EGI FINANCIAL HOLDINGS INC.

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

For the period ended June 30, 2008

References to "EGI" or "Company" in this Management's Discussion and Analysis of Financial Condition and Results of Operations 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 second quarter of fiscal 2008 and 2007, with the notes to the interim unaudited consolidated financial statements for the second quarter of fiscal 2008, with the management's discussion and analysis (MD&A) set out on pages 12 to 45 of the Company's 2007 Annual Report and with the notes to the audited consolidated financial statements for fiscal 2007 set out on pages 52 to 66 of the Company's 2007 Annual Report. The following commentary is current as of August 5, 2008. 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 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 2008 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 and six month periods ended June 30, 2008 and 2007.

	Quarter to June 30		**6 months to June 30**	
(in $ thousands except per share amounts)	**2008**	**2007**	**2008**	**2007**
Direct written and assumed premiums	49,779	42,299	84,715	72,495
Net earned premiums	35,999	29,808	81,558	54,598
Underwriting income (loss)	(465)	4,533	(862)	5,837
Investment income	4,718	2,068	9,305	4,669
Net income	2,690	4,349	5,276	6,876
Earnings per share before extraordinary gain (in dollars)				
Basic	0.27	0.45	0.54	0.71
Diluted	0.25	0.42	0.50	0.66
ROE (1)			13.5%	20.5%

(1) 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 June 30		**6 months to June 30**	
	2008	**2007**	**2008**	**2007**
Loss ratio	67.7%	53.2%	68.1%	56.7%
Expense ratio	33.6%	31.6%	32.1%	32.6%
Combined ratio	101.3%	84.8%	100.2%	89.3%

(in $ thousands except per share amounts)	As at June 30 2008	As at Dec 31 2007
Investments (excluding premium finance receivables)	244,687	238,310
Premium finance receivables	23,244	19,569
Total assets	380,836	370,084
Total shareholders' equity	103,279	101,671
Book value per share [1]	10.62	10.50

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

Net income of $2.7 million for the three months ended June 30, 2008, represents a decrease of $1.6 million, or 37.2% compared to net income of $4.3 million in the second quarter of 2007. An underwriting loss of $0.5 million was incurred in the second quarter of 2008 compared to an underwriting gain of $4.5 million in the same period of 2007. Losses from EGI's two newest sources of business are the contributing factors to the shortfall in underwriting income for the quarter. The Emergency Travel Health (ETH) business incurred a loss of $4.5 million and the International division business incurred a loss of $0.8 million for the quarter. With the exception of the results from these two sources of business, underwriting results of the Company's more mature books of business are in line with the same period last year, despite a lower amount of favourable claims reserve development in 2008. Offsetting the shortfall in underwriting income in 2008, compared to 2007, is an increase in investment income of $2.6 million to $4.7 million in 2008 from $2.1 million in the second quarter of 2007.

The underwriting loss of $0.5 million in the second quarter of 2008 is primarily attributable to an increase in the loss ratio to 67.7% compared to 53.2% during the same period of 2007. As noted above, this significant increase in the loss ratio resulted from adverse loss experience from the Emergency Travel Health line of business in the Niche Products division and negative development of prior year losses from the International division. The loss ratio from the Personal Lines division was in line with expectations, recording an improvement in the current accident year (2008) losses and continued favourable prior year loss development, although notably to a lesser extent compared to last year.

The Emergency Travel Health loss ratio was 238% in the quarter resulting primarily from loss development and some late reporting related to claims incurred prior to March 31, 2008. In the first quarter report, management advised that exposure related to new claims was minimal for the second quarter of the year as most of the travel season was over as at March 31, 2008. Therefore no significant new claims were incurred during the quarter however adverse loss development on previously reported claims was incurred resulting in a loss ratio for this line of business which was significantly higher than management's expectations. The underwriting loss ratio for the more mature programs in the Niche Products division was better than expected at 46% for the quarter and compares to the Niche Products division loss ratio of 53% in the second quarter of 2007, prior to underwriting any Emergency Travel Health business. The resulting total Niche Products division loss ratio of 97% for the second quarter of 2008 is expected to improve in the last two quarters of the year, as management will redesign the Company's Emergency Travel Health offering for the 2008/2009 travel season.

The loss ratio from the International division was 96.6% in the quarter resulting from adverse loss development related to 2007 accident year losses from the division's assumed quota share reinsurance arrangements.

