ECHELON FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2019

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, 2019, and 2018 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 2019 and 2018, 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 2018 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, 2019 and 2018.

The following commentary is current as of May 14, 2019. 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 2019 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.

DISCONTINUED OPERATIONS

The results of the Discontinued Canadian operations are included in this document and the commentary in this Management Discussion & Analysis was prepared to reflect the Company's operations without regard to the Sale, and on the premise that Echelon Insurance continues to operate without any change.

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 November 9, 2018 the Company entered into a definitive agreement ("the Sale") to sell Echelon Insurance and its unregulated warranty business ("Discontinued Canadian operations"). The agreement was approved by the Company's shareholders on January 23, 2019 at a special shareholders' meeting and is now subject to regulatory approvals. The detailed terms and conditions of the definitive agreement, including the potential impact of the Sale are disclosed in greater detail in EFH’s recent SEDAR filings.

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 loss of $0.36 per share compared to an income of $0.29 per share in the first quarter of 2018, due to weaker performance in both Personal and Commercial Line segments.
- A combined operating ratio of 109% compared to 95% in the first quarter of 2018, mainly due to adverse development on prior year claims.
- A 25% increase in direct written premiums over the same period in 2018 to $98.9 million as a result of organic growth in Personal and Commercial Lines nationally.
- A pre-tax gain on invested assets of $7.5 million in the quarter compared to a pre-tax gain of $0.9 million in the prior year quarter, positively impacted by lower short-term bond yields resulting in better performance of the Fixed Income and Preferred Share portfolio.
- Closing book value per share of $11.74, a decrease of $0.47 from the fourth quarter of 2018. Costs related to the sale of the Discontinued Canadian operations reduced the book value per share by $0.26.

The financial information below compares three months ended March 31, 2019 results with the same period in 2018.

($ THOUSANDS except per share amounts)	3 months ended March 31 2019	2018	Variance $	%
Direct written and assumed premiums	98,922	79,287	19,635	25 %
Net written premiums	94,159	79,242	14,917	19 %
Net earned premiums	81,661	71,522	10,139	14 %
Net claims incurred	61,319	41,740	19,579	47 %
Net acquisition costs	19,966	19,484	482	2 %
Operating expenses	10,048	9,051	997	11 %
Underwriting (loss) income	(9,672)	1,247	(10,919)	(876)%
Severance [2]	(10)	(303)	293	97 %
Transaction costs from sale [2]	(3,099)	—	(3,099)	—
Investment income	3,691	1,959	1,732	88 %
Impact of discount rate on claims	(2,740)	2,050	(4,790)	(234)%
Net (loss) income before interest and income taxes	(11,828)	4,953	(16,781)	(339)%
Income tax (recovery)	(2,844)	(689)	(2,155)	(313)%
Net (loss) income	(8,984)	5,642	(14,626)	(259)%
Net (loss) income attributable to shareholders	(9,105)	5,826	(14,931)	(256)%
Net operating (loss) income attributable to shareholders	(4,406)	3,541	(7,947)	(224)%
Earnings (loss) income per share				
Basic	($0.76)	$0.49	($1.25)	(255)%
Diluted	($0.76)	$0.48	($1.24)	(258)%
Net operating (loss) income per share – diluted [1]	($0.36)	$0.29	($0.65)	(224)%
Trailing twelve month return on equity (ROE) [3]	(8.7)%	3.3%		

(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 Financial Statements. Net operating income is adjusted to that attributable to shareholders for per share calculation.

(2) Severance and transaction costs from sale are not considered part of operating expenses.

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

Insurance Operations

Direct Written, Net Written and Net Earned Premiums

In the first quarter of 2019, direct written premiums increased by 25%, while net earned premiums increased by 14% compared to the same period last year. The increase in premium was driven by organic growth and rate increases on both Personal Lines and Commercial Lines products.

Claims Incurred

For the quarter ended March 31, 2019, net claims expense increased by 47%, higher than the increase in earned premium in the period.

Net adverse development on prior year claims of $6.6 million was recorded in the first quarter of 2019 compared to net favorable development of $3.6 million in the same period of 2018. The adverse development primarily arose from the Commercial Lines.

Acquisition Costs

Acquisition costs, which consist mainly of commissions, premium taxes and a portion of general expenses related to policy acquisitions, increased by 2% to $20.0 million in the quarter ended March 31, 2019, due to an increase in premiums and change in mix of business.

