ECHELON FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2016

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References to "EFH" or "Company" in this Management's Discussion and Analysis refer to Echelon Financial Holdings Inc. on a consolidated basis, both now and in its predecessor forms.

Important Note:

The condensed consolidated interim financial statements for the quarters ended March 31, 2016, and 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34 Interim Financial Reporting. The policies applied in the condensed consolidated interim financial statements are based on IFRS and have been consistent with those of the previous financial year except for the ones explained in note 3 in the condensed financial statements.

The following discussion should be read in conjunction with EFH's unaudited condensed consolidated interim financial statements for the first quarter of fiscal 2016 and 2015, with the notes to the condensed consolidated interim financial statements, and with management's discussion and analysis (MD&A) and audited annual consolidated financial statements and accompanying notes in the Company's 2015 Annual Report. The financial data in this discussion has been prepared in accordance with IFRS and has been derived from the unaudited consolidated interim financial statements for the three months ended March 31, 2016, and 2015.

The following commentary is current as of May 3, 2016. Additional information relating to EFH is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

EFH uses both IFRS and certain non-IFRS measures to assess performance. Securities regulators require that companies caution readers about non-IFRS measures that do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other companies. EFH analyzes performance based on underwriting income and underwriting ratios such as combined, expense and loss ratios, which are non-IFRS measures. Underwriting income is defined as net earned premiums less net claims incurred, net acquisition expenses, general expenses, integration costs and excludes any impact of change in discount rate or foreign exchange rate on claims.

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 EFH for 2016 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 EFH's control, affect the operations, performance and results of EFH and its business, and could cause actual results to differ materially from the expectations expressed in any of this forward-looking information.

COMPANY OVERVIEW

EFH operates in the property and casualty (“P&C”) insurance industry in Canada and Europe. The Company underwrites non-standard automobile insurance and other specialty insurance products, with a focus on niche under-served markets.

EFH operates in Canada through Echelon Insurance ("Echelon"), a federally-regulated P&C insurance company and The Insurance Company of Prince Edward Island ("ICPEI"), a provincially regulated P&C insurance company. It has two lines of insurance business in Canada – Personal Lines and Commercial Lines. Personal Lines focuses on the underwriting of non-standard automobile insurance and insurance for motorcycles, antique and classic vehicles, trailers, motor homes, recreational vehicles and personal property. Commercial Lines designs and underwrites specialized insurance programs, such as hard-to-place commercial property, primary and excess liability, creditor insurance, and extended warranty.

The International segment underwrites specialty insurance programs in Europe through Qudos Insurance A/S (“Qudos”), a majority-owned insurance company. Qudos is domiciled in Denmark and is regulated throughout the European Union by the Danish Financial Supervisory Authority. Products underwritten include non-standard auto, personal property and warranty insurance for new and existing homes. It commenced writing premiums in 2012 and, to date, the majority of the business written is in the United Kingdom, Ireland and Scandinavia.

FIRST QUARTER HIGHLIGHTS

- Net operating loss of $0.33 per share compared to an income of $0.17 per share in the first quarter of 2015.
- An underwriting loss of $9.4 million for the quarter compared to an underwriting loss of $3.5 million in the first quarter of 2015.
- A combined operating ratio of 112% compared to 105% in the first quarter of 2015 primarily due to weak performance in the International segment. The Canadian business remains solid with stable direct written premiums and improved year-over-year underwriting results.
- A 10% decrease in net written premiums over the same period in 2015 to $63.1 million, primarily driven by additional co-insurance and reinsurance on motor programs written in the International segment.
- Total pre-tax loss on invested assets of $3.1 million in the quarter compared to a pre-tax return of $8.8 million in the first quarter of 2015, primarily due to poor performance of the preferred share portfolio.
- Book value per share $15.16 per share, a decrease of 3.7% in the quarter.

The following financial information compares three months ended March 31, 2016, results with the same period in 2015.

