EGI FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the quarter ending September 30, 2013

TABLE OF CONTENTS

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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 September 30, 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 third 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 September 30, 2013, and 2012.

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. Unless otherwise indicated all operational results are based on continued results.

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.

The following commentary is current as of November 7, 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.

QUARTERLY HIGHLIGHTS

1. **Net operating income from continuing operations of $0.32 per share compared to $0.23 per share in the third quarter of 2012.**

2. **An loss of $0.64 per share on the U.S. operations, consisting of an operating loss of $0.15 per share and a loss on the sale of the business of $0.49 per share**

3. **Underwriting income from continuing operations of $1.2 million, compared to $0.5 million in the third quarter of 2012.**

4. **A combined operating ratio of 98% compared to 99% in the third quarter of 2012**

5. **17% increase in direct written premiums from continuing operations over the same period in 2012 to $62.7 million**

6. **An increase of $0.25 in book value per share from continuing operations, less $0.64 per share for the U.S. results, resulting in a book value per share of $13.98**

COMPANY OVERVIEW

EGI operates in the property and casualty ("P&C") insurance industry in Canada, the United States and Europe. The Company underwrites non-standard automobile insurance and other specialty insurance products, with a focus on 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 commercial property, primary and excess liability, and extended warranty.

Outside of Canada, EGI operates U.S. and International businesses. 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 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. This division has been sold and is currently undergoing regulatory approval.

On August 8, 2013, EGI announced that it has signed a definitive stock purchase agreement with White Pine Insurance Company for the sale of its U.S. operations. The sale is expected to close in the 4th quarter of 2013. The U.S. results and balance sheet write down associated with the sale of the U.S. operations are referred to as discontinued operations in this document.

OVERALL PERFORMANCE

For the quarter ended September 30, 2013, EGI's net income after income taxes on continued operations was $2.4 million compared to $14.0 million for the third quarter of 2012. This decrease in profitability was largely the result of a decrease in investment income by $18.2 million to $2.5 million compared to $20.7 million in the same period in 2012, primarily due to lower realized gains. This was offset by an increase in underwriting income of $0.7 million to $1.2 million compared to $0.5 million in the same period in 2012 and a decrease from the impact of the change in discount rate on unpaid claims by $1.2 million to $0.7 million compared to an increase of $1.9 million in the same period in 2012.

Book value per share on combined operations decreased in the quarter to $13.98 from $14.37 at the end of Q3 2013. The discontinued operations and write down taken in the quarter reduced the book value by $0.64. Excluding the impact of discontinued operations, EGI's book value per share increased by 8.5% from the corresponding period in 2012.

EGI's combined ratio from continued operations decreased to 97.7% in the third quarter of 2013 from 98.9% in the third quarter of 2012. The Company's core Personal Lines division had a combined ratio of 89.1% while the Specialty Programs division produced a combined ratio of 112.1% in the quarter. Active specialty programs had a combined ratio of 98.5%. The International division's combined ratio of 99.6% has improved as a result of increased earned premiums in the quarter and an improved claims ratio.

	3 months ended September 30		**9 months ended September 30**	
	2013	**2012**	**2013**	**2012**
Claims ratio (1)	61.1%	60.3%	62.2%	63.2%
Expense ratio	36.6%	38.6%	36.6%	37.6%
Combined ratio	97.7%	98.9%	98.8%	100.8%

(1) Before the impact of discount rate change increasing unpaid claims by $0.7 million and $0.7 million in the three and nine months ended September 30, 2013, respectively, compared to a change increasing unpaid claims by $1.9 million and $3.7 million for the corresponding three and nine month periods, respectively, in 2012

FINANCIAL OVERVIEW

The net income before taxes of $3.0 million from continuing operations in this quarter included the following items:

(i) Underwriting income of $3.3 million and $0.1 million in the Personal Lines and International divisions respectively

(ii) Negative impact of cancelled programs in Specialty Programs of $1.2 million offset by positive contribution from active programs of $0.1 million

