



**Annual Information Form**  
(in respect of the financial year ended December 31, 2006)

**MARCH 16, 2007**

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APPENDIX A – Audit Committee Charter

Unless otherwise indicated or the context otherwise requires, references to “EGI” refer to EGI Financial Holdings Inc. and its subsidiaries, while references to the “Company” refer to EGI Financial Holdings Inc. itself, both now and in its predecessor forms, and references to “Co-operators” refer to The Co-operators Group Limited and its subsidiaries and affiliates.

Unless otherwise indicated, all information in this Annual Information Form (“AIF”) is presented as at and for the year ended December 31, 2006 and amounts are expressed in Canadian dollars. Financial information is presented in accordance with Canadian generally accepted accounting principles (“GAAP”) and the accounting requirements of the Superintendent of Financial Institutions, Canada (“OSFI”).

A glossary of terms used in this AIF is set out at the end of this document.

### **CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

Certain statements in this AIF may constitute “forward-looking” statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this AIF, such statements use such words as “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this AIF. Forward-looking statements involve significant risks, uncertainties and assumptions, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results, performance or achievements discussed in the forward-looking statements, including, but not limited to, the factors discussed under “Risk Factors”. Although the forward-looking statements contained in this AIF are based upon what management of the Company believes, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this AIF, and the Company undertakes no obligation to update or revise them to reflect new events or circumstances.

For additional information with respect to these and other risks or factors, reference should be made to the Company’s continuous disclosure materials and documents filed from time to time with Canadian securities regulatory authorities, available at [www.sedar.com](http://www.sedar.com).

### **CORPORATE STRUCTURE**

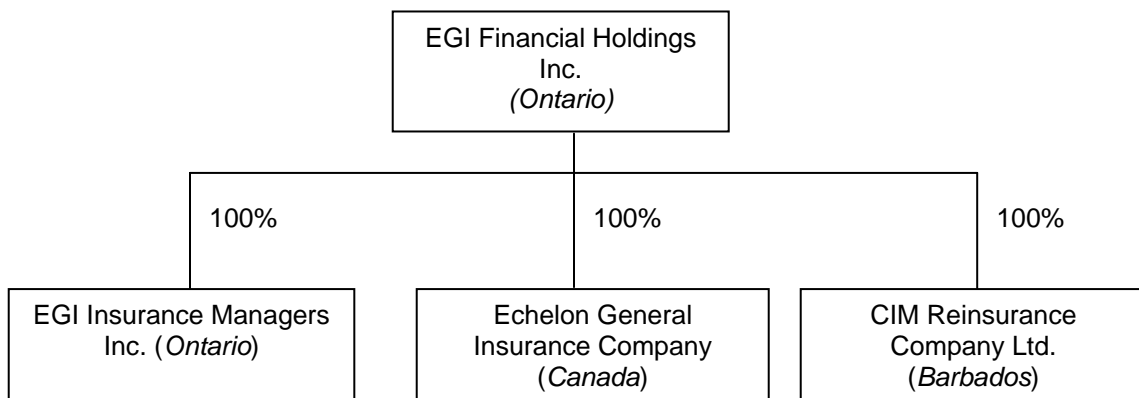
#### **The Company**

EGI Financial Holdings Inc. (the “Company”) was formed by Articles of Amalgamation dated January 11, 2005 under the laws of the Province of Ontario on the amalgamation of Canadian Insurance Marketing Inc. (“CIMI”) with its then wholly-owned subsidiary, EGI Financial Holdings Inc. CIMI was originally incorporated by Articles of Incorporation dated August 18, 1997 under the laws of the Province of Ontario.

EGI’s corporate head office and registered office is located at 1550 Enterprise Road, Suite 310, Mississauga, Ontario L4W 4P4.

## **Intercorporate Relationships**

The following diagram sets out the principal subsidiaries of the Company as at December 31, 2006, including the jurisdiction of incorporation of such subsidiary. All subsidiaries are wholly-owned.



## **GENERAL DEVELOPMENT OF THE BUSINESS**

### **Three Year History**

On December 31, 2002, EGI Investments became a wholly-owned subsidiary of CIMI and thus CIMI became the indirect owner of 50% of EGI Financial (2001), and 50% owner of Echelon. EGI Investments and EGI Financial (2001) were amalgamated in September 2003, continuing as EGI Financial Holdings Inc. ("EGI Financial (2003)").

In February, 2004, Co-operators Life Insurance Company bought out CIMI's 50% interest in Trent Health Insurance Services Corp. and Trent Financial, leaving CIMI with its interest in Echelon and CIMI's own insurance-related businesses. On June 7, 2004, EGI Financial (2003), the predecessor form of the Company, raised additional capital from its shareholders, as a result of which The Co-operators Group Limited owned 7% and Co-operators General owned 43% of EGI Financial (2003), totalling 50% in aggregate, while the other 50% continued to be held by CIMI.

CIMI and EGI Financial (2003) were re-organized early in 2005. Co-operators agreed to exchange its 50% aggregate interest in EGI Financial (2003) for shares in CIMI, representing a 43% equity interest in CIMI. As a result of the share exchange, which took place on January 5, 2005, EGI Financial (2003) became a wholly-owned subsidiary of CIMI, and the two companies subsequently amalgamated through a vertical short-form amalgamation on January 11, 2005. The amalgamated corporation continued under the name EGI Financial Holdings Inc., which is the current Company. As a result of the reorganization, Co-operators became a 43% shareholder of the Company and Echelon became a wholly-owned subsidiary of the Company (the "Echelon Transaction"). Accordingly, prior to 2005, the Company's consolidated financial statements reflected only a 50% indirect ownership of Echelon. Subsequent to 2005 its 2006 consolidated financial results reflect 100% ownership of Echelon.

Also in 2005, the Company filed Articles of Amendment to (i) sub-divide its outstanding common shares on the basis of two common shares for every one common share then outstanding, and (ii) remove the private company provisions from its Articles.

In 2006, the Company entered into a multi-year reinsurance agreement with AssuranceAmerica as the first move into the United States market. This agreement allows the Company to accept a maximum of \$17.1 million of non-standard automobile premiums in 2007 from the United States.

The Company in 2006 has also transitioned the Automobile Division into a multi-product, multi-line Personal Lines Division to further enhance its diversification strategy.

## **DESCRIPTION OF THE BUSINESS**

### **General**

EGI operates in the property and casualty (P&C) insurance industry in Canada, primarily focusing on non-standard automobile insurance and other niche and specialty general insurance products. Founded in 1997 as an insurance and reinsurance broker and marketer, EGI has since developed its business to focus on underwriting opportunities not served by many of the larger, standard insurers.

EGI operates through two Strategic Business Units (SBU), the Personal Lines Division and the Niche Products Division. The Personal Lines Division was created in 2006 to transition the Automobile Division into a multi-product, multi-line SBU. Currently the Personal Lines Division continues to focus on the underwriting of non-standard automobile insurance and motorcycle business but will expand into other non-standard products and lines of business. Through its Niche Products Division, EGI designs and underwrites specialized non-auto insurance programs, such as higher premium property, primary and excess liability, legal expense and accident and health insurance for a variety of businesses and consumers and extended warranty coverage for homes and consumer products. By pursuing this focused strategy, EGI's objective is to produce a rate of return on equity (ROE) superior to the Canadian P&C insurance industry average. A key factor for EGI's ROE outperforming the industry is the fact that its loss ratio is below the industry average.

