EGI Financial Holdings Inc.

GENERATING RESULTS THROUGH SPECIALIZATION

EGI QUARTERLY REPORT
QUARTER ENDED MARCH 31, 2006

EGI Financial Holdings Inc.

May 15, 2006

To Our Shareholders:

EGI Financial Holdings Inc. is pleased to report strong results for the first quarter ended March 31, 2006, including solid increases in net written premiums, investment income and income before extraordinary gains, as we continue to build the Company's specialty general insurance business.

For the 2006 period, EGI Financial generated direct written premiums totaling $26.1 million, compared with $25.9 million in the corresponding period last year. Net written premiums (after reinsurance) rose 27% in 2006 from $18.4 million to $23.5 million.

Underwriting profit in the quarter increased strongly to $0.9 million, compared with $0.4 million last year. The increase was attributable to a combination of reduced loss ratio and increase in net earned premiums in the automobile division during the first quarter of this year.

The combined ratio, being the addition of the ratio of net losses incurred to net earned premiums, and the ratio of underwriting expenses to net earned premiums, for the first quarter of 2006 was 96.3% compared with 97.6% for the same period last year. We believe that the combined ratio is the best measure of the profitability of our underwriting business.

The loss ratio in the 2006 period, being net losses incurred expressed as a percentage of net earned premiums was 66.1%, while the expense ratio, being expenses incurred expressed as a percentage of net earned premiums, was 30.2%. This compares with 69.3% and 28.3% respectively in the same period of 2005.

Investment income in the first quarter of 2006 was $2.6 million compared to $1.9 million last year, an increase of 37%. At March 31, 2006, net unrealized gains of $7.8 million included net unrealized gains on our common share portfolio of $8.4 million ($0.87 per common share outstanding), with an unrealized loss on our bond portfolio totaling $0.6 million.

Net income in the 2006 first quarter was $2.4 million compared with $1.5 million last year, before extraordinary gains, an increase of 60%. Net income per share, on a fully-diluted basis, was $0.24 in the 2006 period, compared to $0.17 in the same period last year. This represents an annualized return on equity, on a last-twelve-months basis, of 20.4%.

Our Board of Directors declared a dividend of $0.04 per share, payable on June 30, 2006 to shareholders of record on June 15, 2006.

We are very pleased with our financial results in the first quarter. The performance reflects continued strong underwriting results in our Automobile division and solid top-line growth in our Niche Products division. Greater retention of business, which had previously been passed to reinsurers, was also an important factor.

Direct written premiums in the Automobile Division for the first quarter of 2006 were $22.3 million, down 7% from $24.0 million in 2005. However net written premiums for the 2006 period were up 21%, to $20.6 million from $17.0 million in 2005. In the Niche Products Division, direct written premiums for the first quarter of 2006 were $3.8 million, up 100% from $1.9 million in the same period last year, and net written premiums for the 2006 quarter were $2.9 million, up 93% from $1.5 million in 2005.

Geographically, our business in the first quarter of 2006 was derived from Ontario (89%), Quebec (7%), Alberta (1%) and other jurisdictions in Canada (3%).

The Company’s total assets at March 31, 2006 were $259.3 million. The investment portfolio at book value, including cash and premium finance receipts, increased to $184.1 million (market value was $191.8 million or $20.02 per share), compared to $145.2 million (market value $147.9 million or $19.14 per share) a year earlier. The fair value increment over book value of the investment portfolio increased to $0.81 per share from $0.34 at March 31, 2005.

Book value per share was $7.54 at March 31, 2006 compared with $5.63 a year earlier.

The annualized ratio of net written premiums in the first quarter of 2006 to shareholders’ equity was 1.3 times. Echelon’s Minimum Capital Test (MCT) margin at March 31, 2006 was 357%, providing us with the financial strength to grow our business utilizing current resources.

Looking forward, we continue to be optimistic about the prospects for the Company. In our Automobile segment, we see opportunities for growth through the appointment of new producers, the addition of other vehicle types and geographic expansion, which is helping to counter some encroachment into the non-standard auto segment by standard line insurers. In the Niche products segment, we plan to expand the scope of our product offerings, both organically and through acquisitions.

On behalf of the Board of Directors and management team at EGI Financial, I thank you for your continued support.

Douglas E. McIntyre
Chief Executive Officer

EGI FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the period ending March 31, 2006 and 2005

References to "EGI" in this Management's Discussion and Analysis of Financial Condition and Results of Operations refer to EGI Financial Holdings Inc. on a consolidated basis, both now and in its predecessor forms

The following discussion should be read in conjunction with EGI's unaudited interim consolidated financial statements for the first quarter of fiscal 2006 and 2005; with the management discussion and analysis (MD&A) set out on pages 8 to 35 in the Company's 2005 Annual Report; and with the notes to the interim unaudited consolidated financial statements for the first quarter of fiscal 2006 and the notes to the audited consolidated financial statements for fiscal 2005 set out on pages 42 to 51 of the Company's 2005 Annual Report. The following commentary is current as of April 18, 2006. Additional information relating to EGI is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

EGI uses both Canadian generally accepted accounting principles (GAAP) and certain non-GAAP measures to assess performance. Securities regulators require that companies caution readers about non-GAAP measures that do not have a standardized meaning under GAAP and are unlikely to be comparable to similar measures used by other companies. EGI analyzes performance based on underwriting ratios such as combined, expense and loss ratios.

The following discussion contains forward-looking statements that involve risk and uncertainties. EGI's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed in this Management's Discussion and Analysis and the Company's 2005 Annual Report.

