

EGI FINANCIAL HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
For the period ending September 30, 2011

References to "EGI" or "Company" in this Management's Discussion and Analysis refer to EGI Financial Holdings Inc. on a consolidated basis, both now and in its predecessor forms.

Important Note:

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in the first quarter 2011 interim consolidated financial statements. In this MD&A, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The interim consolidated financial statements for the quarters ended September 30, 2011, and 2010 have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in note 4 of the interim consolidated financial statements, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010, and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The policies applied in the interim consolidated financial statements are based on IFRS issued and outstanding as of November 9, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011, could result in restatement of the interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The following discussion should be read in conjunction with EGI's unaudited interim consolidated financial statements for the third quarter of fiscal 2011 and 2010, with the notes to the interim unaudited consolidated financial statements for the third quarter of fiscal 2011, with management's discussion and analysis (MD&A) set out on pages 3 to 50 of the Company's 2010 Annual Report and with the notes to the audited consolidated financial statements for fiscal 2010 set out on pages 60 to 83 of the Company's 2010 Annual Report. The financial data in this discussion has been prepared in accordance with IFRS and has been derived from the unaudited interim consolidated financial statements for the three and nine months September 30, 2011 and 2010.

The following commentary is current as of November 9, 2011. Additional information relating to EGI is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding. Amounts are in thousands of dollars except for per share amounts.

EGI uses both IFRS and certain non-IFRS measures to assess performance. Securities regulators require that companies caution readers about non-IFRS measures that do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other companies. EGI analyzes performance based on operating income and underwriting ratios such as combined, expense and loss ratios.

The following discussion contains forward-looking information that involves risk and uncertainties based on current expectations. This information includes, but is not limited to, statements about the operations, business, financial condition, priorities, targets, ongoing objectives, strategies and outlook of EGI for 2011 and subsequent periods.

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a projection as reflected in the forward-looking information. By its nature, this information is subject to inherent risks and uncertainties that may be general or specific. A variety of material factors, many of which are beyond EGI's control, affect the operations, performance and results of EGI and its business, and could cause actual results to differ materially from the expectations expressed in any of this forward-looking information. In addition to these risks, the new Qudos business faces additional risks, including the ability to obtain necessary European regulatory approvals, the ability to transfer existing business to Qudos and Qudos' ability to acquire new, profitable business in its chosen sectors.

EGI's actual results could differ materially from those anticipated in this forward-looking information as a result of various factors, including those discussed in this MD&A. Additional information about the general risks and uncertainties regarding EGI's business is provided in its disclosure materials, including its annual information form, filed with the securities regulatory authorities in Canada, available at www.sedar.com. EGI does not undertake to update any forward-looking information.

Company Overview

EGI operates in the property and casualty (P&C) insurance industry in Canada and, commencing in 2007, in the United States, primarily focusing on non-standard automobile insurance and other niche and specialty general insurance products. Founded in 1997 as an insurance and reinsurance broker and marketer, EGI has since developed its business to focus on underwriting opportunities not served by many of the larger, standard insurers.

EGI operates through three strategic business units (SBUs) – the Personal Lines and Niche Products divisions in Canada and the International division in the United States. The Personal Lines division focuses on the underwriting of non-standard automobile insurance and motorcycle business and other specialty vehicle lines of business. Through its Niche Products division, EGI designs and underwrites specialized insurance programs, such as higher premium property, primary and excess liability, legal expense and accident and health insurance for a variety of businesses and consumers and extended warranty coverage for homes and consumer products.

EGI's International division focuses on the development of non-standard automobile insurance in the Southeast United States. The Company acquired American Colonial Insurance Company in 2010 and subsequently commenced writing insurance premiums in Florida and Texas. It also has licenses in Georgia, Louisiana and Alabama for possible future geographic expansion.

By pursuing its focused niche strategy, EGI's objective is to produce a return on equity superior to the Canadian P&C insurance industry average. A key factor for EGI to outperform the industry is for its loss ratio to be below the industry average.

Overall Performance

P&C insurance companies continued to operate in a challenging environment in the third quarter of 2011. Although abating somewhat, high claims costs in the Ontario automobile market continue to impact loss ratios and erode profitability. Auto reforms implemented by the Ontario government, effective September 1, 2010 appear to be having a positive impact. The sustainable long-term impact remains unknown.

Despite the industry challenges, EGI's results have improved significantly. Income before taxes for the nine months ended September 30 this year increased by \$5.1 million to \$6.5 million from \$1.4 million for the same period in 2010. The combined ratio improved to 101.7% in the first nine months of 2011 from 109.9% in the comparable period of 2010. The key driver for this significant improvement was the performance of the Company's core business in Canadian non-standard auto. The non-standard auto line of business generated an underwriting income of \$5.8 million for the nine months ended September 30, 2011, compared to an underwriting loss of \$6.7 million for the same period in 2010. The non-standard auto line of business recorded a combined ratio of 92.9% for the nine months ended September 30, 2011, compared to 108.6% in the same period of 2010. Remedial actions taken by the Company during 2010 and 2011 have all contributed to the improved result – the reduction of exposure in the Greater Toronto Area, application of targeted rate increases, terminating selected broker relationships, judicious use of the industry's risk sharing pool and reducing broker commissions in selected jurisdictions. Although the full impact of the Ontario auto reform has yet to be quantified, the industry results in 2011 have improved over 2010. The Personal Lines division results, which include non-standard auto and motorcycle businesses, were impacted negatively by the motorcycle results. For the nine months ended September 30, 2011, the motorcycle line of business incurred an underwriting loss of \$3.2 million compared to a loss of \$1.2 million for the same period in 2010.

Our Niche Products division has improved its underwriting results in the first nine months of this year by \$0.2 million, when compared to the same period last year, by discontinuing certain unprofitable programs in early 2011. As a result, earned premiums have decreased in the first nine months of this year compared to the same period last year. Improvements were realized across nearly all product lines in 2011 and the current

accident year is generating results in line with expectations; however, the underwriting losses continued in 2011 primarily due to adverse development of prior year claims related to discontinued programs. Excluding the results of the discontinued programs, the Niche Products division's ongoing business generated an underwriting profit of \$0.3 million and a combined ratio of 99%.

