EGI FINANCIAL HOLDINGS INC.

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

For the period ending June 30, 2007

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 2007 and 2006, with the notes to the interim unaudited consolidated financial statements for the second quarter of fiscal 2007, with management's discussion and analysis (MD&A) set out on pages 8 to 40 of the Company's 2006 Annual Report and the notes to the audited consolidated financial statements for fiscal 2006 set out on pages 48 to 58 of the Company's 2006 Annual Report. The following commentary is current as of August 7, 2007. 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 Financial for 2007 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 Financial's control, affect the operations, performance and results of EGI Financial 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 Management's Discussion and Analysis. Additional information about the risks and uncertainties about EGI Financial'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 Financial does not undertake to update any forward-looking information.

Impact of new financial instrument standards

On January 1, 2007 the Company adopted, on a prospective basis, two new accounting standards related to financial instruments, which were issued by the Canadian Institute of Chartered Accountants (CICA). The new standards, as they apply to EGI, result in the recording of all investments at fair value in the Consolidated Balance Sheet as at June 30, 2007. In addition, cumulative changes in the fair value of investments are reported in Accumulated Other Comprehensive Income (AOCI), a new component of Shareholders' Equity.

Upon adoption of these standards, total assets of EGI increased by $8.0 million to reflect the adjustment to fair value of investments as at January 1, 2007 previously measured at cost or amortized cost. Also on January 1, 2007, the AOCI was credited an amount of $5.2 million representing the adjustment to fair value of investments, as noted above, net of income tax.

During the first six months of 2007, due to the decline in fair value of investments designated as available-for-sale investments, Other Comprehensive Losses of $0.8 million were incurred. This represented the net unrealized losses, net of income tax, associated with these investments. For further details, refer to Note 2 of our unaudited Interim Consolidated Financial Statements.

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 our unaudited interim consolidated financial statements for the three and six-months periods ended June 30, 2007 and 2006.

	Quarter to June 30		6 months to June 30	
(in $ thousands)	2007	2006	2007	2006
Direct and assumed premiums written	42,299	36,622	72,495	62,714
Total revenue	31,876	27,990	59,267	55,698
Underwriting income	4,533	3,859	5,837	4,789
Net income	4,349	3,857	6,876	6,291
Earnings per share before extraordinary gain (in dollars)				
Basic	$ 0.45	$ 0.40	$ 0.71	$ 0.65
Diluted	$ 0.42	$ 0.38	$ 0.66	$ 0.62
ROE (1)			20.5%	17.4%

(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.

(in $ thousands)	As at June 30 2007	As at Dec 31 2006
Investments (excluding premium finance receivables)	203,841	179,383
Premium finance receivables	20,489	18,621
Total assets	317,500	288,439
Total shareholders' equity	95,840	86,041
Book value per share (1)	$9.93	$8.93

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

Net income of $4.3 million for the three months ended June 30, 2007, represents an increase of $0.4 million, or 10.3% compared to net income of $3.9 million in the second quarter of 2006. The primary reason for this result is the improvement in the loss ratio in the quarter to 53.2% compared to 54.3% in 2006. The improved loss ratio, due to consistent underwriting and improved Niche Products claims experience, resulted in an improvement in underwriting income to $4.5 million compared to $3.9 million in the second quarter of 2006. Total investment income, consisting of income from interest and dividends and realized gains (losses), for the quarter was $2.1 million, compared to $1.8 in the second quarter of 2006. Income from interest and dividends increased to $2.4 million compared to $2.2 million in the same period last year, due to the growth in the investment portfolio. The portfolio grew to a fair value of $224.3 million as at June 30, 2007 compared to $187.5 million as at June 30, 2006. Realized losses on sales of investments were $0.3 million in the second quarter of 2007 compared to $0.4 million in the same period in 2006. Basic earnings per share for the second quarter of 2007 increased 12.5% to $0.45 compared to $0.40 for the same period in 2006. Fully diluted earnings per share were $0.42 in the second quarter of 2007, compared to $0.38 for the second quarter of 2006, an increase of 10.5%.