Personal Lines recorded a loss ratio of 53.9% in the second quarter of 2008, compared to 51.2% in 2007. The favourable prior year loss development related to Personal Lines products for the second quarter 2008 was $0.9 million compared to $3.6 million in the same period of 2007. This mature line of business continues to perform as expected and in line with last year despite a lower amount of releases from prior years' claims reserve development and rising claim costs.

Total investment income, consisting of income from interest and dividends and realized gains (losses), for the quarter, was $4.7 million, compared to $2.1 for the second quarter of 2007. Income from interest and dividends increased to $3.1 million compared to $2.6 million in the same period last year, due primarily to growth in the investment portfolio. The portfolio grew to a fair value of $289.6 million as at June 30, 2008, including cash and equivalents, compared to $237.3 million as at June 30, 2007. Realized gains on the sale of investments increased to $2.0 million in the second quarter of 2008 compared to a realized loss of $0.3 million in the same period in 2007. Basic earnings per share for the second quarter of 2008 decreased to $0.27 compared to $0.45 for the same period in 2007. Fully diluted earnings per share were $0.25 in the second quarter of 2008, as compared to $0.42 in the second quarter of 2007.

Direct written and assumed premiums increased $7.5 million, or 17.7%, to $49.8 million in the second quarter of 2008 compared to $42.3 million in the second quarter of 2007. Premium growth was achieved in both the Personal Lines and Niche Products business segments. In our Personal Lines division, direct premiums increased to $36.1 million, an increase of 15.9% from 2007. Premium increases in both non-standard auto and motorcycle lines of business were recorded. We continue to achieve significant growth in the mature programs of our Niche Products business segment, recording direct premiums written of $11.1 million in the second quarter of 2008, an increase of $3.1 million or 38.8% over the same period in 2007.

For the six month period ended June 30, 2008, net income was $5.3 million compared to $6.9 million in the first half of 2007. An underwriting loss of $0.9 million was incurred in the first half of 2008 compared to an underwriting gain of $5.8 million in the same period in 2007. Losses from two new sources of business are the contributing factors to the shortfall in underwriting income for the first half of 2008. The Emergency Travel Health business incurred a loss of $7.1 million and the International division business incurred a loss of $1.1 million for the period. With the exclusion of the losses from these two new sources of business, the remaining mature book of business underwriting results are in line with the same period last year, despite a lower amount of favourable loss development in 2008. As previously indicated in the second quarter only analysis, the decline in underwriting income is primarily attributable to an increase in the loss ratio to 68.1%, as a result of the performance of the Company's newest lines of business, in the first half of 2008 as compared to 56.7% for the same period in 2007.

As noted above, the increase in the loss ratio in 2008 compared to 2007 can be primarily attributable to higher than expected claims incurred in the Emergency Travel Health line of business and adverse loss development recorded in the International division from assumed quota share reinsurance arrangements. The loss ratios from the Niche Products and International divisions were 76% and 86.8%, respectively, for the first half of 2008. Excluding Emergency Travel Health, the loss ratio from the more mature programs in the Niche Products division was 41.7% as compared to 47.1% in the first half of 2007 prior to the introduction of the Emergency Travel Health line of business.

The Personal Lines loss ratio was 61.2% in the period compared to 57.5% in the first half of 2007. The favourable prior year loss development for the first half of 2008 from Personal Lines division claims was $2.4 million compared to favourable prior year development of $7.8 million in the same period in 2007. The mature lines of business in this division continue to perform as expected and in line with last year despite a much lower amount of reserve releases from prior years' development.

Investment income for the first half of 2008 was $9.3 million compared to $4.7 million in the first half of 2007. Realized gains on the sale of investments increased to $3.4 million in 2008 compared to realized gains of $0.1 million in the same period in 2007. Basic earnings per share for the six months ended June 30, 2008 decreased to $0.54 compared to $0.71 for the same period in 2007. Fully diluted earnings per share were $0.50 in 2008, as compared to $0.66 in the first half of 2007.

Direct written and assumed premiums increased $12.2 million, or 16.8%, to $84.7 million in the first six months of 2008 compared to $72.5 million in the same period in 2007. Premium growth was achieved in both the Personal Lines and Niche Products business segments. In our Personal Lines division, direct premiums increased to $58.6 million, an increase of 13.9% from 2007. Premium increases of 10.2% in the non-standard auto and 22.6% in the motorcycle lines of business were recorded. We also continue to record growth in our Niche Products business segment, with direct premiums written of $19.9 million in the first half of 2008, an increase of $6.4 million or 47.4% over the same period in 2007.

