Unaudited Condensed Consolidated Interim Financial Statements of

EGI FINANCIAL HOLDINGS INC.

For the quarter ended June 30, 2014 and 2013

EGI Financial Holdings Inc.
Consolidated Balance Sheets
(Unaudited, in thousands of Canadian dollars)

	Note	June 30 2014	December 31 2013
Assets			
Cash and short–term deposits		50,216	18,156
Accounts receivable		52,736	35,926
Investments	6	450,828	454,317
Due from insurance companies		1,890	3,086
Deferred policy acquisition costs		38,608	32,608
Income taxes recoverable		1,463	3,770
Prepaid expenses and other assets		4,601	5,105
Reinsurers' share – unearned premiums		33,239	19,985
– provision for unpaid claims	7	38,829	32,762
Property and equipment		754	755
Intangible assets	9	7,910	5,360
Deferred income taxes		6,440	6,273
		687,514	618,103
Liabilities			
Accounts payable and accrued liabilities		22,249	17,266
Payable to insurance companies		9,555	4,731
Unearned premiums		157,668	127,247
Unearned commission		7,930	3,623
Provision for unpaid claims	7	313,370	296,857
		510,772	449,724
Equity			
Share capital		67,753	67,211
Contributed surplus		1,926	1,561
Retained earnings		94,658	94,593
Accumulated other comprehensive income	13	12,178	7,170
Equity attributed to shareholders of the Company		176,515	170,535
Non-controlling interest	15	227	(2,156)
Total equity		176,742	168,379
Total liabilities and equity		687,514	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 June 30		6 months ended June 30	
		2014	**2013**	**2014**	**2013**
Revenue					
Gross written and assumed premiums		101,428	78,121	181,196	131,361
Less: Premiums ceded to reinsurers		(24,399)	(8,922)	(39,002)	(16,956)
Net written and assumed premiums		77,029	69,199	142,194	114,405
(Increase) decrease in gross unearned premiums		(25,952)	(21,075)	(32,402)	(23,463)
Increase (decrease) in unearned premiums, reinsurers' share		10,808	2,325	14,191	4,073
Change in provision for unearned premiums		(15,144)	(18,750)	(18,211)	(19,390)
Net earned premiums		61,885	50,449	123,983	95,015
Investment income	6	5,496	5,328	11,630	10,416
Total revenue		67,381	55,777	135,613	105,431
Expenses					
Gross claims incurred		49,890	33,757	90,372	69,309
Less: claims recoveries from reinsurers		(8,683)	(6,113)	(13,429)	(9,641)
Net incurred claims		41,207	27,644	76,943	59,668
Gross acquisition costs		20,987	16,661	42,151	30,114
Less: acquisition cost recoveries from reinsurers		(3,246)	(3,674)	(6,311)	(6,278)
Net acquisition costs		17,741	12,987	35,840	23,836
Operating costs		6,973	5,738	14,704	10,946
ICPEI Integration costs		1,347	–	1,347	–
Total expenses		67,268	46,369	128,834	94,450
Income before taxes and discount rate impact on claims		113	9,408	6,779	10,981
Impact of change in discount rate on claims	7	(267)	1,759	(267)	–
Income (loss) before income taxes		(154)	11,167	6,512	10,981
Income tax expense	11	(449)	(2,428)	(1,720)	(2,212)
Net income (loss) on continuing operations		(603)	8,739	4,792	8,769
Net loss on discontinued operations attributable to shareholders of the Company		–	(521)	–	(1,461)
Net income (Loss)		(603)	8,218	4,792	7,308
Attributed to:					
Shareholders of the Company		244	8,126	5,539	7,305
Non–controlling interest		(847)	92	(747)	3
Net Income (Loss)		(603)	8,218	4,792	7,308
Earnings per share attributable to shareholders of the Company	14				
Earnings per share continuing operations – basic		$0.02	$0.73	$0.47	$0.74
Earnings per share – basic		$0.02	$0.69	$0.47	$0.62
Earnings per share continuing operations – diluted		$0.02	$0.73	$0.46	$0.74
Earnings per share – diluted		$0.02	$0.68	$0.46	$0.61
Net income		(603)	8,218	4,792	7,308