Direct written and assumed premiums increased $5.7 million or 15.6% to $42.3 million in the second quarter of 2007 compared to $36.6 million in the same period in 2006. Premium growth was achieved in both the Personal Lines and Niche Products business segments. In our Personal Lines division, significant growth in motorcycle premiums, in the quarter, and the introduction of assumed premiums from related reinsurance treaties with two U.S. domiciled insurance companies, effective January 1, 2007, contributed to the growth of 10.3% compared to the same period in 2006. We continue to achieve significant growth in our Niche Products business segment, recording direct and assumed premiums written of $8.0 million in the second quarter of 2007, an increase of $2.4 million or 42.9% over the same period in 2006.

For the six month period ended June 30, 2007 net income was $6.9 million, representing an increase of $0.6 million or 9.5% compared to net income of $6.3 for the first six months of 2006. The improvement over last year is primarily due to an improvement in the loss ratio to 56.7% in the first half of 2007 compared to 60.1% for the same period last year. This resulted in an increase in underwriting income to $5.8 million or 20.8% over underwriting income of $4.8 million in the same period in 2006. Investment income was $4.7 million in the first two quarters of 2007 compared to $4.4 million in 2006. This was the result of an increase in income from interest and dividends to $4.6 million in 2007 compared to $4.0 million in the first half of 2006, due to the growth in our investment portfolio as noted above. Total realized gains were $0.1 million in the first two quarters of 2007 compared to $0.5 million in the same period last year.

Direct written and assumed premiums increased $9.8 million or 15.6% to $72.5 million in the first half of 2007 compared to $62.7 million in the same period in 2006. As noted above, premium growth was achieved in both the Personal Lines and Niche Products divisions. On a year-to-date basis Personal Lines written and assumed premiums increased to $58.9 million, or 10.5% compared to $53.3 million in the same period in 2006. Growth in motorcycle premium and the introduction of U.S. assumed business effective January 1, 2007 were the primary reasons for the increase. Niche premiums totaled $13.6 million in the first two quarter of 2007 compared to $9.4 million in the same period in 2006, an increase of 44.7%. This increase reflects our ongoing efforts to grow this part of our business by continuing to develop relationships with our Niche distributors.

Shareholders' equity increased to $95.8 million as at June 30, 2007, an increase of $2.4 million from March 31, 2007. Net income of $4.3 million in the quarter and the issuance of common shares of $0.1 million were offset by quarterly dividends of $0.5 million and an Other Comprehensive Loss of $1.5 million, due to a decline in the fair value of investments classified as available-for-sale in the quarter.

For the six months ended June 30, 2007 shareholders' equity increased $9.8 million from $86.0 million as at December 31, 2006. As noted in our first quarter Shareholders' Report, this increase was impacted by the implementation of the new accounting policy regarding Financial Instruments as described in Note 2 of the interim financial statements. Effective January 1, 2007 a transition adjustment of $5.2 million, reflecting the adjustment to fair value of our investments was recorded. This amount is offset by an Other Comprehensive Loss of $1.4 million in the first half of 2007, reflecting a decline in fair value of bonds in the period. The net impact of adopting the new financial instrument standard for the first six months of 2007 is an increase in shareholders' equity of $3.8 million. Other components of the increase in shareholders' equity were net income of $6.9 million in the period and the issuance of common shares of $0.1 million, which were offset by the payment of dividends to common shareholders of $1.0 million in the first two quarters of 2007.

Current Outlook

The above-average results which the Canadian P&C insurance industry has experienced over the past three years is leading into a more competitive market phase. The positive result is encouraging automobile insurers to implement rate reductions and loosen underwriting guidelines, thus creating competition for market share. As a result, we expected standard auto insurers to continue to pursue market share opportunities in traditionally non-standard auto areas, thereby reducing the near term opportunity for growth for non-standard auto insurers. The

Company expects this to be a temporary situation for the non-standard market and the pendulum to swing back in the longer term, as standard insurers' margins erode on this higher risk business. In fact, the industry has experienced generally higher loss ratios in the automobile line of business in the latter part of 2006 and the first quarter of 2007, which may indicate the first signs of a pendulum swing back to tighter pricing and risk selection by standard carriers. EGI expects the favourable automobile underwriting results experienced by the P&C insurance industry over the past three years to deteriorate toward the industry's historic norms.

