

Consolidated Financial Statements of

EGI FINANCIAL HOLDINGS INC.

June 30, 2007

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

Assets	June 30 2007	December 31 2006
	(unaudited)	
Cash and short-term deposits.....	\$ 12,959	\$ 17,153
Investments (note 3).....	203,841	179,383
Reinsurers' share - unearned premiums	3,343	3,831
- unpaid claims	49,596	48,385
Accounts receivable.....	25,290	22,182
Income taxes recoverable.....	658	572
Due from insurance companies.....	6,839	3,996
Deferred policy acquisition costs.....	10,226	7,465
Capital assets.....	1,112	799
Future income taxes.....	3,313	4,403
Prepaid expenses and other assets	323	270
	<u>\$317,500</u>	<u>\$288,439</u>
Liabilities		
Provision for unpaid claims (note 4)	156,003	146,101
Unearned premiums.....	55,355	43,154
Unearned commission	472	733
Accounts payable and accrued liabilities.....	4,858	4,746
Payable to insurance companies.....	3,636	4,428
Income taxes payable.....	1,056	3,151
Other liabilities.....	280	85
	<u>221,660</u>	<u>202,398</u>
Shareholders' Equity		
Share capital (note 6).....	45,871	45,833
Contributed surplus.....	200	149
Retained earnings	45,971	40,059
Accumulated other comprehensive income	3,798	-
	<u>95,840</u>	<u>86,041</u>
	<u>\$317,500</u>	<u>\$288,439</u>

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Income
for the Quarters ended June 30
(in \$ thousands, except per share amounts)

	Quarter to June 30		6 months to June 30	
	2007	2006	2007	2006
	(unaudited)			
Revenue:				
Direct written and assumed premiums	\$42,299	\$36,622	\$72,495	\$62,714
Net written and assumed premiums	39,308	32,970	67,631	56,463
Net earned premiums	29,808	26,189	54,598	51,263
Investment income	2,068	1,801	4,669	4,435
	<u>\$31,876</u>	<u>\$27,990</u>	<u>\$59,267</u>	<u>\$55,698</u>
Expenses				
Incurred claims	15,844	14,213	30,975	30,792
Acquisition costs	6,518	4,939	12,148	9,919
Operating costs	2,913	3,178	5,638	5,764
	<u>25,275</u>	<u>22,330</u>	<u>48,761</u>	<u>46,475</u>
Income before income taxes	6,601	5,660	10,506	9,223
Income tax expense	2,252	1,803	3,630	2,932
Net income	<u>\$ 4,349</u>	<u>\$ 3,857</u>	<u>\$ 6,876</u>	<u>\$ 6,291</u>
Earnings per share (note 7)				
Net income per share	\$0.45	\$0.40	\$0.71	\$0.65
Net income per diluted share	\$0.42	\$0.38	\$0.66	\$0.62

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Changes in Shareholders' Equity
and Comprehensive Income
for the Quarters ended June 30
(in \$ thousands)

	Quarter to June 30		6 months to June 30	
	2007	2006	2007	2006
	(unaudited)			
Share capital				
Balance, beginning of period	\$45,852	\$45,522	\$45,833	\$47,660
Common shares issued	19	148	38	165
Redemption of Series F special shares	-	-	-	(2,155)
Balance, end of period	45,871	45,670	45,871	45,670
Contributed surplus				
Balance, beginning of period	174	107	149	80
Stock options - granted	28	21	55	48
- exercised	(2)		(4)	
Balance, end of period	200	128	200	128
Retained earnings				
Balance, beginning of period	42,104	26,667	40,059	24,845
Net income	4,349	3,857	6,876	6,291
Dividends - Series F special shares	-	-	-	(229)
- Common shares	(482)	(384)	(964)	(767)
Balance, end of period	45,971	30,140	45,971	30,140
Accumulated other comprehensive income				
Balance beginning of period	5,307		-	
Transition adjustment – financial instruments	-		5,173	
Net change in unrealized gains/losses on available-for-sale securities	(1,509)		(1,375)	
Balance, end of period	3,798		3,798	
Shareholders' equity, end of period	\$95,840	\$75,938	\$95,840	\$75,938
Comprehensive income				
Net income	4,349		6,876	
Other comprehensive income, net of taxes				
Net unrealized gains (losses) on available-for-sale securities	(1,192)		(793)	
Reclassification adjustment for gains/losses included in net income	(317)		(582)	
Other comprehensive income	(1,509)		(1,375)	
Total comprehensive income	\$2,840		\$5,501	

