EGI FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the quarter ending March 31, 2013

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EGI Financial Holdings Inc.

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For the quarter ending March 31, 2013

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

Important Note:

The condensed consolidated interim financial statements for the quarters ended March 31, 2013, and 2012 have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. The policies applied in the condensed consolidated interim financial statements are based on IFRS and have been consistent with those of the previous financial year except for the ones explained in note 3 in the condensed financial statements.

The following discussion should be read in conjunction with EGI's unaudited condensed consolidated interim financial statements for the first quarter of fiscal 2013 and 2012, with the notes to the condensed consolidated interim financial statements, and with management's discussion and analysis (MD&A) and audited annual consolidated financial statements and accompanying notes in the Company's 2012 annual report. The financial data in this discussion has been prepared in accordance with IFRS and has been derived from the unaudited consolidated interim financial statements for the three months ended March 31, 2013, and 2012.

The following commentary is current as of May 9, 2013. Additional information relating to EGI is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

EGI uses both IFRS and certain non-IFRS measures to assess performance. Securities regulators require that companies caution readers about non-IFRS measures that do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other companies. EGI analyzes performance based on operating income and underwriting ratios such as combined, expense and loss ratios. Underwriting income is defined as net earned premiums less net claims incurred, net acquisition expenses, general expenses and reversing any impact of change in discount rate on claims.

The following discussion contains forward-looking information that involves risk and uncertainties based on current expectations. This information includes, but is not limited to, statements about the operations, business, financial condition, priorities, targets, ongoing objectives, strategies and outlook of EGI for 2013 and subsequent periods.

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a projection as reflected in the forward-looking information. By its nature, this information is subject to inherent risks and uncertainties that may be general or specific. A variety of material factors, many of which are beyond EGI's control, affect the operations, performance and results of EGI and its business, and could cause actual results to differ materially from the expectations expressed in any of this forward-looking information.

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

QUARTERLY HIGHLIGHTS

- **$0.11 increase in book value per share to $14.09 from $13.98 at December 31,2012**
- **31% increase in direct written premiums over the same period in 2012 to $57 million**
- **Underwriting loss of $4.4 million, compared to a $1.0 million loss in the first quarter of 2012**
- **Overall combined operating ratio of 109%, compared to 102% in the first quarter of 2012**
- **Total pre-tax return on invested assets of 1.6%, equating to an annualized return of 6.4%**

COMPANY OVERVIEW

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

EGI operates in Canada through Echelon, a federally-regulated P&C insurance company. It has two lines of insurance business – Personal Lines and Specialty Programs. Personal Lines focuses on the underwriting of EGI's non-standard automobile insurance and insurance for motorcycles, antique and classic vehicles, trailers, motor homes and recreational vehicles. Specialty Programs designs and underwrites specialized insurance programs, such as higher premium property, primary and excess liability, legal expense and extended warranty.

Outside of Canada, EGI operates U.S. and International businesses. The U.S. is focused on non-standard automobile insurance in the Southeastern United States. It is currently writing insurance business in Florida and has licenses in Georgia, Alabama and Louisiana.

The International division underwrites specialty insurance programs in Europe through Qudos, a majority-owned insurance company. Qudos is domiciled in Denmark and is regulated throughout the European Union by the Danish Financial Supervisory Authority. Products include motorcycle, taxi, non-standard auto and warranty insurance. It commenced writing premiums in 2012 and, to date, the majority of the business is in the United Kingdom and Denmark.

The organization and nature of EGI's business are substantially the same as at the end of 2012. Refer to Note 1 of the annual 2012 consolidated financial statements.

OVERALL PERFORMANCE

For the quarter ended March 31, 2013, EGI'S net loss after income taxes was $0.9 million compared to profit of $3.8 million for the first quarter of 2012. This decrease in profitability was largely the result of an increase in underwriting loss to $4.4 million compared to $1.0 million in the same period in 2012, and lower investment income of $5.1 million compared to $6.0 million in the same period in 2012, primarily due to lower realized gains. A change in discount rate on unpaid claims of $(1.8) million was incurred in the first quarter of 2013 compared to $nil in same period in 2012.

