

EGI FINANCIAL HOLDINGS INC.

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

For the period ended September 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.

The following discussion should be read in conjunction with EGI’s unaudited interim consolidated financial statements for the third quarter of fiscal 2008 and 2007, with the notes to the interim unaudited consolidated financial statements for the third 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 November 4, 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 nine month periods ended September 30, 2008 and 2007.

	Quarter to September 30		9 months to September 30	
	2008	2007	2008	2007
(in \$ thousands except per share amounts)				
Direct written and assumed premiums	46,067	42,343	130,782	114,837
Net earned premiums	36,150	30,847	117,708	85,445
Underwriting income (loss)	1,514	3,536	652	9,373
Investment income	3,186	3,236	12,491	7,905
Net income	3,026	4,462	8,302	11,338
Earnings per share before extraordinary gain (in dollars)				
Basic	\$0.28	\$0.46	\$0.82	\$1.17
Diluted	\$0.26	\$0.44	\$0.76	\$1.10
ROE ⁽¹⁾			11.0%	18.3%

(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 September 30		9 months to September 30	
	2008	2007	2008	2007
Loss ratio	64.0%	58.2%	66.8%	57.3%
Expense ratio	31.7%	30.3%	32.6%	31.7%
Combined ratio	95.7%	88.5%	99.4%	89.0%

(in \$ thousands except per share amounts)	As at September 30 2008	As at December 31 2007
Investments (excluding premium finance receivables)	260,044	238,310
Premium finance receivables	22,292	19,569
Total assets	405,307	370,084
Total shareholders' equity	118,849	101,671
Book value per share ⁽¹⁾	10.18	10.50

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

Quarter Ended September 30, 2008

Net income of \$3.0 million for the three months ended September 30, 2008, represents a decrease of \$1.5 million, or 33% compared to net income of \$4.5 million in the third quarter of 2007. An underwriting gain of \$1.5 million was recorded in the third quarter of 2008 compared to an underwriting gain of \$3.5 million in the same period of 2007. Both the Personal Lines and Niche Products divisions recorded underwriting gains in the third quarter of 2008 of \$1.3 million and \$1.0 million respectively, while the International division incurred an underwriting loss of \$0.3 million. The underwriting result for 2008 and 2007 includes \$0.5 million and \$0.1 million of corporate and other expenses, respectively, which have not been allocated to the operating divisions. The Company has expensed \$0.5 million in the third quarter for professional costs incurred as a result of evaluating potential acquisition prospects which are included in corporate and other expenses.

Favourable prior year loss development continued in the third quarter of 2008 resulting in the release of \$1.9 million in prior year claims reserves compared to \$2.1 million in the third quarter of 2007. Underwriting income of \$1.5 million recorded in the third quarter of 2008, while less than in the same period of 2007, represents a significant improvement over underwriting losses incurred in the first two quarters of 2008. The improvement is primarily attributable to the underwriting gain experienced in the Emergency Travel Health (ETH) line of business in the quarter of \$0.4 million, compared to losses experienced in this line of business in the first half of 2008. The gain in the third quarter was the result of favourable loss development of ETH claims reserves recorded as at June 30, 2008 and related to the 2007-2008 travel season.

The loss ratio in the third quarter of 2008 was 64.0% compared to 58.2% recorded during the

same period of 2007. The Niche Products division recorded an improvement in loss ratio to 40.6% for the quarter compared to 42.3% for the third quarter of 2007. This also represents a significant improvement in the loss ratios over the first and second quarters of 2008 of 66.7% and 97.0% respectively. As noted above, this improvement is the result of underwriting gains recorded in the ETH line of business, combined with continued positive results from the Niche mature lines of business.

Personal Lines recorded a loss ratio of 69.0% in the third quarter of 2008, compared to 60.3% in 2007. The increase is primarily attributable to the loss ratio incurred in the motorcycle line of business in the third quarter of 2008 of 136.1% compared to 113.1% for the same period in 2007. A high loss ratio is expected in this line of business in the summer months, when exposure to losses peaks. Based on last year's claims experience, Management recognized the need for a rate increase for this line of business at the end of the last riding season and therefore made a filing with the regulators for a 19.5% (overall) increase. However the filing was not approved by the regulators until the second quarter of 2008. EGI implemented this rate increase on Ontario motorcycle business effective May 15, 2008, for new business and June 15, 2008, for renewals, but the increase only affected approximately 40% of the calendar year 2008 renewals. The remaining financial benefit of the rate increase will be earned through the final quarter of 2008 and during 2009.