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

Other comprehensive income (loss), net of taxes that may be classified subsequently to net income				
Available-for-sale investments:				
Change in net unrealized gains	3,222	(4,939)	8,790	(1,625)
Reclassification of net realized (gains) to net income	(1,646)	(3,553)	(3,515)	(4,787)
Cumulative translation gain	351	509	865	712
Tax impact	(143)	2,208	(1,132)	1,926
Other comprehensive income (loss)	1,784	(5,775)	5,008	(3,774)
Total comprehensive income	1,181	2,443	9,800	3,534
Attributed to:				
Shareholders of the Company	2,028	2,351	10,547	3,531
Non-controlling interest	(847)	92	(747)	3
Total comprehensive income	1,181	2,443	9,800	3,534

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)	–	–	–	5,539	5,539	(747)	4,792
Other comprehensive income (loss)	–	–	5,008	–	5,008	–	5,008
Total comprehensive income (loss)	–	–	5,008	5,539	10,547	(747)	9,800
Common shares repurchased	–	–	–	–	–	–	–
Dividends paid	–	–	–	(2,344)	(2,344)	–	
Investment in subsidiary		–		(3,130)	(3,130)	3,130	
Common shares issued on stock options exercised	542	–	–	–	542	–	542
Stock options – expense	–	365	–	–	365	–	365
Balance at June 30, 2014	67,753	1,926	12,178	94,658	176,515	227	176,742

	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)	–	–	–	7,305	7,305	3	7,308
Other comprehensive income (loss)	–	–	(3,774)	–	(3,774)	–	(3,774)
Total comprehensive income (loss)	–	–	(3,774)	7,305	3,531	3	3,534
Common shares repurchased	(1,375)	–	–	(1,118)	(2,493)	–	(2,493)
Common shares issued on stock options exercised	28	–	–	–	28	–	28
Stock options – expense	–	198	–	–	198	–	198
Balance at June 30, 2013	66,897	1,266	2,280	97,424	167,867	(1,197)	166,670

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)

	6 months ended June 30, 2014	6 months ended June 30, 2013
Cash provided by (used in):		
Operating activities		
Net income from continuing operations	4,792	8,769
Net income from discontinued operations		(1,461)
Adjusted for:		
Reinsurers' share of unearned premiums	(13,254)	(3,814)
Reinsurers' share of unpaid claims	(6,067)	(659)
Provision for unpaid claims	16,513	13,208
Unearned premiums	30,421	24,043
Deferred income taxes	(167)	(554)
Unearned commissions	4,307	487
Deferred policy acquisition costs	(6,000)	(6,423)
Amortization on property plant equipment and intangible assets	2,355	1,399
Amortization of premiums on bonds	1,283	1,202
Fair value change on FVTPL investments	(1,353)	1,175
Options expense	365	198
Currency translation	865	712
Prepaid expenses & other assets	504	(677)
Other	–	(2)
	29,772	30,295
Cash flow from changes in		
Accounts receivable	(16,810)	(12,894)
Net realized (gains) losses	(3,175)	(5,044)
Income taxes payable/recoverable	989	(1,222)
Due to insurance companies	6,020	1,521
Other liabilities	5,170	4,879
Cash provided by continuing operating activities	26,758	24,843
Financing activities		
Issue of common shares from stock options exercised	542	28
Common share dividends	(2,344)	
Share repurchase		(2,493)
Cash provided by (used in) financing activities	(1,802)	(2,465)
Investing activities		
Purchases of property, equipment and intangible assets	(4,965)	(2,046)
Sale of property and equipment & intangible assets	61	–
Purchase of investments	(359,389)	(386,294)
Sale/maturity of investments	371,397	371,134
Cash (used in) investing activities	7,104	(17,206)
Increase in cash and short-term deposits	32,060	5,172
Cash and short-term deposits, beginning of year	18,156	19,578
Cash and short-term deposits, end of year	50,216	24,750
Supplementary information		
Operating activities		
Income taxes paid	940	4,644

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 also owns all of the preferred shares plus 71.1% of common shares 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 August 7, 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 recognise 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 recognised 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 recognised progressively; if the obligating event is reaching a minimum threshold, the liability is recognised when the minimum threshold is met.