(iii) Negative impact of the change in discount rate on claims of $0.7 million

	3 months ended September 30		9 months ended September 30	
($ THOUSANDS except per share amounts)	2013	2012	2013	2012
Direct written and assumed premiums	62,706	53,561	194,067	156,497
Net earned premiums	50,711	42,062	145,726	122,924
Underwriting income (loss) (1)	1,157	459	1,722	(949)
Investment income	2,506	20,659	12,921	28,940
Discount impact on claims	(665)	(1,879)	(665)	(3,690)
Income before taxes	2,998	19,239	13,978	24,301
Net income on continued operations	2,440	14,012	11,209	18,218
Net operating income loss (2)	3,798	2,745	9,638	7,343
Net income per share				
Basic	$0.22	$1.18	$0.97	$1.58
Diluted	$0.22	$1.18	$0.95	$1.57
Return on equity (ROE) (3)	4.2%	11.6%	4.2%	11.6%
Return on equity (ROE) continuing operations(3)	10.5%	14.7%	10.5%	14.7%
Net operating income loss per share – diluted	$0.32	$0.23	$0.80	$0.61

(1) Before the impact of discount rate change, increasing unpaid claims by $0.7 million and $0.7 in the three and nine months ended September 30, 2013, respectively, compared to a change increasing the unpaid claims by $1.9 million and $3.7 million for the corresponding three and nine month periods respectively 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 less impairments and unrealized fair value changes on held-for-trading investments and discontinued operations.

(3) Represents EGI's net income on continued operations 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:

	3 months ended September 30		9 months ended September 30	
($ THOUSANDS)	2013	2012	2013	2012
Net income (loss)	(5,068)	13,879	2,239	14,853
Impact of discount rate	665	1,879	665	3,690
Realized gains (losses) on investments	74	(17,365)	(4,896)	(19,410)
Fair value change on HFT investments	883	(112)	2,058	(189)
Discontinued Operations	7,508	133	8,970	3,365
Tax impact	(438)	4,148	431	4,227
Net operating income	3,624	2,562	9,467	6,536
Minority interest	174	183	171	807
Net operating income attributable to shareholders	3,798	2,745	9,638	7,343
Net operating income per share – diluted	$0.32	$0.23	$0.80	$0.61

Balance Sheet Highlights

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

($ THOUSANDS except shares outstanding and per share amounts)	As at September 30, 2013	As at December 31, 2012
Cash and short-term deposits	31,817	11,746
Investments	421,691	404,196
Total assets	605,745	547,027
Reserves	288,613	264,455
Total equity	163,026	166,603
Number of shares outstanding – combined	11,662,432	11,914,932
Book value per share – combined (1)	$13.98	$13.98
EGIC MCT Ratio (2)	227%	241%

(1) Shareholders' equity divided by the number of shares issued and outstanding.
(2) MCT Ratio of Echelon General Insurance Company (EGIC)

SEGMENTED FINANCIAL INFORMATION (Continuing Operations)

Personal Lines

	3 months ended September 30				9 months ended September 30			
($THOUSANDS)	2013	2012	$ Variance	% Variance	2013	2012	$ Variance	% Variance
Direct written premiums	30,661	31,507	(846)	(3%)	98,499	101,607	(3,108)	(3%)
Net earned premiums	29,963	31,239	(1,276)	(4%)	89,566	94,143	(4,577)	(5%)
Net claims:								
Current year claims	20,084	19,461	623	3%	63,207	63,115	92	0%
Current year loss ratio	67.0%	62.3%			70.6%	67.0%		
Favourable prior year claims development	2,153	1,474	679	46%	6,299	5,906	393	7%
Total net claims	17,931	17,987	(56)	(0%)	56,908	57,209	(301)	(1%)
Claims ratio(1)	59.8%	57.5%			63.5%	60.8%		
Expense ratio	29.3%	31.1%			29.1%	29.8%		
Combined ratio(1)	89.1%	88.6%			92.6%	90.6%		
Underwriting income (1)	3,258	3,552	(294)	(8%)	6,619	8,848	(2,229)	(25%)

(1) Before the impact of discount rate change, increasing unpaid claims by $0.5 million and $0.5 million in the three and nine months ended September 30, 2013, respectively, compared to a change increasing the unpaid claims by $1.5 million and $3.1 for the corresponding three and nine month periods respectively in 2012.

Third Quarter 2013

Personal Lines recorded underwriting income in the third quarter of 2013 of $3.3 million, compared to $3.6 million in the third quarter of 2012, a decrease of $0.3 million.