The favourable prior years' loss development relating to all Personal Lines products for the third quarter 2008 was \$1.8 million compared to \$1.8 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 reserves and rising claim costs.

The loss ratio from the International division was 78.2% in the quarter resulting from adverse loss development related to 2007 accident year losses from the division's assumed quota share reinsurance arrangements.

Direct written and assumed premiums increased \$3.8 million, or 9%, to \$46.1 million in the third quarter of 2008 compared to \$42.3 million in the third 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 by \$2.4 million, an increase of 10% from 2007. Premium increases in both non-standard auto and motorcycle lines of business were recorded. We continue to achieve growth in the mature programs of our Niche Products business segment,

recording direct premiums written of \$15.7 million in the third quarter of 2008, an increase of \$0.5 million or 3% over the same period in 2007. This increase was achieved despite a decrease in written premium, in the ETH line of business, in the third quarter of 2008 to \$5 million compared to \$8.9 million written in the same period in 2007.

Investment income of \$3.2 million was earned during the quarter, virtually unchanged from the same period in 2007. This result was achieved despite the recording of an investment impairment provision of \$0.5 million in 2008 related to three equity holdings considered permanently impaired. Realized gains, net of this provision, were \$0.1 million in the third quarter of 2008 compared to \$0.8 million in the same period in 2007.

The portfolio grew to a fair value of \$311.1 million as at September 30, 2008, including cash and equivalents and premiums financed receivable, compared to \$249.4 million as at September 30, 2007. Basic earnings per share for the third quarter of 2008 decreased to \$0.28 compared to \$0.46 for the same period in 2007. Fully diluted earnings per share were \$0.26 in the third quarter of 2008, compared to \$0.44 in the third quarter of 2007. Earnings per share has been impacted by the issuance of 1,943,630 common shares for net proceeds of \$20.8 million pursuant to the completion of our rights offering on July 31, 2008.

Nine months ended September 30, 2008

For the nine month period ended September 30, 2008, net income was \$8.3 million compared to \$11.3 million in the first nine months of 2007. Underwriting income of \$0.6 million was recorded in the first nine months of 2008 compared to an underwriting income of \$9.4 million in the same period in 2007. Although underwriting results significantly improved in the third quarter of 2008, losses from two new sources of business are the contributing factors to the shortfall in underwriting income for the first nine months of 2008. The Emergency Travel Health business incurred a loss of \$6.6 million and the International division business incurred a loss of \$1.4 million for the period. With the exclusion of the losses from these two newer 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 noted above, the increase in the loss ratio in 2008 compared to 2007 can be primarily attributed 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 68.7% and 83.7%, respectively, for the first nine months of 2008. Excluding Emergency Travel Health, the loss ratio from the more mature programs in the Niche Products division was 43.3% compared to 45.3% in the first nine months of 2007 prior to the introduction of the Emergency Travel Health line of business.

The Personal Lines loss ratio was 63.9% in the period compared to 58.5% in the first nine months of 2007. The favourable prior year loss development for the first nine months of 2008 from Personal Lines division claims was \$4.6 million compared to favourable prior year development of \$8.7 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 releases from prior years' claims reserves.

Direct written and assumed premiums increased \$16 million, or 14%, to \$130.8 million in the first nine months of 2008 compared to \$114.8 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 \$85.2 million, an increase of 12.6% from 2007. Premium increases of 8.4% in the non-standard auto and 20.5% 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 \$35.7 million in the first nine months of 2008, an increase of \$6.9 million or 24% over the same period in 2007. Total ETH written premiums in the first three quarters of 2008 were \$8.1 million compared to 8.9 million in the same period last year. EGI commenced writing ETH premium during the third quarter of 2007.

