ECHELON FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the nine months ended September 30, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the nine months ended September 30, 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 September 30, 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 third 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 nine months ended September 30, 2018 and 2017.

The following commentary is current as of November 14, 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, litigation outcomes 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.

THIRD QUARTER HIGHLIGHTS

- Net operating income on continued operations of $0.18 per share compared to $0.10 per share in the third quarter of 2017.
- A combined operating ratio of 98% compared to 103% in the third quarter of 2017.
- A 35% increase in direct written premiums over the same period in 2017 to $105.0 million as a result of organic growth in Personal and Commercial Lines nationally.
- A pre-tax gain on invested assets of $1.8 million in the quarter compared to a pre-tax loss of $1.0 million in the prior year quarter, as a result of positive returns from both the Fixed Income and Preferred Share portfolios.
- Closing book value per share of $12.89, an increase of $0.01 from the second quarter of 2018.

The financial information below compares three and nine months ended September 30, 2018 results with the same period in 2017.

	3 months ended September 30		9 months ended September 30	
($ THOUSANDS except per share amounts)	**2018**	**2017**	**2018**	**2017**
Direct written and assumed premiums	105,027	78,047	297,147	217,668
Net written premiums	100,598	72,511	287,064	201,572
Net earned premiums	95,709	60,017	242,511	162,490
Net claims incurred	64,760	43,313	155,497	103,989
Net acquisition costs	21,910	12,836	59,051	36,821
Operating expenses	10,534	7,296	27,847	22,915
Underwriting income (loss)	(1,495)	(3,428)	116	(1,235)
Severance recovery / (expense)	(48)	(86)	(336)	(175)
Investment income	3,028	2,416	7,746	13,880
Impact of discount rate on claims	93	2,034	4,207	2,034
Net income before interest and income taxes	1,578	936	11,733	14,504
Interest expense	—	—	—	155
Income tax expense	1,408	126	1,932	2,880
Net income on continued operations	170	810	9,801	11,469
Net income attributable to shareholders	266	858	10,137	11,455
Net operating income attributable to shareholders	2,147	1,211	8,624	6,865
Earnings per share				
Basic	$0.02	$0.07	$0.85	$0.97
Diluted	$0.02	$0.07	$0.83	$0.95
Net operating income per share – diluted [(1)]	$0.18	$0.10	$0.71	$0.57
Trailing twelve month return on equity (ROE) - continuing operations [(2)]	3.5%	9.5%	3.5%	9.5%

(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 investment 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 and Net Earned Premiums

In the third quarter of 2018, direct written premiums increased by 35% while net earned premiums increased by 59% compared to the same prior year period. The increase in premium was driven by organic growth in both Personal and Commercial line products supported by Commercial Line rate increases.

Claims Incurred

For the quarter ended September 30, 2018, net claims expense increased by 50%, less than the increase in net earned premiums, driven by improvements in current year loss ratios compared to the prior period.

Net favourable development, excluding the impact of discounting, on prior year claims of $2.1 million was recorded in the third quarter of 2018 compared to net favourable development of $12.3 million in the same period in 2017.

Acquisition Costs

Acquisition costs, which consist mainly of commissions, premium taxes and a portion of general expenses related to policy acquisitions, increased by 71%, in the quarter ended September 30, 2018. This increase is slightly higher than the growth in earned premiums due to the change in the Company's business mix.

Operating Expenses

Operating expenses increased by 44% in the third quarter of 2018 over the comparative quarter, in line with increased premiums. Despite an increase in total operating expenses, the expense ratio was lower compared to the same prior period, which reflects the additional efficiencies realized through the deployment of the Company's policy management system, *Passport*.

Underwriting Income

An underwriting loss of $1.5 million was recorded in the third quarter of 2018 compared to an underwriting loss of $3.4 million in the same period in 2017, due to improved underwriting results in Personal Lines. Including the impact of discounting, the underwriting loss was $1.4 million which remained flat compared to the prior year quarter.