Operating Expenses

Operating expenses increased 11% to $10.0 million in the first quarter of 2019, primarily related to increased salary costs to support the growth in business.

Underwriting Loss

An underwriting loss of $9.7 million after corporate expenses was recorded in the first quarter of 2019 compared to an underwriting income of $1.2 million in the same period in 2018. Excluding corporate expenses, the underwriting loss was $7.2 million compared to an underwriting income of $3.2 million in the prior year quarter. The decrease in underwriting results was due to weaker performance in both Personal and Commercial Line segments.

Transaction costs from sale

Costs related to the sale of Echelon Insurance of $3.1 million were incurred in the period compared to nil in the same period last year. The closing costs related to the future closing have all been estimated and accrued by the end of the period.

Investment Income

Investment income was $3.7 million compared to $2.0 million in the first quarter of 2018, primarily due to a positive return on the fixed income portfolio.

Net Income before Interest and Income Taxes

For the quarter ended March 31, 2019, net loss before interest and taxes was $11.8 million compared to an income of $5.0 million in the first quarter of 2018, primarily due to reduced underwriting income compared to the prior year quarter in addition to the one-time costs associated with the sale.

Income Taxes

For the quarter ended March 31, 2019, the provision for income taxes reflects a recovery of $2.8 million, compared to a recovery of $0.7 million in the prior year quarter. 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 though 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 plus Discontinued Canadian Operations)

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

TOTAL OPERATIONS

	3 months ended March 31			
($THOUSANDS)	**2019**	**2018**	**$ Change**	**% Change**
Direct written premiums	98,922	79,287	19,635	25
Net earned premiums	81,661	71,522	10,139	14
Net claims:				
Current year claims	54,676	45,364	9,312	21
Current year loss ratio	67.0%	63.4%		
(Unfavorable) / Favourable prior year claims development	(6,643)	3,624	(10,267)	(283)
Total net claims	61,319	41,740	19,579	47
Loss ratio	75.1%	58.4%		
Expense ratio	33.7%	37.1%		
Combined ratio	108.8%	95.5%		
Underwriting (loss) income	(7,165)	3,226	(10,391)	(322)

PERSONAL LINES

	3 months ended March 31			
($THOUSANDS)	**2019**	**2018**	**$ Change**	**% Change**
Direct written premiums	59,108	45,403	13,705	30
Net earned premiums	46,958	45,820	1,138	2
Net claims:				
Current year claims	38,048	31,620	6,428	20
Current year loss ratio	81.0%	69.0%		
(Unfavorable) / Favourable prior year claims development	(418)	2,345	(2,763)	(118)
Total net claims	38,466	29,275	9,191	31
Loss ratio	81.9%	63.9%		
Expense ratio	29.0%	31.8%		
Combined ratio	110.9%	95.7%		
Underwriting (loss) income	(5,139)	1,979	(7,118)	(360)

First quarter 2019

Personal Lines recorded an underwriting loss of $5.1 million compared to an underwriting income of $2.0 million in the same period last year. Direct written premiums increased by 30% in the quarter due to organic growth supported by rate increases in Personal Auto, particularly in Ontario.

This segment's combined ratio increased to 111% in the quarter as a result of the following factors:

1. Poor automobile results in Ontario and Quebec due to an increased average claim cost.
2. Less profitable motorcycle and recreational vehicle results.
3. Adverse development on prior year claims.

COMMERCIAL LINES

	3 months ended March 31			
($THOUSANDS)	**2019**	**2018**	**$ Change**	**% Change**
Direct written premiums	39,814	33,884	5,930	18
Net earned premiums	34,703	25,702	9,001	35
Net claims:				
Current year claims	16,628	13,744	2,884	21
Current year loss ratio	47.9%	53.5%		
(Unfavorable) / Favourable prior year claims development	(6,225)	1,279	(7,504)	(587)
Total net claims	22,853	12,465	10,388	83
Loss ratio	65.9%	48.5%		
Expense ratio	39.9%	46.6%		
Combined ratio	105.8%	95.1%		
Underwriting (loss) / income	(2,026)	1,247	(3,273)	(262)

First quarter 2019

Commercial Lines recorded an underwriting loss of $2.0 million compared to an underwriting income of $1.2 million in the same period last year. Direct written premiums increased by 18% in the quarter primarily due to organic growth in commercial auto and commercial property and trucking, supported by rate increases.