Book value per share, which EGI management considers the most appropriate metric to measure the performance of the Company, increased by $0.11 in the quarter, to $14.09 from $13.98 as at December 31, 2012.

EGI's combined operating ratio increased to 109% in the first quarter of 2013 from 102% in the first quarter of 2012. The Company's core Personal Lines division had a combined ratio of 104% while the Specialty Programs division produced a combined ratio of 116% in the quarter. The combined ratio for the U.S. division decreased significantly to 126% as a result of a greater proportion of more profitable renewable business and management actions detailed below. The International division's combined ratio of 105% has

decreased as a result of increased earned premiums in the quarter and an improved claims ratio.

	Three months ended March 31	
	2013	2012
Loss ratio [1]	73.1%	65.7%
Expense ratio	36.1%	36.6%
Combined ratio	109.2%	102.3%

(1) Before impact of change in discount rate on unpaid claims for an adjustment of $1.8 million in the three months ended March 31, 2013, compared to $nil for the corresponding period in 2012.

Investment income decreased to $5.1 million in the first quarter of 2013 compared to $6.0 million in the same period in 2012, primarily due to lower realized gains of $1.3 million in 2013 compared to $2.7 million in the same period last year. No investment impairments were recorded in the first quarter of 2013 compared to $0.2 million in the first quarter of 2012.

FINANCIAL OVERVIEW

The net loss before taxes of $1.2 million in this quarter included the following items:

(i) Negative impact of the change in discount rate on claims of $1.8 million
(ii) Negative impact of cancelled programs in Specialty Programs of $0.5 million
(iii) Realized gains of $1.3 million in investment income

	Three months ended March 31	
($ THOUSANDS except per share amounts)	**2013**	**2012**
Direct written and assumed premiums	57,410	43,939
Net earned premiums	48,120	42,170
Underwriting loss [1]	(4,448)	(976)
Investment income	5,065	5,960
Discount impact on claims	(1,770)	–
Income (loss) before taxes	(1,153)	4,984
Net income (loss)	(910)	3,794
Net operating income (loss) [2]	(694)	1,941
Net income (loss) per share		
Basic	(0.07)	0.33
Diluted	(0.07)	0.33
Return on equity (ROE) [3]	9.0%	5.5%
Net operating income (loss) per share – diluted	(0.06)	0.16

(1) Before impact of change in discount rate on unpaid claims for an adjustment of $1.8 million in the three months ended March 31, 2013, compared to $nil for the corresponding period in 2012.

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

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

Net Operating Income

Details of Net Operating Income are as follows:

($ THOUSANDS)	Three months ended March 31 2013	2012
Net Income (loss)	(910)	3,794
Impact of discount rate	1,770	–
Realized gains (losses) on investments	(1,305)	(2,682)
Fair value change on HFT investments	(291)	(122)
Tax impact	(47)	757
Net operating income (loss)	(783)	1,747
Minority interest	89	194
Net operating income (loss) attributable to shareholders	(694)	1,941

Book Value Per Share

Selected balance sheet highlights and book value per share details are as follows:

($ THOUSANDS except shares outstanding and per share amounts)	As at March 31, 2013	As at Dec 31, 2012
Cash and short-term deposits	9,106	19,578
Investments	421,483	412,728
Total assets	555,887	547,028
Reserves	275,021	268,580
Total equity	167,636	165,403
Number of shares outstanding	11,893,432	11,914,932
Book value per share (1)	14.09	13.98

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

SEGMENTED FINANCIAL INFORMATION

Personal Lines

	3 months ended March 31			
($THOUSANDS)	2013	2012	$Variance	%Variance
Direct written premiums	27,587	29,797	(2,210)	(7)%
Net earned premiums	29,302	31,477	(2,175)	(7)%
Net claims:				
Current year claims	23,521	23,638	(117)	0%
Current year loss ratio	80.3%	75.1%		
Favorable prior year claim development	1,469	2,085	(616)	(30)%

Total net claims	22,052	21,553	499	2%
Loss ratio [(1)]	75.3%	68.5%		
Expense ratio	28.6%	27.9%		
Underwriting income (loss) [(1)]	(1,150)	1,138	(2,288)	(201)%
Combined ratio [(1)]	103.9%	96.4%		

(1) Before impact of change in discount rate on unpaid claims for an adjustment of $1.5 million in the three months ended March 31, 2013, compared to $nil for the corresponding period in 2012.

