

Restated June 18, 2009

Consolidated Financial Statements of

EGI FINANCIAL HOLDINGS INC.

March 31, 2009

EGI FINANCIAL HOLDINGS INC.
Consolidated Balance Sheets
(unaudited, in \$ thousands)

Assets	March 31 2009	December 31 2008
Cash and short-term deposits	\$ 27,805	\$ 29,111
Investments (note 3)	263,759	259,774
Reinsurers' share – unearned premiums	4,129	3,712
– provision for unpaid claims (note 4)	41,316	41,901
Accounts receivable	24,657	27,565
Income taxes recoverable	8,379	7,202
Due from insurance companies	7,603	9,063
Deferred policy acquisition costs	11,741	14,703
Property and equipment	900	1,182
Intangible assets	1,444	1,190
Future income taxes	2,842	3,172
Prepaid expenses and other assets	3,557	4,205
	\$398,132	\$402,780
 Liabilities		
Bank indebtedness (note 8)	\$ 19,550	\$ 19,550
Provision for unpaid claims (note 4)	192,886	185,255
Unearned premiums	59,231	71,154
Unearned commission	314	363
Income Taxes payable	-	429
Accounts payable and accrued liabilities	4,369	4,291
Payable to insurance companies	1,962	2,460
Other liabilities	234	674
	278,546	284,176
 Shareholders' Equity		
Share capital (note 7)	67,221	67,056
Contributed surplus	433	403
Retained earnings	55,556	56,605
Accumulated other comprehensive (loss) income	(3,624)	(5,460)
	119,586	118,604
	\$398,132	\$402,780

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Income
for the Quarters ended March 31
(unaudited, in \$ thousands, except per share amounts)

	2009	Restated (note 2) 2008
Revenue		
Direct written and assumed premiums	\$31,616	\$34,936
Net written and assumed premiums	29,058	32,422
Net earned premiums	41,573	45,559
Investment income (note 3)	1,874	4,587
	43,447	50,146
Expenses		
Incurred claims	29,890	33,031
Acquisition costs	9,960	11,588
Operating costs	3,595	3,205
Interest expense	299	302
	43,744	48,126
Income (loss) before income taxes	(297)	2,020
Income tax expense (recovery)	(67)	695
Net income (loss)	\$ (230)	\$ 1,325
Earnings per share (note 9)		
Net income (loss) per share – basic	\$ (0.02)	\$ 0.14
Net income (loss) per share – diluted	\$ (0.02)	\$ 0.13

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Changes in Shareholders' Equity
and Comprehensive Income
for the Quarters ended March 31
(unaudited, in \$ thousands)

	2009	Restated (note 2) 2008
Share capital		
Balance, beginning of period	\$ 67,056	\$ 46,040
Common shares issued	165	130
Balance, end of period	67,221	46,170
Contributed surplus		
Balance, beginning of period	403	247
Stock options – granted	50	43
– exercised	(20)	(16)
Balance, end of period	433	274
Retained earnings		
Balance, beginning of period	56,605	53,193
Net income (loss)	(230)	1,325
Dividends – Common shares	(819)	(582)
Balance, end of period	55,556	53,936
Accumulated other comprehensive (loss) income		
Balance beginning of period	(5,460)	2,191
Other comprehensive income	1,836	478
Balance, end of period	(3,624)	2,669
Shareholders' equity, end of period	\$119,586	\$103,049
Comprehensive income		
Net income (loss)	(230)	1,325
Other comprehensive income, net of taxes		
Change in unrealized gains on available-for-sale securities:		
Net unrealized gains on available-for-sale securities	550	991
Reclassification of net realized (gains) losses to net income	1,321	(786)
Unrealized gains (losses) on translation of financial statements of self-sustaining foreign operations	(35)	273
Other comprehensive income	1,836	478
Total comprehensive income	\$ 1,606	\$ 1,803

EGI FINANCIAL HOLDINGS INC.
Consolidated Statements of Cash Flows
for the Quarters ended March 31
(unaudited, in \$ thousands)

