



Annual Information Form

(in respect of the financial year ended December 31, 2010)

MARCH 8, 2011

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Unless otherwise indicated or the context otherwise requires, references to “EGI” refer to EGI Financial Holdings Inc. and its subsidiaries, while references to the “Company” refer to EGI Financial Holdings Inc. itself, both now and in its predecessor forms, and references to “Co-operators” refer to The Co-operators Group Limited and its subsidiaries and affiliates.

Unless otherwise indicated, all information in this Annual Information Form (“AIF”) is presented as at and for the year ended December 31, 2010 and amounts are expressed in Canadian dollars. Financial information is presented in accordance with Canadian generally accepted accounting principles (“GAAP”) and the accounting requirements of the Superintendent of Financial Institutions, Canada (“OSFI”).

A glossary of terms used in this AIF is set out at the end of this document.

CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this AIF may constitute “forward-looking” statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this AIF, such statements use such words as “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this AIF. Forward-looking statements involve significant risks, uncertainties and assumptions, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results, performance or achievements discussed in the forward-looking statements, including, but not limited to, the factors discussed under “Risk Factors”. Although the forward-looking statements contained in this AIF are based upon what management of the Company believes, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this AIF, and the Company undertakes no obligation to update or revise them to reflect new events or circumstances.

For additional information with respect to these and other risks or factors, reference should be made to the Company’s continuous disclosure materials and documents filed from time to time with Canadian securities regulatory authorities, available at www.sedar.com.

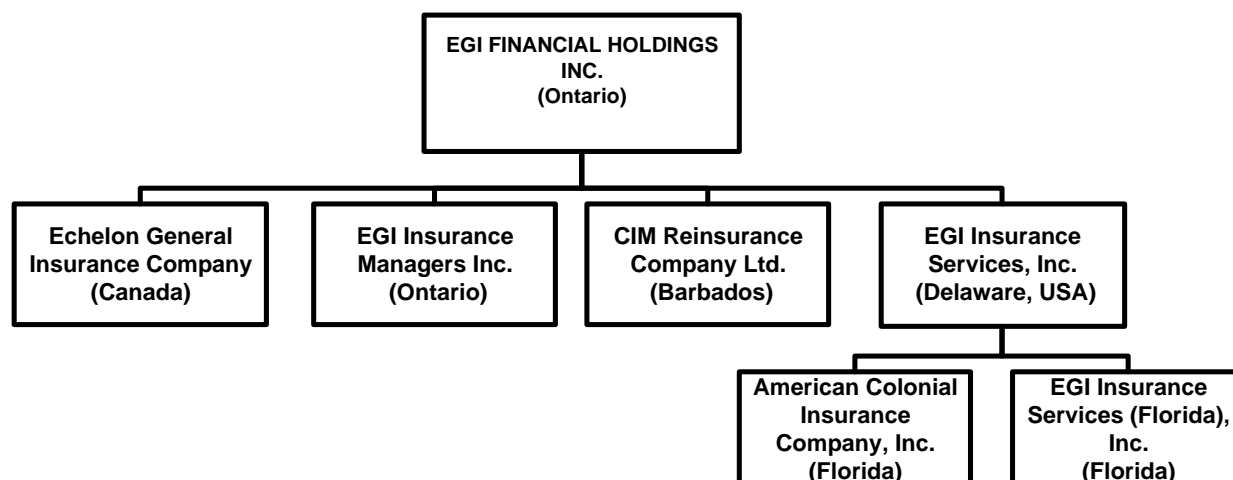
CORPORATE STRUCTURE

The Company

EGI Financial Holdings Inc. (the “Company”) was formed by Articles of Amalgamation dated January 11, 2005 under the laws of the Province of Ontario on the amalgamation of Canadian Insurance Marketing Inc. (“CIMI”) with its then wholly-owned subsidiary, EGI Financial Holdings Inc. CIMI was originally incorporated by Articles of Incorporation dated August 18, 1997 under the laws of the Province of Ontario. EGI’s corporate head office and registered office is located at 2680 Matheson Blvd. E., Suite 300, Mississauga, Ontario L4W 0A5.

Inter-corporate Relationships

The following diagram sets out the subsidiaries of the Company as at December 31, 2010, including the jurisdiction of incorporation of such subsidiary. All subsidiaries are wholly-owned.



GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

In 2006, EGI entered into a two-year reinsurance agreement with AssuranceAmerica as the first move by EGI into the United States market. This agreement allowed AssuranceAmerica to cede and EGI to accept a maximum of \$17.1 million of United States-sourced non-standard automobile premiums in each of 2007 and 2008. At the end of 2008 this agreement was not renewed as the Company embarked on the strategy of setting up its own insurance carrier in the United States.

In 2007, the Company established EGI Insurance Services, Inc., as a wholly-owned subsidiary, based in Atlanta, Georgia. EGI Insurance Services, Inc. employs a small team of experts in United States-sourced niche and specialty insurance lines. This company initially performed due diligence and ongoing monitoring of CIM Reinsurance Company Ltd.'s potential and existing reinsurance clients.

In October 2007, EGI entered into a non-revolving term loan facility with a major Canadian bank in the amount of \$19.55 million. The facility had a term of three years, bearing an interest rate of 6.20%. During the term of the loan, monthly payments included interest only and on maturity a balloon payment of \$19.55 million was to be made to settle the principal amount. During the second quarter of 2010, EGI repaid the non-revolving term loan facility, in full, utilizing internal funds. The Company has no bank indebtedness as at December 31, 2010.

In January 2008 the Company announced the extension of the Co-operators Distribution and Service Agreement for an additional 5 years. The extension of this agreement allows the Company to continue to access Co-operators agents to sell the Company's non-standard auto insurance product.

In July 2008, EGI issued rights to eligible holders of outstanding common shares of record on July 4, 2008, to subscribe for and purchase an aggregate of 1,943,630 common shares at a price of \$10.75 per share. Completion of the rights offering on July 31, 2008, resulted in issuance of 1,943,630 common shares for \$20.773 million in net proceeds to be used for general corporate purposes.

In 2008, the Company began its planning process to transition to International Financial Reporting Standards and has established a project plan and governance structure. The plan includes regular reporting to the Audit and Risk Committee of the Company's Board of Directors from the Project Management Committee, which consists of members of Finance and Information Systems, headed by the

Chief Financial Officer. The Company is using PricewaterhouseCoopers to provide guidance and to assist in this conversion project.

In November 2009, the Company hired Steve Dobronyi, who became Chief Executive Officer of the Company on January 1, 2011, as part of a succession plan to replace Douglas McIntyre, who is currently Vice Chairman.

In March 2010 the Company acquired American Colonial Insurance Company (ACIC), then an inactive insurer licensed in several south-eastern states. At the end of the first quarter 2010, Echelon Insurance Company of America (EICA) and ACIC were amalgamated to continue business under the ACIC name. The amalgamated company is currently pursuing premium growth in Florida and Texas.

In September 2010, Echelon General Insurance Company ("Echelon"), received approval from the Financial Services Commission of Ontario for changes to its rates and maximum allowable policy term for private passenger automobile insurance. The changes will apply in Ontario to new business from November 1, 2010, and for renewal business from December 1, 2010.

The approved Ontario rate increase averages 7.0%. This rate increase will largely offset an earlier rate decrease, effective September 1, 2010, which had been required under Ontario automobile insurance reforms. The premium payable for the maximum policy term of six months will include a 5% loading for administration costs. This is a new revenue stream for Echelon, which will result in recording an additional 10% of the annual premium for each 12 month period.