For the six months ended June 30, 2008 shareholders' equity increased to $103.3 million, an increase of $1.6 million from December 31, 2007. The elements which increased shareholders' equity consist of net income of $5.3 million in the period and the issuance of common shares of $0.2 million, which were offset by the Other Comprehensive Loss of $2.8 million during the period. The Other Comprehensive Loss reflects the decline in fair value during the period of the Company's unsold investments as at June 30, 2008, and the reclassification of net realized gains to income recorded in the first six months of 2008. The increases were offset by the payment of dividends to common shareholders of $1.1 million in the first six months of 2008.

Critical Accounting Estimates and Assumptions

For a description of EGI's accounting policies, refer to notes 2 and 3 in the 2007 audited financial statements as set out on pages 52 to 54 of the Company's 2007 Annual Report. A further description of EGI's critical accounting estimates and assumptions is also detailed on pages 23 and 24 of the 2007 Annual Report.

There have been no changes to the Company's accounting policies or assumptions made in critical accounting estimates in the second quarter of 2008, except as described in Note 2 of the interim financial statements for the quarter ended June 30, 2008, included in this report.

Summary of Quarterly Results

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

($ thousands except per share amounts)	2008		2007				2006	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Direct written and assumed premiums	49,779	34,936	43,098	42,343	42,299	30,196	25,936	29,184
Total revenue (excluding investment income)	35,999	45,559	34,161	30,847	29,808	24,790	24,190	28,490
Underwriting income (loss)	(465)	(397)	609	3,536	4,533	1,304	3,493	6,228
Income (loss) before income taxes	3,947	3,888	5,658	6,772	6,601	3,905	7,949	8,371
Net income	2,690	2,586	3,727	4,462	4,349	2,527	5,200	5,489
Earnings per adjusted share								
Basic	0.27	0.27	0.39	0.46	0.45	0.26	0.54	0.57
Diluted	0.25	0.25	0.35	0.44	0.42	0.24	0.51	0.54
Selected Financial Ratios (%)								
Loss ratio	67.7	68.4	65.1	58.2	53.2	61.0	61.0	48.9
Expense ratio	33.6	32.4	33.1	30.3	31.6	33.7	24.6	29.2
Combined	101.3	100.8	98.2	88.5	84.8	94.7	85.6	78.1

Quarter Ended June 30, 2008 Compared to Quarter Ended June 30, 2007

The following financial information compares the second quarter 2008 results with the second quarter of 2007.

	2nd Quarter 2008	2nd Quarter 2007	Variance $	Variance %
Direct written and assumed premiums	49,779	42,299	7,480	17.7
Net written and assumed premiums	45,975	39,308	6,667	17.0
Net earned premiums	35,999	29,808	6,191	20.8
Claims incurred	24,360	15,844	8,516	53.7
Acquisition costs	8,562	6,518	2,044	31.3
Operating expenses	3,542	2,913	629	21.6
Underwriting income	(465)	4,533	(4,998)	(110.2)
Investment income	4,718	2,068	2,650	128.1
Interest expense	306		306	
Net income before income taxes	3,947	6,601	(2,654)	(40.2)
Income taxes	1,257	2,252	(995)	(44.2)
Net income	2,690	4,349	(1,659)	(38.1)

Insurance Operation

Written and Assumed Premiums

Direct written premiums increased $7.5 million, or 17.7%, to $49.8 million for the three months ended June 30, 2008, compared to $42.3 million for the second quarter of 2007. EGI has realized an increase in premiums in each of the Canadian business segments. Personal Lines division premiums increased $4.9 million to $36.0 million in 2008 compared to $31.1 million in the second quarter of 2007. Aided by some easing of competitive conditions in the market, non-standard auto premiums increased to $25.7 million, an increase of $2.5 million or 10.8% compared to $23.2 million in the same period of 2007. Motorcycle direct written premiums increased to $9.9 million compared to $7.9 million in the second quarter of 2007, with this growth being primarily derived in Ontario from the Company's exclusive distribution arrangement there. Direct written premiums for the Niche Products division increased 38.8% to $11.1 million for the three months ended June 30, 2008, compared to $8.0 million in the same period of 2007. The increase is attributed to continued efforts to build strong relationships with our distributors to generate organic growth from existing and newly launched programs. Premiums from the International division, consisting of assumed business from non-standard auto insurance writers in southeastern United States, declined to $2.5 million in the second quarter of 2008 from $3.2 million in the second quarter of 2007.

Net written and assumed premiums increased $6.7 million, or 17%, to $46.0 million compared to $39.3 in the same period last year. This increase is consistent with the increase in direct written and assumed premiums in the period compared to 2007.