Investment Income

Investment income was $3.0 million in the third quarter compared to $2.4 million in the third quarter of 2017.

Net Income before Income Taxes

Net income before taxes increased to $1.6 million in the third quarter compared to income of $0.9 million in the third quarter of 2017, primarily due to improved underwriting income.

Income Taxes

For the quarter ended September 30, 2018, the provision for income taxes reflects an expense of $1.4 million compared to an expense of $0.1 million for the same period last year.

SEGMENTED FINANCIAL INFORMATION (Continued Operations)

The segmented results below exclude corporate expenses and the impact of change in claims discount rates.

TOTAL OPERATIONS

	3 months ended September 30				9 months ended September 30			
($THOUSANDS)	**2018**	**2017**	**$ Change**	**% Change**	**2018**	**2017**	**$ Change**	**% Change**
Direct written premiums	105,027	78,047	26,980	35	297,147	217,668	79,479	37
Net earned premiums	95,709	60,017	35,692	59	242,511	162,490	80,021	49
Net claims:								
Current year claims	66,848	55,651	11,197	20	165,873	127,454	38,419	30
Current year loss ratio	69.8%	92.7%			68.4%	78.4%		
Favourable prior year claims development	2,088	12,338	(10,250)	(83)	10,376	23,465	(13,089)	(56)
Total net claims	64,760	43,313	21,447	50	155,497	103,989	51,508	50
Loss ratio	67.7%	72.2%			64.1%	64.0%		
Expense ratio	30.1%	30.6%			32.6%	33.1%		
Combined ratio	97.8%	102.8%			96.7%	97.1%		
Underwriting income (loss)	2,117	(1,698)	3,815	(225)	7,992	4,661	3,331	71

PERSONAL LINES

	3 months ended September 30				9 months ended September 30			
($THOUSANDS)	**2018**	**2017**	**$ Change**	**% Change**	**2018**	**2017**	**$ Change**	**% Change**
Direct written premiums	67,939	50,397	17,542	35	187,201	146,816	40,385	28
Net earned premiums	65,258	43,717	21,541	49	159,922	120,028	39,894	33
Net claims:								
Current year claims	48,795	42,596	6,199	15	116,867	100,940	15,927	16
Current year loss ratio	74.8%	97.4%			73.1%	84.1%		
Favourable prior year claims development	5,076	10,397	(5,321)	(51)	10,037	19,757	(9,720)	(49)
Total net claims	43,719	32,199	11,520	36	106,830	81,183	25,647	32
Loss ratio	67.0%	73.7%			66.8%	67.6%		
Expense ratio	27.0%	26.7%			28.5%	29.8%		
Combined ratio	94.0%	100.4%			95.3%	97.4%		
Underwriting income (loss)	3,900	(161)	4,061	(2,522)	7,520	3,079	4,441	144

Third quarter 2018

Personal Lines recorded underwriting income of $3.9 million compared to an underwriting loss of $0.2 million in the same period last year. Direct written premiums increased by 35% in the quarter due to organic growth in Personal Auto, particularly in Ontario.

This segment's combined ratio reduced to 94% in the quarter as a result of the following factors:

1. Stronger motorcycle results nationally due to an improvement in current accident year results over the prior year quarter.
2. Improved personal property results nationally due to reduced severity and frequency over the prior year quarter.
3. The above factors were offset by a reduction in favourable development on prior year claims.

Year-to-date 2018

Personal Lines recorded an underwriting income of $7.5 million compared to an underwriting income of $3.1 million in the same period last year.

This segment’s combined ratio reduced to 95% for the year as a result of the following factors:

1. Strong motorcycle results nationally due to strong current accident year results.
2. Reduced expense ratio as efficiencies from the new policy system are realized.
3. Offset by reduced favourable development on prior year claims.