Overall Performance

Net income of $2.4 million for the quarter ended March 31, 2006, represents an increase of $0.9 million, or 60% compared to net income of $1.5 million, excluding extraordinary gain for the first quarter of 2005. These results were better due to improved underwriting results which is evidenced by a lower combined loss ratio when compared to last year and higher investment income which is driven by the additional capital from the closing of the IPO in December last year. Despite the dilutive effect of the additional shares issued through the IPO, basic earnings per share for the 1st quarter of 2006 of $0.25 is significantly higher than the $0.18 for the same period last year.

Part of the proceeds from the IPO was used for the redemption of the Series F special shares for a value of $2.4 million on January 31, 2006. In addition, EGI declared a quarterly dividend resulting in $0.4 million being paid to common shareholders of record on March 15, 2006. These reductions to shareholders' equity were for the most part offset by net income in the quarter of $2.4 million and therefore shareholders' equity only decreased by $0.3 million or 0.4% to $72.3 million at March 31, 2006.

The summary financial data set forth in the following tables has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and has been derived from our unaudited interim consolidated financial statements for the three months ended March 31, 2006 and 2005.

(in $ thousands)	Three months ended March 31 2006	2005
Direct premiums written	26,092	25,931
Total revenue	27,708	18,554
Underwriting income	930	404
Net Income before extraordinary gain	2,434	1,495
Extraordinary gain	-	5,669
Net income	2,434	7,164
Earnings per share before extraordinary gain (in dollars)		
Basic	$ 0.25	$ 0.18
Diluted	$ 0.24	$ 0.17

(in $ thousands)	As at March 31 2006	As at Dec 31 2005
Investments (excludes premium finance receivables)	153,681	152,736
Total assets	259,255	260,731
Total shareholders' equity	72,296	72,585

The following table shows our selected financial ratios and Return on Equity (ROE) data:

	Three months ended March 31 2006	2005
Claims ratio	66.1%	69.3%
Expense ratio	30.2%	28.3%
Combined ratio	96.3%	97.6%
ROE (1)	20.4%	19.7%

(1) Represents EGI's net income for the twelve months ended on the date indicated, divided by the average shareholders' equity over the same twelve-month period.

Current Outlook

The above-average results which the Canadian P&C Insurance Industry has experienced over the past three years is leading into a more competitive market phase. The positive result is encouraging Auto insurers to implement rate reductions and loosen underwriting guidelines, thus creating competition for market share. As a result, we expect standard auto insurers to continue to pursue market share opportunities in traditionally non-standard auto areas, thereby reducing the near term opportunity for growth for non-standard auto insurers. The Company expects this to be a temporary situation for the non-standard market and the pendulum will swing back, as standard insurers' margins erode on this higher risk business.

This competitive auto insurance market will create some challenges for EGI to grow its premium income in the non-standard auto line of business. However, the Company continues to pursue its diversification strategy to reduce its reliance on Ontario non-standard auto by growing its Niche Products Division and pursuing other opportunities in new geographic markets and new vehicle types, such as motorcycles.

Through this market phase EGI will preserve its capital and is committed to focus on profitable lines of business even though this may, in the short term, limit growth in direct written premiums. Despite the pressure on growth, EGI expects to manage its reinsurance arrangements to increase its net retained business and thereby utilize its capital more effectively. EGI has eliminated its quota share reinsurance coverage in 2006 on automobile business, which resulted in significant growth in net written premiums in the quarter compared to last year.

Revenue

Revenue reflected in the consolidated financial statements includes net earned premiums, investment income, realized gains and losses on the sale of investments and other revenue.

	Three months ended March 31	
(in $ thousands)	**2006**	**2005**
Gross premiums written	26,092	25,931
Net premiums written	23,493	18,453
Net premiums earned	25,074	16,650
Interest and dividends	1,774	1,349
Net realized gains on investments	859	549
Other revenue	1	6
Total revenue	27,708	18,554

Expenses

EGI's expenses consist of incurred claims, acquisition costs and operating expenses.

(in $ thousands)	**Three months ended March 31**	
	2006	**2005**
Incurred claims	16,579	11,533
Acquisition expense	4,980	2,764
Operating expense	2,586	1,955
	24,145	16,252

Selected Underwriting Ratios	Three months ended March 31 2006	2005
Incurred claims ratio	66.1%	69.3%
Acquisition expense ratio	19.9%	16.6%
Operating expense ratio	10.3%	11.7%
Combined ratio	96.3%	97.6%

The combined ratio for the Company improved in the first quarter of 2006 to 96.3% from 97.6% in the first quarter of 2005.

Incurred claims, also referred to as losses, are the amounts payable under insurance policies relating to insured events. Loss adjustment expenses, also referred to as claim expenses, are the expenses of settling claims, including allocated (i.e. external) loss adjustment expenses and unallocated (i.e. internal) loss adjustment expenses (together, "LAE"). Achieving profitable results depends on EGI's ability to manage future claims and other costs through innovative product design, strict underwriting criteria and efficient claims management.

Acquisition costs consist mainly of commissions and premium taxes which are directly related to the acquisition of premiums. Commissions are the amounts paid to producers for selling insurance policies. The amount of commission is generally a percentage of the premium of the insurance policy sold. Contingent commissions are paid to brokers and MGAs on an annual basis if they meet certain targets. In general, these producers have to meet or exceed certain criteria, including written premium targets and profitability on average over three years to qualify for this compensation. Premium taxes are taxes paid by EGI to provincial governments calculated as a percentage of direct written premiums.

Operating expenses are the non-commission selling, underwriting and administrative expenses incurred to support EGI's business. A significant portion of these expenses are related to employee compensation and benefits. The effective control and management of these expenses can enhance the underwriting results from the operation.

Segmented Financial Information

The segmented information for the first quarter of 2006 shows the Auto line of business contributed $1.3 million of underwriting income while Niche products experienced an underwriting loss of $0.2 million in the quarter. The loss in Niche resulted mainly from one "at limits" liability claim, and because this book of business is small, with only one quarter of the year's premium earned, this claim had a significant impact on the results. If this single claim is excluded, the Niche results for the first quarter 2006 would exceed 2005.

