

Consolidated Financial Statements of

EGI FINANCIAL HOLDINGS INC.

For the quarters ended September 30, 2011 and 2010

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Financial Position
as at September 30, 2011 and December 31, 2010
(unaudited, in thousands of Canadian dollars)

	Note	September 30 2011	December 31 2010
Assets			
Cash and short-term deposits		37,617	17,033
Investments	5	351,800	353,643
Accounts receivable		22,788	31,712
Income taxes receivable		2,453	–
Due from insurance companies		5,360	7,352
Deferred policy acquisition costs	7	15,365	15,979
Reinsurers' share – unearned premium	6	5,058	6,471
– provision for unpaid claims	8	35,184	36,152
Prepaid expenses and other assets		1,150	1,361
Property and equipment		895	414
Intangible assets		4,441	531
Deferred income taxes		4,615	4,135
		486,726	474,783
Liabilities			
Payable to insurance companies		686	2,093
Accounts payable and accrued liabilities		7,490	4,824
Income taxes payable		–	2,394
Unearned premiums	6	73,369	78,335
Unearned commission		974	728
Other liabilities		660	1,007
Provision for unpaid claims	8	253,946	239,036
		337,125	328,417
Shareholders' Equity			
Share capital	12	69,087	69,087
Contributed surplus		626	545
Retained earnings		67,937	63,674
Accumulated other comprehensive income		11,951	13,060
Total shareholders' equity		149,601	146,366
		486,726	474,783

EGI FINANCIAL HOLDINGS INC.

**Consolidated Statements of Income and Comprehensive Income
for the three and nine months ended September 30, 2011 and 2010**

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

	Note	3 months ended September 30		9 months ended September 30	
		2011	2010	2011	2010
Revenue					
Gross written and assumed premiums		46,966	48,636	130,568	148,617
Less: Premiums ceded to reinsurers		(3,823)	(4,564)	(11,069)	(15,122)
Net written and assumed premiums		43,143	44,072	119,499	133,495
(Increase) decrease in gross unearned premiums		(1,128)	(1,786)	4,986	(15,358)
Increase (decrease) in unearned premiums, reinsurers' share		(343)	(137)	(1,413)	2,615
Change in provision for unearned premiums		(1,471)	(1,923)	3,573	(12,743)
Net earned premiums		41,672	42,149	123,072	120,752
Investment income	5	939	3,939	8,622	13,825
Total revenue		42,611	46,088	131,694	134,577
Expenses					
Gross claims incurred		28,662	35,845	86,270	102,079
Less: claims recoveries from reinsurers		(1,155)	(4,835)	(4,695)	(9,616)
Net incurred claims		27,507	31,010	81,575	92,463
Gross acquisition costs		10,853	10,199	31,154	30,161
Less: acquisition cost recoveries from reinsurers		(1,104)	(1,070)	(3,271)	(3,119)
Net acquisition costs		9,749	9,129	27,883	27,042
Operating costs	13	5,191	4,907	15,724	13,132
Interest		-	-	-	568
Total expenses		42,447	45,046	125,182	133,205
Income before income taxes		164	1,042	6,512	1,372
Income tax expense		337	337	2,249	489
Net income		(173)	705	4,263	883
Other comprehensive income (loss), net of taxes					
Available-for-sale securities:					
Change in net unrealized gains		(2,204)	7,908	(2,714)	9,028
Reclassification of net realized (gains) losses to net income		1,541	(774)	1,019	(3,226)
Cumulative translation (loss) gain		892	365	586	291
Other comprehensive income (loss) attributable to shareholders of the Company		229	7,499	(1,109)	6,093
Total comprehensive income (loss) attributable to shareholders of the Company		56	8,204	3,154	6,976
Earnings per share attributable to shareholders of the Company					
	14				
Net income per share – basic		(\$0.01)	\$0.06	\$0.35	\$0.07
Net income per share – diluted		(\$0.01)	\$0.06	\$0.33	\$0.07

EGI FINANCIAL HOLDINGS INC.

**Consolidated Statements of Changes in Equity
for the nine months ended September 30, 2011 and 2010**

(unaudited, in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 2011	69,087	545	13,060	63,674	146,366
Net income	–	–	–	4,263	4,263
Other comprehensive income (loss)	–	–	(1,109)	–	(1,109)
Common shares issued	–	–	–	–	–
Stock options					
– granted (net of forfeitures)	–	81	–	–	81
– exercised	–	–	–	–	–
Balance at September 30, 2011	69,087	626	11,951	67,937	149,601

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance at January 1, 2010	68,618	416	4,872	59,525	133,431
Net income (loss)	–	–	–	883	883
Other comprehensive income	–	–	6,093	–	6,093
Common shares issued	–	–	–	–	–
Stock options					
– granted (net of forfeitures)	–	188	–	–	188
– exercised	376	(134)	–	–	242
Balance at September 30, 2010	68,994	470	10,965	60,408	140,837

EGI FINANCIAL HOLDINGS INC.