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

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 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 June 30, 2014**	**As at December 31, 2013**
Fixed income		
Canadian		
Federal	53,397	54,374
Provincial	43,743	42,718
Municipal	4,720	5,714
Corporate	178,603	162,316
	280,463	265,122
Fixed income lent through securities lending program		
Federal	14,351	49,165
Provincial	2,562	7,656
Municipal	–	411
Corporate	4,494	3,980
	21,407	61,212
Foreign fixed income		
Government	23,271	12,799
Corporate	63,302	45,608
	86,573	58,407
Total fixed income	388,443	384,741

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

	Carrying and fair values	
Available-for-sale	**As at June 30, 2014**	**As at December 31, 2013**
Commercial Mortgages pooled fund	2,110	2,052
Common shares		
Canadian	8,656	13,491
Foreign	14,905	24,693
Total common shares	23,561	38,184
Total available-for-sale	414,114	424,977
Fair value through profit or loss		
Preferred shares	36,714	29,340
Preferred shares lent through securities lending program	–	–
Total Preferred Shares	36,714	29,340
Total investments	450,828	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 June 30, 2014 the Company had collateral of $23,951 (2013 – $69,529) 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.

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

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 June 30, 2014, and December 31, 2013:

June 30, 2014	**Investments at fair value**			
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed Income	–	388,443	–	388,443
Commercial Mortgages pooled fund	–	–	2,110	2,110
Equities	60,275	–	–	60,275
	60,275	388,443	2,110	450,828

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 0.5% (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 $2,110 (December 31, 2013 – $2,052).

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

	3 months ended June 30		**6 months ended June 30**	
	2014	**2013**	**2014**	**2013**
Balance at beginning of year	2,075	484	2,052	484
Addition during the year	–	2,000	–	2,000
Disposal / Reclassification during the year	–	(484)	–	(484)
Net unrealized gains included in other comprehensive income	35	–	58	–
Balance at end of year	2,110	2,000	2,110	2,000

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 June 30, 2014 and December 31, 2013.

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

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 transfer during the six months ended June 30, 2014 (June 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.

A provision for impairments on investments of $nil was recognized in 2014 (June 30, 2013 – $901). A remaining gross unrealized loss of $1,174 on AFS investments held as at June 30, 2014 (June 30, 2013 – $1,660) is recorded, net of tax, in the amount of $897 (June 30, 2013 – $1,239) as Accumulated Other Comprehensive Income.

Investment income

The table below provides additional details on net investment income:

	3 months ended June 30		**6 months ended June 30**	
	2014	**2013**	**2014**	**2013**
Interest income	3,297	3,332	6,687	6,378
Dividend income	627	463	1,084	930
Net realized gains	1,512	4,635	3,175	5,945
Impairment loss	–	(896)	–	(901)
Fair value change on FVTPL investments	801	(1,466)	1,353	(1,175)
Realized and unrealized foreign exchange gains (losses)	(388)	(414)	(3)	(99)
Investment expenses	(353)	(326)	(666)	(662)
Investment Income	5,496	5,328	11,630	10,416

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.

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

The Company recorded a $5,053 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (June 30, 2013 – $4,159).

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 $22,722 as at June 30, 2014 (December 31, 2013 – $25,515).

Claims development

Provision for unpaid claims analysis	June 30, 2014	June 30, 2013
Unpaid claims, beginning of year, net	264,095	238,297
Change in undiscounted estimates for losses of prior years	1,308	(1,265)
Change in discount rate	267	–
Change in PFADs	3,478	(5,819)
Interest cost	–	2,925
Provision for claims occurring in current period	72,157	63,827
Paid on claims occurring during		
Current year	(20,825)	(19,356)
Prior year	(45,939)	(34,168)
Impact of discontinued items on claims	–	6,405
Unpaid claims, end of period, net	274,541	250,846
Reinsurers' share	38,829	30,942
Gross unpaid claims	313,370	281,788

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.

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 June 30, 2014 and December 31, 2013 based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

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

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 June 30, 2014				
200 basis point rise	389,729	(6%)	(16,984)	(2,308)
100 basis point rise	411,943	(3%)	(8,492)	(1,154)
No change	425,157	–	–	–
100 basis point decline	438,371	3%	8,492	1,154
200 basis point decline	451,585	6%	16,984	2,308

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 December 31, 2013				
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 June 30, 2014, and December 31, 2013, are as follows:

June 30, 2014	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	13,833	113,462	121,145	140,003	388,443
Percentage of total	4%	29%	31%	36%	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%

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

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

June 30, 2014	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Greater than 5 years**	**Total**
Actuarial liabilities (undiscounted)	110,126	116,048	58,986	40,026	325,186
Less: Reinsurance recoverable	15,806	14,877	6,835	4,521	42,039
Net actuarial liabilities	94,320	101,171	52,151	35,504	283,147

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

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 June 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**	
	June 30, 2014	**December 31, 2013**	**June 30, 2014**	**December 31, 2013**
10% rise	2,680	2,142	1,720	2,787
10% decline	(2,680)	(2,142)	(1,720)	(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.

