Unaudited Condensed Consolidated Interim Financial Statements of

EGI FINANCIAL HOLDINGS INC.

For the quarters ended March 31, 2013 and 2012

EGI FINANCIAL HOLDINGS INC.
Consolidated Balance Sheets
(Unaudited, in thousands of Canadian dollars)

	Note	March 31 2013	December 31 2012
Assets			
Cash and short–term deposits		9,106	19,578
Accounts receivable		38,853	35,577
Investments	6	421,483	412,728
Due from insurance companies		5,534	3,326
Deferred policy acquisition costs		22,295	21,588
Income taxes recoverable		2,578	–
Prepaid expenses and other assets		3,009	3,118
Reinsurers' share – unearned premiums		10,877	9,169
– provision for unpaid claims	7	30,296	30,283
Property and equipment		770	743
Intangible assets	9	5,484	5,568
Deferred income taxes		5,602	5,350
		555,887	547,028
Liabilities			
Income taxes payable		–	663
Accounts payable and accrued liabilities		12,788	13,078
Payable to insurance companies		3,289	3,449
Unearned premiums		96,531	94,085
Unearned commission		1,911	1,770
Provision for unpaid claims	7	275,021	268,580
		389,540	381,625
Equity			
Share capital		68,114	68,244
Contributed surplus		1,183	1,068
Retained earnings		90,284	91,237
Accumulated other comprehensive income	13	8,055	6,054
Equity attributed to shareholders of the Company		167,636	166,603
Non–controlling interest		(1,289)	(1,200)
Total equity		166,347	165,403
		555,887	547,028

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Income and Comprehensive Income
(Unaudited, in thousands of Canadian dollars)

	Note	3 months ended March 31, 2013	3 months ended March 31, 2012
Revenue			
Gross written and assumed premiums		57,410	43,939
Less: Premiums ceded to reinsurers		(8,034)	(3,632)
Net written and assumed premiums		49,376	40,307
(Increase) decrease in gross unearned premiums		(3,004)	2,199
Increase (decrease) in unearned premiums, reinsurers' share		1,748	(336)
Change in provision for unearned premiums		(1,256)	1,863
Net earned premiums		48,120	42,170
Other income		132	283
Investment income	6	5,065	5,960
Total revenue		53,317	48,413
Expenses			
Gross claims incurred		38,683	28,278
Less: claims recoveries from reinsurers		(3,528)	(562)
Net incurred claims		35,155	27,716
Gross acquisition costs		13,979	10,798
Less: acquisition cost recoveries from reinsurers		(2,604)	(1,259)
Net acquisition costs		11,375	9,539
Operating costs		6,170	6,174
Total expenses		52,700	43,429
Income before taxes and discount rate impact on claims		617	4,984
Impact of change in discount rate on claims	7	(1,770)	–
Income (loss) before income taxes		(1,153)	4,984
Income tax expense	11	(243)	1,190
Net income (loss)		(910)	3,794
Attributed to:			
Shareholders of the Company		(821)	3,988
Non–controlling interest		(89)	(194)
		(910)	3,794
Earnings per share attributable to shareholders of the Company	14		
Net income per share – basic		($0.07)	$0.33
Net income per share – diluted		($0.07)	$0.33
Net income		(910)	3,794
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income			
Available-for-sale securities:			
Change in net unrealized gains		3,314	2,414
Reclassification of net realized (gains) losses to net income		(1,234)	(2,128)
Cumulative translation gain (loss)		203	(311)
Tax impact		(282)	(542)
Other comprehensive income (loss)		2,001	(567)
Total comprehensive income		1,091	3,227
Attributed to:			
Shareholders of the Company		1,180	3,411
Non-controlling interest		(89)	(184)
		1,091	3,227

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Changes in Equity
(Unaudited, in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders' Equity	Non–controlling interest	Total Equity
Balance at January 1, 2013	68,244	1,068	6,054	91,237	166,603	(1,200)	165,403
Net income (loss)	–	–	–	(821)	(821)	(89)	(910)
Other comprehensive income (loss)	–	–	2,001	–	2,001	–	2,001
Total comprehensive income (loss)	–	–	2,001	(821)	1,180	(89)	1,091
Common shares repurchased	(158)	–	–	(132)	(290)	–	(290)
Common shares issued	28	–	–	–	28	–	28
Stock options – expense	–	115	–	–	115	–	1153
Balance at March 31, 2013	68,114	1,183	8,055	90,284	167,636	(1,289)	166,347

