

EGI FINANCIAL HOLDINGS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
For the period ending March 31, 2010

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 2010 and 2009, with the notes to the interim unaudited consolidated financial statements for the first quarter of fiscal 2010, with management's discussion and analysis (MD&A) set out on pages 3 to 51 of the Company's 2009 Annual Report and with the notes to the audited consolidated financial statements for fiscal 2009 set out on pages 59 to 80 of the Company's 2009 Annual Report. The financial data in this discussion has been prepared in accordance with Canadian generally accepted accounting principles GAAP and has been derived from the unaudited interim consolidated financial statements for the three months ended March 31, 2010, and 2009.

The following commentary is current as of May 3, 2010. 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 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 2010 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.

Company Overview

EGL operates in the property and casualty (P&C) insurance industry in Canada and, commencing in 2007, in the United States, primarily focusing on non-standard automobile insurance and other niche and specialty general insurance products. Founded in 1997 as an insurance and reinsurance broker and marketer, EGL has since developed its business to focus on underwriting opportunities not served by many of the larger, standard insurers. EGL operates through two Strategic Business Units (SBUs) in Canada, the Personal Lines division and the Niche Products division. The Personal Lines division was created in 2006 to transition the Automobile division into a multi-product, multi-line SBU. Currently, the Personal Lines division continues to focus on the underwriting of non-standard automobile insurance and motorcycle business but has expanded into other non-standard products and specialty lines of business. Through its Niche Products division, EGL designs and underwrites specialized non-auto insurance programs, such as higher premium property, primary and excess liability, legal expense and accident and health insurance for a variety of businesses and consumers and extended warranty coverage for homes and consumer products.

In addition to the two SBUs in Canada, EGL also formed the International division in 2008 to leverage its strategy to expand into the United States. Currently, this division is focused on personal lines business, predominantly non-standard automobile insurance. As an interim step to execute this strategy, EGL entered the U.S. non-standard auto insurance market under reinsurance agreements with three arms-length insurance companies. These companies provide P&C insurance to the non-standard private passenger automobile segment of the industry and operate in several states in the southeastern U.S. Being dissatisfied with the results of these arrangements, EGL terminated the reinsurance agreements. EGL now intends to pursue its U.S. expansion exclusively as an insurer in its own right, through its wholly-owned U.S. subsidiary, American Colonial Insurance Company (ACIC), where the Company can exercise greater underwriting control. The Company recently acquired ACIC, a currently inactive but licensed insurer in several southeastern states. At the end of the quarter, Echelon Insurance Company of America (EICA) and ACIC were amalgamated to continue business under the ACIC name. The amalgamated company will pursue premium growth in Florida and Texas immediately and plans to expand to Georgia, South Carolina and Louisiana in 2011 and beyond.

By pursuing its focused niche strategy, EGL's objective is to produce an ROE superior to the Canadian P&C insurance industry average. A key factor for EGL's ROE to outperform the industry is for its loss ratio to be below the industry average.

Overall Performance

Property & Casualty insurance companies continued to operate in a challenging environment in the first quarter of 2010. Escalating claims costs, particularly in the Ontario automobile market, continue to increase loss ratios and erode profitability. Recently announced auto reforms by the Ontario government are expected to address several factors causing these claims cost increases; however the extent that the product changes will alleviate the situation cannot yet be determined.

In the face of these challenges, EGL experienced an underwriting loss of \$5.8 million in the first quarter of the year. Large automobile claims in the greater Toronto area continue to have a disproportionate effect on overall Company results. Poor claims experience in certain Niche lines also contributed to the first

quarter underwriting loss.

Total volume of premiums written increased by 39.1% in the first quarter of 2010 compared to the same period in 2009, providing further evidence that EGI is benefitting from hardening market conditions and difficulties faced by our direct competitors.

Other comprehensive income was \$2.0 million in the first quarter of 2010 reflecting increases in the fair value of our investment portfolio during the period. As a result, despite the net loss incurred in the quarter, net book value per share increased to \$11.14 as at March 31, 2010, compared to \$11.12 as at December 31, 2009.

