ECHELON FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the nine months ended September 30, 2016

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For the nine months ended September 30, 2016

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 September 30, 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 third 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 nine months ended September 30, 2016 and 2015.

The following commentary is current as of November 2, 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. A divestiture process of the European business is currently underway. The Company underwrites automobile insurance and other specialty insurance products, with a focus on niche under-served markets. On August 4, 2016, EFH announced that it has signed a definitive stock purchase agreement for the sale of its European operations, subject to customary closing approvals. The European operation results and balance sheet fair value impairment associated with its sale are referred to as discontinued operations in this document.

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 European 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. As mentioned above, the Company has signed a definitive stock purchase agreement for the sale of its European operations and is awaiting regulatory approval.

THIRD QUARTER HIGHLIGHTS

- Net operating income on continued operations of $0.13 per share compared to an income of $0.30 per share in the third quarter of 2015.
- A Canadian combined operating ratio of 97% compared to 92% in the third quarter of 2015, primarily due to strong commercial and motorcycle results, offset by weaker Ontario auto results.
- A 14% increase in net written premiums on continued operations over the same period in 2015 to $52.9 million, primarily driven by additional new products in personal lines and commercial lines premiums across Canada.
- Total pre-tax gain on invested assets of $3.7 million in the quarter compared to a pre-tax loss of $5.5 million in the third quarter of 2015, primarily due to stronger performance of the preferred share portfolio.
- Closing book value per share in the quarter to $12.90.
- A change of control application has been submitted to the Danish Financial Services authority for approval of the divestiture of the Company's European operations.

The following financial information compares three and nine months ended September 30, 2016, results with the same periods in 2015 on a continued operations basis.

	3 months ended September 30		9 months ended September 30	
($ THOUSANDS except per share amounts)	**2016**	**2015**	**2016**	**2015**
Direct written and assumed premiums	58,171	50,769	168,083	156,373
Net written premiums	52,872	46,535	155,125	143,032
Net earned premiums	46,452	46,882	135,047	132,563
Net claims incurred	28,573	28,271	85,118	86,144
Net acquisition costs	10,815	10,080	30,865	29,972
Operating expenses	7,493	7,111	22,033	20,090
Underwriting (loss) income	(429)	1,420	(2,969)	(3,643)
Other income	—	—	—	748
Severance expense[2]	(984)	—	(3,497)	—
Investment income (loss)	4,487	(2,606)	13,348	6,336
Impact of discount rate – increase in claims	(1,452)	—	(1,452)	(1,056)
Net income (loss) before interest and income taxes on continued operations	1,622	(1,186)	5,430	2,385
Interest expense	57	—	154	—
Income taxes expense (recovery)	163	91	759	(1,071)
Net income (loss) on continued operations	1,402	(1,277)	4,517	3,456
Net income (loss) attributable to shareholders on continued operations	1,235	(1,315)	4,008	3,626
Net operating income attributable to shareholders on continued operations	1,580	3,558	5,497	5,217
Earnings per share on continued operations				
Basic	$0.10	($0.11)	$0.34	$0.31
Diluted	$0.10	($0.11)	$0.33	$0.30
Net operating income per share on continued operations – diluted [1]	$0.13	$0.30	$0.46	$0.44
Trailing twelve month return on equity (ROE) - continued operations	8.0%	5.7%	8.0%	5.7%

(1) Net operating income is defined as net income excluding the impact of the change in discount rate and foreign exchange rates on unpaid claims and investments, realized losses or gains on sale of investments, discontinued operations, unrealized fair value changes on Fair Value Through Profit or Loss (FVTPL) investments, one time and non-recurring items. Net operating income is adjusted to that attributable to shareholders for per share calculation.

(2) Severance expense not considered part of operating expenses.

Insurance Operations

Direct Written and Net Earned Premiums

In the third quarter of 2016, direct written premiums increased by $7.4 million, or 15%, to $58.2 million compared to $50.8 million in the same period last year. Net earned premiums decreased by $0.4 million, or by 1%, to $46.5 million compared to $46.9 million in the same period last year.

Claims Incurred

For the quarter ended September 30, 2016, net claims expense increased to $28.6 million compared to $28.3 million in the third quarter of 2015, resulting in a slightly increased loss ratio to 62%, compared to 60% for the same period in 2015.

