Unaudited Condensed Consolidated Interim Financial Statements of

EGI FINANCIAL HOLDINGS INC.

For the periods ended September 30, 2014 and 2013

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

	Note	September 30, 2014	December 31, 2013
Assets			
Cash and short–term deposits		43,772	18,156
Accounts receivable		58,738	35,926
Investments	6	488,618	454,317
Due from insurance companies		2,301	3,086
Deferred policy acquisition costs		46,422	32,608
Income taxes recoverable		—	3,770
Prepaid expenses and other assets		9,501	5,105
Reinsurers' share – unearned premiums		37,810	19,985
– provision for unpaid claims	7	49,394	32,762
Property and equipment		748	755
Intangible assets	9	7,296	5,360
Deferred income taxes		7,299	6,273
		751,899	618,103
Liabilities			
Income taxes payable		2,825	187
Accounts payable and accrued liabilities		14,720	17,079
Payable to insurance companies		11,679	4,731
Unearned premiums		179,033	127,247
Unearned commission		10,661	3,623
Provision for unpaid claims	7	350,239	296,857
		569,157	449,724
Equity			
Share capital		67,857	67,211
Contributed surplus		2,032	1,561
Retained earnings		98,433	94,593
Accumulated other comprehensive income	13	10,667	7,170
Equity attributed to shareholders of the Company		178,989	170,535
Non-controlling interest	15	3,753	(2,156)
Total equity		182,742	168,379
Total liabilities and equity		751,899	618,103

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 September 30		9 months ended September 30	
		2014	**2013**	**2014**	**2013**
Revenue					
Gross written and assumed premiums		104,876	62,706	286,072	194,067
Less: Premiums ceded to reinsurers		(24,677)	(9,068)	(63,679)	(26,023)
Net written and assumed premiums		80,199	53,638	222,393	168,044
(Increase) in gross unearned premiums		(8,083)	(2,206)	(40,485)	(25,670)
Increase (decrease) in unearned premiums, reinsurers' share		4,444	(721)	18,635	3,352
Change in provision for unearned premiums		(3,639)	(2,927)	(21,850)	(22,318)
Net earned premiums		76,560	50,711	200,543	145,726
Investment income	6	6,345	2,506	17,975	12,921
Total revenue		82,905	53,217	218,517	158,647
Expenses					
Gross claims incurred		94,918	33,603	185,290	97,305
Less: claims recoveries from reinsurers		(48,679)	(2,624)	(62,108)	(6,659)
Net incurred claims		46,239	30,979	123,182	90,646
Gross acquisition costs		27,201	15,930	69,352	46,047
Less: acquisition cost recoveries from reinsurers		(5,650)	(3,605)	(11,961)	(9,883)
Net acquisition costs		21,551	12,325	57,391	36,164
Operating costs		8,649	6,250	23,352	17,194
ICPEI Integration costs		—	—	1,347	—
Total expenses		76,439	49,554	205,272	144,004
Income before taxes and discount rate impact on claims		6,466	3,663	13,245	14,643
Impact of change in discount rate on claims	7	—	(665)	(267)	(665)
Income before income taxes		6,466	2,998	12,978	13,978
Income tax expense	11	(930)	(558)	(2,650)	(2,769)
Net income on continuing operations		5,536	2,440	10,328	11,209
Net loss on discontinued operations attributable to shareholders of the Company		—	(7,508)	—	(8,970)
Net income (loss)		5,536	(5,068)	10,328	2,239
Attributed to:					
Shareholders of the Company		4,919	(4,894)	10,458	2,410
Non-controlling interest		617	(174)	(130)	(171)
Net Income (loss)		5,536	(5,068)	10,328	2,239
Earnings per share attributable to shareholders of the Company	14				
Earnings per share continuing operations - basic		$0.42	$0.22	$0.89	$0.97
Earnings per share – basic		$0.42	$(0.42)	$0.89	$0.20

EGI FINANCIAL HOLDINGS INC.