($ THOUSANDS except per share amounts)	3 months ended March 31 2016	2015	Variance $	%
Direct written and assumed premiums	94,400	90,886	3,514	4
Net written premiums	63,094	69,857	(6,763)	(10)
Net earned premiums	79,397	69,197	10,200	15
Net claims incurred	57,460	44,516	12,944	29
Net acquisition costs	22,138	19,651	2,487	13
Operating expenses	9,229	8,539	690	8
Underwriting (loss)	(9,430)	(3,509)	(5,921)	(169)
One-time expense[3]	(1,984)	—	(1,984)	—
Investment income	5,185	5,912	(727)	(12)
Net income (loss) before interest and income taxes	(6,229)	2,403	(8,632)	(359)
Interest expense	44	—	44	—
Income taxes (recovery)	(1,724)	(754)	(970)	(129)
Net income (loss)	(4,549)	3,157	(7,706)	(244)
Net income (loss) attributable to shareholders	(4,410)	3,507	(7,917)	(226)
Net operating income (loss) attributable to shareholders	(4,000)	2,062	(6,062)	(294)
Earnings (loss) per share				
Basic	($0.38)	$0.30	$(0.68)	(227)
Diluted	($0.38)	$0.29	$(0.67)	(231)
Net operating income (loss) per share – diluted [1]	($0.33)	$0.17	$(0.50)	(294)
Trailing twelve month return on equity (ROE) [2]	0.2%	9.3%		

(1) Net operating income is defined as underwriting income plus interest and dividend income, net of tax. Net operating income is adjusted to that attributable to shareholders for per share calculation.

(2) ROE calculated on rolling twelve-month basis.

(3) One time expense of $2.0 million in 2016 is not considered part of operating expenses.

Insurance Operations

Direct Written, Net Written and Net Earned Premiums

In the first quarter of 2016, direct written premiums increased by $3.5 million, or 4%, to $94.4 million compared to $90.9 million in the same period last year. Net written premiums decreased by 10% due to additional coinsurance and reinsurance on primarily UK and Irish motor programs. Net earned premiums increased by $10.2 million, or by 15%, to $79.4 million compared to $69.2 million in the same period last year. The International segment accounted for growth in net earned premiums.

Claims Incurred

For the quarter ended March 31, 2016, net claims expense increased by 29%, primarily driven by weaker results in the International segment.

On a consolidated basis, net favourable development of prior year claims of $1.4 million was recorded in the first quarter of 2016 compared to net favourable development of $2.4 million in the same period in 2015.

Acquisition Costs

Acquisition costs, which consist mainly of commissions, premium taxes and a portion of general expenses related to policy acquisitions, increased by 13%, in the quarter ended March 31, 2016, in line with the increase in net earned premiums.

Operating Expenses

Operating expenses increased by $0.7 million or 8%, to $9.2 million in the first quarter of 2016 compared to $8.5 million in the comparative quarter, primarily due to an increase in salaries and benefits.

Underwriting Income

Underwriting loss of $9.4 million was recorded in the first quarter of 2016 compared to an underwriting loss of $3.5 million in the same period in 2015. The decrease was due to an increased underwriting loss in the International segment, primarily due to current year claims in UK Auto. Commercial lines experienced a loss in the first quarter compared to an underwriting gain in the prior year due to less positive development on claims. These were partially offset by underwriting income in Personal Lines.

Investment Income

There was investment income of $5.2 million in the first quarter of 2016 compared to $5.9 million in the same period in 2015, primarily due to lower realized gains in the quarter compared to prior year.

Net Income before Income Taxes

For the quarter ended March 31, 2016, net loss before taxes was $6.2 million compared to income of $2.4 million in the first quarter of 2015. This was primarily due to decreased underwriting income, lower investment income and a one-time severance expenses of $2.0 million.

Income Taxes

For the quarter ended March 31, 2016, the provision for income taxes reflects a recovery of $1.7 million compared to a recovery of $0.8 million for the same period last year.

SEGMENTED FINANCIAL INFORMATION

Personal Lines

	3 months ended March 31			
($THOUSANDS)	**2016**	**2015**	**$Variance**	**%Variance**
Direct written premiums	30,811	30,765	46	—
Net earned premiums	33,360	33,038	322	1
Net claims:				
Current year claims	23,699	27,716	(4,017)	(14)
Current year loss ratio	71.1%	83.9%		
Favourable prior year claims development	1,767	1,203	564	47
Total net claims	21,932	26,513	(4,581)	(17)
Claims ratio	65.7%	80.3%		
Expense ratio	32.1%	30.8%		
Combined ratio	97.8%	111.1%		
Underwriting income (loss)	743	(3,666)	4,409	120

First quarter 2016

Personal Lines reported an underwriting income of $0.7 million compared to an underwriting loss $3.7 million in the same period last year, an increase of $4.4 million.