COMMERCIAL LINES

	3 months ended September 30				9 months ended September 30			
($THOUSANDS)	**2018**	**2017**	**$ Change**	**% Change**	**2018**	**2017**	**$ Change**	**% Change**
Direct written premiums	37,088	27,650	9,439	34	109,946	70,852	39,094	55
Net earned premiums	30,451	16,300	14,151	87	82,589	42,462	40,127	95
Net claims:								
Current year claims	18,053	13,055	4,998	38	49,006	26,513	22,493	85
Current year loss ratio	59.3%	80.1%			59.3%	62.4%		
Favourable prior year claims development	(2,988)	1,941	(4,929)	(254)	339	3,708	(3,369)	(91)
Total net claims	21,041	11,114	9,927	89	48,667	22,806	25,861	113
Loss ratio	69.1%	68.2%			58.9%	53.7%		
Expense ratio	36.8%	41.2%			40.5%	42.6%		
Combined ratio	105.9%	109.4%			99.4%	96.3%		
Underwriting (loss) / income	(1,783)	(1,537)	(246)	16	472	1,582	(1,110)	(70)

Third quarter 2018

Commercial Lines recorded an underwriting loss of $1.8 million compared to an underwriting loss of $1.5 million in the same period last year. Direct written premiums increased by 34% in the quarter primarily due to organic growth in commercial auto and commercial property, supported by rate increases.

This segment's combined ratio improved to 106% from 109% in the prior year quarter as a result of the following factors:

1. Improved results in the commercial auto products in the period as our rate increases materialize.
2. Reduced expense ratio due to the change in the mix of business.
3. Offset by adverse development on prior year claims.

Year-to-date 2018

Commercial Lines recorded an underwriting income of $0.5 million, a decrease of $1.1 million over the same prior period. Direct written premiums increased by 55% for the year primarily due to the launch of Commercial Auto and Surety in 2016.

This segment's combined ratio deteriorated to 99% for the year due to:

1. Weaker results from commercial auto compared to the same period in the prior year.
2. Weaker results in warranty compared to the same period in the prior year.
3. Offset by improved performance in commercial property.

Discontinued Operations

On August 4, 2016, Echelon entered into a definitive stock purchase agreement to sell its European insurance subsidiary to New Nordic Odin Guernsey Limited (NNGL), 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 retains no residual insurance risk or other financial risk, other than credit risk associated with the loan receivable from the sale. The loan was repaid on June 29, 2018.

On October 29, 2018, the Company filed a Statement of Defence in response to a claim filed with the Danish Institute of Arbitration by New Nordic Advisors Limited (NNAL). The claim by NNAL relates to the sale of the Company's European Operations to NNGL. The Company denies all allegations made against it by NNAL and believes there is no merit to NNAL's claim for €45.8 million in damages.

Please refer to Note 7 and Note 17 of the Financial Statements for further details.

Subsequent Event

On November 9, 2018, the Company entered into a definitive agreement to sell Echelon, it's main operating subsidiary and it's unregulated warranty business to CAA Club Group ("CAA") for $175 million. The agreement is subject to include the approval of at least $66^{2/3}$% of EFH shareholders as well as regulatory approval. The voting is expected to be held in January 2019 at a special shareholders meeting. The Company has committed to deliver Echelon to CAA with a Minimum Capital Test ratio of 220% at the closing of the agreement. The agreement follows an extensive strategic review process overseen by a committee of the Company's Board of Directors.