(in $ thousands)	Three months ended March 31 2006		2005	
	Auto	Niche	Auto	Niche
Underwriting revenue	22,661	2,414	15,578	1,078
Underwriting income (loss)	1,302	(189)	440	79
(not including corporate expenses of $183)				
Loss ratio	66.7%	60.5%	70.6%	50.0%
Expense ratio	27.5%	47.3%	26.6%	43.3%
Combined ratio	94.3%	107.9%	97.2%	93.2%

The chart above illustrates the significant improvement in the loss ratio for the Auto line of business compared to the first quarter of 2005. This is evidence of our commitment to strong underwriting and claims adjudication.

The Niche loss ratio increased to 60.5% in the first quarter 2006, compared to 50.0% in the first quarter of 2005 due to the claim occurrence noted above.

The expense ratio increased slightly for both lines of business. This ratio is the combination of the acquisition expense ratio and the operating expense ratio. While the operating expense ratio decreased due to the increase in net earned premiums, the acquisition expense ratio increased. This was caused by a reduction in reinsurance commission revenue received (due to the elimination of the quota share arrangements) and an increase in Niche warranty business which carries a higher commission expense rate than Auto.

Critical Accounting Estimates and Assumptions

For a description of EGI's accounting policies refer to Note 3 in the 2005 audited financial statements as set out on pages 36 to 51 of the Company's 2005 Annual Report. A further description of EGI's critical accounting estimates and assumptions are also detailed on pages 17 and 18 of the 2005 Annual Report.

There have been no changes to the Company's accounting policies or assumptions made in critical accounting estimates in the first quarter of 2006.

For the three months ended March 31, 2006 and 2005

Insurance Operation

Written Premiums

Direct written premiums increased $0.2 million or 0.8% to $26.1 million for the quarter ended March 31, 2006, compared to $25.9 million for the first quarter of 2005. EGI has realized an increase despite current market conditions which resulted in a reduction of Ontario non-standard auto business. Despite the deficit in the Ontario non-standard auto, there was a slight growth overall and this was achieved due to the growth in Niche Products and Quebec automobile business, and the addition of motorcycle business in Ontario. Direct written premiums for Niche Products increased 100% to $3.8 million in the first quarter of 2006 compared to $1.9 million in the same period in 2005. The Niche Products Division was formed in 2003, had modest growth in 2004, and due to the continued marketing efforts to grow this division, it has experienced significant growth in 2005 and to date in 2006. Quebec automobile insurance premiums grew 33% to $1.2 million for the quarter ended March 31, 2006, compared to $0.9 million for the first quarter of 2005. Quebec is viewed as a strategic growth area for geographic diversification and the focus there is on contracting new brokers and introducing new products such as the motorcycle program. With an exclusive arrangement with a specialist broker, EGI began to write motorcycle business in Ontario, during the first quarter of 2006.

Net written premiums increased $5.0 million or 27% to $23.5 million for the quarter ended March 31, 2006, compared to $18.5 million in the first quarter of 2005. EGI has achieved a significant growth in net written premiums in spite of a modest increase in direct written premium, because of its ability to more effectively utilize its capital through managing its reinsurance arrangement. Net written premiums increased over 2005 because the Company terminated its quota share reinsurance arrangement effective December 31, 2005. Therefore, no quota share reinsurance arrangement was put in place for auto policies written in 2006.

Earned Premiums

Net earned premiums for the quarter ended March 31, 2006, were $25.1 million, an increase of $8.4 million or 50% from the first quarter of 2005. The reduction in the amount of reinsurance purchased by EGI in 2006 compared to 2005 is the primary reason for the growth in net earned premiums. The revenue for the first quarter of 2006 was also positively impacted by the termination of the quota share reinsurance arrangement effective December 31, 2005.

Incurred Claims Expense

Net incurred claims expense increased $5.1 million or 44% to $16.6 million for the quarter ended March 31, 2006, compared to $11.5 million for the first quarter of 2005. This compares favourably to the 50% increase in net earned premiums which indicates that the expense did not increase at the same rate as the revenue.

This was the result of a significant improvement in the loss ratio to 66.1% in the first quarter of 2006 compared to 69.3% in the same period in 2005.

Acquisition Costs

Net acquisition costs, which consist mainly of commissions and premium taxes, increased $2.2 million or 79% to $5.0 million for the quarter ended March 31, 2006, compared to $2.8 million in the first quarter of 2005. This is primarily due to the withdrawal of quota share reinsurance effective December 31, 2005. In 2005, gross commissions paid to EGI's producers were offset by the commissions received from reinsurers on the portion of business that was ceded to them, on a quota share basis, to develop the net commission. No reinsurance commission has been received in 2006 on the auto line of business related to the 2005 or 2006 policy years.

The resulting impact of the quota share withdrawal is an increase to acquisition costs; however, this is offset by a corresponding improvement in the operating expense ratio. This occurs because the reduction in ceded premiums leads to an increase in net earned premiums resulting in an improved operating expense ratio.

Operating Expenses

Operating expenses increased $0.6 million or 30% to $2.6 million for the quarter ended March 31, 2006, compared to $2.0 million for the first quarter of 2005. This compared favourably to the 50% increase in net earned premiums. As noted above, this is due to the quota share reinsurance reduction and the resulting increase in net earned premiums.

Underwriting Income (Loss)

Underwriting results reflect the revenues from net earned premiums less claims, acquisition and operating expenses. Industry underwriting profitability reached record levels in 2005, reflecting strong market conditions and a favourable claims environment. The overall underwriting income increased $0.5 million to $0.9 million for the quarter ended March 31, 2006, compared to a gain of $0.4 million for the comparative period in 2005. The underwriting income for the first quarter of 2006 and 2005 is net of $0.2 million and $0.1 million of corporate and other expenses, respectively.