This segment's combined ratio decreased to 98% in the quarter as a result of the following factors:

1. Benign winter driving conditions in Ontario and Atlantic auto, and no large losses in Quebec Auto, resulted in improved auto performance in the first quarter of 2016 compared to 2015.
2. Improved development on prior period claims in Western personal property.
3. Increased positive development of prior year claims of $1.8 million compared to $1.2 million in the same period in 2015.

Commercial Lines

	3 months ended March 31			
($THOUSANDS)	**2016**	**2015**	**$Variance**	**%Variance**
Direct written premiums	11,310	11,461	(151)	(1)
Net earned premiums	9,988	9,503	485	5
Net claims:				
Current year claims	6,672	6,493	179	3
Current year loss ratio	66.8%	68.3%		
Favourable prior year claims development	301	1,597	(1,296)	(81)
Total net claims	6,371	4,896	1,475	30
Claims ratio	63.8%	51.5%		
Expense ratio	43.8%	43.8%		
Combined ratio	107.6%	95.3%		
Underwriting income (loss)	(763)	444	(1,207)	(272)

First quarter 2016

Commercial Lines recorded an underwriting loss in the first quarter of 2016 of $0.8 million, compared to underwriting income of $0.4 million in the first quarter of 2015, a decrease of $1.2 million.

This segment's combined ratio increased to 108% in the quarter as a result of the following factors:

1. Large claim reported in Western Canada, of approximately $1.0 million.
2. Decreased positive development of prior year claims of $0.3 million compared to positive development of prior year claims of $1.6 million in the same period in 2015.
3. The above were partially offset by improvements in Western warranty due to lower frequency of claims.

International

($THOUSANDS)	3 months ended March 31 2016	2015	$Variance	%Variance
Direct written premiums	52,279	48,660	3,619	7
Net written premiums	24,385	31,491	(7,106)	(23)
Net earned premiums	36,049	26,656	9,393	35
Net claims:				
Current year claims	28,496	12,661	15,835	125
Current year loss ratio	79.0%	47.5%		
(Unfavourable) prior year claims development	(661)	(446)	(215)	(48)
Total net claims	29,157	13,107	16,050	122
Claims ratio	80.9%	49.2%		
Expense ratio	39.6%	44.0%		
Combined ratio	120.5%	93.2%		
Underwriting income (loss)	(7,374)	1,825	(9,199)	(504)

First quarter 2016

The International segment recorded $24.4 million of net written premiums in the first quarter of 2016 compared to $31.5 million in the same period in 2015, a decrease of 23%. The decrease in premiums is due to the de-risking efforts initiated at the end of 2015 on UK and Irish motor programs. At the end of the first quarter 2016, the International segment wrote programs through 24 Managing General Agents (MGAs), mainly in the UK, Ireland and Scandinavia.

The International segment recorded an underwriting loss of $7.4 million in the first quarter 2016 compared to underwriting income of $1.8 million in the comparable period in 2015. This was as a result of:

1. Poor performance in UK and Irish motor binders, primarily due to increased frequency of claims in the quarter.
2. The UK and Irish motor claims were partially offset by continued strong performance in Warranty that recorded a 93% combined ratio for the quarter.
3. Poor performance in personal property due to flood claims in Ireland.

We continue to make progress on the previously announced underwriting changes to improve profitability and the coinsurance and reinsurance initiatives to rebalance the risks of the portfolio. We have also initiated a full claims review on the UK and Irish auto programs. A decision on the continuity of these programs will be taken shortly.