The International division, which primarily consists of the start-up operations in the U.S., recorded an underwriting loss of \$2.0 million in the nine-month period ended September 30, 2011, compared to a loss of \$1.1 million in the first nine months of 2010. The loss was largely due to operating expenses of \$2.1 million in the nine months ended September 30, 2011, while net written premiums were \$2.1 million. The infrastructure of the U.S. operations was built for a larger volume of business and it is expected the U.S. business will continue to grow to scale.

Investment income declined to \$8.6 million year-to-date 2011 compared to \$13.8 million in the same period in 2010. This was the result of \$1.6 million realized losses on investments in 2011 compared to a gain of \$4.7 million in the first nine months of 2010. Realized losses in 2011 included a \$4.7 million impairment provision on specific investments; none was recorded in 2010. Excluding realized gains and losses, investment income in 2011 increased by 12.2% compared to the comparable period of 2010.

Net book value per share increased to \$12.41 as at September 30, 2011, compared to \$12.14 as at December 31, 2010.

Financial Overview

(\$ THOUSANDS except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Direct written and assumed premiums	46,966	48,636	130,568	148,617
Net earned premiums	41,672	42,149	123,072	120,752
Underwriting income (loss)	(775)	(2,897)	(2,110)	(11,885)
Interest expense	–	–	–	568
Investment income	939	3,939	8,622	13,825
Income before taxes	164	1,042	6,512	1,372
Net income (loss)	(173)	705	4,263	883
Net income (loss) per share				
Basic	\$(0.01)	\$0.06	\$0.35	\$0.07
Diluted	\$(0.01)	\$0.06	\$0.33	\$0.07
Return on equity ⁽¹⁾			5.2%	(1.0%)
Net operating income (loss) ⁽²⁾	2,330	44	6,149	(2,343)
Net operating income (loss) per share – diluted	\$0.18	–	\$0.48	\$(0.18)

(1) Represents EGI's net income for the twelve months ended on the date indicated, divided by the average shareholders' equity over the same twelve-month period.

(2) Net operating income (loss) is defined as net income (loss) plus or minus after-tax impact of change in discount rate on unpaid claims, realized losses or gains on sale of investments and unrealized fair value changes on held-for-trading investments.

(\$ THOUSANDS except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Loss ratio	66.0%	73.6%	66.3%	76.6%
Expense ratio	35.9%	33.3%	35.4%	33.3%
Combined ratio	101.9%	106.9%	101.7%	109.9%

(\$ THOUSANDS except per share amounts)	As at September 30, 2011	As at December 31, 2010
Investments (excluding premium finance receivables)	351,800	353,643
Premium finance receivables	16,819	26,692
Total assets	486,726	474,783
Total shareholders' equity	149,601	146,366
Book value per share ⁽¹⁾	\$12.41	\$12.14

(1) Shareholders' equity divided by the number of shares issued and outstanding.

Segmented Financial Information

Three months ended September 30								
2011					2010			
(\$THOUSANDS)	Canada			Inter- national	Canada			Inter- national
	Personal Lines	Niche Products	Total		Personal Lines	Niche Products	Total	
Net earned premiums	32,778	8,069	40,847	825	32,114	9,965	42,079	70
Underwriting income (loss) ⁽¹⁾	592	(324)	268	(696)	(2,617)	260	(2,357)	(75)
Loss ratio	68.9%	53.8%	66.0%	68.6%	80.7%	55.9%	74.8%	N/A ⁽²⁾
Expense ratio	29.2%	50.2%	33.3%	115.7%	27.5%	41.5%	30.8%	N/A ⁽²⁾
Combined ratio	98.2%	104.0%	99.3%	184.3%	108.2%	97.4%	105.6%	N/A ⁽²⁾

(1) Underwriting income (loss) does not include corporate and other expenses (see below).

(2) Due to the minimal earned premium in the International division the ratios are not meaningful.

The underwriting result in the Personal Lines division has improved significantly in the third quarter of 2011 compared to the same period in 2010. Underwriting income of \$0.6 million was earned in the Personal Lines division compared to a loss of \$2.6 million in the third quarter of 2010. The Niche Products division recorded an underwriting loss of \$0.3 million in the third quarter of 2011 compared to income of \$0.3 million in the same period in 2010.

The Personal Lines division loss ratio was 68.9%, a significant improvement compared to 80.7% last year. The division benefited from improved results in its core non-standard auto business, which recorded a loss

ratio of 62.3% in the third quarter of 2011 compared to 74.8% in the third quarter of 2010. The combined ratio for the quarter was 91.3% compared to 102.0% in the comparable quarter of 2010. As noted earlier, the improvement can be attributed to several initiatives taken by management in 2010, most notably the reduction of exposure in the GTA and surrounding area, which accounted for several large losses in 2010, and premium rate increases implemented throughout 2010 and early 2011.

The Niche Products division loss ratio in the third quarter of 2011 was 53.8% compared to 55.9% in the same period last year. Underwriting income reduced to a loss of \$0.3 million in this quarter from income of \$0.3 million in the same period of 2010. The expense ratio increased to 50.2% in the third quarter this year from 41.5% in the same period last year due to an increase in distribution costs and IT expenses. The loss in the International division of \$0.7 million is primarily due to expenses associated with our U.S. start-up operation.

EGI's expense ratio for the Canadian divisions increased in the third quarter of 2011 to 33.3% compared to 30.8% in the same period in 2010, primarily due to increases in commissions incurred in the Niche Products division due to the mix of business and accrual for incentives in 2011.

Corporate and other expenses of \$0.3 million in the third quarter of 2011, and \$0.5 million in the same period in 2010, have not been allocated by division.

