



ECHELON FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2018

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, 2018, and 2017 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 2018 and 2017, 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 2017 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, 2018 and 2017.

The following commentary is current as of May 3, 2018. 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 operating 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 on claims and non-recurring items.

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 2018 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 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. The Company underwrites automobile insurance and other specialty insurance products, with a focus on niche under-served markets. It has two lines of insurance business – 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 Commercial Property, Commercial Automobile, Surety, Liability, and Specialty Programs.

On March 7, 2017, the Company completed the sale of its European operations. The European operation results are referred to as discontinued operations in this document.

EFH intends to grow its business profitably across Canada by offering a complete and diverse suite of products to its brokers, with an ability to transact efficiently through modern systems. EFH currently intends to use any excess capital in addition to capital generated from its operations to fund its growth.

FIRST QUARTER HIGHLIGHTS

- Net operating income on continued operations of \$0.29 per share compared to \$0.19 per share in the first quarter of 2017.
- A combined operating ratio of 95% compared to 94% in the first quarter of 2017.
- A 45% increase in direct written premiums over the same period in 2017 to \$79.3 million as a result of organic growth, supported by rate increases in Commercial Lines.
- A pre-tax gain on invested assets of \$0.9 million in the quarter compared to a pre-tax gain of \$5.1 million in the prior year quarter, attributable to weak performance of the preferred shares portfolio.
- Closing book value per share of \$12.47, an increase of \$0.46 or 4% from the fourth quarter of 2017. The increase is driven by strong underwriting income, investment returns, the impact on liabilities from the change in discount rate and the recognition of a \$0.17 per share deferred tax asset from the utilization of capital losses.

The financial information below compares three months ended March 31, 2018 results with the same period in 2017.

	3 months ended March 31		Change	
(\$ THOUSANDS except per share amounts)	2018	2017	\$	%
Direct written and assumed premiums	79,287	54,586	24,701	45
Net written premiums	79,242	50,076	29,166	58
Net earned premiums	71,522	49,025	22,497	46
Net claims incurred	41,740	28,868	12,872	45
Net acquisition costs	19,484	12,051	7,433	62
Operating expenses	9,051	7,390	1,661	22
Underwriting income	1,247	716	531	74
Severance expense	(303)	—	(303)	—
Investment income	1,959	8,487	(6,528)	(77)
Impact of discount rate on claims	2,050	—	2,050	—
Net income before interest and income taxes	4,953	9,203	(4,250)	(46)
Interest expense	—	71	(71)	(100)
Income tax (recovery) expense	(689)	1,666	(2,355)	141
Net income	5,642	7,466	(1,824)	(24)
Net income attributable to shareholders	5,826	7,455	(1,629)	(22)
Net operating income attributable to shareholders	3,541	2,316	1,225	53
Earnings per share				
Basic	\$0.49	\$0.63	\$(0.14)	(22)
Diluted	\$0.48	\$0.62	\$(0.14)	(23)
Net operating income per share – diluted ⁽¹⁾	\$0.29	\$0.19	\$0.10	53
Trailing twelve month return on equity (ROE) - continuing operations ⁽²⁾	3.3%	8.2%		

⁽¹⁾ Net operating income is defined as underwriting income plus interest and dividend income, net of tax. Underwriting income excludes impact of change in claims discount rates, and non-recurring items. Net investment income consists of interest income, dividend income and premium financing charges, less interest expense, as per Note 6 of the Company's Consolidated Financial Statements. Net operating income is adjusted to that attributable to shareholders for per share calculation.

⁽²⁾ ROE calculated on rolling twelve-month basis

Insurance Operations

Direct Written, Net Written and Net Earned Premiums

In the first quarter of 2018, direct written premiums increased by 45% while net earned premiums increased by 46% compared to the same period prior year. The increase in premium was driven by organic growth in all products, supported by rate increases in Commercial Lines.

Claims Incurred

For the quarter ended March 31, 2018, net claims expense increased by 45%, in line with the growth of net earned premiums.

Net favourable development of prior year claims of \$3.6 million was recorded in the first quarter of 2018 which was comparable to net favourable development of \$3.3 million in the same period in 2017. The favourable development primarily arose from the Commercial Lines segment.