Through this market phase EGI will preserve its capital and is committed to focus on profitable lines of business even though this may, in the short term, limit growth in direct written premiums. Despite the pressure on growth, EGI has managed its reinsurance arrangements to increase its net retained business, thereby utilizing its capital more effectively. Beginning in 2006, EGI eliminated its quota share reinsurance coverage on automobile business and is retaining higher limits for niche and automobile coverages, resulting in growth in net written premiums in the year compared to the same period last year.

As the competitive auto insurance market creates some challenges for EGI to grow its premium income in the non-standard auto line of business, the Company will continue to pursue its diversification strategy to reduce its reliance on Ontario non-standard auto by growing its Niche Products division and by pursuing other opportunities in new geographic markets and new vehicle types, such as motorcycles. EGI will also continue to seek out opportunities for profitable growth either through expansion of its existing businesses, including additional reinsurance opportunities in the United States, and by carefully selected acquisitions in Canada and the United States.

EGI has laid the groundwork over the past three years to aggressively expand the Niche line of business. With the recent transition of the Automobile division into a multi-product, multi-line Personal Lines division, EGI will enhance its diversification strategy even further. To date in 2007, especially in the second quarter, this strategy has yielded significant positive results as premium growth in both of our divisions has been experienced. The addition of new products and lines of business has the objective of enabling EGI to continue to perform at its current level by keeping ahead of its competitors and the perceived market trends.

Critical Accounting Estimates and Assumptions

For a description of EGI's accounting policies refer to Note 3 in the 2006 audited financial statements as set out on pages 42 to 58 of the Company's 2006 Annual Report. A further description of EGI's critical accounting estimates and assumptions is also detailed on pages 18 and 19 of the 2006 Annual Report.

There have been no changes to the Company's accounting policies or assumptions made in critical accounting estimates in the first two quarters of 2007, except as described in Note 2 and 3 of the interim financial statements for the quarter ended June 30, 2007 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)	2007		2006				2005	
	Q2	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**
Direct written and assumed premiums	42,299	30,196	25,936	29,184	36,622	26,092	28,081	28,466
Total revenues (excluding investment income)	29,808	24,790	24,190	28,490	26,189	25,075	19,950	20,124
Underwriting income (loss)	4,533	1,304	3,493	6,228	3,859	930	2,452	347
Income (loss) before income taxes	6,601	3,905	7,949	8,371	5,660	3,563	4,267	2,643
Net income	4,349	2,527	5,200	5,489	3,857	2,434	3,057	1,728
Earnings per adjusted share								
Basic	0.45	0.26	0.54	0.57	0.40	0.25	0.36	0.21
Diluted	0.42	0.24	0.51	0.54	0.38	0.24	0.35	0.20
Selected Financial Ratios (%)								
Loss ratio	53.2	61.0	61.0	48.9	54.3	66.1	60.6	71.7
Expense ratio	31.6	33.7	24.6	29.2	31.0	30.2	27.6	26.9
Combined	84.8	94.7	85.6	78.1	85.3	96.3	88.2	98.6

Quarter Ended June 30, 2007 Compared to Quarter Ended June, 2006

The following financial information compares the second quarter 2007 results with the second quarter of 2006.

	2nd Quarter 2007	2nd Quarter 2006	Variance $	Variance %
Direct written and assumed premiums	42,299	36,622	5,677	15.5%
Net written and assumed premiums	39,308	32,970	6,338	19.2%
Net earned premiums	29,808	26,189	3,619	13.8%
Claims incurred	15,844	14,213	1,631	11.5%
Acquisition costs	6,518	4,939	1,579	32.0%
Operating expenses	2,913	3,178	(265)	-8.3%
Underwriting income	4,533	3,859	674	17.5%
Investment income	2,068	1,801	267	14.8%
Net income before income taxes	6,601	5,660	941	16.6%
Income taxes	2,252	1,803	449	24.9%
Net income	4,349	3,857	492	12.8%