**Consolidated Statement of Cash Flow
for the three and nine months ended September 30, 2011 and 2010**

(unaudited, in thousands of Canadian dollars)

	Nine months ended September 30	
	2011	2010
Cash provided by (used in):		
Operating activities		
Net income (loss)	4,263	883
Items not involving cash:		
Amortization	374	658
Amortization of premiums on bonds	652	537
Realized and unrealized (gains) losses on investments	1,412	(4,667)
Decrease in accrued investment income	(1,179)	(995)
Other	(1,136)	177
	4,386	(3,407)
Net change in other non-cash balances	21,898	29,696
	26,284	26,289
Financing activities		
Repayment of bank indebtedness	–	(19,550)
Issue of common shares	–	241
	–	(19,309)
Investing activities		
Acquisition of subsidiary, net of cash acquired	–	221
Purchases of property and equipment and intangible assets	(4,765)	(393)
Purchase of investments	(240,306)	(277,275)
Sale/maturity of investments	239,371	249,614
	(5,700)	(27,833)
Increase (decrease) in cash and short-term deposits	20,584	(20,853)
Cash and short-term deposits, beginning of period	17,033	46,885
Cash and short-term deposits, end of period	37,617	26,032
Supplementary information		
Income taxes paid	6,904	8,053
Interest paid	16	568

EGI FINANCIAL HOLDINGS INC.

Notes to Consolidated Interim Financial Statements for the three and nine months ended September 30, 2011 and 2010

(unaudited, in thousands of Canadian dollars)

1 Organization

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 the U.S. The Company's head office is located at 2680 Matheson Blvd. East, Suite 300, Mississauga, Ontario.

The Company purchased American Colonial Insurance Company (ACIC) during the first quarter of 2010 for a purchase price of \$4,541. Net assets of \$4,541 consisting primarily of cash and insurance licenses, valued at \$200, were received. The insurance licenses have been recorded at fair value as intangible assets. Effective March 31, 2010, Echelon Insurance Company of America (EICA) and ACIC were amalgamated into one entity and continue to operate under the name ACIC.

The Company's wholly-owned subsidiaries are EGI Insurance Managers Inc., Echelon General Insurance Company (Echelon), EGI Insurance Services, Inc., American Colonial Insurance Company (ACIC), EGI Insurance Services (Florida), Inc., and CIM Reinsurance Company Ltd. (CIM Re).

EGI Insurance Services, Inc., ACIC and EGI Insurance Services (Florida), Inc., are U.S.-based subsidiaries whose functional and reporting currency is U.S. dollars. Each U.S. subsidiary operating outside of Canada is subject to foreign currency translation adjustments upon consolidation.

The Company's Barbados-based subsidiary, CIM Re changed its functional currency from U.S. dollars to Canadian dollars effective January 1, 2010. The change was accounted for on a prospective basis and, as a result, CIM Re's opening 2010 balance sheet was translated to Canadian dollars using the rate of exchange as at January 1, 2010.

2 Basis of preparation and adoption of International Financial Reporting Standards

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 requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements. In these financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of International Financial Reporting Standards*. The accounting policies followed in these interim consolidated financial statements are the same as those applied in the Company's interim financial statements for the period ended March 31, 2011. The Company has consistently applied the same accounting policies 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 equity as at September 30, 2010, and comprehensive income for the three and nine months ended September 30, 2010, including the nature and effect of significant changes

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Notes to Consolidated Interim Financial Statements (continued) for the three and nine months ended September 30, 2011 and 2010

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in accounting policies from those used in the Company's consolidated financial statements for the year ended December 31, 2010.

The accounting policies applied in these interim consolidated financial statements are based on IFRS effective for the year ended December 31, 2011, as 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 these interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company's GAAP annual financial statements for the year ended December 31, 2010, and the Company's interim financial statements for the quarter ended March 31, 2011, prepared in accordance with IFRS applicable to interim financial statements. These financial statements have not been reviewed by the Company's external auditor.

3 Critical accounting estimates and assumptions

The preparation of EGI's financial statements in accordance with IFRS requires EGI to make estimates and assumptions that affect the amounts reported in the financial statements. These estimates and assumptions principally relate to the establishment of reserves for claims and expenses, impairments of investment securities, amounts recoverable from reinsurers and certain other assets. As more information becomes known, these estimates and assumptions could change and impact future results. The most significant estimates and assumptions made in preparing the financial statements are in respect of policy liabilities, investments, reinsurance and income taxes.

Policy Liabilities

Policy liabilities consist of provisions for unpaid claims and unearned premium liabilities.

Claim liability reserves are maintained to cover EGI's estimated ultimate liability for unpaid losses and loss adjustment expenses with respect to reported and unreported claims incurred as of the end of each accounting period. The provision for unpaid claims and adjustment expenses is first determined on a case-by-case basis as claims are reported and then reassessed as additional information becomes known. The provision also accounts for the future development of these claims, including claims incurred but not reported (IBNR). Reserves do not represent an exact calculation of liability, but instead represent estimates developed using projection techniques in accordance with Canadian accepted actuarial practice. These reserve estimates are expectations of the ultimate cost of settlement and administration of claims based on EGI's assessment of facts and circumstances then known, its review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors.

Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer. Reserve estimates are refined in a systematic ongoing process as historical loss experience develops and additional claims are reported and settled. Because the establishment of reserves is an inherently uncertain process involving estimates, current reserves may not be sufficient. Adjustments to reserves, both

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Notes to Consolidated Interim Financial Statements (continued) for the three and nine months ended September 30, 2011 and 2010

(unaudited, in thousands of Canadian dollars)

positive and negative, are reflected in the statement of income for the period in which such estimates are updated.

