property and casualty insurance in Canada and the U.S. The Company’s Barbados based subsidiary, CIM Reinsurance Company Ltd. (CIM Re), changed its functional currency to U.S. dollars effective January 1, 2008. As a result, CIM Re is operating as a self-sustaining foreign subsidiary and is therefore subject to foreign exchange gains and losses related to its operations.

2 Significant accounting changes

Capital Disclosures and Financial Instruments- Disclosures and Presentation

On January 1, 2008, the Company adopted three new accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA):

Handbook Section 1535 - Capital Disclosures

Handbook Section 3862 - Financial Instruments – Disclosure

Handbook Section 3863 – Financial Instruments – Presentation

Section 1535 specifies the disclosure of (i) an entity’s objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the

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entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Section 3862 and 3863 replaced Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revised and enhanced its disclosure requirements, and continued its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

3 Investments

Investments are carried at fair value, which is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices, as appropriate, in the most advantageous active market available. In the absence of an active market, fair value is based on prevailing market rates for holdings with similar characteristics and risk profiles or internal or external valuation models, such as discounted cash flow analysis, using observable market based inputs.

Any changes, during the quarter, in the fair values of investments, classified as available-for-sale, are recognized in OCI. The cumulative changes in the fair values of investments previously recognized in AOCI are reclassified to Net Income when they are realized or the decline in value is considered to be other-than-temporary.

The Company utilizes the prudent person approach to asset management as required by the Insurance Companies Act (the "Act"). An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are employed to minimize risk. Policies limit investments in any entity or group of related entities to a maximum of 5% of the Company's assets. Limitations are also placed on the quality of investments, particularly relating to investment grade bonds.

Fair value

Fair value is an amount that represents the estimated exchange value of a financial instrument between willing parties.

The fair value of the investments is considered to be the quoted value, less transaction costs, based on bid prices determined by external pricing services. The majority of the investment portfolio is fully invested in well-established, active, liquid markets.

The fair value of outstanding claims is reasonably considered to be the carrying value. Many claims are of short duration and the Company already discounts claims. There is not an active market for stand-alone policy liabilities, therefore a market value is not readily available. The

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Notes to Consolidated Financial Statements (continued)
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actuarial approach to determine value is to discount estimated future cash flows and includes a margin called the provision for adverse deviation (PFAD).

The fair values of other financial assets and financial liabilities are considered to be the carrying values, as they are of short duration. The value of the Company as a whole on a going concern basis may be greater than the sum of the fair values of the individual assets and liabilities.

Fair value of Investments

The following table provides a comparison as at March 31, 2008 and December 31, 2007:

	<u>March 31 2008</u>	<u>December 31 2007</u>
	<u>Fair value</u>	<u>Fair value</u>
Bonds		
Canadian		
Federal	\$ 71,731	\$ 80,378
Provincial	36,202	30,948
Municipal	6,061	3,908
Corporate	75,949	67,864
	<u>189,943</u>	<u>183,098</u>
United States		
Federal	3,225	2,288
Corporate	701	666
	<u>3,926</u>	<u>2,954</u>
Total Bonds	<u>193,869</u>	<u>186,052</u>
Preferred shares	<u>6,480</u>	<u>6,106</u>
Common shares		
Canadian	39,295	42,150
United States	1,734	2,244
	<u>41,029</u>	<u>44,394</u>
Investment income due and accrued	<u>2,339</u>	<u>1,758</u>
	<u>\$243,717</u>	<u>\$238,310</u>

Impaired assets and provisions for losses

The Board of Directors has established a policy to write down or make a provision for any investment with “other than temporary” impairment. There was no investment provision recorded in the interim consolidated financial statements for 2008 and 2007.

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Notes to Consolidated Financial Statements (continued)
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Management has reviewed currently available information regarding those investments whose estimated fair value is less than carrying value. Debt securities whose carrying value exceeds market value can be held until maturity. The Company has reviewed all of its investments to ensure that performance expectations have not changed sufficiently to adversely affect the market value of these investments on other than a temporary basis.

Investment income

Investment income was derived from the following:

	First Quarter 2008	First Quarter 2007
Interest income	\$2,733	\$2,204
Dividend income	694	289
Net realized gains/losses	1,415	384
Investment expenses	(255)	(276)
	<u>\$4,587</u>	<u>\$2,601</u>

4 Provision for unpaid claims

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of three major variables or quanta, being development of claims, reinsurance recoveries and the effects of discounting, to establish a best estimate of the value of the respective liability or asset.