Financial Overview

(\$ THOUSANDS except per share amounts)	Quarter to March 31	
	2010	2009
Direct written and assumed premiums	43,990	31,616
Net earned premiums	38,224	41,573
Underwriting loss	(5,810)	(1,872)
Investment income	3,684	1,874
Net loss	(1,770)	(230)
Net loss per share		
Basic	(0.15)	(0.02)
Diluted	(0.14)	(0.02)
Net operating income (loss) ⁽¹⁾	(2,375)	818
Net operating income (loss) per share – diluted	(0.19)	0.07
Return on equity (ROE) ⁽²⁾	2.3%	4.0%

(1) Net operating income is defined as net income plus or minus after-tax realized losses or gains on the 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	
	2010	2009
Loss ratio	83.4%	71.9%
Expense ratio	31.8%	32.6%
Combined ratio	115.2%	104.5%

(\$ THOUSANDS except per share amounts)	As at March 31 2010	As at Dec 31 2009
Investments (excluding premium finance receivables)	309,743	294,365
Premium finance receivables	26,564	27,007
Total assets	459,552	446,465
Total shareholders' equity	133,699	133,431
Book value per share ⁽¹⁾	11.14	11.12

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

Segmented Financial Information

Three months ended March 31								
2010					2009			
					Canada		International	
(\$THOUSANDS)	Personal Lines	Niche Products	Total	Total	Personal Lines	Niche Products	Total	Total
Net earned premiums	28,391	9,827	38,218	6	25,176	13,502	38,678	2,895
Underwriting income (loss)	(3,982)	(1,257)	(5,239)	(291)	406	(1,272)	(866)	(749)
Loss ratio	87.4%	73.9%	83.9%	N/A (1)	70.1%	71.1%	70.4%	91.6%
Expense ratio	26.6%	38.8%	29.8%	N/A (1)	28.3%	38.3%	32.5%	34.3%
Combined ratio	114.0%	112.7%	113.7%	N/A (1)	98.4%	109.4%	102.9%	125.9%

(1) Due to the minimal earned premium in the International division the ratios are not meaningful.

The net loss of \$1.8 million for the three months ended March 31, 2010, is due to adverse claims experience in our Personal Lines and Niche divisions. Influencing this result was a negative development of prior year claims of \$2.0 million in the first quarter of 2010 compared to positive development of \$1.4 million in the same period in 2009. The Company continues to take a conservative approach to reserving. Industry and Company claims experience has impacted the actuary's overall outlook and has resulted in increases for prior year reserves, as well as an increase in the loss ratio related to claims reported in 2010.

The Personal Lines division's loss ratio was 87.4%, primarily due to poor claims experience in the greater Toronto area. The loss ratio in our non-standard auto line of business increased to 92.5% for the period compared to 69.1% in 2009. The motorcycle product line recorded an improvement in the loss ratio to 56.3% compared to 75.3% last year, reflecting premium rate increases that have been implemented. The loss ratio for recreational vehicles and miscellaneous lines also improved.

A small loss in our International division is due to expenses associated with our U.S. startup operation that were partially offset by positive development of prior year claims from cancelled U.S. reinsurance arrangements. Corporate and other expenses of \$0.2 million have not been allocated by division.

Investment income increased to \$3.7 million in the first quarter of 2010 compared to \$1.9 million in the same period in 2009. The increase in investment income was due primarily to the realization of gains in the first quarter of 2010 of \$0.9 million compared to realized losses, including impairments, of \$1.6 million in the same period last year. No investment impairments have been recorded in 2010.

EGL's expense ratio improved significantly in the first quarter compared to the same period in 2009, as the Company's disciplined expense management held overall expenses flat, despite higher written premium volumes and continued investment in U.S. startup operations.

Critical Accounting Estimates and Assumptions

For a description of EGL's accounting policies, refer to notes 2 and 3 in the 2009 audited financial statements as set out on pages 59 to 62 of the Company's 2009 Annual Report. A further description of EGL's critical accounting estimates and assumptions is also detailed on pages 20 to 22 of the 2009 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 2010.