Insurance Operation

Written and Assumed Premiums

Direct written and assumed premiums increased $5.7 million, or 15.5%, to $42.3 million for the three months ended June 30, 2007, compared to $36.6 million for the second quarter of 2006. EGI has realized an increase in premiums despite current market conditions which resulted in a reduction of its Ontario non-standard auto business. Despite the shrinkage in EGI's Ontario non-standard auto, the growth overall was achieved due to the growth in motorcycle premiums in Ontario, the introduction of two assumed reinsurance treaties with U.S. domiciled insurance companies in 2007 and continued significant growth in Niche Products. In our Personal Lines division, direct written and assumed premiums increased 0.4% to $31.1 million compared to $31.0 million in the second quarter of 2006. Ontario motorcycle direct written premiums increased to $7.9 million compared to $4.9 million in the second quarter of 2006 and assumed premiums of $3.1 million were recorded from the new U.S. reinsurance arrangements in the second quarter of 2007. Direct written premiums for Niche Products increased 42.8% to $8.0 million for the three months ended June 30, 2007, compared to $5.6 million in the same period in 2006.

Net written and assumed premiums increased $6.4 million, or 19.4%, to $39.3 million compared to $32.9 in the same period last year. This represents a higher increase over the same period last year when compared to the increase in direct written and assumed premiums due to more effective utilization of the Company's capital, through greater retention of risk.

Earned Premiums

Net earned premiums for the three months ended June 30, 2007, were $29.8 million, an increase of $3.6 million, or 13.7%, from the same period in 2006. The growth in earned premiums reflects the increase in premiums written and assumed in 2007 compared to 2006.

Incurred Claims Expense

Net incurred claims expense increased $1.6 million, or 11.3%, to $15.8 million for the three months ended June 30, 2007, compared to $14.2 million for the same period in 2006. This increase is lower than the 13.7% increase in net earned premiums, reflecting an improvement in the loss ratio compared to the same period in 2006. The loss ratio in the second quarter of 2007 is 53.2% compared to 54.3% in the second quarter of 2006. The growth in Niche Products, with a loss ratio of 53.0%, is a contributing factor to this improvement. In addition, continued positive development of prior year claims, in the second quarter of 2007, resulted in a release of $3.8 million of net reserves that were accrued for prior accident years. In the same period in 2006, favourable prior year claims development of $4.3 million was recorded.

Acquisition Costs

Net acquisition costs, which mainly consist of commissions and premium taxes, increased $1.6 million, or 32.6%, to $6.5 million for the three months ended June 30, 2007, compared to $4.9 million in the same period in 2006. This increase is higher than the increase in earned premiums of 13.7%, as a result of the growth in Niche Products premiums in proportion to Personal Lines. Distribution costs related to Niche Products are expected to be higher than Personal Lines, which are expected to be offset by lower loss ratios in the Niche line of business.

Operating Expenses

Operating expenses decreased $0.3 million, or 9.3%, to $2.9 million for the three months ended June 30, 2007, compared to $3.2 million for the second quarter of 2006, reflecting continued control over operating expenses.

Income (Loss)

Underwriting results reflect the revenues from net earned premiums less claims and acquisition and operating expenses. In the quarter ended June 30, 2007 total underwriting income increased $0.6 million to $4.5 million, compared to $3.9 million for the second quarter of 2006.

Underwriting income from the Personal Lines division for the three months ended June 30, 2007, was $5.0 million, an increase of $1.3 million, compared to an income of $3.7 million for the same period in 2006. This increase was primarily the result of a lower loss ratio in the quarter compared to the same period in 2006. In addition, Personal Lines division expenses were reduced by $0.4 million due to the reallocation of corporate expenses to the Niche Products division in the quarter (see below).

The underwriting loss from Niche Products for the three months ended June 30, 2007, was $0.2 million, a decrease of $0.7 million compared to an underwriting gain of $0.5 million in the second quarter of 2006. Due to the ongoing growth of our Niche Products division, commencing in the second quarter of 2007, corporate expenses previously charged fully to the Personal Lines division have been allocated on the proportion of written premium to each division. As a result, in the second quarter of 2007 the Niche Products division has been allocated $0.4 million of corporate expenses. Excluding this allocation, underwriting income for the quarter was $0.2 million representing a decrease of $0.3 million compared to underwriting income of $0.5 million in 2006. (See the segmented information analysis below.)