Consolidated Statements of Income and Comprehensive Income

(continued)

(Unaudited, in thousands of Canadian dollars)

	Note	3 months ended September 30		9 months ended September 30	
		2014	**2013**	**2014**	**2013**
Earnings per share continuing operations - diluted		$0.41	$0.22	$0.87	$0.95
Earnings per share – diluted		$0.41	$(0.42)	$0.87	$0.20
Net income (loss)		5,536	(5,068)	10,328	2,239
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income					
Available-for-sale investments:					
Change in net unrealized gains		223	541	9,013	(1,082)
Reclassification of net realized (gains) to net income		(1,608)	(39)	(5,123)	(4,826)
Cumulative translation gain (loss)		(394)	(159)	471	553
Tax impact		268	(84)	(864)	1,842
Other comprehensive income (loss)		(1,511)	259	3,497	(3,513)
Total comprehensive income		4,025	(4,809)	13,825	(1,274)
Attributed to:					
Shareholders of the Company		3,408	(4,635)	13,955	(1,103)
Non-controlling interest		617	(174)	(130)	(171)
Total comprehensive income		4,025	(4,809)	13,825	(1,274)

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, 2014	67,211	1,561	7,170	94,593	170,535	(2,156)	168,379
Net income (loss)	—	—	—	10,458	10,458	(130)	10,328
Other comprehensive income	—	—	3,497	—	3,497	—	3,497
Total comprehensive income (loss)	—	—	3,497	10,458	13,955	(130)	13,825
Common shares repurchased	—	—	—	—	—	—	—
Dividends paid	—	—	—	(3,523)	(3,523)	—	(3,523)
Investment in subsidiary	—	—	—	(3,095)	(3,095)	3,095	—
Non controlling interest – ICPEI	—	—	—	—	—	2,944	2,944
Common shares issued on stock options exercised	646	—	—	—	646	—	646
Stock options – expense	—	471	—	—	471	—	471
Balance at September 30, 2014	67,857	2,032	10,667	98,433	178,989	3,753	182,742

	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)	—	—	—	2,410	2,410	(171)	2,239
Other comprehensive (loss)	—	—	(3,513)	—	(3,513)	—	(3,513)
Total comprehensive income (loss)	—	—	(3,513)	2,410	(1,103)	(171)	(1,274)
Common shares repurchased	(1,587)	—	—	(1,324)	(2,911)	—	(2,911)
Common shares issued on stock options exercised	207	—	—	—	207	—	207
Stock options expense	—	230	—	—	230	—	230
Balance at September 30, 2013	66,864	1,298	2,541	92,323	163,026	(1,371)	161,655

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)

	9 months ended September 30, 2014	9 months ended September 30, 2013
Cash provided by (used in):		
Operating activities		
Net income from continuing operations	10,328	11,209
Net income from discontinued operations	—	(8,970)
Adjusted for:		
Reinsurers' share of unearned premiums	(17,763)	(5,426)
Reinsurers' share of unpaid claims	(14,473)	(1,678)
Provision for unpaid claims	31,419	24,793
Unearned premiums	38,146	29,601
Deferred income taxes	(691)	(490)
Unearned commissions	7,038	692
Deferred policy acquisition costs	(10,881)	(8,484)
Amortization on property plant equipment and intangible assets	3,821	2,291
Amortization of premiums on bonds	1,980	1,736
Fair value change on FVTPL investments	(1,089)	2,058
Options expense	471	230
Currency translation	471	553
Prepaid expenses & other assets	(4,357)	(538)
	34,092	45,338
Cash flow from changes in		
Accounts receivable	(9,487)	(4,169)
Net realized (gains) losses	(4,774)	(5,511)
Income taxes payable/recoverable	5,544	(1,498)
Due to insurance companies	7,733	1,489
Other liabilities	(6,394)	8,218
Cash provided by continuing operating activities	37,042	46,106
Financing activities		
Issue of common shares from stock options exercised	646	207
Common share dividends	(3,523)	—
Share repurchases	—	(2,911)
Cash provided by (used in) financing activities	(2,877)	(2,704)
Investing activities		
Purchases of property, equipment and intangible assets	(5,793)	(2,499)
Sale of property and equipment & intangible assets	61	—
Acquisition of ICPEI	3,162	—
Purchase of investments	(484,898)	(555,425)
Sale/maturity of investments	478,919	541,357
Cash (used in) investing activities	(8,549)	(16,567)
Increase in cash and short-term deposits	25,616	26,835
Cash and short-term deposits, beginning of year	18,156	19,578
Cash and short-term deposits, end of year	43,772	46,413
Supplementary information		
Operating activities		
Income taxes paid	(2,054)	6,362

