

Consolidated Financial Statements of

EGI FINANCIAL HOLDINGS INC.

September 30, 2006

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

Assets	September 30 2006 (unaudited)	December 31 2005
Cash and short-term deposits.....	\$ 11,836	\$ 15,899
Investments (note 3).....	175,718	152,736
Reinsurers' share - unearned premiums	3,798	2,761
- unpaid claims	51,592	54,043
Accounts receivable.....	24,617	22,271
Income taxes recoverable.....	520	273
Due from insurance companies.....	2,649	2,504
Deferred policy acquisition costs.....	7,411	6,289
Capital assets	668	560
Future income taxes.....	3,850	3,133
Prepaid expenses and other assets	288	262
	<u>\$282,947</u>	<u>\$260,731</u>
Liabilities		
Provision for unpaid claims (note 4)	145,107	129,173
Unearned premiums	44,361	39,973
Unearned commission	217	1,261
Accounts payable and accrued liabilities.....	4,696	4,503
Payable to insurance companies.....	4,343	7,340
Income taxes payable.....	2,970	5,708
Other liabilities.....	188	188
	<u>201,882</u>	<u>188,146</u>
Shareholders' Equity		
Share capital (note 6).....	45,679	47,660
Contributed surplus	141	80
Retained earnings	35,245	24,845
	<u>81,065</u>	<u>72,585</u>
	<u>\$282,947</u>	<u>\$260,731</u>

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Income
for the three and nine months ended September 30
(in \$ thousands, except per share amounts)

	<u>Quarter to</u> <u>September 30</u>		<u>9 months to</u> <u>September 30</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(unaudited)			
Revenue:				
Direct written premiums	\$29,184	\$28,466	\$91,898	\$88,925
Net written premiums	<u>26,635</u>	<u>20,070</u>	<u>83,098</u>	<u>63,030</u>
Net earned premiums	28,490	20,060	79,753	56,500
Investment income	2,143	2,296	6,577	5,712
Other revenue	-	64	1	120
	<u>\$30,633</u>	<u>\$22,420</u>	<u>\$86,331</u>	<u>\$62,332</u>
Expenses				
Incurred claims	13,945	14,386	44,737	33,972
Acquisition costs	5,891	3,294	15,810	8,633
Operating expenses	<u>2,426</u>	<u>2,097</u>	<u>8,190</u>	<u>7,049</u>
	<u>22,262</u>	<u>19,777</u>	<u>68,737</u>	<u>49,654</u>
Income before income taxes and extraordinary gain	8,371	2,643	17,594	12,678
Income tax expense	<u>2,882</u>	<u>915</u>	<u>5,814</u>	<u>4,527</u>
Income before extraordinary gain	5,489	1,728	11,780	8,151
Extraordinary gain, net of taxes	-	-	-	5,669
Net income	<u>\$ 5,489</u>	<u>\$ 1,728</u>	<u>\$11,780</u>	<u>\$13,820</u>
Earnings per share :				
Net income per share before extraordinary gain	\$0.57	\$0.21	\$1.22	\$1.01
Net income per share from extraordinary gain	\$0.00	\$0.00	\$0.00	\$0.72
Net income per share	\$0.57	\$0.21	\$1.22	\$1.73
Net income per diluted share before extraordinary gain	\$0.54	\$0.20	\$1.16	\$0.96
Net income per diluted share from extraordinary gain	\$0.00	\$0.00	\$0.00	\$0.65
Net income per diluted share	\$0.54	\$0.20	\$1.16	\$1.61

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Changes in Shareholders' Equity
for the three and nine months ended September 30
(in \$ thousands)