Investment income for the first nine months of 2008 was \$12.5 million compared to \$7.9 million in the first nine months of 2007. Net realized gains on the sale of investments increased to \$3.5 million in 2008, after deducting \$0.5 million investment impairment provision, compared to net realized gains of \$0.9 million in the same period in 2007. Basic earnings per share for the nine months ended September 30, 2008 decreased to \$0.82 compared to \$1.17 for the same period in 2007. Fully diluted earnings per share were \$0.76 in 2008, compared to \$1.10 in the first nine months of 2007. Earnings per share has been impacted by the issuance of 1,943,630 common shares for net proceeds of \$20.8 million pursuant to the expiration of our rights offering on July 31, 2008.

For the nine months ended September 30, 2008 shareholders' equity increased to \$118.8

million, an increase of \$17.1 million from December 31, 2007. The elements which increased shareholders' equity consist of net income of \$8.3 million in the period and the issuance of common shares of \$21.1 million, which were offset by dividends of \$1.9 million paid to common shareholders during the period, and the Other Comprehensive Loss of \$10.4 million incurred during the period. The Other Comprehensive Loss reflects the decline in fair value during the period of the Company's unsold investments as at September 30, 2008, reflecting the recent market declines, and the reclassification of net realized gains to income recorded in the first nine 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 third quarter of 2008.

Summary of Quarterly Results

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

(\$ thousands except per share amounts)	2008				2007			2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Direct written and assumed premiums	46,067	49,779	34,936	43,098	42,343	42,299	30,196	25,936
Total revenue (excluding investment income)	36,150	35,999	45,559	34,161	30,847	29,808	24,790	24,190
Underwriting income (loss)	1,514	(465)	(397)	609	3,536	4,533	1,304	3,493
Income (loss) before income taxes	4,394	3,947	3,888	5,658	6,772	6,601	3,905	7,949
Net income	3,026	2,690	2,586	3,727	4,462	4,349	2,527	5,200
Earnings per adjusted share								
Basic	0.28	0.27	0.27	0.39	0.46	0.45	0.26	0.54
Diluted	0.26	0.25	0.25	0.35	0.44	0.42	0.24	0.51
Selected Financial Ratios (%)								
Loss ratio	64.0	67.7	68.4	65.1	58.2	53.2	61.0	61.0
Expense ratio	31.7	33.6	32.4	33.1	30.3	31.6	33.7	24.6
Combined	95.7	101.3	100.8	98.2	88.5	84.8	94.7	85.6

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

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

	3rd Quarter 2008	3rd Quarter 2007	Variance \$	Variance %
Direct written and assumed premiums	46,067	42,343	3,724	8.8
Net written and assumed premiums	43,067	39,624	3,443	8.7
Net earned premiums	36,150	30,847	5,303	17.2
Claims incurred	23,145	17,951	5,194	28.9
Acquisition costs	7,896	6,512	1,384	21.2
Operating expenses	3,596	2,848	748	26.3
Underwriting income	1,514	3,536	(2,022)	(57.2)
Investment income	3,186	3,236	(50)	(1.5)
Interest expense	305	-	305	
Net income before income taxes	4,394	6,772	(2,378)	(35.1)
Income taxes	1,368	2,310	(942)	(40.8)
Net income	3,026	4,462	(1,436)	(32.2)

Insurance Operation

Written and Assumed Premiums

Direct written premiums increased \$3.7 million, or 8.8%, to \$46.0 million for the three months ended September 30, 2008, compared to \$42.3 million for the third quarter of 2007. EGI has realized an increase in premiums in each of the Canadian business segments. Personal Lines division premiums increased \$2.4 million to \$26.6 million in 2008 compared to \$24.2 million in the third quarter of 2007. Aided by some continued easing of competitive conditions in the market, non-standard auto premiums increased to \$21.9 million, an increase of \$1.0 million or 4.8% compared to \$20.9 million in the same period of 2007. Motorcycle direct written premiums increased to \$3.6 million compared to \$3.2 million in the third quarter of 2007, with this growth being primarily derived in Ontario from the Company's exclusive distribution arrangement. Direct written premiums for the Niche Products division increased 3.3% to \$15.7 million for the three months ended September 30, 2008, compared to \$15.2 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, increased to \$3.7 million in the third quarter of 2008 from \$2.9 million in the third quarter of 2007.