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Cash Flows
for the Quarters ended June 30
(in \$ thousands)

	<u>Quarter to June 30</u>		<u>6 months to June 30</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(unaudited)			
Cash provided by (used in):				
Operating activities:				
Net income	\$ 4,349	\$ 3,857	\$ 6,876	\$ 6,291
Items not involving cash:				
Amortization of capital assets	93	104	193	223
Amortization of premium on bonds	105	105	228	173
Realized losses (gains) on investments	277	406	(107)	(453)
Other	28	-	55	-
	<u>4,852</u>	<u>4,472</u>	<u>7,245</u>	<u>6,234</u>
Net change in other non-cash balances	8,510	11,030	8,348	9,663
	<u>\$13,362</u>	<u>\$ 15,502</u>	<u>\$ 15,593</u>	<u>\$ 15,897</u>
Financing activities:				
Issue of common shares	17	148	34	165
Redemption of Series F special shares	-	-	-	(2,384)
Common share dividends	(482)	(384)	(964)	(767)
	<u>\$ (465)</u>	<u>\$ (236)</u>	<u>\$ (930)</u>	<u>\$ (2,986)</u>
Investing activities:				
Purchase of capital assets	(278)	(116)	(506)	(191)
Purchase of investments	(59,122)	(48,643)	(106,396)	(110,468)
Sale/maturity of investments	51,728	38,313	88,045	100,021
	<u>\$(7,672)</u>	<u>\$(10,446)</u>	<u>\$(18,857)</u>	<u>\$(10,638)</u>
Increase (decrease) in cash and short-term deposits	5,225	4,820	(4,194)	2,273
Cash and short-term deposits, beginning of period	<u>7,734</u>	<u>13,352</u>	<u>17,153</u>	<u>15,899</u>
Cash and short-term deposits, end of period	<u>\$12,959</u>	<u>\$ 18,172</u>	<u>\$ 12,959</u>	<u>\$ 18,172</u>
Supplementary information				
Income taxes paid	<u>\$ 2,145</u>	<u>\$ 542</u>	<u>\$ 6,836</u>	<u>\$ 6,568</u>

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

1 Organization and Basis of Presentation.

These interim consolidated financial statements include the accounts of EGI Financial Holdings Inc. and its subsidiaries (the "Company") and have not been reviewed by the Company's external auditors. They do not include all disclosures required by Canadian generally accepted accounting principles for annual financial statements, and accordingly, should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2006 as set out on pages 42 to 58 of the Company's 2006 Annual Report. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies, except as described in note 2 and 3 below, as were used for the Company's consolidated financial statements for the year ended December 31, 2006.

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 Significant accounting changes

Financial Instruments

On January 1, 2007, the Company adopted two new accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA):

Handbook Section 1530- Comprehensive Income and

Handbook Section 3855- Financial Instruments- Recognition and Measurement

Comprehensive Income

Section 1530 introduces Comprehensive income, which consists of Net income and Other comprehensive income (OCI). OCI represents changes in Shareholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale. Changes in 2007 in unrealized gains and losses on investments classified as available-for-sale have been included

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

in these Interim Consolidated Financial Statements in the Consolidated Statement of Comprehensive Income, while the cumulative changes in OCI are included in Accumulated other comprehensive income (AOCI) which is presented as a new category of Shareholders' equity in the Consolidated Balance Sheet.