Underwriting income from non-standard automobile insurance for the quarter ended March 31, 2006, was $1.3 million, an improvement of $0.9 million compared to an income of $0.4 million for the first quarter of 2005. This improvement was attributable to a decrease in the loss ratio to 66.7% in 2006 and the increase in net earned premiums resulting from the elimination of the quota share arrangements.

The underwriting loss from Niche Products for the quarter ended March 31, 2006, was $0.2 million, a decrease of $0.3 million compared to a gain of $0.1 million in the first quarter of 2005. This decrease was primarily the result of an increase in the loss ratio for the Niche Products Division to 60.5% in 2006 compared to 50% for the first quarter of 2005. Due to the relatively small book of business in this area, the underwriting result can be subject to significant variation. In the first quarter of 2006, one "at limits" liability claim occurred with a net impact of $0.3 million, which was the primary factor in the increased loss ratio. As the Niche book of business grows and matures, we expect the variability in results to be progressively reduced and our objective of controlled growth and effective selection of risks is expected to produce positive results.

Investment Income

Investment income increased $0.7 million, or 38.7%, to $2.6 million for the quarter ended March 31, 2006, compared to $1.9 million for the first quarter of 2005.

EGI's investment portfolio reflected a $34.7 million or 29% increase in size in the first quarter of 2006 compared to March 31, 2005, due to the additional funds raised in our IPO which closed on December 8, 2005, and positive cash flows from operations during the period.

Net realized investment and other gains increased $0.3 million to $0.8 million in the first quarter of 2006 compared to $0.5 million in the first quarter of 2005. The significant increase was primarily from the sale of invested assets of $61.7 million (2005 - $14.3 million).

Net Income before Income Taxes

Net income before income taxes and extraordinary gain increased $1.2 million, or 52%, to $3.5 million for the quarter ended March 31, 2006, compared to $2.3 million for the first quarter of 2005 as a result of improved underwriting results and higher investment income.

For the quarter ended March 31, 2006, underwriting income of $0.9 million plus investment income of $2.6 million comprises net income before income taxes of $3.5 million. This compares to an underwriting income of $0.4 million, plus investment income of $1.9 million in the first quarter of 2005.

Income Taxes

The provision for income taxes for the quarter ended March 31, 2006, was $1.1 million compared to $0.8 million for the first quarter of 2005. This reflected higher pre-tax income as a result of increased underwriting profits year over year.

Extraordinary Gain

In the first quarter of 2005 an extraordinary after-tax gain of $5.7 million arose due to the share exchange which formed part of the January 2005 Echelon Transaction. The gain was the result of the write-off of negative goodwill arising from the transaction.

Summary of Quarterly Results

A summary of the Company's last eight quarters is as follows:

(Pro Forma 2004 results give effect to the acquisition of the remaining 50% of EGI Financial (2003) as if it had occurred at January 1, 2004.)

($ thousands except per share amounts)	2006	2005				Pro Forma 2004		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Direct Written Premiums	26,092	28,081	28,466	34,528	25,931	26,864	27,380	34,106
Total Revenues	25,075	19,950	20,124	19,840	16,656	16,697	16,889	16,275
Underwriting Income (loss)	930	2,452	347	6,214	405	3,585	172	(587)
Income (loss) before income taxes	3,563	4,267	2,643	7,732	2,303	5,644	1,306	795
Net Income before extraordinary gain	2,434	3,057	1,728	4,928	1,495	5,632	1,060	1,102
Extraordinary gain	-	-	-	-	5,669	-	-	-
Net income	2,434	3,057	1,728	4,928	7,164	5,632	1,060	1,102
Earnings per adjusted Share								
Basic	0.25	0.36	0.21	0.62	0.90	0.71	0.13	0.14
Diluted	0.24	0.35	0.20	0.58	0.85	0.69	0.13	0.14

Balance Sheet Analysis

Investments

The following table sets forth EGI's invested assets as at March 31, 2006, and December 31, 2005.

($ in thousands)	March 31, 2006			December 31, 2005		
	Carrying amount	Fair value	Unrealized gain (loss)	Carrying amount	Fair value	Unrealized gain (loss)
Bonds	121,399	120,774	(625)	122,677	123,633	956
Preferred shares	3,738	3,744	6	3,738	3,767	29
Common shares	27,049	35,430	8,381	25,563	31,735	6,172
Investment income due and accrued	1,495	1,495	-	758	758	-
	153,681	161,443	7,762	152,736	159,893	7,157

EGI's portfolio is constructed in a manner which seeks to ensure that its objectives of producing a competitive rate of return while at the same time protecting and enhancing statutory underwriting capital on a long term basis are met. This is achieved through diversification principles to ensure each asset class has limited exposure by region, by industry, by issuer and by type of underlying security. Target ranges are set for each asset class and economic sector and are monitored by the Investment Committee to ensure that EGI's investment managers comply with these guidelines, and all regulatory requirements and liquidity needs are adhered to by each manager.

Fixed Income Securities

EGI holds fixed income securities to provide a steady, predictable level of income and reasonable liquidity with minimum risk of loss and a fixed sum at maturity. EGI's portfolio is diversified by selecting various types of government and corporate bonds. Constraints on types of issuers take liquidity, diversification and risk into account by limiting the portfolio mix by issuer.

EGI maintains a high overall credit quality level as measured by Dominion Bond Rating Service ("DBRS"). Constraints are placed on the percentage of bonds which can be held in the rating classes as follows: Class A or better – no maximum, Class BBB or lower – maximum 10%. EGI's policy is to purchase only corporate bond issues which are rated BBB or better at the time of purchase. In the event of subsequent downgrades, the Investment Committee will consider whether to continue to hold the bonds.