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

The Company is exposed to risk from reinsurers' inability to cover balances. 90.1% of the Company's reinsurance balances are from registered reinsurers. The Company holds sufficient collateral to cover the 9.9% of reinsurance balances from unregistered reinsurers.

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

Fixed income portfolio

	As at June 30, 2014		As at December 31, 2013	
	Fair value	**Fair value**	**Fair value**	**Fair value**
AAA	107,391	27%	138,283	36%
AA	80,897	21%	66,644	17%
A	85,891	22%	87,761	23%
BBB	71,592	18%	54,248	14%
BB	21,562	6%	23,730	6%
B	7,361	2%	4,554	1%
CCC	2,937	1%	1,969	1%
Unrated	10,812	3%	7,552	2%
Total	388,443	100%	384,741	100%

Preferred share portfolio

	As at June 30, 2014		As at December 31, 2013	
	Fair value	**Fair value**	**Fair value**	**Fair value**
P1	3,907	11%	3,428	12%
P2	30,987	84%	23,540	80%
P3	1,820	5%	2,372	8%
Total	36,714	100%	29,340	100%

9 Intangible assets

	Opening cost	**Purchases**	**Sales**	**End of period cost**	**Accumulated amortization**	**Net**
Software						
June 30, 2014	13,301	4,678	–	17,979	10,469	7,510
December 31, 2013	10,403	2,898	–	13,301	8,341	4,960
Goodwill						
June 30, 2014	400	–	–	400	–	400
December 31, 2013	595	–	195	400	–	400
Total intangible assets						

June 30, 2014	13,701	4,678	–	18,379	10,469	7,910
December 31, 2013	10,998	2,898	195	13,701	8,341	5,360

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 $3,649 (June 30, 2013 – $4,721), commissions paid were $421 (June 30, 2013 – $543) and investment management fees were $137 (June 30, 2013 – $227).

The Company has a 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 $10,389 (June 30, 2013 – $10,968) with commissions paid of $1,353 (June 30, 2013 – $1,412). The payable to agents includes a payable to RP of $nil (June 30, 2013 – $nil).

11 Income taxes

The income tax expense (recovery) is as follows:

	3 months ended June 30		**6 months ended June 30**	
	2014	**2013**	**2014**	**2013**
Current	360	2,545	1,887	2,584
Deferred	89	(117)	(167)	(372)
	449	2,428	1,720	2,212

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:

	3 months ended June 30		**6 months ended June 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	93.3%	(1.4)%	(4.1)%	(2.3)%
Non-taxable income	(303.7)%	(3.2)%	2.7%	(3.5)%
Non-deductible expenses	(0.5)%	1.1%	1.4%	1.8%
Losses not previously recognized	44.9%	(1.4)%	(3.1)%	–
Non-taxable portion of capital gains	(10.0)%	(2.0)%	(1.8)%	–

Other	(144.6)%	1.6%	4.2%	(1.0)%
Effective income tax rate	293.6%	21.7%	26.3%	22.0%

12 Lease commitments

The Company is committed under lease agreements for office premises and computer equipment with minimum lease payments of $6,332 as follows:

Lease commitments	
2014	761
2015	1,507
2016	1,465
2017	1,294
2018	594
2019 and thereafter	711
	6,332

13 Accumulated other comprehensive income

	As at June 30, 2014	As at December 31, 2013
Net unrealized gains	11,969	6,694
Foreign currency translation adjustments	2,392	1,527
Tax impact	(2,183)	(1,051)
Ending balance	12,178	7,170

14 Earnings per share

	3 months ended June 30		6 months ended June 30	
	2014	**2013**	**2014**	**2013**
Basic earnings per share on continuing operations:				
Net continuing income available to shareholders	244	8,647	5,539	8,766
Average number of common shares (in thousands)	11,767	11,798	11,738	11,800
Basic earnings per share on continuing operations	$0.02	$0.73	$0.47	$0.74
Diluted earnings per share on continuing operations:				
Average number of common shares (in thousands)	11,767	11,789	11,738	11,800
Average number of dilutive common shares under employee stock option plan (in thousands)	350	194	355	192
Average number of diluted common shares (in thousands)	12,117	11,983	12,093	11,992
Diluted earnings per share on continuing operations	$0.02	$0.73	$0.46	$0.74