The provision for unpaid claims and adjustment expenses is an estimate subject to variability and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, significant changes in the severity or frequency of claims for historical trends, the timing of claim payments, the recoverability of reinsurance and future rates of investment return. The estimates are principally based on the Company's historical experience. Methods of estimation have been used, which the Company believes produce reasonable results given current information.

All provisions are periodically reviewed and evaluated considering emerging claims experience and changing circumstances. The process of determining the provisions necessarily involves risks that actual results may differ, perhaps materially, from the best estimates made. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the current year.

The fair value of the provision for unpaid claims approximates carrying value determined in accordance with generally accepted actuarial methods in Canada which discount estimated future cash flows and include a margin for adverse deviation. The aggregate impact of the

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provision for adverse deviation is to increase the provision for unpaid claims on a gross basis by \$18,890 as at March 31, 2008 (December 31, 2007 - \$17,487).

The Company discounts its best estimate of claim provisions at a rate of interest of 2.7% for 2008 (2007 – 2.7%) for all lines of business. The Company determines the discount rate based upon the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

Discounted Basis	March 31, 2008		December 31, 2007	
	Gross	Ceded	Gross	Ceded
Personal lines:				
Accident benefits	\$ 67,832	\$24,720	\$ 64,794	\$23,526
Liability	90,770	22,538	86,919	22,509
Other	3,576	641	3,607	663
Total Personal lines	<u>162,178</u>	<u>47,899</u>	<u>155,320</u>	<u>46,698</u>
Niche:				
Property				
Commercial	3,503	283	4,371	520
Personal	102	46	101	50
Liability	4,690	1,333	3,967	1,180
Accident and sickness	13,392	9	4,940	13
Other	464	-	392	-
Total Niche	<u>22,151</u>	<u>1,671</u>	<u>13,771</u>	<u>1,763</u>
	<u>\$184,329</u>	<u>\$49,570</u>	<u>\$169,091</u>	<u>\$48,461</u>

5 Underwriting policy and reinsurance ceded

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavourable underwriting results by purchasing reinsurance to share all or part of the insurance risks originally accepted by the Company in writing premiums. This reinsurance does not relieve the Company of its primary obligation to policyholders.

During the first quarter of 2008, the Company followed the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss to \$1,500 (2007 - \$1,150). In addition, the Company obtained catastrophe reinsurance which limits the loss from a series of claims arising from a single occurrence to \$2,000 (2007 - \$1,150) to a maximum coverage of \$18,000 (2007 - \$13,850).

The Company places all its automobile reinsurance with Canadian registered reinsurers. There are non-registered reinsurers participating on the specialty property and casualty program business. The Company has access to trust funds that, in the Company's judgement, are adequate to secure the liabilities that the Company has ceded to non-registered reinsurers.

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Failure of reinsurers to honour their obligations could result in losses to the Company. Consequently, the Company continually evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses. There have been no defaults and no provision made in the accounts for defaults based on management's review of the creditworthiness of its reinsurers.

6 Risk Management

As a provider of insurance products, effective risk management is fundamental to EGI's ability to protect the interests of EGI's customers and shareholders. EGI is exposed to risks of loss pertaining to insurance products. These include risks surrounding product and pricing, underwriting and claims, catastrophic exposure, and matching of assets and liabilities. EGI is also exposed to potential loss from various market risks, including interest rate and equity market fluctuation risk, credit risk, liquidity risk, and to a lesser extent foreign currency risk.

Product and pricing

EGI prices its products taking into account numerous factors, including claims frequency and severity trends, product line expense ratios, special risk factors, the capital required to support the product line, and the investment income earned on that capital. EGI's pricing process is designed to ensure an appropriate return on capital and long-term rate stability avoiding wide fluctuations in rate, unless necessary. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Pricing for automobile insurance must be submitted to each provincial government regulator and in certain provinces pre-approved by the regulator. Regulatory decisions may impede automobile rate increases or other actions that EGI may wish to take. Also, during periods of intense competition for any product line, to gain market share, EGI's competitors may price their products below the rates EGI considers acceptable. Although EGI may adjust its pricing up or down to maintain EGI's competitive position, EGI strives to ensure its pricing will produce an appropriate return on invested capital. There is no assurance that EGI will not lose market share during periods of pricing competition.