Earned Premiums

Net earned premiums for the three months ended June 30, 2008, totaled $36.0 million, an increase of $6.2 million, or 20.1%, compared to $29.8 million in the second quarter of 2007. The growth in earned premiums reflects the increase in premiums written and assumed in 2008 compared to 2007 and the ETH premiums that were written in 2007 but earned in 2008.

Incurred Claims Expense

Net incurred claims expense increased $8.5 million, or 53.8%, to $24.3 million for the three months ended June 30, 2008, compared to $15.8 million for the same period in 2007. This is significantly higher than the 20.1% increase in net earned premiums, primarily due to the higher than expected Niche Products loss ratio of 97% resulting from the ETH business in the period and adverse loss development from the International division, related to assumed reinsurance business.

The loss ratio incurred in the Niche Products division resulted from adverse claims experience incurred in the ETH line of business. In the second quarter of 2008, this line of business experienced a loss ratio of 238%, significantly above expectations primarily due to adverse loss development on claims incurred prior to March 31, 2008. The current travel season was largely completed by June 30, 2008 and EGI is confident that reserves held for outstanding claims on this line of business are believed to be conservative, having been established in a manner consistent with past practice on the Company's other lines of business. Excluding the ETH line of business, all other Niche Products programs experienced an excellent loss ratio of 46%. This result compares to this division's loss ratio of 53.0% in the second quarter of 2007, prior to the Company's entry into the ETH market.

Personal Lines products produced a loss ratio of 53.9% in the second quarter of 2008 compared to 51.2% in the same period in 2007. Favourable prior year loss development continued for Personal Lines products in the second quarter of 2008, however the positive development was lower than the amount recorded in the second quarter of 2007. Positive development of $0.9 million was recorded in the second quarter of 2008 compared to positive development of $3.8 million in the same period in 2007. Non-standard auto recorded a loss ratio of 50.5% in second quarter of 2008 compared to 44.7% in the same period last year. The motorcycle line of business incurred a loss ratio of 72.7% in the second quarter of 2008 compared to 58.3% for the three months ended June 30, 2007.

The International division recorded a loss ratio of 96.6% in the second quarter from business assumed pursuant to quota share treaties. The high loss ratio is the result of adverse loss development on prior year claims of $0.6 million in the period.

For all lines of business combined, positive loss development on prior years' claims was $0.3 million in the second quarter of 2008 compared to $3.8 million in the same period in 2007.

Acquisition Costs

Net acquisition costs, which mainly consist of commissions and premium taxes, increased $2.0 million, or 30.8%, to $8.5 million for the three months ended June 30, 2008, compared to $6.5 million in the same period in 2007. This relatively large increase, compared to the increase of 20.1% in net earned premiums, is the result of the growth in Niche Products premiums in proportion to Personal Lines premiums. Distribution costs related to Niche Products are higher than Personal Lines, which costs are expected to be offset by lower loss ratios in the Niche Products lines of business. As a percentage of net earned premiums, acquisition expenses increased to 23.8% in the second quarter of 2008 compared to 21.9% in the same period last year.

Operating Expenses

Operating expenses increased $0.6 million, or 20.7%, to $3.5 million for the three months ended June 30, 2008, compared to $2.9 million for the second quarter of 2007. The increase is slightly higher than the 17% increase in net written premiums due to the start-up and ongoing costs associated with our recently formed U.S. subsidiary, EGI Insurance Services, Inc.

Underwriting Income (Loss)

Underwriting results reflect revenues from net earned premiums less claims, acquisition and operating expenses. In the quarter ended June 30, 2008 total underwriting contribution decreased $5.0 million to an underwriting loss of $0.5 million, compared to an underwriting gain of $4.5 million for the comparable period in 2007. The underwriting result for 2008 and 2007 includes $0.4 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 June 30, 2008, was $4.5 million, a decrease of $0.5 million, compared to income of $5.0 million for the same period of 2007. This result was caused by the slightly higher loss ratio in Personal Lines in the second quarter of 2008 compared to 2007.

The underwriting loss from Niche Products for the three months ended June, 2008, was $3.7 million, a deterioration of $3.5 million compared to an underwriting loss of $0.2 million in the corresponding period of 2007. As noted earlier, this decline is due to the unfavourable claims experience incurred in the ETH line of business. The remaining and more mature book of business, with the exclusion of ETH line underwriting loss of $4.5 million, is performing better than last year.

The International division experienced an underwriting loss of $0.8 million in the second quarter of 2008 due to a higher than expected loss ratio and start up costs associated with EGI Insurance Services, Inc.