EGI's main source of revenue is net earned premiums from the sale of automobile insurance policies, which accounts for 87% of net earned premiums. One of EGI's diversification strategies is the growth of the non-auto business in the Niche Products Division, which currently accounts for approximately 13% of net earned premiums, and the newly created Personal Lines Division.

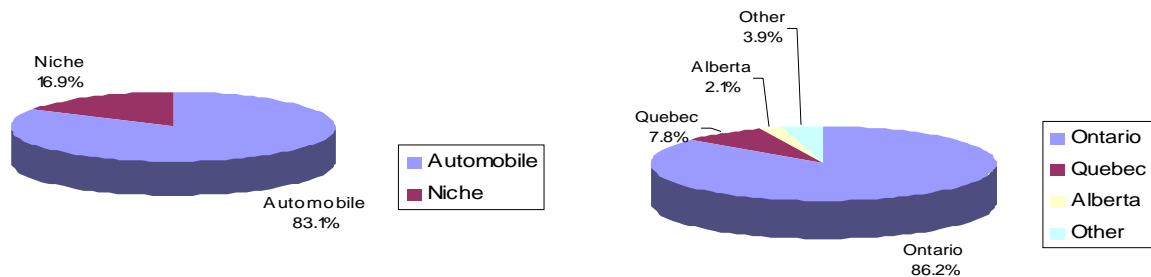
The financial performance of EGI is determined by two main factors: (i) the level of premiums earned in relation to claims and operating costs incurred; and (ii) the returns generated from the investment portfolio. Premiums collected are ultimately used to pay claims and operating expenses. However, there is a time lapse between the collection of premiums and the payment of claims and certain operating expenses. This allows EGI to invest premiums collected and earn an investment return until claims and operating expenses are paid. EGI also earns an investment return on invested capital.

EGI's results also include fees for consulting, income from one-time gains from acquisitions and divestitures and from corporate and other activities. The income from the non-operating transactions is discussed in the Company's MD&A under Extraordinary Gain and Income from Discontinued Operations.

The business of EGI and its operating divisions, including critical accounting estimates and assumptions, is described in more detail in the Company's MD&A which is incorporated by reference in this AIF.

### ***Products and Services***

Approximately 83% of EGI's premium revenue in 2006 was from its automobile line of business with approximately 86% of the total premiums written from Ontario. The breakdown of direct written premiums by category of business and by region during 2006 is illustrated below.



### Personal Lines Division

As part of its strategic planning and analysis process, EGI has moved to diversify its writings – both geographically and by “product line”. With respect to the latter, this involves creation, development, marketing and processing of new, personal lines product offerings.

These new offerings, in conjunction with the company’s core, non-standard automobile product, will provide distributors with a wider array of personal lines products (historically underserved by the standard market). This will be done by utilizing the same “niche underwriting mentality”, that has been the hallmark of EGI’s activities.

Although the non-standard automobile segment will remain as the largest, single component of EGI’s activities, the additional personal lines products will facilitate additional production, diversification and make the Company an even more important partner for all distributors. In this manner, the non-standard automobile segment will form a critical component of the newly-minted Personal Lines Division.

The non-standard automobile segment currently targeted by EGI’s Personal Lines Division is high premium insurance for drivers who, because of inexperience or a poor driving record, are not able to obtain insurance from standard insurers. EGI provides coverage for private passenger vehicles as well as single commercial vehicles and small commercial and farm fleets. Management believes that EGI’s systems, underwriting discipline and claims expertise, strict controls and an experienced management team (who are well-versed in the nuances of non-standard auto) enable the Company to select those drivers in the higher premium categories who have a proportionally-lower potential claims risk.

For those clients paying the higher premiums for non-standard automobile insurance, price is the single most important consideration. EGI provides these drivers with a lower premium option to the higher premium coverage offered by the Facility Association and the Groupement. EGI targets drivers most likely to be “reformers” not “repeaters”. These non-standard auto risks fall between Facility and the standard risks normally targeted by standard market insurers. The likely reformer expresses concern with respect to his or her poor driving record and will exhibit a sincere desire to improve (so as to re-enter the standard market). EGI utilizes brokers and agents to select qualifying risks. EGI then employs the experience of its underwriting personnel to ensure that complete and accurate underwriting and rating information has been developed.

In recent years, EGI has focused on appointing brokers and agents in “rural” and “smaller urban” centers in its markets due to concerns regarding growth in the number of fraudulent claims in the largest urban centers. This strategy has resulted in enhanced underwriting margins that, on average, exceed the industry average.

In July 2005, EGI withdrew from the Alberta personal lines automobile insurance market. The Alberta government’s auto insurance reform package (introduced in October 2004) imposed a capping of insurance premiums, particularly those of inexperienced and other higher risk drivers, through the implementation of a mandated rating grid and clearly defined risk selection rules. The grid subsidizes the premiums of higher risk drivers and has resulted in the over-charging of lower risk drivers in Alberta. The size of this subsidy is quite large, making it, in the opinion of management, uneconomical for a non-

standard automobile insurer to underwrite the higher risk business for its own account. EGI continues to underwrite commercial, small fleet and farm vehicle insurance in Alberta.

In September 2005, EGI also withdrew from the Newfoundland private passenger automobile insurance market. This decision was made as a result of the introduction of Bill 26 which eliminated an insurer's ability to use statistically valid rating factors (such as "number of years licensed") which are essential to the proper underwriting of non-standard risks. The regulatory changes make it, in the opinion of management, uneconomical for a non-standard automobile insurer to underwrite the higher risk, private passenger business for its own account in Newfoundland.

As part of the strategy to develop business in "other vehicle types", EGI entered into an exclusive arrangement with a specialist broker (in the first quarter of 2006) to write motorcycle business in Ontario. Direct written premiums from this arrangement totalled \$7.6 million in 2006.

EGI will maintain and grow its personal lines business by employing the following strategies:

- Expand non-standard auto writings in jurisdictions where EGI earlier withdrew or restricted its premium writing - such as New Brunswick, P.E.I. and Nova Scotia - by filing new rates to reactivate distribution of EGI's automobile insurance products. The Atlantic re-launch will commence in the first quarter of 2007. EGI also intends to monitor and participate in the review of Alberta's grid rating system by the Alberta Automobile Insurance Rate Board, with a view to reactivating distribution of EGI's private passenger automobile insurance coverages in that province (should a viable opportunity arise). In addition, EGI is monitoring the impact of recent government reforms in Ontario aimed at further reducing fraudulent claims, which may allow EGI to increase its business activities in additional urban markets.
- Continue to build the Company's profitable personal and commercial auto lines of business in the province of Quebec.
- Use EGI's non-standard underwriting expertise to add other lines of specialty/personal lines insurance products such as coverage for: motorcycles (Alberta); snowmobiles; all terrain vehicles; antique autos; personal watercraft; non-standard habitational covers and recreational vehicles.
- Consider acquiring a suitable existing non-standard automobile insurance company domiciled in the United States and licensed in one or more states which EGI believes constitute attractive markets, to contribute to EGI's goal of earning superior returns. EGI's management team has past experience with the acquisition and operation of U.S., non-standard auto carriers. Any such acquisitions could also serve as an entry point, for the personal lines product offerings (noted above), into the U.S. market.