Common Shares

Common shares are a key component of EGI's portfolio to enhance the capital appreciation opportunities of EGI's invested assets. EGI's investment managers, using a conservative approach to equity selection, ensure that equities of companies with a reputation for strong management and a proven track record of success are selected for EGI's portfolio. Diversification by country and industry sector also reduces the overall risk level inherent in EGI's common share portfolio.

EGI generally limits its total exposure to common shares at any one time to a maximum of 16% of the total of its invested assets and premium financing receivables, which is slightly below the average exposure to equities for Canadian-owned insurers.

Recoverable from Reinsurers

As at March 31, 2006, the recoverable from reinsurers remained unchanged at $56.8 million compared to December 31, 2005.

Accounts Receivable

Premium financing receivables is the largest component of this asset as at March 31, 2006, and represents approximately 83% or $17.1 million of total receivables. Premium financing receivables decreased $1.7 million or 9% to $17.1 million at March 31, 2006, from $18.8 million at December 31, 2005. The majority of the automobile business is billed directly to policyholders and only a very small percentage is billed through the broker. Increasingly, more of the direct billed premium to policyholders is being financed.

Provision for Unpaid Claims

EGI establishes loss reserves to provide for future amounts required to pay claims related to insured events that have occurred and been reported but have not yet been settled, and related to events that have occurred but have not yet been reported to the insurer. Claims provisions (i.e. reserves for claims liability) are established at the individual file level by the "case method" as claims are reported. The provisions are subsequently adjusted as additional information affecting the estimated amount of a claim becomes known during the course of its settlement. With the assistance of EGI's consulting actuary, a reserve provision is also made for management's calculation of factors affecting the future development of claims including a provision for claims incurred but not yet reported based on the volume of business currently in force and the historical experience on claims. Reserves are also established for the estimated internal and external loss adjustment expenses, which will be incurred during the claims settlement process.

The provision for unpaid claims and adjustment expenses is discounted to take into account the time value of money as required by EGI's primary insurance regulator. It also includes a provision for adverse deviation as required by accepted Canadian actuarial practice. EGI's consulting actuary reports on the adequacy of EGI's claims reserves as at June 30 and December 31 of each year. As time passes, more information about the claims becomes known and provisional estimates are appropriately adjusted upward or downward. Adjustments to reserves are reflected in the results of operations in the periods in which the estimates are changed.

The development of the provision for claims is shown by the difference between estimates of reserves as of the initial year-end and the re-estimated liability at each subsequent year-end. This is based on actual payments in full or partial settlement of claims, plus re-estimates of the reserves required for claims still open or claims still unreported. Favourable development means that the original reserve estimates were higher than subsequently indicated. Unfavourable development means that the original reserve estimates were lower than subsequently indicated.

Provision for unpaid claims consists of the gross amount of individual case reserves established and management's estimate of claims incurred but not reported based on the volume of business currently in force and historical claims experience. In order to ensure as far as possible that EGI's provision for unpaid claims (often called "reserves") is adequate, management has retained the services of an independent actuary. EGI strives to establish adequate provisions at each quarter end.

EGI estimates its reserves on a quarterly basis and this is supported by a mid-year and an annual assessment by the independent 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 increase such provisions and incur a charge to earnings in the future.

The table below shows the development of the provision for claims reserves including loss adjustment expenses as at December 31 in each year of the four year period and for the quarter ended March 31, 2006.

	Years ended December 31			
(in $ thousands)	2005	2004	2003	2002
Reserve Carried (actuarial present value basis) [(1)]	129,041	107,196	79,191	66,545
Reserve at December 31, 2003				43,754
Cumulative paid to December 31, 2003				24,122
Cumulative Redundancy (Deficiency)				(1,331)
Reserve at December 31, 2004			56,226	31,213
Cumulative paid to December 31, 2004			24,184	39,619
Cumulative Redundancy (Deficiency)			(1,220)	(4,286)
Reserve at December 31, 2005		70,620	37,802	21,682
Cumulative paid to December 31, 2005		24,922	38,802	48,033
Cumulative Redundancy (Deficiency)		11,654	2,587	(3,170)
Reserve at March 31, 2006	118,418	67,772	35,753	20,662
Cumulative paid to March 31, 2006	8,781	28,384	41,324	49,554
Cumulative Redundancy (Deficiency)	1,842	11,040	2,114	(3,631)

1) Amounts include Provision for Adverse Deviation (PfAD) of $11,619 - 2005, $8,613 - 2004, $6,137 - 2003 and $5,226 - 2002.

The uncertainties regarding EGI's reserves could result in a liability exceeding the reserves by an amount that would be material to EGI's financial condition or results of operations in a future period. Future development could be significantly different from the past, due to many unknown factors.

Reinsurance

EGI has reinsurance treaties with several unaffiliated reinsurers, all of whom are selected on the basis of their credit worthiness. EGI purchases reinsurance to reduce its exposure to the insurance risks that it assumes in writing business. For 2006 the maximum net retention on a single risk is $0.95 million.

In accordance with industry practice, EGI'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, EGI maintains security against reinsurance recoverables in the form of cash, letters of credit and/or assets held in trust accounts. At March 31, 2006, EGI was the assigned beneficiary of such trust accounts totalling $2.1 million (December 31, 2005 - $2.3 million) in guarantees from unlicensed reinsurers.

Excess of loss and catastrophe reinsurance is used to limit an insurer's exposure to a maximum dollar value per claim and per occurrence. Quota share is a form of proportional reinsurance often used by an insurer to build a book of business larger than can be supported by the insurer's own capital. When used on established, profitable lines of business, quota share is an expensive substitute for equity capital. The insurer is essentially "borrowing" capital from the reinsurer by transferring unearned premium and claims liabilities from its books to the books of the reinsurer. Within the range of expected loss ratios, this transfer is done at a direct cost to the insurer, which happens through the ceding commission (expense allowance) paid by the reinsurer.

