# ECHELON FINANCIAL HOLDINGS INC.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the nine months ended September 30, 2019**

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

## For the nine months ended September 30, 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 unaudited consolidated interim financial statements for the quarters ended September 30, 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 third 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 for 2018. 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, 2019 and 2018.*

*The following commentary is current as of November 14, 2019. Additional information relating to EFH is available on SEDAR at [www.sedar.com](http://www.sedar.com). Certain totals, subtotals and percentages may not reconcile due to rounding.*

*EFH uses both IFRS and certain non-IFRS measures to assess performance. Securities regulators require that companies caution readers about non-IFRS measures that do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other companies. EFH analyzes performance based on underwriting 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 corporate expenses.*

*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 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.*

## COMPANY OVERVIEW

EFH operates in the property and casualty ("P&C") insurance industry in Canada through The Insurance Company of Prince Edward Island ("ICPEI"), a provincially regulated P&C insurance company.

On November 9, 2018, the Company entered into a definitive agreement to sell Echelon Insurance, its main operating subsidiary, and the unregulated warranty business of Echelon Financial Holdings Inc. ("Discontinued Operations") and the sale was completed on May 31, 2019.

After the sale of Echelon Insurance and the unregulated warranty business of Echelon Financial Holdings Inc., the Company has insurance operations in ICPEI and investments and cash in Echelon Financial Holdings Inc. It also owns CIM Re in Barbados which is dormant and in the process of being wound up.

## BASIS OF PRESENTATION

This MD&A is based on information in the audited consolidated financial statements and accompanying notes thereto for the year ended December 31, 2018 and the *condensed unaudited consolidated interim financial statements* for the nine months ended September 30, 2019.

As a result of the Company's sale of Echelon Insurance and the unregulated warranty business of Echelon Financial Holdings Inc., the results of these operations have been presented as discontinued operations and the Company's operational results have been retroactively restated, as required. See the Discontinued Operations section of this MD&A.

Adoption of IFRS 16

The company has adopted IFRS 16 from January 1, 2019 using the modified approach, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

On adoption of IFRS 16, right-of-use assets are measured at the amount of the initial measurement of the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The Company recognized lease liabilities in relation to leases which had previously been classified as operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The incremental borrowing rate applied to the lease liabilities on January 1, 2019 was based on the prime rate plus a margin of 1.3%. The Company considered the leases as renewable and therefore did not consider short term or low value leases.

The change in accounting policy affected occupancy and printing equipment leases in the balance sheet on January 1, 2019 and the net impact on retained earnings on January 1, 2019 was a decrease of $4.

## THIRD QUARTER HIGHLIGHTS

- Direct written premiums increased during third quarter by $1 million over the same period in 2018 as company implemented rate increases in personal auto in PEI and Nova Scotia and property in all provinces.
- Net claims expense was $0.9 million higher during third quarter over the same period in 2018. It was largely due to losses incurred from Hurricane Dorian which had approximately 160 small claims amounting to $0.9 million.
- Investment income was $0.5 million higher in the third quarter compared to same period last year largely due to higher interest income earned on discontinued operations sales proceeds.
- Closing book value per share of $7.46 comparable to $7.48 at second quarter of 2019.

The financial information below compares three and nine months ended September 30, 2019 results with the same period in 2018, as restated.

| | 3 months ended September 30 | | 9 months ended September 30 | |
|---|---|---|---|---|
| **($ THOUSANDS except per share amounts)** | **2019** | **2018** | **2019** | **2018** |
| Direct written and assumed premiums | 10,271 | 9,284 | 28,200 | 26,468 |
| Net earned premiums | 8,362 | 7,609 | 23,824 | 22,277 |
| Net claims incurred | 6,522 | 5,576 | 15,927 | 16,274 |
| Net acquisition costs | 1,868 | 1,961 | 5,232 | 5,701 |
| Operating expenses | 1,258 | 1,070 | 3,420 | 3,256 |
| Corporate expense | 524 | 2,266 | 1,227 | 3,221 |
| Underwriting (loss) income [1] | (1,286) | (996) | (753) | (2,954) |
| Investment income | 874 | 379 | 1,859 | 1,181 |
| Impact of change in discount rate on claims | (78) | 69 | (386) | 218 |
| Net (loss) income before income taxes | (1,014) | (2,815) | (509) | (4,776) |
| Income tax expense ( recovery) | (341) | (788) | (236) | (1,393) |
| Net (loss) income on continued operations | (673) | (2,027) | (273) | (3,383) |
| Net income on discontinued operations | - | 2,197 | 46,220 | 13,184 |
| Net ( loss) Income | (673) | 170 | 45,947 | 9,801 |
| Net (loss) income attributed to: | | | | |
| Shareholders of the Company – continued operations | (505) | (1,930) | (284) | (3,047) |
| Shareholders of the Company – discontinued operations | - | 2,197 | 46,220 | 13,184 |
| Non-controlling interest – continued operations | (169) | (96) | 11 | (336) |
| | | | | |
| Earnings (loss) per share | | | | |
| Continued operations | | | | |
| Basic | $(0.04) | $(0.16) | $(0.02) | $(0.26) |
| Diluted | $(0.04) | $(0.16) | $(0.02) | $(0.26) |
| Discontinued operations | | | | |
| Basic | - | $0.18 | $3.86 | $1.11 |
| Diluted | - | $0.18 | $3.80 | $1.08 |