Personal Lines recorded an underwriting loss in the first quarter of 2013 of $1.1 million, compared to an underwriting income of $1.1 million in the first quarter of 2012, a decrease of $2.3 million.

The division's combined ratio increased to 103.9% in this quarter as a result of the following factors:

1. Underperformance of Ontario non-standard auto, which recorded a combined ratio of 109.9% in the first quarter compared to 98.3% in the first quarter of 2012. The long winter in Ontario had a negative impact on the severity of claims received in the first quarter. No material changes were made in underwriting standards or brokers from previous quarters.
2. Offsetting the underperformance in Ontario EGI's Motorcycle and Personal Lines business outside of Ontario recorded a strong combined ratio of 77% in the quarter on $11.5 million of net earned premiums, with all jurisdictions exceeding target profitability.
3. The higher loss ratio was also due to lower positive development of prior year claims in the first quarter of 2013 compared to the same period in 2012.

Specialty Programs

	3 months ended March 31			
($THOUSANDS)	**2013**	**2012**	**$Variance**	**%Variance**
Direct written premiums	10,769	9,822	947	10%
Net earned premiums	8,299	8,381	(82)	(1)%
Net claims:				
Current year claims	5,586	5,312	274	5%
Current year loss ratio	67.3%	63.4%		
Favourable (unfavourable) prior year claims development	(100)	1,751	(1,851)	(106)%
Total net claims	5,686	3,561	2,125	60%
Loss ratio [(1)]	68.5%	42.5%		
Expense ratio	47.2%	45.1%		
Underwriting income (loss) [(1)]	(1,301)	1,042	(2,343)	(225)%
Combined ratio [(1)]	115.7%	87.6%		
Combined ratio active programs[(1)]	110.5%	83.4%		
Combined ratio cancelled programs[(1)]	189.7%	144.0%		

(1) Before impact of change in discount rate on unpaid claims for an adjustment of $0.4 million in the three months ended March 31, 2013, compared to $nil for the corresponding period in 2012.

Direct written premiums increased by $0.9 million or 10% in the first quarter of 2013 as a result of expansion in Western Canada.

Specialty Programs recorded an underwriting loss of $1.3 million compared to underwriting income of $1.0 million recorded in the first quarter of 2012. The division's combined ratio increased to 115.7% in this quarter as a result of the following factors:

1. The commercial property line of business experienced underwriting losses of $1.5 million in Q1 2013 primarily due to three large losses.
2. Negative prior year claims development of $0.1 million compared to positive development of $1.8 million in the first quarter of 2012.
3. This business segment was also impacted by an underwriting loss of $0.5 million on cancelled programs in Q1 2013 compared to an underwriting loss of $0.4 million in the first quarter 2012. $0.3 million of the adverse experience was due to the settlement and closure of one of our largest and most complex Mortgage Broker E&O claims.

U.S. Division

	3 months ended March 31			
($THOUSANDS)	**2013**	**2012**	**$Variance**	**%Variance**
Direct written premiums	4,170	3,858	312	8%
Net earned premiums	3,554	2,150	1,404	65%
Net claims:				
Current year claims	2,817	2,507	310	12%
Current year loss ratio	79.2%	116.6%		
Favourable (unfavourable) prior year claims development	(314)	22	(336)	(1,527)%
Total net claims	3,131	2,485	646	26%
Loss ratio	88.1%	115.6%		
Expense ratio	38.1%	57.6%		
Underwriting income (loss)	(932)	(1,574)	642	41%
Combined ratio	126.2%	173.2%		

The U.S. division recorded an underwriting loss of $0.9 million in the first quarter compared to a loss of $1.6 million in the comparable period in 2012. The improvement was the result of the following items:

1. Exit from the Texas market.
2. Newly implemented underwriting and pricing changes toward the end of 2012 in Florida.
3. Greater proportion of more profitable renewal business against the comparable quarter.
4. Lower expense ratio as a result of concerted management effort to reduce expenses.
5. The improvement was offset partially by $0.3 million negative development of prior year claims in the first quarter compared to $nil in the same period of 2012.

