

EGI FINANCIAL HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
For the period ending March 31, 2009
RESTATED

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

The following discussion should be read in conjunction with EGI's unaudited interim consolidated financial statements for the first quarter of fiscal 2009 and 2008, with the notes to the interim unaudited consolidated financial statements for the first quarter of fiscal 2009, with management's discussion and analysis (MD&A) set out on pages 4 to 48 of the Company's 2008 Annual Report and with the notes to the audited consolidated financial statements for fiscal 2008 set out on pages 55 to 75 of the Company's 2008 Annual Report. The following commentary is current as of June 18, 2009. 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 Canadian generally accepted accounting principles (GAAP) and certain non-GAAP measures to assess performance. Securities regulators require that companies caution readers about non-GAAP measures that do not have a standardized meaning under GAAP 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.

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 2009 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.

Overall Performance

The summary of financial data set forth in the following tables has been prepared in accordance with Canadian GAAP and has been derived from the unaudited interim consolidated financial statements for the three months ended March 31, 2009 and 2008.

Restatement of financial results for the three months ended March 31, 2008

As described in note 2 of the restated interim consolidated financial statements for the three months ended March 31, 2009 and 2008, the Company changed its accounting policy as at January 1, 2009, for determining IBNR on motorcycle business. In addition to amending note 2, the change in accounting policy has been accounted for retrospectively, and the comparative statements for the three months ended March 31, 2008, have been restated. No restatement was made to the financial results for the three months ended March 31, 2009.

The effect of the change on the first quarter of 2008 is an increase in incurred claims of \$1.9 million and decrease in income tax expense of \$0.6 million, resulting in a decrease in net income and retained earnings as at March 31, 2008 of \$1.3 million.

This change in accounting policy has resulted in restatement of the comparative amounts presented for the 1st, 2nd and 3rd quarters of 2008 as presented in the MD&A. There is no adjustment related to the financial results for the year ended December 31, 2008. The 2007 quarterly results presented in this MD&A have not been restated as the adjustment is immaterial.

(\$ THOUSANDS except per share amounts)	Quarter to March 31	
	2009	(Restated) 2008
Direct written and assumed premiums	31,616	34,936
Net earned premiums	41,573	45,559
Underwriting income (loss)	(1,872)	(2,265)
Investment income	1,874	4,587
Net income (loss)	(230)	1,325
Net income (loss) per share		
Basic	(0.02)	0.14
Diluted	(0.02)	0.13
Net operating income ⁽¹⁾	818	532
Net operating income per share- diluted	0.07	0.05
Return on equity (ROE) ⁽²⁾	4.0%	14.1%

(1) Net operating income is defined as net income plus or minus after-tax realized losses or gains on sale of investments.

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

	Quarter to March 31	
	(Restated)	
	2009	2008
Loss ratio	71.9%	72.5%
Expense ratio	32.6%	32.4%
Combined ratio	104.5%	104.9%

(\$ THOUSANDS except per share amounts)	As at March 31 2009	As at Dec 31 2008
Investments (excluding premium finance receivables)	263,759	259,774
Premium finance receivables	19,330	20,615
Total assets	398,132	402,780
Total shareholders' equity	119,586	118,604
Book value per share ⁽¹⁾	10.21	10.16

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

Financial Overview – Quarter ended March 31, 2009

The net loss of \$0.2 million for the three months ended March 31, 2009, represents a decrease of \$1.5 million, or 117.4% compared to net income of \$1.3 million in the first quarter of 2008. An underwriting loss of \$1.9 million was incurred in the first quarter of 2009 compared to an underwriting loss of \$2.3 million in the same period of 2008. In our Canadian operations, the Personal Lines division recorded underwriting income of \$0.4 million in the period, while the Niche Products division recorded underwriting losses of \$1.3 million in the first quarter of 2009. Our International division incurred an underwriting loss of \$0.7 million in the first quarter of 2009. There is \$0.3 million of Corporate and other expenses, for each period, which have not been allocated by division.

The slight improvement in underwriting income in the first quarter of 2009 was the result of a decrease in the loss ratio of the Personal Lines division compared to the same period in 2008. This improvement was achieved despite the decrease in the total positive development of prior year claims to \$1.4 million in the first quarter of 2009 compared to positive development of \$3.2 million in the same period in 2008.