DESCRIPTION OF THE BUSINESS

General

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 two Strategic Business Units (SBUs) in Canada, the Personal Lines division and the Niche Products division. The Personal Lines division was created in 2006 to transition the Automobile division into a multi-product, multi-line SBU. Currently, the Personal Lines division focuses on the underwriting of EGI's non-standard automobile insurance, motorcycle, antique and classic vehicles, trailers, motor homes and recreational vehicles. 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, consumer products and heavy equipment.

In addition to the two SBUs in Canada, EGI also formed the International division in 2008 to leverage its strategy to expand into the United States. Currently, this division is focused on EGI's personal lines business, predominantly non-standard automobile insurance. As an interim step to execute this strategy in 2007 and 2008, EGI entered the U.S. non-standard auto insurance market under reinsurance agreements with three arm's-length insurance companies. These companies provide property and casualty insurance to the non-standard private passenger automobile segment of the industry and operate in several states in the south-eastern U.S. By early 2009 EGI had terminated the reinsurance agreements, being dissatisfied with the results of these arrangements. Having acquired American Colonial Insurance Company in 2010, EGI now intends to pursue its U.S. expansion exclusively as an insurer in its own right, where EGI can implement greater underwriting control.

Gross written premiums from the sale of Personal Lines automobile policies (Canada and United States combined) account for 72.3% of gross written premiums. One of EGI's diversification strategies is the

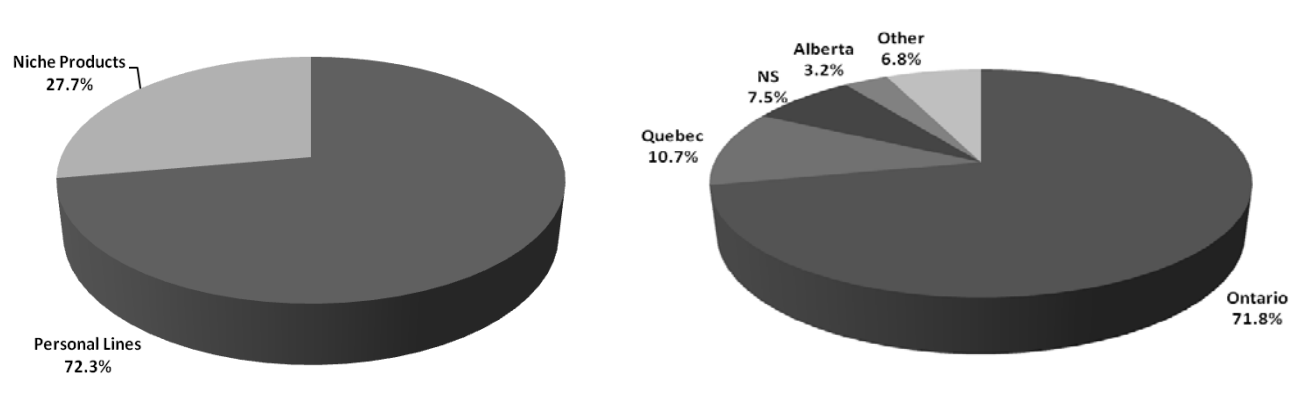
growth of the non-auto business in the Niche Products division, currently accounting for approximately 27.7% of gross written premiums, and the growth of the newly created International division.

The financial performance of EGI is determined by two main factors: (i) the level of premiums earned in relation to claims and operating costs incurred; and (ii) the returns generated from the investment portfolio. Premiums collected are ultimately used to pay claims and operating expenses. There is, however, a time lapse between the collection of premiums and the payment of claims and certain operating expenses. This allows EGI to invest premiums collected and earn an investment return until claims and operating expenses are paid. EGI also earns an investment return on invested capital.

The business of EGI and its operating divisions, including critical accounting estimates and assumptions, is described in more detail in the Company's MD&A which is incorporated by reference in this AIF.

Products and Services

Approximately 72.3% of EGI's direct written premium revenue in 2010 was from its Personal Lines division with approximately 71.8% of the total premiums written from Ontario. The breakdown of direct written premiums by category of business and by region during 2010 is illustrated below.



Personal Lines Division

As part of its strategic planning and analysis process, EGI has moved to diversify its writings – both geographically and by product line, including the creation, development, marketing and processing of new personal lines product offerings.

These new offerings, in conjunction with the Company's core, non-standard automobile product, will provide distributors with a wider array of personal lines products (which have historically been underserved by the standard market). This will be accomplished by utilizing the same niche underwriting philosophy and discipline that has been the hallmark of EGI's activities.

Although the non-standard automobile segment remains the largest, single component of EGI's activities, the additional personal lines products will facilitate additional production and diversification, making the Company an even more important partner for its distributors. In this manner, the non-standard automobile segment will continue to form the critical, but not sole, component of the Personal Lines division.

The non-standard automobile segment currently targeted by EGI's Personal Lines division is high premium insurance for drivers who, because of inexperience or a poor driving record, are not able to obtain insurance from standard insurers. EGI provides coverage for private passenger vehicles as well as single commercial vehicles and small commercial and farm fleets. Management believes that EGI's underwriting discipline, claims expertise, strict controls and experienced management team, who are well-versed in the nuances of non-standard auto, enable the Company to select those drivers in the higher premium categories who have a proportionally lower potential claims risk.

For applicants paying the higher premiums for non-standard automobile insurance, price is the single most important consideration. EGI provides selected drivers with a lower premium option than the higher premium coverage offered by the Facility Association (or the Groupement in Quebec), the industry-operated pools that serve as the “markets of last resort.” EGI targets drivers most likely to be “reformers” not “repeaters”. These non-standard auto risks fall between Facility Association and the applicants normally targeted by standard market insurers. The likely reformer expresses concern with respect to his or her poor driving record and will exhibit a sincere desire to improve (so as to re-enter the standard market at standard rates). EGI trains its brokers and agents to select qualifying risks. EGI then employs the experience of its underwriting personnel to ensure that complete and accurate underwriting and rating information has been developed.

In recent years, EGI has focused on appointing brokers and agents in rural and smaller urban centres as experience has shown that these areas are consistently more profitable. This strategy has resulted in enhanced underwriting margins that, on average, exceed the industry average.

In July 2005, EGI withdrew from the Alberta personal lines automobile insurance market. The Alberta government’s auto insurance reform package (introduced in October 2004) imposed a capping of insurance premiums, particularly those of inexperienced and other higher risk drivers, through the implementation of a mandated rating grid and very restrictive risk selection rules. The grid subsidizes the premiums of higher risk drivers and has resulted in the overcharging of lower risk drivers in Alberta. The size of this subsidy remains large. EGI has found that re-entry into the Alberta private passenger market is currently not a viable option. EGI continues to underwrite motorcycle, antique and classic vehicles, trailers, motor homes, commercial, small fleet and farm vehicle insurance in Alberta.

In September 2005, EGI also withdrew from the Newfoundland and Labrador private passenger automobile insurance market. This decision was made as a result of the introduction of Bill 26, which eliminated an insurer’s ability to use statistically valid rating factors (such as number of years licensed) which are essential to the proper underwriting of non-standard risks. The regulatory changes made it, in the opinion of management, uneconomical for a non-standard automobile insurer to underwrite the higher risk, private-passenger business for its own account in Newfoundland and Labrador.