On a consolidated basis, net favourable development of prior year claims of $4.5 million was recorded in the third quarter of 2016 compared to net favourable development of $6.0 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 acquisition, increased slightly to $10.8 million in the quarter, in line with an increase in premiums.

Operating Expenses

Operating expenses increased $0.4 million or 5% to $7.5 million in the third quarter of 2016 compared to $7.1 million in the comparative quarter, driven by increased hiring and information technology costs.

Severance Expenses

Severance expenses are related to severance paid in the quarter to terminated employees in the Company's European and Canadian operations.

Underwriting Income

An underwriting loss of $0.4 million was recorded in the third quarter of 2016 compared to underwriting income of $1.4 million in the same period in 2015. The decrease was primarily due to weaker performance in Ontario auto, partially offset by strong motorcycle performance.

Investment Income

There was investment income of $4.5 million in the third quarter of 2016 compared to a loss of $2.6 million in the same period in 2015, primarily due to strong performance of the Canadian preferred share portfolio.

Net Income before Interest and Income Taxes

For the quarter ended September 30, 2016, net income before interest and taxes was $1.6 million compared to a loss of $1.2 million in the third quarter of 2015, due to improved investment income offsetting the underwriting loss.

Income Taxes

For the quarter ended September 30, 2016, the provision for income taxes reflects an expense of $0.2 million compared to an expense of $0.1 million for the same period last year.

SEGMENTED FINANCIAL INFORMATION (Continued Operations)

Canadian Operations

	3 months ended September 30				9 months ended September 30			
($THOUSANDS)	**2016**	**2015**	**$Variance**	**%Variance**	**2016**	**2015**	**$Variance**	**%Variance**
Direct written premiums	58,171	50,769	7,402	15	168,083	156,373	11,710	7
Net earned premiums	46,452	46,882	(430)	(1)	135,047	132,563	2,484	2
Net claims:								
Current year claims	33,032	34,264	(1,232)	(4)	98,919	98,132	787	1
Current year loss ratio	71.1%	73.1%			73.2%	74.0%		
Favourable prior year claims development	4,459	5,993	(1,534)	(26)	13,801	11,988	1,813	15
Total net claims	28,573	28,271	302	1	85,118	86,144	(1,026)	(1)
Claims ratio	61.5%	60.3%			63.0%	65.0%		
Expense ratio	35.0%	31.5%			35.2%	33.0%		
Combined ratio	96.5%	91.8%			98.2%	98.0%		
Underwriting income	1,474	3,849	(2,375)	(62)	2,488	2,697	(209)	(8)

Personal Lines

	3 months ended September 30				9 months ended September 30			
($THOUSANDS)	**2016**	**2015**	**$Variance**	**%Variance**	**2016**	**2015**	**$Variance**	**%Variance**
Direct written premiums	41,805	37,332	4,473	12	123,821	116,278	7,543	6
Net earned premiums	36,357	33,935	2,422	7	104,331	101,065	3,266	3
Net claims:								
Current year claims	26,692	24,696	1,996	8	79,958	78,175	1,783	2
Current year loss ratio	73.4%	72.8%			76.7%	77.4%		
Favourable prior year claims development	2,178	3,143	(965)	(31)	9,754	8,337	1,417	17
Total net claims	24,514	21,553	2,961	14	70,204	69,838	366	1
Claims ratio	67.4%	63.5%			67.3%	69.1%		
Expense ratio	32.1%	31.0%			32.4%	30.9%		
Combined ratio	99.5%	94.5%			99.7%	100.0%		
Underwriting income	179	1,856	(1,677)	(90)	353	6	347	5,783

Third quarter 2016

Personal Lines reported an underwriting income of $0.2 million compared to an underwriting income of $1.9 million in the same period last year, a decrease of $1.7 million.

This segment's combined ratio increased to 100% in the quarter as a result of the following factors:

1. Weaker performance in Ontario auto in the quarter compared to the prior year quarter.
2. Ontario auto experienced negative prior year development of $0.5 million compared to a positive prior year development of $1.3 million in the third quarter of 2015.
3. Offset by exceptional results in Ontario motorcycle for the quarter.

Year-to-Date 2016

Personal Lines reported an underwriting income of $0.4 million compared to an underwriting income $0.0 million in the same period last year, an increase of $0.3 million.