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)	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Direct written and assumed premiums	105,027	112,833	79,287	68,050	78,047	85,035	54,586	49,403
Net earned premiums and other revenue	95,709	75,280	71,522	64,906	60,017	53,448	49,025	46,013
Underwriting income (loss)	(1,495)	364	1,247	(11,208)	(3,428)	1,477	716	2,555
Impact of change in net claims discount rate	93	2,039	2,050	1,220	2,034	—	—	(1,370)
Investment Income	3,028	2,759	1,959	3,316	2,416	2,977	8,487	3,159
One time recovery (expense)	(48)	15	(303)	(87)	(86)	(89)	—	(769)
Income (loss) before interest expense and income taxes	1,578	5,177	4,953	(6,759)	936	4,365	9,203	3,575
Net income (loss)	170	3,964	5,642	(4,826)	810	3,193	7,466	2,602
Net operating income (loss)	2,147	2,935	3,541	(6,252)	1,211	3.338	2,316	4,857
Earnings (loss) per adjusted share								
(a) Basic	$0.02	$0.34	$0.49	($0.42)	$0.07	$0.27	$0.63	$0.22
(b) Diluted	$0.02	$0.33	$0.48	($0.42)	$0.07	$0.26	$0.62	$0.22
Net operating income (loss) per share - diluted	$0.18	$0.24	$0.29	($0.51)	$0.10	$0.28	$0.19	$0.40
Selected financial ratios								
Loss ratio	67.7%	65.1%	58.4%	81.4%	72.2%	59.5%	58.9%	55.8%
Expense ratio	33.8%	34.4%	39.9%	35.8%	33.5%	37.7%	39.6%	38.6%
Combined ratio	101.5%	99.5%	98.3%	117.2%	105.7%	97.2%	98.5%	94.4%
Book value per share	$12.89	$12.88	$12.47	$12.01	$12.14	$12.25	$12.10	$11.70

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 September 30		9 months ended September 30	
($ THOUSANDS except per share amounts)	**2018**	**2017**	**2018**	**2017**
Net investment income [(1)]	3,611	2,851	10,171	7,595
Underwriting income (loss) [(2)]	(1,495)	(3,428)	116	(1,235)
Add: Catastrophe losses	577	2,000	577	2,604
Pre-tax operating income	2,692	1,423	10,864	8,964
Income tax	(641)	(260)	(2,576)	(2,085)
Net operating income	2,051	1,163	8,288	6,879
Minority interest	96	48	336	(14)
Net operating income attributable to shareholders	2,147	1,211	8,624	6,865
Net operating income per share - diluted	$0.18	$0.10	$0.71	$0.57

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

(2) Underwriting income excludes impact of change in claims discount rates, and non-recurring items.

BALANCE SHEET ANALYSIS

The Balance Sheet analysis that follows should be read in conjunction with the condensed consolidated interim financial statements for the third 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 September 30, 2018	As at December 31, 2017
Cash and short-term deposits	73,937	44,459
Investments	381,166	370,933
Total assets	667,790	590,586
Provision for unpaid claims	276,385	262,966
Unearned premiums	207,776	160,577
Total equity attributable to shareholders	153,678	142,822
Book value per share [1]	$12.89	$12.01
MCT Ratio - Echelon Insurance	231%	212%
- ICPEI	297%	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 values for most investments are determined by reference to observable market data.

Fair Value of Investments

The following table sets forth EFH's invested assets as at September 30, 2018 and December 31, 2017.

($ Thousands)	Fair values			
Available-for-sale	As at September 30, 2018	% of Total	As at December 31, 2017	% of Total
Fixed income				
Canadian				
Federal	52,144		39,408	
Provincial	44,473		29,883	
Municipal	1,069		14	
Corporate	129,631		127,701	
	227,317		197,006	
Fixed income lent through securities lending program				
Federal	47,993		63,864	
Provincial	5,415		17,564	
Municipal	1,307		1,322	
Corporate	8,406		8,535	
	63,121		91,285	
Foreign fixed income				
Government	645		—	
Corporate	7,070		2,014	
	7,715		2,014	
Foreign fixed income lent through securities lending program				
Corporate	579		—	
Total fixed income	298,732	66%	290,305	70%
Corporate value pooled fund	5,063		—	
Money market pooled funds	401		1,014	
Short-term fixed income and mortgage pooled funds	14,419		19,303	
Specialty pooled fund	7,463		7,385	
Total pooled funds	27,346	6%	28,557	7%
Common shares				
Canadian	1,120		889	
Foreign	1,647		1,043	
Global Equity Pooled Fund	7,863		7,385	
Total common shares	10,630	2%	9,317	2%
Total available for sale	336,708		328,179	
Fair value through profit or loss				
Preferred shares	44,458		42,754	
Preferred shares lent through securities lending program	—		—	
Total preferred shares	44,458	10%	42,754	10%
Total investments	381,166	84%	370,933	89%
Cash and short-term deposits	73,937	16%	44,459	11%
Total investments including cash and short-term deposits	455,103	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.