The provision for unpaid claims and adjustment expenses is discounted to take into account the time value of money. It also includes a provision for adverse deviation, as required by Canadian accepted actuarial practice. The appointed actuary of EGI's subsidiaries, using appropriate actuarial techniques, evaluates the adequacy of the policy liabilities. Refer to note 8 for further information.

The unearned premium reserve is considered adequate when the unearned premium reserve (after deducting any deferred acquisition cost assets) is at least equal to the present value, at the balance sheet date, of the cash flow of claims, expenses, investment income and taxes to be incurred after that date on account of the policies in force at that date or at an earlier date. Deferred acquisition costs are comprised of commissions and premium taxes directly related to the acquisition of premiums. These costs are deferred to the extent that they are recoverable from unearned premiums, after considering the related anticipated claims, expenses and investment income in respect of these premiums. Deferred acquisition costs are amortized on the same basis as the premiums are recognized in income.

A premium deficiency would be recognized immediately by a charge to the statement of income as a reduction of deferred acquisition costs to the extent that the unearned premium reserve, plus anticipated investment income, is not adequate to recover all deferred acquisition costs and related claims and expenses. If the premium deficiency was greater than unamortized deferred acquisition costs, a liability would be accrued for the excess deficiency.

Impairment of Financial Assets

The Company considers an impairment if there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost.

Factors considered by the Company include but are not limited to:

- a) significant financial difficulty of the issuer or obligor;
- b) a breach of contract, such as a default or delinquency in interest or principal payments;
- c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- e) the disappearance of an active market for that financial asset because of financial difficulties; or
- f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - (i) adverse changes in the payment status of borrowers in the group (e.g., an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or

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- (ii) national or local economic conditions that correlate with defaults on the assets in the group (e.g., an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

Reinsurance

Reinsurance recoverables include amounts for expected recoveries related to provision for unpaid claims as well as the portion of the reinsured premiums which has not yet been earned by the reinsurer. The cost of reinsurance is accounted for over the terms of the underlying reinsured policies, using assumptions consistent with those used to account for the policies. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves and are reported in the consolidated balance sheet. The ceding of an insurance liability to a reinsurer does not discharge EGI's primary liability to the policyholders. The Company's policy is to record an estimated allowance for doubtful accounts on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions.

Income Taxes

Judgement is used in determining provision for income taxes and the recording of current and deferred income taxes. Amounts are determined based on income tax laws and rates in effect or substantively enacted at the reporting date. Unforeseen future changes to income tax laws and rates may impact the reported value of future income taxes and adjustments may need to be made which will affect future reporting periods.

EGI uses the asset and liability method whereby income taxes reflect the expected deferred tax consequences of temporary differences between the carrying amounts of financial statement assets and liabilities compared with their respective tax bases. Accordingly, a deferred tax asset or liability is determined for each temporary difference, based on the income tax rates that are expected to be in effect when the underlying items of revenue and expenses are expected to be realized.

Deferred income taxes, accumulated as a result of temporary differences, which are more likely than not to reverse, are included in the consolidated balance sheet. In addition, the consolidated statement of income contains items that are non-taxable or non-deductible for income tax purposes, which cause the income tax provision to differ from what it would be if based on statutory rates.

4 Transition to IFRS

The effect of the Company's transition to IFRS, described in note 2, is summarized in this note as follows:

- (i) Transition elections
- (ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS
- (iii) Adjustments to the statement of cash flows

EGI FINANCIAL HOLDINGS INC.

**Notes to Consolidated Interim Financial Statements (continued)
for the three and nine months ended September 30, 2011 and 2010**

(unaudited, in thousands of Canadian dollars)

(i) Transition elections

The Company has applied the mandatory transition exceptions and the following optional exemptions to full retrospective application of IFRS.

	As described in note 4(ii)
Cumulative translation adjustment	(b)
Business combinations	(e)
Insurance contracts	(f)
Classification and measurement of previously recognized financial statements	(g)

(ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

	Note	December 31, 2010	September 30, 2010
Equity			
Equity as reported under Canadian GAAP		146,366	140,837
IFRS adjustments increase (decrease):			
Adjustment to AOCI - unrealized foreign exchange gains and losses related to investments designated as available-for-sale	(a)	166	59
Adjustment to AOCI - election re cumulative translation adjustment account	(b)	678	678
Adjustment to contributed surplus- stock Options - graded vesting adjustment	(c)	13	13
Adjustments to retained earnings	(a)(b)(c)	(857)	(750)
Equity as reported under IFRS		146,366	140,837

	Note	Year ended December 31, 2010	9 months ended September 30, 2010	3 months ended September 30, 2010
Comprehensive income				
As reported under Canadian GAAP		12,337	3,154	56
Increase (decrease) in net income for:				
Unrealized foreign exchange gain (loss) re AFS investments	(a)	(81)	(26)	(71)
Increase (decrease) in other comprehensive income for:				
Unrealized foreign exchange gain (loss) re AFS investments	(a)	81	26	71
As reported under IFRS		12,337	3,154	56

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Notes to Consolidated Interim Financial Statements (continued) for the three and nine months ended September 30, 2011 and 2010

(unaudited, in thousands of Canadian dollars)