SUMMARY OF QUARTERLY RESULTS

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

	2016	2015				2014		
($ THOUSANDS EXCEPT PER SHARE DATA)	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Direct written and assumed premiums	94,400	135,282	131,164	137,759	90,886	78,832	104,876	101,428
Net earned premiums and other revenue	79,397	81,503	84,186	76,025	69,197	77,491	76,560	61,885
Underwriting income (loss)	(9,430)	(3,591)	(678)	1,679	(3,509)	7,584	122	(3,311)
Income (loss) before interest expense and income taxes	(6,229)	5,207	(4,133)	5,146	2,403	10,804	6,466	(154)
Net income (loss)	(4,549)	3,682	(3,732)	5,111	3,157	8,403	5,536	(603)
Net operating income (loss)	(4,000)	151	1,754	5,081	2,062	9,005	3,944	263
Earnings (loss) per adjusted share								
(a) Basic	($0.38)	$0.30	($0.31)	$0.41	$0.30	$0.70	$0.42	$0.02
(b) Diluted	($0.38)	$0.30	($0.31)	$0.40	$0.29	$0.68	$0.41	$0.02
Net operating income (loss) per share - diluted	($0.33)	$0.01	$0.15	$0.42	$0.17	$0.75	$0.33	$0.02
Selected financial ratios								
Loss ratio	72.4%	64.4%	61.5%	58.6%	64.3%	51.0%	60.4%	65.4%
Expense ratio	39.5%	40.0%	39.3%	39.2%	40.8%	39.2%	39.4%	39.9%
Combined ratio	111.9%	104.4%	100.8%	97.8%	105.1%	90.2%	99.8%	105.3%
Book value per share	$15.16	$15.75	$15.55	$16.00	$16.11	$15.82	$15.19	$14.99

The quarterly results reflect the seasonality of the Company's business. While net earned premiums are relatively stable from quarter to quarter, except for acquisition-related growth, underwriting results vary significantly by quarter as they are affected by changes in weather conditions.

Net Operating Income

	3 months ended March 31	
($ THOUSANDS except per share amounts)	**2016**	**2015**
Net investment income [1]	3,725	3,932
Underwriting income	(9,430)	(3,509)
Pre-tax operating income	(5,705)	423
Income tax (recovery)	(1,566)	(1,289)
Net operating income	(4,139)	1,712
Minority interest	(139)	(350)
Net operating income attributable to shareholders	(4,000)	2,062
Net operating income per share - diluted	$(0.33)	$0.17

[1] Net investment income consists of interest income, dividend income and premium financing charges, less interest expense, as per Note 6.

BALANCE SHEET ANALYSIS

The Balance Sheet analysis that follows should be read in conjunction with the unaudited condensed consolidated financial statements for the first quarter of 2016, and notes therein.

Balance Sheet Highlights

Selected balance sheet highlights and book value per share details are as follows:

($ THOUSANDS except per share amounts)	As at March 31, 2016	As at December 31, 2015
Cash and short-term deposits	30,733	23,373
Investments	497,027	513,099
Total assets	902,335	923,049
Provision for unpaid claims	421,768	397,214
Unearned premiums	231,275	260,073
Total equity attributable to shareholders	177,531	184,700
Book value per share [1]	$15.16	$15.75
MCT Ratio - Echelon Insurance	225%	241%
- ICPEI	291%	289%
Solvency II - Qudos	118%	122%

[1] Shareholders' equity divided by the number of shares issued and outstanding.

Investments

EFH has an investment policy that seeks to provide a stable income base to support EFH's liabilities without incurring an undue level of investment risk. In addition to this risk-return analysis, the chosen asset mix also considers the amount of regulatory capital that is required.

EFH's investment portfolio is invested in well-established, active and liquid markets in Canada, the United States and Europe. Fair value for most investments is determined by reference to observable market data.

Fair Value of Investments

The following table sets forth EFH's invested assets as at March 31, 2016, and December 31, 2015.