Investment Income

Investment income for the three months ended June 30, 2007 was $2.1 million compared to $1.8 million for the same period in 2006. The increase in 2007 is the result of an increase in the investment portfolio as at June 30, 2007 compared to June 30, 2006. Also, realized losses in the period were $0.3 million, compared to $0.4 million in the comparable period in 2006. Realized losses in 2007 include foreign exchange losses of $0.2 million related to the translation of U.S.

funds associated with our assumed business from two reinsurance treaties with insurance companies based in the U.S. The significant strengthening of the Canadian dollar in relation to the U.S. dollar was the cause of the translation loss.

EGI's investment portfolio reflected a $36.7 million, or 19.6%, increase in fair value as at June 30, 2007, compared to June 30, 2006, due to investment returns and positive cash flows from operations during the period.

Net Income before Income Taxes

Net income before income taxes increased $0.9 million, or 15.8%, to $6.6 million for the three months ended June 30, 2007, compared to $5.7 million for the same period in 2006, due primarily to an improvement in the loss ratio in 2007.

For the three months ended June 30, 2007, underwriting income of $4.5 million plus investment income of $2.1 million comprised net income before income taxes of $6.6 million. This compares to an underwriting income of $3.9 million, plus investment income of $1.8 million, for the three months ended June 30, 2006.

Income Taxes

The provision for income taxes for the quarter ended June 30, 2007, was $2.2 million compared to $1.8 million for the comparable period in 2006. This reflected higher pre-tax income as a result of higher underwriting profits year over year for the quarter and one-time positive adjustments to income tax expense recorded in 2006.

Six Months Ended June 30, 2007 Compared to Six Months Ended June, 2006

Written and Assumed Premiums

Direct written and assumed premiums increased $9.8 million, or 15.6%, to $72.5 million for the six months ended June 30, 2007, compared to $62.7 million for the first two quarters of 2006. As noted above, EGI has realized an increase in premiums despite competitive market conditions in Ontario non-standard auto business. Offsetting the shrinkage in EGI's Ontario non-standard auto, was growth in motorcycle premiums in Ontario, assumed business from reinsurance arrangements with two U.S. domiciled insurance companies in 2007 and continued significant growth in Niche Products. In our Personal Lines division, direct written and assumed premiums increased 10.5% to $58.9 million compared to $53.3 million in the same period in 2006. Ontario motorcycle direct written premiums increased to $10.0 million compared to $5.8 million in the first two quarters of 2006 and assumed premiums of $7.4 million were recorded from the U.S. reinsurance arrangements in the first half of 2007. Direct written premiums for Niche Products increased 44.7% to $13.6 million for the six months ended June 30, 2007, compared to $9.4 million in the same period in 2006.

Net written and assumed premiums increased $11.2 million, or 19.9%, to $67.6 million compared to $56.4 million in the same period last year. This represents a higher increase over the first six months of last year, when compared to the increase in direct written and assumed premiums, due to more effective utilization of the Company’s capital through greater retention of risk.

Earned Premiums

Net earned premiums for the six months ended June 30, 2007, were $54.6 million, an increase of $3.4 million, or 6.6%, from the same period in 2006. The growth in earned premiums is lower than the increase in premiums written and assumed in 2007 compared to 2006 due to changes in the Company’s mix of business. The additional written premiums in 2007 will earn over the term of the underlying policies (primarily six and twelve months) throughout the remainder of 2007.

Incurred Claims Expense

Net incurred claims expense increased $0.2 million, or 0.6%, to $31.0 million for the six months ended June 30, 2007, compared to $30.8 million for the same period in 2006. This increase is lower than the 6.6% increase in net earned premiums, reflecting the improvement in the loss ratio in 2007. The loss ratio in the first half of 2007 is 56.7% compared to 60.1% in the first half of 2006. The growth in Niche Products, with a loss ratio of 47.1% is a contributing factor to this improvement. In addition, continued positive development of prior year claims in the first half of 2007 resulted in a release of $7.8 million of net reserves that were accrued for prior accident years. In the same period in 2006, favourable prior year claims development of $6.9 million was recorded.

Acquisition Costs

Net acquisition costs, which mainly consist of commissions and premium taxes, increased $2.1 million or 21% to $12.1 million for the six months ended June 30, 2007, compared to $10.0 million in the same period in 2006. This increase is higher than the increase in earned premiums of 6.6%, as a result of the growth in Niche Products premiums in proportion to Personal Lines. Distribution costs related to Niche Products are expected to be higher than Personal Lines, which costs are expected to be offset by lower loss ratios in the Niche line of business.