The full impact of auto reforms that took effect in Florida on January 1, 2013, cannot be assessed until the third quarter of 2013. The industry continues to witness legal and political difficulties with its implementation.

International Division

	3 months ended March 31			
($THOUSANDS)	**2013**	**2012**	**$Variance**	**%Variance**
Direct written premiums	14,884	462	14,422	3,122%
Net earned premiums	6,965	162	6,803	4,199%
Net claims:				
Current year claims	4,151	117	4,034	3,448%
Current year loss ratio	59.6%	72.2%		
Favourable (unfavourable) prior year claims development	(135)	–	(135)	N/A
Total net claims	4,286	117	4,169	3,563%
Loss ratio	61.5%	72.2%		
Expense ratio	43.3%	523.5%		
Underwriting income (loss)	(333)	(803)	470	59%
Combined ratio	104.8%	595.7%		

The International division, which began writing business in the first quarter of 2012, recorded $14.9 million of written premiums in the first quarter of 2013 compared to $0.5 million in the same period in 2012, an increase of $14.4 million.

The International division recorded an underwriting loss of $0.3 million in the first quarter compared to a loss of $0.8 million in the comparable period in 2012. This is as a result of:

1. Higher earned premiums as the business begins to mature.
2. Decrease in the divisions loss ratio to 61.5% from 72.2%.
3. The above were partially offset by $0.1 million of negative development in Q1 2013 compared to no development in the same period in 2012.

We continue to be excited by the long-term prospects of the International division which is trending to record a quarterly profit during 2013.

QUARTER ENDED MARCH 31, 2013, COMPARED TO QUARTER ENDED MARCH 31, 2012

The following financial information compares first quarter 2013 results with the first quarter of 2012.

($ THOUSANDS)	1st Quarter 2013	1st Quarter 2012	Variance $	Variance %
Direct written and assumed premiums	57,410	43,939	13,471	31%
Net written premiums	49,376	40,307	9,069	22%
Net earned premiums	48,120	42,170	5,950	14%
Other revenue	132	283	(151)	(53)%
Claims incurred	35,155	27,716	7,439	27%
Acquisition costs	11,375	9,539	1,836	19%
Operating expenses	6,170	6,174	(4)	0%
Underwriting income (loss) (1)	(4,448)	(976)	(3,472)	(355)%
Investment income	5,065	5,960	(895)	(15%)
Impact of discount rate on claims	(1,770)	–	(1,770)	N/A
Net income before income taxes	(1,153)	4,984	(6,137)	(123)%
Income taxes	(243)	1,190	(1,433)	(120)%
Net income (loss)	(910)	3,794	(4,704)	(124)%
Net operating income (loss) attributable to shareholders	(694)	1,941	(2,635)	(136)%

(1) Before impact of change in discount rate on unpaid claims for an adjustment of $1.8 million in the three months ended March 31, 2013, compared to $nil for the corresponding period in 2012.

Additional Income Statement Analysis

Written Premiums

In the first quarter of 2013, direct written premiums increased $13.5 million, or 31%, to $57.4 million compared to $43.9 million in the same period last year. The increase resulted mainly from the International division.

For the three months ended March 31, 2013, net written premiums increased by $9.1 million or 22% to $49.4 million compared to $40.3 million for the same period in 2012. This increase was lower than the increase in direct written premiums due to premiums ceded to external reinsurers from the international division.

Earned Premiums

Net earned premiums for the three months ended March 31, 2013, were $48.1 million, an increase of $6.0 million from $42.2 million in the same period in 2012. The increase in net earned premiums was less than the increase in net written premiums, as much of the International written premiums will be earned in the future.

Operating Expenses

There was no significant change in operating expenses in the first quarter of 2013 compared to the comparative quarter despite a 14% increase in earned premiums.