The Personal Lines division loss ratio decreased to 70.1% compared to 76.9% in the first quarter of 2008. This decline was due to improved loss experience incurred in the non-standard auto line of business. The Niche Products division incurred a loss ratio of 71.1% in the first three months of 2009 compared to 66.7% in the same period in 2008. Underwriting losses related to the Emergency Travel Health (ETH) line of business have decreased modestly as compared to 2008; however, adverse loss experience from this line of business continues to be the primary reason for the underwriting loss incurred by the division.

The underwriting loss incurred in the International division of \$0.7 million is the result of adverse claims development, primarily related to the run-off of reinsurance assumed treaties with U.S. non

standard auto reinsurers, the largest of which was cancelled effective December 31, 2008. The remaining contract was cancelled effective March 31, 2009. As this discontinued business runs-off, the impact on EGI's financial results of these contracts will be significantly reduced.

Investment income declined to \$1.9 million in the first quarter of 2009 compared to \$4.6 million in the same period in 2008. The decline in investment income was due primarily to the recording of investment impairments in the first quarter of 2009. As a result of continued monitoring of our investment portfolio as at March 31, 2009, EGI has identified specific other-than-temporary investment impairments of \$2.0 million which have been recorded in the period and reduced investment income earned in the quarter. No investment impairments were recorded in the first quarter of 2008. Also, net realized losses on the disposal of investments not including impairments were \$(1.6) million in the first quarter of 2009, compared to net realized gains of \$1.2 million in the same period of 2008.

The basic loss per share for the first quarter of 2009 was \$0.02 compared to income per share of \$0.14 for the same period in 2008. The fully diluted loss per share was \$0.02 in the first quarter of 2009, compared to income per share of \$0.13 in the first quarter of 2008.

Net operating income, defined as net income excluding after-tax realized losses or gains, including impairments, on the sale of investments, was \$0.8 million or \$0.07 per share on a diluted basis for the first quarter of 2009. This compares to net operating income of \$0.5 million or \$0.05 per share for the same period in 2008.

For the three months ended March 31, 2009, shareholders' equity increased to \$119.6 million, an increase of \$1.0 million from December 31, 2008. The net increase was the result of a net loss of \$0.2 million in the quarter, the payment of quarterly dividends of \$0.8 million, offset by the issuance of common shares of \$0.2 million and other comprehensive income of \$1.8 million in the quarter.

Segmented Financial Information

Three months ended March 31

(\$ THOUSANDS)	2009				(Restated) 2008			
	Canada			International	Canada			International
	Personal Lines	Niche Products	Total		Personal Lines	Niche Products	Total	
Net earned premiums	25,176	13,502	38,678	2,895	23,081	19,695	42,776	2,783
Underwriting income (loss)	406	(1,272)	(866)	(749)	(1,034)	(678)	(1,712)	(277)
Loss ratio	70.1%	71.1%	70.4%	91.6%	76.9%	66.7%	72.2%	77.0%
Expense ratio	28.3%	38.3%	32.5%	34.3%	27.5%	36.7%	31.8%	32.9%
Combined ratio	98.4%	109.4%	102.9%	125.9%	104.5%	103.4%	104.0%	109.9%

The segmented information, for the first quarter of 2009, shows that Personal Lines contributed an underwriting income of \$0.4 million while the Niche Products division recorded an underwriting loss of \$1.3 million, resulting in a combined underwriting loss of \$0.9 million for the Canadian business

segments. The International division, consisting of assumed business from U.S. insurers, recorded an underwriting loss of \$0.7 million. As noted above, these contracts were cancelled effective December 31, 2008 and March 31, 2009 and are currently in run off as premiums from policies issued in 2008 are earned.

The loss ratio in Personal Lines was 70.1% for the quarter ended March 31, 2009, compared to 76.9% for the same period in 2008. The decrease is primarily attributable to the improved loss experience from the non-standard auto line of business offset by a slight decrease in the positive development of prior year claims compared to the same period in 2008. Positive development of prior year claims in the first quarter of 2009 for this division was \$1.5 million compared to positive development of \$1.6 million last year.