Operating Expenses

Operating expenses decreased $0.2 million, or 3.4%, to $5.6 million for the six months ended June 30, 2007, compared to $5.8 million for the same period in 2006, reflecting continued operating expense control.

Underwriting Income (Loss)

Underwriting results reflect the revenues from net earned premiums less claims and acquisition and operating expenses. In the six months ended June 30, 2007 total underwriting income increased $1.0 million to $5.8 million, compared to $4.8 million for the same period in 2006.

Underwriting income from the Personal Lines division for the six months ended June 30, 2007, was $5.7 million, an increase of $0.7 million, compared to an income of $5.0 million for the same period in 2006. This increase was primarily the result of a lower loss ratio in the period compared to the same period in 2006. In addition, Personal Lines division expenses were reduced by $0.4 million due to the reallocation of corporate expenses to the Niche Products division in the second quarter of 2007.

Underwriting income from Niche Products for the six months ended June 30, 2007, was $0.6 million, an increase of $0.2 million compared to an underwriting income of $0.4 million in the same period in 2006. As noted earlier, commencing in the second quarter of 2007, corporate expenses previously charged fully to the Personal Lines division have been allocated on the proportion of written premium to each division. As a result, in the second quarter of 2007 the Niche Products division has been allocated $0.4 million of corporate expenses. Excluding this reallocation, underwriting income for the six month period ending June 30, 2007 was $1.0 million representing an increase of $0.6 million compared to underwriting income of $0.4

million in 2006. (See the segmented information analysis below.)

Investment Income

Investment income for the six months ended June 30, 2007 was $4.7 million compared to $4.4 million for the same period in 2006. The improvement in 2007 is the result of an increase in the investment portfolio as at June 30, 2007 compared to June 30, 2006. Partially offsetting the increase in interest and dividends was a decrease in realized gains in the first six months of 2007 to $0.1 million, compared to $0.5 million in 2006.

EGI's investment portfolio reflected a $36.7 million, or 19.6%, increase in fair value as at June 30, 2007, compared to June 30, 2006, due to investment returns and positive cash flows from operations during the period.

Net Income before Income Taxes

Net income before income taxes increased $1.3 million, or 14.1%, to $10.5 million for the six months ended June 30, 2007, compared to $9.2 million for the same period in 2006, due primarily to an improvement in the loss ratio in 2007.

For the six months ended June 30, 2007, underwriting income of $5.8 million plus investment income of $4.7 million comprised net income before income taxes of $10.5 million. This compares to an underwriting income of $4.8 million, plus investment income of $4.4 million for the six months ended June 30, 2006.

Income Taxes

The provision for income taxes for first half of 2007 was $3.6 million compared to $2.9 million for the comparable period in 2006. This reflected higher pre-tax income as a result of higher underwriting profits year over year for the period and one-time positive adjustments recorded in income tax expense in the first half of 2006.

Segmented Financial Information

(in $ thousands)	Three months ended June 30					
	2007				**2006**	
	Personal Lines Canada	Personal Lines U.S.	Total	Niche Products Canada	Personal Lines Canada	Niche Products Canada
Underwriting revenue	22,979	2,113	25,092	4,716	23,219	2,971
Underwriting income (loss)	4,991	21	5,012	(226)	3,688	541
Loss ratio	51.2%	74.7%	53.2%	53.0%	56.4%	37.4%
Expense ratio	27.1%	24.3%	26.8%	51.7%	27.7 %	44.4%
Combined ratio	78.3%	99.0%	80.0%	104.7%	84.1%	81.8%

The segmented information, for the second quarter of 2007, shows that the Personal Lines division recorded an underwriting income of $5.0 million, while the Niche Products division showed an underwriting loss of $0.2 million. Personal Lines includes business assumed from two U.S. domiciled insurance companies.

The loss ratio in Personal Lines was 53.2% for the quarter ended June 30, 2007, compared to 56.4% for the same period in 2006. This improvement was the result of continued positive development of claims, in the quarter, related to prior years and an improvement in the current year loss ratio as compared to 2006.

The Niche division loss ratio increased to 53% in the second quarter of 2007 compared to 37.4% for the same period in 2006. While still an attractive loss ratio, our external actuary is conservatively setting the IBNR, especially due to continued growth in the liability line of business.