As part of the strategy to develop business in other vehicle types, EGI entered into an exclusive arrangement with a specialist broker (in the first quarter of 2006) to write motorcycle business in Ontario. Direct written premiums from this arrangement, along with producers of motorcycle business in other jurisdictions, totalled \$15.9 million in 2010 and \$15.3 million in 2009.

EGI will maintain and grow its Personal Lines division business by employing the following strategies:

- Protect its dominant position in non-standard auto markets. Monitor the impact of recent government reforms aimed at further reducing claim costs, which may allow EGI to increase its business activities in certain urban markets.
- Continue to build the Company’s profitable personal and commercial auto lines of business in the province of Quebec. Quebec personal lines production (in 2010) totalled \$11.9 million (a 7.2% increase over 2009). Quebec remains a critical territory in EGI’s efforts to diversify geographically.
- Use existing expertise to increase business in other lines of specialty auto insurance products such as coverage for motorcycles, snowmobiles, all terrain vehicles, antique autos and recreational vehicles.
- Seamless interaction with brokers.
- Continue to monitor and participate in the review of Alberta’s grid rating system by the Alberta Automobile Insurance Rate Board, with a view to reactivating distribution of EGI’s private passenger automobile insurance coverages in that province (should a viable opportunity be proven).
- Continue to expand non-standard auto writings in jurisdictions where EGI earlier withdrew or restricted its premium writing – such as Nova Scotia, Prince Edward Island and New Brunswick.

Niche Products Division

EGL's Niche Products division, established in 2003, provides specialized commercial and personal insurance products and programs covering areas of the market that are considered underserved. This division works with property and casualty insurance brokers, managing general agents (MGAs), benefit consultants, warranty product distributors and third party administrators (TPAs) to design insurance and warranty product solutions that respond to gaps in the insurance market created by traditional insurers' focus on standardized coverage. The Niche Products division is focused on satisfying its distributors' need for customized consumer oriented solutions that differentiate them from the product offerings provided by standard market insurers. Staffed with highly knowledgeable and experienced insurance professionals, the division researches and designs specialty insurance programs in response to market demand. These programs are then distributed and administered by the initiating broker, MGA, TPA or other intermediary who has worked closely with the Niche Products division to design the insurance solution.

EGL has identified niche market segments within five product areas that offer opportunities for profitable growth: property insurance; commercial general liability and professional liability insurance; casualty insurance; accident and health insurance; and warranty products. Within each of these areas, EGL concentrates its underwriting within the sub-segments where the risk characteristics of the business offer an opportunity to obtain a higher rate relative to the specific exposure than would be available within the broader segment of that niche market. This focus allows EGL to seek a per-risk margin that exceeds what is available in the standard market.

An important component of the niche products market is the degree to which significant expertise often resides at the broker and distributor level. The distribution partners EGL selects have highly specialized knowledge of the product and the market and have administration systems to service the customer before and after the sale. They provide highly effective distribution capability for EGL's programs. Their market knowledge and technical design capability are used in product design and, combined with EGL's expertise in pricing, underwriting structures and financial management, create a sustainable product offering. Many of our distribution partners are interested in sharing in future underwriting profits through retention of risk. Accordingly, in certain circumstances, EGL will enter into a risk-sharing agreement with a distribution partner.

In response to the growth experienced in the Niche Products division, the ADAPT® system was developed to enable the administrator of each program to provide customer information to EGL in an electronic format on contracts and policies sold by the distributor. The ADAPT® system software allows the distributors to use their own internal systems to supply the required information to EGL rather than being forced to re-enter data on EGL's systems. Once the data transfer is received, EGL is able to immediately create customer policy records on the ADAPT® system and can use the claims portion of the ADAPT® system to manage claims and provide customer service.

EGL intends to maintain and grow the Niche Products division by employing the following strategies:

- Strategically grow the Accident & Health business through an investment in technology and commitment to service
- Ensure that the Niche Products division grows organically by continuing to provide unique expertise and superior service in response to all business inquiries.
- Develop systems, processes and administrative capabilities that ease the administrative burden of our distributors.
- Attract high quality profitable program business by offering a unique opportunity for distribution partners to enter into risk-sharing arrangements with EGL.
- Seek opportunities for the Niche Products division to grow through select acquisitions of books of business, distributors, administrators or an insurance company.

International Division

In January 2008, EGI formed the International division to focus on its strategy to expand into the U.S. As an interim step to execute this strategy, EGI entered the U.S. non-standard auto market under reinsurance agreements with three arm's-length insurance companies. EGI has terminated the reinsurance agreements, being dissatisfied with the results.

With the termination of the assumption of business from selected U.S. insurers, the Company undertook to launch its own non-standard automobile insurance company, initially forming Echelon Insurance Company of America ("EICA"). On March 1, 2010, EICA acquired and merged with another Florida-domiciled insurer, American Colonial Insurance Company, Inc. and continues to operate under the American Colonial name. American Colonial is licensed to transact business in Florida, Georgia, Alabama and Louisiana. EGI accesses Texas business via a fronting arrangement. EGI has established an MGA in Florida to transact and manage business on behalf of the insurance company. EGI's management team has past experience with the successful acquisition and operation of U.S. non-standard auto carriers.

EGI will continue its gradual and cautious entry into non-standard auto insurance in select U.S. markets. The Company is currently focused on Texas and Florida but also plans to expand into Georgia, Alabama and Louisiana at a future date. It will use its sophisticated pricing methodologies to establish conservative prices and underwriting templates and will adjust its rates over time as experience emerges and market conditions evolve.

Distribution and Marketing

EGI markets its Personal Lines division products through insurance brokers and agents. The specialty programs of the Niche Products division are marketed through insurance brokers, benefit consultants, MGAs, TPAs and warranty product distributors.

Under the Management Services Agreement between Echelon and Co-operators, which was renewed on January 1, 2008, (for a five-year term), Co-operators has agreed, as long as the agreement is in force, to use reasonable efforts to encourage its agents to distribute EGI's non-standard automobile products (provided, in doing so, Co-operators will not act contrary to any legal requirement or contrary to the best interest of its customers). See "Co-operators".

Personal Lines

EGI believes that one of the key requirements of its brokers and agents in dealing with a personal lines carrier is consistency on the part of the insurer. EGI believes that brokers and agents are looking for insurers who know and communicate exactly what policies they want to write and who hold true to their core underwriting principles. Brokers want to deal with insurers who are perceived to desire a long-term presence in the market. Insurance brokers and agents are also concerned with minimizing account servicing time and maximizing commission income through policy and contingent profit commissions.

Service is another requirement of the brokerage and agent communities. Particularly in underwriting and claims, it is essential that the insurer have properly trained individuals who are empowered to make quick decisions and resolve issues presented by brokers, agents and their clients. Rapid access to a "live voice" response is very important to both brokers and agents when they contact the insurer. Focusing on successfully addressing key broker and agent issues, such as top quality service and excellent document turnaround time, enables EGI to act in a responsive manner when issues arise that impact a broker's or agent's operation.

Account servicing time can be affected by the insurer's underwriting rules (which may be broad or exclude many risks), underwriting attitude (rules strictly enforced or exceptions made), service level of the insurer with respect to production of policy documents and claims handling. For non-standard automobile business, the Facility Association and the Groupement are available to all brokers and agents and have broad underwriting rules. The specialist insurers underwrite business for their own accounts and generally have stricter underwriting rules, claims and underwriting processes.