Investment Income

Investment income for the three months ended June 30, 2008 was $4.7 million compared to $2.1 million for the same period in 2007. Income from interest and dividends increased to $3.0 million compared to $2.5 million in the same period last year, due to the growth in the investment portfolio. Realized gains on the sale of investments increased to $2.0 million in the second quarter of 2008 compared to realized losses of $0.3 million in the same period in 2007.

EGI's investment portfolio reflected a $52.3 million, or 22%, increase in fair value as at June 30, 2008, compared to June 30, 2007, due to investment returns and positive cash flows from operations during the period and the incursion of bank indebtedness of $19.5 million which funds were borrowed by the Company on October 1, 2007.

Interest Expense

During the second quarter of 2008, interest expense related to bank indebtedness of $0.3 million was incurred. No interest expense was incurred in the second quarter of 2007.

Net Income before Income Taxes

Net income before income taxes for the three months ended June 30, 2008, was $3.9 million, a decrease of $2.7 million compared to net income of $6.6 million for the three months ended June 30, 2007. The underwriting loss experienced in 2008 was offset by the increase in investment income in the period compared to 2007.

For the three months ended June 30, 2008, an underwriting loss of $0.5 million plus investment income of $4.7 million, reduced by interest expense on bank indebtedness of $0.3 million, comprised net income before income taxes of $3.9 million. This compares to an underwriting income of $4.5 million, plus investment income of $2.1 million, in the same period of 2007.

Income Taxes

The provision for income taxes for the quarter ended June 30, 2008, was $1.3 million compared to $2.2 million for the second quarter of 2007. This decrease reflects lower pre-tax income and a slightly lower effective tax rate achieved in 2008 as compared to the same period in 2007 due to the decline in the federal corporate income tax rate to 19.5% in 2008 from 22.12% in 2007.

Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007

Written and Assumed Premiums

Direct written premiums increased $12.2 million, or 16.8%, to $84.7 million for the six months ended June 30, 2008, compared to $72.5 million for the first half of 2007. Growth has been achieved in both Canadian divisions in 2008. Direct written premiums from Personal Lines totaled $58.6 million in the first half of 2008 which represents a 13.8% increase compared to $51.5 million written in the same period in 2007. Non-standard auto recorded growth of 10.2% to $45.6 million and the motorcycle line achieved growth of 22.6% as compared to the same period in 2007. The Niche Products division recorded written premiums of $20.0 million in the first six months of 2008 compared to $13.6 million for the same period of 2007 for a growth rate of 47%. Emergency Travel Health accounted for $3.1 million of the total written premium increase of $6.4 million.

Total assumed premiums written in the International division were $6.1 million in the first half of 2008, a decline of $1.3 million compared to $7.4 million of assumed business from U.S. quota share arrangements in the first six months of 2007.

Net written and assumed premiums increased $10.8 million, or 16.0%, to $78.4 million compared to $67.6 in the same period last year. This increase is consistent with the increase in direct written and assumed premiums in the period compared to 2007.

Earned Premiums

Net earned premiums for the six months ended June 30, 2008, totaled $81.6 million, an increase of $27 million, or 49.4%, as compared to $54.6 million in the first half of 2007. This significant increase is primarily due to the increase in net earned premiums of $16.6 million from the Emergency Travel Health line of business. Premiums from this line of business, which was introduced in the third quarter of 2007, are earned primarily in the winter months, the peak period for policyholders traveling outside of Canada. As at June 30, 2008 the 2007-2008 travel period has ended and minimal exposure remains related to this season.

Incurred Claims Expense

Net incurred claims expense increased $24.5 million, or 79%, to $55.5 million for the first half of 2008, compared to $31.0 million for the same period in 2007. This is significantly higher than the 49.4% increase in net earned premiums and is primarily attributable to the higher than expected loss ratios incurred in the Emergency Travel Health line of business and adverse loss development related to claims incurred from assumed reinsurance business in the U.S.

The loss ratio incurred in the Emergency Travel Health line of business was 100.6% in the first half of the year. As noted above, minimal remaining exposure exists related to this line of business as at June 30, 2008, due to the seasonality of the business. The loss ratio from the more mature Niche programs for the first half of the year was 41.7%, an excellent result which compares to this division's loss ratio of 47.1% in the first half of 2007, prior to the Company's entry into the ETH market.

The Personal Lines loss ratio for the first half of 2008 was 61.2% compared to 57.5% in the same period in 2007. Positive prior year loss development resulted in the release of $2.4 million of reserves in the period compared to a release of $7.8 million in the first six months of 2007. Non-standard auto recorded a loss ratio of 63.7% in the first half of 2008 compared to 57.2% in the same period last year. The motorcycle line of business incurred a year-to-date 2008 loss ratio of 46.3% compared to 60.0% for the six months ended June 30, 2007.