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders' Equity	Non–controlling interest	Total Equity
Balance at January 1, 2012	69,133	724	13,766	71,410	155,033	(213)	154,820
Net income (loss)	–	–	–	3,988	3,988	(194)	3,794
Other comprehensive income (loss)	–	–	(577)	–	(577)	10	(567)
Total comprehensive income (loss)	–	–	(577)	3,988	3,411	(184)	3,227
Stock options – expense	–	82	–	–	82	–	82
Balance at March 31, 2012	69,133	806	13,189	75,398	158,526	(397)	158,129

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Cash Flows
(Unaudited, in thousands of Canadian dollars)

	2012	2011
Cash provided by (used in):		
Operating activities		
Net income	(910)	3,794
Items not involving cash:		
Reinsurers' share of unearned premiums	(1,708)	336
Reinsurers' share of unpaid claims	(13)	1,420
Provision for unpaid claims	6,441	1,334
Unearned premiums	2,446	(2,217)
Deferred income taxes	(252)	37
Unearned commissions	141	(59)
Deferred policy acquisition costs	(707)	188
Amortization on property plant equipment and intangible assets	617	466
Amortization of premiums on bonds	652	305
Fair value change on FVTPL investments	(291)	(122)
Options expense	99	82
Currency translation	203	(311)
Prepaid expenses & other assets	109	301
Other	(65)	23
	7,672	1,783
Cash flow from changes in		
Accounts receivable	(3,276)	(404)
Net realized (gains) losses	(1,305)	(2,682)
Income taxes payable/recoverable	(3,523)	(498)
Due to related parties	(2,368)	(1,622)
Other liabilities	(290)	(1,545)
Cash provided by operating activities	(4,000)	(1,174)
Financing activities		
Issue of common shares	44	–
Share repurchase	(290)	–
Cash provided by (used in) financing activities	(246)	–
Investing activities		
Purchases of property and equipment and intangible assets	(560)	(319)
Purchase of investments	(126,588)	(129,048)
Sale/maturity of investments	120,922	125,121
Cash (used in) investing activities	(6,226)	(4,246)
Increase in cash and short-term deposits	(10,472)	(5,420)
Cash and short-term deposits, beginning of year	19,578	30,839
Cash and short-term deposits, end of year	9,106	25,419
Supplementary information		
Operating activities		
Income taxes paid	2,834	1,384

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

1 Organization and basis of presentation

The organization and nature of business are substantially the same as at the end of 2012. Refer to Note 1 of the annual 2012 consolidated financial statements.

EGI Financial Holdings Inc. (the Company) was incorporated on August 18, 1997, under the Business Corporations Act (Ontario) and is incorporated and domiciled in Canada. The Company is principally engaged, through its subsidiaries, in property and casualty insurance in Canada, U.S. and Europe. The Company's head office is located at 2680 Matheson Blvd. East, Suite 300, Mississauga, Ontario.

The Company's wholly–owned subsidiaries are EGI Insurance Managers Inc., Echelon General Insurance Company (Echelon), EGI Insurance Services, Inc., American Colonial Insurance Company (ACIC), EGI Insurance Services (Florida), Inc., CIM Reinsurance Company Ltd. (CIM Re) and CUISA Managing General Agency Corporation ("CUISA MGA"). The Company also owns all of the preferred shares plus 51% of common shares of QIC Holdings ApS, which owns 100% of Qudos Insurance A/S.

2 Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2012, which have been prepared in accordance with IFRS.

These consolidated financial statements have been authorized for issue by the Board of Directors, on May 9, 2013.

Prior period figures have been reclassified to conform to the current period presentation.

3 Summary of significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year end and the Company has consistently applied the same accounting policies through all periods presented except as described below.

Income taxes

Taxes on income in the interim periods are accrued using the estimated annual tax rate that would be applicable to expected total annual income.

Amendment to IAS 1 Presentation of Financial Statements

In June 2011, the IASB issued an amendment to IAS 1 that changes the presentation of items in the consolidated statements of comprehensive income. This amendment requires the components of other comprehensive income to be presented in two separate groups, based on whether or not the components may be recycled to the consolidated statements of earnings in the future. Companies will continue to have a choice of whether to present components of OCI before or after tax. Those that present components of OCI before tax will be required to disclose the amount of tax related to the two groups

separately. This amendment is effective for annual periods beginning on or after July 1, 2012, is applied retrospectively, with early adoption permitted.
The Company assessed its presentation of financial statements conclusions on January 1, 2013, and determined that the adoption of IAS 1 did not result in any change in the presentation of financial status of the Company.