	3 months ended June 30		6 months ended June 30	
	2014	**2013**	**2014**	**2013**
Basic earnings per share:				
Net income available to shareholders	244	8,126	5,539	7,305
Average number of common shares (in thousands)	11,767	11,789	11,738	11,800
Basic earnings per share	$0.02	$0.69	$0.47	$0.62
Diluted earnings per share:				
Average number of common shares (in thousands)	11,767	11,789	11,738	11,800
Average number of dilutive common shares under employee stock option plan (in thousands)	350	194	355	192
Average number of diluted common shares (in thousands)	12,117	11,983	12,093	11,992
Diluted earnings per share	$0.02	$0.68	$0.46	$0.61

15 Non Controlling Interest

	3 months ended June 30		6 months ended June 30	
	2014	**2013**	**2014**	**2013**
Revenue				
Gross written and assumed premiums	12,518	11,768	30,243	19,061
Net earned premiums	3,170	2,892	8,024	4,608
Investment income	169	68	258	59
Total Revenue	3,339	2,960	8,282	4,667
Expenses				
Net incurred claims	2,884	1,224	5,312	2,123
Net acquisition costs	1,210	1,063	3,024	1,530
Operating costs	377	568	937	1,030
Total expenses	4,471	2,855	9,273	4,683
Income (loss) before income taxes	(1,132)	105	(991)	(16)
Income tax expense	(285)	13	(244)	(19)
Net income (loss) attributable to non-controlling interests	(847)	92	(747)	3

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

	June 30, 2014	**December 31, 2013**
Assets		
Cash and investments	19,390	18,937
Other assets	27,444	28,944
Total assets	46,834	47,881
Liabilities		
Unearned premium	23,014	27,056
Unpaid claims	12,860	11,923
Other liabilities	10,733	11,058
Total liabilities	46,607	50,037
Equity		
Share capital	1,734	–
AOCI	516	–
Retained earnings	(2,023)	(2,156)
Total equity	227	(2,156)
Total liabilities and equity	46,834	47,881

16 Subsequent Event

EGI acquired 75% of the Insurance Company of Prince Edward Island (ICPEI) from SGI Canada for $9,665. The transaction closed on June 30, 2014 and is accounted for commencing July 1, 2014. ICPEI is the largest Maritimes-based property and casualty insurance company, operating through independent brokers in Prince Edward Island, New Brunswick, and Nova Scotia.

On July 29, 2014, the Company injected additional capital of $2.0 million in Qudos in order to strengthen its regulatory capital ratios.

17 Segmented information

The Company operates through three segments: Personal Lines and Specialty Programs divisions in Canada 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 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.

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

	3 months ended June 30		**6 months ended June 30**	
	2014	**2013**	**2014**	**2013**
Revenue				
Earned premiums				
Canada – Personal Lines	30,546	32,058	61,101	62,295
– Specialty Programs	8,371	6,442	16,742	13,806
	38,917	38,500	77,843	76,101
International	22,968	11,947	46,140	18,912
Total earned premium	61,885	50,447	123,983	95,013
Net claims Incurred				
Canada – Personal Lines	18,322	17,867	36,073	40,466
– Specialty Programs	3,338	4,125	8,598	9,263
	21,660	21,992	44,671	49,729
International	19,547	5,652	32,272	9,938
Total net claims incurred	41,207	27,644	76,943	59,667
Net expenses				
Canada – Personal Lines	9,765	9,713	19,657	18,683
– Specialty Programs	4,476	2,984	9,216	6,328
	14,241	12,697	28,873	25,011
International	9,575	5,280	19,635	8,292
Corporate Expenses	898	745	2,036	1,476
Total net expenses	24,714	18,722	50,544	34,779
Income (loss) before income taxes				
Canada – Personal Lines	2,461	4,478	5,373	3,146
– Specialty Programs	557	(667)	(1,072)	(1,786)
	3,018	3,811	4,301	1,360
International	(6,154)	1,015	(5,767)	682
Corporate and other	(900)	(746)	(2,038)	(1,477)
Underwriting (loss) income	(4,036)	4,080	(3,504)	565
Impact of change in net claims discount rate	(267)	1,759	(267)	–
ICPEI Integration Cost	(1,347)		(1,347)	
Investment income	5,496	5,328	11,630	10,416
Total income before income taxes – continuing operations	(154)	11,167	6,512	10,981

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

Segmented long-term assets

	As at June 30, 2014	**As at December 31, 2013**
Canada – Personal Lines	7,728	5,051
– Specialty Programs	619	804
	8,347	5,855
International	318	260
Total segmented long-term assets	8,664	6,115