Investment income decreased to \$0.9 million in the third quarter of 2011 compared to \$3.9 million in the same period in 2010. The decrease in investment income was primarily due to a \$4.3 million provision for impairment on specific investments in the third quarter of 2011 while there was none in the comparable period of 2010. As a result, including the provisions for impairment, a net realized loss of \$2.4 million was recorded in this quarter compared to a gain of \$1.1 million in the same period last year.

Nine months ended September 30								
2011					2010			
(\$THOUSANDS)	Canada			Inter-national	Canada			Inter-national
	Personal Lines	Niche Products	Total		Personal Lines	Niche Products	Total	
Net earned premiums	96,394	25,389	121,783	1,289	91,096	29,580	120,676	76
Underwriting income (loss) ⁽¹⁾	2,742	(1,609)	1,133	(2,025)	(7,970)	(1,797)	(9,767)	(1,097)
Loss ratio	68.2%	59.0%	66.3%	69.2%	80.5%	66.6%	77.1%	N/A ⁽²⁾
Expense ratio	29.0%	47.4%	32.8%	187.9%	28.2%	39.4%	30.9%	N/A ⁽²⁾
Combined ratio	97.2%	106.4%	99.1%	257.1%	108.7%	106.0%	108.0%	N/A ⁽²⁾

(1) Underwriting income (loss) does not include corporate and other expenses (see below).

(2) Due to the minimal earned premium in the International division the ratios are not meaningful.

On a year-to-date basis for 2011, the underwriting results for both Canadian divisions improved compared to the same period in 2010. The Personal Lines division recorded an underwriting profit of \$2.7 million compared to a loss of \$8.0 million in the first nine months of 2010. The Niche Products division incurred an underwriting loss of \$1.6 million in the first nine months of 2011 which is a \$0.2 million improvement from the \$1.8 million loss incurred in the same period in 2010.

The Personal Lines combined ratio of 97.2% in the first nine months of 2011 represents a significant improvement compared to 108.7% for the same period in 2010. The loss ratio decreased to 68.2% in 2011

compared to 80.5% in 2010. As noted earlier, this improvement is the result of several initiatives taken by management in 2010 to reduce adverse claims experience, particularly in the Ontario non-standard auto line of business, as well as initial indications of the positive impact of Ontario auto reforms which were implemented in the Fall of 2010.

The Niche Products division combined ratio increased slightly to 106.4% for the first nine months of 2011 from 106.0% in 2010. The expense ratio increased in the first nine months of 2011 to 47.4% from 39.4% in the same period of 2010 due to higher commission expenses and operating costs associated with system enhancements. Earned premiums for the first nine months of 2011 were \$4.2 million lower than same period of 2010 due to the discontinuation of certain unprofitable programs.

The nine-month underwriting loss of \$2.0 million incurred by the International division was due to start-up costs of the U.S. operations. In the first nine months of 2011, U.S. operations recorded \$2.1 million in net written premiums. There were no direct written premiums for same period of 2010. However, it incurred operating expenses of \$2.1 million in the first nine months of 2011 as the infrastructure is being built up to handle a larger volume of business.

Corporate and other expenses of \$1.2 million in the first nine months of 2011, and \$1.0 million in the same period in 2010, have not been allocated by division.

Investment income declined to \$8.6 million year-to-date 2011 compared to \$13.8 million in the same period in 2010. This was the result of net realized losses of \$1.6 million in 2011 compared to gains of \$4.7 million in the first nine months of 2010. Realized losses in 2011 included \$4.7 million of impairment provision on specific investments, none was recorded in the same period of 2010. Excluding realized gains and losses, investment income in 2011 increased by 12.2 % compared to the comparable period of 2010.

Critical Accounting Estimates and Assumptions

For a description of EGI's accounting policies, which are on an IFRS basis, refer to note 4 in the interim financial statements for the quarter ended September 30, 2011. A description of EGI's critical accounting estimates and assumptions is detailed in note 3 of the third quarter 2011 interim consolidated financial statements.

First time adoption of International Financial Reporting Standards (IFRS)

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company commenced reporting on this basis in the first quarter of fiscal 2011. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

The interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in note 4, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010, and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The policies applied in the interim consolidated financial statements are based on IFRS issued and outstanding as of November 9, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of the interim consolidated financial statements, including the transition adjustments recognized on the change-over to IFRS.

As previously disclosed in EGI's Management Discussion & Analyses (MD&As), the adjustments related to the transition to IFRS had no impact on EGI's total shareholders' equity of as at January 1 or December 31, 2010. The adjustments required are summarized as follows:

Cumulative translation differences

Adjustment to opening balance sheet as at September 30, 2010, and December 31, 2010

IFRS 1 provides an exemption which provides relief from retrospective application of the IAS 21 requirement to restate all financial statements of foreign operations from date of inception and determine the cumulative translation differences.

Management has elected to take this exemption and has therefore reset the cumulative translation differences related to foreign operation to zero as at January 1, 2010.

The effect of this election was to reduce the cumulative translation loss of \$678 in accumulated other comprehensive income (AOCI) as at January 1, 2010, and December 31, 2010, therefore decreasing retained earnings by \$678. There is no impact to the total equity.

Foreign exchange

Adjustments required as at September 30, 2010, and December 31, 2010

Under IFRS changes in unrealized foreign exchange gains and losses related to investments designated as available-for-sale are recorded in net income in the current period. Under Canadian GAAP these unrealized gains and losses were recorded in OCI. Gross unrealized losses of \$84, recorded net of income tax in the amount of \$59 and \$239 (\$166 net of income tax), related to bonds denominated in US\$ held at September 30, 2010, and December 31, 2010, have been reflected as an adjustments to retained earnings and AOCI as at September 30, 2010, and December 31, 2010, respectively. Gross unrealized losses of \$105 (\$71 net of income tax), \$38 (\$26 net of income tax) and \$116 (\$81 net of income tax) have been recorded as adjustments to investment income and OCI for the three and nine month period ended September 30, 2010, and year ended December 31, 2010, respectively.