The Niche Products division loss ratio was 71.1% in the first quarter of 2009 compared to 66.7% for the same period in 2008. As described above, the increase was the result of adverse loss experience in the ETH line of business resulting in a loss ratio of 89.6%. All other programs in the Niche Products division experienced a loss ratio of 55.1% in the first quarter of 2009 compared to a loss ratio of 36.6% for these programs in the first quarter of 2008. It should be noted that the first quarter 2008 loss ratio on Niche programs, excluding ETH, was low as a result of positive development of prior year claims in that period.

The International division incurred a loss ratio of 91.6% in the first three months of 2009 compared to 77.0% in the first quarter of 2008. As noted above, this result pertains to claims experience related to the run-off of cancelled assumed reinsurance contracts effective December 31, 2008.

The expense ratio for Personal Lines, in the first quarter of 2009, increased slightly to 28.3% compared to 27.5% for the same period in 2008. The Niche Products division expense ratio also recorded a small increase to 38.3% in 2009 compared to 36.7% for the first quarter of 2008. The increase in the Niche Products division expense ratio was primarily due to the decrease in net earned premiums compared to 2008 due to the decrease in ETH premiums earned in the period.

Critical Accounting Estimates and Assumptions

For a description of EGI's accounting policies, refer to notes 2 and 3 in the 2008 audited financial statements as set out on pages 55 to 58 of the Company's 2008 Annual Report. A further description of EGI's critical accounting estimates and assumptions is also detailed on pages 19 to 21 of the 2008 Annual Report.

There have been no changes to the Company's accounting policies or assumptions made in critical accounting estimates in the first quarter of 2009, except as described in Note 2 of the interim financial statements for the quarter ended March 31, 2009, included in this report.

Future Changes in Accounting Policies and Disclosure

Transition to International Financial Reporting Standards (IFRS)

The CICA has announced that Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprise companies will be replaced with IFRS over a transition period expected to end in 2011. EGI will begin reporting its financial statements in accordance with IFRS on

January 1, 2011. EGI has begun planning its transition to IFRS. The impact on its consolidated financial position and results of operations has not yet been determined.

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, 2009 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, 2009, 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 was effective as at March 31, 2009, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2009 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Summary of Quarterly Results

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

	2009	(Restated) 2008				2007		
(\$ THOUSANDS EXCEPT PER SHARE DATA)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Direct written and assumed premiums	31,616	39,948	46,067	49,779	34,936	43,098	42,343	42,299
Total revenues (excluding investment income)	41,573	39,547	36,150	35,999	45,559	34,161	30,847	29,808
Underwriting income (loss)	(1,872)	(489)	2,896	21	(2,265)	868	3,536	4,533
Income (loss) before income taxes	(297)	(3,272)	5,776	4,432	2,020	5,658	6,772	6,601
Net income (loss)	(230)	(2,322)	3,958	3,019	1,325	3,727	4,462	4,349
Earnings per adjusted share								
– Basic	\$(0.02)	\$(0.20)	\$0.36	\$0.31	\$0.14	\$0.39	\$0.46	\$0.45
– Diluted	\$(0.02)	\$(0.19)	\$0.33	\$0.29	\$0.13	\$0.35	\$0.44	\$0.42
Selected financial ratios (%)								
Loss ratio	71.9	68.7	60.2	66.3	72.5	65.1	58.2	53.2
Expense ratio	32.6	32.5	31.7	33.6	32.4	32.3	30.3	31.6
Combined	104.5	101.2	91.9	99.9	104.9	97.4	88.5	84.8

Quarter Ended March 31, 2009 Compared to Quarter Ended March 31, 2008

The following financial information compares the first quarter 2009 results with the first quarter of 2008.