($ Thousands)	Fair values			
Available-for-sale	**As at March 31, 2016**	**% of Total**	**As at December 31, 2015**	**% of Total**
Fixed income				
Canadian				
Federal	42,102		45,524	
Provincial	53,076		55,976	
Municipal	535		1,386	
Corporate	165,895		171,789	
	261,608		274,675	
Fixed income lent through securities lending program				
Federal	6,427		14,231	
Provincial	7,012		3,800	
Municipal	849		—	
Corporate	3,124		4,673	
	17,412		22,704	
Foreign fixed income				
Government	20,945		17,555	
Corporate	120,937		114,399	
	141,882		131,954	
Foreign lent through securities lending program				
Corporate	657		—	
Total fixed income	421,559	85%	429,333	84%
Commercial mortgages pooled funds	17,093		17,017	
Money market pooled funds	338		403	
Short-term fixed income and mortgage pooled funds	17,048		16,934	
Total Pooled Funds	34,479	7%	34,354	7%
Common shares				
Canadian	2,533		2,656	
US	1,579		8,012	
Common shares lent through securities lending program				
Canadian	2		—	
Total common shares	4,114	1%	10,668	1%
Total available-for-sale	460,152		474,355	
Fair value through profit or loss				
Preferred shares	36,553		38,400	
Preferred shares lent through securities lending program	322		344	
Total Preferred shares	36,875	7%	38,744	8%
Total investments	497,027	100%	513,099	100%

Impairment Assets and Provisions for Losses

EFH has an established policy to write down or make a provision for any investment with objective evidence that the value of the investment is impaired.

There was no impairment loss recognized during the three months ended March 31, 2016 and 2015.

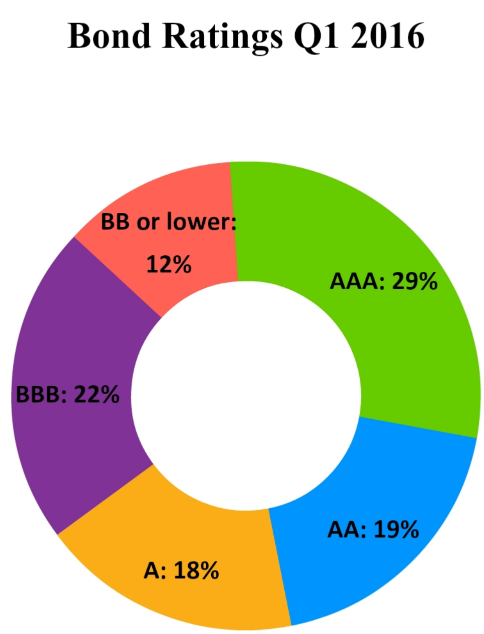
A gross unrealized loss of $4.3 million (March 31, 2015 – $3.1 million) on investments held as at March 31, 2016, is recorded, net of tax, in the amount of $3.2 million (March 31, 2015 – $2.4 million) in Accumulated Other Comprehensive Income. The Company has concluded, based on its review, that these fair value deficiencies do not meet the criteria for impairment and they will be monitored on an ongoing basis.

Fixed Income Securities

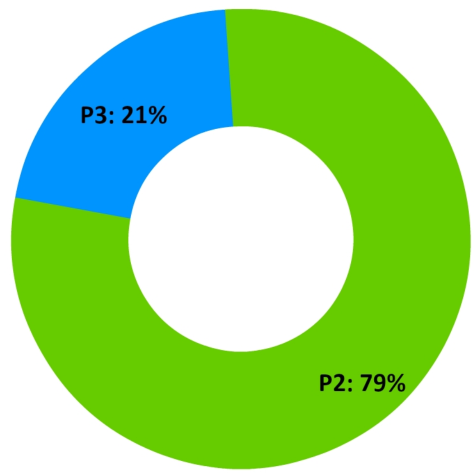
EFH holds fixed income securities to provide a steady, predictable level of income with reasonable liquidity and minimal risk of loss and a fixed sum at maturity. EFH's portfolio is diversified by selecting various types of government and corporate bonds. Constraints on types of issuers take liquidity, diversification and risk into account by limiting the portfolio mix by issuer.

EFH's bond portfolio has a high overall credit quality with an average rating of A. The preferred shares have an average rating of P2. The duration of the bond portfolio is 3.1 years.

The chart below set forth EFH's fixed income portfolio by credit quality as at March 31, 2016.



Preferred Shares Q1 2016



Sector Mix by Asset Class

The following table shows sector exposure by asset class as at March 31, 2016:

Sector	Fixed Income Securities & Pooled Funds	Preferred Shares	Common Shares	Total
Financial Services	38%	62%	26%	40%
Government	30%	—%	—%	28%
Infrastructure	9%	—%	—%	8%
Telecomunication	7%	—%	15%	6%
Consumer Discretionary	3%	—%	15%	3%
Energy	3%	—%	13%	3%
Industrial Products	3%	6%	7%	3%
Pipelines	2%	15%	—%	3%
Utilities	1%	17%	12%	3%
Technology	—%	—%	7%	—%
Other	4%	—%	5%	3%
Total	100%	100%	100%	100%
Total (1) ($ Thousands)	$455,054	$36,875	$4,114	$496,043

(1) Fixed income securities & pooled funds do not include any cash being carried by the pooled funds, $1.0 million as at March 31, 2016.

