EGI FINANCIAL HOLDINGS INC.

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

For the period ending June 30, 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 second 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 second 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 July 31, 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

Total revenues for the three months ended June 30, 2006 increased $6.6 million or 30.8% to $28.0 million compared to $21.4 million in the same period in 2005. The increase was primarily the result of an increase in net premiums earned to $26.2 million compared to $19.8 million in the second quarter of 2005. The increase in net premiums earned in the period is attributable to a modest increase in direct premiums written combined with significant reductions to premiums ceded pursuant to reinsurance arrangements. The Company, in 2006, is putting the additional capital raised in the IPO, in December 2005, to work by placing less reliance on reinsurance programs than in prior years.

Similarly, for the six months ended June 30, 2006 total revenues were $55.7 million as compared to $39.9 million in the first half of 2005, representing an increase of 39.5%.

Net income of $3.9 million for the three months ended June 30, 2006, represents a decrease of $1.0 million, or 20% compared to net income of $4.9 million in the second quarter of 2005. The results were below last year primarily due to the occurrence of an unusual number of large auto claims in 2006. The cost of these losses to EGI is limited by reinsurance arrangements to $900,000 per claim. Partially offsetting the lower underwriting income is the higher investment income in the second quarter 2006, which is driven by the additional capital from the closing of the IPO in December last year. The reduced underwriting margin and the dilutive effect of the additional shares issued through the IPO, resulted in a lower basic earnings per share for the second quarter of 2006 of $0.40 compared to $0.62 for the same period in 2005.

For the six months ended June 30, 2006, net income was $6.3 million, representing a decrease of $0.1 million, or 2% compared to net income of $6.4 million, excluding extraordinary gain, in the first half of 2005. The 2006 result is slightly below last year due to an increase in the current year loss ratio in 2006 as compared to 2005. Basic earnings per share for the first six months of 2006 was $0.65 as compared to $0.80 for the same period last year.

Shareholders' equity increased to $75.9 million as at June 30, 2006, an increase of $3.6 million from March 31, 2006. Net income of $3.9 million in the quarter and shares issued of $0.1 million were offset by quarterly dividends of $0.4 million paid to common shareholders of record June 15, 2006.

For the six months ended June 30, 2006 shareholders' equity increased $3.3 million from $72.6 million as at December 31, 2005. Net income in the period of $6.3 million and the issuance of common shares of $0.2 million were offset by the redemption of the Series F special shares of $2.4 million and the payment of common share dividends of $0.8 million in the first two quarters of 2006.

The summary financial data set forth in the following tables has been prepared in accordance with Canadian GAAP and has been derived from our unaudited interim consolidated financial statements for the three and six-month periods ended June 30, 2006 and 2005.

	Quarter to June 30		**6 months to June 30**	
(in $ thousands)	**2006**	**2005**	**2006**	**2005**
Direct premiums written	36,622	34,528	62,714	60,459
Total revenue	27,990	21,358	55,698	39,912
Underwriting income	3,859	6,215	4,789	6,619
Net Income before extraordinary gain	3,857	4,928	6,291	6,423
Extraordinary gain	-	-	-	5,669
Net income	3,857	4,928	6,291	12,092
Earnings per share before extraordinary gain (in dollars)				
Basic	$ 0.40	$ 0.62	$ 0.65	$ 0.80
Diluted	$ 0.38	$ 0.58	$ 0.62	$ 0.76
ROE [1]			17.4%	31.8%

(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.

(in $ thousands)	**As at June 30 2006**	**As at Dec 31 2005**
Investments (excluding premium finance receivables)	163,510	152,736
Premium finance receivables	20,100	18,800
Total assets	279,262	260,731
Total shareholders' equity	75,938	72,585

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 automobile 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 and year to date compared to the same period 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.