[1] Underwriting income excludes impact of change in claims discount rates and corporate expenses. Net investment income consists of interest income, dividend income, less investment expense, as per Note 5 of the Company's Consolidated Financial Statements.

*Direct Written and Net Earned Premiums*

In the third quarter of 2019, direct written premiums increased by $1.0 million compared to the same prior-year period. For nine months, direct written premium increased by $1.7 million compared to same period last year. The increase was largely due to rate increases in personal auto in PEI  and Nova Scotia and property in all provinces.

*Claims Incurred*

For the quarter ended September 30, 2019, net claims expense was $0.9 million higher than same period in the prior year. It was largely due to losses incurred from Hurricane Dorian which had approximately 160 small claims amounting to $0.9 million. For nine months ended September 30, net claim expense was $0.3 million lower in 2019 than 2018.

*Acquisition Costs*

Acquisition costs, which consist mainly of commissions, premium taxes and a portion of general expenses related to policy acquisitions, decreased by $0.1 million in the quarter ended September 30, 2019 compared to same period last year. For nine months ended September 30, acquisition costs in 2019 decreased by $0.5 million compared to 2018. The decreases are due to the Company's focus on profitability and decreasing costs in Motor Vehicle reports and contingent commissions .

*Operating Expenses*

Operating expenses were higher $0.2M in the third quarter of 2019 and for the nine months ended in 2019, compared to same period last year. For nine months ended September 30, 2019 , expense ratio was is in line compared to the same period prior year.

*Underwriting Income*

Underwriting loss of $1.3 million was recorded in the third quarter of 2019 compared to underwriting loss of $1.0 million in the same period in 2018.  For nine months ended September 30, 2019 $0.8 million underwriting loss was recorded compared to underwriting loss of $3.0 million in 2018.  The improvement in results is attributed to higher revenue and lower net claims incurred.

*Impact of Change in Discount Rate on Claims*

The discount rate used to discount future claims payment is based on the expected yield on investments. The discount rate used for Q3 2019 was 2.85% compared to 2.99% for Q2 2019 and 3.67% used for Q4 2018. The changes in discount rates were reflective of the interest yield in investments.

*Investment Income*

Investment income was $0.5 million higher in the third quarter compared to same period last year largely due to higher interest income earned on larger cash deposits as a result of money received on the sale of discontinued operations. . For nine months ended September 30, investment income was $0.7 million higher in 2019 when compared to 2018.

*Net Income before Income Taxes*

Net loss before taxes was $1.0 million in the third quarter compared to a loss of $2.8 million in the second quarter of 2018. For nine months ended September 30, 2019, net loss  before taxes of  $0.5 million compared to a loss of  $4.8 in 2018. The improvements were largely the result of improvements in underwriting and investment results.

*Income Taxes*

For the quarter ended September 30, 2019, the recovery for income taxes was $0.3 million compared to expense recovery of $0.8 million for the same period last year. For nine months ended September 30, a recovery of $0.2 million was recorded in 2019 compared to a recovery of $1.4 million in 2018. See effective tax rates note 8 to condensed unaudited consolidated interim financial statements for the nine months ended September 30, 2019.

*Discontinued Operations*

On November 9, 2018, the Company entered into a definitive agreement to sell Echelon Insurance, its main operating subsidiary, and the unregulated warranty business of Echelon Financial Holdings Inc. ("Discontinued Operations") and the sale was completed on May 31, 2019.

Net earnings of discontinued operations for the three and nine months ended September 30, 2019 and 2018 includes results of Echelon Insurance and the unregulated warranty business of Echelon Financial Holdings Inc. to their disposal date of May 31, 2019.