Explanatory notes

- (a) 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 unrealized gains \$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 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) and \$38 (\$26 net of income tax) and unrealized losses of \$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.
- (b) In accordance with IFRS transitional provisions, the Company has elected to reset the cumulative translation adjustment account, which includes unrealized gains and losses arising from the translation of foreign operations, to zero at the date of transition to IFRS. An adjustment of \$678 to reduce retained earnings and increase AOCI has been recorded as at September 30, 2010, and December 31, 2010.
- (c) Under IFRS the Company accrues the cost of employee stock options over the vesting period using the graded method of amortization rather than the straight-line method, which was the Company's policy under Canadian GAAP. An adjustment of \$13 to increase contributed surplus and decrease retained earnings was made to reflect stock options granted and outstanding as at January 1, 2010. There were no additional adjustments for the three and nine months ended September 30, 2011 and the year ended December 31, 2010.
- (d) Under IFRS, available-for-sale 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 third quarter of 2010 are recorded at a fair value of \$2,000 as at September 30, 2010 and December 31, 2010 with no financial impact.
- (e) In accordance with IFRS transitional provisions, the Company elected to apply IFRS relating to business combinations prospectively from January 1, 2010. As such, Canadian GAAP balances relating to business combinations entered into before that date, including goodwill, have not been retrospectively restated and have been carried forward without adjustment.
- (f) The Company has elected to apply the transitional provisions in IFRS 4, Insurance Contracts, and disclose only five years of data in its claim development tables, as permitted by IFRS 4 in the year of adoption of IFRS. The disclosure will be increased in each succeeding additional year, until the full ten years of information is included.
- (g) In accordance with IFRS transitional provisions, the Company has elected to reclassify cash and cash equivalents as loans and receivables. Previously, under Canadian GAAP, cash and cash equivalents were classified as held-to-maturity investments. There was no financial statement impact related to the reclassification.

EGI FINANCIAL HOLDINGS INC.

**Notes to Consolidated Interim Financial Statements (continued)
for the three and nine months ended September 30, 2011 and 2010**

(unaudited, in thousands of Canadian dollars)

(iii) Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the Company. Under Canadian GAAP, cash flows relating to interest payments were classified as operating. IFRS provides an accounting policy choice of classifying interest as operating, investing or financing depending on the nature of the underlying cash flows. Classification must remain consistent from period to period. The Company has chosen to classify cash flows relating to interest payments as operating.

5 Investments

The Company's policy is to utilize the prudent person approach to asset management, as required by the Insurance Companies Act. An investment policy is in place and its application is monitored by the Board of Directors. Diversification techniques are employed to minimize risk. Policies limit investments in any entity or group of related entities to a maximum of 5% of the Company's assets. Limitations are also placed on the quality of investments, particularly relating to investment grade bonds.

The following table provides a comparison as at September 30, 2011, and December 31, 2010:

Available-for-sale	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

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Notes to Consolidated Interim Financial Statements (continued) for the three and nine months ended September 30, 2011 and 2010

(unaudited, in thousands of Canadian dollars)

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. Considerable judgement may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented in these interim consolidated financial statements are not necessarily indicative of the amounts that could be realized in a current market exchange. The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. A description of the inputs used in the valuation of financial instruments is as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. The fair value of the Company's common and preferred shares is determined based on quoted prices in active markets obtained from external pricing sources.

Level 2 – Inputs, other than quoted prices, that are observable for the investment either directly or indirectly. These inputs include quoted prices for similar instruments exchanged in active markets; quoted prices for identical or similar instruments exchanged in inactive markets; inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data and correlation or other means.

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

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

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined above, as at September 30, 2011, and December 31, 2010:

Investments at fair value as at September 30, 2011				
	Level 1	Level 2	Level 3	Total
Bonds	–	279,687	789	280,476
Equities	66,314	–	1,750	68,064
	66,314	279,687	2,539	348,540
Investments at fair value as at December 31, 2010				
	Level 1	Level 2	Level 3	Total
Bonds	–	269,090	310	269,400
Equities	80,162	–	2,000	82,162
	80,162	269,090	2,310	351,562

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Notes to Consolidated Interim Financial Statements (continued) for the three and nine months ended September 30, 2011 and 2010

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The fair value of the Company's investments, determined without the use of observable market information as inputs [approximately 0.7% (December 31, 2010 – 0.6%) of the total investment portfolio required to be measured at fair value] consists of corporate bonds and preferred shares with a fair value of \$789 (December 31, 2010 – \$310) and \$1,750 (December 31, 2010 – \$2,000) respectively.

A reconciliation of financial instruments measured at fair value on a recurring basis with the use of significant unobservable inputs from January 1 to September 30 follows:

	2011	2010
Balance at beginning of period	2,310	450
Add: Additions during period		
– preferred shares	–	2,000
– bonds	497	–
Less: Disposals during period		
– preferred shares	(250)	–
– bonds	–	(308)
Net unrealized gains (losses) included in other comprehensive income	(18)	169
Balance at end of period	2,539	2,311

Impaired assets and provisions for losses

The Board of Directors has established a policy to write down or make a provision for any investments that are impaired.

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

A provision for impairments on equities of \$4,341 was recognized in the third quarter of 2011 (\$0 – 2010). A provision for impairments on equities of \$4,710 was recognized in the nine months ending September 30, 2011 (\$0 – 2010).