Share based compensation

For determination of compensation expenses and contributed surplus related to stock option grants, IFRS and Canadian GAAP differ in two respects which impact EGI. Stock options which contain a graded vesting feature (the total options granted vest on a graded basis such as annually over 5 years) are accounted for separately based on the date of vesting. Under Canadian GAAP, the total options granted are accounted for as one grant and one vesting period is used. Under IFRS at the time that options are granted, expected forfeiture rates are estimated and used to reduce the amount expensed over the life of the options. The estimated forfeiture rate is adjusted to actual forfeiture experience as information becomes available. Under Canadian GAAP, EGI recorded the impact of forfeitures in the period that the forfeiture occurred.

Management has determined that both of the differences noted above result in an adjustment to the balance sheet as at September 30, 2010, and the balance sheet as at December 31, 2010. As at September 30, 2010, and December 31, 2010, Contributed surplus was increased by \$13 and Retained earnings decreased

by \$13.

Valuation of preferred shares designated as available-for-sale

Under IFRS, available-for-sale (AFS) equity investments not quoted in an active market must be measured at fair value, unless fair value cannot be reliably measured. Under Canadian GAAP, such assets were measured at cost. Preferred shares purchased in the first quarter of 2010 at a cost of \$2,000 are recorded at a fair value of \$2,000 as at September 30, 2010, and December 31, 2010.

Impact on future quarterly earnings

As noted, unrealized gains or losses related to the foreign currency translation of monetary investments designated as AFS will be recorded to income on a quarterly basis. Due to the relatively low amount of US\$ bonds expected to be held by EGI, it is expected that the amounts recorded to income on a quarterly basis will be immaterial. Similarly the differences in accounting for stock options under IFRS will result in an insignificant impact to the future quarterly results of EGI.

Controls and Procedures

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by EGI is recorded, processed, summarized and reported in a timely manner. This includes controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of September 30, 2011, an evaluation was carried out, under the supervision of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of these disclosure controls and procedures was effective.

Internal Controls over Financial Reporting

As at the quarter ended September 30, 2011, the Chief Executive Officer and the Chief Financial Officer evaluated the design of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal controls as at September 30, 2011, was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company's internal control over financial reporting during the quarter ended September 30, 2011, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Summary of Quarterly Results

A summary of the Company's last eight quarters is as follows:

(\$ THOUSANDS EXCEPT PER SHARE DATA)	2011				2010			2009*
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Direct written and assumed premiums	46,966	52,751	30,850	37,054	48,636	55,991	43,990	39,303
Total revenues (excluding investment income)	41,672	41,056	40,344	42,121	42,149	40,379	38,224	36,439
Underwriting income (loss)	(775)	(1,220)	(113)	2,057	(2,897)	(3,178)	(5,810)	(9,454)
Income (loss) before income taxes	164	2,061	4,289	5,678	1,042	2,855	(2,535)	(3,280)
Net income (loss)	(173)	1,410	3,028	3,253	705	2,016	(1,846)	(2,347)
Earnings per adjusted share								
– Basic	\$0.01	\$0.12	\$0.25	\$0.27	\$0.06	\$0.17	\$(0.15)	\$(0.20)
– Diluted	\$0.01	\$0.10	\$0.24	\$0.25	\$0.06	\$0.16	\$(0.14)	\$(0.19)
Selected financial ratios (%)								
Loss ratio	66.0	67.1	65.7	63.3	73.6	73.3	83.4	92.1
Expense ratio	35.9	35.9	34.6	31.8	33.3	34.6	31.8	33.8
Combined	101.9	103.0	100.3	95.1	106.9	107.9	115.2	125.9

*Canadian GAAP Basis

Quarter Ended September 30, 2011, Compared to Quarter Ended September 30, 2010

The following financial information compares third quarter 2011 results with the third quarter of 2010.

(\$ THOUSANDS)	3rd Quarter 2011	3rd Quarter 2010	Variance \$	Variance %
Direct written premiums	46,966	48,636	(1,670)	(3.4)
Net written premiums	43,143	44,072	(929)	(2.1)
Net earned premiums	41,672	42,149	(477)	(1.1)
Claims incurred	27,507	31,010	(3,503)	(11.3)
Acquisition costs	9,749	9,129	620	6.8
Operating expenses	5,191	4,907	284	5.8
Underwriting income (loss)	(775)	(2,897)	2,122	73.3
Investment income	939	3,939	(3,000)	(76.2)
Income before income taxes	164	1,042	(878)	(84.3)
Income tax expense	337	337	–	–
Net income	(173)	705	(878)	(124.5)

Insurance Operation

Written Premiums

Direct written premiums declined in both Canadian divisions compared to the third quarter of 2010. Personal Lines premiums decreased by 3.9% to \$34.6 million in 2011 compared to \$36.0 million in the third quarter of 2010 as the result of management's remedial actions taken in 2010 as noted earlier. The initiative was

undertaken to more efficiently implement premium rate increases at the time of renewal and to attach administrative fee income associated with mandatory six-month policy terms. Premium volumes for recreational and miscellaneous vehicles continue to grow but are not yet material to the overall results.

Direct written premiums for the Niche Products division decreased by 12.2% to \$11.0 million for the three months ended September 30, 2011. The decrease is primarily due to the cancellation of several unprofitable programs in early 2011.

Net written premiums decreased by 2.1% to \$43.1 million for the three months ended September 30, 2011, compared to \$44.1 million the same period last year. This decrease is less than the decrease in direct written premiums because ceded premiums were lower in the third quarter of 2011 than the same period in 2010 by \$0.7 million.

Earned Premiums

Net earned premiums for the three months ended September 30, 2011, totaled \$41.7 million, a decrease of 1.1% over the third quarter 2010 as a result of decrease in net written premiums in the third quarter of 2011 over the same period in 2010.

Incurred Claims Expense

Net incurred claims decreased for the three months ended September 30, 2011, to \$27.5 million compared to \$31.0 million in the third quarter of 2010. The total Company loss ratio was 66.0% for the quarter compared to 73.6% in 2010. This significant improvement was the result of improved claims experience in both Canadian divisions.