(\$ THOUSANDS)	1st Quarter 2009	(Restated) 1st Quarter 2008	Variance \$	Variance %
Direct written and assumed premiums	31,616	34,936	(3,320)	(9.5)
Net written and assumed premiums	29,058	32,422	(3,364)	(10.4)
Net earned premiums	41,573	45,559	(3,986)	(8.7)
Claims incurred	29,890	33,031	(3,141)	(9.5)
Acquisition costs	9,960	11,588	(1,628)	(14.0)
Operating expenses	3,595	3,205	390	12.2
Underwriting loss	(1,872)	(2,265)	393	17.4
Investment income	1,874	4,587	(2,713)	(59.1)
Interest expense	299	302	(3)	(1.0)
Net income (loss) before income taxes	(297)	2,020	(2,317)	(114.7)
Income taxes (recovery)	(67)	695	(762)	(109.6)
Net income (loss)	(230)	1,325	(1,555)	(117.4)

Insurance Operation

Written and Assumed Premiums

Direct written and assumed premiums decreased \$3.3 million, or 9.5%, to \$31.6 million for the three months ended March 31, 2009, compared to \$34.9 million for the first three months of 2008. The primary reason for this decrease was the cancellation of U.S. assumed reinsurance contracts effective December 31, 2008. Only one contract remained in force in the first quarter of 2009, which was also cancelled effective March 31. Premiums will continue to be earned pursuant to these arrangements in 2009, from policies issued in 2008, however no further premiums will be written in 2009. As a result assumed premiums in the International division declined by \$3.7 million compared to the first quarter of 2008.

Personal Lines premiums increased \$0.5 million to \$23.0 million in 2009 compared to \$22.5 million in the first quarter of 2008. Despite ongoing competitive conditions in the market, non-standard auto premiums increased to \$20.3 million, an increase of \$0.4 million or 2% compared to \$19.9 million in the first three months of 2008. Motorcycle direct written premiums increased to \$2.5 million compared to \$2.4 million in the first quarter of 2008, this growth being primarily derived from our exclusive arrangement with an Ontario based motorcycle insurance broker. Direct written premiums for the Niche Products division decreased slightly to \$8.7 million for the three months ended March 31, 2009, compared to \$8.8 million in the same period in 2008. The small decrease is attributable to the decline in ETH written premiums to \$0.9 million in the first quarter of 2009 compared to \$2.6 million in 2008. As noted in earlier reports, the decline in ETH premiums was anticipated by EGI due to premium rate increases and more restrictive underwriting criteria implemented for the 2008/09 travel season.

Net written and assumed premiums decreased \$3.3 million, or 10.4%, to \$29.1 million compared to \$32.4 in the same period last year. This decrease is consistent with the decrease in direct written and assumed premiums in the period compared to 2008.

Earned Premiums

Net earned premiums for the three months ended March 31, 2009, totaled \$41.6 million, a decrease of \$4.0 million, or 8.7%, compared to \$45.6 million in the first three months of 2008. The decrease is primarily attributable to the previously noted decline in ETH written premiums in the last quarter of 2008 and first quarter of 2009. This results in less earned premium in the first quarter of 2009 compared to the first three months of 2008, when a higher level of premiums written in the last quarter of 2007 and first quarter of 2008 were earned. ETH business is seasonal in nature, and primarily earned during the winter months, therefore a relatively low amount of unearned premiums remains from this line of business, to be earned in the remainder of 2009.

The significant decline in written premiums from the International division due to cancellation of U.S. reinsurance treaties effective December 31, 2008 have not yet had a negative impact on earned premiums from this division because premiums will be earned during 2009 from policies issued in 2008. As these policies expire during 2009, earned premiums from this division will also decline.

Incurred Claims Expense

Net incurred claims expense decreased \$3.1 million, or 9.5%, to \$29.9 million for the three months ended March 31, 2009, compared to \$33.0 million for the same period in 2008. The decrease is in line with the 8.7% decrease in net earned premiums, due to the slight decrease in loss ratio in 2009 (71.9%) compared to the first quarter of 2008 (72.5%). The loss ratio in the first quarter of 2009 was higher than expected due to adverse claims experience primarily incurred in the ETH line of business and the run-off of cancelled assumed reinsurance arrangements from the International division.

In the first quarter of 2009, the ETH line of business experienced a loss ratio of 89.6%, which is significantly higher than expected. However, as noted earlier, the negative impact of this result on EGI is reduced in 2009, compared to 2008, due to a significantly lower volume of premiums written in this line. All other programs in the Niche Products division experienced a loss ratio of 55.1% in the first quarter of 2009 compared to a loss ratio of 36.6% for these programs in the first quarter of 2008. It should be noted that the 2008 loss ratio on Niche programs, excluding ETH, was low due to the significant release of prior year reserves of \$1.4 million in the first quarter of 2008.