The International division recorded a loss ratio of 86.8% in the first half of 2008 from business assumed pursuant to quota share treaties. The higher than expected loss ratio is the result of adverse loss development on prior year claims of $0.7 million in the period.

For all lines of business combined, positive loss development on prior years' claim reserves was $3.4 million in the first six months of 2008 compared to $7.8 million in the same period in 2007.

Acquisition Costs

Net acquisition costs, which mainly consist of commissions and premium taxes, increased $8.1 million, or 66.9%, to $20.2 million for the six months ended June 30, 2008, compared to $12.1 million in the same period in 2007. As noted above in the quarterly analysis, this relatively large increase, as compared to the increase of 49.4% in net earned premiums, is the result of the relative growth in Niche Products premiums in proportion to Personal Lines. Distribution costs related to Niche Products are higher than Personal Lines, which costs are expected to be offset by lower loss ratios in the Niche lines of business. As a percentage of net earned premiums, acquisition expenses increased to 24.7% in the first half of 2008 compared to 22.2% in the same period last year.

Operating Expenses

Operating expenses increased $1.1 million, or 19.6%, to $6.7 million for the six months ended June 30, 2008, compared to $5.6 million for the first two quarters of 2007. The increase is slightly higher than the 16.8% increase in net written premiums due to the start-up and ongoing costs associated with our recently formed U.S. subsidiary, EGI Insurance Services, Inc. As noted previously noted, this subsidiary, staffed with a small team of experts in U.S. niche and specialty lines of business, will perform the initial due diligence and ongoing monitoring of CIM Re's existing and potential reinsurance clients. EGI has not deferred any portion of these start-up costs to future periods.

Underwriting Income (Loss)

Underwriting results reflect revenues from net earned premiums less claims, acquisition and operating expenses. In the six month period ended June 30, 2008 total underwriting contribution decreased $6.7 million to an underwriting loss of $0.9 million, compared to an underwriting gain of $5.8 million for the comparable period in 2007. The underwriting result for 2008 and 2007 includes $0.7 million and $0.5 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 six months ended June 30, 2008, was $5.3 million, a decrease of $0.4 million, compared to income of $5.7 million for the same period of 2007. This result was caused by the slightly higher loss ratio in Personal Lines in the first half of 2008 compared to 2007.

The underwriting loss in Niche Products for the first six months of 2008 was $4.4 million, a decrease of $5.0 million compared to an underwriting gain of $0.6 million in the corresponding period of 2007. As noted earlier, this decline is due to the unfavourable claims experience incurred in the ETH line of business.

The International division experienced an underwriting loss of $1.1 million in the first half of 2008 due to a higher than expected loss ratio and start up costs associated with EGI Insurance Services, Inc.

Investment Income

Investment income for the six months ended June 30, 2008 was $9.3 million compared to $4.7 million for the same period in 2007. Income from interest and dividends increased to $5.9 million compared to $4.6 million in the same period last year, due to the growth in the investment portfolio. Realized gains on the sale of investments increased to $3.4 million in the first half of 2008 compared to realized gains of $0.1 million in the same period in 2007.

EGI's investment portfolio reflected a $52.3 million, or 22%, increase in fair value as at June 31, 2008, compared to June 30, 2007, due to investment returns and positive cash flows from operations during the period and the incursion of bank indebtedness of $19.5 million which funds were borrowed by the Company on October 1, 2007.

Interest Expense

During the first six months of 2008, interest expense related to bank indebtedness of $0.6 million was incurred. No interest expense was incurred in the first half of 2007.

Net Income before Income Taxes

Net income before income taxes for the six months ended June 30, 2008, was $7.8 million, a decrease of $2.7 million as compared to net income of $10.5 million for the six months ended June 30, 2007. The underwriting loss experienced in 2008 was offset by the increase in investment income in the period as compared to 2007.

For the six months ended June 30, 2008, an underwriting loss of $0.9 million plus investment income of $9.3 million, reduced by interest expense on bank indebtedness of $0.6 million, comprised net income before income taxes of $7.8 million. This compares to an underwriting income of $5.8 million, plus investment income of $4.7 million, in the same period of 2007.

Income Taxes

The provision for income taxes for the first half of 2008 is $2.6 million compared to $3.6 million for the same period in 2007. This decrease reflects lower pre-tax income and a slightly lower effective tax rate achieved in 2008 as compared to the same period in 2007, due to the decline in the federal corporate income tax rate to 19.5% in 2008 from 22.12% in 2007.