The division's combined ratio increased to 89.1% in this quarter as a result of the following factors:

1. An increase in the combined ratio from 41.9% to 74.7% in EGI's Quebec Personal Lines segment as a result of higher losses in the Quebec garage auto product.

2. Higher positive development of prior year claims by $0.7 million to $2.2 million in the third quarter of 2013 compared to $1.5 million in the same period in 2012.

3. Improved performance in the quarter in Ontario Non-Standard Auto which recorded a combined ratio of 86.2% compared to 88.1% in the third quarter 2012. There were five new large claims over $0.1 million in the third quarter in 2013 compared to twelve claims in the third quarter of 2012.

4. Lower expense ratio in the third quarter of 2013 compared to the corresponding period in 2012 due to management cost savings initiatives.

Year-to-Date 2013

Personal Lines recorded underwriting income in the first nine months of $6.6 million, compared to underwriting income of $8.8 million in the same period of 2012, a decrease of $2.2 million.

The division's combined ratio increased to 92.6% in the first nine months as a result of the following factors:

1. A combined ratio of 96.7% in Ontario non-standard auto in the nine months ended September 2013 compared to 91.9% in the same period of 2012. In 2013 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. EGI's Motorcycle and Personal Lines business outside of Ontario recorded a strong combined ratio of 86.0% in the nine months ended September 2013 compared to an 88.5% combined ratio in the same period in 2012.

3. More favourable development of prior year claims by $0.4 million to $6.3 million year to date 2013 compared $5.9 million in the same period in 2012.

Specialty Programs

	3 months ended September 30				9 months ended September 30			
($THOUSANDS)	**2013**	**2012**	**$ Variance**	**% Variance**	**2013**	**2012**	**$ Variance**	**% Variance**
Direct written premiums	12,081	12,806	(725)	(6%)	36,703	36,150	553	2%
Net earned premiums	8,976	8,703	273	3%	25,476	25,326	150	1%
Net claims:								
Current year claims	6,397	5,689	708	12%	17,542	15,582	1,960	13%
Current year loss ratio	71.3%	65.4%			68.9%	61.5%		
Favourable (unfavourable) prior year claims development	494	(325)	819	252%	887	(2,639)	3,526	134%
Total net claims	5,903	6,014	(111)	(2%)	16,655	18,221	(1,566)	(9%)
Claims ratio(1)	65.8%	69.1%			65.4%	71.9%		
Expense ratio	46.3%	48.0%			46.7%	47.2%		
Combined ratio(1)	112.1%	117.1%			112.1%	119.1%		
Underwriting income (loss) (1)	(1,086)	(1,491)	405	27%	(3,087)	(4,839)	1,752	36%
Underwriting income (loss) on active programs (1)	81	446	365	82%	(964)	1,169	(2,133)	(182)%
Underwriting income (loss) on cancelled programs (1)	(1,167)	(1,937)	770	40%	(2,123)	(6,008)	3,885	65%

(1) Before the impact of discount rate change, increasing unpaid claims by $0.1 million and $0.1 million in the three and nine months ended September 30, 2013 respectively, compared to a change increasing the unpaid claims by $0.4 million and $0.6 million for the corresponding three and nine month periods respectively in 2012.

Third Quarter 2013

Direct written premiums decreased by $0.7 million or 6% in the third quarter of 2013, due to the exit from the Accident and Sickness line of business, partially offset by an increase in property premiums from the expansion into Western Canada.

Specialty Programs recorded an underwriting loss of $1.1 million compared to an underwriting loss of $1.5 million recorded in the third quarter of 2012. Active programs had a combined ratio of 98.5% compared to 94.9% in the third quarter of 2012. The division's combined ratio decreased to 112.1% in this quarter compared to 117.1% in the same period last year as a result of the following factors:

1. An underwriting loss of $1.2 million on cancelled programs in Q3 2013 compared to an underwriting loss of $1.9 million in the same quarter in 2012.
2. The Liability line of business had a combined ratio of 124.7% in Q3 2013 compared to a combined ratio of 162.0% in Q3 2012.
3. Positive prior year claims development of $0.5 million compared to negative development of $0.3 million in the third quarter of 2012.
4. Negative performance of the commercial property book which had a combined ratio of 134.1% in the third quarter of 2013 compared to a combined ratio of 121.0% in the same period in 2012.
5. Impact of the flooding in Toronto of $0.2 million in the quarter compared to nil in the third quarter of 2012.
6. The above was offset by Western Canada which had direct written premiums of $3.0 million and 100.0% combined ratio compared to $1.5 million and 69.3% respectively in the third quarter of 2012.

