

EGI FINANCIAL HOLDINGS INC.

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

For the period ending March 31, 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 first quarter of fiscal 2007 and 2006; with the notes to the interim unaudited consolidated financial statements for the first quarter of fiscal 2007; with the 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 April 25, 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 March 31, 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. For further details, refer to Note 2 of our unaudited Interim Consolidated Financial Statements.

Overall Performance

Net income of \$2.5 million for the three months ended March 31, 2007, represents an increase of \$0.1 million, or 4.2% compared to net income of \$2.4 million in the first quarter of 2006. The primary reason for this result is the improvement in the loss ratio in the quarter to 61% compared to 66.1% in 2006. The improved loss ratio, due to consistent underwriting and improved Niche Products claims experience, resulted in an improvement in underwriting income to \$1.3 million compared to \$0.9 million in the first quarter of 2006. Total investment income, consisting of income from interest and dividends and realized gains (losses), for the quarter was \$2.6 million, the same as the first quarter of 2006. Income from interest and dividends increased to \$2.2 million compared to \$1.8 million in the same period last year, due to the growth in the investment portfolio. The portfolio grew to a fair value of \$216.0 million as at March 31, 2007

compared to \$178.5 million as at March 31, 2006. However, realized gains on sales of investments declined to \$0.4 million in the first three months of 2007 compared to \$0.9 million in the same period in 2006. Basic earnings per share for the first quarter of 2007 increased 4% to \$0.26 compared to \$0.25 for the same period in 2006. Fully diluted earnings per share were \$0.24 in the first quarter of 2007, the same as for the first quarter of 2006.

Direct written and assumed premiums increased \$4.2 million or 16.1% to \$30.2 million in the first quarter of 2007 compared to \$26.0 million in the first three months of 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 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 \$5.6 million in the first quarter of 2007, an increase of \$1.8 million or 47.3% over the same period in 2006. The growth in motorcycle, U.S. based assumed premiums and Niche Products business in total more than offset a decline in non-standard auto premiums resulting from continued competitive pressures on this business line.

The new business growth, during the first three months of 2007, as noted above, had a limited impact on earned premiums in the first quarter of 2006, as the premiums will earn over the relevant terms of the new policies (primarily six or twelve months). Therefore, despite the growth in direct and assumed written premiums, net earned premiums declined by \$0.3 million or 1.2% to \$24.8 million, in the quarter, compared to \$25.1 million in the first three months of 2006.

For the three months ended March 31, 2007 shareholders' equity increased to \$93.4 million, an increase of \$7.4 million from December 31, 2006. This increase was significantly impacted, in the amount of \$5.3 million, by the implementation of the new accounting policy regarding Financial Instruments as described in Note 2 of the interim financial statements. Other components of the increase in shareholders' equity were net income of \$2.5 million in the quarter and the issuance of common shares of \$0.1 million, which were offset by the payment of quarterly dividends of \$0.5 million to common shareholders of record on March 15, 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 expect 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. 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 or 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. 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 quarter of 2007, except as described in Note 2 of the interim financial statements for the quarter ended March 31, 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	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Direct written and assumed premiums	30,196	25,936	29,184	36,622	26,092	28,081	28,466	34,528
Total revenues (excluding investment income)	24,790	24,190	28,490	26,189	25,075	19,950	20,124	19,840
Underwriting income (loss)	1,304	3,493	6,228	3,859	930	2,452	347	6,214
Income (loss) before income taxes	3,905	7,949	8,371	5,660	3,563	4,267	2,643	7,733
Net income	2,527	5,200	5,489	3,857	2,434	3,057	1,728	4,928
Earnings per adjusted share								
Basic	0.26	0.54	0.57	0.40	0.25	0.36	0.21	0.62
Diluted	0.24	0.51	0.54	0.38	0.24	0.35	0.20	0.58
Selected Financial Ratios (%)								
Loss ratio	61.0	61.0	48.9	54.3	66.1	60.6	71.7	40.7
Expense ratio	33.7	24.6	29.2	31.0	30.2	27.6	26.9	28.2
Combined	94.7	85.6	78.1	85.3	96.3	88.2	98.6	68.9

Quarter Ended March 31, 2007 Compared to Quarter Ended March 31, 2006

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

	1st Quarter 2007	1st Quarter 2006	Variance \$	Variance %
Direct written and assumed premiums	30,196	26,092	4,104	15.7
Net written and assumed premiums	28,323	23,493	4,830	20.6
Net earned premiums	24,790	25,075	(285)	(1.1)
Claims incurred	15,131	16,579	(1,448)	(8.7)
Acquisition costs	5,630	4,980	650	13.0
Operating expenses	2,725	2,586	139	5.4
Underwriting income	1,304	930	374	40.2
Investment income	2,601	2,633	(32)	(1.2)
Net income before income taxes	3,905	3,563	342	9.6
Income taxes	1,378	1,129	249	22.0
Net income	2,527	2,434	93	3.8