Segmented Financial Information

	Three months ended June 30							
	2008				**2007**			
	Canada			International	Canada			International
	Personal Lines	Niche	Total		Personal Lines	Niche.	Total	
Underwriting revenue	24,505	8,705	33,210	2,789	22,979	4,716	27,695	2,113
Underwriting income (loss)	4,486	(3,736)	750	(805)	4,991	(226)	4,765	22
Loss ratio	53.9%	97.0%	65.2%	96.6%	51.2%	53.0%	51.5%	74.7%
Expense ratio	27.8%	46.0%	32.5%	32.3%	27.1%	51.7%	29.7%	24.3%
Combined ratio	81.7%	143.0%	97.7%	128.9%	78.3%	104.7%	81.2%	99.0%

The segmented information, for the second quarter of 2008, shows that Personal Lines contributed an underwriting income of $4.5 million while the Niche Products division recorded an underwriting loss of $3.7 million, resulting in an underwriting income of $0.8 million for the Canadian business segments combined. The International division, consisting of assumed business from U.S. insurers, recorded an underwriting loss of $0.8 million.

The loss ratio in Personal Lines was 53.9% for the quarter ended June 30, 2008, compared to 51.2% for the same period in 2007. As noted above, favourable prior year loss development continued in the second quarter of 2008, however the amount of reserves released declined compared to the same period in 2007.

The Niche Products division loss ratio was 97% in the second quarter of 2008 compared to 53% for the same period in 2007. As described above, the increase was the result of adverse loss ratio experience in the ETH line of business of 238%. All other programs in the Niche Products division combined experienced an improved loss ratio of 46% as compared to the Niche Products division loss ratio of 53% in the second quarter of 2007.

The International division incurred a loss ratio of 96.6% in the second quarter of 2008 results from adverse loss development of claims incurred in 2007 and compares to 74.7% in the same period of 2007.

The expense ratio for Personal Lines, in the second quarter of 2008, increased slightly to 27.8% compared to 27.1% for the same period in 2007. The Niche Products division expense ratio improved to 46% in 2008 compared to 51.7% for the second quarter of 2007 due to improved economies of scale resulting from the significant increase in net earned premiums for this business segment in 2008.

Six months ended June 30

	2008				2007			
	Canada			International	Canada			International
	Personal Lines	Niche	Total		Personal Lines	Niche.	Total	
Underwriting revenue	47,586	28,400	75,986	5,572	42,510	9,099	51,609	2,989
Underwriting income (loss)	5,320	(4,414)	906	(1,082)	5,733	552	6,285	25
Loss ratio	61.2%	76.0%	66.5%	86.8%	57.5%	47.1%	55.7%	74.9%
Expense ratio	27.7%	39.6%	32.0%	32.6%	29.0%	46.8%	32.1%	24.3%
Combined ratio	88.9%	115.6%	98.5%	119.4%	86.5%	93.9%	87.8%	99.2%

On a year-to-date basis, Personal Lines has contributed an underwriting gain of $5.3 million in 2008 compared to a gain of $5.7 million for the first six months of 2007. The Niche Products division recorded an underwriting loss of $4.4 million compared to a gain of $0.6 million in the first half of 2007. As noted earlier, adverse claims experience in the Emergency Travel Health line of business caused this result. The International division experienced an underwriting loss of $1.1 million in the six months ended June 30, 2008 compared to a break even level in the same period in 2007. The loss was attributable to adverse development of 2007 accident year claims from assumed quota share arrangements.

Balance Sheet Analysis

The Balance Sheet analysis that follows should be read in conjunction with the unaudited interim consolidated second quarter 2008 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 June 30, 2008, and December 31, 2007.

	June 30 2008 Fair value	December 31 2007 Fair value
Bonds		
Canadian		
Federal	$ 55,516	$ 80,378
Provincial	43,171	30,948
Municipal	5,908	3,908
Corporate	82,947	67,864
	187,542	183,098
United States		
Federal	-	2,288
Corporate	6,171	666
	6,171	2,954
Total Bonds	193,713	186,052
Preferred shares	6,204	6,106
Common shares		
Canadian	41,652	42,150
United States	1,378	2,244
	43,030	44,394
Investment income due and accrued	1,740	1,758
	$244,687	$238,310

Included in the common shares held by the Company is an investment in the Gladiator Limited Partnership (Gladiator LP) which is managed by Savoy Capital with a market value of $0.4 million, at June 30, 2008. As noted in our 2007 interim and annual reports, in August 2006, subsequent to a notice provided by Savoy to terminate the investment management services agreement with the Gladiator fund, Savoy ceased actively investing in the fund and immediately began to employ a defensive position. Equity exposures were reduced significantly and the cash position increased.