Acquisition Costs

Acquisition costs, which consist mainly of commissions, premium taxes and a portion of general expenses related to policy acquisitions, increased by 62%, in the quarter ended March 31, 2018.

Operating Expenses

Operating expenses increased by \$1.7 million or 22%, to \$9.1 million in the first quarter of 2018 compared to \$7.4 million in the comparative quarter, driven by increased compensation expenses to support the growth.

Underwriting Income

Underwriting income of \$1.2 million was recorded in the first quarter of 2018 compared to an underwriting income of \$0.7 million in the same period in 2017 due to slightly improved performances in both commercial and personal lines.

Investment Income

Investment income was \$2.0 million comparable to \$8.5 million in the first quarter of 2017 due to weak performance of the preferred shares portfolio and lower realized foreign exchange gains.

Net Income before Income Taxes

For the quarter ended March 31, 2018, net income before taxes was \$5.0 million compared to income of \$9.2 million in the first quarter of 2017 primarily due to a decrease in investment income.

Income Taxes

For the quarter ended March 31, 2018, the provision for income taxes reflects a recovery of \$0.7 million compared to an expense of \$1.7 million for the same period last year. The company's effective tax rate in the first quarter of 2018, reflects the recognition of a deferred tax asset from the utilization of capital losses through the transfer of information technology assets. The capital losses arose from the sale of the company's European and US subsidiaries.

SEGMENTED FINANCIAL INFORMATION (Continued Operations)

The segmented results below exclude corporate expenses.

TOTAL OPERATIONS

	3 months ended March 31			
(\$THOUSANDS)	2018	2017	\$ Change	% Change
Direct written premiums	79,287	54,586	24,701	45
Net earned premiums	71,522	49,025	22,497	46
Net claims:				
Current year claims	45,364	32,148	13,216	41
Current year loss ratio	63.4%	65.6%		
Favourable prior year claims development	3,624	3,280	344	10
Total net claims	41,740	28,868	12,872	45
Loss ratio	58.4%	58.9%		
Expense ratio	37.1%	35.2%		
Combined ratio	95.5%	94.1%		
Underwriting income	3,226	2,890	336	12

PERSONAL LINES

	3 months ended March 31			
(\$THOUSANDS)	2018	2017	\$ Change	% Change
Direct written premiums	45,403	37,320	8,083	22
Net earned premiums	45,820	36,994	8,826	24
Net claims:				
Current year claims	31,620	26,287	5,333	20
Current year loss ratio	69.0%	71.1%		
Favourable prior year claims development	2,345	3,179	(834)	(26)
Total net claims	29,275	23,108	6,167	27
Loss ratio	63.9%	62.5%		
Expense ratio	31.8%	32.4%		
Combined ratio	95.7%	94.9%		
Underwriting income	1,979	1,890	89	5

First quarter 2018

Personal Lines recorded underwriting income of \$2.0 million compared to an underwriting income of \$1.9 million in the same period last year. Direct written premiums increased by 22% in the quarter due to organic growth in personal auto in all regions.

This segment's combined ratio increased slightly to 96% in the quarter as a result of the following factors:

1. Slightly weaker results in personal auto in Ontario and Quebec due to increased weather related frequency of claims compared to the prior year quarter.
2. Weaker personal property results in Atlantic and Western Canada, driven by winter storms.
3. The above factors were offset by strong Ontario and Western region motorcycle performance.

COMMERCIAL LINES

	3 months ended March 31			
(\$THOUSANDS)	2018	2017	\$ Change	% Change
Direct written premiums	33,884	17,266	16,618	96
Net earned premiums	25,702	12,031	13,671	114
Net claims:				
Current year claims	13,744	5,861	7,883	134
Current year loss ratio	53.5%	48.7%		
Favourable prior year claims development	1,279	101	1,178	1,166
Total net claims	12,465	5,760	6,705	116
Loss ratio	48.5%	47.9%		
Expense ratio	46.6%	43.8%		
Combined ratio	95.1%	91.7%		
Underwriting income	1,247	1,000	247	25

First quarter 2018

Commercial Lines recorded an underwriting income of \$1.2 million compared to \$1.0 million in the same period last year. Direct written premiums increased by 96% in the quarter primarily due to organic growth in commercial auto and commercial property, supported by rate increases.