	Quarter to June 30		**6 months to June 30**	
(in $ thousands)	**2006**	**2005**	**2006**	**2005**
Gross premiums written	36,622	34,528	62,714	60,459
Net premiums written	32,970	24,507	56,463	42,960
Net premiums earned	26,189	19,790	51,263	36,440
Interest and dividends	2,207	1,709	3,981	3,058
Net realized gains (loss) on investments	(406)	(191)	453	358
Other revenue	-	50	1	56
Total revenue	27,990	21,358	55,698	39,912

For the three months ended June 30 2006, total revenue increased to $28.0 million, or 30.8% compared to $21.4 million for the same period in 2005. The significant increase is the result of increases in net premiums earned due to a combination of modest growth in direct written premiums and lower reinsurance costs, and investment income.

Similarly, total revenue for the first six months of 2006 was $55.7 million compared to $39.9 million in the first half of 2005, representing an increase of 39.5%.

Expenses

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

	Quarter to June 30		**6 months to June 30**	
(in $ thousands)	**2006**	**2005**	**2006**	**2005**
Incurred claims	14,213	8,053	30,792	19,586
Acquisition expense	4,939	2,575	9,919	5,339
Operating expense	3,178	2,997	5,764	4,952
	22,330	13,625	46,475	29,877

Selected Underwriting Ratios	Quarter to June 30 2006	Quarter to June 30 2005	6 months to June 30 2006	6 months to June 30 2005
Incurred claims ratio	54.3%	40.7%	60.1%	53.7%
Acquisition expense ratio	18.9%	13.0%	19.3%	14.6%
Operating expense ratio	12.1%	15.2%	11.3%	13.6%
Combined ratio	85.3%	68.9%	90.7%	81.9%

The combined ratio for the Company was 85.3% for the three months ended June 30, 2006 compared to 68.9% in the second quarter of 2005. The increase in the loss ratio to 54.3% in the second quarter of 2006 compared to 40.7% for the same period in 2005 was the primary reason for the result. The loss ratio in the second quarter of both years was positively impacted by the release of prior year reserves. In the second quarter of 2006 total prior year reserves of $4.3 million were released due to positive claims development in the quarter. Similarly, in the second quarter of 2005, $3.9 million of prior year reserves were released. The increase in the loss ratio in the quarter ended June 30 2006 was the result of the occurrence of an unusual number of large losses. Reinsurance arrangements limit the impact of each loss to the Company's net retention of $900,000.

Acquisition costs increased to 18.9% of net earned premiums in the second quarter of 2006 compared to 13.0% for the same period in 2005. This was expected due to the withdrawal of the quota share treaty as at December 31, 2005, which resulted in no reinsurance commission being recorded as a reduction to the acquisition expenses line in 2006. Offsetting the increase in the acquisition expense ratio, due to the withdrawal of quota share arrangements, is a decrease in the operating expense ratio. This occurs due to the reduction in ceded premiums which leads to an increase in net earned premiums and results in an improved operating expense ratio.

For the six months ended June 30 2006, the combined ratio was 90.7% compared to 81.9% for the same period last year. The factors noted above related to the three months ended June 30, 2006 are also the primary factors causing the variance from last year for the first half of 2006.

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 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

(in $ thousands)	Quarter to June 30			
	2006		2005	
	Auto	Niche	Auto	Niche
Underwriting revenue	23,219	2,970	18,215	1,625
Underwriting income (loss) (not including corporate expenses of $370; 2005 - $110)	3,688	541	6,303	21
Loss ratio	56.4%	37.4%	40.0%	46.9%
Expense ratio	27.8%	44.4%	25.4%	49.4%
Combined ratio	84.2%	81.8%	65.4%	96.3%

The segmented information for the second quarter of 2006 shows the Auto line of business contributed $3.7 million of underwriting income in the quarter while Niche products contributed underwriting income of $0.5 million in the quarter. These results improved the Auto line of business underwriting income to $5.0 million for the first half of 2006 and returned the Niche products division to an underwriting income of $0.3 million.

The variance analysis of the loss and expense ratios for the three months ended June 30 2006 as compared to the same period in 2005 is similar to the six month analysis noted below.