Since that time, the process to wind up the fund has been completed resulting in total cash redemptions received by EGI of $7.8 million, of which $1.0 million was received in the first quarter of 2008, further lowering the fair value of EGI's investment to $0.4 million as at June 30 2008. The remaining $0.4 million value in the fund as at June 30, 2008 was redeemed subsequent to the second quarter end.

Recoverable from Reinsurers

As at June 30, 2008, the recoverable from reinsurers decreased to $50.1 million as compared to $52.0 million as at December 31, 2007. 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 June 30, 2008, and represents approximately 80% or $23.2 million of total receivables. During the first six months of 2008 premium financing receivables increased $3.6 million from $19.6 million at December 31, 2007. The increase is the result of growth in Personal Lines premiums as compared to 2007. These premiums are primarily billed directly to policyholders who are provided with a monthly payment financing option.

Provision for Unpaid Claims

As recommended by our independent actuary, 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 year period and for the three months ended June 30, 2008.

	Years ended December 31				
(in $ thousands)	**2007**	**2006**	**2005**	**2004**	**2003**
Reserve Carried (actuarial present value basis) (1)	165,471	145,691	129,041	107,196	79,191
Reserve at December 31, 2003					
Cumulative paid to December 31, 2003					
Cumulative Redundancy (Deficiency)					
Reserve at December 31, 2004					56,226
Cumulative paid to December 31, 2004					24,184
Cumulative Redundancy (Deficiency)					(1,219)
Reserve at December 31, 2005				70,620	37,802
Cumulative paid to December 31, 2005				24,922	38,802
Cumulative Redundancy (Deficiency)				11,654	2,587
Reserve at December 31, 2006			88,029	49,557	25,214
Cumulative paid to December 31, 2006			25,817	41,158	49,592
Cumulative Redundancy (Deficiency)			15,195	16,481	4,385
Reserve at December 31, 2007		107,992	67,408	36,129	17,569
Cumulative paid to December 31, 2007		30,432	46,413	55,306	58,217
Cumulative Redundancy (Deficiency)		7,267	15,220	15,761	3,405
Reserve at June 30, 2008	137,995	95,407	57,244	29,744	13,839
Cumulative paid to June 30, 2008	23,124	40,638	54,786	60,957	61,835
Cumulative Redundancy (Deficiency)	4,352	9,646	17,011	18,495	3,517

1) Amounts include Provision for Adverse Deviation (PfAD) of $17,401 for 2007; $14,756 for 2006; $12,473 for 2005; $8,613 for 2004 and $6,137 for 2003.

The table above, which is reflected on a gross basis for all years, shows that for the first six months of 2008 the total prior year reserve redundancies released pursuant to the June 30, 2008 actuarial report, were $4.3 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 2008 the maximum net retention on a single risk is $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 subordinate 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 June 30, 2008, EGI was the assigned beneficiary of such trust accounts totalling $2.3 million (December 31, 2007 - $2.4 million) in guarantees from unlicensed reinsurers.

EGI purchases renewable excess of loss and catastrophe reinsurance from third party reinsurers, covering its automobile, general liability and property business. In 2008, excess of loss coverage on a single occurrence is for a total of $18,500,000 and in 2007 it was for $13,850,000. Total catastrophic coverage is $18,000,000 in 2008 and $13,850,000 in 2007. Other than general liability, coverages comprised by 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 August 5, 2008, there were 9,724,152 common shares issued and outstanding (see Notes 7 and 11 to the interim unaudited 2008 consolidated financial statements) .

The above does not include the additional 1,943,630 shares which were issued July 31, 2008, pursuant to the rights offering.

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 aggregate commitments under the credit facility may be increased to an aggregate amount of up to US$40 million, subject to certain conditions. 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 US$20 million or CDN$19.55 million was used to increase the capital of CIM Re, EGI's Barbados-based reinsurance company, which company is used to reinsure selected niche and specialty line insurers which underwrite business in the U.S.

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 six months ended June 30, 2008 shareholders' equity increased to $103.3 million, an increase of $1.6 million from December 31, 2007. The increase in shareholders' equity consists of net income of $5.3 million in the period, the issuance of common shares of $0.2 million which were offset by an Other Comprehensive Loss of $2.8 million during the period and the payment of dividends to common shareholders of $1.1 million in the first six months of 2008.