The ceding commission paid to the insurer by the reinsurer varies depending on the gross loss ratio. As the gross loss ratio increases, the amount of ceding commission decreases, subject to agreed limits. Above the maximum loss ratio on the ceding commission scale, there is full risk transfer (i.e., the potential to lose money) to the reinsurer. Below the minimum loss ratio on the ceding commission scale, the reinsurer's profit increases. The reinsurer also retains the investment income on the cash balances that develop between the dates premiums are received and the dates claims are paid.

EGI purchases renewable excess of loss and catastrophe reinsurance from third party reinsurers, covering its automobile and general liability business. In 2006, such coverage is for a total of $19,500,000 and in 2005 is for $14,425,000. EGI has also purchased renewable quota share reinsurance from third party reinsurers in 2005. In 2005 EGI purchased 25% quota share reinsurance coverage protecting its automobile and general liability businesses. This coverage was withdrawn effective December 31, 2005. Other than general liability, coverages for the programs of the Niche Products Division are reinsured on a program-by-program basis.

For 2005, EGI's liability after all excess of loss and quota share reinsurance recoveries is limited to a maximum of $450,000 and, in 2006, $950,000 on any one claim. Using reinsurance, EGI's policy is to limit its loss exposure in any one claim to not more than 2% of its shareholders' equity.

EGI depends upon the financial stability of its reinsurers in the same way that EGI's insureds rely upon EGI. Accordingly, EGI carefully selects its reinsurers and only deals with credit-worthy reinsurers. Reinsurers are selected based on their financial strength ratings, services, reputation and prices offered on the required reinsurance. As reported to EGI by AON Re Canada Inc., EGI's reinsurance broker, at December, 2005, all reinsurers providing coverage under EGI's treaties were rated B++ or better by A.M. Best. EGI's Reinsurance Committee is responsible for evaluating and approving companies to which EGI cedes reinsurance. The committee consults with AON Re Canada Inc. regarding the financial ratings of EGI's reinsurers.

As EGI's insurance and reinsurance company subsidiaries increase their equity (and therefore regulatory capital), they can retain more insurance business for their own account and therefore purchase less quota share reinsurance. The marginal return on this new capital can be very substantial. Each dollar of new equity allows EGI to retain up to two and one-half dollars of additional premium (and the potential downside risk thereon) each year for its own account.

EGI believes that there is currently adequate reinsurance capacity in the marketplace for those classes of business which EGI underwrites and management is not aware of any developments that might cause a serious shortage of capacity in the future. EGI believes that, through its reinsurance program, it is adequately protected against major underwriting losses arising from a large claim under a single policy or claims under a group of policies arising from a single event.

Share Capital

As of April 18, 2006, there were 9,587,152 common shares issued and outstanding. See Note 9 to our audited 2005 consolidated financial statements.

Liquidity and Capital Resources

The purpose of liquidity management is to ensure there is sufficient cash to meet all of EGI's financial commitments and obligations as they come due. EGI believes that it has the flexibility to obtain, from internal sources, the funds needed to fulfill its cash requirements during the following financial year and to satisfy regulatory capital requirements. EGI's principal sources of funds are premiums collected, investment income and proceeds from investments that have been sold or have matured. However, such funds may not provide sufficient capital to enable EGI to pursue additional market opportunities.

At December 31, 2004, EGI had a $1.25 million principal debt obligation to Co-operators General Insurance Company that was due in June 2006 with accrued interest. This obligation was paid in full on December 21, 2005, with a portion of the proceeds of the IPO. EGI also issued Series F special shares with a cumulative dividend feature in June 2004 and redeemed these shares with a portion of the proceeds of the IPO on January 31, 2006.

The only contractual obligation that EGI has relates to operating leases for which $0.5 million is due in less than a year and $1.0 million is due in the next two years.

EGI is a holding company and, as such, has limited direct operations of its own. EGI's principal assets are the shares of its insurance, reinsurance and insurance management subsidiaries. Accordingly, its future cash flows depend in part upon the availability of dividends and other statutorily permissible distributions from the insurance subsidiaries. The ability to pay such dividends and to make such other distributions is limited by applicable laws and regulations of the jurisdictions in which the insurance subsidiaries are domiciled, which subject the insurance subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, that the insurance subsidiaries maintain minimum solvency requirements and also limit the amount of dividends that the insurance subsidiaries can pay to EGI.

Transactions with Related Parties

EGI has entered into transactions with two related parties, Co-operators General Insurance Company and Purves Redmond & Associates 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.

Risk Management

The Company's 2005 Annual Report includes description and analysis of the key risk factors which could have a material adverse effect on EGI's results of operations, business prospects or financial condition. These factors have remained substantially unchanged.

Corporate Governance

Please refer to the Company's 2005 Annual Report for a description of the corporate governance structure and processes in place at EGI.

Disclosure Controls and Procedures

As of March 31, 2006, an evaluation was carried out, under the supervision of and with the participation of management including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No changes were made in our internal control over financial reporting during the quarter ended March 31, 2006, that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

Capital Resources

The total capitalization of EGI at March 31, 2006, is $72.3 million compared to $72.6 million at December 31, 2005. The decrease was caused by the redemption of the Series F special shares in the amount of $2.3 million and the payment of common share dividends of $0.4 million on March 31, 2006. Offsetting these reductions is net income of $2.4 million in the first quarter of 2006.

Future Adoption of New Accounting Policies

Please refer to page 34 of the Company's 2005 Annual Report.