Selection and monitoring of producers are significant factors in EGI's marketing strategy. As producers have significant influence over which insurance company's policies are offered to their customers, management regards its producers as key, frontline decision makers. For non-standard automobile, all brokers have access to Facility Association or Groupement and usually represent more than one non-standard automobile insurance company. Co-operators' agents have access to the Facility Association, but utilize EGI as their only other non-standard carrier. EGI believes that it competes favourably with other non-standard insurance companies among brokers who represent more than one such company and offers an attractive alternative to the Facility Association for business placed by Co-operators' agents.

Niche Products

EGI distributes its niche products through insurance brokers, benefit consultants, MGAs, TPAs and warranty product distributors. EGI seeks distributors who have developed a portfolio of business focused on a particular niche in the market. This type of product specialization offers EGI an opportunity for profitable growth. In order to qualify as a business partner, the distributor must demonstrate an ability to effectively distribute the product and the expertise to underwrite and administer the portfolio of business successfully. EGI combines its market research and underwriting skills with the distributor's specialized expertise and distribution skills to create consumer oriented product offerings. EGI actively works with its distributors to identify profitable opportunities to fully develop a portfolio or a sub-segment of the market. Programs are developed and marketed only in response to proven market demand.

Distributors are often interested in sharing in future underwriting profits through retention of risk. From time to time, EGI enters into risk-sharing agreements with distributors (or in some cases their clients). Under such an agreement, the distributor or its client acts effectively like a reinsurer of EGI, providing capital to EGI as needed to support their risk participation. This approach allows distributors or their clients, with program specific expertise or with programs with proven track records, to participate in profits as risk sharing partners. The objective is to structure an arrangement that enables the distributor or client to become an underwriting risk partner. As an underwriting risk partner, the distributor or client will be focused on creating a sustainable program that balances sales and profits. Risk sharing also helps to ensure the distributor's commitment to service and adherence to program guidelines.

Compensation

On its automobile products, EGI compensates brokers based on a fixed percentage (most often 12.5%) of premiums written. Brokers are paid an additional 1% if they order (directly) Autoplus and Motor Vehicle Record reports. Co-operators is paid 11.5% of premiums written on policies sold by its agents. In addition, a contingent commission may be paid to brokers that meet certain targets. In general, qualification for contingent commissions is based upon a combination of factors, including reaching a target level for written premiums and achieving a record of profitability over a three year average. The amount of any contingent commission is determined based on the broker's total production and its underwriting profit, with a higher contingent profit commission payable with a larger volume of premiums and underwriting profit. Management believes that EGI's commission rates are generally in line with its competitors in the non-standard automobile business (with the exception of the Facility Association and the Groupement). On specialty niche program business EGI pays various rates of commission, reflecting the nature of the program as well as the administration and marketing activities performed by the distributor of the program. Contingent commission arrangements are offered on a case by case basis.

Pricing and Underwriting

Personal Lines

For its automobile products, EGI continually seeks to classify and price risks in defined segments by (i) utilizing actuarial analysis of its own as well as industry data, (ii) testing a broad range of variables, (iii) analysis of direct competitors' rates and (iv) by seeking reliable predictors of future claims. The proposed pricing of EGI's policies is established by its staff based on EGI's proprietary database containing statistical experience by age, class of driver, type and use of the vehicle, postal code, prior driving history and other rating characteristics. EGI's databases are continually monitored and updated to enhance EGI's ability to develop more precise rates based on a larger number of defined segments and variables.

EGI's proposed automobile rates must be filed with and approved by provincial insurance regulators before they are used by producers to write policies. EGI continually monitors its loss experience in all rating cells with a view toward seeking approval of and implementing rate adjustments whenever warranted.

EGI grants its brokers and agents limited authority to bind automobile insurance coverages in accordance with its guidelines. EGI promptly reviews all coverages bound by brokers and agents and decides whether to continue such coverages. All final underwriting decisions are made by EGI. The objective of EGI's non-standard auto underwriting process is to assess whether complete and accurate information has been provided on each application, taking all necessary steps to ensure that, if the policy is to remain in force, the risk has been properly rated and fits EGI's underwriting criteria and filed rules.

Niche Products

Program-based underwriting, which is performed by the Niche Products division, differs greatly from individual risk underwriting. When creating standards for individual risk underwriting, insurers start with a wide template for evaluating risk. Because individual risk business can come from any industry and any part of the country, the insurer's underwriter must weigh a large number of factors and try to understand the attributes of the customer's business within their industry and the geographic region in which they operate. This is an expensive and highly variable business. The ability of the insurer to evaluate and price each risk is highly dependent on the general knowledge, skill and diligence of the person performing the underwriting.

Program-based underwriting begins with a narrower focus, but the process requires more research and a longer evaluation cycle than individual risk underwriting. For each program being considered, EGI's Program Managers must research in depth the specific industry segment in order to understand the nature of all insurable and related risks faced by businesses operating in the sector. The various types of risks inherent in the industry are then segmented by type and severity so that EGI can set terms and conditions for the policy contract and risk acceptance criteria appropriate for the type of business to be insured. Fundamentally, a uniform template is created and priced which allows the lower risk business with similar characteristics to be underwritten relatively easily. This allows EGI to create underwriting systems that ensure more intensive evaluation is given to the more complex business in order to set terms appropriate to the risk.

Program business tends to be geographically focused, industry specific or associated through some affinity. There are fairly similar risk characteristics across the spectrum of potential customers. The business can normally be controlled by one MGA or broker or a small group of brokers or a centralized association.

The process of evaluating and determining which accounts to underwrite is based on strict disciplines. Before any program is implemented, a survey must be completed which provides details of all aspects of the program, including current market analysis, a complete product description including proposed wordings and rates, distribution system, underwriting control system, administration procedures, key management personnel resources, premium and loss history, claims adjudication process and financial forecast.

Once this information is collected, the Niche Products division's product management team reviews the prior history of the program to identify trends and determine areas of concern. This will result in a further discussion of the program with the MGA or broker to clarify points or gain additional information. Upon conclusion of the analysis, the product management team will make recommendations to the Underwriting Review Committee which reviews and signs off on programs before they are implemented.

Competition

Personal Lines

The non-standard automobile insurance business in Canada is quite competitive. The size of the non-standard automobile segment varies over time, as standard market insurers adjust their pricing and underwriting rules. EGI's competitors in this market segment include Jevco Insurance Company, Perth Insurance Company and Paico Insurance Company.

The specialist insurers offer essentially the same product (automobile insurance is generally provided on one statutory form in each province and territory), and thus compete on the basis of premiums, commission rates, underwriting rules, distribution and service levels. The premiums and commission rates of the market suppliers can be objectively compared. They are however subject to change at any time as a result of the rate review and approval process in the province or territory in question. Service levels on policy document production, underwriting service and claims handling are more subjective and difficult to measure. EGI's management believes that the non-standard automobile insurance industry will remain quite competitive in the foreseeable future.