#### Niche Products Division

EGI's Niche Products Division, established in 2003, provides specialized commercial and personal insurance products and programs covering areas of the market that are considered underserved. This division works with insurance brokers and product distributors to design insurance product solutions that respond to gaps in the P&C insurance market created by traditional insurers' focus on standardized coverage. The division is focused on satisfying the brokers and distributors' need to access customized insurance solutions in certain areas where adequate products are not provided by standard market insurers. Staffed with highly knowledgeable and experienced insurance professionals, the division researches and designs programs of specialty insurance products in response to market demand. These programs are then distributed and administered by the initiating broker, MGA or other intermediary who has worked closely with the division to design the insurance solution. EGI believes that the direct written premiums for its target specialized non-auto insurance segment is approximately 8% to 10% of the non-auto P&C insurance market.

EGI has identified niche market segments within four broader product areas that offer opportunities for profitable growth: commercial property insurance, general commercial and professional liability insurance, extended health insurance and warranty business. Within each of these areas, EGI concentrates its

underwriting within the sub-segments where the risk characteristics of the business offer an opportunity to obtain a higher rate relative to the specific exposure than would be available within the broader segment of that niche market. This focus allows EGI to seek a per-risk margin that exceeds what is available in the standard market.

An important component of the niche products market is the degree to which significant expertise often resides at the broker and distributor level. The distribution partners we select have highly specialized knowledge of the product and the market, and provide highly effective distribution capability for EGI's programs. Their market knowledge and technical design capability is used in product design and combined with EGI's expertise in pricing, underwriting structures, and financial management, to create a sustainable product offering. Many of our distribution partners are interested in sharing in future underwriting profits through retention of risk. Accordingly, in certain circumstances, EGI will enter into a risk-sharing agreement with a distribution partner.

In response to the growth experienced in niche products, the ADAPT® system was developed to enable the administrator of each program to provide customer information in an electronic format to EGI on contracts and policies sold by the distributor. The ADAPT® system software uploads customer data provided by the administrator of the program in preset formats supplied by EGI. The ability to export data avoids costly duplication and allows the distributors to use their own internal systems to supply the required information to EGI rather than being forced to re-enter data on EGI's systems. Once the data transfer is received, EGI is able to immediately create customer policy records on the ADAPT® system and can use the claims portion of the ADAPT® system to manage claims and provide customer service.

EGI intends to maintain and grow the niche programs business by employing the following strategies:

- Continue to broaden market awareness of the existence and capabilities of EGI's Niche Products Division, (including EGI's risk retention structuring capabilities) through direct contact with qualified brokers and other insurance product distributors through trade journal articles and advertising.
- Ensure that the Niche Products Division grows organically by continuing to provide unique expertise and superior service on all business inquiries.
- Seek opportunities for the Niche Products Division to grow through select acquisitions of books of business, distributors, administrators or an insurance company.
- Attract high quality profitable program business by offering a unique opportunity for distribution partners to enter into risk-sharing arrangements with EGI.

### ***Distribution and Marketing***

EGI markets its Automobile Division products through insurance brokers and Co-operators' agents. The specialty programs of the Niche Products Division are also marketed primarily through brokers.

Under the Echelon-Co-operators Services Agreement, which expires on December 31, 2007, Co-operators has agreed, as long as it is a shareholder of EGI, to use reasonable efforts to encourage its agents to distribute EGI's non- standard automobile products (provided in doing so Co-operators will not act contrary to any legal requirement or contrary to the best interest of its customers).

### **Personal Lines**

EGI believes that one of the key requirements of its brokers and agents in dealing with a Personal Lines carrier is consistency on the part of the insurer. EGI believes that brokers and agents are looking for insurers who know and communicate exactly what policies they want to write and who hold true to their core underwriting principles. Brokers want to deal with insurers who are perceived to desire a long term presence in the market. Insurance brokers and agents are also concerned with minimizing account servicing time and maximizing commission income through policy and contingent profit commissions.

Service is another requirement of the brokerage and agent communities. Particularly in underwriting and claims, it is essential that the insurer have properly trained individuals who are empowered to make quick decisions and resolve issues presented by brokers, agents and their clients. Rapid access to a “live voice” response is very important to both brokers and agents when they contact the insurer. Focusing on successfully addressing key broker and agent issues, such as top quality service and excellent document turnaround time, enables EGI to act in a responsive manner when issues arise that impact a broker’s or agent’s operation.

Account servicing time can be affected by the insurer’s underwriting rules (which may be broad or exclude many risks), underwriting attitude (rules strictly enforced or exceptions made), service level of the insurer with respect to production of policy documents and claims handling. For non-standard automobile business, the Facility Association and the Groupement are available to all brokers and agents and have broad underwriting rules. The specialist insurers underwrite business for their own accounts and generally have stricter underwriting rules, claims and underwriting processes. Therefore, the specialist insurers generally have to charge lower premiums and pay higher sales commissions than the Facility Association and the Groupement to attract submissions of accounts from brokers and agents.

Selection and monitoring of producers is a significant factor in EGI’s marketing strategy. As producers have significant influence over which insurance company’s policies are offered to their customers, management regards its producers as key, frontline decision makers. For non-standard automobile, all brokers have access to Facility Association or Groupement and usually represent more than one non-standard automobile insurance company. Co-operators’ agents have access to the Facility Association, but utilize EGI as their only other non-standard carrier. EGI believes that it competes favourably with other non-standard insurance companies among brokers who represent more than one such company and offers an attractive alternative to the Facility Association for business placed by Co-operators’ agents.

#### Niche Products

EGI distributes its niche products through brokers, MGAs and other intermediaries. EGI seeks MGAs who have developed a portfolio of business focused on a particular niche in the market that offers EGI an opportunity for profitable growth. In order to qualify as a business partner, the MGA must demonstrate an ability to effectively distribute the product and the expertise to underwrite and administer the portfolio of business successfully. Combining EGI’s market research and underwriting skills with the MGA’s specialized expertise and distribution skills, EGI works with this group of distributors to identify market opportunities where the MGA can more fully develop a portfolio or a sub segment of their business. Programs are developed and marketed only in response to proven market demand.

MGAs are often interested in sharing in future underwriting profits through retention of risk. From time to time, EGI enters into risk-sharing agreements with MGAs (or the MGAs’ clients). Under such an agreement, the MGA or its client acts effectively like a reinsurer of EGI, providing risk capital to EGI as needed. This approach allows producers or clients with program specific expertise or with programs with proven track records to participate in profits as risk sharing partners. The objective is to structure an arrangement that enables the MGA or client to become an underwriting risk partner. As an underwriting partner the distributor will be focused on creating a sustainable program that balances sales and profits. When we risk share on a program it helps to ensure the distributor’s commitment to service and adherence to program guidelines. The risk sharing partner’s greatest opportunity to earn sustainable long term profits is realized by managing a profitable program with a long term focus.