This segment's combined ratio increased to 95% in the quarter as a result of the following factors:

1. Increased frequency of claims in commercial auto compared to the same period last year.
2. Increased redundancies on prior year claims primarily in Commercial Property of \$2.6 million compared to \$0.1 million in the same period last year.

Discontinued Operations

On August 4, 2016, Echelon entered into a definitive stock purchase agreement to sell its European insurance subsidiary, subject to regulatory approval. On February 28, 2017, regulatory approval was received from the Danish Financial Supervisory Authority, which completed the necessary approvals required for the sale. The Company completed the sale on March 7, 2017 and has retained no residual insurance risk or other financial risk other than credit risk associated with the loan receivable from the sale. The Company has received an aggregate of \$16.7 million to date on closing and from the partial repayment of the loan, and is scheduled to receive an additional \$6.6 million prior to May 27, 2018, which it has recognized as a loan receivable on its balance sheet. Interest payments on the loan are current.

SUMMARY OF QUARTERLY RESULTS

A summary of the Company's last eight quarters (after all corporate expenses) is as follows:

	2018		2017		2016			
(\$ THOUSANDS except per share amounts)	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Direct written and assumed premiums	79,287	68,050	78,047	85,035	54,586	49,403	58,171	67,791
Net earned premiums and other revenue	71,522	64,906	60,017	53,448	49,025	46,013	46,452	45,247
Underwriting income (loss)	1,247	(11,208)	(3,428)	1,477	716	2,555	(429)	(485)
Income (loss) before interest expense and income taxes	4,953	(6,759)	936	4,365	9,203	3,575	1,622	3,402
Net income (loss)	5,642	(4,826)	810	3,193	7,466	2,602	1,402	2,214
Net operating income (loss)	3,541	(6,252)	1,211	3,338	2,316	4,857	1,580	2,892
Earnings (loss) per adjusted share								
(a) Basic	\$0.49	(\$0.42)	\$0.07	\$0.27	\$0.63	\$0.22	\$0.10	\$0.15
(b) Diluted	\$0.48	(\$0.42)	\$0.07	\$0.26	\$0.62	\$0.22	\$0.10	\$0.15
Net operating income (loss) per share - diluted	\$0.29	(\$0.51)	\$0.10	\$0.28	\$0.19	\$0.40	\$0.13	\$0.24
Selected financial ratios								
Loss ratio	58.4%	81.4%	72.2%	59.5%	58.9%	55.8%	61.5%	62.4%
Expense ratio	39.9%	35.8%	33.5%	37.7%	39.6%	38.6%	39.4%	38.7%
Combined ratio	98.3%	117.2%	105.7%	97.2%	98.5%	94.4%	100.9%	101.1%
Book value per share	\$12.47	\$12.01	\$12.14	\$12.25	\$12.10	\$11.70	\$12.90	\$13.08

The quarterly results reflect the seasonality of the Company's business. While net earned premiums are relatively stable from quarter to quarter, underwriting results may vary significantly by quarter as they are affected by seasonality, as described in Note 5 of the Financial Statements.

Net Operating Income

	3 months ended March 31	
(\$ THOUSANDS except per share amounts)	2018	2017
Net investment income ⁽¹⁾	3,146	2,288
Underwriting income	1,247	716
Add: Catastrophe losses	—	56
Pre-tax operating income	4,393	3,060
Income tax	(1,036)	(733)
Net operating income	3,357	2,327
Minority interest	184	(11)
Net operating income attributable to shareholders	3,541	2,316
Net operating income per share - diluted	\$0.29	\$0.19

⁽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 condensed consolidated interim financial statements for the first quarter of 2018, 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, 2018	As at December 31, 2017
Cash and short-term deposits	30,006	44,459
Investments	372,774	370,933
Total assets	593,582	590,586
Provision for unpaid claims	259,977	262,966
Unearned premiums	168,231	160,577
Total equity attributable to shareholders	148,856	142,822
Book value per share ⁽¹⁾	\$12.47	\$12.01
MCT Ratio - Echelon Insurance	235%	212%
- ICPEI	335%	355%

⁽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 in line with its risk appetite and tolerance. 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 accordance with its investment policy. 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, 2018 and December 31, 2017.