The Personal Lines division recorded a loss ratio of 68.9% for the quarter ended September 30, 2011, compared to a loss ratio of 80.7% for the same period in 2010. The improvement was particularly evident in the non-standard auto line which improved to 62.3% from 74.8% in 2010. As noted earlier, a number of management initiatives taken in 2010 contributed to the improved result. Reduced exposure to the GTA and surrounding area, premium rate increases and the transfer of selected risks to the Ontario Facility risk sharing pool were actions taken which were designed to reduce the loss ratio, particularly in the dominant Ontario non-standard auto line. In the motorcycle line of business, the loss ratio also improved to 117.9% in the third quarter of 2011 compared to 122.0% in the same period in 2010. The majority of improvement resulted from better current year accident results.

The loss ratio for the Niche Products division improved to 53.8% in the three month period ended September 30, 2011, compared to 55.9% for the same period last year. The cancellation of several unprofitable programs and more restrictive underwriting on other underperforming programs led to the improved 2011 result.

The International division experienced a loss ratio of 68.6% for the third quarter of 2011; this is particularly encouraging in a start up operation.

On a total Company basis, positive development of prior year claims was \$1.4 million in the third quarter of 2011, compared to \$1.9 million for the same period in 2010.

Acquisition Costs

Net acquisition costs, which mainly consist of commissions and premium taxes, increased 6.8%, to \$9.8 million for the three months ended September 30, 2011, compared to \$9.1 million in the same period in 2010. The increase, compared to the decrease of 1.1% in net earned premiums, is due to variations in the mix of business in 2011.

Operating Expenses

Total operating expenses increased to \$5.2 million in the third quarter of 2011 compared to \$4.9 million in the same period in 2010. The significant increase was primarily due to increases in salary costs including incentive compensation accruals. In addition, in the third quarter of 2011, increased efforts to improve the system infrastructure of the Company in 2011 have contributed to the increase in expenses in the quarter compared to 2010.

Underwriting Income (Loss)

Underwriting results reflect revenues from net earned premiums less claims, acquisition and operating expenses. In the third quarter of 2011, total underwriting contribution increased by \$2.1 million to an underwriting loss of \$0.8 million, compared to an underwriting loss of \$2.9 million for the comparable period in 2010. The underwriting results for 2011 and 2010 include \$0.3 million and \$0.5 million, respectively, of corporate and other expenses which have not been allocated to the operating divisions.

The Personal Lines division recorded an underwriting gain of \$0.6 million in the third quarter of 2011, a significant improvement of \$2.0 million, compared to loss of \$2.6 million for the corresponding period of 2010. This improvement was primarily due to remedial actions taken by management in 2010 as mentioned earlier. The core non-standard auto business produced an underwriting income of \$2.4 million compared to a loss of \$0.6 million in the third quarter to 2010.

The Niche Products division recorded an underwriting loss of \$0.3 million for the three months ended September 30, 2011, compared to a \$0.3 million income in the same period of 2010. The loss ratio improved in this period compared to the same period in 2010 while expense ratio increased in this period compared to the same period in 2010.

The International division experienced an underwriting loss of \$0.7 million in the third quarter of 2011, compared to a loss of \$0.1 million in the same period of 2010. The result was due to continued operating expenses incurred in the U.S. operations and release of reserves in 2010 related to a reinsurance treaty. Net written premiums have increased to \$1.3 million in the third quarter of 2011 indicating business growth in this division which is expected to continue in the remainder of 2011.

Investment Income

Investment income for the three months ended September 30, 2011, was \$0.9 million compared to \$3.9 million for the same period in 2010. Income from interest and dividends net of investment expenses was \$3.2 million, compared to \$3.1 million in the same period last year. Gains on the sale of investments were \$1.9 million in the third quarter of 2011 compared to a net gain of \$1.1 million in the same period in 2010. Impairment provisions of \$4.3 million were included in net realized losses of the third quarter of 2011 and none in 2010. As a result, net realized losses of \$2.4 million were recorded in the third quarter of 2011 compared to a gain of \$1.1 million in the same period of 2010.

Also during the third quarter of 2011, a decrease of \$0.2 million in the fair value of preferred shares, designated as held-for-trading (HFT), was included in investment income. There were no investments designated as held-for-trading in the third quarter of 2010.

EGI's investment portfolio, including finance receivables, based on fair values, decreased by 3.1% to \$368.6 million, compared to total fair values of \$380.3 million as at December 31, 2010.

Net Income before Income Taxes

Income before income taxes was \$0.2 million for the three months ended September 30, 2011, comprised of an underwriting loss of \$0.8 million plus investment income of \$0.9 million. Income before income taxes was \$1.0 million in the same period of 2010, comprised of an underwriting loss of \$2.9 million, plus investment

income of \$3.9 million.

Income Taxes

Income tax expense of \$0.3 million was recorded in the third quarter of 2011, same as 2010. The effective tax rate in the third quarter of 2011 increased over the same period in 2010, primarily the result of higher losses from the International division for which no related tax benefit was recorded.

Other comprehensive income (loss)

An other comprehensive income of \$0.2 million was recorded in the third quarter of 2011 compared to \$7.5 million for the same period in 2010. The decrease in 2011 represents the decrease in fair value of investment holdings designated as available-for-sale during the quarter, plus the reclassification of realized losses to net income, and the unrealized gain/loss on translation of financial statements of foreign operations.

Nine months Ended September 30, 2011, Compared to Nine Months Ended September 30, 2010

The following financial information compares the first nine months of 2011 results with the first nine months of 2010.