Income statement results

| **$ Thousands** | **3 months ended September 30** | | **9 months ended September 30** | |
|---|---|---|---|---|
| Revenues | **2019** | **2018** | **2019** | **2018** |
| Net earned premiums | - | 88,100 | 133,164 | 220,234 |
| Investment Income (loss) | - | 2,648 | 4,656 | 6,564 |
| Total Revenue | - | 90,748 | 137,820 | 226,798 |
| Expenses | | | | |
| Net incurred claims | - | 59,159 | 99,889 | 135,233 |
| Net acquisition costs | - | 19,950 | 31,402 | 53,351 |
| Operating costs | - | 7,245 | 16,411 | 21,704 |
| Total Expenses | - | 86,354 | 147,702 | 210,288 |
| Income (Loss) before income taxes | - | 4,393 | (9,882) | 16,509 |
| Income tax expense (recovery) | - | 2,196 | (2,974) | 3,325 |
| Net Income (loss) on discontinued operations | - | 2,197 | (6,908) | 13,184 |
| Gain on sale, net of expenses | - | - | 53,128 | - |
| Net Income on discontinued operations | - | 2,197 | 46,220 | 13,184 |

The Company received $165.5 million on May 31, 2019 including $4.3 million for expenses. The balance of $4.8 million in settlement of final determination of the Minimum Capital Test (“MCT”) ratio was received on August 1,2019 . The gain on disposal is comprised of:

| **$ Thousands** | **3 months ended September 30, 2019** | **9 months ended September 30, 2019** |
|---|---|---|
| Proceeds | - | $170,241 |
| Net assets disposed | - | $112,984 |
| Gain on sale | - | $57,257 |
| Expenses relating to the sale | - | $4,128 |
| Net gain | - | $53,128 |

## UPDATE ON QUDOS LITIGATION:

*Arbitration Proceedings between New Nordic Advisors Limited and EFH*

New Nordic Advisors Limited (NNA) filed a Statement of Claim with the Danish Institute of Arbitration in October 2018. The Claim sought €45.8 million in damages arising from the sale of 100% of EFH's interest in QIC Holdings ApS to New Nordic Odin Denmark Ltd in March of 2017. The Statement of Claim alleged breach of contract and willful misrepresentation. On July 16, 2019 the claim was dismissed with costs (approx. C$365,000) which has been paid to EFH. There is no right to an appeal.

*Arbitration Proceedings between New Nordic Odin Denmark ApS and EFH*

On August 2, 2019 New Nordic Odin Denmark (NNOD) filed a Statement of Claim with the Danish Institute of Arbitration. The Claim is essentially the same claim made by NNA but with a different plaintiff. The Claim seeks €45.8 million in damages arising from the sale of 100% of EFH's interest in QIC Holdings ApS to NNOD in March of 2017. The Statement of Claim alleges breach of contract and willful misrepresentation with respect to the amount of required reserves for Qudos claim liabilities and the overall value of Qudos. It is alleged that officers of Qudos and EFH were aware of the underfunded reserves and failed to disclose to NNOD. A preliminary defence has been filed by EFH, pleading that NNOD has no legal right to bring the claim and seeking an order for security for costs. EFH is required to file a substantive defence by the end of November 2019. EFH does not believe there is any merit to the claim and. expects that the case will be heard in the first half of Year 2020.

## SUMMARY OF QUARTERLY RESULTS

The following quarterly financial summary has been restated to exclude Discontinued Operations except for investment income, net income, earnings per share, and book value per share information.

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

**($ THOUSANDS except per share amounts)**

| | 2019 | | | 2018 | | | | 2017 |
|---|---|---|---|---|---|---|---|---|
| | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** |
| Direct written and assumed premiums | 10,271 | 10,972 | 6,957 | 7,469 | 9,284 | 10,425 | 6,759 | 7,227 |
| Net earned premiums | 8,362 | 7,921 | 7,541 | 7,660 | 7,609 | 7,497 | 7,171 | 7,203 |
| Underwriting income (loss) | (1,286) | 128 | 405 | 1,809 | -997 | -547 | -1,410 | 382 |
| Impact of change in net claims discount rate | (78) | (138) | (171) | 142 | 69 | 56 | 93 | 67 |
| Investment Income | 874 | 430 | 555 | 280 | 380 | 377 | 425 | 708 |
| Net Income (Loss) | (673) | 55,602 | (8,984) | (7,426) | 170 | 3,964 | 5,642 | (4,826) |
| Earnings (loss) per share | | | | | | | | |
| (a) Basic | $(0.04) | $4.64 | ($0.76) | ($0.65) | $0.02 | $0.34 | $0.49 | ($0.42) |
| (b) Diluted | $(0.04) | $4.55 | ($0.76) | ($0.65) | $0.02 | $0.33 | $0.48 | ($0.42) |
| Book value per share (1) | $7.46 | $7.48 | $11.74 | $12.21 | $12.89 | $12.88 | $12.47 | $12.01 |

(1) In Q2 - 2019, the Company paid a dividend of $8.80 per share to shareholders.