Niche Products

EGI's key competitors in its Niche Products division vary by line of business. In the property, liability and casualty markets the competitors for a specific program could include one or more of the following companies: ACE INA Insurance, Arch Insurance Company, Chartis Insurance Company of Canada, Chubb Insurance Company, AXA Canada Inc., Elite Insurance Company, Lombard Canada Ltd., Royal & Sun Alliance Insurance Company, Temple Insurance Company, Trisura Guarantee, Lloyd's Underwriters and Travellers Guarantee Insurance Company. In the accident and health market the competitors for a specific program could include one or more of the following companies: ACE INA Insurance, Chartis Insurance Company of Canada, Industrial Alliance Pacific, Manulife Financial, RBC Insurance Company and Royal & Sun Alliance Insurance Company. In the warranty product market the competitors for a specific program could include one or more of the following companies: Assurant (American Bankers Insurance Company), Lombard Canada Ltd., Royal & Sun Alliance Insurance Company, and Travellers Guarantee Insurance Company.

Availability of coverage is the key basis for attracting applicants to specialized niche programs. The relative expertise of the insurer then becomes the key basis for competition as the underwriter tries to construct the optimal combination of coverage, risk management requirements and premium, which is acceptable both to the distributor, the insured customer and the insurer.

The niche business tends to be less price sensitive than automobile insurance. Coverage is provided through distributors on terms that are either not controlled or less tightly controlled by government regulations. Pricing is largely determined by the characteristics of the individual risk and the custom made program coverage for that risk. EGI's management has seen increased competition in the specialized niche markets in recent years.

Reinsurance

EGI has reinsurance treaties with several unaffiliated reinsurers, all of whom are selected on the basis of their credit worthiness. EGI purchases reinsurance to reduce its exposure to the insurance risks that it assumes in writing business.

In accordance with industry practice, EGI's reinsurance recoverables with licensed Canadian reinsurers are generally unsecured, because Canadian regulations require these reinsurers to maintain minimum

asset and capital balances in Canada to meet their Canadian obligations. However, policy liabilities rank in priority to any subordinate creditors a reinsurer may have. For reinsurance recoverables with non-licensed reinsurers, EGI maintains security against reinsurance recoverables in the form of cash, letters of credit and/or assets held in trust accounts.

EGI depends upon the financial stability of its reinsurers in the same way that EGI's insureds rely upon EGI. EGI believes that there is currently adequate reinsurance capacity in those classes of business which EGI underwrites and EGI is not aware of any developments that might cause a serious shortage of capacity in the future.

Investment Management

EGI's investment objectives are to produce an attractive total return on its invested assets after taxes, to protect and enhance statutory underwriting capital on a long-term basis and to maintain adequate liquidity for insurance operations.

The two most important methods employed by EGI to reduce the level of risk while achieving attractive rates of return on its investment portfolio are diversification and the use of experienced investment professionals to manage the investment portfolio.

Diversification is achieved through 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 are monitored by the Investment Committee to ensure that EGI's investment managers comply with these guidelines.

EGI outsources all trading decisions on individual securities to a small number of reputable and professional investment managers. The Investment Committee regularly monitors the performance of each manager and measures their performance against appropriate market index benchmarks.

Co-operators

The Co-operators Group Limited is the ultimate parent company of Co-operators General Insurance Company. The Co-operators Group Limited also controls Co-operators Life Insurance Company and Addenda Capital Inc.

Prior to June 2001, Echelon was a wholly-owned subsidiary of Co-operators General Insurance Company. In a series of transactions between June 2001 and January 2005, Co-operators General sold its direct and indirect interest in Echelon to the Company and its predecessors for its current Common Shares of EGI. As a result, as at December 31, 2010, Co-operators General and its affiliates beneficially owned 2,027,912 Common Shares of EGI, representing approximately 17% of the outstanding Common Shares.

As part of the June 2001 transaction, Co-operators General entered into a reinsurance agreement with Echelon whereby Co-operators General reinsured 100% of the net (after other reinsurance) unpaid claims liabilities of Echelon, on claims with loss dates up to and including June 30, 2001. Echelon holds a deposit from Co-operators General, adjustable to be equal, as a minimum, to the unpaid claims reserve ceded to Co-operators General, as determined by Echelon's consulting actuary, which reserve was \$900,000 million as at December 31, 2010. Echelon retains the investment income that it earns on the deposit. Co-operators General provides all claims adjustment and settlement services on the claims covered by the reinsurance agreement for no additional consideration.

Pursuant to an agreement (the "Echelon Co-operators Services Agreement") among Echelon, EGI, and Co-operators General, originally entered into on October 1, 2003 and subsequently amended on November 1, 2004, January 12, 2005, October 19, 2005, October 1, 2006 and December 31, 2007, Co-operators General provides distribution for EGI's non-standard auto products by its agents and certain system network and data services, accounting services and technical support services required by Echelon in connection with the carrying on of its insurance business. In addition, Co-operators General collects premiums on behalf of Echelon for Echelon policies sold by insurance agents of Co-operators

General. The Echelon Co-operators Services Agreement currently expires on December 31, 2012, but may be automatically renewed for periods of one year thereafter. Co-operators General or Echelon may terminate the Echelon Co-operators Services Agreement upon 180 days' written notice to the other. Under the Echelon Co-operators Services Agreement, Echelon pays to Co-operators (depending on the jurisdiction) a fee of 11.5% of gross written premium received by Echelon for Co-operators General's agency-originated business placed with Echelon. Co-operators General has agreed, so long as the agreement is in effect (i) to use reasonable efforts to encourage its agents to provide such business to EGI (provided in doing so Co-operators will not act contrary to any legal requirement or contrary to the best interest of its customers), and (ii) not to establish or invest in any non-standard automobile insurance company that competes with EGI in Canada.

Employees

As at December 31, 2010, EGI had 138 full-time and 8 part-time and contract employees. None of EGI's employees are subject to collective bargaining agreements.

RISK FACTORS

The risks inherent in EGI's operations are described in the Company's 2010 Management's Discussion and Analysis under the heading "*Risk Factors*" which is hereby incorporated by reference in this AIF and is available on SEDAR at www.sedar.com.

INSURANCE REGULATORY MATTERS

While Echelon is federally regulated by OSFI, under the *Insurance Companies Act (Canada)*, the marketing of insurance is regulated on a provincial and territorial basis in Canada. EGI's other insurance subsidiaries are subject to the insurance legislation and policies of the jurisdictions in which they each carry on business. Under such legislation and policies, EGI's affairs are regulated in many respects including the assets in which it may invest, the levels of capital and surplus and the standards of solvency that it must maintain, and the amount of dividends that it may declare and pay. Under such legislation, insurance administrators are given broad powers of administration and enforcement over insurers. The legislation and policies of different jurisdictions may not be consistent. Compliance with the capital standards of OSFI will generally satisfy the regulatory capital requirements of all Canadian jurisdictions.

The regulation of insurance policies, in particular auto insurance policies, varies significantly between different jurisdictions. Automobile accident benefits coverage is compulsory everywhere in Canada except Newfoundland. Collision insurance is optional in all jurisdictions in Canada other than Manitoba and Saskatchewan. In all provinces and territories except for Quebec, Manitoba, Saskatchewan and British Columbia, auto insurance is provided by private insurers. Manitoba, Saskatchewan and British Columbia require that basic auto insurance coverage be issued through their provincial government-owned insurer. In these provinces, the government and private insurers compete for optional and excess coverage. In Quebec, the government insurer administers bodily injury claims, while first and third party property damage claims are covered by private insurers. Similarly, in the United States, the rules governing auto insurance vary by state.