#### Compensation

On its automobile products, EGI compensates brokers based on a fixed percentage (most often 12.5%) of premiums written. Brokers are paid an additional 1% if they order (directly) Autoplus and MVR reports. Co-operators is paid 10.5% of premiums written on policies sold by its agents. In addition, a contingent commission may be paid to brokers that meet certain targets. In general, qualification for contingent commissions is based upon a combination of factors, including reaching a target level for written premiums and achieving a record of profitability over a three year average. The amount of any contingent commission is determined based on the broker’s total net earned premiums and its underwriting profit, with a higher commission payable the larger the volume of premiums and underwriting profit.

Management believes that EGI's commission rates are the same as, or lower than, its competitors in the non-standard automobile business (with the exception of the Facility Association and the Groupement). MGAs, which distribute and administer specialty niche program business, are paid various rates of commission, reflecting both the nature of the program and the administration work performed by the MGA on the program.

## ***Pricing and Underwriting***

### *Personal Lines*

For its automobile products, EGI continually seeks to classify and price risks in defined segments by (i) utilizing actuarial analysis of its own as well as industry data, (ii) testing a broad range of variables, (iii) analysis of direct competitors' rates and (iv) seeking reliable predictors of future claims. The proposed pricing of EGI's policies is established by its staff based on EGI's proprietary database containing statistical experience by age, class of driver, type and use of the vehicle, postal code, prior driving history and other rating characteristics. EGI's databases are continually monitored and updated to enhance EGI's ability to develop more precise rates based on a larger number of defined segments and variables.

EGI's proposed automobile rates must be filed with and approved by provincial insurance regulators before they are used by producers to write policies. EGI continually monitors its loss experience in all rating territories with a view toward seeking approval of and implementing rate adjustments whenever necessary.

EGI grants its brokers and agents limited authority to bind automobile insurance coverages in accordance with its guidelines. EGI promptly reviews all coverages bound by brokers and agents and decides whether to continue such coverages. All final underwriting decisions are made by EGI. The objective of EGI's non-standard auto underwriting process is to assess whether complete and accurate information has been provided on each application, taking all necessary steps to ensure that, if the policy is to remain in force, the risk has been properly rated and fits the Company's underwriting criteria and filed rules.

### *Niche Products*

Program-based underwriting on non-auto lines, as carried out in the Niche Products Division, differs greatly from individual risk underwriting. When creating standards for individual risk underwriting, insurers start with a wide template for evaluating risk. Because the business can come from any industry and any part of the country, the insurer's underwriter must weigh a large number of factors and try to understand the peculiarities of the industry, the geographic region and the business being evaluated. This is an expensive and highly variable business. The ability of the insurer to evaluate and price each risk is highly dependent on the general knowledge, skill and diligence of the person performing the underwriting.

Program-based underwriting starts with a narrower focus, but the process requires more research and a longer evaluation cycle than individual risk underwriting. EGI's program managers have to first research the industry in order to understand the nature of all insurable and related risks faced by businesses operating in the sector. The various types of risks inherent in the industry are then segmented by type and severity so that the insurer can set terms and conditions for the policy contract and acceptance criteria appropriate for the risks to be insured. Fundamentally, a uniform template is created and priced which allows the lower risk business with similar characteristics to be underwritten relatively easily. This allows EGI to concentrate on the more involved applications in order to set terms appropriate to the more complex business.

Program business tends to be geographically focused, industry specific or associated through some affinity, have fairly similar risk characteristics across the spectrum of potential customers and be controlled by one MGA or broker or a small group of brokers or purchased by one central association.

The process of evaluating and determining which accounts to underwrite is based on strict disciplines. Before any program is implemented, a survey must be completed which provides details of all aspects of the program, including current market analysis, a complete product description including proposed

wordings and rates, distribution system, underwriting control system, administration procedures, key management personnel resources, premium and loss history, claims adjudication process and financial forecast.

Once this information is collected, the Niche Products Division's product management team reviews the prior history of the program to identify trends and determine areas of concern. This will result in a further discussion of the program with the MGA or broker to clarify points or gain additional information. Upon conclusion of the analysis, the product management team will make recommendations to the Underwriting Review Committee which must review and approve any program before it can be implemented.

### ***Reinsurance***

EGL has reinsurance treaties with several unaffiliated reinsurers, all of whom are selected on the basis of their credit worthiness. EGL purchases reinsurance to reduce its exposure to the insurance risks that it assumes in writing business.

In accordance with industry practice, EGL's reinsurance recoverables with licensed Canadian reinsurers are generally unsecured, because Canadian regulations require these reinsurers to maintain minimum asset and capital balances in Canada to meet their Canadian obligations. However, policy liabilities rank in priority to any subordinate creditors a reinsurer may have. For reinsurance recoverables with non-licensed reinsurers, EGL maintains security against reinsurance recoverables in the form of cash, letters of credit and/or assets held in trust accounts.

EGL depends upon the financial stability of its reinsurers in the same way that EGL's insureds rely upon EGL. EGL believes that there is currently adequate reinsurance capacity in those classes of business which EGL underwrites and EGL is not aware of any developments that might cause a serious shortage of capacity in the future.

### ***Investment Management***

EGL's investment objectives are to produce an attractive total return on its invested assets after taxes, to protect and enhance statutory underwriting capital on a long-term basis and to maintain adequate liquidity for insurance operations.

The two most important methods employed by EGL to reduce the level of risk while achieving attractive rates of return on its investment portfolio are diversification and the use of experienced investment professionals to manage the investment portfolio.

Diversification is achieved through principles that ensure each asset class has limited exposure by region, industry, issuer and type of underlying security. Target ranges are set for each asset and are monitored by the Investment Committee to ensure that EGL's investment managers comply with these guidelines.

EGL outsources all trading decisions on individual securities to a small number of reputable and professional investment managers. The Investment Committee regularly monitors the performance of each manager and measures their performance against appropriate market index benchmarks.

### ***Competition***

#### ***Personal Lines***

The non-standard automobile insurance business in Canada is quite competitive. The size of the non-standard automobile segment varies over time, as standard market insurers adjust their pricing and underwriting rules. EGL's competitors in this market segment include the Facility Association and the Groupement (Quebec only), and other specialist insurers including Kingsway General Insurance Company, Perth Insurance Company and Pafco Insurance Company.

The specialist insurers offer essentially the same product (automobile insurance is generally provided on one statutory form in each province and territory), and thus compete on the basis of premiums, commission rates, underwriting rules and service levels. The premiums and commission rates of the market suppliers can be objectively compared. They are however subject to change at any time as a result of the rate review and approval process in the province or territory in question. Service levels on policy document production, underwriting service and claims handling are more subjective and difficult to measure. EGI's management believes that the non-standard automobile insurance industry will remain quite competitive in the foreseeable future.

### Niche Products

EGI's key competitors in its Niche Products Division vary by line of business and include one or more of the following companies: ACE INA Insurance, Assurant (American Bankers Insurance), American International Group "AIG", Chubb Insurance Company, AXA Canada Inc., Elite Insurance Company, Lombard Canada Ltd., Royal & Sun Alliance Insurance Company, Members of the Society of Lloyd's and St. Paul Guarantee Insurance Company. EGI believes that the direct written premiums for its target specialized non-auto insurance segment is approximately 8% to 10% of the non-auto P&C insurance market.