(\$ THOUSANDS)	9 months ended Sept. 30 2011	9 months ended Sept. 30 2010	Variance \$	Variance %
Direct written premiums	130,568	148,617	(18,049)	(12.1)
Net written premiums	119,499	133,495	(13,996)	(10.5)
Net earned premiums	123,072	120,752	2,320	1.9
Claims incurred	81,575	92,463	(10,888)	(11.8)
Acquisition costs	27,883	27,042	841	3.1
Operating expenses	15,724	13,132	2,592	19.8
Underwriting income (loss)	(2,110)	(11,885)	(9,775)	(82.3)
Investment income	8,622	13,825	(5,203)	(37.6)
Interest expense	–	568	(568)	(100.0)
Income before income taxes	6,512	1,372	5,140	374.6
Income tax expense	2,249	489	1,760	359.9
Net income	4,263	883	3,380	382.8

Written Premiums

Direct written premiums decreased \$18.0 million, or 12.1%, to \$130.6 million for the nine-month period, compared to \$148.6 million for the nine-month period of 2010. Direct written premiums from Personal Lines totaled \$95.1 million year-to-date 2011 which represents an 11.5% decrease compared to \$107.5 million in 2010. As noted earlier, the decline can be directly attributed to management's initiative to write and renew all Ontario private passenger automobile policies with a maximum six-month term late in 2010. As a result, written premiums decreased due to shorter-term policies, as compared to policies with 12-month terms; however, earned premiums are not affected. Due to this initiative, non-standard auto premiums declined to \$76.3 million for the nine months ended September 30, 2011, compared to \$89.8 million in the same period in 2010. The motorcycle line recorded a modest increase to \$15.6 million of direct written premiums in the first nine months of 2011 compared to \$14.9 million in the same period in 2010.

The Niche Products division recorded written premiums of \$33.3 million in the first nine months of 2011

compared to \$41.1 million for the same period of 2010. The decrease was the result of the cancellation of several non-profitable programs during 2011.

The International division began writing primary business in 2011 and recorded net written premiums of \$2.1 million for the nine months ended September 30, 2011.

Net written premiums decreased \$14.0 million, or 10.5%, to \$119.5 million compared to \$133.5 in the nine-month period last year. This decrease is less than the decrease in direct written premiums as a result of reduction in ceded premiums in 2011 when compared to the same period in 2010.

Earned Premiums

Net earned premiums for the nine months ended September 30, 2011, totaled \$123.1 million, an increase of \$2.3 million, or 1.9%, compared to \$120.8 million in the first nine months of 2010. Despite the decline in net written premiums, caused largely by the issuance of six-month policy terms in the Ontario non-standard auto line of business in late 2010, earned premiums were not affected. As a result, earned premiums have increased on a year-over-year basis due to the growth in business volume in 2011 over 2010.

Incurred Claims Expense

Net incurred claims expense decreased \$10.9 million, or 11.8%, to \$81.6 million for the first nine months of 2011, compared to \$92.5 million for the same period in 2010. The Personal Lines division loss ratio for the first nine months of 2011 was 68.2% compared to 80.5% in the same period in 2010. Non-standard auto recorded a loss ratio of 64.4% in the first nine months of 2011 compared to 80.9% last year. The significant improvement was due to corrective actions taken in late 2010, as noted earlier, and the impact of the Ontario auto reforms implemented in the Fall of 2010, which have particularly improved the current accident year. The motorcycle line of business incurred a year-to-date loss ratio of 96.5% compared to 78.7% for the nine months ended September 30, 2010. This was primarily due to the lack of positive claims development as experienced in the first nine months of 2010.

The Niche Products division recorded a loss ratio of 59.0% in the first nine months of 2011 compared to 66.6% in the same period in 2010 as a result of discontinuation of certain unprofitable programs in 2011.

For all lines of business combined, positive loss development on prior years' claim reserves was \$4.5 million in the first nine months of 2011 compared to \$3.5 million in the same period of 2010.

Acquisition Costs

Net acquisition costs, which mainly consist of commissions and premium taxes, increased \$0.8 million, or 3.1%, to \$27.9 million for the nine-month period of 2011, compared to \$27.0 million in the same period in 2010. The increase is consistent with the increase in net earned premiums in the nine months ended September of 2011 over the same period of 2010.

Operating Expenses

Operating expenses increased \$2.6 million, or 19.8%, to \$15.7 million for the first nine months of 2011, compared to \$13.1 million in 2010. The increase is primarily the result of increases in salaries, the reversal of a 2009 incentive compensation accrual in the first half of 2010, and information systems costs incurred to enhance the system infrastructure of the Company.

Underwriting Income (Loss)

Underwriting results reflect revenues from net earned premiums less claims, acquisition and operating

expenses. In the first nine months of 2011 total underwriting contribution increased \$9.8 million to an underwriting loss of \$2.1 million, compared to an underwriting loss of \$11.9 million for the comparable period in 2010. The underwriting results for 2011 and 2010 include \$1.2 million and \$1.0 million of corporate and other expenses, respectively, which have not been allocated to the operating divisions.

The underwriting gain from the Personal Lines division for the first nine months of 2011 was \$2.7 million, an increase of \$10.7 million, compared to a loss of \$8.0 million for the same period of 2010. The significant improvement was the result of the lower loss ratio in Personal Lines, particularly in the non-standard auto portfolio, in the first nine months of 2011 compared to 2010.

The underwriting loss in the Niche Products division for the first nine months of 2011 was \$1.6 million, an improvement of \$0.2 million compared to an underwriting loss of \$1.8 million in the corresponding period of 2010.

The International division experienced an underwriting loss of \$2.0 million year-to-date 2011 compared to an underwriting loss of \$1.1 million in the same period in 2010.

Investment Income

Investment income declined to \$8.6 million year-to-date 2011 compared to \$13.8 million in the same period in 2010. This was the result of net realized losses of \$1.6 million in 2011 compared to gains of \$4.7 million in the first nine months of 2010. Realized losses in 2011 included \$4.7 million of impairment provision on specific investments, none was recorded in the same period of 2010. Excluding realized gains and losses, investment income in 2011 increased by 12.2 % compared to the comparable period of 2010. Income from interest and dividends, net of investment expenses, increased to \$10.0 million compared to \$9.4 million in the same period last year, due to the growth in the investment portfolio.