	2009	Restated (note 2) 2008
Cash provided by (used in)		
Operating activities:		
Net income (loss)	\$ (230)	\$ 1,325
Items not involving cash		
Amortization of fixed assets	223	139
Amortization of premiums on bonds	101	82
Realized losses (gains) on investments	1,565	(1,183)
	1,659	363
Net change in other non-cash balances	483	1,201
	2,142	1,564
Financing activities		
Issue of common shares	146	114
Common share dividends	(819)	(582)
	(673)	(468)
Investing activities:		
Purchase of fixed assets	(195)	(307)
Purchase of investments	(42,176)	(61,118)
Sale/maturity of investments	39,596	57,760
	(2,775)	(3,665)
Decrease in cash and short-term deposits	\$(1,306)	\$ (2,569)
Cash and short-term deposits, beginning of period	29,111	22,785
Cash and short-term deposits, end of period	\$27,805	\$ 20,216
Supplementary information		
Income taxes paid	\$ 1,834	\$ 4,327
Interest paid	\$ 302	\$ 302

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements
(unaudited, in \$ thousands except per share amounts)

1 Organization and basis of presentation

These interim consolidated financial statements include the accounts of EGI Financial Holdings Inc. and its subsidiaries (the Company or EGI) and have not been reviewed by the Company's external auditors. They do not include all disclosures required by Canadian generally accepted accounting principles for annual financial statements, and accordingly, should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2008 as set out on pages 54 to 78 of the Company's 2008 Annual Report. These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles using the same accounting policies, except as described in note 2 below, as were used for the Company's consolidated financial statements for the year ended December 31, 2008.

The Company was incorporated on August 18, 1997 under the Business Corporations Act (Ontario). The Company is principally engaged, through its subsidiaries, in property and casualty insurance in Canada and the U.S.

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

The Company's Barbados based subsidiary, CIM Re changed its functional currency to U.S. dollars effective January 1, 2008. CIM Re is operating as a self-sustaining foreign subsidiary and is therefore subject to foreign currency translation adjustments upon consolidation.

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

2 Significant accounting changes

Provision for unpaid claims

As at January 1, 2009, the Company changed the methodology used to estimate incurred but not reported (IBNR) reserves for motorcycle business. The purpose of the change was to more accurately match incurred claims to earned premiums which are recognized into income pro rata over the terms of the underlying policies. This objective was achieved by determining IBNR based on an annualized loss ratio instead of a quarterly loss ratio which was previously used. The methodology change represents a change in accounting policy which management believes provides more relevant information because it more accurately reflects the claims costs associated with the pro-rata earned premiums recorded in the quarter.

This change in accounting policy has been accounted for retrospectively, and the comparative statements for the quarter ended March 31, 2008 have been restated. The effect of the change on the first quarter of 2008 is as follows:

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Notes to Consolidated Financial Statements (continued)
(unaudited, in \$ thousands except per share amounts)

	Previously Reported	Adjustment	Restated
Incurring claims	\$ 31,163	\$1,868	\$ 33,031
Income tax expense	1,302	(607)	695
Net income	2,586	(1,261)	1,325
Shareholders' equity	104,310	(1,261)	103,049
Net income per share – basic	\$0.27	\$(0.13)	\$0.14
Net income per share – diluted	\$0.25	\$(0.12)	\$0.13

There is no adjustment to the financial results for the year ended December 31, 2008.

This change in accounting policy has resulted in restatement of the comparative amounts presented for the 1st, 2nd and 3rd quarters of 2008. There is no adjustment related to the financial results for the year ended December 31, 2008.

Goodwill and intangible assets

On January 1, 2009, the Company adopted Handbook section 3064, Goodwill and Intangible Assets, issued by the Canadian Institute of Chartered Accountants (CICA). Section 3064, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, provides clarifying guidance on the criteria that must be satisfied in order for the intangible asset to be recognized, including internally developed intangible assets. As a result of adopting Section 3064, the Company has reclassified \$1,444 of computer software from Property and Equipment to Intangible Assets on our Consolidated Balance Sheet. Amounts for prior periods have also been reclassified.