Common Share Portfolio

As at March 31, 2016, 62% of the common share portfolio was invested in Canadian equities with 38% in U.S. equities.

Recoverable from Reinsurers

($ THOUSANDS)	As at March 31, 2016	As at December 31, 2015
Reinsurers’ share of unpaid claims	107,248	90,158
Reinsurers’ share of unearned premiums	78,274	89,953
Total	185,522	180,111

As at March 31, 2016, the recoverable from reinsurers increased by $5.4 million, or 3%, to $185.5 million from $180.1 million as at December 31, 2015. The increase was due to increased reinsured premiums in the International segment. All reinsurers, with balances due, have a rating of A– or above as determined by Standard & Poor’s and A.M. Best, except for several Specialty Programs distributors who share a portion of the risk with EFH, for whom the Company holds deposits as collateral.

Accounts Receivable

($ THOUSANDS)	As at March 31, 2016	As at December 31, 2015
Agents and brokers	58,722	78,849
Premium financing receivables	17,980	18,355
Other	10,089	8,096
Total	86,791	105,300

Premium financing receivables represents 20.7% of total receivables as at March 31, 2016. Premium financing receivables decreased to $18.0 million at March 31, 2016, from $18.4 million at December 31, 2015. The decrease in agent and broker receivables from $78.8 million in 2015 to $58.7 million in 2016 was a result of decreased balances due to Qudos agents & brokers.

Provision for Unpaid Claims

EFH 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 EFH. 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 and are determined by EFH's appointed actuary. Provisions for unpaid claims are discounted to present value. The discount rate used for March 31, 2016 and 2015 for the following entities:

Entity	As at March 31, 2016	As at December 31, 2015
Echelon Insurance	2.44%	2.44%
ICPEI	1.63%	1.63%
Qudos	0.27%	0.27%

Share Capital

As of May 3, 2016, there were 11,713,510 common shares issued and outstanding.

LIQUIDITY AND CAPITAL MANAGEMENT

The purpose of liquidity management is to ensure there is sufficient cash to meet all of EFH's financial commitments and obligations as they come due. EFH 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.

Contractual obligations include operating leases, for which $1.3 million is due in less than a year and $8.7 million is due over the next nine years.

EFH is primarily a holding company and, as such, has limited direct operations of its own. EFH's principal assets are the shares of its insurance and reinsurance subsidiaries. Accordingly, its future cash flows depend in part upon the availability of dividends and other statutorily permissible distributions from its insurance subsidiaries. The ability to pay such dividends and to make such other distributions is limited by applicable laws and regulations of the jurisdictions in which the insurance subsidiaries are domiciled, which subject the insurance subsidiaries to significant regulatory restrictions. These laws and regulations require, among other things, that the insurance subsidiaries maintain minimum solvency requirements and may also limit the amount of dividends that the insurance subsidiaries can pay to EFH.

Capital Management

The total capitalization of EFH at March 31, 2016, was $181.5 million compared to $188.7 million at December 31, 2015.

The Minimum Capital Test (MCT) ratio of the Company's Canadian subsidiary, Echelon Insurance, as at March 31, 2016, was 225%, which comfortably exceeds the supervisory regulatory capital level required by the Office of the Superintendent of Financial Institutions (OSFI). ICPEI's MCT ratio of 291% was in excess of provincial supervisory targets. The Company's European subsidiary, Qudos, had a Danish Financial Services Authority (DKFSA) Individual Solvency ratio of 118%, as at March 31, 2016, in excess of the DKFSA minimum. In addition to excess capital at Echelon Insurance, the Company has approximately $5 million of excess deployable capital invested in liquid assets in the holding company.