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

1 Organization and basis of presentation

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 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"), CIM Reinsurance Company Ltd. ("CIM Re") and CUISA Managing General Agency Corporation ("CUISA MGA"). The Company owns 75% of The Insurance Company of Prince Edward Island ("ICPEI") since July 1, 2014. The Company also owns all of the preferred shares in addition to 93% of common shares, assuming no minority interest earn in, of QIC Holdings ApS ("QIC"), which owns 100% of Qudos Insurance A/S ("Qudos").

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, 2013, which have been prepared in accordance with IFRS.

These consolidated financial statements have been authorized for issue by the Board of Directors, on November 6, 2014.

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.

IFRIC 21 - Levies

IFRIC 21 provides guidance on when a company should recognize a liability for a levy imposed by a government, other than those levies within the scope of other standards such as income taxes and fines or penalties imposed for breaches of legislation. A liability to pay levies is recognized when an obligating event takes place, such as the generation of revenue in the current period. There is no obligating event where a levy is triggered in a future period and an entity is economically compelled to continue to operate in the future period or the financial statements are prepared on a going-concern basis suggesting that the entity will continue to operate in the future period. If the obligating event occurs over a period of time, the liability is recognized progressively; if the obligating event is reaching a minimum threshold, the liability is recognized when the minimum threshold is met.

Retrospective adoption of the interpretation on January 1, 2014 did not have a significant impact on the consolidated financial statements.

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.

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 2013 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 can be driven 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.

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

	Carrying and fair values	
Available-for-sale	**As at September 30, 2014**	**As at December 31 2013**
Fixed income		
Canadian		
Federal	72,513	54,374
Provincial	44,512	42,718
Municipal	4,688	5,714
Corporate	191,522	162,316
	313,235	265,122
Fixed income lent through securities lending program		
Federal	12,449	49,165
Provincial	1,446	7,656
Municipal	—	411
Corporate	4,799	3,980
	18,694	61,212
Foreign fixed income		
Government	22,077	12,799
Corporate	68,767	45,608
	90,844	58,407
Total fixed income	422,773	384,741
Commercial Mortgages pooled fund	4,243	2,052
Common shares		
Canadian	6,941	13,491
Foreign	13,035	24,693
Total common shares	19,976	38,184
Total available-for-sale	446,992	424,977
Fair value through profit or loss		
Preferred shares	41,572	29,340
Preferred shares lent through securities lending program	54	—
Total Preferred Shares	41,626	29,340
Total investments	488,618	454,317

In accordance with the securities lending agreement, the amount of the collateral must be at least 105% of the fair value of the securities loaned. As at September 30, 2014, the Company had collateral of $21,361 (2013 – $78,435) for the loaned securities, which is in excess of 105% of the fair value of the loaned securities.

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 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; 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.

The economic circumstances that affect the fair value of the Company's financial assets have changed in the period with the increasing interest rates.

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined above, as at September 30, 2014, and December 31, 2013:

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

September 30, 2014	**Investments at fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed Income	—	422,773	—	422,773
Commercial Mortgages pooled fund	—	2,107	2,136	4,243
Equities	61,602	—	—	61,602
	61,602	424,880	2,136	488,618

December 31, 2013	**Investments at fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed Income	—	384,741	—	384,741
Commercial Mortgages pooled fund	—	—	2,052	2,052
Equities	67,524	—	—	67,524
	67,524	384,741	2,052	454,317

The fair value of the Company's investments, determined with the use of unobservable market information as inputs, is approximately 0.4% (December 31, 2013 – 0.5%) of the total investment portfolio required to be measured at fair value, and consists of commercial mortgages pooled fund with a fair value of $4,243 (December 31, 2013 – $2,052).