This segment's combined ratio has remained the same as the prior year at 100% as a result of the following factors:

1. Benign winter driving conditions in Ontario and Atlantic auto in the first quarter compared to 2015.

2. Increased positive development on prior year claims of $9.8 million compared to $8.3 million in the same period in 2015.

3. Offset by claims from the Fort McMurray wildfire of $1.0 million and an exceptional number of large claims in the second quarter of 2016.

Commercial Lines

	3 months ended September 30				9 months ended September 30			
($THOUSANDS)	**2016**	**2015**	**$Variance**	**%Variance**	**2016**	**2015**	**$Variance**	**%Variance**
Direct written premiums	16,366	13,437	2,929	22	44,262	40,095	4,167	10
Net earned premiums	10,095	12,947	(2,852)	(22)	30,716	31,498	(782)	(2)
Net claims:								
Current year claims	6,340	9,568	(3,228)	(34)	18,961	19,957	(996)	(5)
Current year loss ratio	62.8%	73.9%			61.7%	63.3%		
Favourable prior year claims development	2,281	2,850	(569)	(20)	4,047	3,651	396	11
Total net claims	4,059	6,718	(2,659)	(40)	14,914	16,306	(1,392)	(9)
Claims ratio	40.2%	51.9%			48.6%	51.8%		
Expense ratio	47.0%	32.7%			44.4%	39.7%		
Combined ratio	87.2%	84.6%			93.0%	91.5%		
Underwriting income	1,295	1,993	(698)	(35)	2,135	2,691	(556)	(21)

Third quarter 2016

Commercial Lines recorded an underwriting income in the third quarter of 2016 of $1.3 million, compared to underwriting income of $2.0 million in the third quarter of 2015, a decrease of $0.7 million. Direct written premiums increased by 22% in the quarter primarily due to launching of new products in commercial auto and surety lines.

This segment's combined ratio increased slightly to 87% in the quarter as a result of the following factors:

1. Setup and hiring costs related to the introduction of the surety and commercial auto lines in the third quarter.

2. Decreased positive development on prior year claims of $2.3 million compared to positive development of prior year claims of $2.9 million in the same period in 2015.

Year-to-Date 2016

Commercial Lines recorded an underwriting income of $2.1 million, compared to underwriting income of $2.7 million in the same period last year, a decrease of $0.6 million.

This segment's combined ratio increased slightly to 93% with the following factors:

1. Fort McMurray fire impacted the Western regional performance, of which $1.0 million was related to commercial lines.
2. A large property claim in Western Canada.
3. Offset by increased positive development on prior year claims of $4.0 million compared to positive development of prior year claims of $3.7 million in the same period in 2015.

SEGMENTED FINANCIAL INFORMATION (Discontinued Operations)

On August 4, 2016, the Company entered into a definitive stock purchase agreement to sell its European subsidiary, subject to customary closing conditions and regulatory approval. The transaction results in a fair value impairment to book value of $22.0 million and the European segment has been classified as a discontinued operation in these financial statements.

The transaction is expected to close in late 2016.

SUMMARY OF QUARTERLY RESULTS

A summary of the Company's last eight quarters, on a continued operations basis, is as follows:

	2016			2015				2014
($ THOUSANDS except per share amounts)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Direct written and assumed premiums	58,171	67,791	42,121	43,100	50,769	63,378	42,226	44,701
Net earned premiums and other revenue	46,452	45,247	43,348	43,905	46,882	43,140	42,541	45,321
Underwriting income (loss)	(429)	(502)	(2,038)	3,195	1,420	271	(5,334)	6,290
Income (loss) before interest expense and income taxes	1,622	3,386	423	11,552	(1,186)	3,745	(174)	8,758
Net income (loss)	1,402	2,198	918	9,341	(1,277)	3,855	879	6,510
Net operating income (loss)	1,580	2,873	1,043	4,707	3,558	2,569	(910)	7,196
Earnings (loss) per adjusted share								
(a) Basic	$0.10	$0.15	$0.08	$0.78	($0.11)	$0.31	$0.11	$0.55
(b) Diluted	$0.10	$0.15	$0.08	$0.76	($0.11)	$0.30	$0.11	$0.53
Net operating income (loss) per share - diluted	$0.13	$0.24	$0.08	$0.41	$0.30	$0.21	($0.06)	$0.61
Selected financial ratios								
Loss ratio	61.5%	62.4%	65.3%	53.9%	60.3%	61.4%	73.8%	48.3%
Expense ratio	39.4%	38.7%	39.4%	38.8%	36.7%	38.0%	38.7%	37.8%
Combined ratio	100.9%	101.1%	104.7%	92.7%	97.0%	99.4%	112.5%	86.1%
Book value per share	$12.90	$13.08	$15.16	$15.75	$15.55	$16.00	$16.11	$15.82