Financial Instruments- Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets and financial liabilities and non-financial derivatives. It requires that financial assets or liabilities, including derivatives, be recognized in the Consolidated Balance Sheet when the Company becomes a party to the contractual provisions of the financial instrument or a non-financial derivative contract. Under this standard, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale or held to maturity.

The Company has classified all investments as available-for-sale as at January 1, 2007. Under this option, investments are measured at fair value in the Consolidated Balance Sheet, with changes in unrealized gains and losses in the quarter being recognized in OCI.

Impact upon adoption of Sections 1530 and 3855

A transition adjustment attributable to the remeasurement of investments at fair value was recognized in opening AOCI as at January 1, 2007 in the amount of \$5,173 net of taxes.

3 Investments

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

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

The Company utilizes the prudent person approach to asset management as required by the Insurance Companies Act (the "Act"). An investment policy is in place and its application is

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

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.

Carrying value and fair value of Investments

As a result of the adoption of the new accounting standards, investments are now measured at fair value which were previously carried at cost or amortized cost. This is due to the reclassification of investments as available-for-sale. The following table provides a comparison as at June 30, 2007 and December 31, 2006:

	<u>June 30, 2007</u>	<u>December 31, 2006</u>	
	<u>Fair value and carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>
Bonds			
Canadian			
Federal	\$ 70,265	\$ 65,928	\$ 65,918
Provincial	25,520	27,883	27,249
Municipal	3,829	3,954	3,914
Corporate	48,328	49,525	49,236
	<u>\$147,942</u>	<u>\$147,290</u>	<u>\$146,317</u>
United States			
Federal	432	-	-
Corporate	2,744	-	-
	<u>3,176</u>	<u>-</u>	<u>-</u>
Total Bonds	<u>151,118</u>	<u>\$147,290</u>	<u>\$146,317</u>
Preferred shares	<u>\$ 6,700</u>	<u>\$ 6,369</u>	<u>\$ 6,277</u>
Common shares			
Canadian	41,151	28,374	21,574
United States	3,492	4,183	3,883
	<u>\$ 44,643</u>	<u>\$ 32,557</u>	<u>\$ 25,457</u>
Investment income due and accrued	1,380	1,332	1,332
	<u>\$203,841</u>	<u>\$187,548</u>	<u>\$179,383</u>

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
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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 2007 and 2006.

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.

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 June 30, 2007, is as follows:

	<u>1 year</u>	<u>1 – 3 years</u>	<u>3 – 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Bonds	\$9,231	\$23,329	\$32,691	\$85,867	\$151,118
Percentage of total	6.1%	15.4%	21.6%	56.9%	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

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(unaudited, in \$ thousands except per share amounts)

of investment return. The estimates are principally based on the Company's historical experience. Methods of estimation have been used, which the Company believes produce reasonable results given current information.

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

The fair value of the provision for unpaid claims approximates carrying value determined in accordance with generally accepted actuarial methods in Canada which discount estimated future cash flows and include a margin for adverse deviation. The aggregate impact of the provision for adverse deviation is to increase the provision for unpaid claims on a gross basis by \$15,882 as at June 30, 2007 (December 31, 2006 - \$14,756).

The Company discounts its best estimate of claim provisions at a rate of interest of 3.0% for 2007 (2006 - 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.

	<u>June 30, 2007</u>		<u>December 31, 2006</u>	
	Gross	Ceded	Gross	Ceded
Personal lines:				
- accident benefits	\$ 58,072	\$22,512	\$ 50,750	\$19,473
- liability	87,552	25,128	86,473	27,226
- other	2,481	440	2,592	367
Total Personal lines	<u>\$148,105</u>	<u>\$48,080</u>	<u>\$139,815</u>	<u>\$47,066</u>
Niche:				
Property				
- commercial	3,462	475	2,940	392
- personal	105	52	106	52
Liability	3,269	983	2,280	872
Accident and sickness	697	6	702	3
Other	365	-	258	-
Total Niche	<u>\$ 7,898</u>	<u>\$ 1,516</u>	<u>\$ 6,286</u>	<u>\$ 1,319</u>
	<u>\$156,003</u>	<u>\$49,596</u>	<u>\$146,101</u>	<u>\$48,385</u>