(in $ thousands)	6 months to June 30			
	2006		2005	
	Auto	Niche	Auto	Niche
Underwriting revenue	45,880	5,384	33,793	2,703
Underwriting income (loss)	4,991	352	6,743	100
(not including corporate expenses of $563; 2005 - $225)				
Loss ratio	61.5%	47.8%	54.1%	49.1%
Expense ratio	27.6%	45.7%	25.9%	49.3%
Combined ratio	89.1%	93.5%	80.0%	98.4%

The table above shows that the loss ratio for the Auto line of business for the 6 months ended June 30 2006 is higher than the loss ratio for the same period last year. This reflects the occurrence of several large losses, limited to $900,000 per claim by reinsurance arrangements, in the Accident Benefits and Bodily Injury lines.

The Niche loss ratio improved to 47.8% in the first half of 2006, compared to 49.1% in the same period last year, despite the occurrence of one large claim as noted in our first quarter MD&A, which reflects the continuing growth and maturity of our Niche products book of business.

The expense ratio increased slightly for the Auto line of business compared to 2005. 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 as a result of a reduction in reinsurance commission revenue, due to the elimination of the quota share arrangements. The Niche division expense ratio decreased in 2006 compare to 2005 reflecting the growth in this area of our business and the impact of cost containment.

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 is 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 second quarter of 2006.

For the six and three months ended June 30, 2006 and 2005

Insurance Operation

Written Premiums

Direct written premiums increased $2.2 million or 3.6% to $62.7 million for the six months ended June 30, 2006, compared to $60.5 million for the first six months of 2005. EGI has realized an increase despite current market conditions which resulted in a reduction of Ontario non-standard auto business. Despite the shrinkage in the Ontario non-standard auto, the growth overall 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 118.6% to $9.4 million for the six months ended June 30 2006 compared to $4.3 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 15% to $3.3 million for the first half of 2006, compared to $2.9 million for the first half 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; for the first six months of 2006 direct premiums from this arrangement totals $4.9 million.

During the second quarter of 2006, direct written premiums increased $2.1 million or 6% to $36.6 million compared to $34.5 million in the second quarter last year. The increase was achieved due to the growth in the motorcycle program and the Niche Products division direct premiums written, which more than offset the shrinkage in the Ontario non-standard line. In the most recent quarter Niche premiums written were $5.6 million compared to $2.4 million in the same period last year, representing an increase of 133.3% and direct written premiums from the motorcycle program were $4.5 million in the most recent quarter.

Net written premiums increased $13.5 million or 31.4% to $56.5 million for the six months ended June 30, 2006, compared to $43.0 million for the same period last year. 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 arrangements. 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. (See additional detail under "Reinsurance" on page 11.)

For the three months ended June 30, 2006, net written premiums increased $8.5 million or 34.5% to $33.0 million compared to $24.5 million for the second quarter of 2006. As noted above, this significant increase was primarily achieved as a result of the termination of quota share reinsurance arrangements effective December 31, 2005.

Earned Premiums

Net earned premiums for the six months ended June 30, 2006, were $51.3 million, an increase of $14.8 million or 40.7% from the first six months 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 second quarter of 2006 was also positively impacted by the termination of the quota share reinsurance arrangement effective December 31, 2005.

For the quarter ended June 30, 2006, net earned premiums increased $6.4 million or 32.3% to $26.2 million compared to $19.8 million in the second quarter of 2005. This increase is consistent with the increase in net written premiums in the quarter compared to 2005.

Incurred Claims Expense

Net incurred claims expense increased $11.2 million or 57.1% to $30.8 million for the six months ended June 30, 2006, compared to $19.6 million for the same period in 2005. This is higher than the 40.7% increase in net earned premiums primarily due to several large losses which occurred in the Auto line of business in the second quarter of 2006. As a result the loss ratio increased to 60.1% for the first half of 2006 compared to 53.7% for the same period in 2005.

For the quarter ended June 30, 2006, net claims expense increased $6.1 million or 75.3% to $14.2 million compared to $8.1 million for the second quarter of 2005. This resulted in a loss ratio of 54.3% for the three months ended June 30, 2006 compared to 40.7% for the same period in 2005. As noted earlier the occurrence of several large Auto claims in the second quarter of 2006 was the primary factor for this increase. An offsetting factor in 2006 to these large losses was the release of prior year loss reserves of $4.3 million due to favourable claims development in the Auto line of business in the second quarter of 2006. In the second quarter of 2005 $3.9 million of prior year reserves were released, which resulted in a lower loss ratio than 2006 due to less net earned premium in 2005.