IFRS 10, Consolidated Financial Statements

IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27.

The Company assessed its consolidation conclusions on January 1, 2013, and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the disclosure requirements under IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures. The enhanced disclosures in the new standard are intended to help financial statement readers evaluate the nature, risks and financial effects of an entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. Entities are permitted to incorporate any of the disclosure requirements in IFRS 12 into their financial statements without early adopting IFRS 12.

The Company assessed its disclosure of interest in other entities conclusions on January 1, 2013, and determined that the adoption of IFRS 12 did not result in any change in the disclosure of interest in other status of any of its subsidiaries and investees.

IFRS 13, Fair Value Measurement

IFRS 13, Fair Value Measurement, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on January 1, 2013, on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

4 Critical accounting estimates and assumptions

The preparation of the Company's condensed consolidated interim financial statements requires management to use estimates and judgements that affect the amounts reported in the financial statements. These estimates and judgements principally relate to the establishment of reserves for claims and expenses, impairments of investment securities, amounts recoverable from reinsurers and income taxes. As more information becomes known, these estimates and judgements could change and impact future results.

(Unaudited, in thousands of Canadian dollars, except per share amounts)

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual 2012 consolidated financial statements.

5 Seasonality

The P&C insurance business is seasonal in nature. While net earned premiums are generally stable from quarter to quarter, net underwriting income is driven mainly by weather conditions which may vary significantly by quarter.

6 Investments

The investment policies adopted are consistent with those of the previous financial year end and the Company has consistently applied the same investment policies through all periods presented.

	Carrying and fair values	
Available-for-sale	**As at March 31, 2013**	**As at December 31, 2012**
Bonds		
Government	178,114	192,540
Corporate	194,255	178,101
Total bonds	372,369	370,641
Common shares	21,828	16,941
Total available-for-sale	394,197	387,582
Fair value through profit or loss		
Preferred shares	27,286	25,146
Total investments	421,483	412,728

Fair value

The Company is responsible for determining the fair value of its investment portfolio by utilizing market-driven fair value measurements from active markets, where available, by considering other observable and unobservable inputs and by employing valuation techniques which make use of current market data. The Company uses a fair-value hierarchy to categorize the inputs used in valuation techniques to measure fair value. A description of the inputs used in the valuation of financial instruments is as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. The fair value of the Company's common and preferred shares, except for preferred shares classified as available-for-sale (AFS), is determined based on quoted prices in active markets obtained from external pricing sources.

Level 2 – Inputs, other than quoted prices, that are observable for the investment either directly or indirectly. These inputs include quoted prices for similar instruments exchanged in active markets;

(Unaudited, in thousands of Canadian dollars)

quoted prices for identical or similar instruments exchanged in inactive markets; inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data and correlation or other means.

The Company's investments in government securities (including federal, provincial and municipal bonds), corporate securities, private placements and infrequently traded securities are priced using publicly traded, over-the-counter prices or broker-dealer quotes which are based on market observable inputs. Observable inputs such as benchmark yields, reported trades, broker dealer quotes, issuer spreads and bids are available for these investments.

Level 3 – Inputs that are not based on observable market data. Management is required to use assumptions regarding unobservable inputs as there is little, if any, market activity in these investments or related observable inputs that can be corroborated at the measurement date. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets. To verify pricing, the Company assesses the reasonability of the fair values by comparing to industry-accepted valuation models, to movements in credit spreads and to recent transaction prices for similar assets where available.

There have been no significant changes in the business or economic circumstances that affect the fair value of the Company's financial assets. There has been no transfer between the fair value hierarchy investments.

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined above, as at March 31, 2013, and December 31, 2012:

March 31, 2013	**Investments at fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Bonds	–	371,885	484	372,369
Equities	49,114	–	–	49,114
	49,114	371,885	484	421,483

December 31, 2012	**Investments at fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Bonds	–	370,157	484	370,641
Equities	42,087	–	–	42,087
	42,087	370,157	484	412,728

The fair value of the Company's investments, determined with the use of unobservable market information as inputs, is approximately 0.1% (December 31, 2012 – 0.1%) of the total investment portfolio required to be measured at fair value, and consists of corporate bonds with a fair value of $484 (December 31, 2012 – $484).