Net written and assumed premiums increased \$3.4 million, or 8.6%, to \$43.1 million compared to \$39.6 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 three months ended September 30, 2008, totaled \$36.1 million, an increase of \$5.3 million, or 17.2%, compared to \$30.8 million in the third 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 \$5.1 million, or 28.3%, to \$23.1 million for the three months ended September 30, 2008, compared to \$18.0 million for the same period in 2007. This is higher than the 17.2% increase in net earned premiums, primarily due to the loss ratio incurred in the motorcycle line of business of 136% for the quarter and a higher than expected loss ratio of 78.2% in the International division, related to assumed reinsurance business.

Personal Lines products produced a loss ratio of 69% in the third quarter of 2008 compared to 60.3% in the same period in 2007. Favourable prior year loss development continued for Personal Lines products in the third quarter of 2008. Positive development of \$1.8 million was recorded in the third quarter of 2008 compared to positive development of \$1.8 million in the same period in 2007. Non-standard auto recorded a loss ratio of 56.3% in the third quarter of 2008 compared to 51.7% in the same period last year. The motorcycle line of business incurred a loss ratio of 136% in the third quarter of 2008 compared to 113% for the three months ended September 30, 2007. Due to significantly reduced motorcycle usage following the summer months of each year, management expects the motorcycle loss ratio to be significantly improved in the fourth quarter of 2008.

In the third quarter of 2008, the Niche Products division experienced a loss ratio of 40.6%, a significant improvement over the first two quarters of 2008, primarily due to favourable underwriting experience in the Niche core products and positive development of reserves in the ETH line of business. The 2007/2008 travel season was largely completed as at June 30, 2008 and reserves held for outstanding claims on this line of business developed positively during the third quarter. Excluding the ETH line of business, all other Niche Products programs continued

to experience an excellent loss ratio. During the quarter these products incurred a loss ratio of 46.1% compared to this division's loss ratio of 42.3% in the third quarter of 2007, prior to the Company's entry into the ETH market.

The International division recorded a loss ratio of 78.2% in the third quarter from business assumed pursuant to quota share treaties. The slightly higher than expected loss ratio is the result of claims experienced during the quarter. Prior loss development in this business segment was slightly negative in the quarter but significantly improved compared to the first two quarters of 2008.

For all lines of business combined, positive loss development on prior years' claims was \$1.9 million in the third quarter of 2008 compared to \$2.1 million in the same period in 2007.

Acquisition Costs

Net acquisition costs, which mainly consist of commissions and premium taxes, increased \$1.4 million, or 21.5%, to \$7.9 million for the three months ended September 30, 2008, compared to \$6.5 million in the same period in 2007. This slightly larger increase, compared to the increase of 17.2% 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 21.8% in the third quarter of 2008 compared to 21.1% in the same period last year.

Operating Expenses

Operating expenses increased \$0.8 million, or 25%, to \$3.6 million for the three months ended September 30, 2008, compared to \$2.8 million for the third quarter of 2007. The increase is higher than the 8.6% increase in net written premiums due to costs incurred in the quarter related to acquisition assessments of \$0.5 million and 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 September 30, 2008 total underwriting contribution was \$1.5 million a decrease of \$2.0 million from an underwriting income of \$3.5 million in the same quarter of 2007. The underwriting result for 2008 and 2007 includes \$0.5 million and \$0.1 million of corporate and other expenses, respectively, which have not been allocated to the operating divisions. Acquisition assessment costs of \$0.5 million are included in corporate and other expenses in the third quarter of 2008.

Underwriting income from the Personal Lines division for the three months ended September 30, 2008, was \$1.3 million, a decrease of \$1.6 million, compared to income of \$2.9 million for the same period of 2007. This result was caused by the slightly higher loss ratio in Personal Lines in the third quarter of 2008 compared to 2007 due to the motorcycle loss experience in the quarter noted earlier.