Future Changes in Accounting Policies and Disclosure

Transition to International Financial Reporting Standards (IFRS)

During 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) in place of Canadian GAAP for interim and annual reporting purposes. The required changeover date is for fiscal years beginning on or after January 1, 2011.

The Company began its IFRS conversion process in 2008 and has established a project plan and governance structure. The plan includes regular reporting to the Audit and Risk Committee of the Company's Board of Directors from the Project Management Committee which consists of members of Finance and IT, headed by the Chief Financial Officer. The Company will be using an external advisor to assist in the conversion project, in addition to receiving guidance from our external auditors.

The Company has completed the assessment and design phase of the project. This phase involved completion of a detailed diagnostic review to identify and assess the impact of IFRS differences in relation to Canadian GAAP. In addition, an initial evaluation of IFRS 1 transition exemptions and an analysis of financial systems have been performed. Final determinations regarding the application and election of transitional exemptions available under IFRS 1, and accounting policy choices related to various IFRS standards will be completed in the first quarter of 2010. Management is also in the process of identifying the financial statement presentation and disclosure differences between IFRS and Canadian GAAP. IFRS provides enhanced presentation of financial statements and more relevant disclosures which will be specifically identified. This stage will also be completed in the first half of 2010.

At this time, the impact, of the implementation of IFRS on the financial statements of the Company is not expected to be material.

The Company will continue to report on the key elements and timing of our IFRS implementation plan in our interim MD&As throughout 2010.

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, 2010, 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, 2010, the Chief Executive Officer and the Chief Financial Officer evaluated the design of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal controls as at March 31, 2010, was effective 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, 2010, 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:

	2010	2009				2008		
		(Restated)						
(\$ THOUSANDS EXCEPT PER SHARE DATA)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Direct written and assumed premiums	43,990	39,303	44,455	48,487	31,616	39,948	46,067	49,779
Total revenues (excluding investment income)	38,224	36,439	35,881	35,486	41,573	39,547	36,150	35,999
Underwriting income	(5,810)	(9,454)	284	1,703	(1,872)	(489)	1,514	(465)
Income (loss) before income taxes	(2,425)	(3,280)	3,381	7,415	(297)	(3,272)	4,394	3,947
Net income (loss)	(1,770)	(2,347)	2,261	4,831	(230)	(2,322)	3,026	2,690
Earnings per adjusted share								
– Basic	\$(0.15)	\$(0.20)	\$0.19	\$0.41	\$(0.02)	\$(0.20)	\$0.28	\$0.27
– Diluted	\$(0.14)	\$(0.19)	\$0.18	\$0.38	\$(0.02)	\$(0.19)	\$0.26	\$0.25
Selected financial ratios (%)								
Loss ratio	83.4	92.1	63.6	61.8	71.9	68.7	64.0	67.7
Expense ratio	31.8	33.8	35.6	33.4	32.6	32.5	31.7	33.6
Combined	115.2	125.9	99.2	95.2	104.5	101.2	95.7	101.3

Quarter Ended March 31, 2010, Compared to Quarter Ended March 31, 2009

The following financial information compares first quarter 2010 results with the first quarter of 2009.

(\$ THOUSANDS)	1st Quarter 2010	1st Quarter 2009	Variance \$	Variance %
Direct written premiums	43,990	31,616	12,374	39.1
Net written premiums	38,216	29,058	9,158	31.5
Net earned premiums	38,224	41,573	(3,349)	(8.1)
Claims incurred	31,860	29,890	1,970	6.6
Acquisition costs	8,537	9,960	(1,423)	(14.3)
Operating expenses	3,637	3,595	42	1.2
Underwriting loss	(5,810)	(1,872)	(3,938)	(210.4)
Investment income	3,684	1,874	1,810	96.6
Interest expense	299	299	–	–
Net income (loss) before income taxes	(2,425)	(297)	(2,128)	(716.5)
Income taxes recovery	(655)	(67)	(588)	(877.6)
Net loss	(1,770)	(230)	(1,540)	(670.0)