Year-to-Date 2013

Direct written premiums increased by $0.6 million or 2% in the first nine months of 2013. This was due to an increase of $5.8 million on property due to the expansion into Western Canada offset by a $4.7 million decrease in accident and sickness line.

Specialty Programs recorded an underwriting loss of $3.1 million compared to an underwriting loss of $4.8 million in the first nine months of 2012. Active programs had a combined ratio of 103.9% compared to 90.3% in the same period in 2012. The division's combined ratio decreased to 112.1% from 119.1% in 2012 as a result of the following factors:

1. This business segment was impacted by an underwriting loss of $2.1 million on cancelled programs for the nine months ended September 30, 2013, compared to an underwriting loss of $6.0 million in the same period in 2012.
2. The Liability line of business had a combined ratio of 110.5% in the nine months ended September 30, 2013, compared to a combined ratio of 180.7% in the same period in 2012 due to the strengthening of reserves in 2012.
3. Positive prior year claims development of $0.9 million compared to negative development of $2.6 million in the same period of 2012.
4. Negative performance of the commercial property book which had a combined ratio of 138.3% in the first nine months of 2013 compared to a combined ratio of 96.8% for the same period in 2012.
5. Performance in Western Canada which had direct written premiums of $7.4 million and 95.7% combined ratio compared to $2.5 million and 80.0% respectively in the same period in 2012.

6. Impact of $0.4 million from the Alberta and Toronto floods.

International Division

	3 months ended September 30				9 months ended September 30			
($THOUSANDS)	2013	2012	$ Variance	% Variance	2013	2012	$ Variance	% Variance
Direct written premiums	19,964	9,249	10,715	116%	58,865	18,741	40,124	214%
Net earned premiums	11,772	2,120	9,652	455%	30,684	3,455	27,229	788%
Net claims:								
Current year claims	5,794	1,354	4,440	328%	15,352	2,233	13,119	588%
Current year loss ratio	49.2%	63.9%			50.0%	64.6%		
(Unfavourable) prior year claims development	(1,351)	–	(1,351)	N/A	(1,731)	–	(1,731)	N/A
Total net claims	7,145	1,354	5,791	428%	17,083	2,233	14,850	665%
Claims ratio(1)	60.7%	63.9%			55.7%	64.6%		
Expense ratio	38.9%	69.9%			41.9%	104.7%		
Combined ratio(1)	99.6%	133.8%			97.6%	169.3%		
Underwriting income (loss) (1)	50	(716)	766	107%	731	(2,393)	3,124	131%

(1) The impact of discount rate on claims had no impact on the International division for all periods presented

Third Quarter 2013

The International division, which began writing business in the first quarter of 2012, recorded $20.0 million of written premiums in the third quarter of 2013 compared to $9.2 million in the same period in 2012, an increase of $10.7 million. The strong growth in written premiums is due to the increase in the number of programs offered. At the end of the third quarter the International division wrote 29 programs, mainly in the UK and Denmark.

The International division recorded an underwriting income of $0.1 million in the third quarter compared to a loss of $0.7 million in the comparable period in 2012. This is as a result of:

1. Higher earned premiums as the business begins to mature reducing the claims and expense ratios.
2. Decrease in the division's claims ratio to 60.7% from 63.9%, primarily due to lower claims and expenses on the Danish warranty business.
3. The above were partially offset by $1.4 million of unfavourable prior period reserves in Q3 2013 compared to no development in the same period in 2012.

Year-to-Date 2013

The International division recorded $58.9 million of written premiums in the first nine months of 2013 compared to $18.7 million in the first nine months of 2012, an increase of $40.1 million.

The International division recorded an underwriting income of $0.7 million in first nine months of 2013 compared to a loss of $2.4 million in the first nine months of 2012. This is as a result of:

1. Higher earned premiums as the business begins to mature reducing the claims and expense ratios.
2. Decrease in the division's claims ratio to 55.7% from 64.6%, due to writing motorcycle premiums in the traditionally low loss ratio winter months in addition to lower claims and expenses on the Danish warranty business.