The underwriting gain from Niche Products for the three months ended September 30, 2008, was \$1.0 million, a an increase of \$0.3 million compared to an underwriting gain of \$0.7 million in the corresponding period of 2007. As noted earlier, this improvement is due to the favourable claims experience incurred in all Niche lines of business in the quarter.

The International division experienced an underwriting loss of \$0.3 million in the third quarter of 2008 due to a slightly higher than expected loss ratio and start up costs associated with EGI Insurance Services, Inc.

Investment Income

Investment income for the three months ended September 30, 2008 was \$3.2 million compared to \$3.2 million for the same period in 2007. Income from interest and dividends increased to \$3.0 million compared to \$2.4 million in the same period last year, due to the growth in the investment portfolio. Net realized gains on the sale of investments decreased to \$0.1 million in the third quarter of 2008 compared to net realized gains of \$0.8 million in the same period in 2007. Net realized gains in the third quarter of 2008 include the recording of an investment impairment provision of \$0.5 million.

EGI's investment portfolio reflected a \$61.7 million, or 24.7%, increase in fair value as at September 30, 2008, compared to September 30, 2007, due to investment returns and positive

cash flows from operations during the period, the incurrence of bank indebtedness of \$19.6 million which funds were borrowed by the Company on October 1, 2007 and the issuance of additional common shares pursuant to the expiration of the rights offering to common shareholders on July 31, 2008 in the amount of \$20.8 million.

Interest Expense

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

Net Income before Income Taxes

Net income before income taxes for the three months ended September 30, 2008, was \$4.4 million, a decrease of \$2.4 million compared to net income of \$6.8 million for the three months ended September 30, 2007 primarily due to the decline in underwriting income compared to the same period in 2007.

For the three months ended September 30, 2008, an underwriting gain of \$1.5 million plus investment income of \$3.2 million, reduced by interest expense on bank indebtedness of \$0.3 million, comprised net income before income taxes of \$4.4 million. This compares to an underwriting income of \$3.5 million, plus investment income of \$3.3 million, in the same period of 2007.

Income Taxes

The provision for income taxes for the quarter ended September 30, 2008, was \$1.4 million compared to \$2.3 million for the third quarter of 2007. This decrease reflects lower pre-tax income and a slightly lower effective tax rate achieved in 2008 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.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

Written and Assumed Premiums

Direct written premiums increased \$16.0 million, or 13.9%, to \$130.8 million for the nine months ended September 30, 2008, compared to \$114.8 million for the first nine months of 2007. Growth has been achieved in both Canadian divisions in 2008. Direct written premiums

from Personal Lines totaled \$85.2 million in the first nine months of 2008 which represents a 12.6% increase compared to \$75.7 million written in the same period in 2007. Non-standard auto recorded growth of 8.4% to \$67.5 million and the motorcycle line achieved growth of 20.5% to \$15.9 million compared to the same period in 2007. The Niche Products division recorded written premiums of \$35.7 million in the first nine months of 2008 compared to \$28.8 million for the same period of 2007 for a growth rate of 24%. Premiums of \$5.0 million were written in the third quarter of 2008 in the ETH line of business related to the 2008/2009 travel season compared to \$8.9 million in the same period of 2007. The decrease in premiums in this line of business is due to stricter underwriting restrictions in place for the 2008/09 travel season.

Total assumed premiums written in the International division were \$9.8 million in the first nine months of 2008, a decline of \$0.5 million compared to \$10.3 million of assumed business from U.S. quota share arrangements in the first nine months of 2007.

Net written and assumed premiums increased \$14.2 million, or 13.2%, to \$121.5 million compared to \$107.3 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 nine months ended September 30, 2008, totaled \$117.7 million, an increase of \$32.3 million, or 37.8%, compared to \$85.4 million in the first nine months of 2007. This significant increase is primarily due to the increase in net earned premiums of \$16.9 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. The 2007-2008 travel period ended on June 30, 2008 and minimal exposure remains related to that season. As noted above, written premiums of \$5.0 million have been recorded for the 2008/2009 travel season in the third quarter and the majority of these premiums will be earned in the fourth quarter of 2008 and first quarter of 2009. Distributor contracts for the 2008/2009 travel season have been capped at written premiums of \$17.0 million.