Insurance Operation

Written and Assumed Premiums

Direct written premiums increased \$4.1 million, or 15.7%, to \$30.2 million for the three months ended March 31, 2007, compared to \$26.1 million for the first three months 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 10.3% to \$24.6 million compared to \$22.3 million in the first quarter of 2006. Ontario motorcycle direct written premiums increased to \$2.1 million compared to \$0.4 million in the first quarter of 2006 and assumed premiums of \$4.3 million were recorded from the U.S. reinsurance arrangements in the first three months of 2007. Direct written premiums for Niche Products increased 47.3% to \$5.6 million for the three months ended March 31, 2007, compared to \$3.8 million in the same period in 2006.

Net written and assumed premiums increased \$4.8 million, or 20.4%, to \$28.3 million compared to \$23.5 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 March 31, 2007, were \$24.8 million, a decrease of \$0.3 million, or 1.1%, from the first three months of 2006. Although direct written and assumed premiums, in the Personal Lines division, increased in the quarter, as noted above, this new business has not significantly impacted earned premiums as of the end of the first quarter of 2007. These premiums 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 decreased \$1.5 million, or 9.0%, to \$15.1 million for the three months ended March 31, 2007, compared to \$16.6 million for the same period in 2006. This is significantly higher than the 1.1% decrease in net earned premiums, primarily due to the continued favourable development of prior year claims reserves in the first quarter of 2007. The positive development in the first quarter of 2007 resulted in a release of \$4.0 million of net reserves that were accrued for prior accident years. In the same period in 2006, favourable prior year claims development of \$2.6 million was recorded. As a result, the loss ratio decreased to 61.0% for the first three months of 2007 compared to 66.1% for the same period in 2006.

Acquisition Costs

Net acquisition costs, which mainly consisted of commissions and premium taxes, increased \$0.6 million, or 12%, to \$5.6 million for the three months ended March 31, 2007, compared to \$5.0 million in the same period in 2006. This increase, as compared to a small decrease in earned premiums, is the 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 increased \$0.1 million, or 3.8%, to \$2.7 million for the three months ended March 31, 2007, compared to \$2.6 million for the first quarter of 2006.

Underwriting Income (Loss)

Underwriting results reflect the revenues from net earned premiums less claims and acquisition and operating expenses. In the quarter ended March 31, 2007 total underwriting income increased \$0.4 million to \$1.3 million for the first three months of 2007, compared to \$0.9 million for the comparable period in 2006.

Underwriting income from the Personal Lines division for the three months ended March 31, 2007, was \$0.7 million, a decrease of \$0.6 million, compared to an income of \$1.3 million for the first three months of 2006. This decrease was primarily the result of a decline in earned premiums in the quarter compared to the same period in 2006, resulting in an increase in the expense ratio.

The underwriting income from Niche Products for the three months ended March 31, 2007, was \$0.8 million, an increase of \$1.0 million compared to an underwriting loss of \$0.2 million in the first three months of 2006. This significant improvement is the result of an improvement in the Niche division loss ratio to 40.8% in 2007 compared to 60.5% for the same period in 2006. (See the segmented information analysis below.)

Investment Income

Investment income for the three months ended March 31, 2007 was \$2.6 million compared to \$2.6 million for the same period in 2006. The 2007 result was the same as in 2006, despite a significant increase in the investment portfolio due to a decline in realized gains in the first quarter of 2007. Realized gains in the period were \$0.4 million compared to \$0.9 million in the first three months of 2006.

EGI's investment portfolio reflected a \$37.5 million, or 21%, increase in fair value as at March 31, 2007, compared to March 31, 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 \$0.4 million, or 11.4%, to \$3.9 million for the three months ended March 31, 2007, compared to \$3.5 million for the same period in 2006, due to an improvement in the loss ratio in 2007.

For the three months ended March 31, 2007, underwriting income of \$1.3 million plus

investment income of \$2.6 million comprised net income before income taxes of \$3.9 million. This compares to an underwriting income of \$0.9 million, plus investment income of \$2.6 million, in the first three months of 2006.

Income Taxes

The provision for income taxes for the quarter ended March 31, 2007, was \$1.4 million compared to \$1.1 million for the first quarter of 2006. This reflected higher pre-tax income as a result of higher underwriting profits year over year for the quarter.