(\$ Thousands)		Fair values			
Available-for-sale	As at March 31, 2018	% of Total	As at December 31, 2017	% of Total	
Fixed income					
Canadian					
Federal	35,625		39,408		
Provincial	38,863		29,883		
Municipal	417		14		
Corporate	121,557		127,701		
	196,462		197,006		
Fixed income lent through securities lending program					
Federal	67,663		63,864		
Provincial	9,049		17,564		
Municipal	1,317		1,322		
Corporate	13,519		8,535		
	91,548		91,285		
Foreign fixed income					
Corporate	4,401		2,014		
Foreign fixed income lent through securities lending program					
Corporate	470		—		
Total fixed income	292,881	73%	290,305	70%	
Money market pooled funds	312		1,014		
Short-term fixed income and mortgage pooled funds	19,356		19,303		
Specialty pooled fund	8,286		7,385		
Total pooled funds	27,954	7%	28,557	7%	
Common shares					
Canadian	1,020		889		
Foreign	1,175		1,043		
Global Equity Pooled Fund	7,465		7,385		
Total common shares	9,660	2%	9,317	2%	
Total available for sale	330,495		328,179		
Fair value through profit or loss					
Preferred shares	42,279		42,754		
Total preferred shares	42,279	10%	42,754	10%	
Total investments	372,774	93%	370,933	89%	
Cash and short-term deposits	30,006	7%	44,459	11%	
Total investments including cash and short-term deposits	402,780	100%	415,392	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 were no impairments recognized during the three months ended March 31, 2018 and 2017.

A gross unrealized loss of \$3.4 million (December 31, 2017 – \$3.3 million) on investments held as at March 31, 2018, is recorded, net of tax, in the amount of \$2.5 million (December 31, 2017 – \$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.

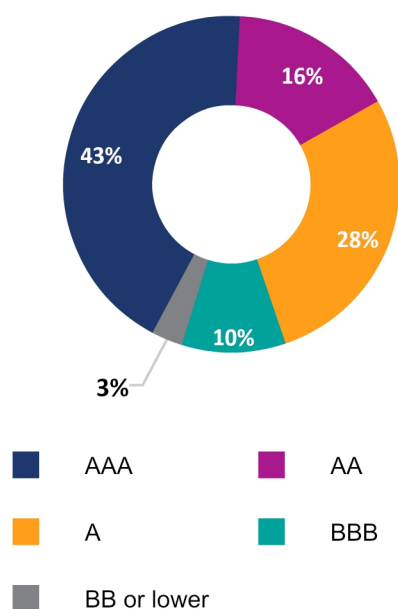
Fixed Income Securities

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.

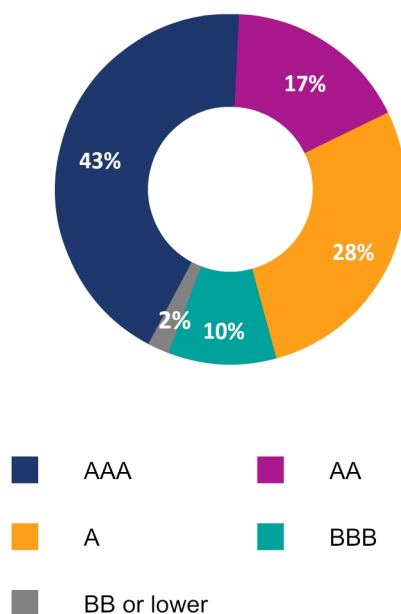
EFH's bond portfolio has a high overall credit quality with an average rating of AA. The preferred shares have an average rating of P2. The duration of the bond portfolio is 2.7 years.

The charts below show EFH's fixed income and preferred share portfolios by credit quality as at March 31, 2018 compared to December 31, 2017.