(Unaudited, in thousands of Canadian dollars)

Impaired assets and provisions for losses

Management has reviewed currently available information regarding those investments where estimated fair values are less than carrying values. For those investments that are considered impaired, the Company has recorded the difference between the cost, or amortized cost, of the investment and its fair value as an impairment, which reduces investment income recorded in the period.

A provision for impairments on investments of $5 was recognized in 2013 (March 31, 2012 – $239). A remaining gross unrealized loss of $362 on AFS investments held as at March 31, 2013 (March 31, 2012 – $1,849) is recorded, net of tax, in the amount of $266 (March 31, 2012 – $1,341) as Accumulated Other Comprehensive Loss.

Investment income

Investment income was derived from the following:

	3 months ended March 31, 2012	3 months ended March 31, 2012
Interest income	3,046	3,175
Dividend income	467	500
Net realized gains	1,310	2,921
Impairment loss	(5)	(239)
Fair value change on FVTPL investments	291	122
Realized and unrealized foreign exchange gains (losses)	292	(105)
Investment expenses	(336)	(414)
	5,065	5,960

7 Provision for unpaid claims

The fair value of the provision for unpaid claims approximates the 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 Company discounts its best estimate of claim provisions at a rate of interest of 2.29% (2012 – 2.65%) for all lines of business. The Company determines the discount rate based on the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

The Company recorded a $920 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (2012 – $3,858).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial liabilities are adequate to pay future claims, the Company includes provisions for adverse deviations (PFADs) in some assumptions relating to claims development, reinsurance recoveries and future investment income. The PFADs selected are in the mid-range of those recommended by the Canadian Institute of Actuaries. The aggregate impact of the provision for adverse deviation is to increase the provision for unpaid claims on a gross basis by $26,636 as at March 31, 2013 (December 31, 2012 – $27,282).

(Unaudited, in thousands of Canadian dollars, except per share amounts)

Claims development

Provision for unpaid claims analysis	**March 31, 2013**	**March 31, 2012**
Unpaid claims, beginning of year, net	238,297	221,250
Change in undiscounted estimates for losses of prior years	(682)	(3,254)
Change in discount rate	1,770	–
Change in PFADs	(3,474)	(2,393)
Interest cost	1,467	1,790
Provision for claims occurring in current period	37,844	31,573
Paid on claims occurring during		
Current year	(7,311)	(7,080)
Prior year	(23,186)	(17,882)
Unpaid claims, end of period, net	244,725	224,004
Reinsurers' share	30,296	31,849
	275,021	255,853

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims.

Assumptions used to develop the provision estimate for unpaid claims and adjustment expenses are selected by class of business and geographic location. Consideration is given to the characteristics of the risks, historical trends, and the amount of data available on individual claims, inflation and any other pertinent factors. Some assumptions require a significant amount of judgment such as the expected impacts of future judicial decisions and government legislation. The diversity of these considerations results in it not being practical to identify and quantify all individual assumptions that are more likely than others to have a significant impact on the measurement of the Company's insurance contracts. There were no new assumptions identified in the period as having a potential or identifiable material impact on the overall claims estimate.

8 Risk management

As a provider of insurance products, effective risk management is fundamental to the Company's ability to protect the interests of its customers and shareholders. The Company is exposed to risks of loss pertaining to insurance products. These include risks surrounding product and pricing, underwriting and claims, catastrophic exposure, and matching of assets and liabilities. The Company is also exposed to potential loss from various risks, including interest rate risk, equity market fluctuation risk, credit risk, liquidity risk, and to a lesser extent foreign exchange risk.

These condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements as at December 31, 2012.

The Company has written principles for overall risk management, as well as written policies covering specific areas such as underwriting, reinsurance, foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non–derivative financial instruments and investment of excess liquidity. There has been no significant change in risk management since year end.

Insurance risk

The risk under any one insurance contract is the possibility that the event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable. The principal risk that the Company faces under its insurance contract is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or the severity of the claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the estimate.

The concentration of insurance risk by product line, country, province or state, and underlying currency, will also impact financial results depending on the nature and location of events.

Compared to year end there was no material change to insurance risk.

Liquidity risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. The Company's liquidity management strategy is to ensure that there is sufficient cash to meet its financial commitments as they become due. To manage cash flow requirements, the Company maintains a portion of invested assets in liquid investments.