Availability of coverage is the key basis for attracting applicants for specialized non-auto insurance. The relative expertise of the insurer then becomes the key basis for competition as the underwriter tries to construct the optimal combination of coverage, risk management requirements and premium, which is acceptable both to the MGA, the insureds and the insurer.

Competition tends to be based less on price and commissions than it is for automobile insurance. Coverage is provided through MGAs on terms that either are not controlled or are less tightly controlled by government regulations. Pricing is largely determined by the characteristics of the individual risks and the custom made program coverage for that risk. EGI's management believes that competition in the specialized non-auto insurance industry may increase in the foreseeable future.

### **Co-operators**

The Co-operators Group Limited is the parent company of Co-operators General, which on a consolidated basis is the third largest property and casualty insurer in Canada, based on net written premiums. The Co-operators Group Limited also controls Unified Insurance Brokers Ltd. ("Unified"), Co-operators Life Insurance Company and Co-operators Investment Counselling Limited.

Prior to June 2001, Echelon was a wholly-owned subsidiary of Co-operators General. In a series of transactions between June 2001 and January 2005, Co-operators General sold its direct and indirect interest in Echelon to the Company and its predecessors for its current Common Shares of EGI. As a result, as at December 31, 2006, Co-operators General and its affiliates beneficially owned 1,706,594 Common Shares of EGI, representing approximately 17.7% of the outstanding Common Shares.

As part of the June 2001 transaction, Co-operators General entered into a reinsurance agreement with Echelon whereby Co-operators General reinsured 100% of the net (after other reinsurance) unpaid claims liabilities of Echelon, on claims with loss dates up to and including June 30, 2001. Echelon holds a deposit from Co-operators General, adjustable to be equal, as a minimum, to the unpaid claims reserve ceded to Co-operators General, as determined by Echelon's consulting actuary, which reserve was \$3,371,000, as at December 31, 2006. Echelon retains the investment income that it earns on the deposit. Co-operators General provides all claims adjustment and settlement services on the claims covered by the reinsurance agreement for no additional consideration.

Pursuant to an agreement (the "Echelon-Co-operators Services Agreement") among Echelon, EGI, Co-operators General and Unified, originally entered into on October 1, 2003 and subsequently amended on November 1, 2004 and January 12, 2005, Co-operators General provides distribution for EGI's non-standard auto products by its agents and certain system network and data services, accounting services and technical support services required by Echelon in connection with the carrying on of its insurance business. In addition, the Co-operators General collects premiums on behalf of Echelon for Echelon

policies sold by insurance agents of the Co-operators General. The Echelon-Co-operators Services Agreement expires on December 31, 2007, but may be automatically renewed for periods of one year thereafter. Co-operators General or Echelon may terminate the Echelon-Co-operators Services Agreement upon 90 days' written notice to the other. Under the Echelon-Co-operators Services Agreement, Echelon pays to Co-operators or to Unified (depending on the jurisdiction) a fee of 10.5% of gross written premium received by Echelon for Co-operators General's agency-originated business placed with Echelon. Co-operators General has agreed, so long as it is a shareholder of EGI (i) to use reasonable efforts to encourage its agents to provide such business to EGI (provided in doing so Co-operators will not act contrary to any legal requirement or contrary to the best interest of its customers), and (ii) not to establish or invest in any non-standard automobile insurance company that competes with EGI in Canada.

### ***Employees***

As at December 31, 2006, EGI had 102 full-time and 1 part-time employees. None of EGI's employees are subject to collective bargaining agreements.

### **RISK FACTORS**

The risks inherent in EGI's operations are described in the Company's 2006 Management's Discussion and Analysis under the heading "*Risk Factors*" which is hereby incorporated by reference in this AIF and is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **INSURANCE REGULATORY MATTERS**

While Echelon is federally regulated by OSFI, under the *Insurance Companies Act* (Canada), the marketing of insurance is regulated on a provincial and territorial basis in Canada. EGI's insurance subsidiaries are subject to the insurance legislation and policies of the jurisdictions in which they each carry on business. Under such legislation and policies, EGI's affairs are regulated in many respects including the assets in which it may invest, the levels of capital and surplus and the standards of solvency that it must maintain, and the amount of dividends that it may declare and pay. Under such legislation, insurance administrators are given broad powers of administration and enforcement over insurers. The legislation and policies of different jurisdictions may not be consistent. Compliance with the capital standards of OSFI will generally satisfy the regulatory capital requirements of all Canadian jurisdictions.

The regulation of insurance policies, auto insurance policies in particular, varies significantly between different jurisdictions. Automobile accident benefits coverage is compulsory everywhere in Canada except Newfoundland. Collision insurance is optional in all jurisdictions in Canada other than Manitoba and Saskatchewan. In all provinces and territories except for Quebec, Manitoba, Saskatchewan and British Columbia, auto insurance is provided by private insurers. Manitoba, Saskatchewan and British Columbia require that basic auto insurance coverage be issued through their provincial government-owned insurer. In these provinces, the government and private insurers compete for optional and excess coverage. In Quebec, the government insurer administers bodily injury claims, while first and third party property damage claims are covered by private insurers.

In Ontario, there are limited rights of recovery through lawsuits for death and serious injury. In Quebec and Manitoba, lawsuits are not permitted with respect to injuries sustained in auto accidents. Victims and their dependents resident in those provinces are compensated by their government insurer for their injuries whether or not the accident occurs in their home province. In Quebec, accident victims who do not reside there are entitled to compensation only to the extent that they are not responsible for the accident, unless otherwise agreed between the Quebec government insurer and authorities of the victims' place of residence; additional compensation may be available from their own insurers. The legislation in Manitoba contains provisions similar to those of Quebec.

### **DIVIDENDS**

On February 23, 2006, the Board of Directors of the Company implemented a policy of paying quarterly dividends to shareholders, with the first dividend declared being \$0.04 per Common Share, payable on

March 31, 2006 to shareholders of record as at March 15, 2006. The Company declared and paid cash dividends in the aggregate amount of \$0.16 per share during fiscal year ending December 31, 2006. At the Board meeting held on February 22, 2007, the Company increased the rate of dividend per share to \$0.05 payable March 31, 2007 for shareholders of record on March 15, 2007. The payments of dividends is at the discretion of the Board of Directors and depends on, among other things, EGI's financial condition, results of operations, capital requirements, permitted payments from its insurance subsidiaries, acquisition opportunities and such other factors as the Board of Directors deems relevant.

## **DESCRIPTION OF CAPITAL STRUCTURE**

The Company is authorized to issue an unlimited number of Common Shares of which 9,639,152 were issued and outstanding as of December 31, 2006. All outstanding Common Shares are fully paid and non-assessable.

The holders of the Common Shares are entitled to:

- (a) one vote per Common Share on all matters to be voted on at all meetings of shareholders of the Company, except meetings at which only holders of a specified class of shares are entitled to vote;
- (b) receive, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, any dividends declared by the Company; and
- (c) receive, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, the remaining property of the Company upon the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary.