Incurred Claims Expense

Net incurred claims expense increased \$29.8 million, or 60.9%, to \$78.7 million for the first nine months of 2008, compared to \$48.9 million for the same period in 2007. This is

significantly higher than the 37.8% increase in net earned premiums and is primarily attributable to the higher than expected loss ratio incurred in the Emergency Travel Health line of business in the first two quarters of 2008.

The loss ratio incurred in the Emergency Travel Health line of business was 97.0% in the first nine months of the year. As noted above, minimal exposure related to the 2007/2008 travel season remained as at June 30, 2008, due to the seasonality of the business. Loss development on claims reserved as at June 30, 2008 was positive during the third quarter of 2008 resulting in an improvement in the ETH loss ratio during the quarter. The loss ratio from the more mature Niche programs for the first nine months of the year was 43.3%, an excellent result which compares to this division's loss ratio of 45.3% in the same period of 2007.

The Personal Lines loss ratio for the first nine months of 2008 was 63.9% compared to 58.5% in the same period in 2007. Positive prior year loss development resulted in the release of \$4.6 million of reserves in the period compared to a release of \$8.7 million in the first nine months of 2007. Non-standard auto recorded a loss ratio of 61.1% in the first nine months of 2008 compared to 55.4% in the same period last year. The motorcycle line of business incurred a year-to-date 2008 loss ratio of 78.8% compared to 82.3% for the nine months ended September 30, 2007.

The International division recorded a loss ratio of 83.7% in the first nine months 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 \$5.3 million in the first nine months of 2008 compared to \$9.8 million in the same period in 2007.

Acquisition Costs

Net acquisition costs, which mainly consist of commissions and premium taxes, increased \$9.3 million, or 49.7%, to \$28.0 million for the nine months ended September 30, 2008, compared to \$18.7 million in the same period in 2007. As noted above in the quarterly analysis, this relatively large increase, compared to the increase of 37.8% 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 23.8% in the nine months of 2008 compared to 21.8% in the same period last year.

Operating Expenses

Operating expenses increased \$1.8 million, or 21.2%, to \$10.3 million for the nine months ended September 30, 2008, compared to \$8.5 million for the first nine months of 2007. The increase is slightly higher than the 13.9% increase in net written premiums due to costs incurred in the quarter related to acquisition assessments of \$0.5 million and the start-up and ongoing costs associated with our recently formed U.S. subsidiary, EGI Insurance Services, Inc. As 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 nine month period ended September 30, 2008 total underwriting contribution decreased \$8.7 million to an underwriting gain of \$0.7 million, compared to an underwriting gain of \$9.4 million for the comparable period in 2007. The underwriting result for 2008 and 2007 includes \$1.2 million and \$0.6 million of corporate and other expenses, respectively, which have not been allocated to the operating divisions. Acquisition assessment costs of \$0.5 million are included in corporate and other expenses in 2008.

Underwriting income from the Personal Lines division for the nine months ended September 30, 2008, was \$6.6 million, a decrease of \$2.1 million, compared to income of \$8.7 million for the same period of 2007. This result was caused by the slightly higher loss ratio in Personal Lines in the first nine months of 2008 compared to 2007.

The underwriting loss in Niche Products for the first nine months of 2008 was \$3.4 million, a decrease of \$4.7 million compared to an underwriting gain of \$1.3 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 \$1.4 million in the first nine

months of 2008 due to a higher than expected loss ratio and the start up costs associated with EGI Insurance Services, Inc.

Investment Income

Investment income for the nine months ended September 30, 2008 was \$12.5 million compared to \$7.9 million for the same period in 2007. Income from interest and dividends increased to \$8.6 million compared to \$6.9 million in the same period last year, due to the growth in the investment portfolio. Realized gains on the sale of investments increased to \$3.5 million in the first nine months of 2008, net of the investment impairment provision of \$0.5 million, compared to realized gains of \$0.9 million in the same period in 2007.