Segmented Financial Information

(in \$ thousands)	Three months ended March 31					
	2007			2006		
	Personal Lines		Total	Niche	Personal	Niche
Canada	U.S.	Products		Lines	Products	
			Canada	Canada	Canada	
Underwriting revenue	19,531	876	20,407	4,382	22,661	2,414
Underwriting income (loss)	742	3	745	778	1,302	(189)
Loss ratio	64.9%	75.4%	65.4%	40.8%	66.7%	60.5%
Expense ratio	31.3%	24.2%	31.0%	41.4%	27.5%	47.3%
Combined ratio	96.2%	99.6%	96.4%	82.2%	94.3%	107.9%

The segmented information, for the first quarter of 2007, shows that both business segments contributed to underwriting income. The Personal Lines business segment contributed \$0.7 million of underwriting income in the quarter, while Niche Products also recorded an underwriting income of \$0.8 million in the three month period. Personal Lines includes business assumed from two U.S. domiciled insurance companies.

The loss ratio in Personal Lines was 65.4% for the quarter ended March 31, 2007, compared to 66.7% for the same period in 2006. This improvement was primarily the result of continued positive development of claims, in the quarter, related to prior years.

The Niche division loss ratio decreased significantly to 40.8% in the first quarter of 2007 compared to 60.5% for the same period in 2006. This improvement was due to improved current year claims experience compared to 2006. As noted in our 2006 quarterly report for the first quarter of 2006, the Niche division loss ratio was negatively impacted by the occurrence of one “at limits” liability claim. No large claims were incurred in the first quarter of 2007.

The expense ratio for Personal Lines, in the first quarter of 2007, increased to 31.0%

compared to 27.5% for the same period in 2006. This was primarily the result of the decrease in net earned premium as described above. This ratio is expected to decline during 2007 as premiums generated from our motorcycle and U.S. assumed businesses are earned through the year. The Niche division expense ratio has improved significantly to 41.4% in 2007 compared to 47.3% for the first quarter of 2006 due to improved economies of scale resulting from the significant increase in net earned premiums for this business segment in 2007.

Balance Sheet Analysis

Investments

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

	<u>March 31, 2007</u>	<u>December 31, 2006</u>	
	Fair value and carrying amount	Fair value	Carrying amount
Bonds			
Canadian			
Federal	\$ 66,794	\$ 65,928	\$ 65,918
Provincial	26,491	27,883	27,249
Municipal	9,286	3,954	3,914
Corporate	45,512	49,525	49,236
	<u>\$148,083</u>	<u>\$147,290</u>	<u>\$146,317</u>
Preferred shares	<u>\$ 6,987</u>	<u>\$ 6,369</u>	<u>\$ 6,277</u>
Common shares			
Canadian	38,598	28,374	21,574
United States	4,154	4,183	3,883
	<u>\$ 42,752</u>	<u>\$ 32,557</u>	<u>\$ 25,457</u>
Investment income due and accrued	1,685	1,332	1,332
	<u>\$199,507</u>	<u>\$187,548</u>	<u>\$179,383</u>

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 \$1.9 million and a market value of \$2.5 million, at March 31, 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, therefore 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 March 31, 2007 two small private investments were monetized. Savoy anticipates completing the winding up process of the fund in the second half of 2007.

Recoverable from Reinsurers

As at March 31, 2007, the recoverable from reinsurers decreased to \$51.4 million as compared to \$52.2 million as at December 31, 2006. This decrease is due to the withdrawal of quota share reinsurance arrangements as at December 31, 2005. This reduction occurs as prior year claims are settled and the claim payments are recovered from quota share reinsurers.

Accounts Receivable

Premium financing receivables are the largest component of this asset as at March 31, 2007, and represents approximately 83% or \$16.5 million of total receivables. Premium financing receivables decreased to \$16.5 million from \$18.6 million at December 31, 2006. This decrease is due to the decline in non-standard auto policy premiums in the first quarter of 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 March 31, 2007.

(in \$ thousands)	Years ended December 31				
	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 March 31, 2007	132,766	81,911	45,110	23,543	13,966
Cumulative paid to March 31, 2007	10,028	31,278	45,279	51,937	55,707
Cumulative Redundancy (Deficiency)	2,897	15,852	16,807	3,711	(3,128)

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 first three months of 2007 the total prior year reserve redundancies released pursuant to the March 31, 2007 actuarial report, were \$2.9 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 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 March 31, 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 is 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.

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 March 31, 2007, there were 9,643,152 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 March 31, 2007, is \$93.4 million compared to \$86.0 million at December 31, 2006. This increase was significantly impacted, in the amount of \$5.3 million, by the implementation of the new accounting policy re Financial Instruments as described in Note 2 of the interim financial statements. Other components of the increase in shareholders' equity were net income of \$2.5 million in the quarter and the issuance of common shares of \$0.1 million, which were offset by the payment of quarterly dividends of \$0.5 million to common shareholders of record on March 15, 2007.