Interest Expense

Interest expense of \$0.6 million was recorded for the nine months ended September 30, 2010, related to bank debt which was fully repaid in June, 2010.

Income before Income Taxes

Income before income taxes for the nine months ended September 30, 2011, was \$6.5 million, an increase of \$5.1 million compared to income of \$1.4 million for the nine months ended September 30, 2010.

For the nine months ended September 30, 2011, an underwriting loss of \$2.1 million plus investment income of \$8.6 million comprised income before income taxes of \$6.5 million. This compares to an underwriting loss of \$11.9 million, plus investment income of \$13.8 million, reduced by interest expense of \$0.6 million, for income before income taxes of \$1.4 million in the same period of 2010.

Income Taxes

The provision for income taxes for the first nine months of 2011 was \$2.2 million compared to \$0.5 million for the same period in 2010. The effective tax rate was 34.5% for the first nine months of 2011, compared to 35.6% for the nine-month period of 2010. This change is due to the decrease in Federal and Provincial tax rates in 2011 from 2010, partially offset by losses in the U.S. operation that had not recognized any related tax benefit.

Other Comprehensive Income (loss)

Other comprehensive loss of \$1.1 million was recorded in the first nine months of 2011 compared to income of \$6.1 million for the same period in 2010. The income or loss represents the change in fair value of

investments during the period, less the reclassification of realized gains/losses to net income and the change in unrealized gain/loss on translation of financial statements of foreign operations.

BALANCE SHEET ANALYSIS

The Balance Sheet analysis that follows should be read in conjunction with the unaudited interim consolidated third quarter 2011 financial statements and notes therein, which include additional disclosures related to balance sheet risk management.

Cash and short-term deposits

Cash and short-term deposits of \$37.6 million at September 30, 2011 increased by \$20.6 million from December 31, 2010 because of an increase in cash position held by investment managers and the holding of funds in anticipation of the transaction for European expansion described in the Liquidity and Capital Resources section.

Investments

EGI has an investment policy that seeks to provide a stable income base to support EGI's liabilities without incurring an undue level of investment risk. All investment decisions are made with this risk-return tradeoff in mind. The two most important methods used to reduce the level of risk without reducing the rate of return in EGI's portfolio are diversification and the use of proven investment professionals.

EGI's Board of Directors has established an Investment Committee to develop and implement detailed strategies consistent with EGI's objectives and to report regularly to the Board of Directors on its activities. EGI has outsourced all buy/sell decisions on individual securities to a small number of reputable professional investment managers. Using the "prudent person" approach, the Investment Committee monitors the performance of each manager, measuring his or her performance against an appropriate market index benchmark.

Each of EGI's investment managers operates under an investment management agreement which provides the investment manager with a discretionary mandate to hold one or more types of securities and/or cash. The investment manager receives an annual fee (payable quarterly) based on a negotiated percentage of the market value of the portfolio being managed. The investment manager's engagement is subject to immediate cancellation by EGI, without penalty, upon giving written notice.

EGI's investment portfolio is primarily invested in well-established, active and liquid markets in Canada and the United States. Fair value for most investments is determined by reference to quoted market prices. The external investment managers invest on a total-return basis, viewing realized gains and losses as important and recurring components of the return on investments and, consequently, of income. The timing of the realization of gains and losses may be unpredictable, and changes in the overall levels of fixed income or equity markets generally result in corresponding changes in realized gains and losses.

The following table sets forth EGI's invested assets as at September 30, 2011, and December 31, 2010:

Available-for-sale (\$ THOUSANDS)	Carrying and fair values	
	September 30, 2011	December 31, 2010
Bonds		
Canadian		
Federal	95,414	91,664
Provincial	48,924	48,130
Municipal	14,104	5,855
Corporate	107,909	111,789
	266,351	257,438
United States		
Federal	3,554	3,585
Corporate	10,571	8,377
	14,125	11,962
Total bonds	280,476	269,400
Preferred shares	1,750	2,000
Common shares		
Canadian	54,003	69,535
United States	1,390	1,254
	55,393	70,789
Total available-for-sale	337,619	342,189
Held for trading		
Preferred shares	10,921	9,373
Investment income due and accrued	3,260	2,081
Total investments	351,800	353,643

EGI's portfolio is constructed in a manner that seeks to ensure that its objectives of producing a competitive rate of return are met, while at the same time protecting and enhancing statutory underwriting capital on a long-term basis. This is achieved through diversification principles that ensure each asset class has limited exposure by region, industry, issuer and type of underlying security. Target ranges are set for each asset class and economic sector and are monitored by the Investment Committee to ensure that EGI's investment managers comply with these guidelines. Each manager is required to satisfy EGI's liquidity needs.

Impairment of financial assets

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired, including in the case of equity investments classified as available for sale (AFS), a significant or prolonged decline in the fair value of the security below its cost. If such evidence exists, the Company recognizes an impairment loss, as follows:

- (i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- (ii) Available-for-sale financial assets: The impairment loss is the difference between the amortized cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

If, in a subsequent period, the fair value of an available-for-sale debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Impairment losses on available-for-sale equity instruments are not reversed.

Impairments on equities of \$4.3 million were recognized in the third quarters of 2011 and none in the same period of 2010.

An unrealized gain of \$18.4million (net of tax \$11.9 million) on AFS investments held as at September 30, 2011 and \$20.4 million (net of tax \$13.1 million) as at December 31, 2010, were recorded in Accumulated Other Comprehensive Income.

Recoverable from Reinsurers

(\$ THOUSANDS)	As at September 30, 2011	As at December 31, 2010
Reinsurers' share of unpaid claims	35,184	36,152
Reinsurers' share of unearned premiums	5,058	6,471
Total	40,242	42,623

As at September 30, 2011, the recoverable from reinsurers decreased to \$40.2 million compared to \$42.6 million as at December 31, 2010. The decrease reflects the decrease in gross and ceded unearned premiums due to the limiting of policy terms to six months in the Ontario auto line of business. All reinsurers, with balances due, have a rating of B++ or above as determined by A.M. Best, except for certain Niche Products distributors who share a portion of the risk with EGI and for whom EGI holds deposits.