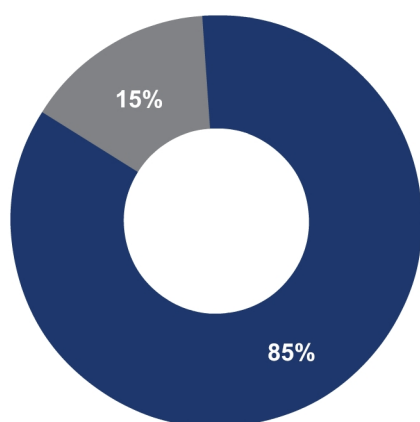
Bond Ratings Q1 2018
As at March 31, 2018



Bond Ratings Q4 2017
As at December 31, 2017

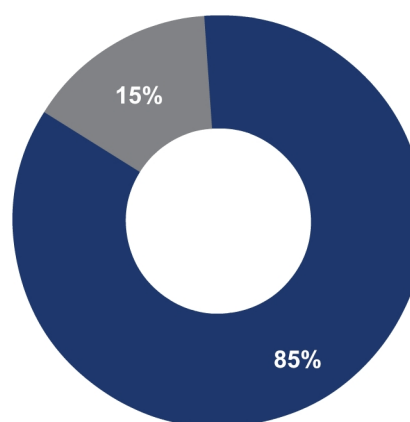


Preferred Shares Q1 2018



■ P2 ■ P3

Preferred Shares Q4 2017



■ P2 ■ P3

Sector Mix by Asset Class

The following table shows sector exposure by asset class as at March 31, 2018:

Sector	Fixed Income Securities & Pooled Funds ⁽¹⁾	Preferred Shares	Common Shares	Total
Government	51%	—%	—%	44%
Financial Services	26%	50%	13%	27%
Infrastructure	9%	—%	—%	8%
Industrial Products	4%	13%	19%	6%
Utilities	—%	31%	2%	4%
Energy	3%	—%	1%	3%
Pipelines	2%	6%	—%	3%
Telecommunication	2%	—%	3%	1%
Consumer Discretionary	—%	—%	32%	1%
Technology	—%	—%	17%	—%
Other	3%	—%	13%	3%
Total	100%	100%	100%	100%
Total	\$319,858	\$42,279	\$9,660	\$371,797

⁽¹⁾ Fixed income securities and pooled funds do not include any cash being carried by the pooled funds, \$1.0 million as at March 31, 2018.

Common Share Portfolio

As at March 31, 2018, 11% of the common share portfolio was invested in Canadian equities.

Recoverable from Reinsurers

(\$ THOUSANDS)	As at March 31, 2018	As at December 31, 2017
Reinsurers' share of unpaid claims	23,004	23,471
Reinsurers' share of unearned premiums	9,891	9,957
Total	32,895	33,428

As at March 31, 2018, the recoverable from reinsurers decreased by \$0.5 million, or 2%, to \$32.9 million from \$33.4 million as at December 31, 2017. The reinsurers share of unearned premium remained unchanged while the decrease in reinsurers share of unpaid claims was due to an increase in discount rates. 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, 2018	As at December 31, 2017
Premium financing receivables	57,827	53,538
Agents and brokers	20,191	17,215
Other	5,612	4,869
Total	83,630	75,622

Premium financing receivables represent 69% of total receivables as at March 31, 2018. Premium financing receivables increased to \$57.8 million at March 31, 2018, from \$53.5 million at December 31, 2017, due to the growth in direct bill premiums. Agent and broker receivables increased from \$17.2 million in 2017 to \$20.2 million in 2018 due to growth in broker billed premiums.

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 Company determines the discount rate based on the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments. The investment portfolio has experienced an increase in yields compared to December 31, 2017. The discount rates used for March 31, 2018 and December 31, 2017 for the following entities are below:

Entity	As at March 31, 2018	As at December 31, 2017
Echelon Insurance	3.10%	2.65%
ICPEI	3.10%	2.80%

Share Capital

As of May 3, 2018, there were 11,922,325 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 \$1.8 million is due in less than a year and \$8.6 million is due over the next eight 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, 2018, was \$152.5 million compared to \$146.7 million at December 31, 2017.

The Minimum Capital Test (MCT) ratio of the Company's subsidiary, Echelon Insurance, as at March 31, 2018, was 235%, which comfortably exceeds the supervisory regulatory capital level required by the Office of the Superintendent of Financial Institutions (OSFI). ICPEI's MCT ratio of 335% was in excess of provincial supervisory targets. As at March 31, 2018, the Company has approximately \$21 million of excess deployable capital invested in equities and liquid assets in the holding company.