Underwriting and claims

EGI is exposed to loss resulting from the underwriting of risks being insured and the exposure to financial loss resulting from greater than anticipated adjudication, settlement and claims costs.

EGI's underwriting objectives are to develop business within EGI's target markets on a prudent and diversified basis and to achieve profitable underwriting results. EGI underwrites automobile business after a review of the applicant's driving record reports and claims experience. Specialty commercial and personal risks are selected by EGI, working with our external brokers, after consideration of various risk factors associated with these lines of business. Despite its best efforts, and consideration of all known risk factors, there can be no assurance that all risks associated with the insurance policies that it writes can be identified and assessed, and EGI may, therefore, experience increased adjudication, settlement and claims costs.

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EGI estimates its claims reserves on a quarterly basis and this is supported by quarterly assessments by the independent consulting actuary. Every quarter, for each line of business, EGI compares actual and expected claims development. To the extent that actual results differ from expected development, assumptions are re-evaluated and new estimates are derived. Although EGI believes its overall provision levels to be adequate to satisfy its obligations under existing policies, actual losses may deviate, perhaps substantially, from the amounts reflected in EGI's financial statements. To the extent provisions prove to be inadequate, EGI would have to re-evaluate such provisions and may incur a charge to earnings in the future.

Unpredictable catastrophic events

Catastrophes can be caused by various natural and unnatural events. Natural catastrophic events include hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires. Unnatural catastrophic events include hostilities, terrorist acts, riots, crashes and derailments. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas.

Catastrophes can cause losses in a variety of business lines. Claims resulting from natural or unnatural catastrophic events could cause substantial volatility in EGI's financial results for any fiscal quarter or year and could materially reduce EGI's profitability or harm EGI's financial condition. The Company manages the impact of losses which may result from catastrophic events by purchasing excess of loss and catastrophe reinsurance to share all or part of the insurance risks originally accepted by the Company. (See note 5.)

EGI's ability to write new business also could be affected. EGI may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events. EGI's operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions and also to key personnel. EGI has developed business continuity plans designed to allow the Company to continue operations in case of a catastrophic event, however if these plans cannot be put into action or do not take such events into account, losses may further increase.

Asset and liability matching

The Company is exposed to:

- changes in the value of its fixed income securities and policy liabilities to the extent that market interest rates change;
- the risk of losses to the extent that the sale of a security prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows;
- the risk that future inflation of policyholder cash flows exceed returns on long-dated investment securities; and
- foreign currency risks with respect to investments, receivables and policy liabilities denominated in foreign currencies.

To mitigate these risks, the Company has policies to ensure that assets and liabilities are broadly matched in terms of their duration and currency. The Company's exposures are

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Notes to Consolidated Financial Statements (continued)
(unaudited, in \$ thousands except per share amounts)

monitored on a regular basis and actions are taken to balance investment positions when approved risk tolerance limits are exceeded.

Risk management is carried out by the Investment Committee under policies approved by the Board of Directors. The Company has written principles for overall risk management, as well as written policies covering specific areas such as underwriting, reinsurance, foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded. Below is a discussion of the Company's primary market risk exposures and how these exposures are currently managed.

Interest Rate Risk

Fluctuations in interest rates have a direct impact on the market valuation of the Company's fixed income securities portfolio. Generally, the Company's investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities mature or are sold and the proceeds are reinvested at lower rates. During periods of rising interest rates, the market value of the Company's existing fixed income securities will generally decrease and gains on fixed income securities will likely be reduced.

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on net income and other comprehensive income relating to the fixed income securities portfolio as at March 31, 2008 and December 31, 2007, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

	As at March 31, 2008			As at December 31, 2007		
	Fair value of fixed income portfolio	Hypothetical % change on fair value	2008 Effect on other comprehensive income	Fair value of fixed income portfolio	Hypothetical % change on fair value	2007 Effect on other comprehensive income
Change in interest rates						
200 basis point rise	174,617	(10%)	(12,706)	166,475	(11%)	(12,921)
100 basis point rise	183,768	(5%)	(6,667)	175,763	(6%)	(6,790)
No change	193,869	-	-	186,052	-	-
100 basis point decline	205,105	6%	7,415	197,536	6%	7,579
200 basis point decline	217,723	12%	15,744	210,482	13%	16,124

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Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow requirements associated with financial instruments. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. To manage cash flow requirements, the Company maintains a portion of invested assets in liquid securities.