Consolidated Financial Statements of

EGI FINANCIAL HOLDINGS INC.

March 31, 2006

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

Assets	**March 31 2006** (unaudited)	**December 31 2005**
Cash and short-term deposits	$ 13,352	$ 15,899
Investments (note 3)	153,681	152,736
Reinsurers' share - unearned premiums	2,993	2,761
- unpaid claims	53,838	54,043
Accounts receivable	20,659	22,271
Income taxes recoverable	349	273
Due from insurance companies	3,102	2,504
Deferred policy acquisition costs	6,187	6,289
Capital assets	516	560
Future income taxes	4,246	3,133
Prepaid expenses and other assets	332	262
	$ 259,255	$ 260,731
Liabilities		
Provision for unpaid claims (note 4)	136,370	129,173
Unearned premiums	38,630	39,973
Unearned commission	987	1,261
Accounts payable and accrued liabilities	3,623	4,503
Payable to insurance companies	5,349	7,340
Income taxes payable	2,000	5,708
Other liabilities	-	188
	186,959	188,146
Shareholders' Equity		
Share capital (note 6)	45,522	47,660
Contributed surplus	107	80
Retained earnings	26,667	24,845
	72,296	72,585
	$ 259,255	$ 260,731

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

	2006 (unaudited)	2005 (unaudited)
Revenue:		
Direct written premiums	$ 26,092	$ 25,931
Net written premiums	23,493	18,453
Net earned premiums	25,074	16,650
Investment income	2,633	1,898
Other revenue	1	6
	$ 27,708	$ 18,554
Expenses		
Incurred claims	16,579	11,533
Acquisition costs	4,980	2,764
Operating expenses	2,586	1,955
	24,145	16,252
Income before income taxes and extraordinary gain	3,563	2,302
Income tax expense	1,129	807
Income before extraordinary gain	2,434	1,495
Extraordinary gain, net of taxes	-	5,669
Net income	$ 2,434	$ 7,164
Earnings per share :		
Net income per share before extraordinary gain	$ 0.25	$ 0.18
Net income per share from extraordinary gain	$ 0.00	$ 0.72
Net income per share	$ 0.25	$ 0.90
Net income per diluted share before extraordinary gain	$ 0.24	$ 0.17
Net income per diluted share from extraordinary gain	$ 0.00	$ 0.66
Net income per diluted share	$ 0.24	$ 0.83

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

	2006	2005
	(unaudited)	(unaudited)
Share capital		
Balance, beginning of period	$ 47,660	$ 17,341
Common shares issued	17	14,222
Redemption of Series F special shares	(2,155)	-
Balance, end of period	$ 45,522	$ 31,563
Contributed surplus		
Balance, beginning of period	$ 80	$ -
Stock options granted	27	-
Balance, end of period	$ 107	$ -
Retained earnings		
Balance, beginning of period	$ 24,845	$ 7,968
Net income	2,434	7,164
Dividends - Series F special shares	(229)	-
- Common shares	(383)	-
Balance, end of period	$ 26,667	$ 15,132
Total, end of period	$ 72,296	$ 46,695

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

	2006 (unaudited)	2005 (unaudited)
Cash provided by (used in):		
Operating activities:		
Net income	$ 2,434	$ 7,164
Items not involving cash:		
Amortization of capital assets	119	94
Amortization of premium on bonds	68	51
Realized gains on investments	(869)	(549)
Extraordinary gain	-	(6,819)
	1,752	(59)
Net change in other non-cash balances	(1,357)	25
	$ 395	$ (34)
Financing activities		
Issue of common shares	17	-
Redemption of Series F special shares	(2,384)	-
Common share dividends	(383)	-
	$ (2,750)	$ -
Investing activities:		
Acquisition of subsidiary, net of cash acquired	-	5,646
Purchase of capital assets	(75)	(169)
Purchase of investments	(61,825)	(17,042)
Sale/maturity of investments	61,708	14,301
	$ (192)	$ 2,736
Increase (decrease) in cash and short-term deposits	(2,547)	2,702
Cash and short-term deposits, beginning of quarter	15,899	7,327
Cash and short-term deposits, end of quarter	$ 13,352	$ 10,029
Supplementary information		
Income taxes paid	$ 6,026	$ 2,188

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 should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2005, as set out on pages 36 to 51 of the Company's 2005 Annual Report. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies as were used for the Company's consolidated financial statements for the year ended December 31, 2005.

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.

2 Extraordinary Gain

During January 2005, the Company issued shares to acquire an additional 50% ownership interest in the holding company that owned 100% of Echelon. The acquisition cost of $14,222 was paid with the issuance of 1,682,768 common shares and 1,682,768 Series B special shares of the Company. The price of the common shares was determined and agreed using the fair value of the net assets acquired as at December 31, 2003.

The resulting negative goodwill was recorded as an extraordinary gain in 2005, net of income tax of $1,150.

3 Investments

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.

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

	March 31, 2006			December 31, 2005		
	Carrying amount	**Fair value**	**Net Unrealized gain (loss)**	**Carrying amount**	**Fair value**	**Net Unrealized gain (loss)**
Bonds						
Canadian						
Federal	$ 59,405	$ 58,780	$ (625)	$ 61,405	$ 61,267	$ (138)
Provincial	23,434	23,549	115	21,366	22,307	941
Municipal	1,923	1,975	52	1,529	1,617	88
Corporate	36,637	36,470	(167)	38,377	38,442	65
	$121,399	$120,774	$ (625)	$122,677	$123,633	$ 956
Preferred shares	$ 3,738	$ 3,744	$ 6	$ 3,738	$ 3,767	$ 29
Common shares						
Canadian	24,445	32,494	8,049	22,802	28,934	6,132
United States	2,604	2,936	332	2,761	2,801	40
	$ 27,049	$ 35,430	$8,381	$ 25,563	$ 31,735	$6,172
Investment income due and accrued	1,495	1,495	-	758	758	-
	$153,681	$161,443	$7,762	$152,736	$159,893	$7,157

Fair values of bonds and stocks are determined based on quoted market prices. Bonds comprise Canadian government, provincial, municipal and corporate bonds.