There are no pre-emptive, redemption, purchase or conversion rights attaching to the Common Shares.

## **MARKET FOR SECURITIES**

The Company's Common Shares are listed and posted for trading on the Toronto Stock Exchange (the "TSX") under the trading symbol "EFH".

The following chart provides information on the high and low sale prices and volume for the common shares of EFH on the TSX for the periods indicated.

<b><u>Month</u></b>	<b><u>High</u></b>	<b><u>Low</u></b>	<b><u>Volume</u></b>
January 2006	10.00	9.50	7,200
February 2006	10.80	9.80	40,000
March 2006	11.00	10.30	12,600
April 2006	10.25	10.02	11,800
May 2006	10.50	10.05	5,200
June 2006	10.15	8.85	6,600
July 2006	9.30	9.00	4,900
August 2006	9.20	7.75	16,100
September 2006	8.90	7.75	4,900
October 2006	9.19	8.05	62,800
November 2006	9.75	8.10	5,300
December 2006	10.44	9.40	4,600

No common shares of the Company were issued during the fiscal year ending December 31, 2006 except for 46,000 common shares issued on the exercise of options granted pursuant to the Company's Stock Option Plan and 10,000 shares were issued to a new director.

## **DIRECTORS AND OFFICERS**

The names and municipalities of residence of the directors and executive officers of the Company, positions held by them with the Company and their principal occupations for the past five years are as set forth below. Each of the directors will serve until the next annual meeting of shareholders.

<b><u>Name and Municipality of Residence</u></b>	<b><u>Current Office<sup>(1)</sup></u></b>	<b><u>Principal Occupation<sup>(2)</sup></u></b>	<b><u>Director Since</u></b>
Scott Clark Ontario, Canada	Director and Secretary	Senior Vice President Investments, Covington Capital Corporation (investment)	May 2002
Mary G. Connolly Ontario, Canada	Director	Self-employed Management Consultant	March 2006
G. Mark Curry Ontario, Canada	Director	Chairman and President, Revmar Inc., an investment holding company	May 2002
Kevin Daniel Ontario, Canada	Director	Senior Vice-President, Finance and Chief Financial Officer, The Co-operators Group Limited (insurance)	January 2005
Paul F. Little Ontario, Canada	Director and Chairman of the Board	Corporate Director and Private Investor, Westover Investments Inc., a private investment company	January 2003
Douglas E. McIntyre Ontario, Canada	Director and Chief Executive Officer	Chief Executive Officer of the Company	August 2001
Robert Purves Ontario, Canada	Director	Chairman, Purves Redmond Limited, an insurance brokerage firm	August 1997
Mark Sylvia Ontario, Canada	President & Chief Operating Officer	President of the Company	
Hemraj Singh Ontario, Canada	Vice President & Chief Financial Officer	Vice President & Chief Financial Officer of the Company	
William J. Steele	Vice President, Business Development	Vice President, Business Development, of the Company	

(1) Office is with the Company unless otherwise indicated.

(2) During the past five years each of the foregoing directors and executive officers has been engaged in the principal occupation shown opposite his name, except as set out below under "Management" or as follows: (i) prior to January 2001, Scott Clark was Vice-President Investments with Harrowston Inc. (ii) from 2000 to 2005, Mary Connolly was Managing Director of Fraser Milner Casgrain LLP, a law firm; (iii) from 2000 to 2003, Kevin Daniel was Vice-President, Finance for Co-operators General; and (iv) during the past five years, Robert Purves was President, RPL Holdings Inc., President, COS Insurance Services Inc. and a director and Secretary, Iridium Risk Services Inc.

From 1986 to 2000, Mr. Little was a principal at Gornitzki, Thompson & Little, a Toronto-based merchant bank, and the President of GTL Securities Inc., a related securities dealer, which sourced or provided development capital for emerging companies. During such time, Mr. Little served as a director of Lynx Golf Inc., which filed a petition under Chapter 11 of the United States Bankruptcy Code in 1998, and International Hospitality Inc., which made a proposal under the *Bankruptcy and Insolvency Act* in 1996.

In 1998, the Ontario and British Columbia securities commissions issued cease trade orders against Brandevor Enterprises Ltd., a company of which Mr. Curry served as a director from 1994 to 1999.

As of March 16, 2007, the directors and executive officers of the Company as a group, beneficially owned, directly or indirectly, or exercised control or direction over, 1,448,916 Common Shares, representing approximately 15.0% of the outstanding Common Shares.

Kevin Daniel is an officer of Co-operators General Insurance Company, which, as of March 16, 2007, beneficially owned together with its affiliates 1,706,594 Common Shares, representing approximately 17.7% of the outstanding Common Shares.

Scott Clark is an officer of Covington Fund II Inc., which, as of March 16, 2007, beneficially owned 996,964 Common Shares, representing approximately 10.3% of the outstanding Common Shares.

### **Committees of the Board of Directors**

The Board of Directors of the Company (the "Board") has established three Board committees: the Audit Committee, the Conduct Review & Compensation Committee and the Investment Committee. The information below sets out the current members of each of the Company's Board committees.

#### ***Conduct Review & Compensation Committee***

The Conduct Review & Compensation Committee consists of three members, all of whom are non-management Directors, currently comprised of Scott Clark (Chair), G. Mark Curry and Robert Purves.

#### ***Investment Committee***

The Investment Committee consists of four members, three of whom are non-management Directors, currently comprised of G. Mark Curry (Chair), Scott Clark, Paul F. Little and Douglas E. McIntyre.

#### ***Audit Committee***

The Audit Committee has been structured to comply with the requirements of Multilateral Instrument 52-110 Audit Committees ("MI 52-110") of the Canadian Securities Administrators.

#### **Composition of Audit Committee**

As at December 31, 2006, the Audit Committee was composed of the following persons:

Robert Purves (Chair)  
Kevin Daniel  
G. Mark Curry  
Paul F. Little  
Mary Connolly

The Board has determined that each of the Audit Committee members is unrelated, independent and financially literate within the meaning of MI 52-110.

A copy of the Audit Committee Charter is appended hereto as Appendix A.

#### **Relevant Education and Experience of Committee Members**

The education and experience of each Audit Committee member that is relevant to such members' responsibilities as a member of the Audit Committee are set out below:

*Robert Purves*

Mr. Purves is Chairman of Purves Redmond Limited, an insurance brokerage firm. From 1979 until January 31, 2003, he served as President of the predecessor company Robert Purves Limited. His career includes a strong insurance heritage, focused on property, casualty, management liability and surety lines. He has direct experience in transportation environmental and waste management industries, as well as non-profit and special marine lines. Mr. Purves has a B.A. in Economics from the University of Toronto and a number of insurance diplomas and designations. He has eight years experience in accounting and 27 years in the insurance brokerage business. He is currently the Chief Executive Officer of three insurance firms.