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, 2018.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's 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, 2018, 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, 2018, 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, 2018, 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.

A new policy management system is being rolled out across the country and management is satisfied that sufficient internal controls over financial reporting are in place during the transition and partial completion of the project.

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, 2018. 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

“Acquisition costs” commissions, premium taxes and a portion of general expenses related to policy acquisitions.

“Acquisition Expense ratio” for any period means the sum of the acquisition costs divided by Net earned premiums.

“Broker” an intermediary who negotiates policies of insurance or reinsurance with insurers on behalf of the insured or reinsured, receiving a commission from the insurer or the reinsurer for placement and other services rendered.

“Catastrophe event” or **“CAT event”** refers to a group of claims from a specific event considered to be non-recurring and therefore not reflective of normal operating performance.

“Catastrophe reinsurance” a form of insurance, which subject to specified limits, indemnifies the ceding company for the amount of loss in excess of a specified retention amount with respect to an accumulation of losses resulting from a CAT event.

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

“Ceded earned premiums” means ceded written premium during the period, plus the ceded unearned premiums reserve at the beginning of the period, less the ceded unearned premiums reserve at the end of the period.

“Ceded written premiums” of an insurer for any period means the total insurance premiums written transferred by the insurer to a reinsurer during such period.

“Claim” the amount owed by an insurer or reinsurer pursuant to a policy of insurance or reinsurance arising from the loss relating to an insured event.

“Claims development” a non-IFRS measure representing the change in reserve balance on unpaid claims through the process of adjudication from the initial estimate to the ultimate amount paid. The difference between prior year end estimates of ultimate undiscounted claim costs and the current estimates for the same block of claims. A favourable development represents a reduction in the estimated ultimate claim costs during the period for that block of claims. An unfavourable development represents an increase in the estimated ultimate claims costs during the period.

“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 insurance premiums written by the insurer during such period.

“Expense ratio” for any period means the sum of the acquisition expense ratio and the general expense ratio.

“Frequency of claims” the ratio of the number of claims files opened in a period to the total number of policies in force. A measure of how often a claim is reported as a function of policies in force.

“General Expense ratio” for any period means the sum of all general expenses divided by Net earned premiums.

“Gross earned premiums” means written premium during the period, plus the unearned premiums reserve at the beginning of the period, less the unearned premiums reserve at the end of the period.

“Incurred but not reported (IBNR)” the estimate of claims incurred but not yet reported by policyholders and not enough case reserve.

“Large Loss” is a single claim in excess of 100,000.

“Line of business” the major product groupings offered to the public.

“Market yield adjustment (MYA)” a non-IFRS measure representing the impact of changes in the discount rate on claims liabilities, the provision for adverse deviation (PFADs) and other discounting assumptions based on the change in the market-based yield of the underlying assets.

“Minimum Capital Test” means the regulatory guideline under which a federally regulated insurer is measured for the adequacy of its capital.

“Net earned premiums” of an insurer is the gross earned premiums less the ceded earned premiums.

“Net Operating Income” means net income plus or minus the after tax impact of change in market yield adjustment, 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 for any period means direct written premiums less ceded written premiums.

“Property and casualty (P&C) insurance” all insurance excluding life insurance and governmental insurance. Also known as general insurance.

“Provision for adverse deviation (PFAD)” margins that are added to loss reserves to provide for adverse deviation from claims reserve estimates; this includes provisions covering claims development variability and risks associated with interest rate and reinsurance recoveries.

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

“Retention” has two meanings: (1) in respect of reinsurance, the amount of risk not ceded to reinsurers; (2) in respect to policies in force, the number of policyholders who renew for a subsequent term.

“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.

“Underwriting income or loss” a non-IFRS measure calculating the profit or loss from the activity of taking on insurance risks, excluding the impact of the market yield adjustment.

“Unearned commissions” means the portion of reinsurance commissions within a policy term which have not yet earned.

“Unearned premiums” means the portion of premiums within a policy term which have not yet earned.

“Unearned premiums recoverable” means the portion of ceded written premiums within a policy term which have not yet earned.