The maturity profile of bonds as at March 31, 2008, is as follows:

	<u>Less than 1 year</u>	<u>1 – 3 years</u>	<u>3 – 5 years</u>	<u>Greater than 5 years</u>	<u>Total</u>
Bonds	\$10,882	\$33,259	\$46,777	\$102,951	\$193,869
Percentage of total	5.6%	17.2%	24.1%	53.1%	100.0%

Future cash flows

The following table summarizes the expected timing of cash flows arising from insurance obligations, on an undiscounted basis (see note 4), as at March 31, 2008:

	<u>Less than 1 year</u>	<u>1 – 3 years</u>	<u>3 – 5 years</u>	<u>Greater than 5 years</u>	<u>Total</u>
Actuarial liabilities at carrying value	\$74,735	\$68,675	\$28,280	\$10,219	\$181,909
Less: Reinsurance recoverable	<u>18,454</u>	<u>20,004</u>	<u>7,699</u>	<u>2,009</u>	<u>48,166</u>
Net actuarial liabilities	<u>\$56,281</u>	<u>\$48,671</u>	<u>\$20,581</u>	<u>\$ 8,210</u>	<u>\$133,743</u>

Equity price risk

Fluctuations in the value of equity securities affects the level and timing of recognition of gains and losses on securities held, and causes changes in realized and unrealized gains and losses. General economic conditions, political conditions and many other factors can also adversely affect the stock and bond markets and, consequently, the value of the equity and fixed income securities held.

The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of equity instruments.

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The table below summarizes the potential impact of a 10% change in our equity holdings (common and preferred shares) on other comprehensive income as at March 31, 2008. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumptions that all equity holdings had increased/decreased by 10% with all other variables held constant.

<u>Change in equity holdings</u>	<u>Effect on Other Comprehensive Income</u>
10% rise	\$ 3,135
10% decline	\$(3,135)

Credit risk

The Company is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of investment securities which do not carry the guarantee of a national or Canadian provincial government. The Company's credit exposure to any one individual policyholder is not material. The company has policies which limit its exposure to individual reinsurers and regular review processes to assess the creditworthiness of reinsurers with whom it transacts business.

The following table sets forth EGI's fixed income portfolio by credit quality according to DBRS as at March 31, 2008 and December 31, 2007.

Fixed Income Portfolio

	<u>As at March 31, 2008</u>		<u>As at December 31, 2007</u>	
	<u>Fair value</u>	<u>% of Fair value</u>	<u>Fair value</u>	<u>% of Fair value</u>
AAA	\$ 95,760	49	\$100,388	54
AA	52,171	27	43,015	23
A	37,586	19	37,631	20
BBB	8,352	5	5,018	3
Total	<u>\$193,869</u>	<u>100</u>	<u>\$186,052</u>	<u>100</u>

Foreign Exchange Risk

Foreign exchange risk is the possibility that changes in exchange rates produce an unintended effect on earnings and equity when measured in domestic currency.

A portion of the Company's premiums are written in U.S. dollars and a portion of loss reserves are also in U.S. dollars. A portion of the Company's cash and investments are also held in U.S. dollars. In general, the Company attempts to manage foreign exchange risk on liabilities by investing in financial instruments denominated in the same currency as the liabilities which they

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back. The Company may nevertheless, from time to time, experience losses resulting from fluctuations in the values of the U.S. dollar, which could adversely affect operating results.

The table below illustrates the expected impact on net income and other comprehensive income of a 10% change in the Canadian dollar ("CAD") compared to the U.S. dollar ("USD") as at March 31, 2008. Computations of the prospective effects of hypothetical foreign exchange changes are based on numerous assumptions, including the maintenance of the existing level and composition of assets and liabilities, and should not be relied on as indicative of actual or future results.

<u>Change in USD/CAD rate</u>	<u>Effect on Net Income</u>	<u>Effect on Other Comprehensive Income</u>
10% rise	393	(377)
10% decline	(393)	377

Reinsurance recoverables

The following table summarizes the balances outstanding from reinsurers as at March 31, 2008 by risk rating:

<u>Credit rating</u>	<u>Gross reinsurance recoverable</u>	<u>Less: Provisions and securities held</u>	<u>Net reinsurance recoverable</u>
A	\$52,222	\$ -	\$52,222
Not rated	1,141	2,416	-
	<u>\$53,363</u>	<u>\$2,416</u>	<u>\$52,222</u>

Included in gross reinsurance recoverable is reinsurers' share of unearned premiums of \$3,071 reinsurers' share of provision for unpaid claims of \$49,570 and receivables from reinsurers' presented as due from insurance companies of \$722.