Income Taxes

Income tax recovery of $0.2 million was recorded in the quarter ended March 31, 2013, compared to $1.2

million expense recorded for the first quarter of 2012. The effective tax recovery rate of 21% recorded in the first quarter of 2013, compared to a 24% tax expense in the first quarter of 2012, reflects the loss for the first quarter of 2013 as well as other non-deductible items which lowered the recovery rate.

Discount Rate

The discount rate used as at March 31, 2013, was 2.29%; December 31, 2012, was 2.65% compared to 3.5% used on March 31, 2012, and December 31, 2011.

The change in discount rate in March 2013 created a $1.8 million expense in the quarter compared to $nil discount rate change for the same period in 2012. This expense is not included in the loss ratio analysis previously discussed.

BALANCE SHEET ANALYSIS

The Balance Sheet analysis that follows should be read in conjunction with the unaudited condensed consolidated interim financial statements for the first quarter of 2013 and notes therein.

Investments

EGI has an investment policy that seeks to provide a stable income base to support EGI's liabilities without incurring an undue level of investment risk. In addition to this risk-return analysis, the chosen asset mix also considers the amount of regulatory capital that is required.

EGI has outsourced buy/sell decisions on individual securities to a small number of reputable professional investment managers. Using the "prudent person" approach, EGI monitors the performance of each manager, measuring his or her performance against an appropriate market index benchmark.

EGI's investment portfolio is invested in well-established, active and liquid markets in Canada, the United States and Europe. Fair value for most investments is determined by reference to other-than-quoted market prices.

There has been no significant change in the Company's investment policy since the end of 2012.

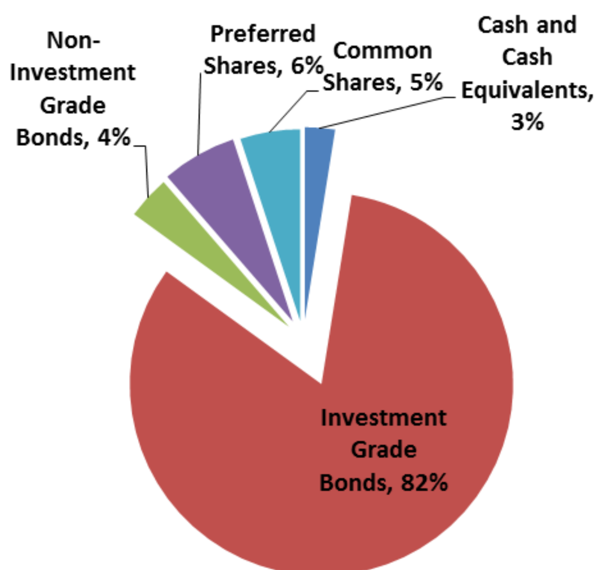
The following table sets forth EGI's invested assets as at March 31, 2013, and December 31, 2012.

Available-for-sale	**Carrying and fair values**	
	March 31, 2013	**December 31, 2012**
Bonds		
Government	178,114	192,540
Corporate	194,255	178,101
Total bonds	372,369	370,641
Common shares	21,828	16,941
Total available-for-sale	394,197	387,582
Fair Value through profit or loss		
Preferred shares	27,286	25,146
Total investments	421,483	412,728

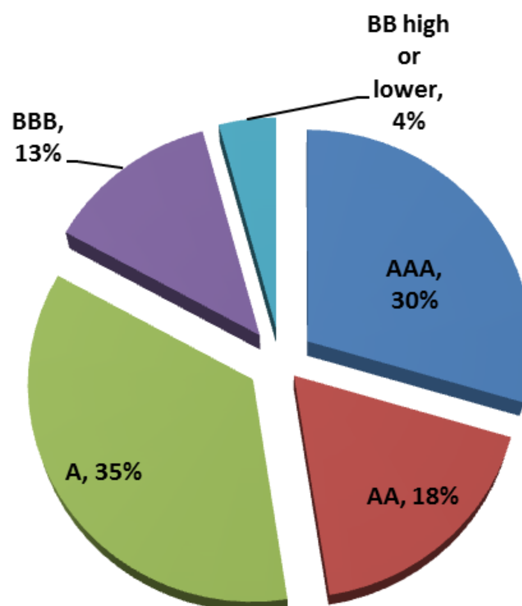
EGI's investment portfolio including finance receivables, based on fair values, increased to $447.7 million, or 10.2%, compared to total fair values of $406.2 million as at March 31, 2012.