Intangible assets are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful life of the asset (2 years) using the straight line method.

3 Investments

Investments are carried at fair value, which is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are determined by reference to quoted bid or asking prices, as appropriate, in the most advantageous active market available. All financial assets are non-derivatives and have all been classified as available-for-sale (AFS) investments.

Any change during the year in the fair values of investments classified as AFS are recognized in Other Comprehensive Income (OCI). The cumulative change in the fair values of investments previously recognized in Accumulated Other Comprehensive Income (AOCI) are reclassified to Net Income when they are realized or the decline in value is considered to be other than temporary.

Transaction costs related to AFS financial assets are capitalized on initial recognition and, where applicable, are amortized to interest income using the effective yield method.

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
(unaudited, in \$ thousands except per share amounts)

Investment income is recorded as it accrues. Dividend income on shares is accrued on the ex-dividend date. Gains and losses on disposal of investments are determined and recorded as at the transaction date and are calculated on the basis of the average cost of the investments held.

Fair value of Investments

The following table provides a comparison as at March 31, 2009 and December 31, 2008:

	March 31 2009 Fair value	December 31 2008 Fair value
Available for sale		
Bonds		
Canadian		
Federal	\$ 79,906	\$ 82,078
Provincial	47,583	45,162
Municipal	6,982	6,935
Corporate	87,568	86,570
	222,039	220,745
United States		
Corporate	2,899	2,717
Total Bonds	224,938	223,462
Preferred shares	4,025	4,042
Common shares		
Canadian	30,826	29,049
United States	1,205	1,178
	32,031	30,227
Investment income due and accrued	2,765	2,043
	\$263,759	\$259,774

Impaired assets and provisions for losses

The Board of Directors has established a policy to write down or make a provision for any investment with "other than temporary" impairment.

Management has reviewed currently available information regarding those investments whose estimated fair value is less than carrying value. For those securities whose decline in fair value was other than temporary, the Company has recorded the difference between the cost of the investment and its fair value as an impairment which reduces investment income in the year recorded.

The Company considers an impairment as other than temporary if it is unlikely the Company will recover an investment's amortized cost in a reasonable period of time. Factors considered by the Company include but are not limited to the impact of issuer specific events, industry specific events,

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Notes to Consolidated Financial Statements (continued)
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current and expected future market and economic conditions, the nature of the investment and the severity and duration of the fair value deficiency.

An impairment loss of \$2,023, related to common equities, has been recognized in net income during the first quarter of 2009. No provisions were recorded in the first quarter of 2008.

A remaining gross unrealized loss of \$7,210 on investments held as at March 31, 2009, is recorded, net of tax, in the amount of \$4,856 as AOCI. The Company has concluded during its review, that these fair value deficiencies are considered temporary in nature.

Investment income

Investment income was derived from the following:

	First Quarter 2009	First Quarter 2008
Interest income	\$2,943	\$2,733
Dividend income	322	694
Net realized (losses) gains and impairments ⁽¹⁾	(1,565)	1,183
Foreign exchange gain (loss) ⁽²⁾	414	232
Investment expenses	(240)	(255)
	\$1,874	\$4,587

(1) Net realized (losses) gains and impairments include net realized gains of \$458 (2008 – \$1,183) and impairments of \$2,023 (2008 – NIL).

(2) The foreign exchange gain of \$414 (2008 – \$232) arises primarily from cash balances held during the year, denominated in U.S. dollars, used to fund claims liabilities, denominated in U.S. dollars.

4 Provision for unpaid claims

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

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

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
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All provisions are periodically reviewed and evaluated considering emerging claims experience and changing circumstances. The process of determining the provisions necessarily involves risks that actual results may differ, perhaps materially, from the best estimates made. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the current year.

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

The Company discounts its best estimate of claim provisions at a rate of interest of 2.45% for 2009 (2008 – 2.8%) for all lines of business. The Company determines the discount rate based on the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments.