The loss ratio in Personal Lines was 70.1% for the quarter ended March 31, 2009, compared to 76.9% for the same period in 2008. The improvement reflects a decline in loss experience from the non-standard auto line of business offset by a slight decrease in the positive development of prior year claims compared to the same period in 2008. Positive development of prior year claims in the first quarter of 2009 for this division was \$1.5 million compared to positive development of \$1.6 million last year.

The non-standard auto loss ratio was 69.1% in the first three months of 2009 compared to 77.5% for the same period in 2008. The loss ratio from the motorcycle line of business was 75.3% in the first quarter of 2009, which compares to a restated loss ratio from this line of 73.6% in the same period in 2008. As noted earlier, the Company changed the methodology of determining IBNR in motorcycle business in the first quarter of 2009. The new method is based on an annualized loss ratio and is intended to reduce the seasonal variation of results reported for this line of business. Financial results for the first quarter of 2008 have been restated to reflect the new methodology.

The International division incurred a loss ratio of 91.6% in the first three months of 2008 compared to 77.0% in the first quarter of 2008. As noted above, this result pertains to claims experience related to the run-off of cancelled assumed reinsurance contracts effective December 31, 2008. The direct writer has advised that the adverse claims experience reported in the first quarter of 2009 partially pertains to changes in claims personnel and adoption of a more conservative reserving philosophy in late 2008 and early 2009.

Acquisition Costs

Net acquisition costs, which mainly consist of commissions and premium taxes, decreased \$1.6 million, or 14%, to \$10.0 million for the three months ended March 31, 2009, compared to \$11.6 million in the same period in 2008. This relatively large decrease, compared to the decrease of 8.7% in net earned premiums, is the result of lower commission rates negotiated in the ETH line of business for the 2008/09 travel season. As a percentage of net earned premiums, acquisition expenses decreased to 24% in the first three months of 2009 compared to 25.4% in the same period last year.

Operating Expenses

Operating expenses increased \$0.4 million, or 12.2%, to \$3.6 million for the three months ended March 31, 2009, compared to \$3.2 million for the first quarter of 2008. The increase is related to general increases in salaries, system amortization and occupancy costs.

Underwriting Income (Loss)

Underwriting results reflect revenues from net earned premiums less claims, acquisition and operating expenses. In the quarter ended March 31, 2009 total underwriting contribution improved by \$0.4 million to an underwriting loss of \$1.9 million, compared to an underwriting loss of \$2.3 million for the comparable period in 2008. The underwriting result for 2009 and 2008 includes \$0.3 million and \$0.3 million of corporate and other expenses, respectively, which have not been allocated to the operating divisions.

Underwriting income from the Personal Lines division for the three months ended March 31, 2009, was \$0.4 million, an increase of \$1.4 million, compared to a loss of \$1.0 million for the first three months of 2008. This increase was primarily due to the improvement in loss ratio experienced in our Personal Lines division compared to the first three months of 2008.

The underwriting loss from Niche Products for the three months ended March 31, 2009, was \$1.3 million, compared to an underwriting loss of \$0.7 million in the first three months of 2008. This result is also due to an increase in the loss ratio in the first quarter of 2009 compared to the same period in 2008.

The International division experienced an underwriting loss of \$0.7 million in the first quarter of 2009, compared to a loss of \$0.3 million in the first three months of 2008. This was due to adverse claims development of prior year claims related to cancelled assumed reinsurance contracts from external U.S. reinsurers.

Investment Income

Investment income for the three months ended March 31, 2009 was \$1.9 million compared to \$4.6 million for the same period in 2008. Income from interest and dividends decreased to \$3.0 million compared to \$3.2 million in the same period last year, due to lower yields earned on the bond portfolio. Net realized losses on the sale of investments were \$1.6 million in the first three months of 2009 compared to net gains of \$1.2 million in the same period in 2008. Net realized losses, in the first three months of 2009, include investment impairments recorded of \$2.0 million on specific investments considered to be other than temporarily impaired. No investment impairments were recorded in the first quarter of 2008.