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 4 to condensed unaudited consolidated interim financial statements for the nine months ended September 30, 2019.

## BALANCE SHEET ANALYSIS

*The Balance Sheet analysis that follows should be read in conjunction with the* condensed unaudited consolidated interim financial statements for the nine months ended September 30, 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 September 30, 2019 | As at December 31, 2018 |
|---|---|---|
| Cash and short-term deposits | 72,574 | 22,785 |
| Investments | 47,224 | 45,576 |
| Total assets | 144,520 | 668,216 |
| Provision for unpaid claims | 25,500 | 24,090 |
| Unearned premiums | 19,324 | 16,848 |
| Total equity attributable to shareholders | 89,581 | 145,667 |
| Book value per share [(1)] | $7.46 | $12.21 |

[(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, 2019 and December 31, 2018.

| **Available for sale** | **As at September 30, 2019** | | **As at December 31, 2018** | |
|---|---|---|---|---|
| Fixed income | | | | |
| Canadian | | | | |
| Federal | 5,317 | | 4,254 | |
| Provincial | 3,066 | | 3,047 | |
| Corporate | 3,836 | | 4,592 | |
| Total fixed income | 12,219 | 10.2% | 11,893 | 17.4% |
| Corporate value pooled fund | 5,222 | | 4,998 | |
| Money market pooled funds | 531 | | 459 | |
| Short-term fixed income and mortgage pooled funds | 13,527 | | 14,610 | |
| Total pooled funds | 19,280 | 16.1% | 20,067 | 29.4% |
| Common shares | | | | |
| Canadian | 1,499 | | 1,138 | |
| Foreign | 2,187 | | 1,481 | |
| Global Equity Pooled Fund | 8,371 | | 7,417 | |
| Total common shares | 12,057 | 10.1% | 10,036 | 14.7% |
| Total available-for-sale | 43,556 | | 41,996 | |
| **Fair value through profit or loss** | | | | |
| Preferred shares | 3,668 | | 3,580 | |
| Total preferred shares | 3,668 | 3.1% | 3,580 | 5.2% |
| Total investments | 47,224 | 39.5% | 45,576 | 66.7% |
| Cash and short-term deposits | 72,574 | 60.5% | 22,785 | 33.3% |
| Total investments including cash and short-term deposits | 119,798 | 100% | 68,361 | 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 nine months ended September 30, 2019. An impairment loss of $98K was recognized during the nine months ended September 30, 2018.

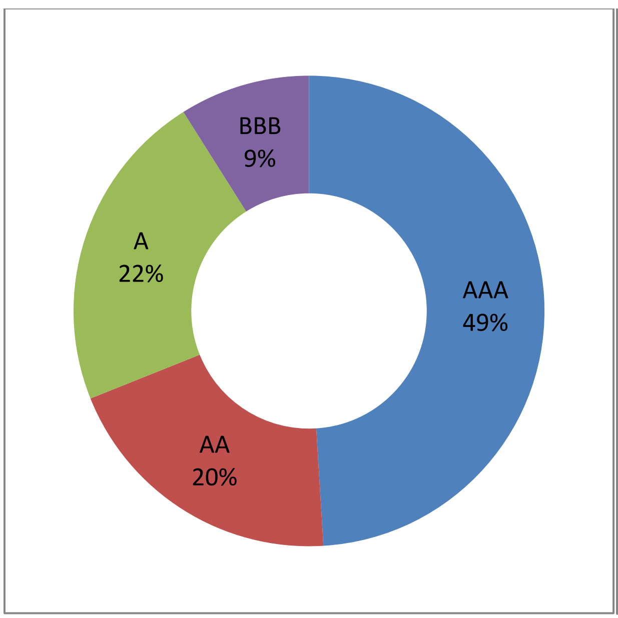
**Fixed Income Securities**

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.