The Company has recorded a \$1,422 (2008 – \$3,155) reduction to the net provision for unpaid claims relating to redundancies in prior year estimates.

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial liabilities are adequate to pay future claims, the Company includes provisions for adverse deviations (PFADs) in some assumptions relating to claim development, reinsurance recoveries and future investment income. The PFADs selected are in the mid-range of those recommended by the Canadian Institute of Actuaries. The aggregate impact of the provision for adverse deviation is to increase the provision for unpaid claims on a gross basis by \$20,842 as at March 31, 2009 (December 31, 2008 – \$20,102).

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

APV basis	March 31, 2009		December 31, 2008	
	Gross	Ceded	Gross	Ceded
Personal lines:				
Accident benefits	\$ 76,868	\$21,155	\$ 72,008	\$21,396
Liability	90,925	17,034	91,555	17,218
Other	3,875	962	4,336	656
Total Personal lines	\$171,668	\$39,151	\$167,899	\$39,270
Niche:				
Property				
Commercial	\$ 3,702	\$ 198	\$ 3,273	\$ 247
Personal	213	15	332	20
Liability	8,479	1,588	8,377	1,960
Accident and sickness	8,242	363	4,728	404
Other	582	1	646	–
Total Niche	21,218	2,165	\$ 17,356	\$ 2,631
	\$192,886	\$41,316	\$185,255	\$41,901

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
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5 Underwriting policy and reinsurance ceded

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

During the first quarter of 2009, the Company followed the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss to \$1,500 (2008 – \$1,500). In addition, the Company obtained catastrophe reinsurance which limits the loss from a series of claims arising from a single occurrence to \$2,000 (2008 – \$2,000) to a maximum coverage of \$23,000 (2008 – \$18,000).

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

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

6 Risk Management

As a provider of insurance products, effective risk management is fundamental to EGI's ability to protect the interests of EGI's customers and shareholders. EGI is exposed to risks of loss pertaining to insurance products. These include risks surrounding product and pricing, underwriting and claims, catastrophic exposure, and matching of assets and liabilities. EGI is also exposed to potential loss from various risks, including interest rate risk and equity market fluctuation risk, credit risk, liquidity risk, and to a lesser extent foreign exchange risk.

Product and pricing

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

Pricing for automobile insurance must be submitted to each provincial government regulator and, in certain provinces, pre-approved by the regulator. Regulatory decisions may impede automobile rate increases or other actions that EGI may wish to take. Also, during periods of intense competition for any product line, to gain market share, EGI's competitors may price their products below the rates EGI considers acceptable. Although EGI may adjust its pricing up or down to maintain EGI's competitive position, EGI strives to ensure its pricing will produce an appropriate return on invested capital. There is no assurance that EGI will not lose market share during periods of pricing competition.

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Notes to Consolidated Financial Statements (continued)
(unaudited, in \$ thousands except per share amounts)

Underwriting and claims

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

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

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

Unpredictable catastrophic events

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

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

EGI's ability to write new business also could be affected. EGI may experience an abrupt interruption of activities caused by unforeseeable and/or catastrophic events. EGI's operations may be subject to losses resulting from such disruptions. Losses can relate to property, financial assets, trading positions and also to key personnel. EGI has developed business continuity plans designed to allow the Company to continue operations in case of a catastrophic event, however if these plans cannot be put into action or do not take such events into account, losses may further increase.

EGI FINANCIAL HOLDINGS INC.
Notes to Consolidated Financial Statements (continued)
(unaudited, in \$ thousands except per share amounts)

Asset and liability matching

The Company is exposed to:

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

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

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

Market risk

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

Interest rate risk

Fluctuations in interest rates have a direct impact on the fair valuation and future cash flows of the Company's fixed income securities portfolio. Generally, the Company's investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income securities mature or are sold and the proceeds are reinvested at lower rates. During periods of rising interest rates, the fair value of the Company's existing fixed income securities will generally decrease and gains on fixed income securities will likely be reduced.