In Ontario, there are limited rights of recovery through lawsuits for death and serious injury. In Quebec and Manitoba, lawsuits are not permitted with respect to injuries sustained in auto accidents. Victims and their dependents resident in those provinces are compensated by their government insurer for their injuries whether or not the accident occurs in their home province. In Quebec, accident victims who do not reside there are entitled to compensation only to the extent that they are not responsible for the accident, unless otherwise agreed between the Quebec government insurer and authorities of the victims' place of residence; additional compensation may be available from their own insurers. The legislation in Manitoba contains provisions similar to those of Quebec.

DIVIDENDS

The payments of dividends is at the discretion of the Board of Directors and depends on, among other things, EGI's financial condition, results of operations, capital requirements, permitted payments from its insurance subsidiaries, acquisition opportunities and such other factors as the Board of Directors deems relevant.

On February 23, 2006, the Board of Directors of the Company commenced paying quarterly dividends to shareholders, with the first dividend declared being \$0.04 per Common Share, payable on March 31, 2006. The Company declared and paid cash dividends in the aggregate amount of \$0.16 per share during the fiscal year ended December 31, 2006. On February 22, 2007, the Company increased the rate of dividend to \$0.05 per share, payable March 31, 2007. The Company declared and paid cash dividends in the aggregate amount of \$0.20 per share during fiscal year ended December 31, 2007. On February 21, 2008, the Company increased the rate of dividend to \$0.06 per share payable March 28, 2008. The Company declared and paid cash dividends in the aggregate amount of \$0.24 per share during the fiscal year ended December 31, 2008. On February 23, 2009, the Company increased the rate of dividend to \$0.07 per share, payable March 27, 2009.

Since March 2009, the Company has suspended declaring quarterly dividends to its common shareholders, to assist in building a stronger capital base to support future growth. EGI intends to direct its current financial resources and future earnings to building on its existing base in Canada, the development of American Colonial Insurance Company and to broadening its footprint in the U.S. non-standard auto marketplace.

DESCRIPTION OF CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of Common Shares of which 12,059,582 were issued and outstanding as of December 31, 2010. All outstanding Common Shares are fully paid and non-assessable.

The holders of the Common Shares are entitled to:

- (a) one vote per Common Share on all matters to be voted on at all meetings of shareholders of the Company, except meetings at which only holders of a specified class of shares are entitled to vote;
- (b) receive, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, any dividends declared by the Company; and
- (c) receive, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, the remaining property of the Company upon the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary.

There are no pre-emptive, redemption, purchase or conversion rights attaching to the Common Shares.

MARKET FOR SECURITIES

The Company's Common Shares are listed and posted for trading on the Toronto Stock Exchange (the "TSX") under the trading symbol "EFH".

The following chart provides information on the high and low sale prices and volume for the common shares of EFH on the TSX for the periods indicated.

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
January 2010	11.74	11.00	62,593
February 2010	11.15	10.05	29,446
March 2010	11.00	10.50	168,175
April 2010	10.52	10.21	20,272
May 2010	10.30	9.50	10,012
June 2010	9.74	7.99	42,679
July 2010	9.00	8.00	32,661
August 2010	8.75	7.75	557,213
September 2010	8.45	7.75	353,005
October 2010	8.10	7.19	42,913
November 2010	8.30	7.75	49,657
December 2010	7.85	7.61	35,982

No common shares of the Company were issued during the fiscal year ending December 31, 2010, except for 47,000 common shares issued on the exercise of options granted pursuant to the Company's Stock Option Plan. On December 15, 2010, 12,000 Restricted Share Options were exercised.

DIRECTORS AND OFFICERS

The names and municipalities of residence of the directors and executive officers of the Company, positions held by them with the Company and their principal occupations for the past five years are as set forth below. Each of the directors will serve until the next annual meeting of shareholders.

<u>Name and Municipality of Residence</u>	<u>Current Office⁽¹⁾</u>	<u>Principal Occupation⁽²⁾</u>	<u>Director Since</u>
Scott Clark Ontario, Canada	Director and Secretary	President and CEO, Covington Capital Corporation, an investment management company	May 2002
Mary G. Connolly Ontario, Canada	Director	Self-employed Management Consultant	March 2006
G. Mark Curry Ontario, Canada	Director	Chairman and President, Revmar Inc., an investment holding company	May 2002
Bruce West Ontario, Canada	Director	Executive Vice-President, Finance and Chief Financial Officer, Co-operators Group Limited, an insurance company	June 2007
Paul F. Little Ontario, Canada	Director and Chairman of the Board	President, Westover Investments Inc., a private investment company	January 2003

<u>Name and Municipality of Residence</u>	<u>Current Office⁽¹⁾</u>	<u>Principal Occupation⁽²⁾</u>	<u>Director Since</u>
Douglas E. McIntyre Ontario, Canada	Director and Vice Chairman of the Board	Vice Chairman of the Company	August 2001
Robert Purves Ontario, Canada	Director	Chairman, Purves Redmond Limited, an insurance brokerage firm	August 1997
Steve Dobronyi Ontario, Canada	Chief Executive Officer	Chief Executive Officer of the Company	
Hemraj Singh Ontario, Canada	Vice President & Chief Financial Officer	Vice President & Chief Financial Officer of the Company	

(1) Office is with the Company unless otherwise indicated.

(2) During the past five years each of the foregoing directors and executive officers has been engaged in the principal occupation shown opposite his or her name, except as follows: (i) From 2005 to 2006 Bruce West was Executive Vice-President and Chief Financial Officer of ARISE Technologies Corporation and from 2006-2007 was Vice-President and Chief Financial Officer for Canadian Tire Financial Services; (ii) during the past nine years, Douglas E. McIntyre has been Chief Executive Officer of the Company; (iii) during the past five years, Robert Purves was also President, RPL Holdings Inc., President, COS Insurance Services Inc. and a director and Secretary, Iridium Risk Services Inc.; and (iv) from 2001 to 2007 Steve Dobronyi was Senior Vice President, Affinity Markets and from 2008 to 2009 he was Senior Vice President, Business Development, at Manulife Financial. He joined the Company in November 2009 as President and Chief Operating Officer.

As of March 8, 2011, the directors and executive officers of the Company as a group, beneficially owned, directly or indirectly, or exercised control or direction over 5,350,464 Common Shares, representing approximately 44.37% of the outstanding Common Shares.

Bruce West is an officer of Co-operators General Insurance Company, which, as of March 8, 2011, beneficially owned together with its affiliates 2,027,912 Common Shares, representing approximately 16.82% of the outstanding Common Shares.

Scott Clark is an officer of Covington Fund II Inc., which, as of March 8, 2011, beneficially owned 1,770,848 Common Shares, representing approximately 14.68% of the outstanding Common Shares.

Committees of the Board of Directors

The Board of Directors of the Company (the "Board") has established three Board committees: the Audit and Risk Committee, the Conduct Review & Compensation Committee and the Investment Committee. The information below sets out the current members of each of the Company's Board committees.

Conduct Review & Compensation Committee

The Conduct Review & Compensation Committee consists of three members, all of whom are independent Directors, currently comprised of Scott Clark (Chair), G. Mark Curry and Robert Purves.

Investment Committee

The Investment Committee consists of four members, three of whom are independent Directors, currently comprised of G. Mark Curry (Chair), Scott Clark, Paul F. Little and Douglas E. McIntyre.

Audit and Risk Committee

The Audit and Risk Committee has been structured to comply with the requirements of National Instrument 52-110 Audit Committees ("NI 52-110") of the Canadian Securities Administrators.