This segment's combined ratio increased to 106% in the quarter as a result of the following factors:

1. Weaker results on the warranty and surety products due to strengthening of prior year reserves.
2. Adverse prior year claims development.
3. Offset by improved results in the trucking product due to rate increases.

SUMMARY OF QUARTERLY RESULTS

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

	2019	2018				2017		
($ THOUSANDS except per share amounts)	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Direct written and assumed premiums	98,922	88,285	105,027	112,833	79,287	68,050	78,047	85,035
Net earned premiums and other revenue	81,661	82,124	95,709	75,280	71,522	64,906	60,017	53,448
Underwriting (loss) income	(9,672)	(1,721)	(1,495)	364	1,247	(11,208)	(3,428)	1,477
Impact of change in net claims discount rate	(2,740)	1,806	93	2,039	2,050	1,220	2,034	—
Investment income (loss)	3,691	(593)	3,028	2,759	1,959	3,316	2,416	2,977
Severance	(10)	(1,703)	(48)	15	(303)	(87)	(86)	(89)
Transaction costs from sale	(3,099)	(5,941)	—	—	—	—	—	—
(Loss) income before interest expense and income taxes	(11,828)	(8,152)	1,578	5,177	4,953	(6,759)	936	4,365
Net (loss) income	(8,984)	(7,426)	170	3,964	5,642	(4,826)	810	3,193
Net operating (loss) income	(4,406)	2,292	2,147	2,935	3,541	(6,252)	1,211	3,338
Earnings (loss) per adjusted share								
(a) Basic	($0.76)	($0.65)	$0.02	$0.34	$0.49	($0.42)	$0.07	$0.27
(b) Diluted	($0.76)	($0.65)	$0.02	$0.33	$0.48	($0.42)	$0.07	$0.26
Net operating (loss) income per share - diluted	($0.36)	$0.19	$0.18	$0.24	$0.29	($0.51)	$0.10	$0.28
Selected financial ratios								
Loss ratio	75.1%	67.8%	67.7%	65.1%	58.4%	81.4%	72.2%	59.5%
Expense ratio	36.7%	34.3%	33.8%	34.4%	39.9%	35.8%	33.5%	37.7%
Combined ratio	111.8%	102.1%	101.5%	99.5%	98.3%	117.2%	105.7%	97.2%
Book value per share	$11.74	$12.21	$12.89	$12.88	$12.47	$12.01	$12.14	$12.25

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.

	3 months ended March 31	
	2019	**2018**
($ THOUSANDS except per share amounts)		
Net investment income	3,745	3,146
Underwriting (loss) income	(9,672)	1,247
Add: CAT losses	304	—
Pre-tax operating (loss) income	(5,623)	4,393
Income tax	1,338	(1,036)
Net operating (loss) income	(4,285)	3,357
Minority interest	(121)	184
Net operating (loss) income attributable to shareholders	(4,406)	3,541
Net operating (loss) income per share - diluted	$(0.36)	$0.29

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 2019, 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, 2019	As at December 31, 2018
Cash and short-term deposits	122,877	129,604
Investments	337,231	328,238
Total assets	689,227	668,216
Provision for unpaid claims	289,291	278,011
Unearned premiums	221,298	209,327
Total equity attributable to shareholders	140,436	145,667
Book value per share [(1)]	$11.74	$12.21
MCT Ratio - Echelon Insurance	215%	221%
- ICPEI	407%	370%

[(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 March 31, 2019 and December 31, 2018.

($ Thousands)	Fair values			
Available-for-sale	**As at March 31, 2019**	**% of Total**	**As at December 31, 2018**	**% of Total**
Fixed income				
Canadian				
Federal	24,662		37,789	
Provincial	18,059		28,346	
Municipal	873		856	
Corporate	124,147		124,140	
	167,741		191,131	
Fixed income lent through securities lending program				
Federal	61,532		35,721	
Provincial	14,551		3,867	
Municipal	211		210	
Corporate	7,924		11,797	
	84,218		51,595	
Foreign fixed income				
Government	—		682	
Corporate	12,808		8,795	
	12,808		9,477	
Total fixed income	264,767	58%	252,203	55%
Corporate value pooled fund	5,085		4,998	
Money market pooled funds	476		459	
Short-term fixed income and mortgage pooled funds	13,339		14,610	
Specialty pooled fund	6,404		6,789	
Total pooled funds	25,304	5%	26,856	6%
Common shares				
Canadian	1,296		1,138	
Foreign	2,128		1,481	
Global Equity Pooled Fund	8,068		7,417	
Total common shares	11,492	2%	10,036	2%
Total available for sale	301,563		289,095	
Fair value through profit or loss				
Preferred shares	35,553		38,922	
Preferred shares lent through securities lending program	115		221	
Total preferred shares	35,668	8%	39,143	9%
Total investments	337,231	73%	328,238	72%
Cash and short-term deposits	122,877	27%	129,604	28%
Total investments including cash and short-term deposits	460,108	100%	457,842	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.