Normal Course Issuer Bid (NCIB)

On August 19, 2014, the Company received approval from the TSX to commence an NCIB to repurchase and cancel up to 703,792 common shares, representing 10% of its public float issued and outstanding common shares at that time. This was in force until August 20, 2015.

On October 8, 2015, the Company received approval from the TSX to commence an NCIB to repurchase and cancel up to 619,265 common shares, representing 10% of its public float issued and outstanding common shares at that time. This is in force until October 7, 2016.

In the first quarter of 2016 there were 46,900 common shares repurchased at an average cost of $13.23 per share for a total consideration of $0.6 million. From October 8 to May 2, 2016, the Company purchased and cancelled 115,700 common shares under the NCIB program at an average cost of $13.65 per share for a total consideration of $1.6 million.

Subsequent Events

Capital Injection

On April 19, 2016, the Company injected $7.5 million to Qudos to strengthen capital ratios. The Company's ownership stake has increased to 97.9%.

Transactions with Related Parties

EFH has entered into transactions with The Co-operators Group Limited ("Co-operators"), which is a significant shareholder of EFH. These transactions are carried out in the normal course of operations and are measured at arms length which approximates fair value. The transactions principally consist of an agent distribution channel, support services and investment management.

ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with IFRS and in compliance with IAS 34 “Interim Financial Reporting.” Please refer to note 3 of the unaudited condensed consolidated interim financial statements for the quarter ended March 31, 2016.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by EFH is recorded, processed, summarized and reported in a timely manner. This includes controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of March 31, 2016, an evaluation was carried out, under the supervision of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of these disclosure controls and procedures was effective.

Internal Controls over Financial Reporting

As at the quarter ended March 31, 2016, the Chief Executive Officer and the Chief Financial Officer evaluated the design of the Company’s internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal controls as at March 31, 2016, was effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company’s internal control over financial reporting during the quarter ended March 31, 2016, that have materially affected or are reasonably likely to materially affect the Company’s internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

For a description of EFH’s accounting policies, which are on an IFRS basis, refer to note 3 in the unaudited condensed consolidated interim financial statements for the quarter ended March 31, 2016. A description of EFH’s critical accounting estimates and assumptions is also detailed in note 4 of the interim financial statements.

GLOSSARY OF SELECTED INSURANCE TERMS

"Cede" means the act of an insurer transferring or assigning part or all of the risk on an insurance policy written by it to a reinsurer by purchasing insurance from such reinsurer to cover the risk or part thereof.

"Combined ratio" of an insurer for any period means the sum of the loss ratio and the expense ratio of the insurer for such period.

"Direct written premiums" of an insurer for any period means the total premiums on insurance, including assumed reinsurance, written by the insurer during such period.

"Expense ratio" for any period means the sum of expenses, including commissions, premium taxes and operating expenses incurred, expressed as a percentage of net earned premiums.

"Loss adjustment expenses" or **"LAE"** means the expense of settling claims, including certain legal and other fees and the expense of administering the claims adjustment process.

"Loss ratio" for any period means the sum of claims and claims adjustment expenses incurred, net of reinsurance, expressed as a percentage of net earned premiums.

"Minimum Capital Test" means the OSFI's Minimum Capital Test (MCT) Guideline under which a federally regulated insurer is measured for the adequacy of its capital.

"Net earned premiums" of an insurer means the portion of the written premium equal to the expired portion of the time for which insurance or reinsurance was in effect.

"Net Operating Income" means net income plus or minus the after tax impact of change in discount rate on unpaid claims, realized losses or gains on sale of investments, discontinued operations, unrealized fair value changes on FVTPL investments and one time non recurring charges.

"Net written premiums" of an insurer means direct written premiums less amounts ceded to reinsurers.

"Producers" refers to, collectively, insurance brokers, agents and managing general agencies**.**

"Reinsurance" means an arrangement in which an insurance company, the reinsurer, agrees to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance or reinsurance risks underwritten by the ceding company under one or more policies.

"Return on equity" or "ROE" for a period means net income expressed as a percentage of the average total shareholder equity in that period.

"Underwriting" means the assumption of risk for designated loss or damage by issuing a policy of insurance in respect thereof.

"Unearned premiums" means the portion of premiums received relating to the period of risk in subsequent accounting periods and which is deferred to such subsequent accounting periods.