$173,000 of impairments were recognized during the nine months ended September 30, 2018 and nil in 2017.

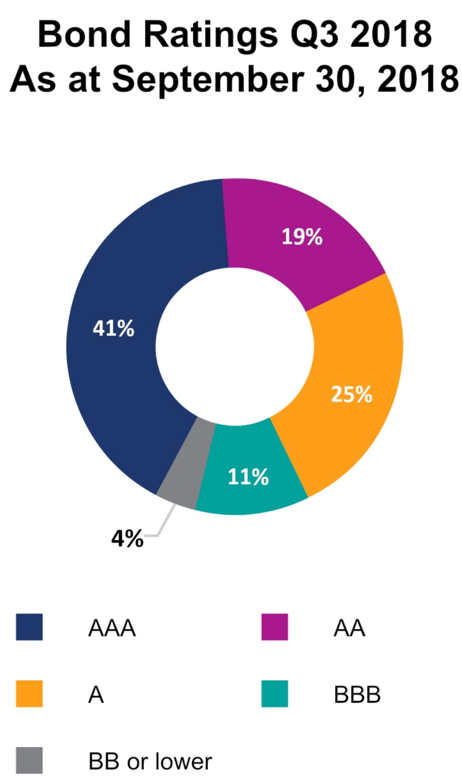
A gross unrealized loss of $4.1 million (December 31, 2017 – $3.3 million) on investments held as at September 30, 2018, is recorded, net of tax, in the amount of $3.0 million (December 31, 2017 – $2.4 million) in Accumulated Other Comprehensive Income. The Company has concluded, based on its review, that these fair value deficiencies do not meet the criteria for impairment and they will be monitored on an ongoing basis.

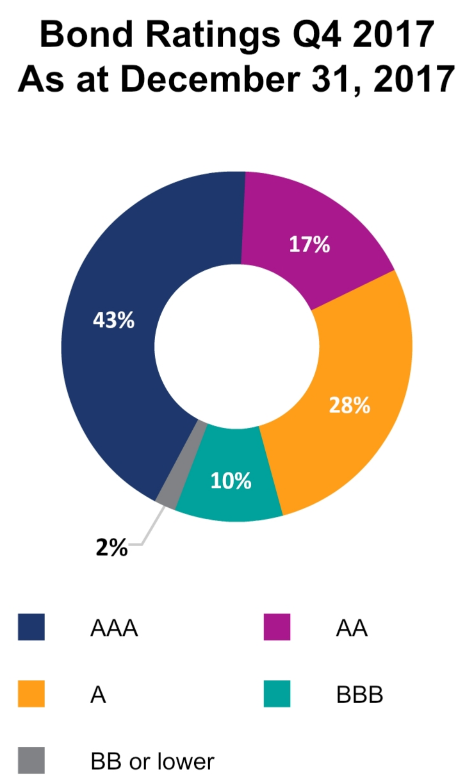
Fixed Income Securities

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.

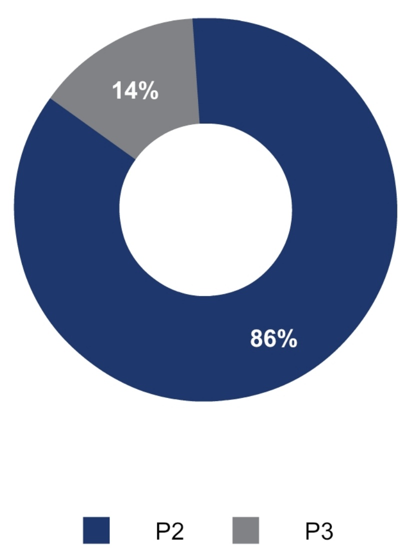
EFH's bond portfolio has a high overall credit quality with an average rating of AA. The preferred shares have an average rating of P2. The duration of the bond portfolio is 2.8 years.