Composition of Audit and Risk Committee

As at December 31, 2010, the Audit and Risk Committee was composed of the following persons:

Robert Purves (Chair)
Bruce West
G. Mark Curry
Paul F. Little
Mary Connolly

The Board has determined that each of the Audit and Risk Committee members is unrelated, independent and financially literate within the meaning of NI 52-110.

A copy of the Audit and Risk Committee Charter is appended hereto as Appendix A.

Relevant Education and Experience of Committee Members

The education and experience of each Audit and Risk Committee member that is relevant to such members' responsibilities as a member of the Audit and Risk Committee are set out below:

Robert Purves

Mr. Purves is Chairman of Purves Redmond Limited, an insurance brokerage firm. His career includes a strong insurance heritage, focused on property, casualty, management liability and surety lines. He has direct experience in transportation, environmental and waste management industries, as well as non-profit and special marine lines. Mr. Purves has a BA in Economics from the University of Toronto and a number of insurance diplomas and designations. He has eight years experience in accounting and 31 years in the insurance brokerage business. He is a director and officer of two insurance firms.

Bruce West

Mr. West is Executive Vice President Finance and Chief Financial Officer of The Co-operators Group Limited. Mr. West has over 25 years of progressive financial and managerial experience in operations, corporate development and financial management. He has held several senior financial roles in the insurance, banking and technology sectors. As Executive Vice-President Finance and Chief Financial Officer of The Co-operators Group, Mr. West is a director of 9 subsidiary companies and is chairman of the Trustees of the Co-operators Employee Retirement Plan. Mr. West is a Chartered Accountant and holds a Bachelor of Mathematics from the University of Waterloo and an MBA with a concentration in Marketing from Wilfrid Laurier University, and holds a Chartered Director (C.Dir.) designation from The Directors College (a joint venture of McMaster University and the Conference Board of Canada).

G. Mark Curry

Mr. Curry has been the Chairman of Revmar Inc., an investment consulting company, since 1980. Mr. Curry is currently a director of Sargasso Capital Corp., a public company, and a Director of the Toronto Port Authority. He is currently a director of several private companies and is a former director of several Canadian public companies. He served as a director of MCL Capital Inc., a capital pool company, now ZENN Motor Company Inc., which completed its qualifying transaction in January 2006. He was a director of Cutwater Capital Corporation, a capital pool company, now OutdoorPartner Media Corporation, which completed its qualifying transaction in March 2006. Mr. Curry received a Bachelor of Arts & Economics from Stanford University and a Master of Business Administration from the University of Western Ontario.

Paul F. Little

Mr. Little is President of Westover Investments Inc., an investment company. He currently serves on the boards of two other public companies: Arius3D Corp. and Sargasso Capital Corp; is a director of several private companies and is a former director of several Canadian TSX-listed companies and one NYSE-

listed U.S. company. Mr. Little is a Chartered Accountant. He holds an MBA from the University of British Columbia and a BA in Economics from the University of Toronto.

Mary Connolly

Ms. Connolly was most recently Managing Director of the Toronto office of the law firm Fraser Milner Casgrain, LLP (FMC). In her role with FMC, she was responsible for directing operations of the Toronto practice, including the client service levels and facilitating a process of continuous improvement. Prior to joining FMC, Ms. Connolly operated her own management consulting firm and also served with Ernst & Young, both in a management consulting and professional accountancy capacity. Ms. Connolly holds an MBA from the University of Ottawa and qualified as a Canadian Chartered Accountant in 1982.

Pre-Approval Policy

The Audit Committee shall pre-approve all services provided to EGI by the external auditor other than professional services performed by the external auditor for the audit and review of the Company's financial statements or services normally provided by the external auditor in connection with statutory and regulatory filings or engagements.

External Auditor Service Fees

During the two most recently completed financial years, the Company paid the following fees to PricewaterhouseCoopers LLP, the Company's external auditor, for audit, audit-related and non-audit services:

<u>Auditor Fees</u>	2010	2009
Audit fees	\$460,000	\$418,000
Audit- related fees	\$49,000	\$33,000
Tax fees	\$51,000	\$348,000
All other fees	\$44,000	–

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

EGI has entered into transactions with two related parties, Co-operators and Purves Redmond Limited ("Purves Redmond"). These transactions are carried out in the normal course of operation and are measured at cost which approximates fair value. The transactions involving Co-operators, which is a significant shareholder of EGI, consist principally of the agent channel of distribution, support services and investment management. Purves Redmond is involved in arranging insurance coverage for the companies within the EGI group. Robert Purves, a shareholder and director of EGI, is also a shareholder and chairman of Purves Redmond.

TRANSFER AGENT AND REGISTRAR

The Company's registrar and transfer agent is Computershare Investor Services Inc., Toronto, Ontario.

EXPERTS

The financial statements for the financial year ended December 31, 2010, have been audited by PricewaterhouseCoopers LLP, EGI's auditors.

J.S. Cheng & Partners provided an opinion on the value of policy liabilities for the Company's consolidated balance sheets at December 31, 2010 and 2009.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Company's management proxy circular for its most recent annual meeting of shareholders involving the election of directors. Additional financial information is also provided in the Company's comparative consolidated financial statements for the financial year ended December 31, 2010, and management's discussion and analysis of such financial results. A copy of such documents and additional information relating to the Company is contained on SEDAR at www.sedar.com, the Internet site maintained by the Canadian Securities Administrators.

GLOSSARY OF SELECTED INSURANCE TERMS

“**Cede**” means the act of an insurer transferring or assigning part or all of the risk on an insurance policy written by it to a reinsurer by purchasing insurance from such reinsurer to cover the risk or part thereof;

“**Direct written premiums**” of an insurer for any period means the total premiums on insurance, including assumed reinsurance, written by the insurer during such period;

“**Facility Association**” or “**Facility**” refers to an organization of the Canadian automobile insurance industry which exists to ensure that all drivers can obtain basic insurance, even if their application fails to meet the criteria of individual insurance companies;

“**Groupement**” refers to a Quebec organization of the automobile insurance industry which exists to ensure that all drivers in Quebec can obtain basic insurance, even if their application fails to meet the criteria of individual insurance companies;

“**Loss ratio**” for any period means the sum of claims and claims adjustment expenses incurred, net of reinsurance, expressed as a percentage of net earned premiums.

“**Net earned premiums**” of an insurer means the portion of the written premium equal to the expired portion of the time for which insurance or reinsurance was in effect;

“**Net written premiums**” of an insurer means direct written premiums less amounts ceded to reinsurers;

“**Producers**” refers to, collectively, insurance brokers, agents and managing general agencies;

“**Reinsurance**” means an arrangement in which an insurance company, the reinsurer, agrees to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance or reinsurance risks underwritten by the ceding company under one or more policies;

“**Retention**” means the amount of liability for which an insurance company will be responsible after it has completed its reinsurance arrangements;

“**Risk**” means a person or thing insured on an insurance policy; and

“**Underwriting**” means the assumption of risk for designated loss or damage by issuing a policy of insurance in respect thereof.

APPENDIX "A"

EGI FINANCIAL HOLDINGS INC.

AUDIT AND RISK COMMITTEE CHARTER

1. PURPOSE

The Audit and Risk Committee ("Committee") is a standing committee of the Board of Directors ("Board") of EGI Financial Holdings Inc. (the "Corporation"). The primary function of the Committee is to assist the Board in fulfilling its oversight responsibilities by: serving as an independent monitor of the Corporation's financial reporting process, risk management and system of internal controls; monitoring the independence and performance of the Corporation's external auditor and internal audit function; and facilitating communication among the Corporation's external auditor, the Board and senior and financial management of the Corporation. The Committee performs this function by carrying out the activities described in this Charter.