EGI's investment portfolio reflected a \$61.7 million, or 24.7%, increase in fair value as at September 30, 2008, compared to September 30, 2007, due to investment returns and positive cash flows from operations during the period, the incurrence of bank indebtedness of \$19.6 million which funds were borrowed by the Company on October 1, 2007 and the issuance of additional common shares pursuant to the completion of the rights offering to common shareholders on July 31, 2008 in the amount of \$20.8 million.

Interest Expense

During the first nine months of 2008, interest expense related to bank indebtedness of \$0.9 million was incurred. No interest expense was incurred in the first nine months of 2007.

Net Income before Income Taxes

Net income before income taxes for the nine months ended September 30, 2008, was \$12.2 million, a decrease of \$5.1 million compared to net income of \$17.3 million for the nine months ended September 30, 2007. The decline in underwriting income experienced in 2008 was offset by the increase in investment income in the period compared to 2007.

For the nine months ended September 30, 2008, an underwriting gain of \$0.7 million plus investment income of \$12.5 million, reduced by interest expense on bank indebtedness of \$0.9 million, comprised net income before income taxes of \$12.2 million. This compares to an underwriting income of \$9.4 million, plus investment income of \$7.9 million, in the same period of 2007.

Income Taxes

The provision for income taxes for the first nine months of 2008 was \$3.9 million compared to \$5.9 million for the same period in 2007. This decrease reflects lower pre-tax income and a slightly lower effective tax rate achieved in 2008 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

(\$ thousands)	Three months ended September 30							
	2008				2007			
	Personal Lines	Canada Niche Products	Total	International	Personal Lines	Canada Niche Products	Total	International
Underwriting revenue	25,579	7,374	32,953	3,198	22,654	5,609	28,263	2,584
Underwriting income (loss)	1,272	1,046	2,318	(322)	2,877	711	3,588	31
Loss ratio	69.0%	40.6%	62.7%	78.2%	60.3%	42.3%	56.7%	74.5%
Expense ratio	26.0%	45.2%	30.3%	31.8%	27.0%	45.0%	30.6%	24.2%
Combined ratio	95.0%	85.8%	93.0%	110.0%	87.3%	87.3%	87.3%	98.7%

The segmented information, for the third quarter of 2008, shows that Personal Lines contributed an underwriting income of \$1.3 million while the Niche Products division recorded an underwriting income of \$1.0 million, resulting in an underwriting income of \$2.3 million for the Canadian business segments combined. The International division, consisting of assumed business from U.S. insurers, recorded an underwriting loss of \$0.3 million.

The loss ratio in Personal Lines was 69% for the quarter ended September 30, 2008, compared to 60.3% for the same period in 2007. As noted above the motorcycle line of business incurred a loss ratio of 136% in the third quarter of 2008 compared to 113% for the three months ended September 30, 2007

The Niche Products division loss ratio was 40.6% in the third quarter of 2008 compared to 42.3% for the same period in 2007. As described above, the improvement was the result of continued favourable underwriting experience in the core Niche product lines.

The International division incurred a loss ratio of 78.2% in the third quarter of 2008 which compares to 74.5% in the same period of 2007.

The expense ratio for Personal Lines, in the third quarter of 2008, decreased slightly to 26% compared to 27% for the same period in 2007. The Niche Products division expense ratio was 45.2% in 2008 compared to 45.0% for the third quarter of 2007.

(\$ thousands)	Nine months ended September 30							
	2008				2007			
	Personal Lines	<u>Canada</u> Niche Products	Total	<u>International</u>	Personal Lines	<u>Canada</u> Niche Products	Total	<u>International</u>
Underwriting revenue	73,165	35,774	108,939	8,769	65,164	14,708	79,872	5,573
Underwriting income (loss)	6,592	(3,369)	3,223	(1,405)	8,610	1,263	9,873	56
Loss ratio	63.9%	68.7%	65.5%	83.7%	58.5%	45.3%	56.0%	74.7%
Expense ratio	27.1%	40.8%	31.6%	32.4%	29.3%	46.1%	31.6%	24.3%
Combined ratio	91.0%	109.5%	97.1%	116.1%	87.8%	91.4%	87.6%	99.0%

On a year-to-date basis, Personal Lines has contributed an underwriting gain of \$6.6 million in 2008 compared to a gain of \$8.6 million for the first nine months of 2007. The Niche Products division recorded an underwriting loss of \$3.4 million compared to a gain of \$1.3 million in the first nine months 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 \$1.4 million in the nine months ended September 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 third 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 September 30, 2008, and December 31, 2007.