The expense ratio for Personal Lines in the second quarter of 2007 decreased to 26.8% compared to 27.7% for the same period in 2006. A portion of the decrease was caused by the commencement of allocation of corporate (shared) expenses to the Niche Products division. This ratio, however, is expected to decline further during the remainder of 2007 as premiums generated from our motorcycle and U.S. assumed businesses are earned through the year. The Niche Products division expense ratio has increased to 51.7% in 2007 compared to 44.4% for the second quarter of 2006 due primarily to the allocation of corporate (shared) expenses to this division. Excluding this allocation, the Niche Products division expense ratio is 42.3% and slightly lower than the 2006 second quarter expense ratio. As this division's book of business grows, increased premiums will better absorb the corporate expense allocation, thereby reducing this expense ratio in the future.

(in $ thousands)	Six months ended June 30					
	2007				2006	
	Personal Lines Canada	Personal Lines U.S.	Total	Niche Products Canada	Personal Lines Canada	Niche Products Canada
Underwriting revenue	42,510	2,989	45,499	9,099	45,880	5,384
Underwriting income (loss)	5,733	25	5,758	552	4,991	352
Loss ratio	57.5%	74.9%	58.6%	47.1%	61.5%	47.8%
Expense ratio	29.0%	24.3%	28.7%	46.8%	27.6%	45.7%
Combined ratio	86.5%	99.2%	87.3%	93.9%	89.1%	93.5%

On a year to date basis, both business segments have contributed underwriting income. Personal Lines recorded an underwriting income of $5.8 million for the first six months of 2007, an increase of $0.8 million, or 16% over the same period in 2006. The Niche Products division showed an underwriting income of $0.6 million compared to a gain of $0.4 million for the same period last year. The primary reason for the improvement in results is that the loss ratio declined for both divisions compared to 2006.

Balance Sheet Analysis

Investments

The following table sets forth EGI's invested assets as at June 30, 2007, and December 31, 2006.

	June 30, 2007	December 31, 2006	
	Fair value and carrying amount	Fair value	Carrying amount
Bonds			
Canadian			
Federal	$70,265	$65,928	$65,918
Provincial	25,520	27,883	27,249
Municipal	3,829	3,954	3,914
Corporate	48,328	49,525	49,236
	$147,942	$147,290	$146,317
United States			
Federal	432		
Corporate	2,744		
	3,176		
Total Bonds	151,118		
Preferred shares	$6,700	$6,369	$6,277
Common shares			
Canadian	41,151	28,374	21,574
United States	3,492	4,183	3,883
	$44,643	$32,557	$25,457
Investment income due and accrued	1,380	1,332	1,332
	$203,841	$187,548	$179,383

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 cost of $1.7 million and a market value of $2.3 million at June 30, 2007. 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.

As part of the process to wind up the fund, in November 2006, Savoy redeemed EGI's cash position of the fund thereby lowering EGI's cost value to $1.9 million as at December 31, 2006. Savoy has advised EGI of its intention to implement prudent and orderly monetization strategies in 2007 with the aim of preserving value. As of June 30, 2007 four small private investments were monetized. In July, 2007 Savoy issued a cash redemption to EGI in the amount of $0.4 million representing EGI's share of cash held in the fund as at June 30, 2007 which was primarily generated from the sale of these holdings. This redemption reduced the book value of the fund to $1.3 million and market value to $1.7 million. Savoy anticipates completing the winding up process of the fund in the second half of 2007.

Recoverable from Reinsurers

As at June 30, 2007, the recoverable from reinsurers increased to $52.9 million as compared to $52.2 million as at December 31, 2006. This recoverable can be expected to decrease due to the withdrawal of quota share reinsurance arrangements as at December 31, 2005. However, the increase associated with the recovery of direct claims covered by excess loss reinsurance incurred in the second quarter of 2007 has more than offset the reduction from the settlement of prior year quota share claims.

Accounts Receivable

Premium financing receivables are the largest component of this asset as at June 30, 2007, and represents approximately 81% or $20.5 million of total receivables. Premium financing receivables increased to $20.5 million from $18.6 million at December 31, 2006. This increase is primarily due to the growth in motorcycle business, especially in the second quarter of 2007.