A reconciliation of Level 3 investment with the use of significant unobservable inputs is as follows:

	3 months ended September 30		**9 months ended September 30**	
	2014	**2013**	**2014**	**2013**
Balance at beginning of period	2,110	2,000	2,052	484
Addition during the year	—	25	—	2,025
Disposal / Reclassification during the period	—	—	—	(484)
Net unrealized gains included in other comprehensive income	26	—	84	—
Balance at end of period	2,136	2,025	2,136	2,025

Investment in commercial mortgages pooled fund is valued using the Company's share of the net asset value of the commercial mortgage pooled fund as of September 30, 2014 and December 31, 2013.

The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers during the nine months ended September 30, 2014 (September 30, 2013 – $484). The Company started receiving quoted prices for the bonds transferred from Level 3 to Level 2 in the prior period. There were no transfers from Level 2 to Level 1, or vice versa in the period.

Impaired assets and provisions for losses

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

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

A provision for impairments on investments of $nil was recognized in 2014 (September 30, 2013 – $901). A remaining gross unrealized loss of $2,360 on AFS investments held as at September 30, 2014 (September 30, 2013 − $1,780) is recorded, net of tax, in the amount of $1,801 (September 30, 2013 – $1,347) as Accumulated Other Comprehensive Income.

Investment income

The table below provides additional details on net investment income:

	3 months ended September 30		9 months ended September 30	
	2014	**2013**	**2014**	**2013**
Interest income	4,090	3,318	10,777	9,692
Dividend income	459	523	1,543	1,427
Net realized gains	1,599	(74)	4,774	5,797
Impairment loss	—	—	—	(901)
Fair value change on FVTPL investments	(264)	(883)	1,089	(2,058)
Realized and unrealized foreign exchange gains (losses)	791	(120)	788	(120)
Investment expenses	(330)	(258)	(996)	(916)
Investment Income	6,345	2,506	17,975	12,921

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 1.98% (December 31, 2013 – 2.05%) 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 $10,251 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (September 30, 2013 – $5,455).

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 net basis by $23,151 as at September 30, 2014 (December 31, 2013 − $25,515).

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

Claims development

Provision for unpaid claims analysis	September 30, 2014	September 30, 2013
Unpaid claims, beginning of year, net	264,095	234,172
Change in undiscounted estimates for losses of prior years	1,678	(3,239)
Change in discount rate	267	655
Change in PFADs	8,306	(6,132)
Interest cost		3,261
Provision for claims occurring in current period	113,198	96,101
Paid on claims occurring during		
Current year	(41,377)	(26,625)
Prior year	(65,107)	(41,541)
Purchase of ICPEI, net	19,785	—
Unpaid claims, end of period, net	300,845	256,652
Reinsurers' share	49,394	31,961
Gross unpaid claims	350,239	288,613

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, 2013.

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

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.

Interest rate risk

Fluctuations in interest rates have a direct impact on the fair valuation and future cash flow of the Company's fixed income investment portfolio. Generally, the Company's investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income investments mature or are sold and the proceeds are reinvested at lower rates. During periods of rising interest rates, the fair value of the Company's existing fixed income investments will generally decrease and gains on fixed income securities will likely be reduced.

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on OCI relating to the fixed income investment portfolio as at September 30, 2014 and December 31, 2013 based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

Change in interest rates	Fair value of fixed income and preferred shares portfolio	Hypothetical change on fair value	Effect on OCI net of tax	Effect on Net Income (Loss)
As at September 30, 2014				
200 basis point rise	435,100	(6)%	(19,215)	(2,174)
100 basis point rise	449,749	(3)%	(9,608)	(1,087)
No change	464,399	—	—	—
100 basis point decline	479,049	3%	9,608	1,087
200 basis point decline	493,698	6%	19,215	2,174

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

Change in interest rates As at December 31, 2013	Fair value of fixed income and preferred shares portfolio	Hypothetical change on fair value	Effect on OCI net of tax	Effect on Net Income (Loss)
200 basis point rise	385,134	(7)%	(17,865)	(3,266)
100 basis point rise	399,254	(4)%	(9,190)	(1,634)
No change	414,081	—	—	—
100 basis point decline	429,669	4%	9,716	1,663
200 basis point decline	443,668	7%	18,274	3,325

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.