(\$ thousands)	September 30 2008	December 31 2007
	Fair value	Fair value
Bonds		
Canadian		
Federal	\$ 74,891	\$ 80,378
Provincial	43,577	30,948
Municipal	6,711	3,908
Corporate	87,144	67,864
	<u>212,323</u>	<u>183,098</u>
United States		
Federal	-	2,288
Corporate	5,654	666
	<u>5,654</u>	<u>2,954</u>
Total Bonds	<u>217,977</u>	<u>186,052</u>
Preferred shares	<u>6,138</u>	<u>6,106</u>
Common shares		
Canadian	31,876	42,150
United States	1,064	2,244
	<u>32,940</u>	<u>44,394</u>
Investment income due and accrued	<u>2,989</u>	<u>1,758</u>
	<u>\$260,044</u>	<u>\$238,310</u>

Due to recent market turbulence the total unrealized losses in our investment portfolio, the difference between adjusted cost and fair value, was \$10.2 million as at September 30, 2008. This compares to a total unrealized gain in the portfolio of \$4.3 million as at December 31, 2007. During 2008 net gains of \$3.5 million have been realized and reflected in investment income in the interim financials statements for the nine months ended September 30, 2008.

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

Management has reviewed currently available information regarding those investments whose estimated fair value is less than carrying value. Debt securities whose amortized cost value exceeds market value can be held until maturity. The Company has reviewed all of its equity holdings to determine if performance expectations have changed sufficiently to adversely affect the market value of these investments on other than a temporary basis.

Based on this review an impairment provision of \$0.5 million has been reflected in the financial results during the third quarter of 2008. No provisions were recorded in 2007.

Recoverable from Reinsurers

As at September 30, 2008, the recoverable from reinsurers decreased to \$50.1 million 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 September 30, 2008, and represent approximately 76% or \$22.3 million of total receivables. During the first nine months of 2008 premium financing receivables increased \$22.3 million from \$19.6 million at December 31, 2007. The increase is the result of growth in Personal Lines premiums 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 September 30, 2008.

(in \$ thousands)	Years ended December 31				
	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 September 30, 2008	130,423	89,864	53,106	27,352	13,225
Cumulative paid to September 30, 2008	29,464	45,715	58,346	63,749	62,786
Cumulative Redundancy (Deficiency)	5,584	10,112	17,589	16,095	3,180

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, when compared to prior year reserve development as at December 31, 2007, shows that for the first nine months of 2008 the total prior year reserve redundancies released pursuant to the September 30, 2008 actuarial report, were \$5.1 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 September 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 \$18.5 million and in 2007 it was for \$13.85 million. Total catastrophic coverage is \$18.0 million in 2008 and \$13.85 million 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 November 4, 2008, there were 11,672,782 common shares issued and outstanding (see Note 7 to the interim unaudited 2008 consolidated financial statements).

In July 2008, the Company issued rights to eligible holders of outstanding common shares of the Company of record on July 4, 2008, to subscribe for and purchase from the Company an aggregate of 1,943,630 Common Shares, at a price of \$10.75 per share.

Completion of the rights offering on July 31, 2008, resulted in issuance of 1,943,630 common shares for \$20.8 million in net proceeds. The Company intends to use the proceeds to pay for acquisitions, in whole or part, and for general corporate purposes.

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 nine months ended September 30, 2008 shareholders' equity increased to \$118.8 million, an increase of \$17.1 million from December 31, 2007. The elements which increased shareholders' equity consist of net income of \$8.3 million in the period and the issuance of common shares of \$21.1 million, which were offset by dividends paid to common shareholders of \$1.9 million during the period, and the Other Comprehensive Loss of \$10.4 million incurred during the period. The Other Comprehensive Loss reflects the decline in fair value during the period of the Company's unsold investments as at September 30, 2008, reflecting the recent market declines, and the reclassification of net realized gains to income recorded in the first nine months of 2008.