A remaining gross unrealized loss of \$3,789 on investments held as at September 30, 2011 (\$1,719 – December 31, 2010), is recorded, net of tax, in the amount of \$2,621 (\$1,186 – December 31, 2010) in AOCI.

Investment income

Investment income was derived from the following:

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**Notes to Consolidated Interim Financial Statements (continued)
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(unaudited, in thousands of Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Interest income	3,044	3,311	9,497	9,193
Dividend income	661	267	1,733	1,215
Net realized gains (losses) (including impairments)	(2,388)	1,061	(1,611)	4,705
Fair value increase on HFT investments	(178)	–	75	–
Unrealized foreign exchange gain (loss) on AFS investments	169	(105)	124	(38)
Foreign exchange gain (loss) ⁽¹⁾	156	(123)	13	(210)
Investment expenses	(525)	(472)	(1,209)	(1,040)
	939	3,939	8,622	13,825

(1) The foreign exchange gain of \$13 [2010 – (\$210)] arose primarily from cash balances and available-for-sale securities held during the period, denominated in U.S. dollars, used to fund claims liabilities, denominated in U.S. dollars.

6 Unearned premium

	September 30, 2011		December 31, 2010	
	Gross	Ceded	Gross	Ceded
Personal Lines:				
Automobile				
– accident benefits	14,590	997	16,802	1,220
– liability	24,501	1,552	28,130	1,900
– other	11,387	172	12,219	185
Total Personal Lines	50,478	2,721	57,151	3,305
Niche Products:				
Property				
– commercial	5,240	1,143	4,683	1,316
– personal	12,374	921	9,883	841
Liability	4,324	250	5,073	491
Accident and sickness	134	2	236	2
Commercial auto	325	21	958	516
Other	494	–	351	–
Total Niche Products	22,891	2,337	21,184	3,166
	73,369	5,058	78,335	6,471

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Reconciliation of unearned premium at the end of the period:

	September 30, 2011		September 30, 2010	
	Gross	Ceded	Gross	Ceded
Unearned premium at the beginning of the period	78,335	6,471	72,643	4,972
Premium written and ceded during the period	130,568	11,069	148,617	15,122
Premium earned in income	135,534	12,482	133,260	12,507
Unearned premium at the end of the period	73,369	5,058	88,000	7,587

In 2011, the Company issued policies with a maximum six-month policy term in the Ontario automobile line of business. This resulted in a decrease in premiums written for the period compared to 2010.

7 Deferred policy acquisition costs

Reconciliation of deferred acquisition costs as at September 30:

	2011	2010
Balance at the beginning of the period	15,979	14,807
Acquisition costs incurred during the period	28,944	31,143
Amortization of acquisition costs during the period	29,558	28,610
Acquisition costs deferred at end of the period	15,365	17,340

8 Provision for unpaid claims

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of three major variables or quanta, being, development of claims, reinsurance recoveries and the effects of discounting, to establish a best estimate of the value of the respective liability or asset.

The provision for unpaid claims and adjustment expenses is an estimate subject to variability and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, significant changes in the severity or frequency of claims for historical trends, the timing of claim payments, and recoverability of reinsurance and future rates of investment return. The estimates are principally based on the Company's historical experience. Methods of estimation have been used, which the Company believes produce reasonable results given current information.

All provisions are periodically reviewed and evaluated considering emerging claims experience and changing circumstances. The process of determining the provisions necessarily involves risks that actual results may differ, perhaps materially, from the best estimates made. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the current period.

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The fair value of the provision for unpaid claims approximates carrying value determined in accordance with generally accepted actuarial methods in Canada, which discount estimated future cash flows and include a margin for adverse deviation.

The Company discounts its best estimate of claim provisions at a rate of interest of 2.10% for 2011 (2010 – 2.50%) for all lines of business. The Company determines the discount rate based on the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

The Company recorded a \$4,469 reduction to the net provision for unpaid claims relating to redundancies in prior periods' estimates (2010 – \$3,494).

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 claim development, reinsurance recoveries and future investment income. The PFADs selected are in the mid-range of those recommended by the Canadian Institute of Actuaries. The aggregate impact of the provision for adverse deviation is to increase the provision for unpaid claims on a gross basis by \$28,027 as at September 30, 2011 (December 31, 2010 – \$25,560).

The provision for unpaid claims on an actuarial present value (APV) gross and ceded basis by line of business is as follows:

APV basis	September 30, 2011		December 31, 2010	
	Gross	Ceded	Gross	Ceded
Personal Lines:				
Accident benefits	100,428	18,630	101,194	21,274
Liability	111,131	11,787	97,692	6,378
Other	3,830	18	4,052	422
Total Personal Lines	215,389	30,435	202,938	28,074
Niche Products:				
Property				
Commercial	4,729	339	4,098	640
Personal	249	61	367	78
Liability	24,135	1,536	22,338	2,670
Accident and sickness	2,727	667	2,647	696
Commercial auto	5,490	2,146	5,774	3,994
Other	1,227	–	874	–
Total Niche	38,557	4,749	36,098	8,078
	253,946	35,184	239,036	36,152

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Claims development

Provision for unpaid claims analysis	Nine months	
	ended September 30, 2011	December 31, 2010
Unpaid claims, beginning of period, net	202,884	168,484
Change in undiscounted estimates for losses of prior years	(5,538)	(4,258)
Change in discount rate	1,245	488
Change in PFADs	(4,396)	(5,971)
Interest cost	4,220	5,650
Claims occurring in current year (including paid)	86,044	123,003
Paid on claims occurring during		
Current year	(25,023)	(38,296)
Prior year	(40,674)	(46,216)
Unpaid claims, end of period, net	218,762	202,884
Reinsurers' share	35,184	36,152
	253,946	239,036

9 Underwriting policy and reinsurance ceded

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other events that cause unfavourable underwriting results by purchasing reinsurance to share all or part of the insurance risks originally accepted by the Company in writing premiums. This reinsurance does not relieve the Company of its primary obligation to policyholders.