EGL's investment portfolio, including finance receivables, based on fair values, increased to \$283.1 million, or 8%, compared to total fair values of \$262.2 million as at March 31, 2008. The increase was primarily due to funds raised of \$20.8 million pursuant to EGL's rights offering in July 2008.

Interest Expense

During the first three months of 2009, interest expense related to bank indebtedness of \$0.3 million was incurred. The same amount of interest expense was incurred in the first three months of 2008.

Net Income before Income Taxes

A net loss before income taxes was incurred for the three months ended March 31, 2009, of \$0.3 million, compared to income before income taxes of \$2.0 million for the three months ended March 31, 2008.

For the three months ended March 31, 2009, an underwriting loss of \$1.9 million plus investment income of \$1.9 million, reduced by interest expense on bank indebtedness of \$0.3 million, comprised the net loss before income taxes of \$0.3 million. This compares to an underwriting loss of \$2.3 million, plus investment income of \$4.6 million, reduced by interest expense of \$0.3 million, in the first three months of 2008.

Income Taxes

A recovery for income taxes of \$0.1 million was recorded in the quarter ended March 31, 2009, compared to an income tax expense of \$0.7 million recorded for the first quarter of 2008.

BALANCE SHEET ANALYSIS

The Balance Sheet analysis that follows should be read in conjunction with the unaudited interim consolidated first quarter 2009 financial statements and notes therein, which include additional disclosures related to balance sheet risk management.

Investments

The following table sets forth EGI's invested assets as at March 31, 2009, and December 31, 2008.

(\$ THOUSANDS)	March 31, 2009	December 31, 2008
	Fair value	Fair value
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

Due to the significant market decline, particularly in the fourth quarter of 2008, Accumulated Other Comprehensive Income (AOCI) was \$(3,624) as at March 31, 2009 compared to \$(5,460) as at December 31, 2008. This balance represents the total net unrealized losses in our investment portfolio (the difference between adjusted cost and fair value), net of income taxes. The change in the AOCI balance during the first quarter of 2009 is primarily attributable to the reclassification of unrealized net losses to net income due to impairments recorded of \$2,023.

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 values are less than carrying values. 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, 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 shares, has been recognized in net income during the first quarter of 2009. No provisions were recorded in the first three months of 2008.

Recoverable from Reinsurers

As at March 31, 2009, the recoverable from reinsurers decreased to \$45.4 million compared to \$45.6 million as at December 31, 2008. This decrease represents recoveries of amounts for claims which were reinsured pursuant to quota share arrangements related to policy years 2002 through 2005.

Accounts Receivable

Premium financing receivables are the largest component of this asset as at March 31, 2009, and represents approximately 78% or \$19.3 million of total receivables. During the first quarter of 2009 premium financing receivables decreased \$1.3 million from \$20.6 million at December 31, 2008. These premiums are primarily billed directly to policyholders who are provided with a monthly payment financing option.

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. Claims provisions (i.e., reserves for claims liability) are established at the individual file level by the “case method” as claims are reported. 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 ensure as far as possible that EGI’s

provision for unpaid claims (often called “reserves”) is adequate, management has retained the services of an independent actuary. EGI strives to establish adequate provisions at each quarter end.

The table below shows the development of the provision for claims reserves, including loss adjustment expenses as at December 31 in each year of the five years and for the three months ended March 31, 2009.

(\$ THOUSANDS)	Years ended December 31				
	2008	2007	2006	2005	2004
Reserve Carried (actuarial present value basis) ⁽¹⁾	178,694	168,257	145,691	129,041	107,196
Reserve at December 31, 2005					70,620
Cumulative paid to December 31, 2005					24,922
Cumulative Redundancy (Deficiency)					11,654
Reserve at December 31, 2006				88,029	49,557
Cumulative paid to December 31, 2006				25,817	41,158
Cumulative Redundancy (Deficiency)				15,195	16,481
Reserve at December 31, 2007			107,992	67,408	36,129
Cumulative paid to December 31, 2007			30,432	46,413	55,306
Cumulative Redundancy (Deficiency)			7,267	15,220	15,761
Reserve at December 31, 2008		117,541	81,172	50,013	25,237
Cumulative paid to December 31, 2008		44,265	53,325	62,210	66,181
Cumulative Redundancy (Deficiency)		6,450	11,194	16,818	15,778
Reserve at March 31, 2009	161,556	108,971	76,206	45,178	23,641
Cumulative paid to March 31, 2009	16,759	51,460	58,605	66,858	68,098
Cumulative Redundancy (Deficiency)	379	7,826	10,880	17,005	15,457

1) Amounts include Provision for Adverse Deviation (PfAD) of \$19,689 for 2008; \$17,401 for 2007; \$14,756 for 2006; \$12,473 for 2005; and \$8,613 for 2004.