Acquisition Costs

Net acquisition costs, which consist mainly of commissions and premium taxes, increased $4.6 million or 85.8% to $9.9 million for the six months ended June 30, 2006, compared to $5.3 million in the same period in 2005. In the second quarter of 2006 net acquisition costs totaled $4.9 million compared to $2.6 million in the second quarter of 2005, representing an 88.5% increase in the quarter compared to last year.

Increases in 2006 to these costs are 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 calculate 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, which 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 $0.8 million or 16.4% to $5.8 million for the six months ended June 30, 2006, compared to $4.9 million for the first half of 2005. This compared favourably to the 40.7% 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 and expense controls.

For the second quarter of 2006, operating expenses were $3.2 million compared to $3.0 million in 2005 or an increase of 6.7%.

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 decreased $1.8 million to $4.8 million for the first half of 2006, compared to $6.6 million for the comparative period in 2005. The underwriting income for the first six months of 2006 and 2005 is net of $0.6 million and $0.2 million of corporate and other expenses, respectively. In the second quarter of 2006 total underwriting income was $3.9 million compared to $6.2 million is the second quarter of 2005.

Underwriting income from non-standard automobile and motorcycle program insurance for the six months ended June 30, 2006, was $5.0 million, a decrease of $1.7 million compared to an income of $6.7 million for the first half of 2005. This decline was attributable to an increase in the loss ratio to 61.5% in 2006 compared to 54.1% in the same period last year. In the second quarter of 2006, underwriting income in our Auto line of business was $3.7 million compared to $6.3 million in 2005 also attributable to an increase in the loss ratio compared to prior year.

The underwriting income from Niche Products for the six months ended June 30, 2006, was $0.4 million, an increase of $0.3 million compared to a gain of $0.1 million in the first six months of 2005. This increase was primarily the result of the growth in net earned premium from our Niche Products Division and an improvement in the loss ratio from Niche products to 47.8% compared to 49.1% in the first half of 2005. In the second quarter of 2006, underwriting income generated by the Niche Products Division was $0.5 million compared to a break even level in the second quarter of 2005.

Investment Income

Investment income increased $1.0 million, or 29.4%, to $4.4 million for the six months ended June 30, 2006, compared to $3.4 million for the same period in 2005. In the second quarter of 2006 investment income increased $0.3 million or 20%, to $1.8 million compared to $1.5 million in the second quarter of 2005.

EGI's investment portfolio reflected a $36.1 million or 28.3% increase in size as at June 30, 2006, compared to June 30, 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. The increase in investment income has outpaced the growth in portfolio size year over year.

Net realized investment and other gains increased $0.1 million to $0.5 million in the first half of 2006 compared to $0.4 million in the first half of 2005. During the second quarter of 2006 net realized investment losses of $0.4 million were incurred compared to net realized investment losses of $0.2 million in the second quarter of 2005.

Net Income before Income Taxes

Net income before income taxes and extraordinary gain decreased $0.8 million, or 8%, to $9.2 million for the six months ended June 30, 2006, compared to $10.0 million for the same period in 2005 as a result of a higher incurred losses in 2006; however, this was partially offset by an increase in investment income in the first half of 2006 compared to 2005.

For six months ended June 30, 2006, underwriting income of $4.8 million plus investment income of $4.4 million comprises net income before income taxes of $9.2 million. This compares to an underwriting income of $6.6 million, plus investment income of $3.4 million, in the first six months of 2005.

For the quarter ended June 30, 2006 net income before income taxes was $5.7 million compared to $7.7 million for the second quarter of 2005. This resulted from the higher loss ratio in 2006. In the second quarter of 2006 underwriting income of $3.9 million plus investment income of $1.8 million comprised net income before income taxes of $5.7 million. This compares to an underwriting income of $6.2 million, plus investment income of $1.5 million in the second quarter of 2005.

Income Taxes

The provision for income taxes for the quarter ended June 30, 2006, was $1.8 million compared to $2.8 million for the second quarter of 2005. This reflected lower pre-tax income as a result of lower underwriting profits year over year for the quarter.