The maturity profile of bonds as at September 30, 2014, and December 31, 2013, are as follows:

September 30, 2014	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	15,890	136,989	133,611	136,283	422,773
Percentage of total	4%	32%	32%	32%	100%

December 31, 2013	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	45,254	93,212	134,353	111,922	384,741
Percentage of total	12%	24%	35%	29%	100%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at September 30, 2014, and December 31, 2013:

September 30, 2014	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	114,598	120,760	61,381	41,650	338,389
Less: Reinsurance recoverable	18,571	17,479	8,031	5,312	49,393
Net actuarial liabilities	96,027	103,281	53,350	36,338	288,996

December 31, 2013	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	90,588	99,657	54,688	40,276	285,209
Less: Reinsurance recoverable	12,664	9,809	4,936	3,715	31,124
Net actuarial liabilities	77,924	89,848	49,752	36,561	254,085

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

All other financial liabilities are for a 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 September 30, 2014, and the year ended December 31, 2013. 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.

Change in equity holdings	Effect on Net Income (Loss)		Effect on OCI net of tax	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
10% rise	3,039	2,142	1,458	2,787
10% decline	(3,039)	(2,142)	(1,458)	(2,787)

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. 91.6% of the Company's reinsurance balances are from registered reinsurers. The Company holds sufficient collateral to cover the 8.4% of reinsurance balances from unregistered reinsurers.

The following table sets forth the Company's fixed income securities portfolio by credit quality as at September 30, 2014, and December 31, 2013.

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

Fixed income portfolio

	As at September 30, 2014		As at December 31, 2013	
	Fair value	**Fair value**	**Fair value**	**Fair value**
AAA	127,316	30 %	138,283	36 %
AA	86,885	21 %	66,644	17 %
A	88,487	21 %	87,761	23 %
BBB	72,308	17 %	54,248	14 %
BB	23,667	6 %	23,730	6 %
B	10,468	2 %	4,554	1 %
CCC	2,373	1 %	1,969	1 %
Unrated	11,269	3 %	7,552	2 %
Total	422,773	100 %	384,741	100 %

Preferred share portfolio

	As at September 30, 2014		As at December 31, 2013	
	Fair value	**Fair value**	**Fair value**	**Fair value**
P1	5,013	12 %	3,428	12 %
P2	32,298	78 %	23,540	80 %
P3	4,315	10 %	2,372	8 %
Total	41,626	100 %	29,340	100 %

9 Intangible assets

	Opening cost	Purchases	Sales	End of period cost	Accumulated amortization	Net
Software						
September 30, 2014	13,301	5,453	—	18,754	11,858	6,896
December 31, 2013	10,403	2,898	—	13,301	8,341	4,960
Goodwill						
September 30, 2014	400	—	—	400	—	400
December 31, 2013	595	—	195	400	—	400
Total intangible assets						
September 30, 2014	13,701	5,453	—	19,154	11,858	7,296
December 31, 2013	10,998	2,898	195	13,701	8,341	5,360

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

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 $5,247 (September 30, 2013 – $6,789); commissions paid were $599 (September 30, 2013 – $781) and investment management fees were $205 (September 30, 2013 – $271).

The Company has brokerage agreement with Riders Plus ("RP"), a broker whose majority shareholder is a related member of the Company's senior Executive team. Written premium from this broker amounted to $13,266 (September 30, 2013 - $14,169) with commissions paid of $1,725 (September 30, 2013 - $1,828). The payable to agents includes a payable to RP of $nil (September 30, 2013 - $57).

Charlie Cooke Insurance Agency Ltd. (CCI) and Atlantic Adjusting & Appraisals Ltd. (AAA) are affiliated with the minority shareholder of ICPEI. They provide broker and claims services in the normal course of operations to ICPEI. Written premium from CCI amounted to $3,772 with commissions paid of $135. Claim service from AAA was $51.