During the first quarter of 2011, the Company followed the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss to \$1,500 (2010 – \$1,500). In addition, the Company obtained catastrophe reinsurance which limits the loss from a series of claims arising from a single occurrence to \$2,000 (2010 – \$2,000) to a maximum coverage of \$23,000 (2010 – \$23,000).

The Company places all its automobile reinsurance with Canadian registered reinsurers. There are non-registered reinsurers participating in the specialty property and casualty program business. The Company has access to trust funds that, in the Company's judgement, are adequate to secure the liabilities that the Company has ceded to non-registered reinsurers.

Failure of reinsurers to honour their obligations could result in losses to the Company. Consequently, the Company continually evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses. There have been no defaults and no provision made in the accounts for defaults based on management's review of the creditworthiness of its reinsurers.

10 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

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exposure, and matching of assets and liabilities. The Company is also exposed to potential loss from various risks, including interest rate risk and equity market fluctuation risk, credit risk, liquidity risk and, to a lesser extent, foreign exchange risk.

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.

Sensitivity to insurance risk

Sensitivity Factor	Three months ended September 30, 2011 Impact on:		Nine months ended September 30, 2011 Impact on:	
	Net income before income taxes	Shareholders' equity	Net income before income taxes	Shareholders' equity
	Increase of 1% to loss ratio	417	299	1,231
Increase of 1% to claims settlement costs	(1,512)	(1,082)	(1,512)	(1,082)

Sensitivity Factor	Three months ended September 30, 2010 Impact on:		Nine months ended September 30, 2010 Impact on:	
	Net income before income taxes	Shareholders' equity	Net income before income taxes	Shareholders' equity
	Increase of 1% to loss ratio	421	291	1,208
Increase of 1% to claims settlement costs	—	—	—	—

Product and pricing

The Company prices its products taking into account numerous factors, including claims frequency and severity trends, product line expense ratios, special risk factors, the capital required to support the product line, and the investment income earned on that capital. The Company's pricing process is designed to ensure an appropriate return on capital and long-term rate stability, avoiding wide fluctuations in rates unless necessary. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Pricing for automobile insurance must be submitted to each provincial government regulator and, in certain provinces, pre-approved by the regulator. Regulatory decisions may impede automobile rate increases or other actions that the Company may wish to take. Also, during periods of intense competition for any product

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line, to gain market share, competitors may price their products below the rates the Company considers acceptable. Although the Company may adjust its pricing up or down to maintain a competitive position, the Company strives to ensure its pricing will produce an appropriate return on invested capital. There is no assurance that the Company will not lose market share during periods of pricing competition.

Underwriting and claims

The Company is exposed to loss resulting from the underwriting of risks being insured and the exposure to financial loss resulting from greater than anticipated adjudication, settlement and claims costs.

The Company's underwriting objectives are to develop business within its target markets on a prudent and diversified basis and to achieve profitable underwriting results. The Company underwrites automobile business after a review of the applicant's driving record reports and claims experience. Specialty commercial and personal risks are selected by the Company, working with its external brokers, after consideration of various risk factors associated with these lines of business. Despite its best efforts, and consideration of all known risk factors, there can be no assurance that all risks associated with the insurance policies that it writes can be identified and assessed, and the Company may, therefore, experience increased adjudication, settlement and claims costs.

The Company estimates its claims reserves on a quarterly basis and this is supported by quarterly assessments by the independent consulting actuary. Every quarter, for each line of business, the Company compares actual and expected claims development. To the extent that actual results differ from expected development, assumptions are re-evaluated and new estimates are derived. Although the Company believes its overall provision levels to be adequate to satisfy its obligations under existing policies, actual losses may deviate, perhaps substantially, from the amounts reflected in the Company's financial statements. To the extent provisions prove to be inadequate, the Company would have to re-evaluate such provisions and may incur a charge to earnings in the future.

Unpredictable catastrophic events

Catastrophes can be caused by various natural and unnatural events. Natural catastrophic events include hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and fires. Unnatural catastrophic events include hostilities, terrorist acts, riots, crashes and derailments. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily-populated areas.

Catastrophes can cause losses in a variety of business lines. Claims resulting from natural or unnatural catastrophic events could cause substantial volatility in the Company's financial results and could materially reduce its profitability or harm the Company's financial condition. The Company manages the impact of losses which may result from catastrophic events by purchasing excess of loss and catastrophe reinsurance to share all or part of the insurance risks originally accepted by the Company.

The Company's ability to write new business also could be affected. The Company may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events. The Company's operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions and also to key personnel. The Company has developed business continuity plans designed to allow

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it to continue operations in case of a catastrophic event; however if these plans cannot be put into action or do not take such events into account, losses may further increase.