The chart below shows the investment portfolio mix in Q1 2013 and ratings for the fixed income securities. We continue to have a conservative fixed income portfolio with 96% being investment grade and 48% at AA or higher with an average rating of A+.

Investment Portfolio – Q1 2013



EGI Bond Ratings – Q1 2013



Impairment assets and provisions for losses

EGI has an established policy to write down or make a provision for any investment with objective evidence that the value of the investment is impaired.

Management has reviewed currently available information and the advice of its investment managers regarding those investments whose estimated fair values are less than carrying values. For those securities whose decline in fair value was considered to be objective evidence that the value of the investment is impaired, the Company recorded the difference between the carrying amount of the investment and its fair value as an impairment which reduces investment income in the year recorded.

There was no impairment loss recognized in the first quarter of 2013 with $0.2 million recognized in 2012.

Recoverable from Reinsurers

($ THOUSANDS)	As at March 31, 2013	As at Dec. 31, 2012
Reinsurers' share of unpaid claims	30,296	30,283
Reinsurers' share of unearned premiums	10,877	9,169
Total	41,173	39,452

As at March 31, 2013, the recoverable from reinsurers increased to $41.2 million compared to $39.4 million as at December 31, 2012. The increase was due to the high percentage of reinsurance on programs written by the International division. All reinsurers, with balances due, have a rating of A^{-} or above as determined by Standard & Poor's and A.M. Best, except for several Specialty Programs distributors who share a portion of the risk with EGI, for whom EGI holds deposits.

Accounts Receivable

($ THOUSANDS)	As at March 31, 2013	As at Dec. 31, 2012
Premium financing receivables	15,266	16,316
Agents and brokers	16,408	13,749
Other	7,179	5,512
Total	38,853	35,577

Premium financing receivables decreased to $15.3 million at March 31, 2013, from $16.3 at December 31, 2012, due to the seasonality of motorcycle receivables. The majority of the Personal Lines business is billed directly to policyholders and remitted on a monthly basis. The increase in agent and broker receivables from $13.7 in 2012 to $16.4 in 2013 was due mainly to an increase in balances due to Qudos in line with the increase of written premiums.

Provision for Unpaid Claims

EGI establishes loss reserves to provide for future amounts required to pay claims related to insured events, that have occurred and been reported but have not yet been settled, and related to events that have occurred but have not yet been reported to EGI. Provision for unpaid claims consists of the aggregate amount of individual case reserves established and management's estimate of claims incurred but not reported, based on the volume of business currently in force and historical claims experience. In order to help ensure that EGI's provision for unpaid claims (often called "reserves") is adequate, management has retained the services of an independent actuary. Provisions for unpaid claims are discounted to present value. The discount rate used for March 31, 2013, was 2.29%, changed from 2.65% at the end of 2012.

Share Capital

As of May 9, 2013, there were 11,866,332 common shares issued and outstanding.

LIQUIDITY AND CAPITAL RESOURCES

The purpose of liquidity management is to ensure there is sufficient cash to meet all of EGI's financial commitments and obligations as they come due. EGI believes that it has the flexibility to obtain, from internal sources, the funds needed to fulfill its cash requirements, during the following financial year and to satisfy regulatory capital requirements.

Contractual obligations include operating leases, for which $1.4 million is due in less than a year and $4.8 million is due over the next nine years.

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

Normal Course Issuer Bid

On March 30, 2012, the Company received approval from the TSX to commence a normal course issuer bid to repurchase and cancel up to 671,147 common shares, representing approximately 10% of its public float of issued and outstanding common shares at that time. The NCIB expired on April 2, 2013.