11 Income taxes

The income tax expense (recovery) is as follows:

	3 months ended September 30		9 months ended September 30	
	2014	**2013**	**2014**	**2013**
Current	1,489	424	3,376	3,159
Deferred	(559)	134	(726)	(390)
	930	558	2,650	2,769

The effective income tax rates are different from the combined federal and provincial income tax rates. The consolidated statements of income and comprehensive income contain items that are non-taxable or non-deductible for income tax purposes, which cause the income tax expense to differ from what it would have been if based on statutory rates. The difference is broken down as follows:

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

	3 months ended September 30		**9 months ended September 30**	
	2014	**2013**	**2014**	**2013**
Income tax expense calculated at statutory rates	27.0%	27.0%	27.0%	27.0%
Increase(decrease) in income tax rates resulting from:				
Non-taxable dividend income	(1.6)%	2.7%	(2.8)%	(2.5)%
Non-taxable income	(7.6)%	4.2%	(2.5)%	(0.5)%
Non-deductible expenses	0.8%	0.8%	1.1 %	0.9 %
Non-taxable portion of capital gains	(3.1)%	2.1%	(2.4)%	(2.2)%
Other	(1.1)%	(48.3)%	0.0%	1.2%
Effective income tax rate	14.4%	(11.5)%	20.4%	23.9 %

12 Lease commitments

The Company is committed under lease agreements for office premises and computer equipment with minimum lease payments of $6,259 as follows:

Lease commitments	
2014	410
2015	1,626
2016	1,608
2017	1,310
2018	594
2019 and thereafter	711
	6,259

13 Accumulated other comprehensive income

	As at September 30, 2014	**As at December 31, 2013**
Net unrealized gains	10,584	6,694
Foreign currency translation adjustments	1,998	1,527
Tax impact	(1,915)	(1,051)
Ending balance	10,667	7,170

14 Earnings per share

	3 months ended September 30		9 months ended September 30	
	2014	**2013**	**2014**	**2013**
Basic earnings per share on continuing operations:				
Net continuing income available to shareholders	4,919	2,614	10,458	11,380
Average number of common shares (in thousands)	11,779	11,674	11,744	11,789
Basic earnings per share on continuing operations	$0.42	$0.22	$0.89	$0.97
Diluted earnings per share on continuing operations:				
Average number of common shares (in thousands)	11,779	11,674	11,744	11,789
Average number of dilutive common shares under employee stock option plan (in thousands)	323	235	344	206
Average number of diluted common shares (in thousands)	12,102	11,909	12,088	11,995
Diluted earnings per share on continuing operations	$0.41	$0.22	$0.87	$0.95

	3 months ended September 30		9 months ended September 30	
	2014	**2013**	**2014**	**2013**
Basic earnings per share:				
Net income available to shareholders	4,919	(4,894)	10,458	2,410
Average number of common shares (in thousands)	11,779	11,674	11,744	11,789
Basic earnings per share	$0.42	$(0.42)	$0.89	$0.20
Diluted earnings per share:				
Average number of common shares (in thousands)	11,779	11,674	11,744	11,789
Average number of dilutive common shares under employee stock option plan (in thousands)	323	235	344	206
Average number of diluted common shares (in thousands)	12,102	11,909	12,088	11,995
Diluted earnings per share	$0.41	$(0.42)	$0.87	$0.20

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

15 Non-controlling interest

	3 months ended September 30		9 months ended September 30	
	2014	**2013**	**2014**	**2013**
Revenue				
Gross written and assumed premiums	16,256	9,783	46,499	28,844
Net earned premiums	6,086	2,789	14,110	7,397
Investment income	194	(53)	452	6
Total Revenue	6,280	2,736	14,562	7,403
Expenses				
Net incurred claims	3,188	1,604	8,500	3,727
Net acquisition costs	1,761	850	4,785	2,380
Operating costs	510	505	1447	1,535
Total expenses	5,459	2,959	14,732	7,642
Income (loss) before income taxes	821	(223)	(170)	(239)
Income tax expense	204	(49)	(40)	(68)
Net income (loss) attributable to non-controlling interests	617	(174)	(130)	(171)

	September 30, 2014	December 31, 2013
Assets		
Cash and investments	14,448	18,937
Other assets	13,517	28,944
Total assets	27,965	47,881
Liabilities		
Unearned premium	11,413	27,056
Unpaid claims	9,531	11,923
Other liabilities	3,268	11,058
Total liabilities	24,212	50,037
Equity		
Share capital	2,447	—
AOCI	516	—
Retained earnings	790	(2,156)
Total equity	3,753	(2,156)
Total liabilities and equity	27,965	47,881

16 Acquisition of ICPEI

On July 1st, 2014 the Company acquired 75% of ICPEI, a provincially regulated insurance company. ICPEI has provided insurance to the Maritimes since 1987. The following table summarizes the purchase consideration paid and the fair value of various assets acquired and liabilities assumed at the date of acquisition.