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

5 Underwriting policy and reinsurance ceded

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

During the first two quarters of 2007, the Company followed the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss to \$1,150 (2006 - \$950). In addition, the Company obtained catastrophe reinsurance which limits the loss from a series of claims arising from a single occurrence to \$1,150 (2006 - \$950) to a maximum coverage of \$13,850 (2006 - \$19,050).

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

	June 30, 2007	December 31, 2006
Authorized:		
Unlimited common shares		
Unlimited special shares issuable in Series		
Issued:		
9,647,152 common shares	\$45,871	\$45,833
(2006 - 9,639,152 common shares)		

On March 31, 2007, common share dividends of \$482 or \$0.05 per share were paid to common shareholders of record on March 15, 2007 and on June 29, 2007, common share dividends of \$482 or \$0.05 per share were paid to common shareholders of record on June 15, 2007.

During the first two quarters of 2007, 8,000 common shares were issued pursuant to the exercise of options under the employee stock option plan.

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

7 Earnings per share

	Quarter to June 30		6 months to June 30	
	2007	2006	2007	2006
Basic earnings per share:				
Net income	\$4,349	\$3,857	\$6,876	\$6,291
Dividends to Series F shareholders	-	-	-	12
Net income available to common shareholders	\$4,349	\$3,857	\$6,876	\$6,279
Basic earnings per share	\$0.45	\$0.40	\$0.71	\$0.65
Diluted earnings per share:				
Average number of common shares (in thousands)	9,645	9,597	9,645	9,597
Average number of common shares obligation under employee stock option plan (in thousands)	679	602	679	602
Average number of diluted common shares (in thousands)	10,324	10,199	10,324	10,199
Diluted earnings per share	\$0.42	\$0.38	\$0.66	\$0.62

8 Segmented information

The Company operates through two divisions. Through its Personal Lines Division, the Company is engaged primarily in the underwriting of high premium, non-standard automobile insurance. Through its Niche Products Division, the Company designs and underwrites specialized non-auto insurance programs, such as higher premium property, primary and excess liability, legal expense, accident and health insurance and warranty coverage. During the first two quarters of 2007 the Company assumed \$7,405 of premiums from two U.S. resident insurance companies.

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.

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

	<u>Quarter to June 30</u>		<u>6 months to June 30</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenue				
Earned premiums and other revenue				
Property and casualty insurance				
Personal lines - Canada	\$22,979	\$23,219	\$42,510	\$45,880
- U.S.	2,113	-	2,989	-
	<u>25,092</u>	<u>23,219</u>	<u>45,499</u>	<u>45,880</u>
Niche	4,716	2,970	9,099	5,384
	<u>\$29,808</u>	<u>\$26,189</u>	<u>\$54,598</u>	<u>\$51,264</u>
Interest and dividends	2,345	2,207	4,562	3,981
Realized investment gains (losses)	(277)	(406)	107	453
Total revenue	<u>\$31,876</u>	<u>\$27,990</u>	<u>\$59,267</u>	<u>\$55,698</u>
Income (loss) before income taxes				
Property and casualty insurance				
Personal lines - Canada	\$ 4,991	\$ 3,688	\$ 5,733	\$ 4,991
- U.S.	22	-	25	-
Niche	(226)	541	552	352
Corporate and other	(254)	(370)	(473)	(553)
Underwriting income	4,533	3,859	5,837	4,790
Interest and dividends	2,345	2,207	4,562	3,981
Realized investment gains (losses)	(277)	(406)	107	453
Total income before income taxes	<u>\$ 6,601</u>	<u>\$ 5,660</u>	<u>\$10,506</u>	<u>\$ 9,224</u>