No impairments were recognized during the three months ended March 31, 2019 and 2018.

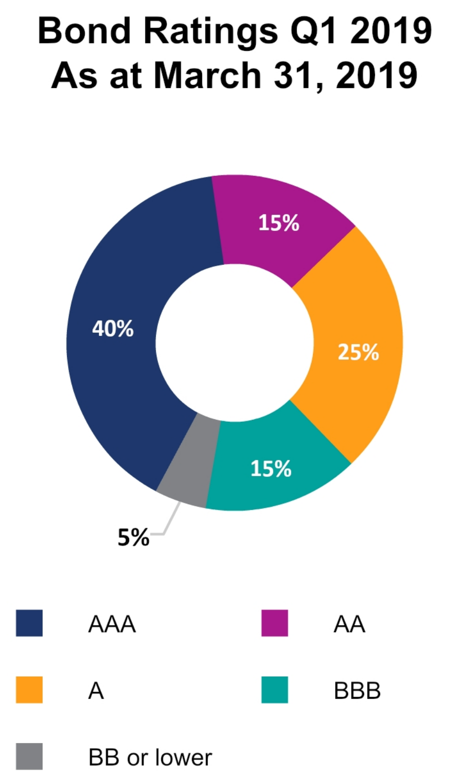
A gross unrealized loss of $1.5 million (December 31, 2018 – $3.1 million) on investments held as at March 31, 2019, is recorded, net of tax, in the amount of $1.1 million (December 31, 2018 – $2.3 million) in Accumulated Other Comprehensive Income.

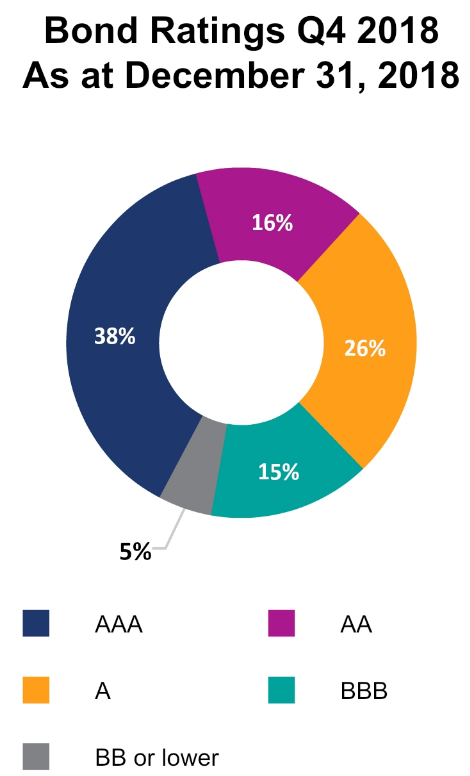
Fixed Income Securities

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.

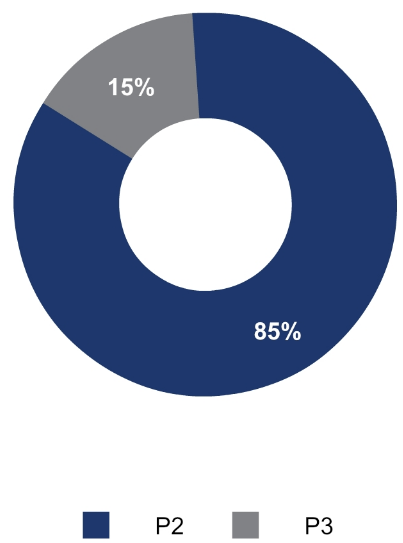
EFH's bond portfolio has a high overall credit quality with an average rating of AA. The preferred shares have an average rating of P2. The duration of the bond portfolio is 2.4 years.