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

Purchase consideration	
Cash paid	8,828
Assets acquired	
Cash & Term Deposits	11,990
Investments	20,551
Receivables, net	13,325
Other assets	372
Capital assets, net	18
Recoverable balance	2,221
Deferred policy acquisition costs	2,933
Total assets	51,410
Liabilities assumed	
Provision for unpaid claims	21,963
Unearned Premiums	13,640
Accounts payable and other liabilities	4,035
Total liabilities	39,638
Fair value of net assets acquired	11,772
Less non controlling interest	(2,944)
Net assets acquired	8,828

The Company incurred business acquisition expenses of $1,347 in the nine months ended September 30, 2014, relating to the purchase. In the three months since the date of acquisition, to September 30, 2014, the Company generated premium of $6,809 and net income of $110. Had the ICPEI acquisition occurred at the beginning of the year, the revenue generated and net loss incurred would have been approximately $20,328 and $1,423, respectively.

17 Segmented information

The Company operates through four segments: Personal Lines and Specialty Programs businesses in Canada, ICPEI in the Maritime provinces, and specialty business in the International division. Through its Personal Lines segment, the Company is engaged primarily in the underwriting of high premium, non-standard automobile insurance.

Through its Specialty Programs segment, 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. ICPEI primarily underwrites Auto, Personal and Commercial Property products in Prince Edward Island, New Brunswick and Nova Scotia. Through the International division, the Company underwrites European property, automobile and other niche and specialty insurance products.

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

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 September 30		9 months ended September 30	
	2014	**2013**	**2014**	**2013**
Revenue				
Earned premiums				
Canada – Personal Lines	31,309	32,114	92,410	94,411
– Specialty Programs	6,494	6,825	23,236	20,631
– ICPEI	6,550	—	6,550	—
Total Canada	44,353	38,939	122,196	115,042
International	32,207	11,772	78,347	30,684
Total earned premium	76,560	50,711	200,543	145,726
Net claims Incurred				
Canada – Personal Lines	19,968	19,000	56,040	59,464
– Specialty Programs	2,255	4,834	10,854	14,099
– ICPEI	4,193	—	4,193	—
Total Canada	26,416	23,834	71,087	73,563
International	19,823	7,145	52,095	17,083
Total net claims incurred	46,239	30,979	123,182	90,646
Net expenses				
Canada – Personal Lines	10,638	9,849	30,145	28,534
– Specialty Programs	3,968	3,084	13,316	9,413
– ICPEI	2,066	—	2,066	—
Total Canada	16,672	12,933	45,527	37,947
International	11,815	4,577	31,450	12,870
Corporate Expenses	1,712	1,065	3,766	2,541
Total net expenses	30,199	18,575	80,743	53,358
Income (loss) before income taxes				
Canada – Personal Lines	703	3,265	6,225	6,413
– Specialty Programs	271	(1,093)	(934)	(2,881)
– ICPEI	291	—	291	—
Total Canada	1,265	2,172	5,582	3,532
International	569	50	(5,198)	731
Corporate and other	(1,712)	(1,065)	(3,766)	(2,541)
Underwriting (loss) income	122	1,157	(3,382)	1,722
Impact of change in net claims discount rate	—	(665)	(267)	(665)
ICPEI Integration cost	—	—	(1,347)	—

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

	3 months ended September 30		9 months ended September 30	
	2014	**2013**	**2014**	**2013**
Investment income	6,344	2,506	17,974	12,921
Total income before income taxes – continuing operations	6,466	2,998	12,978	13,978

Segmented long-term assets

	As at September 30, 2014	**As at December 31, 2013**
Canada – Personal Lines	6,864	5,051
– Specialty Programs	566	804
– ICPEI	288	—
Total Canada	7,718	5,855
International	326	260
Total segmented long-term assets	8,044	6,115