3. The above were partially offset by $1.7 million of negative development in the first nine months of 2013 compared to no development in the same period in 2012.

SEGMENTED FINANCIAL INFORMATION (Discontinued Operations)

On August 8, 2013, the Company entered into a definitive stock purchase agreement with White Pine Insurance Company to sell EGI Insurance Services, Inc. and all its subsidiary companies, including American Colonial Insurance Company, a Florida domiciled insurance company, and EGI Insurance Services (Florida), Inc., a Florida based managing general agency. The transaction results in a reduction of book value of $5,700, before tax, on closing and the U.S. segment has been classified as a discontinued operation in these financial statements.

The transaction is expected to close in the fourth quarter of 2013.

CONSOLIDATED FINANCIAL RESULTS

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

($ THOUSANDS)	3rd Quarter 2013	3rd Quarter 2012	Variance $	Variance %
Direct written and assumed premiums	62,706	53,561	9,145	17%
Net written premiums	53,638	46,061	7,577	16%
Net earned premiums	50,711	42,062	8,649	21%
Claims incurred	30,979	25,355	5,624	22%
Acquisition costs	12,325	10,111	2,214	22%
Operating expenses	6,250	6,137	113	2%
Underwriting income loss (1)	1,157	459	698	152%
Investment income	2,506	20,659	(18,153)	(88%)
Impact of discount rate on claims	(665)	(1,879)	1,214	65%
Net income before income taxes	2,998	19,239	(16,241)	(84%)
Income tax expense (recovery)	558	5,227	(4,669)	(89%)
Net income loss	2,440	14,012	(11,572)	(83%)
Net operating income loss attributable to shareholders	3,798	2,745	1,053	38%

(1) Before impact of discount rate change, increasing the unpaid claims by $0.7 million in the three months ended September 30, 2013, compared to a change increasing the unpaid claims by $1.9 million for the corresponding three month period in 2012.

Additional Income Statement Analysis

Third Quarter 2013

Written Premiums

In the three months ended September 30, 2013, direct written premiums increased $9.1 million, or 17%, to $62.7 million compared to $53.6 million in the same period last year. The increase resulted mainly from the International division.

Net Written Premiums

For the three months ended September 30, 2013, net written premiums increased by $7.6 million or 16% to $53.6 million compared to $46.1 million for the same period in 2012. This increase was consistent with the increase in direct written premiums in the International division.

Earned Premiums

For the three months ended September 30, 2013, net earned premiums increased by $8.6 million or 21% to $50.7 million compared to $42.1 million in the same period in 2012. The increase in net earned premiums is due to International net written premiums being largely earned.

Operating Expenses

For the three months ended September 30, 2013, operating expenses increased by $0.1 million or 2% to $6.2 million compared to $6.1 million in the same period in 2012, despite a 21% increase in earned premiums, due to a concerted effort by management to control expenses.

Income Taxes

The effective tax rate of 27% recorded in the third quarter of 2013 was slightly lower than the 27.5% rate used in the third quarter of 2012. For the three months ended September 30, 2013, income tax expense decreased by $4.7 million or 89% to $0.6 million compared to an expense of $5.2 million in the same period in 2012. The decrease is a direct result of the increased net income from investments in the prior period.

Discount Rate

The discount rate used as at September 30, 2013, decreased to 2.52% from 2.65% at June 30, 2013, compared to 2.65% at December 31, 2012. This compares to 2.45% used on September 30, 2012, 3.50% on June 30, 2012 and 3.50% on December 31, 2011.

The change in discount rate in September 2013 created a $0.7 million loss in the quarter compared to $1.9 million loss for the same period in 2012. This impact is not included in the claims 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 third 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 observable market data.