The charts below show EFH's fixed income and preferred share portfolios by credit quality as at September 30, 2018 compared to December 31, 2017.

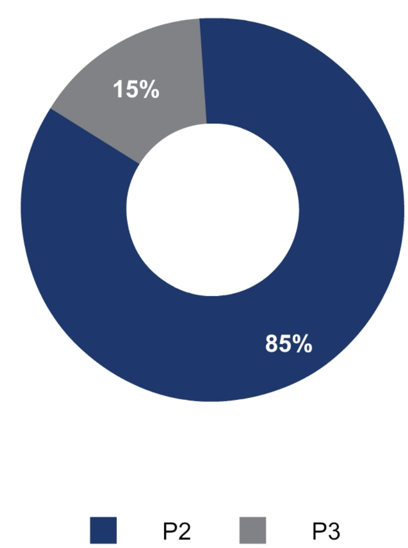




Preferred Shares Q3 2018
As at September 30, 2018



Preferred Shares Q4 2017
As at December 31,2017



Sector Mix by Asset Class

The following table shows sector exposure by asset class as at September 30, 2018:

Sector	Fixed Income Securities & Pooled Funds (1)	Preferred Shares	Common Shares	Total
Government	49%	—	—	42%
Financial Services	26%	51%	12%	27%
Infrastructure	10%	—	—	8%
Industrial Products	4%	13%	18%	5%
Utilities	—	31%	2%	4%
Energy	3%	—	1%	3%
Pipelines	2%	5%	—	3%
Telecommunication	3%	—	6%	3%
Consumer Discretionary	—	—	30%	1%
Technology	—	—	17%	1%
Other	3%	—	14%	3%
Total	100%	100%	100%	100%
Total (thousands)	$325,690	$44,458	$10,630	$380,778

(1) Fixed income securities and pooled funds do not include any cash being carried by the pooled funds, $0.4 million as at September 30, 2018.

Common Share Portfolio

As at September 30, 2018, 11% of the common share portfolio was invested in Canadian equities.

Recoverable from Reinsurers

($ THOUSANDS)	As at September 30, 2018	As at December 31, 2017
Reinsurers' share of unpaid claims	20,715	23,471
Reinsurers' share of unearned premiums	12,603	9,957
Total	33,318	33,428

As at September 30, 2018, the recoverable from reinsurers decreased by $0.1 million to $33.3 million from $33.4 million as at December 31, 2017. The reinsurers share of unearned premium increased due to the growth in business while the decrease in reinsurers share of unpaid claims was due to a a reduction in older claims with higher reinsurance 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 September 30, 2018	As at December 31, 2017
Premium financing receivables	72,899	53,538
Agents and brokers	28,091	17,215
Other	6,359	4,869
Total	107,349	75,622

Premium financing receivables represent 68% of total receivables as at September 30, 2018. Premium financing receivables increased to $72.9 million at September 30, 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 $28.1 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 September 30, 2018 and December 31, 2017 for the following entities are below:

Entity	As at September 30, 2018	As at December 31, 2017
Echelon Insurance	3.50%	2.65%
ICPEI	3.45%	2.80%

Share Capital

As of November 14, 2018, there were 11,923,906 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 $2.3 million is due in less than a year and $9.9 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 September 30, 2018, was $157.2 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 September 30, 2018, was 231%, which comfortably exceeds the supervisory regulatory capital level required by the Office of the Superintendent of Financial Institutions (OSFI). ICPEI's MCT ratio of 297% was in excess of provincial supervisory targets. As at September 30, 2018, the Company has approximately $28 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 September 30, 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 Interim Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of September 30, 2018, an evaluation was carried out, under the supervision of the Chief Executive Officer and Interim 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 Interim 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, 2018, the Chief Executive Officer and the Interim 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 Interim Chief Financial Officer concluded that the design of internal controls as at September 30, 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 September 30, 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.