*Kevin Daniel*

Mr. Daniel has been Senior Vice-President, Finance and Chief Financial Officer of The Co-operators Group Limited since 2003. His career spans over 20 years with the Co-operators group of companies including senior leadership roles in Co-operators General and Co-operators Life. The diversity of Mr. Daniel's experience has given him a comprehensive understanding of both the property casualty and life insurance industries. He holds his LOMA level 1 designation, his BA in Business and Economics from University of Guelph and his Certified General Accountant designation. Mr. Daniel has been on the board of directors for a number of companies in The Co-operators Group and is currently chairperson of the board of directors for Co-operators Development Corporation.

*G. Mark Curry*

Mr. Curry has been the Chairman of Revmar Inc., an investment consulting company, since 1980. He served as a director of Vitran Corporation Inc., a transportation and logistics services company, from 1987 to 2004. Mr. Curry is a director and member of the audit committee of WGI Heavy Minerals, Incorporated. He is a former director of several Canadian public companies and is currently a director of several private companies. He was a director of MCL Capital Inc., a capital pool company, now Feel Good Cars Corporation, which completed its qualifying transaction in January 2006. He was a director of Cutwater Capital Corporation, a capital pool company, now OutdoorPartner Media Corporation, which completed its qualifying transaction in March 2006. Mr. Curry received a Bachelor of Arts & Economics from Stanford University and a Master of Business Administration from the University of Western Ontario.

*Paul F. Little*

Mr. Little is President of Westover Investments Inc., an investment company. Mr. Little currently serves on the boards of a number of U.S. and Canadian public companies including Nautilus, Inc., Denison Mines, Corp., Pure Energy Services Ltd. and World Point Terminals, Inc. From 1986 to 1999 he was a principal of a Toronto-based merchant bank, Gornitzki, Thompson & Little and President of GTL Securities Inc., a related securities dealer. From 1980 to 1985, Mr. Little was Vice President and Chief Financial Officer of Union Gas Ltd., a Canadian natural gas utility. Mr. Little is a Chartered Accountant. He holds a M.B.A. from the University of British Columbia and a B.A. in Economics from the University of Toronto.

*Mary Connolly*

Ms. Connolly was most recently Managing Director of the Toronto office of the law firm Fraser Milner Casgrain, LLP (FMC). In her role with FMC, she was responsible for directing operations of the Toronto practice, including the client service levels and facilitating a process of continuous improvement. Prior to joining FMC, Ms Connolly operated her own management consulting firm and also served with Ernst & Young, both in a management consulting and professional accountancy capacity. Ms. Connolly holds an MBA from the University of Ottawa and is a Canadian Chartered Accountant.

Pre-Approval Policy

The Audit Committee shall pre-approve all services provided to EGI by the external auditor other than professional services performed by the external auditor for the audit and review of the Company's financial statements or services normally provided by the external auditor in connection with statutory and regulatory filings or engagements.

### External Auditor Service Fees

During the two most recently completed financial years, the Company paid the following fees to PricewaterhouseCoopers LLP, the Company's external auditor, for audit, audit-related and non-audit services:

#### *Fees*

- Aggregate fees for audit services were \$257,000 in 2005 and \$347,000 in 2006.
- Aggregate fees for audit-related services were \$5,000 in 2005 and \$0 in 2006.
- Aggregate fees for tax related services were \$49,000 in 2005 and \$35,000 in 2006.
- Aggregate fees for non-audit services were \$9,000 in 2005 and \$5,000 in 2006. Additionally, in 2005 fees related to EGI's initial public offering paid to PricewaterhouseCoopers LLP were \$387,000.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

EGI has entered into transactions with two related parties, Co-operators and Purves Redmond Limited ("Purves Redmond"). These transactions are carried out in the normal course of operation and are measured at cost which approximates fair value. The transactions involving Co-operators, which is a significant shareholder of EGI, consist principally of the agent channel of distribution, support services and investment management. Purves Redmond is involved in arranging insurance coverage for the companies within the EGI group. Robert Purves, a shareholder and director of EGI, is also a shareholder and chairman of Purves Redmond.

### **TRANSFER AGENT AND REGISTRAR**

The Company's registrar and transfer agent is Computershare Investor Services Inc., Toronto, Ontario.

### **MATERIAL CONTRACTS OUT OF THE ORDINARY COURSE OF BUSINESS**

The Company entered into an underwriting agreement dated November 30, 2005 (the "Underwriting Agreement") among the Company, Co-operators General and L'Union Canadienne Compagnie D'Assurances, and CIBC World Markets Inc., Dundee Securities Corporation, TD Securities Inc. and GMP Securities Ltd. (collectively, the "Underwriters"), pursuant to which the Company and the Co-operators General and L'Union Canadienne Compagnie D'Assurances sold 3,340,000 Common Shares and the Underwriters purchased such Common Shares at a price of \$10.50 per Share. The Underwriting Agreement is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **EXPERTS**

The financial statements for the financial year ended December 31, 2006, have been audited by PricewaterhouseCoopers LLP, EGI's auditors.

J.S. Cheng & Partners provided an opinion on the value of policy liabilities for the Company's consolidated balance sheets at December 31, 2006 and 2005.

## **ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Company's management proxy circular for its most recent annual meeting of shareholders involving the election of directors. Additional financial information is also provided in the Company's comparative consolidated financial statements for the financial year ended December 31, 2006, and management's discussion and analysis of such financial results. A copy of such documents and additional information relating to the Company is contained on SEDAR at [www.sedar.com](http://www.sedar.com), the Internet site maintained by the Canadian Securities Administrators.

## GLOSSARY OF SELECTED INSURANCE TERMS

“**Cede**” means the act of an insurer transferring or assigning part or all of the risk on an insurance policy written by it to a reinsurer by purchasing insurance from such reinsurer to cover the risk or part thereof;

“**Direct written premiums**” of an insurer for any period means the total premiums on insurance, including assumed reinsurance, written by the insurer during such period;

“**Facility Association**” or “**Facility**” refers to an organization of the Canadian automobile insurance industry which exists to ensure that all drivers can obtain basic insurance, even if their application fails to meet the criteria of individual insurance companies;

“**Groupement**” refers to a Quebec organization of the automobile insurance industry which exists to ensure that all drivers in Quebec can obtain basic insurance, even if their application fails to meet the criteria of individual insurance companies;

“**Net earned premiums**” of an insurer means the portion of the written premium equal to the expired portion of the time for which insurance or reinsurance was in effect;

“**Net written premiums**” of an insurer means direct written premiums less amounts ceded to reinsurers;

“**Producers**” refers to, collectively, insurance brokers, agents and managing general agencies;

“**Reinsurance**” means an arrangement in which an insurance company, the reinsurer, agrees to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance or reinsurance risks underwritten by the ceding company under one or more policies;

“**Retention**” means the amount of liability for which an insurance company will be responsible after it has completed its reinsurance arrangements; and

“**Underwriting**” means the assumption of risk for designated loss or damage by issuing a policy of insurance in respect thereof.

## APPENDIX "A"

### AUDIT COMMITTEE CHARTER

#### 1. PURPOSE

The Audit Committee ("Committee") is a standing committee of the Board of Directors ("Board") of EGI Financial Holdings Inc. (the "Corporation"). The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities by: serving as an independent monitor of the Corporation's financial reporting process and system of internal controls; monitoring the independence and performance of the Corporation's external auditor and internal audit function; and facilitating communication among the Corporation's external auditor, the Board and senior and financial management of the Corporation. The Committee performs this function by carrying out the activities described in this Charter.