(Unaudited, in thousands of Canadian dollars, except per share amounts)

The maturity profile of bonds as at March 31, 2013, and December 31, 2012, are as follows:

March 31, 2013	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Greater than 5 years**	**Total**
Bonds	27,333	81,504	145,120	118,412	372,369
Percentage of total	7%	22%	39%	32%	100%

December 31, 2012	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Greater than 5 years**	**Total**
Bonds	28,342	81,864	120,066	140,369	370,641
Percentage of total	8%	22%	32%	38%	100%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at March 31, 2013, and December 31, 2012:

March 31, 2013	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Greater than 5 years**	**Total**
Actuarial liabilities (undiscounted)	77,817	95,548	52,619	36,788	262,772
Less: Reinsurance recoverable	11,781	9,522	4,811	2,709	28,823
Net actuarial liabilities	66,036	86,026	47,808	34,079	233,949

December 31, 2012	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Greater than 5 years**	**Total**
Actuarial liabilities (undiscounted)	76,651	92,256	52,211	35,980	257,098
Less: Reinsurance recoverable	11,782	9,592	4,747	2,605	28,726
Net actuarial liabilities	64,869	82,664	47,464	33,375	228,372

All other financial liabilities are for duration of one year or less. The contractual maturities for lease commitments are listed in note 12.

Equity price risk

Fluctuations in the value of equity investments affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. General economic conditions, political conditions and many other factors can also adversely affect the stock and bond markets and, consequently, the value of the equity and fixed income investments held.

The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of equity securities.

The table below summarizes the potential impact of a 10% change in the value of the equity securities (common and preferred shares) on net income and OCI for the quarter ended March 31, 2013, and the year ended December 31, 2012. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumption that all equity holdings increased/decreased by 10% with all other variables held constant.

(Unaudited, in thousands of Canadian dollars)

Change in equity holdings	Effect on Net Income		Effect on OCI net of tax	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
10% rise	1,992	1,836	1,593	1,237
10% decline	(1,992)	(1,836)	(1,593)	(1,237)

Credit risk

The Company is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of investment securities which do not carry the guarantee of a national or Canadian provincial government. The Company's credit exposure to any one individual policyholder is not material. The Company has policies that limit its exposure to individual reinsurers and regular review processes to assess the creditworthiness of reinsurers with whom it transacts business.

The Company is exposed to risk from reinsurers' inability to cover balances. 92.3% of the Company's reinsurance balances are from registered reinsurers. The Company holds sufficient collateral to cover the 7.7% of reinsurance balances from unregistered reinsurers.

The following table sets forth the Company's fixed income securities portfolio by credit quality as at March 31, 2013, and December 31, 2012.

Fixed income portfolio

	As at March 31, 2013		As at December 31, 2012	
	Fair value	Fair value	Fair value	Fair value
AAA	109,926	29%	134,855	37%
AA	67,337	18%	76,636	21%
A	131,872	35%	108,801	29%
BBB	47,522	13%	39,718	10%
BB	10,181	3%	6,626	2%
B	2,317	1%	455	–
CCC	594	–	277	–
Unrated	2,620	1%	3,273	1%
Total	372,369	100%	370,641	100%

(Unaudited, in thousands of Canadian dollars, except per share amounts)

Preferred share portfolio

	As at March 31, 2013		As at December 31, 2012	
	Fair value	**Fair value**	**Fair value**	**Fair value**
P1	9,333	34%	9,179	36%
P2	13,136	48%	9,766	39%
P3	4,817	18%	6,201	25%
Total	27,286	100%	25,146	100%

9 Intangible assets

	Opening cost	Purchases	Sales	End of period cost	Accumulated amortization	Net
Software						
March 31, 2013	10,403	394	–	10,797	5,908	4,889
December 31, 2012	7,412	2,991	–	10,403	5,430	4,973
Goodwill						
March 31, 2013	595	–	–	595	–	595
December 31, 2012	195	400	–	595	–	595
Total intangible assets						
March 31, 2013	10,998	394	–	11,392	5,908	5,484
December 31, 2012	7,607	3,391	–	10,998	5,430	5,568

10 Related party transactions

The Co–operators Group Limited and Co–operators General Insurance Company (collectively Co–operators), significant shareholders of the Company, provide services to the Company, including but not limited to product distribution and investment management services under arms length contracts. Direct written premiums derived from Co–operators' agents were $2,213 (March 31, 2012 – $2,681), commissions paid were $254 (March 31, 2012 – $308) and investment management fees were $113 (March 31, 2012 – $101).