Insurance Operation

Written Premiums

Significant premium growth was achieved in Canada across all lines of business. Personal Lines premiums increased 26.5% to \$29.1 million in 2010 compared to the first quarter of 2009, primarily in non-standard automobile insurance. Recently implemented rate increases, the hardening of the auto insurance market and difficulties faced by direct competitors contributed to the premium growth. Motorcycle direct written premiums of \$2.5 million in the first quarter of 2010 remained level with the amount written in the first quarter of 2009. Premium volumes for recreational and miscellaneous grew significantly but are not yet material to the overall results.

Direct written premiums for the Niche Products division increased 70.0% to \$14.8 million for the three months ended March 31, 2010. The increase is primarily attributable to premiums generated of \$5.2 million from a new commercial auto program in the quarter.

Net written premiums increased 31.5% to \$38.2 million compared to the same period last year. This increase was slightly less than the increase in direct written premiums in the period compared to 2009 due to increased reinsurance costs incurred in 2010.

Earned Premiums

Net earned premiums for the three months ended March 31, 2010, totaled \$38.2 million, a decrease over the first quarter in the prior year. The decrease is counterintuitive to the significant increase in direct written premiums and is due to several factors. First, as direct written premiums increase, premiums are earned over the policy term, typically one year; therefore, an earned premium lag occurs during periods of direct written premium growth. Second, in the first quarter of 2009, earned premiums of \$6.3 million were recorded from the emergency travel health (ETH) business, related to premiums written in 2008. As noted in previous quarterly reports, the Company has significantly reduced premiums from this line of business due to unprofitable results. Finally, in the first quarter of 2009 the International division earned \$2.9 million of premiums related to the cancelled external reinsurance arrangements in the U.S. These arrangements were cancelled effective December 31, 2008 and March 31, 2009, and as a result minimal premiums were earned in the first quarter of 2010.

Incurred Claims Expense

Net incurred claims expense increased for the three months ended March 31, 2010, despite a decrease in net earned premiums. This was due to rising claims costs, particularly large automobile accident benefits claims in the greater Toronto area and, to a lesser extent, claims in commercial property liability.

Acquisition Costs

Net acquisition costs, which mainly consist of commissions and premium taxes, decreased \$1.5 million, or 14.3%, to \$8.5 million for the three months ended March 31, 2010, compared to \$10.0 million in the same period in 2009. This relatively large decrease, compared to the decrease of 8.1% in net earned premiums, was the result of a change in the mix of business earned by the Company in the quarter. Premiums earned from external U.S reinsurance arrangements in the first quarter of 2009 carried a

relatively large commission rate and, as noted earlier, minimal premiums were earned from this source in the first three months of 2010. As a percentage of net earned premiums, acquisition expenses decreased to 22.3% in the first three months of 2010 compared to 24.0% in the same period last year.

Operating Expenses

Despite the growth in the business and the investment in the U.S. startup operation, operating expenses were held to \$3.6 million for the three months ended March 31, 2010, the same as the first quarter of 2009.

Underwriting Income (Loss)

Underwriting results reflect revenues from net earned premiums less claims, acquisition and operating expenses. In the quarter ended March 31, 2010, total underwriting contribution decreased \$3.9 million to an underwriting loss of \$5.8 million, compared to an underwriting loss of \$1.9 million for the comparable period in 2009. The underwriting result for 2010 and 2009 includes \$0.2 million of corporate and other expenses which have not been allocated to the operating divisions.

The underwriting loss from the Personal Lines division for the three months ended March 31, 2010, was \$4.0 million, a deterioration of \$4.4 million, compared to income of \$0.4 million for the first three months of 2009. This decline was primarily due to the increase in loss ratio experienced in our Personal Lines division compared to the first three months of 2009.

The underwriting loss from the Niche Products division for the three months ended March 31, 2010, was \$1.3 million, the same result as in the first three months of 2009.