Asset and liability matching

The Company is exposed to:

- changes in the value of its fixed income securities and policy liabilities to the extent that market interest rates change;
- equity price fluctuations which affect the fair values of equities held by the Company;
- the risk of losses to the extent that the sale of a security prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows;
- the risk that future inflation of policyholder cash flows exceed returns on long-term investment securities; and
- foreign exchange risks with respect to investments, receivables and policy liabilities denominated in foreign currencies.

To mitigate these risks, the Company has policies to ensure that assets and liabilities are broadly matched in terms of their duration and currency. The Company's exposures are monitored on a regular basis and actions are taken to balance investment positions when approved risk tolerance limits are exceeded.

Risk management is carried out by the Investment Committee under policies approved by the Board of Directors.

Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial assets are traded. Below is a discussion of the Company's primary market risk exposures and how these exposures are currently managed.

Interest rate risk

Fluctuations in interest rates have a direct impact on the fair valuation and future cash flows of the Company's fixed income securities portfolio. Generally, the Company's investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities 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 securities 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 securities portfolio as at September 30, 2011, and December 31, 2010, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

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Change in interest rates	Fair value of fixed income portfolio	Hypothetical change in fair value	Effect on OCI
As at September 30, 2011			
200 basis point rise	249,502	(11%)	(20,594)
100 basis point rise	264,162	(6%)	(10,847)
No change	280,476	–	–
100 basis point decline	298,719	7%	12,130
200 basis point decline	317,940	13%	24,910
As at December 31, 2010			
200 basis point rise	240,205	(11%)	(20,194)
100 basis point rise	254,069	(6%)	(10,604)
No change	269,400	–	–
100 basis point decline	286,394	6%	11,755
200 basis point decline	305,208	13%	24,768

As discussed in note 8, the discount rate used in the determination of the provision for unpaid claims is based on the expected return of assets on its investment portfolio with appropriate assumptions for interest rates relating to reinvestment of maturing investments. Fluctuations in market interest rates will therefore have an impact on the discount rate used in the valuation of the net provision for unpaid claims. The table below shows the potential impact of interest rate fluctuations on the net provision for unpaid claims and on net income:

Change in discount rate	Net provision for unpaid claims	Hypothetical change in value	Effect on net income
As at September 30, 2011			
100 basis point rise	213,665	(2%)	3,649
No change	218,762	–	–
100 basis point decline	224,140	2%	3,851
As at December 31, 2010			
100 basis point rise	198,267	(2%)	3,193
No change	202,884	–	–
100 basis point decline	207,752	2%	(3,367)

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet cash flow requirements associated with financial instruments. The purpose of liquidity management is to ensure that there is sufficient cash to meet all financial commitments and obligations as they fall due. To manage cash flow requirements, the Company maintains a portion of invested assets in liquid securities.

The maturity profile of bonds as at September 30, 2011, and December 31, 2010, are as follows:

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As at September 30, 2011	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	12,695	36,322	68,838	162,621	280,476
Percentage of total	5%	13%	24%	58%	100%
As at December 31, 2010	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	15,613	45,563	53,853	154,371	269,400
Percentage of total	6%	17%	20%	57%	100%

Future cash flows

The following table summarizes the expected timing of cash flows arising from insurance obligations, on an undiscounted basis (note 8), as at September 30, 2011, and December 31, 2010:

As at September 30, 2011	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	73,925	89,506	49,600	31,164	244,195
Less: Reinsurance recoverable	12,437	12,242	5,280	2,848	32,807
Net actuarial liabilities	61,488	77,264	44,320	28,316	211,388
As at December 31, 2010	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	73,607	82,892	46,518	29,214	232,231
Less: Reinsurance recoverable	12,412	13,073	5,868	2,805	34,158
Net actuarial liabilities	61,195	69,819	40,650	26,409	198,073

Equity price risk

Fluctuations in the value of equity securities 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 securities 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 20% change in the value of the equity securities (common and preferred shares) on net income and OCI as at September 30, 2011, and December 31, 2010. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumptions that all equity holdings increased/decreased by 20% with all other variables held constant.

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Change in equity holdings	Effect on Net Income		Effect on OCI	
	September 30 2011	September 30 2010	September 30 2011	September 30 2010
20% rise	1,550	–	8,197	10,601
20% decline	(1,550)	–	(8,197)	(10,601)

Credit risk

The Company is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers and structured settlement arrangements. 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 which limit its exposure to individual reinsurers and regular review processes to assess the creditworthiness of reinsurers with whom it transacts business.

The following table sets forth the Company's fixed income securities portfolio by credit quality according to DBRS as at September 30, 2011, and December 31, 2010.

Fixed income portfolio

	As at September 30, 2011		As at December 31, 2010	
	Fair value	Fair value	Fair value	Fair value
AAA	115,900	42%	113,197	42%
AA	66,300	24%	68,438	25%
A	73,791	26%	72,602	27%
BBB	18,894	7%	12,708	5%
BB	3,785	1%	962	–
B	1,017	–	1,183	1%
CCC	293	–	310	–
Unrated	496	–	–	–
Total	280,476	100%	269,400	100%

Reinsurance Recoverables

The following table summarizes the balances outstanding from reinsurers as at September 30, 2011, and December 31, 2010, by risk rating:

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Credit rating	Gross reinsurance recoverable		Less: securities held		Net reinsurance recoverable	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
A	40,811	41,936	–	–	40,811	41,936
Not rated	3,631	4,487	5,624	5,845	–	–
	44,442	46,423	5,624	5,845	40,811	41,936

Included in gross reinsurance recoverable is reinsurers' share of unearned premiums of \$5,058 (December 31, 2010 – \$6,471), reinsurers' share of provision for unpaid claims of \$35,184 (December 31, 2010 – \$36,152) and receivables from reinsurers presented as due from insurance companies of \$4,200 (December 31, 2010 – \$3,800).