The charts below show EFH's fixed income and preferred share portfolios by credit quality as at March 31, 2019 compared to December 31, 2018.

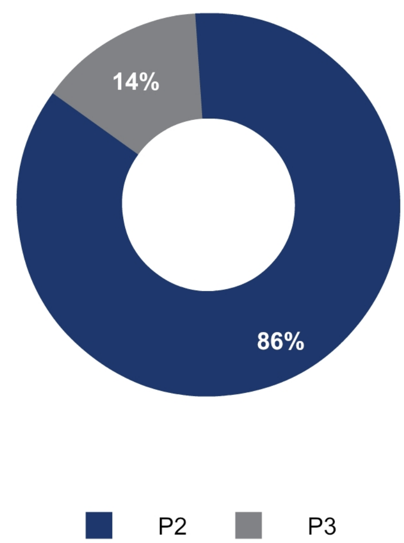




Preferred Shares Q1 2019
As at March 31, 2019



Preferred Shares Q4 2018
As at December 31, 2018



Sector Mix by Asset Class

The following table shows sector exposure by asset class as at March 31, 2019:

Sector	Fixed Income Securities & Pooled Funds [(1)]	Preferred Shares	Common Shares	Total
Government	44%	—	—	38%
Financial Services	29%	48%	12%	30%
Infrastructure	10%	—	—	8%
Industrial Products	4%	13%	18%	6%
Utilities	—	33%	2%	3%
Energy	4%	—	1%	4%
Pipelines	3%	6%	—	3%
Telecommunication	3%	—	14%	3%
Consumer Discretionary	—	—	24%	1%
Technology	—	—	15%	1%
Other	3%	—	14%	3%
Total	100%	100%	100%	100%
Total (thousands)	$288,597	$35,668	$11,492	$335,757

(1) Fixed income securities and pooled funds do not include any cash being carried by the pooled funds, $1.5 million as at March 31, 2019.

Common Share Portfolio

As at March 31, 2019, 11% of the common share portfolio was invested in Canadian equities.

Recoverable from Reinsurers

($ THOUSANDS)	As at March 31, 2019	As at December 31, 2018
Reinsurers’ share of unpaid claims	16,684	16,921
Reinsurers’ share of unearned premiums	11,448	11,975
Total	28,132	28,896

As at March 31, 2019, the recoverable from reinsurers decreased by $0.8 million to $28.1 million from $28.9 million as at December 31, 2018. The reinsurers share of unearned premium decreased due to a reduction in reinsurance rates partially offset by growth in business, while the decrease in reinsurers share of unpaid claims was due to a a reduction in older claims with lower ceded retention 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, 2019	As at December 31, 2018
Premium financing receivables	76,310	74,300
Agents and brokers	25,721	24,093
Other	6,129	5,964
Total	108,160	104,357

Premium financing receivables represent 71% of total receivables as at March 31, 2019. Premium financing receivables increased to $76.3 million at March 31, 2019, from $74.3 million at December 31, 2018, due to the growth in direct bill premiums. Agent and broker receivables increased from $24.1 million in 2018 to $25.7 million in 2019 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 a decrease in yields compared to December 31, 2018. The discount rates used for March 31, 2019 and December 31, 2018 for the following entities are below:

Entity	As at March 31, 2019	As at December 31, 2018
Echelon Insurance	3.22%	3.78%
ICPEI	3.18%	3.67%

Share Capital

As of May 14, 2019, there were 11,964,923 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 $2.1 million is due in less than a year and $8.9 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 March 31, 2019, was $144.5 million compared to $149.5 million at December 31, 2018.

The Minimum Capital Test (MCT) ratio of the Company's subsidiary, Echelon Insurance, as at March 31, 2019, was 215%, which comfortably exceeds the supervisory regulatory capital level required by the Office of the Superintendent of Financial Institutions (OSFI). ICPEI's MCT ratio of 407% was in excess of provincial supervisory targets. As at March 31, 2019, the Company has approximately $20 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, 2019.

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 March 31, 2019, 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 March 31, 2019, 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 March 31, 2019, 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

The Company's significant accounting policies are disclosed in note 3 to the consolidated audited annual financial statements for the years ended December 31, 2019 and 2018.

The preparation of the Company's consolidated financial statements requires management to use estimates and judgements that affect the amounts reported in the financial statements. These estimates and judgements principally relate to the establishment of reserves for claims and expenses, impairments of investment securities, amounts recoverable from reinsurers and income taxes. As more information becomes known, these estimates and judgements could change and impact future results.