The International division experienced an underwriting loss of \$0.3 million in the first quarter of 2010, compared to a loss of \$0.7 million in the first three months of 2009. The improvement was due to the positive 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, 2010, was \$3.7 million compared to \$1.9 million for the same period in 2009. Income from interest and dividends net of investment expenses was \$3.0 million, the same amount as in the comparable period last year. Net realized gains on the sale of investments were \$0.9 million in the first three months of 2010 compared to net losses of \$1.6 million in the same period in 2009. 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 2010.

EGI's investment portfolio, including finance receivables, based on fair values, increased to \$336.3 million, or 18.8%, compared to total fair values of \$283.1 million as at March 31, 2009.

Interest Expense

During the first three months of 2010, interest expense of \$0.3 million related to bank indebtedness was incurred. The same amount of interest expense was incurred in the first three months of 2009.

Net Income before Income Taxes

A net loss before income taxes of \$2.4 million was incurred for the three months ended March 31, 2010, compared to a loss before income taxes of \$0.3 million for the three months ended March 31, 2009.

For the three months ended March 31, 2010, an underwriting loss of \$5.8 million plus investment income of \$3.7 million, less interest expense on bank indebtedness of \$0.3 million, comprised the net loss before income taxes of \$2.4 million. This compares to an underwriting loss of \$1.9 million, plus investment income of \$1.9 million, less interest expense of \$0.3 million, in the first three months of 2009.

Income Taxes

A recovery for income taxes of \$0.7 million was recorded in the quarter ended March 31, 2010, compared to an income tax recovery of \$0.1 million recorded for the first quarter of 2009. The effective tax rate of 27% recorded in the first quarter of 2010 compares to 22.5% in the first quarter of 2009. Adjustments made in the first quarter of 2009 lowered the effective tax rate last year.

Net operating income (loss)

The net operating contribution decreased to a loss of \$2.4 million in the first three months of 2010 compared to a net operating gain of \$0.8 million in the same period last year. Net operating income or loss excludes the after-tax impact of net realized gains or losses. Realized gains of \$0.9 million and losses of \$1.6 million have been excluded from the first quarter of 2010 and 2009 net loss, respectively.

Other comprehensive income

Other comprehensive income increased to \$2.0 million in the first quarter of 2010 compared to \$1.8 million for the same period in 2009. The income represents the increase in fair value of investments during the quarter, less the reclassification of realized gains/losses to net income and the unrealized gain/loss on translation of financial statements of self-sustaining foreign operations.

BALANCE SHEET ANALYSIS

The Balance Sheet analysis that follows should be read in conjunction with the unaudited interim consolidated first quarter 2010 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, 2010, and December 31, 2009.

(\$ THOUSANDS)	March 31, 2010	December 31, 2009
Available-for-sale	Carrying and fair values	Carrying and fair values
Bonds		
Canadian		
Federal	91,305	83,777
Provincial	46,358	44,696
Municipal	6,233	6,254
Corporate	83,540	90,024
	227,436	224,751
United States		
Corporate	7,389	6,819
Total bonds	234,825	231,570
Preferred shares	11,182	7,567
Common shares		
Canadian	60,667	52,210
United States	232	1,072
	60,899	53,282
Investment income due and accrued	2,837	1,946
	309,743	294,365

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 is other-than-temporary, the Company records 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 to be 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.

No impairment loss has been recognized in net income during the first quarter of 2010. An impairment loss of \$2.0 million was recognized in the first three months of 2009.

Recoverable from Reinsurers

As at March 31, 2010, the recoverable from reinsurers increased to \$46.7 million compared to \$43.7 million as at December 31, 2009. The increase represents an increase in reinsurance utilized by EGI, primarily related to a self retention arrangement with a new Niche distributor in the quarter. All reinsurers, with balances due, have a rating of B++ or above as determined by A.M Best, except for certain Niche Products distributors who share a portion of the risk with EGI, for whom EGI holds deposits.