No balances due from reinsurers are considered past due as at March 31, 2008.

Capital Management

Capital is comprised of the Company's shareholders' equity and bank indebtedness. As at March 31, 2008 the Company's shareholders' equity was \$104,168 and bank indebtedness was \$19,550. The Company's objectives when managing capital are to maintain financial strength and protect its claims paying abilities, to maintain creditworthiness and the maximize returns to shareholders over the long term.

A common measure of capital adequacy in the property and casualty industry used by management is the ratio of premiums to surplus (or shareholders' equity). A lower ratio implies a higher measure of capital adequacy. The Company's ratio as at March 31, 2008 is 1.44. This level is well below the 2.5:1 ratio which management feels is fully leveraged capital.

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The Company's Canadian insurance subsidiary, Echelon, is required to maintain minimum capital levels as required by OSFI. At March 31, 2008 and December 31, 2007, the Company exceeded the minimum regulatory capital requirement. Legislation applicable to insurance companies imposes certain restrictions on the Company's ability to pay dividends.

7 Share capital

	March 31, 2008	December 31, 2007
Authorized:		
Unlimited common shares		
Unlimited special shares issuable in Series		
Issued:		
9,709,152 common shares	\$46,170	\$46,040
(2007 - 9,682,152 common shares)		

On March 28, 2008, common share dividends of \$582 or \$.06 per share were paid to common shareholders of record March 14, 2008.

During the first quarter of 2008, 27,000 common shares were issued pursuant to the exercise of options under the employee stock option plan.

8 Bank indebtedness

On October 11, 2007, the Company entered into a non-revolving term loan facility with a major Canadian bank in the amount of \$19,550. The aggregate commitments under the credit facility may be increased to an aggregate maximum amount of up to U.S.\$40,000 (or the equivalent amount in Canadian dollars), subject to the satisfaction of certain conditions. The facility has a term of three years, bearing an interest rate of 6.20%. During the term of the loan, monthly payments will include interest only and on maturity a balloon payment of \$19,550 will be made to settle the principal amount.

9 Income per share

	First Quarter 2008	First Quarter 2007
Basic income per share:		
Net income available to common shareholders	\$2,586	\$2,527
Average number of common shares (in thousands)	9,696	9,641
Basic income per share	\$ 0.27	\$ 0.26
Diluted income per share:		
Average number of common shares (in thousands)	9,696	9,641
Average number of common shares obligation under employee stock option plan (in thousands)	816	681
Average number of diluted common shares (in thousands)	10,512	10,322
Diluted income per share	\$ 0.25	\$ 0.24

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10 Segmented information

The Company operates through three divisions. The Personal Lines and Niche Products divisions operate in Canada while the International Division assumes premiums from U.S resident companies that specialize in the non-standard automobile market. Through its Personal Lines Division, the Company is engaged primarily in the underwriting of high premium, non-standard automobile insurance. Through its Niche Products Division, the Company designs and underwrites specialized non-auto insurance programs, such as higher premium property, primary and excess liability, legal expense, accident and health insurance and warranty coverage.

The effect of reinsurance is reflected in the revenue and results of the three divisions. The investment activities consist of managing the investment portfolio for the Company as a whole. Investment income is shown net of investment expenses. The corporate and other activities include holding company expenses not attributable to a division. Interest expense represents interest on bank indebtedness.

	First Quarter 2008	First Quarter 2007
Revenue		
Earned premiums and other revenue		
Property and casualty insurance		
Canada - Personal Lines	\$23,081	\$19,531
- Niche Products	19,695	4,383
	42,776	23,914
International (United States)	2,783	876
	45,559	24,790
Interest and dividends	3,172	2,217
Realized investment gains	1,415	384
Total revenue	50,146	27,391
Income (loss) before income taxes		
Property and casualty insurance		
Canada - Personal lines	834	742
- Niche Products	(678)	778
	156	1,520
International (United States)	(277)	3
Corporate and other	(276)	(219)
Underwriting Income (loss)	(397)	1,304
Interest and dividends	3,172	2,217
Realized investment gains	1,415	384
Interest expense	(302)	-
Total income before income taxes	\$ 3,888	\$ 3,905