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 2006 and 2005.

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. All investments have been reviewed to ensure that corporate performance expectations have not changed significantly to adversely affect the market value of these investments other than on a temporary basis.

(unaudited, in $ thousands except per share amounts)

Interest rate and liquidity risk

Historical data and current information are used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. Fluctuations in interest rates could have a significant impact on the market value of the bond portfolio. Stock market values can be volatile. This could result in realized gains or losses if actual claims payment patterns require liquidation of investments.

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow commitments associated with financial instruments. To manage its cash flow requirements, the Company maintains a portion of its invested assets in liquid securities.

The maturity profile of bonds as at March 31, 2006, is as follows:

	1 year	1 – 3 years	3 – 5 years	Over 5 years	Total
Bonds	$6,592	$19,181	$38,560	$57,066	$121,399
Percentage of total	5.4%	15.8%	31.8%	47.0%	100.0%

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.

(unaudited, in $ thousands except per share amounts)

The provision for unpaid claims includes a provision for adverse deviation, as required by Canadian accepted actuarial practices. The aggregate impact of the provision for adverse deviation is to increase the provision for unpaid claims on a gross basis by $13,381 as at March 31, 2006 (December 31, 2005 - $12,485).

	March 31, 2006		December 31, 2005	
	Gross	**Ceded**	**Gross**	**Ceded**
Automobile:				
- accident benefits	$ 49,480	$ 20,816	$ 47,571	$ 21,668
- liability	80,573	30,965	75,631	30,647
- other	2,160	666	3,063	1,237
Total Automobile	$132,213	$ 52,447	$126,265	$ 53,552
Niche:				
Property				
- commercial	1,617	372	1,590	411
- personal	107	26	74	28
Liability	1,427	853	114	28
Accident and sickness	732	122	961	9
Other	274	18	169	15
Total Niche	$ 4,157	$ 1,391	$ 2,908	$ 491
	$136,370	$ 53,838	$129,173	$ 54,043

The Company discounts its best estimate of claim provisions at a rate of interest of 2.8% for 2006 (2005 – 2.8%) 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.

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.

The Company has entered into quota share reinsurance contracts with third party reinsurers ceding 25% of all auto risks written in 2005. There were other specific reinsurance placements for the specialty property and casualty program business. At the end of 2005 the Company arranged for a portfolio withdrawal of the unearned premiums from the 2005 quota share reinsurers. No quota share reinsurance has been purchased for auto policies written in 2006.

During the first quarter of 2006, 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 $950 (2005 - $450). In addition, the Company obtained catastrophe reinsurance which limits the loss from a series of claims arising from a single occurrence to $950 (2005 - $750) to a maximum coverage of $19,050 (2005 - 75% of $15,000).

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

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.

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 Share capital

	March 31, 2006	December 31, 2005
Authorized:		
Unlimited common shares		
Unlimited special shares issuable in Series		
Issued:		
9,587,152 common shares (2005 - 9,583,152 post split)	45,522	45,505
Nil Series F special shares(2005-2,268,279)	-	2,155
	45,522	47,660

On January 31, 2006, the Series F special shares were redeemed for consideration of $2,384 including dividends of $229.

On March 31, 2006, common share dividends of $383 or $.04 per share were paid to common shareholders of record March 15, 2006.

During the first quarter of 2006, 4,000 common shares were issued pursuant to the exercise of options under the employee stock option plan.

7 Earnings per share

	First Quarter 2006	First Quarter 2005
Basic earnings per share:		
Income before extraordinary gain	$ 2,434	$ 1,495
Dividends to Series F shareholders	12	36
Income before extraordinary gain available to common shareholders	$ 2,422	$ 1,459
Diluted earnings per share:		
Average number of common shares (in thousands)	9,585	7,913
Common shares obligation under employee stock option plan	606	470
Average number of diluted common shares	10,132	8,383

(unaudited, in $ thousands except per share amounts)

Earnings per share amounts for the first quarter of 2005 reflect the two-for-one common stock split completed on June 7, 2005. On December 8, 2005, 1,670,000 common shares were issued pursuant to the Company's Initial Public Offering.

8 Segmented information

The Company operates through two divisions. Through its Automobile Division, the Company is engaged in the underwriting of high premium, non-standard automobile insurance. Through its recently established 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 two 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 sources of income and non-recurring items such as acquisitions, divestitures and discontinued operations.

	First Quarter 2006	First Quarter 2005
Revenue		
Earned premiums		
Property and casualty insurance		
Automobile	$ 22,661	$ 15,578
Niche	2,414	1,078
	$ 25,075	$ 16,656
Interest and dividends	1,774	1,349
Realized gains	859	549
Total revenue	$ 27,708	$ 18,554
Income (loss) before income taxes		
Property and casualty insurance		
Automobile	$ 1,302	$ 440
Niche	(189)	79
Corporate and other	(183)	(115)
Underwriting Income	$ 930	$ 404
Interest and dividends	1,774	1,349
Realized investment and other gains	859	549
Total income before income taxes and extraordinary gain	$ 3,563	$ 2,302

VISION

> Echelon General Insurance strives to be the pre-eminent writer of specialized, niche insurance products in the Canadian market.

MISSION

> Echelon focuses on targeted niches that are currently underserved by the market and which require the high level of underwriting and claims expertise of our staff.

> Echelon will provide optimum service to its policyholders and intermediaries in a responsible, ethical manner, while producing a satisfactory return on shareholders' equity.

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