Accounts Receivable

Premium financing receivables are the largest component of this asset as at March 31, 2010, and represent approximately 78% or \$25.6 million of total receivables. During the first quarter of 2010, premium financing receivables decreased \$1.4 million from \$27.0 million at December 31, 2009. These premiums are primarily billed directly to policyholders who are provided with a monthly payment financing option.

Provision for Unpaid Claims

EGL 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 EGL. 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 that EGL's provision for unpaid claims (often called "reserves") is adequate, management has retained the services of an independent actuary.

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 four years and for the three months ended March 31, 2010.

(\$ THOUSANDS)	Years ended December 31				
	2009	2008	2007	2006	2005
Reserve Carried (actuarial present value basis) ⁽¹⁾	207,220	185,255	168,091	145,942	129,041
Reserve at December 31, 2006					88,029
Cumulative paid to December 31, 2006					25,817
Cumulative Redundancy (Deficiency)					15,195
Reserve at December 31, 2007				107,992	67,408
Cumulative paid to December 31, 2007				30,432	46,413
Cumulative Redundancy (Deficiency)				7,267	15,220
Reserve at December 31, 2008			117,541	81,172	50,013
Cumulative paid to December 31, 2008			44,265	53,325	62,210
Cumulative Redundancy (Deficiency)			6,450	11,194	16,818
Reserve at December 31, 2009		133,196	89,063	59,530	31,595
Cumulative paid to December 31, 2009		53,253	73,327	74,206	78,561
Cumulative Redundancy (Deficiency)		(1,194)	6,701	12,206	18,885
Reserve at March 31, 2010	193,423	126,061	84,561	55,630	29,138
Cumulative paid to March 31, 2010	15,167	60,464	78,016	77,802	81,041
Cumulative Redundancy (Deficiency)	(1,370)	(1,270)	6,514	12,510	18,862

1) Amounts include Provision for Adverse Deviation (PfAD) of \$22,688 for 2009; \$20,102 for 2008; \$17,401 for 2007; \$14,756 for 2006; and \$12,473 for 2005.

The table above, which is reflected on a gross basis for all years, shows that in the first three months of

2010 the total prior year reserve deficiencies included in the first quarter 2010 financial results, pursuant to the March 31, 2010, actuarial report, were \$1.4 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 2010, the maximum net retention on a single risk is \$1.5 million (2009 – \$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, 2010, EGI was the assigned beneficiary of such trust accounts totaling \$4.9 million (December 31, 2009 – \$4.6 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 2010, excess of loss coverage on a single occurrence is for a total of \$23,500,000, and in 2009 it was for \$23,500,000. Total catastrophic coverage is \$23,000,000 in 2010 and was \$23,000,000 in 2009. Other than general liability, coverages comprising 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 May 3, 2010, there were 12,002,582 common shares issued and outstanding. (See Note 6 to the unaudited interim consolidated first quarter 2010 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. The Company has suspended quarterly dividends to its common shareholders to assist in building a stronger capital base to support future growth. 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% per annum which is payable monthly over the three-year term of the agreement. After three 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 certain financial covenants, of which the key ones 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 Company continues to be compliant with all financial covenants.

The loan of CDN\$19.55 million, was used to increase the capital of CIM Reinsurance Company Ltd., EGI's Barbados-based reinsurance company, which has been used to reinsure selected niche and specialty line insurers which underwrite business in the United States and is currently used to reinsure business originally underwritten by Echelon General Insurance Company.

EGI's contractual obligations relating to operating leases are \$1.1 million, due in less than a year, and \$8.2 million, due in the next nine years.

Capital Resources

For the three months ended March 31, 2010, shareholders' equity increased to \$133.7 million, an increase of \$0.3 million from December 31, 2009. The net increase was the result of a net loss of \$1.8 million in the quarter offset by an increase in contributed surplus of \$0.1 million due to the exercising of share options and other comprehensive income of \$2.0 million in the quarter.

As at March 31, 2010, Echelon General's Minimum Capital Test (MCT) ratio was 281%, compared to 314% as at December 31, 2009, significantly exceeding the minimum regulatory capital level required by the Office of the Superintendent of Financial Institutions.