The Company has a 100% Quota Share reinsurance treaty with Co–operators General Insurance Company for policies written in 2001 and 2002. Reinsurers share of unpaid claims includes a recoverable of $316 (March 31, 2012 – $316) from Co-operators General Insurance Company. The payable to insurance companies balance includes amounts due to Co-operators General Insurance Company of $96 (March 31, 2012 – $111).

11 Income taxes

Income tax expense is recognized based on managements estimate of the weighted annual income tax rate expected for the full financial year. The estimated annual tax rate used for the three months ended March 31, 2013, was 27%. The estimated tax rate for the three months ended March 31, 2012, was 27%.

(Unaudited, in thousands of Canadian dollars, except per share amounts)

The income tax expense (recovery) is as follows:

	3 months ended March 31, 2013	**3 months ended March 31, 2012**
Current	39	1,153
Deferred	(282)	37
	(243)	1,190

12 Lease commitments

The Company is committed under lease agreements for office premises and computer equipment with minimum lease payments of $6,187 as follows:

Lease commitments	
2013	1,093
2014	1,272
2015	1,187
2016	1,194
2017	1,091
2018 and thereafter	350
	6,187

13 Accumulated other comprehensive income

	3 months ended March 31, 2013	**3 months ended March 31, 2012**
Beginning Balance that may subsequently be classified to profit and loss	6,054	13,766
Unrealized gains on fixed maturities and equity investments arising during the period	3,314	2,414
Reclassification adjustment for (gains) losses included in net income	(1,234)	(2,128)
Foreign currency translation adjustments	203	(321)
Tax impact	(282)	(542)
Ending balance	8,055	13,189

	As at March 31, 2013	**As at December 31, 2012**
Gross unrealized gains (losses)	10,684	8,604
Foreign currency translation adjustments	244	41
Tax impact	(2,873)	(2,591)
Ending balance	8,055	6,054

14 Earnings per share

	3 months ended March 31, 2013	3 months ended March 31, 2012
Basic earnings per share:		
Net income available to shareholders	(821)	3,988
Average number of common shares (in thousands)	11,904	12,066
Basic earnings per share	($0.07)	$0.33
Diluted earnings per share:		
Average number of common shares (in thousands)	11,904	12,066
Average number of dilutive common shares under employee stock option plan (in thousands)	-	53
Average number of diluted common shares (in thousands)	11,904	12,119
Diluted earnings per share	($0.07)	$0.33

15 Segmented information

The Company operates through four segments: Personal Lines and Specialty Programs divisions in Canada, non–standard automobile markets in the U.S. division and specialty business in the International division. Through its Personal Lines division, the Company is engaged primarily in the underwriting of high premium, non–standard automobile insurance.

Through its Specialty Programs 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. Through the U.S. division, the Company underwrites high premium, non-standard automobile insurance. Through the International division the Company underwrites European property, automobile and other niche and specialty insurance products.

The effect of reinsurance is reflected in the revenue and results of each segment. 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 holding company expenses not attributable to a division.

	3 months ended March 31	
	2013	2012
Revenue		
Earned premiums		
Canada – Personal Lines	29,302	31,477
– Specialty Programs	8,299	8,381
	37,601	39,858
U.S.	3,554	2,150
International	6,965	162
Total earned premium	48,120	42,170

(Unaudited, in thousands of Canadian dollars)

Net claims Incurred		
Canada – Personal Lines	22,052	21,553
– Specialty Programs	5,686	3,561
	27,738	25,114
U.S.	3,131	2,485
International	4,286	117
Total net claims incurred	35,155	27,716
Net expenses		
Canada – Personal Lines	8,400	8,786
– Specialty Programs	3,914	3,778
	12,314	12,564
U.S.	1,355	1,239
International	3,012	848
Corporate Expenses	732	779
Total net expenses	17,413	15,430
Income (loss) before income taxes		
Canada – Personal Lines	(1,150)	1,138
– Specialty Programs	(1,301)	1,042
	(2,451)	2,180
U.S.	(932)	(1,574)
International	(333)	(803)
Corporate and other	(732)	(779)
Underwriting (loss) income	(4,448)	(976)
Impact of change in net claims discount rate	(1,770)	–
Investment income	5,065	5,960
Total income before income taxes	(1,153)	4,984

Segmented long-term assets

	As at March 31, 2013	As at December 31, 2012
Canada – Personal Lines	5,207	5,362
– Specialty Programs	843	816
	6,050	6,178
U.S.	17	20
International	187	118
Total segmented long-term assets	6,254	6,316