2. MEMBERSHIP

(a) *Number of Members*

The Committee shall consist of a minimum of three members.

(b) *Residency of Members*

A majority of members of the Committee shall be resident Canadians.

(c) *Independence of Members*

Each member of the Committee shall have no direct or indirect relationship with the Corporation which, in the view of the Board, could reasonably interfere with the exercise of the member's independent judgment. Each member shall otherwise satisfy the independence requirements applicable to members of audit committees under National Instrument 52-110 – *Audit Committees* of certain of the Canadian Securities Administrators and the requirements of any other applicable legislation, subject to any exemptions or relief that may be granted from such requirements.

(d) *Financial Literacy of Members*

Each member of the Committee shall have, or shall acquire within a reasonable time following appointment to the Committee, the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

(e) *Term of Members*

The members of the Committee shall be appointed annually by the Board. Each member of the Committee shall serve at the pleasure of the Board until the member resigns, is removed or ceases to be a member of the Board.

3. CHAIRMAN

(a) *Election of Chairman*

The Chairman of the Committee is chosen by the Committee from among the members of the Committee.

(b) *Role of the Chairman*

The Chairman is responsible for the overall operation of the Committee.

4. MEETINGS

(a) *Number of Meetings*

The Committee shall meet as many times per year as necessary to carry out its responsibilities but in no event will the Committee meet less than four times per year.

(b) *Quorum*

No business may be transacted by the Committee at a meeting unless a quorum of the Committee is present. Two members of the Committee shall constitute a quorum.

(c) *Minutes; Reporting to the Board*

The Committee shall maintain minutes or other records of meetings and activities of the Committee in sufficient detail to convey the substance of all discussions held. Upon approval of the minutes by the Committee, the minutes shall be circulated to the members of the Board. However, the Chairman may report orally to the Board on any matter in his view requiring the immediate attention of the Board.

(d) *Attendance of Non-Members*

The Committee may invite to a meeting any officers or employees of the Corporation, legal counsel, advisors and other persons whose attendance it considers necessary or desirable in order to carry out its responsibilities. At least once per year, the Committee shall meet with the external auditor and management in separate sessions to discuss any matters that the Committee or such individuals consider appropriate. The external auditor shall be entitled to receive notice of every meeting of the Committee and to attend and be heard at every meeting.

(e) *Procedure*

The procedures for calling, holding, conducting and adjourning meetings of the Committee shall be the same as those applicable to meetings of the Board. Notwithstanding such procedures, a meeting of the Committee may also be called by the external auditor.

5. RESPONSIBILITIES AND DUTIES

(a) *Review of Financial Information*

The Committee shall review, prior to public disclosure by the Corporation, the Corporation's annual and interim financial statements, annual and interim Management's Discussion and Analysis of Operations and Changes in Financial Condition ("MD&A"), annual and interim earnings press releases, and any other press releases containing financial information related to earnings. The Committee shall also review financial statements and financial information of the Corporation appearing in a prospectus or other offering document. In addition, the Committee shall satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from its financial statements (other than disclosure already referred to in this paragraph) and shall periodically review the adequacy of such procedures.

(b) *Recommendation Regarding Annual and Interim Financial Statements*

Annual Financial Statements. The Committee shall review and discuss with management and the external auditor the Corporation's annual financial statements and recommend to the Board whether the annual financial statements should be approved.

Interim Financial Statements. The Committee shall review and discuss with management and may discuss with the external auditor the Corporation's interim financial statements and recommend to the Board whether the interim financial statements should be approved.

(c) *Significant Accounting Principles and Off-Balance Sheet Transactions*

The Committee shall review with management and the external auditor significant accounting principles and disclosure issues, including complex or unusual transactions, judgmental areas (such as reserves or estimates), significant changes to accounting principles and alternative treatments under Canadian GAAP. The Committee shall discuss with management the effect of any off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons that may have a material current or future effect on the Corporation's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources, or significant components or revenues and expenses.

(d) *Pre-Approval of Non-Audit Services*

The Committee shall pre-approve all services provided to the Corporation and its subsidiary entities by the external auditor other than professional services performed by the external auditor for the audit and review of the Corporation's financial statements or services normally provided by the external auditor in connection with statutory and regulatory filings or engagements.

(e) *Whistleblowing Procedures*

The Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls and auditing matters and (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

(f) *Internal Controls*

The Committee shall review and discuss with management the nature and appropriateness of the Corporation's systems of internal control over financial reporting and internal control for compliance with legal, regulatory and ethical requirements. The Committee shall monitor internal financial and operating policies, procedures and controls to ensure the integrity of managing the Corporation's resources, including internal controls in the accounting system, changes in accounting principles and practices, asset management policies and procedures, investment policies and procedures, foreign currency management, tax planning and compliance, banking arrangements and significant risks, uncertainties and estimates as they relate to financial reporting.

(g) *Risk Management*

The Committee shall review and discuss with management and the external auditor the nature and appropriateness of the Corporation's systems to identify, assess and mitigate significant business risks and shall discuss with the external auditor management's responses to the external auditor's advice regarding management and internal controls. The Committee shall monitor and review the Corporation's risk management policies and processes and review reports as appropriate on identified key risks of the Corporation and review actions to mitigate these risks.

6. RELATIONSHIP WITH AUDITORS

Selecting and Compensating the External Auditor

The Committee shall recommend to the Board the external auditor to be nominated for appointment at the Corporation's annual meeting for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation as well as the compensation of such external auditor. The external auditor to be nominated shall be a participating audit firm that is in compliance with the requirements of the Canadian Public Accountability Board.

Independence of the External Auditor

The Committee shall satisfy itself that the external auditor is "independent" under applicable laws and requirements, including the rules of the Canadian Public Accountability Board.

As part of this process, the Committee shall require the external auditor to submit to the Committee at least once per year a formal written statement confirming its independence under applicable laws and requirements which statement shall delineate all relationships between the Corporation and the external auditor.

Communication/Reporting and Oversight of Auditors

The Committee has authority to communicate directly with the internal auditor (if any) and the external auditor. The external auditor is required to report directly to the Committee. The Committee shall be directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting.

Hiring of Former Partners and Employees of Current and Former External Auditor

The Committee shall review and approve the Corporation's hiring policies regarding current and former partners and employees of the current and any former external auditor of the Corporation.

7. AUTHORITY TO ENGAGE EXTERNAL ADVISORS

The Committee has the authority to engage independent counsel and other advisors as it determines necessary to carry out its duties and to set and pay the compensation for such counsel and advisors.

8. ACCESS TO INFORMATION AND PERSONNEL

In its discharge of the foregoing responsibilities and duties, the Committee shall have free and unrestricted access at all times, either directly or through its duly appointed representatives, to the relevant accounting books, records and systems of the Corporation and shall discuss with the officers of the Corporation such books, records, systems and other matters considered appropriate.

9. ADOPTION AND REVIEW OF CHARTER

This Charter was adopted by the Board on November 8, 2005, and amended on February 21, 2008 and 11, 2009. The Committee and the Board shall review the adequacy of the Committee's charter on at least an annual basis. In accordance with NI 52-110, the text of this charter shall be included in the Corporation's Annual Information Form.