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on OCI relating to the fixed income securities portfolio as at March 31, 2009 and December 31, 2008, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

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	As at March 31, 2009			As at December 31, 2008		
	Fair value of fixed income portfolio	Hypothetical % change on fair value	2009 Effect on OCI	Fair value of fixed income portfolio	Hypothetical % change on fair value	2008 Effect on OCI
Change in interest rates						
200 basis point rise	\$203,211	(10%)	\$(14,644)	\$202,324	(9%)	\$(14,162)
100 basis point rise	213,600	(5%)	(7,642)	212,438	(5%)	(7,386)
No change	224,938	-	-	223,462	-	-
100 basis point decline	237,355	6%	8,369	235,533	5%	8,087
200 basis point decline	250,597	11%	17,294	248,463	11%	16,751

Liquidity risk

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

The maturity profile of bonds as at March 31, 2009, is as follows:

	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	\$5,229	\$52,060	\$49,056	\$118,593	\$224,938
Percentage of total	2.3%	23.1%	21.8%	52.8%	100%

Future cash flows

The following table summarizes the expected timing of cash flows arising from insurance obligations, on an undiscounted basis (note 4), as at March 31, 2009:

	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	\$62,620	\$67,406	\$36,181	\$23,954	\$190,161
Less: Reinsurance recoverable	15,184	15,479	7,269	4,204	42,136
Net actuarial liabilities	\$47,436	\$51,927	\$28,912	\$19,750	\$148,025

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Equity price risk

Fluctuations in the value of equity securities affect the level and timing of recognition of gains and losses on securities held, and causes changes in realized and unrealized gains and losses. General economic conditions, political conditions and many other factors can also adversely affect the stock and bond markets and, consequently, the value of the equity and fixed income securities held.

The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of equity securities.

The table below summarizes the potential impact of a 20% change in the value of the equity securities (common and preferred shares) on OCI for the three months ended March 31, 2009. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumptions that all equity holdings increased/decreased by 20% with all other variables held constant.

Change in equity holdings	Effect on OCI
20% rise	\$ 4,318
20% decline	\$(4,318)

Credit risk

The Company is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of investment securities which do not carry the guarantee of a national or Canadian provincial government. EGI's credit exposure to any one individual policyholder is not material. The Company has policies which limit its exposure to individual reinsurers and regular review processes to assess the creditworthiness of reinsurers with whom it transacts business.

The following table sets forth EGI's fixed income securities portfolio by credit quality according to DBRS as at March 31, 2009 and December 31, 2008.

Fixed income portfolio

	As at March 31, 2009		As at December 31, 2008	
	Fair value	Fair value	Fair value	Fair value
AAA	\$101,186	45%	\$107,830	48%
AA	64,106	28%	60,713	27%
A	49,709	22%	48,080	22%
BBB	7,568	3%	6,765	3%
CCC	2,369	2%	74	-
Total	\$224,938	100%	\$223,462	100%

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Notes to Consolidated Financial Statements (continued)
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Foreign exchange risk

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

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

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

The table below illustrates the expected impact on net income and OCI of a 10% change in the Canadian dollar ("CAD") compared to the U.S. dollar ("USD") as at March 31, 2009. Computations of the prospective effects of hypothetical foreign exchange changes are based on numerous assumptions, including the maintenance of the existing level and composition of assets and financial liabilities, and should not be relied on as indicative of actual or future results.

Change in CAD/ USD rate	Effect on Net Income	Effect on OCI
10% rise	\$(406)	\$(541)
10% decline	\$ 406	\$ 436

Reinsurance recoverables

The following table summarizes the balances outstanding from reinsurers as at March 31, 2009 by risk rating:

Credit rating	Gross reinsurance recoverable	Less: Provisions and securities held	Net reinsurance recoverable
A	\$49,858	\$ –	\$49,858
Not rated	572	2,341	–
	\$50,430	\$2,341	\$49,858

Included in gross reinsurance recoverable is reinsurers' share of unearned premiums of \$4,129, reinsurers' share of provision for unpaid claims of \$41,316 and receivables from reinsurers presented as due from insurance companies of \$4,413.