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 on a continued operations basis

	3 months ended September 30		9 months ended September 30	
($ THOUSANDS except per share amounts)	**2016**	**2015**	**2016**	**2015**
Net investment income [1]	2,654	3,505	9,063	10,556
Underwriting income (loss)	(429)	1,420	(2,969)	(3,643)
Add: impact of Fort McMurray wildfires	—	—	2,000	—
Pre-tax operating income	2,225	4,925	8,094	6,913
Income tax	(478)	(1,329)	(2,088)	(1,866)
Net operating income	1,747	3,596	6,006	5,047
Minority interest	(167)	(38)	(509)	170
Net operating income attributable to shareholders	1,580	3,558	5,497	5,217
Net operating income per share - diluted	$0.13	$0.30	$0.46	$0.44

[1] Net investment income consists of interest income, dividend income and premium financing charges, less interest expense, as per Note 6 of the Company's Financial Statements.

BALANCE SHEET ANALYSIS

The Balance Sheet analysis that follows should be read in conjunction with the unaudited condensed consolidated financial statements for the third 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 September 30, 2016	As at December 31, 2015
Cash and short-term deposits	58,990	4,210
Investments	334,097	402,529
Total assets	918,340	871,257
Provision for unpaid claims	260,060	260,848
Unearned premiums	121,179	100,846
Total equity attributable to shareholders	151,337	184,700
Book value per share [1]	$12.90	$15.75
MCT Ratio - Echelon Insurance	228%	241%
- ICPEI	331%	289%

[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 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 September 30, 2016, and December 31, 2015.

($ Thousands)	Fair values			
Available-for-sale	As at September 30, 2016	% of Total	As at December 31, 2015	% of Total
Fixed income				
Canadian				
Federal	55,032		45,524	
Provincial	43,690		55,976	
Municipal	525		1,386	
Corporate	139,838		171,789	
	239,085		274,675	
Fixed income lent through securities lending program				
Federal	15,618		14,231	
Provincial	7,651		3,800	
Municipal	857		—	
Corporate	3,708		4,673	
	27,834		22,704	
Foreign fixed income				
Corporate	—		21,384	
	—		21,384	
Total fixed income	266,919	68%	318,763	78%
Commercial mortgages pooled funds	17,446		17,017	
Money market pooled funds	209		403	
Short-term fixed income and mortgage pooled funds	17,303		16,934	
Total pooled funds	34,958	9%	34,354	8%
Common shares				
Canadian	275		2,656	
U.S.	—		8,012	
Total common shares	275	—%	10,668	3%
Total available-for-sale	302,152		363,785	
Fair value through profit or loss				
Preferred shares	31,681		38,400	
Preferred shares lent through securities lending program	264		344	
Total preferred shares	31,945	8%	38,744	10%
Total investments	334,097	85%	402,529	99%
Cash and short-term deposits	58,990	15%	4,210	1%
Total investments including cash and short-term deposits	393,087	100%	406,739	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 nine months ended September 30, 2016 and 2015.

A gross unrealized loss of $0.6 million (September 30, 2015 – $3.4 million) on investments held as at September 30, 2016, is recorded, net of tax, in the amount of $0.4 million (September 30, 2015 – $2.9 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.

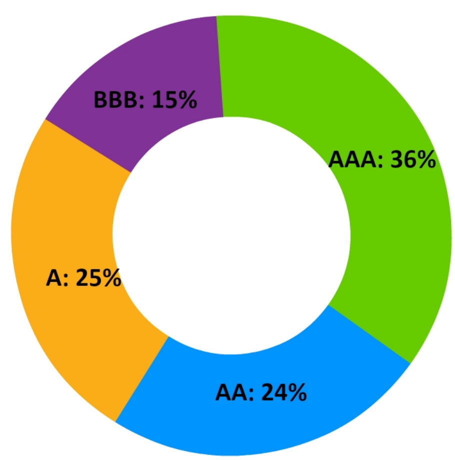
Fixed Income Securities

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.