No balances due from reinsurers are considered past due as at September 30, 2011 and December 31, 2010.

Foreign exchange risk

Foreign exchange risk is the possibility that changes in foreign exchange rates produce an unintended effect on earnings and equity when measured in domestic currency.

A portion of the Company's premiums is written in U.S. dollars and a portion of loss reserves is also in U.S. dollars. In addition, premiums relating to the Emergency Travel Health line of business are remitted in Canadian dollars but a significant portion of the claims incurred for this line of business is in U.S. dollars. A portion of the Company's cash and investments is also held in U.S. dollars.

In general, the Company attempts to manage foreign exchange risk on liabilities by investing in financial instruments denominated in the same currency as the financial liabilities which they back. The Company may nevertheless, from time to time, experience losses resulting from fluctuations in the value of the U.S. dollar, which could adversely affect operating results.

The table below illustrates the expected impact on net income and OCI of a 10% change in the Canadian dollar ("CAD") compared to the U.S. dollar ("USD") as at September 30, 2011, and December 31, 2010. Computations of the prospective effects of hypothetical foreign exchange changes are based on numerous assumptions, including the maintenance of the existing level and composition of assets and financial liabilities, and should not be relied on as indicative of actual or future results.

Change in CAD/USD rate	Effect on Net Income		Effect on OCI	
	September 30 2011	September 30 2010	September 30 2011	September 30 2010
10% rise	(420)	(70)	(1,189)	(1,526)
10% decline	420	70	1,189	1,526

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11 Capital management

Capital is comprised of the Company's shareholders' equity which at September 30, 2011, was \$149,601 (December 31, 2010 – \$146,366). The Company's objectives when managing capital are to maintain financial strength and protect its claims paying abilities, to maintain creditworthiness and to maximize returns to shareholders over the long term.

A common measure of capital adequacy in the property and casualty industry used by management is the ratio of premiums to surplus (or shareholders' equity). A lower ratio implies a higher measure of capital adequacy. The Company's ratio as at September 30, 2011, was 1.2:1. This level is well below the 2.5:1 ratio considered by management to be the maximum acceptable ratio.

The Company's Canadian insurance subsidiary, Echelon, is required to maintain minimum capital levels as required by the Office of the Superintendent of Financial Institutions. During the nine-month period ended September 30, 2011 and 2010, the Company exceeded the minimum regulatory capital requirement. Legislation applicable to insurance companies imposes certain restrictions on the Company's ability to pay dividends.

12 Share capital

	September 30, 2011	December 31, 2010
Authorized		
Unlimited common shares		
Unlimited special shares issuable in Series		
Issued		
12,059,582 common shares (December 31, 2010 – 12,059,582 common shares)	69,087	69,087

13 Operating costs by nature

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Salaries and benefits	3,691	3,124	10,926	8,364
Systems costs	740	579	2,425	2,102
Professional fees	400	321	1,347	954
Printing and postage	293	312	856	816
Other expenses	67	571	170	896
	5,191	4,907	15,724	13,132

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14 Income (loss) per share

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Basic income per share:				
Net income (loss) available to common shareholders	(173)	705	4,263	883
Average number of common shares (in thousands)	12,060	12,047	12,060	12,047
Basic income (loss) per share	(\$0.01)	\$0.06	\$0.35	\$0.07
Diluted income per share:				
Average number of common shares (in thousands)	12,060	12,047	12,060	12,047
Average number of common shares obligation under employee stock option plan (in thousands)	785	749	809	749
Average number of diluted common shares (in thousands)	12,845	12,796	12,869	12,796
Diluted income (loss) per share	(\$0.01)	\$0.06	\$0.33	\$0.07

15 Segmented information

The Company operates through three divisions. The Personal Lines and Niche Products divisions operate in Canada while the International division assumes premiums from U.S resident companies that specialize in the non-standard automobile market. Through its Personal Lines division, the Company is engaged primarily in the underwriting of high premium, non-standard automobile insurance. Through its Niche Products division, the Company designs and underwrites specialized non-auto insurance programs, such as higher premium property, primary and excess liability, legal expense, accident and health insurance and warranty coverage.

The effect of reinsurance is reflected in the revenue and results of the three divisions. The investment activities consist of managing the investment portfolio for the Company as a whole. Investment income is shown net of investment expenses. The corporate and other activities include holding company expenses not attributable to a division. Interest expense represents interest on bank indebtedness.

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Revenue				
Earned premiums and other revenue				
Property and casualty insurance				
Canada – Personal Lines	32,778	32,114	96,394	91,096
– Niche Products	8,069	9,965	25,389	29,580
	40,847	42,079	121,783	120,676
International (United States)	825	70	1,289	76
	41,672	42,149	123,072	120,752
Interest and dividends, net of investment expenses	3,180	3,106	10,021	9,368