	<u>Quarter to</u> <u>September 30</u>		<u>9 months to</u> <u>September 30</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(unaudited)			
Share capital				
Balance, beginning of period	\$45,670	\$31,563	\$47,660	\$17,341
Common shares issued	9	-	174	14,222
Redemption of Series F special shares	-	-	(2,155)	-
Balance, end of period	<u>\$45,679</u>	<u>\$31,563</u>	<u>\$45,679</u>	<u>\$31,563</u>
Contributed surplus				
Balance, beginning of period	\$ 128	\$ 32	\$ 80	\$ -
Stock options- granted	22	28	70	60
- exercised	(9)	-	(9)	-
Balance, end of period	<u>\$ 141</u>	<u>\$ 60</u>	<u>\$ 141</u>	<u>\$ 60</u>
Retained earnings				
Balance, beginning of period	\$30,140	\$20,060	\$24,845	\$ 7,968
Net income	5,489	1,728	11,780	13,820
Dividends - Series F special shares	-	-	(229)	-
- Common shares	(384)	-	(1,151)	-
Balance, end of period	<u>\$35,245</u>	<u>\$21,788</u>	<u>\$35,245</u>	<u>\$21,788</u>
Total, end of period	<u>\$81,065</u>	<u>\$53,411</u>	<u>\$81,065</u>	<u>\$53,411</u>

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Cash Flows
for the three and nine months ended September 30
(in \$ thousands)

	<u>Quarter to</u> <u>September 30</u>		<u>9 months to</u> <u>September 30</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(unaudited)			
Cash provided by (used in):				
Operating activities:				
Net income	\$ 5,489	\$ 1,728	\$ 11,780	\$ 13,820
Items not involving cash:				
Amortization of capital assets	102	111	325	308
Amortization of premium on bonds	98	31	271	118
Realized losses (gains) on investments	6	(766)	(447)	(1,124)
Extraordinary gain	-	-	-	(6,819)
	<u>5,695</u>	<u>1,104</u>	<u>11,929</u>	<u>6,303</u>
Net change in other non-cash balances	<u>884</u>	<u>7,948</u>	<u>10,547</u>	<u>10,986</u>
	<u>\$ 6,579</u>	<u>\$ 9,052</u>	<u>\$ 22,476</u>	<u>\$ 17,289</u>
Financing activities:				
Issue of common shares	-	-	165	-
Redemption of Series F special shares	-	-	(2,384)	-
Common share dividends	(384)	-	(1,151)	-
	<u>\$ (384)</u>	<u>\$ -</u>	<u>\$ (3,370)</u>	<u>\$ -</u>
Investing activities:				
Acquisition of subsidiary, net of cash acquired	-	-	-	5,646
Purchase of capital assets	(242)	(127)	(433)	(486)
Purchase of investments	(38,699)	(10,209)	(149,167)	(42,418)
Sale/maturity of investments	26,410	3,307	126,431	24,098
	<u>\$ (12,531)</u>	<u>\$ (7,029)</u>	<u>\$ (23,169)</u>	<u>\$ (13,160)</u>
Increase (decrease) in cash and short-term deposits	(6,336)	2,023	(4,063)	4,129
Cash and short-term deposits, beginning of period	<u>18,172</u>	<u>9,433</u>	<u>15,899</u>	<u>7,327</u>
Cash and short-term deposits, end of period	<u>\$ 11,836</u>	<u>\$ 11,456</u>	<u>\$ 11,836</u>	<u>\$ 11,456</u>
Supplementary information:				
Income taxes paid	<u>\$ 2,952</u>	<u>\$ 443</u>	<u>\$ 9,520</u>	<u>\$ 3,114</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, 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)

	September 30, 2006			December 31, 2005		
	Carrying amount	Fair value	Net Unrealized gain (loss)	Carrying amount	Fair value	Net Unrealized gain (loss)
Bonds						
Canadian						
Federal	\$ 62,266	\$ 62,703	\$ 437	\$ 61,405	\$ 61,267	\$(138)
Provincial	28,140	29,004	864	21,366	22,307	941
Municipal	1,919	2,000	81	1,529	1,617	88
Corporate	46,485	46,915	430	38,377	38,442	65
	\$138,810	\$140,622	\$ 1,812	\$122,677	\$123,633	\$ 956
Preferred shares	\$ 5,598	\$ 5,591	\$ (7)	\$ 3,738	\$ 3,767	\$ 29
Common shares						
Canadian	26,583	32,315	5,732	22,802	28,934	6,132
United States	3,073	3,317	244	2,761	2,801	40
	\$ 29,656	\$ 35,632	\$ 5,976	\$ 25,563	\$ 31,735	\$6,172
Investment income due and accrued	1,654	1,654	-	758	758	-
	\$175,718	\$183,499	\$ 7,781	\$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.