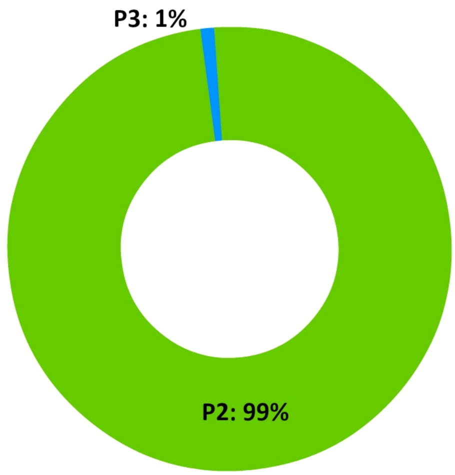
EFH's bond portfolio has a high overall credit quality with an average rating of AA. The preferred shares have an average rating of P2. The duration of the bond portfolio is 3 years.

The chart below set forth EFH's fixed income portfolio by credit quality as at September 30, 2016.

Bond Ratings Q3 2016



Preferred Shares Q3 2016



Sector Mix by Asset Class

The following table shows sector exposure by asset class as at September 30, 2016:

Sector	Fixed Income Securities & Pooled Funds	Preferred Shares	Common Shares	Total
Government	44%	—%	—%	40%
Financial Services	30%	64%	65%	32%
Infrastructure	10%	—%	—%	9%
Telecomunication	3%	—%	—%	2%
Consumer Discretionary	—%	—%	—%	—%
Energy	2%	—%	12%	3%
Industrial Products	3%	7%	—%	4%
Pipelines	2%	9%	—%	3%
Utilities	—%	20%	23%	2%
Other	6%	—%	—%	5%
Total	100%	100%	100%	100%
Total	$301,486	$31,945	$275	$333,706

(1) Fixed income securities & pooled funds do not include any cash being carried by the pooled funds, $0.4 million as at September 30, 2016.

Common Share Portfolio

As at September 30, 2016, 100% of the common share portfolio was invested in Canadian equities.

Fair Value Impairment

The fair value impairment on sale of discontinued operations of $22.0 million is comprised of an impairment loss of $21.0 million, reflecting the fair value impairment of net assets of Qudos Insurance A/S and $1.0 million of transaction costs. The impairment was reflected against unearned premiums.

Recoverable from Reinsurers

($ THOUSANDS)	As at September 30, 2016	As at December 31, 2015
Reinsurers' share of unpaid claims	27,945	29,222
Reinsurers' share of unearned premiums	8,434	8,178
Total	36,379	37,400

As at September 30, 2016, the recoverable from reinsurers decreased by $1.0 million, or 3%, to $36.4 million from $37.4 million as at December 31, 2015. The decrease was due to positive redundancy in prior year claims with reinsurance coverage. 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 September 30, 2016	As at December 31, 2015
Premium financing receivables	24,912	18,355
Agents and brokers	14,521	8,702
Other	6,868	6,909
Total	46,301	33,966

Premium financing receivables represents 54% of total receivables as at September 30, 2016. Premium financing receivables increased to $24.9 million at September 30, 2016, from $18.4 million at December 31, 2015 due to seasonality. Agent and broker receivables increased from $8.7 million in 2015 to $14.5 million in 2016 also due to seasonality.

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 rates used for September 30, 2016 and 2015 for the following entities are below:

Entity	As at September 30, 2016	As at December 31, 2015
Echelon Insurance	2.24%	2.44%
ICPEI	1.63%	1.63%

Share Capital

As of November 2, 2016, there were 11,728,395 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 $1.4 million is due in less than a year and $9.8 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 September 30, 2016, was $155.5 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 September 30, 2016, was 228%, which comfortably exceeds the supervisory regulatory capital level required by the Office of the Superintendent of Financial Institutions (OSFI). ICPEI's MCT ratio of 331% was in excess of provincial supervisory targets. The Company's European subsidiary, Qudos, had a Danish Financial Services Authority (DKFSA) Individual Solvency ratio of 110%, as at September 30, 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 was in force until October 7, 2016.

In 2016 there were 51,000 common shares repurchased at an average cost of $13.24 per share for a total consideration of $0.7 million. From October 8, 2015 to October 7, 2016, the Company purchased and canceled 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.

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 September 30, 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 September 30, 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 September 30, 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 September 30, 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 September 30, 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 September 30, 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.