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

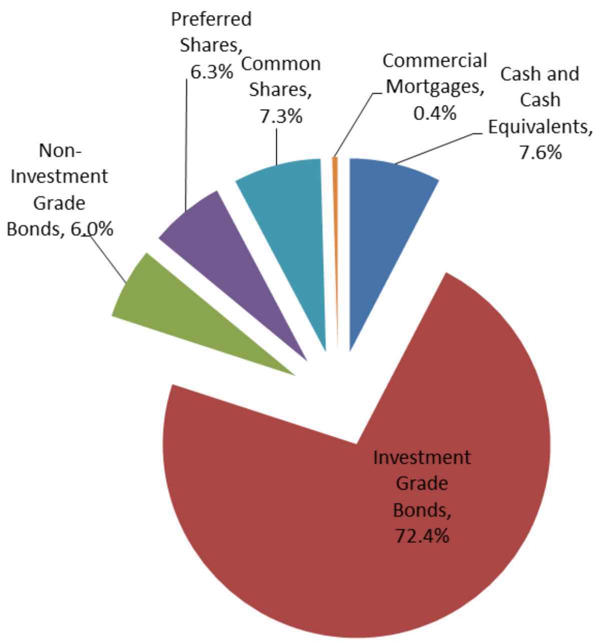
The following table sets forth EGI's invested assets as at September 30, 2013, and December 31, 2012.

Available-for-sale	Carrying and fair values	
	September 30, 2013	December 31, 2012
Bonds		
Government	161,909	190,277
Corporate	195,705	173,036
Total bonds	357,614	363,313
Commercial Mortgages	2,025	–
Common shares	33,436	15,737
Total available-for-sale	393,075	379,050
Fair Value through profit or loss		
Preferred shares	28,616	25,146
Total investments	421,691	404,196

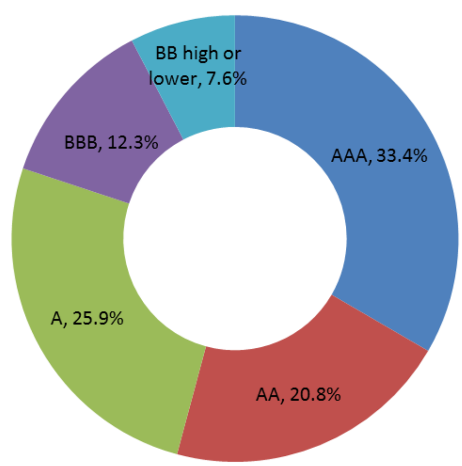
EGI's investment portfolio including finance receivables, based on fair values, increased to $465.8 million, or 10.3%, compared to total fair values of $422.3 million as at September 30, 2012.

The chart below shows the investment portfolio mix in Q3 2013 and ratings for the fixed income securities. We continue to have a conservative fixed income portfolio with 93% of the fixed income portfolio being investment grade and 54.1% at AA or higher with an average rating of A+.

Investment Portfolio – Q3 2013



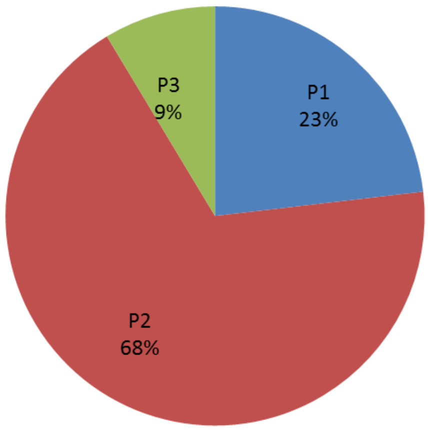
Bond Ratings – Q3 2013



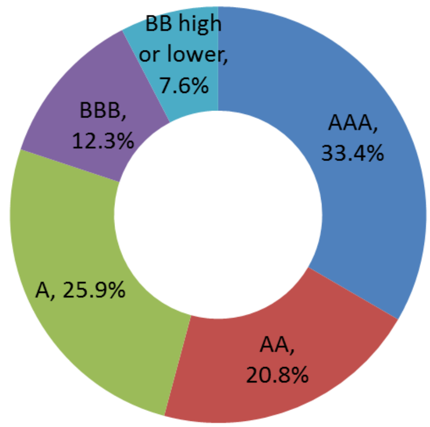
The Company participates in a securities lending program managed by a federally regulated financial institution whereby the Company lends securities it owns to other financial institutions to allow them to meet their delivery commitments. The Company receives collateral for securities loaned and income is recorded as part of investment income. At September 30, 2013, securities, which are included in invested assets, with a fair value of $74.2 million (December 31, 2012 – nil) have been loaned. Securities with a fair value of $78.4 million (December 31, 2012 – nil) were received as collateral. The collateral received has not been recorded on the Company's consolidated balance sheet.

EGI holds $28.6 million of Preferred Shares in its portfolio, with 91% being rated P1 or P2. 60% of the preferred share portfolio includes rate reset/floating which carry a shorter duration. The other 40% are comprised of perpetual preferred shares.