No balances due from reinsurers are considered past due as at March 31, 2009.

Capital management

Capital is comprised of the Company's shareholders' equity and bank indebtedness. As at March 31, 2009 the Company's shareholders' equity was \$119,586 and bank indebtedness was \$19,550. The

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Company's objectives when managing capital are to maintain financial strength and protect its claims paying abilities, to maintain creditworthiness and to maximize returns to shareholders over the long term.

A common measure of capital adequacy in the property and casualty industry used by management is the ratio of premiums to surplus (or shareholders' equity). A lower ratio implies a higher measure of capital adequacy. The Company's ratio as at March 31, 2009 is 1.3:1. This level is well below the 2.5:1 ratio considered by management to be the maximum acceptable ratio.

The Company's Canadian insurance subsidiary, Echelon, is required to maintain minimum capital levels as required by the Office of the Superintendent of Financial Institutions. At March 31, 2009 and December 31, 2008, the Company exceeded the minimum regulatory capital requirement. Legislation applicable to insurance companies imposes certain restrictions on the Company's ability to pay dividends.

7 Share capital

	March 31, 2009	December 31, 2008
Authorized:		
Unlimited common shares		
Unlimited special shares issuable in Series		
Issued:		
11,710,582 common shares		
(2008 – 11,676,282 common shares)	\$67,221	\$67,056

On March 27, 2009, common share dividends of \$819 or \$.07 per share were paid to common shareholders of record March 13, 2009.

During the first quarter of 2009, 34,500 common shares were issued pursuant to the exercise of options under the employee stock option plan.

During the first quarter of 2009, the Company, pursuant to its normal course issuer bid, purchased and cancelled 200 shares.

8 Bank indebtedness

On October 11, 2007, the Company entered into a non-revolving term loan facility with a major Canadian bank in the amount of \$19,550. The aggregate commitments under the credit facility may be increased to an aggregate maximum amount of up to US\$40,000 (or the equivalent amount in Canadian dollars), subject to the satisfaction of certain conditions. The facility has a term of three years, bearing an interest rate of 6.20%. During the term of the loan, monthly payments will include interest only and on maturity a balloon payment of \$19,550 will be made to settle the principal amount.

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9 Income (loss) per share

	First Quarter 2009	Restated (note 2) First Quarter 2008
Basic income per share:		
Net income (loss) available to common shareholders	\$ (230)	\$1,325
Average number of common shares (in thousands)	11,693	9,696
Basic income (loss) per share	\$(0.02)	\$ 0.14
Diluted income per share:		
Average number of common shares (in thousands)	11,693	9,696
Average number of common shares obligation under employee stock option plan (in thousands)	893	816
Average number of diluted common shares (in thousands)	12,586	10,512
Diluted income (loss) per share	\$(0.02)	\$ 0.13

Segmented information

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

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

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Notes to Consolidated Financial Statements (continued)
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	First Quarter 2009	Restated (note 2) First Quarter 2008
Revenue		
Earned premiums and other revenue		
Property and casualty insurance		
Canada – Personal Lines	\$25,176	\$23,081
– Niche Products	13,502	19,695
	38,678	42,776
International (United States)	2,895	2,783
	41,573	45,559
Interest and dividends, net of investment expenses	3,025	3,172
Realized investment gains (losses)	(1,565)	1,183
Foreign exchange gains (losses)	414	232
Total revenue	43,447	50,146
Income (loss) before income taxes		
Property and casualty insurance		
Canada – Personal lines	406	(1,034)
– Niche Products	(1,272)	(678)
	(866)	(1,712)
International (United States)	(749)	(277)
Corporate and other	(257)	(276)
Underwriting loss	(1,872)	(2,265)
Interest and dividends, net of investment expenses	3,025	3,172
Realized investment gains (losses)	(1,565)	1,183
Foreign exchange gains (losses)	414	232
Interest expense	(299)	(302)
Total income before income taxes	\$ (297)	\$ 2,020