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 six months ended June 30, 2007.

	Years ended December 31				
(in $ thousands)	**2006**	**2005**	**2004**	**2003**	**2002**
Reserve Carried (actuarial present value basis) (1)	145,691	129,041	107,196	79,191	66,545
Reserve at December 31, 2003					43,754
Cumulative paid to December 31, 2003					24,122
Cumulative Redundancy (Deficiency)					(1,331)
Reserve at December 31, 2004				56,226	31,213
Cumulative paid to December 31, 2004				24,184	39,619
Cumulative Redundancy (Deficiency)				(1,219)	(4,287)
Reserve at December 31, 2005			70,620	37,802	21,682
Cumulative paid to December 31, 2005			24,922	38,802	48,033
Cumulative Redundancy (Deficiency)			11,654	2,587	(3,170)
Reserve at December 31, 2006		88,029	49,557	25,214	14,964
Cumulative paid to December 31, 2006		25,817	41,158	49,592	54,050
Cumulative Redundancy (Deficiency)		15,195	16,481	4,385	(2,469)
Reserve at June 30, 2007	123,938	77,417	41,847	20,512	12,111
Cumulative paid to June 30, 2007	16,980	35,992	48,788	54,703	57,547
Cumulative Redundancy (Deficiency)	4,773	15,632	16,561	3,976	(2,983)

1) Amounts include Provision for Adverse Deviation (PfAD) of $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 six months ended June 30, 2007 the total prior year reserve redundancies released pursuant to the June 30, 2007 actuarial report, were $4.8 million. For the three months ended June 30, 2007 total prior year reserve redundancies released were $1.9 million.

On a net of reinsurance basis, for the first six months of 2007 total prior year reserve releases were $7.8 million. This result is greater than the release noted on a gross basis due to specific adverse development in the first half of 2007 related to large claims (covered by reinsurance) incurred in prior years. This adverse development, which is included in the total gross reserve development shown in the table above, is absorbed by reinsurers and does not impact EGI on a net basis.

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 2007 the maximum net retention on a single risk is $1.15 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, 2007, EGI was the assigned beneficiary of such trust accounts totalling $2.4 million (December 31, 2006 - $2.2 million) in guarantees from unlicensed reinsurers.

EGI purchases renewable excess of loss and catastrophe reinsurance from third party reinsurers, covering its automobile and general liability business. In 2007, such coverage is for a total of $13,850,000 and in 2006 was for $19,050,000. Other than general liability, coverages comprising the programs of the Niche Products division are reinsured on a program-by-program basis.

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

Share Capital

As of June 30, 2007, there were 9,647,152 common shares issued and outstanding. (See Note 6 to the interim unaudited 2007 consolidated financial statements.)

Liquidity and Capital Resources

The purpose of liquidity management is to ensure there is sufficient cash to meet all of EGI's financial commitments and obligations as they come due. EGI believes that it has the flexibility to obtain, from internal sources, the funds needed to fulfill its cash requirements during the following financial year and to satisfy regulatory capital requirements. EGI's principal sources of funds are premiums collected, investment income and proceeds from investments that have been sold or have matured. However, such funds may not provide sufficient capital to enable EGI to pursue additional market opportunities.

EGI's contractual obligations relating to operating leases are $0.5 million due in less than a year and $1.0 million due in the next two years.

Capital Resources

The total capitalization of EGI at June 30, 2007, is $95.8 million compared to $86.0 million at December 31, 2006. As noted in our first quarter 2007 Shareholders' Report, this increase was impacted by the implementation of the new accounting policy regarding Financial Instruments as described in Note 2 of the interim financial statements. Effective January 1, 2007 a transition adjustment of $5.2 million, reflecting the adjustment to fair value of our investments, was recorded. This amount is offset by an Other Comprehensive Loss of $1.4 million in the first half of 2007 reflecting a decline in fair value of bonds in the period. The net impact of adopting the new financial instrument standard for the first six months of 2007 is an increase in shareholders' equity of $3.8 million. Other components of the increase in shareholders' equity were net income of $6.9 million in the period and the issuance of common shares of $0.1 million, which were offset by the payment of dividends to common shareholders of $1.0 million in the first two quarters of 2007.