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
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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 September 30, 2006, 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	\$8,619	\$20,082	\$27,956	\$82,153	\$138,810
Percentage of total	6.2%	14.5%	20.1%	59.2%	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.

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
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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 \$14,324 September 30, 2006 (December 31, 2005 - \$12,485).

	<u>September 30, 2006</u>		<u>December 31, 2005</u>	
	Gross	Ceded	Gross	Ceded
Automobile:				
- accident benefits	\$ 52,746	\$19,448	\$ 47,571	\$21,668
- liability	84,150	30,404	75,631	30,647
- other	2,456	464	3,063	1,237
Total Automobile	<u>\$139,352</u>	<u>\$50,316</u>	<u>\$126,265</u>	<u>\$53,552</u>
Niche:				
Property				
- commercial	2,490	366	1,590	411
- personal	101	44	74	28
Liability	1,930	837	114	28
Accident and sickness	748	25	961	9
Other	486	4	169	15
Total Niche	<u>\$ 5,755</u>	<u>\$ 1,276</u>	<u>\$ 2,908</u>	<u>\$ 491</u>
	<u>\$145,107</u>	<u>\$51,592</u>	<u>\$129,173</u>	<u>\$54,043</u>

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 two quarters 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)
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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

	September 30 2006	December 31 2005
Authorized:		
Unlimited common shares		
Unlimited special shares issuable in Series		
Issued:		
9,607,152 common shares (2005 - 9,583,152 post split)	45,679	45,505
Nil Series F special shares(2005-2,268,279)	-	2,155
	45,679	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, on June 30, 2006, common share dividends of \$384 or \$.04 per share were paid to common shareholders of record June 15, 2006 and on September 30, 2006, common share dividends of \$384 were paid to common shareholders of record September 15, 2006

During the first three quarters of 2006, 24,000 common shares were issued pursuant to the exercise of options under the employee stock option plan.

7 Earnings per share

	Quarter to Sept. 30		9 months to Sept. 30	
	2006	2005	2006	2005
Basic earnings per share:				
Income before extraordinary gain	\$5,489	\$1,728	\$11,780	\$8,151
Dividends to Series F shareholders	-	36	12	108
Income before extraordinary gain available to common shareholders	\$5,489	\$1,692	\$11,768	\$8,043
Diluted earnings per share:				
Average number of common shares (in thousands)	9,607	7,913	9,595	7,913
Common shares obligation under employee stock option plan	598	515	557	515
Average number of diluted common shares	10,205	8,405	10,152	8,405

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

	Quarter to September 30		9 months to September 30	
	2006	2005	2006	2005
Revenue				
Earned premiums and other revenue				
Property and casualty insurance				
Automobile	\$24,404	\$18,190	\$70,284	\$51,983
Niche	4,086	1,934	9,470	4,637
	<u>\$28,490</u>	<u>\$20,124</u>	<u>\$79,754</u>	<u>\$56,620</u>
Interest and dividends	2,149	1,530	6,130	4,588
Realized investment gains (losses)	(6)	766	447	1,124
Total revenue	<u>\$30,633</u>	<u>\$22,420</u>	<u>\$86,331</u>	<u>\$62,332</u>
Income (loss) before income taxes				
Property and casualty insurance				
Automobile	\$ 6,470	\$ 155	\$11,461	\$ 6,898
Niche	(63)	255	289	355
Corporate and other	(179)	(63)	(733)	(287)
Underwriting income	6,228	347	11,017	6,966
Interest and dividends	2,149	1,530	6,130	4,588
Realized investment and other gains	(6)	766	447	1,124
Total income before income taxes and extraordinary gain	<u>\$ 8,371</u>	<u>\$ 2,643</u>	<u>\$17,594</u>	<u>\$12,678</u>