Accounts Receivable

(\$ THOUSANDS)	As at September 30, 2011	As at December 31, 2010
Premium financing receivables	16,819	26,692
Facility Association	(292)	(154)
Agents and brokers	6,200	5,107
Other	61	67
Total	22,788	31,712

Premium financing receivables at September 30, 2011, decreased to \$16.8 million from \$26.7 million at December 31, 2010. These premiums are primarily billed directly to policyholders who are provided with a monthly payment financing option. The decrease is directly attributable to the offering of maximum six-month policy terms in the Ontario auto line of business in late 2010.

Provision for Unpaid Claims

EGI establishes loss reserves to provide for future amounts required to pay claims related to insured events, that have occurred and been reported but have not yet been settled, and related to events that have occurred but have not yet been reported to EGI. Claims provisions (i.e., reserves for claims liability) are established at the individual file level by the "case method" as claims are reported. Provision for unpaid claims consists of the aggregate amount of individual case reserves established and management's estimate

of claims incurred but not reported based on the volume of business currently in force and historical claims experience. In order to ensure that EGI's provision for unpaid claims (often called "reserves") is adequate, management has retained the services of an independent actuary.

The table below shows the development of the provision for gross claims reserves, including loss adjustment expenses as at December 31 in each year of the four years and for the nine months ended September 30, 2011.

(\$ THOUSANDS)	Years ended December 31				
	2010	2009	2008	2007	2006
Reserve Carried (actuarial present value basis) ⁽¹⁾	239,036	207,220	185,255	169,091	146,101
Reserve at December 31, 2007					107,992
Cumulative paid to December 31, 2007					30,491
Cumulative Redundancy (Deficiency)					7,618
Reserve at December 31, 2008				118,675	81,249
Cumulative paid to December 31, 2008				44,790	53,520
Cumulative Redundancy (Deficiency)				5,626	11,332
Reserve at December 31, 2009			133,213	89,063	59,530
Cumulative paid to December 31, 2009			53,253	73,853	74,402
Cumulative Redundancy (Deficiency)			(1,211)	6,175	12,169
Reserve at December 31, 2010		146,455	96,526	58,723	36,349
Cumulative paid to December 31, 2010		57,465	92,567	105,567	97,824
Cumulative Redundancy (Deficiency)		3,300	(3,838)	4,801	11,928
Reserve at September 30, 2011	189,392	119,382	76,743	43,757	25,097
Cumulative paid to September 30, 2011	45,900	83,024	111,723	120,128	108,091
Cumulative Redundancy (Deficiency)	3,744	4,815	(3,211)	5,206	12,913

(1) Amounts include Provision for Adverse Deviation (PfAD) of \$25,441 for 2010, \$22,688 for 2009; \$20,102 for 2008; \$17,401 for 2007; and \$14,756 for 2006.

The uncertainties regarding EGI's reserves could result in a liability exceeding the reserves by an amount that would be material to EGI's financial condition or results of operations in a future period. Future development could be significantly different from the past, due to many unknown factors.

Share Capital

As of November 7, 2011, there were 12,059,582 common shares issued and outstanding (see Note 12 to the unaudited interim consolidated third quarter 2011 financial statements) and 793,000 options issued and outstanding.

Liquidity and Capital Resources

The purpose of liquidity management is to ensure there is sufficient cash to meet all of EGI's financial commitments and obligations as they come due. The Company suspended quarterly dividends to its common shareholders, to assist in building a stronger capital base to support future growth. EGI believes that it has the flexibility to obtain, from internal sources, the funds needed to fulfill its cash requirements, during the following financial year and to satisfy regulatory capital requirements. EGI's principal sources of funds are premiums collected, investment income and proceeds from investments that have been sold or have matured. However, such funds may not provide sufficient capital to enable EGI to pursue additional

market opportunities.

On October 24, 2011, the Company invested approximately Euro 7.5 million by acquiring all of the preference shares and 51% of the voting shares of QIC Holdings ApS ("QIC"). QIC is a newly-formed Danish holding company with a wholly-owned subsidiary, Qudos Insurance A/S ("Qudos"), a newly-incorporated insurance company based in Denmark. QIC had no assets or liabilities prior to this transaction. This structure was set up to enable EGI to expand its insurance business model in Europe.

EGI's contractual obligations relating to operating leases are \$1.1 million, due in less than a year, and \$5.6 million due in the next nine years.

EGI is primarily a holding company and, as such, has limited direct operations of its own. EGI's principal assets are the shares of its insurance, reinsurance and insurance management subsidiaries. Accordingly, its future cash flows depend in part upon the availability of dividends and other statutorily permissible distributions from the insurance subsidiaries. The ability to pay such dividends and to make such other distributions is limited by applicable laws and regulations of the jurisdictions in which the insurance subsidiaries are domiciled, which subject the insurance subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, that the insurance subsidiaries maintain minimum solvency requirements and may also limit the amount of dividends that the insurance subsidiaries can pay to EGI.

Capital Resources

For the nine months ended September 30, 2011, shareholders' equity increased to \$149.6 million, an increase of \$3.2 million from December 31, 2010. The net increase was the result of net income of \$4.3 million offset by an other comprehensive loss of \$1.1 million in the first nine months of 2011.

As at September 30, 2011, Echelon General's Minimum Capital Test (MCT) ratio was 232%, compared to 250% as at December 31, 2010, significantly exceeding the minimum regulatory capital level required by the Office of the Superintendent of Financial Institutions. The reduction in Echelon General's MCT ratio from December 2010 mostly resulted from the commutation of a 20% reinsurance cession between Echelon and CIM Re. With the commutation transaction, Echelon is now retaining the additional 20% for its net account and thus impacting the MCT score. However, this transaction has also freed up the capital in CIM Re for other corporate initiatives.