On April 8, 2013, the Company received approval from the TSX to recommence a normal course issuer bid to repurchase and cancel up to 665,559 common shares, representing approximately 10% of its public float of issued and outstanding common shares at that time.

Up to May 9, 2013, the Company has purchased and canceled 51,600 common shares under its normal course issuer bid programs at an average cost of $10.51 per share for a total cost of approximately $0.5 million.

The Company believes that it is in the best interest of the Company to purchase shares for cancellation because management believes the shares are trading at a significant discount relative to their value.

Capital Resources

The total capitalization of EGI at March 31, 2013, was $166.3 million compared to $165.4 million at December 31, 2012.

The MCT ratio of Echelon General, EGI's largest subsidiary, was 235% at March 31, 2013. This is well in excess of internal and supervisory targets. All other regulated entities remain well capitalized. In addition to the excess capital at Echelon General, EGI has approximately $29 million of excess capital in the holding company and its Barbados reinsurance company, CIM Re.

A common measure of capital adequacy is the net written premium-to-surplus or equity ratio. This ratio was 1.2:1 as at March 31, 2013, compared to 1.0:1 in 2012. This level of leverage continues to be well below the 2.5:1 ratio which management feels is fully leveraged capital. EGI has no debt. EGI's current capitalization provides it with adequate financial resources for planned growth.

Equity

($ THOUSANDS)	As at March 31, 2013	As at Dec. 31, 2012
Common shares	68,114	68,244
	(11,893,432 shares)	(11,914,932 shares)
Retained earnings	90,284	91,237
Contributed surplus	1,183	1,068
Accumulated other comprehensive income	8,055	6,054
Non-controlling Interest	(1,289)	(1,200)
Total capitalization	166,347	165,403

SUMMARY OF QUARTERLY RESULTS

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

	2013	2012				2011		
($ THOUSANDS EXCEPT PER SHARE DATA)	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Direct written and assumed premiums	57,410	52,326	57,778	66,106	43,939	44,324	46,966	52,751
Net earned premiums	48,120	46,713	45,735	43,957	42,170	42,375	41,672	41,057
Underwriting income (loss)(1)	(4,448)	1,833	181	(4,309)	(976)	1,450	471	(1,218)
Income (loss) before income taxes	(1,153)	6,428	19,057	(3,583)	4,984	6,097	165	2,062
Net income (loss)	(910)	4,513	13,879	(2,820)	3,794	3,254	(171)	1,410
Earnings (loss) per adjusted share								
(a) Basic	$(0.07)	$0.40	$1.17	$(0.20)	$0.33	$0.29	$(0.01)	$0.12
(b) Diluted	$(0.07)	$0.38	$1.17	$(0.20)	$0.33	$0.29	$(0.01)	$0.12
Selected financial ratios (%)								
Loss ratio(1)	73.1%	55.8%	61.4%	71.3%	65.7%	59.2%	63.0%	67.1%
Expense ratio	36.1%	40.3%	38.3%	38.5%	36.6%	37.4%	35.9%	35.9%
Combined(1)	109.2%	96.1%	99.7%	109.8%	102.3%	96.6%	98.9%	103.0%

(1) Before adjusting for change in discount rate on claims

The quarterly results reflect the seasonality of our business. While net earned premiums are relatively stable from quarter to quarter, underwriting results vary significantly by quarter as they are affected by changes in weather conditions.

ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared in accordance with IFRS and in compliance with IAS 34 "Interim Financial Reporting." Please refer to note 3 of the unaudited condensed consolidated interim financial statements for the quarter ended March 31, 2013.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

For a description of EGI's accounting policies, which are on an IFRS basis, refer to note 3 in the condensed consolidated interim financial statements for the quarter ended March 31, 2013. A description of EGI's critical accounting estimates and assumptions is also detailed in note 4 of the interim financial statements.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

As of March 31, 2013, an evaluation was carried out, under the supervision of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of these disclosure controls and procedures was effective.

Internal Controls over Financial Reporting

As at the quarter ended March 31, 2013, the Chief Executive Officer and the Chief Financial Officer evaluated the design of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal controls as at March 31, 2013, was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2013, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.