For the six months ended June 30, 2006, the provision for income taxes was $2.9 million compared to $3.6 million for the first half of last year.

Extraordinary Gain

In the first half 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**	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Direct Written Premiums	36,622	26,092	28,081	28,466	34,528	25,931	26,864	27,380
Total Revenues	26,189	25,075	19,950	20,124	19,840	16,656	16,697	16,889
(Excluding Investment Income)								
Underwriting Income (loss)	3,859	930	2,452	347	6,214	405	3,585	172
Income (loss) before income taxes	5,660	3,563	4,267	2,643	7,733	2,303	5,644	1,306
Net Income before extraordinary gain	3,857	2,434	3,057	1,728	4,928	1,495	5,632	1,060
Extraordinary gain	-	-	-	-	-	5,669	-	-
Net income	3,857	2,434	3,057	1,728	4,928	7,164	5,632	1,060
Earnings per adjusted Share								
Basic	0.40	0.25	0.36	0.21	0.62	0.90	0.71	0.13
Diluted	0.38	0.24	0.35	0.20	0.58	0.85	0.69	0.13

Balance Sheet Analysis

Investments

The following table sets forth EGI's invested assets as at June 30, 2006, and December 31, 2005.

($ in thousands)	June 30, 2006			December 31, 2005		
	Carrying amount	Fair value	Unrealized gain (loss)	Carrying amount	Fair value	Unrealized gain (loss)
Bonds	129,707	127,280	(2,427)	122,677	123,633	956
Preferred shares	5,198	5,099	(99)	3,738	3,767	29
Common shares	27,453	33,623	6,170	25,563	31,735	6,172
Investment income due and accrued	1,152	1,152	-	758	758	-
	163,510	167,154	3,644	152,736	159,893	7,157

Recoverable from Reinsurers

As at June 30, 2006, the recoverable from reinsurers increased to $57.3 million as compared to $56.8 million as at December 31, 2005. The increase is due to the increase in unearned premiums recoverable from reinsurers related to excess of loss reinsurance coverage.

Accounts Receivable

Premium financing receivables is the largest component of this asset as at June 30, 2006, and represents approximately 83% or $20.1 million of total receivables. Premium financing receivables increased $1.3 million or 6.9% to $20.1 million at June 30, 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 at effective rates of interest between 6% and 14% depending on the jurisdiction.

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.

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.

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 six months ended June 30, 2006.

(in $ thousands)	Years ended December 31 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 June 30, 2006	107,778	62,738	32,669	18,587
Cumulative paid to June 30, 2006	14,320	32,219	44,129	51,692
Cumulative Redundancy (Deficiency)	6,943	12,239	2,393	(3,734)

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

The table above, which is reflected on a gross basis for all years, shows that for the first six months of 2006 the total prior year reserve redundancies released pursuant to the June 30 2006 actuarial report was $6,943. The prior year reserves released and recorded, in the interim financial statements for the six months ended June 30, 2006, are on a net of reinsurance basis in the amount of $5,814.

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 June 30, 2006, EGI was the assigned beneficiary of such trust accounts totalling $1.9 million (December 31, 2005 - $2.3 million) in guarantees from unlicensed reinsurers.

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. In 2005 EGI purchased 25% quota share reinsurance coverage protecting its automobile and general liability businesses. This coverage was terminated and the portfolio of unexpired risks 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.

Share Capital

As of June 30, 2006, there were 9,607,152 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.

Contractual obligations that EGI has relating to operating leases are $0.5 million due in less than a year and $1.0 million due in the next two years. We have also entered into an agreement with our current Auto administration system provider to develop a new administration system that will provide enhanced efficiency and analytics. The capital cost commitment over the next year will be $0.7 million.

Capital Resources

The total capitalization of EGI at June 30, 2006, is $75.9 million compared to $72.6 million at December 31, 2005. The increase was the result of net income in the period of $6.3 million and the issuance of common shares of 0.1 million. Offsetting these increases are the redemption of the Series F special shares in the amount of $2.3 million and the payment of common share dividends of $0.8 million in the first two quarters of 2006.