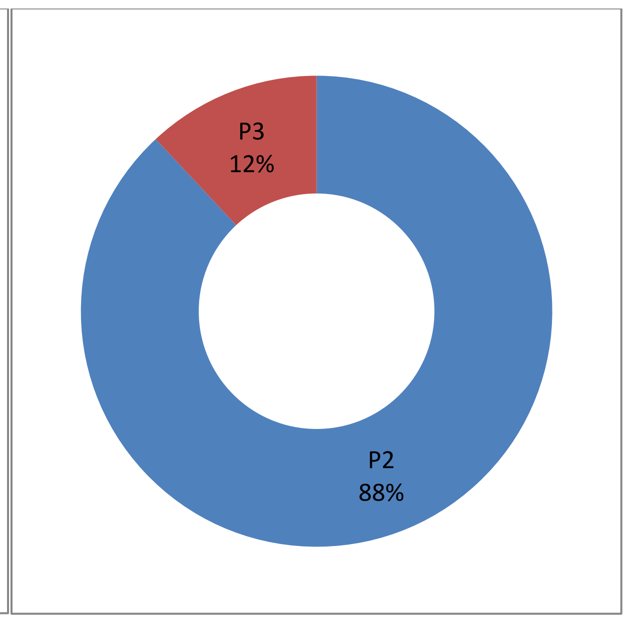
EFH's bond portfolio has a high overall credit quality with an average rating of AA. The preferred shares have an average rating of P2. The duration of the bond portfolio is 2.5 years.

The charts below show EFH's fixed income and preferred share portfolios by credit quality as at September 30, 2019:

Bond Ratings




Preferred Share Rating



### Common Share Portfolio

The Global Equity Pooled Fund is managed by Burgundy Asset Management and the Canadian and USA common equities are largely managed by Silver Heights Capital Management Inc.

### Recoverable from Reinsurers

| ($ THOUSANDS) | As at September 30, 2019 | As at December 31, 2018 |
|---|---|---|
| Reinsurers' share of unpaid claims | 3,784 | 4,889 |
| Reinsurers' share of unearned premiums | 1,237 | 1,522 |
| Total | 5,021 | 6,411 |

As at September 30, 2019, the amount recoverable from reinsurers decreased by $1.4 million, down to $5.0 million from $6.4 million as at December 3, 2018. Reinsurers' share of unpaid claims decreased by $1.1 million as there was a large claim settled and provision for claims was lower. The reinsurers share of unearned premium decreased by $0.3 million as reinsurance premium in 2019 was lower than 2018. All reinsurers, with balances due, have a rating of A– or above as determined by A.M. Best.

### Accounts Receivable

| ($ THOUSANDS) | As at September 30, 2019 | As at December 31, 2018 |
|---|---|---|
| Agents and brokers | 12,806 | 11,738 |
| Other | 17 | - |
| Total | 12,823 | 11,738 |

Agent and broker receivables increased from $11.7 million in 2018 to $12.8 million in 2019 due to growth in broker billed premiums in the current quarter.

### 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 and provision for adverse development .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 September 30, 2019 and December 31, 2018 for the following entities are below:

| | As at September 30, 2019 | As at December 31, 2018 |
|---|---|---|
| | 2.85% | 3.67% |

### Share Capital

As of November 14, 2019, there were 12,006,558 common shares issued and outstanding. In the second quarter of 2019, the Company paid a dividend of $8.80 per share totaling $105.6 million.

## 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.

Echelon Financial Holdings Inc. is primarily a holding company and, as such, has limited direct operations of its own. Its principal assets are cash, an investment portfolio and ownership of ICPEI. Selected balance sheet items of Echelon Financial Holdings Inc. as at September 30, 2019 are as follows:

| **($) Thousand** | |
|---|---|
| Cash and short-term deposits | $67,817 |
| Portfolio investments | $11,693 |
| Investment in Insurance Subsidiary | $11,956 |
| Other assets | $1,220 |
| Accounts receivable | $17 |
| Liabilities | $3,242 |

Accordingly, its future cash flows depend on its investment income and the availability of dividends and other statutorily permissible distributions from ICPEI. 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 subsidiary is domiciled, which subject the insurance subsidiary to significant regulatory restrictions. These laws and regulations require, among other things, that the insurance subsidiary maintain minimum solvency requirements and may also limit the amount of dividends that the insurance subsidiary can pay to its parent.

## 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 to condensed unaudited consolidated interim financial statements for the nine months ended September 30, 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 Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of September 30, 2019, an evaluation was carried out, under the supervision of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as defined under Multilateral Instrument 52-109. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of these disclosure controls and procedures was effective.

*Internal Controls over Financial Reporting*

As at the quarter ended September 30, 2019, the Chief Executive Officer and the Chief Financial Officer evaluated the design of the Company's internal control over financial reporting. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design of internal controls as at September 30, 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.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

For a description of EFH's accounting policies, which are on an IFRS basis, refer to note 3 to condensed unaudited consolidated interim financial statements for the nine months ended September 30, 2019. A description of EFH's critical accounting estimates and assumptions is also detailed in note 4 to condensed unaudited consolidated interim financial statements for the nine months ended September 30, 2019.