The table above, which is reflected on a gross basis for all years, shows that for the first three months of 2009 the total prior year reserve redundancies released pursuant to the March 31, 2009 actuarial report, were \$0.4 million.

The uncertainties regarding EGI’s reserves could result in a liability exceeding the reserves by an amount that would be material to EGI’s financial condition or results of operations in a future period. Future development could be significantly different from the past, due to many unknown factors.

Reinsurance

EGI has reinsurance treaties with several unaffiliated reinsurers, all of whom are selected on the basis of their creditworthiness. EGI purchases reinsurance to reduce its exposure to the insurance risks that it assumes in writing business. For 2009 the maximum net retention on a single risk is \$1.5 million (2008 – \$1.5 million).

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

maintain minimum asset and capital balances in Canada to meet their Canadian obligations. Policy liabilities rank in priority to any subordinated creditors a reinsurer may have. For reinsurance recoverables with non-licensed reinsurers, EGI maintains security against reinsurance recoverables in the form of cash, letters of credit and/or assets held in trust accounts. At March 31, 2009, EGI was the assigned beneficiary of such trust accounts totaling \$2.3 million (December 31, 2008 – \$2.4 million) in guarantees from unlicensed reinsurers.

EGI purchases renewable excess of loss and catastrophe reinsurance from third party reinsurers, covering its automobile and general liability business. In 2009, excess of loss coverage on a single occurrence is for a total of \$23,500,000 and in 2008 it was for \$18,500,000. Total catastrophic coverage is \$23,000,000 in 2009 and \$18,000,000 in 2008. Other than general liability, coverages comprised of the programs of the Niche Products division are reinsured on a program-by-program basis.

Using reinsurance, EGI's policy is to limit its loss exposure on any one claim to not more than 2% of its shareholders' equity.

Share Capital

As of June 18, 2009, there were 11,737,582 common shares issued and outstanding. (See Note 7 to the unaudited interim consolidated first quarter 2009 financial statements.)

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. EGI's principal sources of funds are premiums collected, investment income and proceeds from investments that have been sold or have matured. However, such funds may not provide sufficient capital to enable EGI to pursue additional market opportunities.

In October 2007, EGI entered into a non-revolving term credit facility with a major Canadian bank in the amount of US\$20 million, converted to CDN\$19.55 million, the equivalent Canadian dollar amount as of the closing date. The facility bears interest of 6.2% which is payable monthly over the 3 year term of the agreement. After 3 years EGI is obligated to repay the amounts drawn as at the termination of the agreement. Pursuant to the credit facility agreement EGI is required to comply with various financial covenants and financial information reporting requirements.

During the three year term, EGI has agreed to financial covenants which require EGI to maintain a minimum tangible net worth of \$80.0 million and a maximum debt to capital ratio of 0.30:1.00.

The initial drawdown of \$19.55 million was used to increase the capital of CIM Re, EGI's Barbados based reinsurance company, which will be used to reinsure selected niche and specialty line business.

EGI's contractual obligations relating to operating leases are \$1.0 million due in less than a year and \$4.1 million due in the next five years.

Capital Resources

For the three months ended March 31, 2009 shareholders' equity increased to \$119.6 million, an increase of \$1.0 million from December 31, 2008. The net increase was the result of a net loss of \$0.2 million in the quarter, the payment of quarterly dividends of \$0.8 million, offset by the issuance of common shares of \$0.2 million and other comprehensive income of \$1.8 million in the quarter.

As at March 31, 2009, Echelon's MCT was 314%, compared to 268% as at December 31, 2008, significantly exceeding the minimum regulatory capital level required by the Office of the Superintendent of Financial Institutions.