Preferred Share Ratings Q3 2013



Preferred Share Type Q3 2013



Impairment assets and provisions for losses

EGI has an established a 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 third quarter of 2013 with $0.2 million recognized in 2012.

Recoverable from Reinsurers

($ THOUSANDS)	As at September 30, 2013	As at December 31, 2012
Reinsurers' share of unpaid claims	31,961	30,283
Reinsurers' share of unearned premiums	14,595	9,169
Total	46,556	39,452

As at September 30, 2013, the recoverable from reinsurers increased to $46.6 million compared to $39.5 million as at December 31, 2012. The increase was due to the higher 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 September 30, 2013	As at December 31, 2012
Premium financing receivables	17,534	16,316
Agents and brokers	15,261	13,749
Other	6,968	5,529
Total	39,763	35,594

Premium financing receivables increased to $17.5 million at September 30, 2013, from $16.3 million 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 million in 2012 to $15.3 million 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 September 30, 2013, was 2.52%, decreased from 2.65% at the end of 2012.

Sale of Division

As described under "Segmented Financial Information – Discontinued Operations" the Company entered into an agreement to sell its U.S. operations. The transaction results in a reduction of book value of $5,700, before tax, on closing and the U.S. segment has been classified as a discontinued operation in the third quarter financial statements.

Share Capital

As of November 7, 2013, there were 11,662,432 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 $5.4 million is due over the next five years.

EGI is primarily a holding company and, as such, has limited direct operations of its own. EGI's principal assets are: investments, 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 (NCIB) 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 an NCIB 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 November 7, 2013, the Company has purchased and cancelled 277,000 common shares under the NCIB bid programs at an average cost of $10.49 per share for a total consideration of $2.9 million.

In the third quarter of 2013, the Company purchased and cancelled 44,200 common shares under the NCIB programs at an average cost of $10.68 per share for a total consideration of $0.5 million.

Capital Resources

The total capitalization of EGI at September 30, 2013, was $161.7 million compared to $165.4 million at December 31, 2012.

The MCT ratio of Echelon General, EGI's largest subsidiary, was 227% at September 30, 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 $35 million of excess capital in the holding company and its Barbados reinsurance company, CIM Re. In the third quarter of 2013, EGI's European subsidiary received a $5.3 million capital injection from EGI to strengthen its regulatory ratios.

Equity

($ THOUSANDS)	**As at September 30, 2013**	**As at December 31, 2012**
Common shares	66,864	68,244
	(11,662,432 shares)	(11,914,932 shares)
Retained earnings	92,323	91,237
Contributed surplus	1,298	1,068
Accumulated other comprehensive income	2,541	6,054
Non-controlling Interest	(1,371)	(1,200)
Total capitalization	161,655	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)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Direct written and assumed premiums	62,706	78,121	53,240	49,513	53,561	62,857	40,079	42,438
Net earned premiums	50,711	50,448	44,566	43,082	42,063	40,835	40,027	41,388
Underwriting income (loss)(1)	1,154	4,081	(3,515)	3,129	466	(2,016)	603	2,993
Income (loss) before income taxes	2,998	11,185	(471)	7,103	18,941	(1,566)	6,308	7,119
Net income (loss)	2,440	8,698	(417)	5,001	13,736	(1,262)	4,799	4,018
Earnings (loss) per adjusted share								
(a) Basic	$0.22	$0.73	$(0.03)	$0.43	$1.16	$(0.07)	$0.41	$0.35
(b) Diluted	$0.22	$0.72	$(0.03)	$0.43	$1.15	$(0.07)	$0.41	$0.35
Net operating income (loss) per share - diluted	$0.32	$0.52	$(0.03)	$0.21	$0.23	$0.16	$0.22	$0.27
Selected financial ratios (%)								
Claims ratio(1)	61.1%	54.8%	71.9%	52.8%	60.3%	66.3%	63.0%	59.3%
Expense ratio	36.6%	37.0%	36.0%	39.9%	38.6%	38.6%	35.5%	33.5%
Combined(1)	97.7%	91.8%	107.9%	92.7%	98.9%	104.9%	98.5%	92.7%

(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 September 30, 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 September 30, 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 September 30, 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 September 30, 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 September 30, 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 September 30, 2013, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.