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, 2019. 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 Canadian 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.

APPENDIX 1 - CONTINUED AND DISCONTINUED DETAIL

The following financial information displays three months results ended March 31, 2019 for continuing and discontinued Canadian operations.

	3 months ended March 31, 2019		
($ THOUSANDS except per share amounts)	**Total**	**Continuing Operations**	**Discontinued Canadian Operations**
Direct written and assumed premiums	98,922	6,957	91,965
Net written premiums	94,159	6,501	87,658
Net earned premiums	81,661	7,541	74,120
Net claims incurred	61,319	4,551	56,768
Net acquisition costs	19,966	1,663	18,303
Operating expenses	10,048	1,425	8,623
Underwriting (loss) income	(9,672)	(98)	(9,574)
Severance [1]	(10)	—	(10)
Transaction costs from sale [1]	(3,099)	—	(3,099)
Investment income (loss)	3,691	555	3,137
Impact of discount rate on claims	(2,740)	(171)	(2,570)
Net (loss) income before interest and income taxes	(11,828)	286	(12,114)
Income tax (recovery) expense	(2,844)	83	(2,928)
Net (loss) income	(8,984)	203	(9,187)

[1] Severance and transaction costs from sale are not considered part of operating expenses.

Revenue reflected in the consolidated financial statements includes net earned premiums, investment income, realized gains and losses on the sale of investments, and other revenue.

	3 months ended March 31, 2019		
($ THOUSANDS)	**Total**	**Continuing Operations**	**Discontinued Canadian Operations**
Gross premiums written	98,922	6,957	91,965
Net premiums written	94,159	6,501	87,658
Net earned premiums	81,661	7,541	74,120
Net interest and dividends	3,745	463	3,282
Realized and unrealized gains on investments	31	92	(61)
Foreign exchange (loss)	(85)	—	(85)
Total revenue	85,352	8,096	77,256

The following financial information displays selected balance sheet items as at March 31, 2019 for continuing and discontinued Canadian operations.

($ THOUSANDS except per share amounts)	2019	Continuing Operations	Discontinued Canadian Operations
Cash and short-term deposits	122,877	12,906	109,971
Accounts Receivable	108,160	10,954	97,206
Investments	337,231	46,161	291,070
Reinsurers' share of unpaid claims	16,684	4,850	11,834
Reinsurers' share of unearned premiums	11,448	1,260	10,188
Total assets	689,227	81,111	608,116
Provision for unpaid claims	289,291	23,241	266,050
Unearned premiums	221,298	15,545	205,753
Total Liabilities	544,761	51,072	493,689

The following table sets forth EFH's invested assets as at March 31, 2019 for continuing and discontinued Canadian operations.

($ Thousands)	**Fair values**		
Available-for-sale	**March 31, 2019**	**Continuing Operations**	**Discontinued Canadian Operations**
Fixed income			
Canadian			
Federal	24,662	4,280	20,382
Provincial	18,059	3,036	15,023
Municipal	873	—	873
Corporate	124,147	4,759	119,388
	167,741	12,075	155,666
Fixed income lent through securities lending program			
Federal	61,532	—	61,532
Provincial	14,551	—	14,551
Municipal	211	—	211
Corporate	7,924	—	7,924
	84,218	—	84,218
Foreign fixed income			
Government	—	—	—
Corporate	12,808	—	12,808
	12,808	—	12,808
Total fixed income	264,767	12,075	252,692
Corporate value pooled fund	5,085	5,085	—
Money market pooled funds	476	476	—
Short-term fixed income and mortgage pooled funds	13,339	13,339	—
Specialty pooled fund	6,404	—	6,404
Total pooled funds	25,304	18,900	6,404
Common shares			
Canadian	1,296	1,296	—
Foreign	2,128	2,128	—
Global Equity Pooled Fund	8,068	8,068	—
Total common shares	11,492	11,492	—
Total available for sale	301,563	42,467	259,096
Fair value through profit or loss			
Preferred shares	35,553	3,694	31,859
Preferred shares lent through securities lending program	115	—	115
Total preferred shares	35,668	3,694	31,974
Total investments	337,231	46,161	291,070
Cash and short-term deposits	122,877	12,906	109,971
Total investments including cash and short-term deposits	460,108	59,067	401,041