#### 2. MEMBERSHIP

(a) *Number of Members*

The Committee shall consist of a minimum of three members.

(b) *Residency of Members*

A majority of members of the Committee shall be resident Canadians.

(c) *Independence of Members*

Each member of the Committee shall have no direct or indirect relationship with the Corporation which, in the view of the Board, could reasonably interfere with the exercise of the member's independent judgment. Each member shall otherwise satisfy the independence requirements applicable to members of audit committees under Multilateral Instrument 52-110 – *Audit Committees* of certain of the Canadian Securities Administrators and the requirements of any other applicable legislation, subject to any exemptions or relief that may be granted from such requirements.

(d) *Financial Literacy of Members*

Each member of the Committee shall have, or shall acquire within a reasonable time following appointment to the Committee, the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

(e) *Term of Members*

The members of the Committee shall be appointed annually by the Board. Each member of the Committee shall serve at the pleasure of the Board until the member resigns, is removed or ceases to be a member of the Board.

#### 3. CHAIRMAN

(a) *Election of Chairman*

The Chairman of the Committee is chosen by the Committee from among the members of the Committee.

(b) *Role of the Chairman*

The Chairman is responsible for the overall operation of the Committee.

#### **4. MEETINGS**

(a) *Number of Meetings*

The Committee shall meet as many times per year as necessary to carry out its responsibilities but in no event will the Committee meet less than four times per year.

(b) *Quorum*

No business may be transacted by the Committee at a meeting unless a quorum of the Committee is present. Two members of the Committee shall constitute a quorum.

(c) *Minutes; Reporting to the Board*

The Committee shall maintain minutes or other records of meetings and activities of the Committee in sufficient detail to convey the substance of all discussions held. Upon approval of the minutes by the Committee, the minutes shall be circulated to the members of the Board. However, the Chairman may report orally to the Board on any matter in his view requiring the immediate attention of the Board.

(d) *Attendance of Non-Members*

The Committee may invite to a meeting any officers or employees of the Corporation, legal counsel, advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities. At least once per year, the Committee shall meet with the external auditor and management in separate sessions to discuss any matters that the Committee or such individuals consider appropriate. The external auditor shall be entitled to receive notice of every meeting of the Committee and to attend and be heard at every meeting.

(e) *Procedure*

The procedures for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those applicable to meetings of the Board. Notwithstanding such procedures, a meeting of the Committee may also be called by the external auditor.

#### **5. RESPONSIBILITIES AND DUTIES**

(a) *Review of Financial Information*

The Committee shall review, prior to public disclosure by the Corporation, the Corporation's annual and interim financial statements, annual and interim Management's Discussion and Analysis of Operations and Changes in Financial Condition ("MD&A"), annual and interim earnings press releases, and any other press releases containing financial information related to earnings. The Committee shall also review financial statements and financial information of the Corporation appearing in a prospectus or other offering document. In addition, the Committee shall satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from its financial statements (other than disclosure already referred to in this paragraph) and shall periodically review the adequacy of such procedures.

(b) *Recommendation Regarding Annual and Interim Financial Statements*

*Annual Financial Statements.* The Committee shall review and discuss with management and the external auditor the Corporation's annual financial statements and recommend to the Board whether the annual financial statements should be approved.

*Interim Financial Statements.* The Committee shall review and discuss with management and may discuss with the external auditor the Corporation's interim financial statements and recommend to the Board whether the interim financial statements should be approved.

(c) *Significant Accounting Principles and Off-Balance Sheet Transactions*

The Committee shall review with management and the external auditor significant accounting principles and disclosure issues, including complex or unusual transactions, judgmental areas (such as reserves or estimates), significant changes to accounting principles and alternative treatments under Canadian GAAP. The Committee shall discuss with management the effect of any off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Corporation's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components or revenues and expenses.

(d) *Pre-Approval of Non-Audit Services*

The Committee shall pre-approve all services provided to the Corporation and its subsidiary entities by the external auditor other than professional services performed by the external auditor for the audit and review of the Corporation's financial statements or services normally provided by the external auditor in connection with statutory and regulatory filings or engagements.

(e) *Whistleblowing Procedures*

The Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls and auditing matters and (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

(f) *Internal Controls*

The Committee shall review and discuss with management the nature and appropriateness of the Corporation's systems of internal control over financial reporting and internal control for compliance with legal, regulatory and ethical requirements. The Committee shall monitor internal financial and operating policies, procedures and controls to ensure the integrity of managing the Corporation's resources, including internal controls in the accounting system, changes in accounting principles and practices, asset management policies and procedures, investment policies and procedures, foreign currency management, tax planning and compliance, banking arrangements and significant risks, uncertainties and estimates as they relate to financial reporting.

(g) *Risk Management*

The Committee shall review and discuss with management and the external auditor the nature and appropriateness of the Corporation's systems to identify, assess and mitigate significant business risks and shall discuss with the external auditor management's responses to the external auditor's advice regarding management and internal controls. The Committee shall monitor policies and procedures necessary to reasonably address these identified risks and shall periodically review the Corporation's risk management program.

## **6. RELATIONSHIP WITH AUDITORS**

(a) *Selecting and Compensating the External Auditor*

The Committee shall recommend to the Board the external auditor to be nominated for appointment at the Corporation's annual meeting for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation as well as the compensation of such external

auditor. The external auditor to be nominated shall be a participating audit firm that is in compliance with the requirements of the Canadian Public Accountability Board.

(b) *Independence of the External Auditor*

The Committee shall satisfy itself that the external auditor is “independent” under applicable laws and requirements, including the rules of the Canadian Public Accountability Board.

As part of this process, the Committee shall require the external auditor to submit to the Committee at least once per year a formal written statement confirming its independence under applicable laws and requirements which statement shall delineate all relationships between the Corporation and the external auditor.

(c) *Communication/Reporting and Oversight of Auditors*

The Committee has authority to communicate directly with the internal auditor (if any) and the external auditor. The external auditor is required to report directly to the Committee. The Committee shall be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting.

(d) *Hiring of Former Partners and Employees of Current and Former External Auditor*

The Committee shall review and approve the Corporation's hiring policies regarding current and former partners and employees of the current and any former external auditor of the Corporation.

**7. AUTHORITY TO ENGAGE EXTERNAL ADVISORS**

The Committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties and to set and pay the compensation for such counsel and advisors.

**8. ACCESS TO INFORMATION AND PERSONNEL**

In its discharge of the foregoing responsibilities and duties, the Committee shall have free and unrestricted access at all times, either directly or through its duly appointed representatives, to the relevant accounting books, records and systems of the Corporation and shall discuss with the officers of the Corporation such books, records, systems and other matters considered appropriate.

**9. ADOPTION AND REVIEW OF CHARTER**

This Charter was adopted by the Board on November 8, 2005. The Committee and the Board shall review the adequacy of the Committee's charter on at least an annual basis. In accordance with MI 52-110, the text of this charter shall be included in the Corporation's Annual Information Form.