ECHELON FINANCIAL HOLDINGS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 31, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended December 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 audited consolidated financial statements for the year ended December 31, 2019, and 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS). The policies applied in the audited consolidated 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 audited consolidated financial statements.

The following discussion should be read in conjunction with EFH's audited consolidated financial statements and the related notes. The following commentary is current as of February 21, 2020. Additional information relating to EFH is available on SEDAR at www.sedar.com. Certain totals, subtotals and percentages may not reconcile due to rounding.

EFH uses both IFRS and certain non-IFRS measures to assess performance. Securities regulators require that companies caution readers about non-IFRS measures that do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures used by other companies. EFH analyzes performance based on underwriting income and 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 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 and outlook of EFH for 2020 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. and the sale was completed on May 31, 2019.

On December 30, 2019, the Company dissolved its wholly owned subsidiary CIM Re in Barbados.

The Company now has insurance operations in ICPEI and investments and cash in Echelon Financial Holdings Inc.

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, 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 and the wind-up of CIM Re 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 Leases

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 there was no impact on the retained earnings on January 1, 2019.

QUARTER AND YEAR ENDED DECEMBER 31, 2019 COMPARED TO QUARTER AND YEAR ENDED DECEMBER 31, 2018

- Direct written premiums increased during the fourth quarter by $1.2 million over the same period in 2018 as the Company implemented rate increases in personal auto in PEI and Nova Scotia and property in all provinces.

- Net claims expense was $3.4 million higher during the fourth quarter over the same period in 2018.The increase was largely due to an addition of $2.4 million to provision of claims related to development of prior years' claims and frequency of losses in this quarter.

- Investment income was $0.8 million higher in the fourth quarter of 2019 over same period 2018 largely due to performance of equity investments and preferred shares.

- Closing book value per share of $7.45 is comparable to $7.46 at the end of third quarter of 2019. The decrease from the prior quarter is due to the loss in this quarter.

The financial information below compare the three months and the year ended December 31, 2019 results with the same periods in 2018, as restated.

	3 months ended December 31		**12 months ended December 31**	
($ THOUSANDS except per share amounts)	**2019**	**2018**	**2019**	**2018**
Direct written and assumed premiums	8,629	7,469	36,829	33,937
Net earned premiums	8,573	7,660	32,397	29,937
Net claims incurred	6,971	3,529	22,898	19,803
Net acquisition costs	1,737	1,362	6,969	7,063
Operating expenses	674	961	4,094	4,217
Corporate expense	448	462	1,675	3,683
Underwriting income (loss)	(811)	1,808	(1,564)	(1,146)
Investment income	1,083	282	2,942	1,463
Impact of change in discount rate on claims	(71)	142	(457)	360
Net income (loss) before income taxes	(245)	1,772	(754)	(3,004)
Income tax expense (recovery)	(213)	790	(449)	(603)
Net income (loss) on continued operations	(32)	982	(305)	(2,401)
Net income (loss) on discontinued operations	(498)	(8,408)	45,722	4,776
Net Income (loss)	(530)	(7,426)	45,417	2,375
Net income (loss) attributed to:				
Shareholders of the Company – continued operations	157	628	(127)	(2,419)
Shareholders of the Company – discontinued operations	(498)	(8,408)	45,722	4,776
Non-controlling interest – continued operations	(189)	354	(178)	18
Earnings per share				
Continued operations				
Basic	$0.01	$0.06	$(0.01)	$(0.20)
Diluted	$0.01	$0.06	$(0.01)	$(0.20)
Discontinued operations				
Basic	$(0.04)	$(0.71)	$3.82	$0.40
Diluted	$(0.02)	$(0.69)	$3.78	$0.39

(1) Underwriting income excludes impact of change in claims discount rates and corporate expenses. Net investment income consists of interest income, dividend income, realized gains or losses, less investment expense, as per Note 6 of the Company's Consolidated Financial Statements.

Direct Written and Net Earned Premiums

Direct written premiums in 2019 increased by $2.9 million compared to 2018. The increase was largely due to rate increases in personal auto in PEI and Nova Scotia and property in all provinces.

Claims Incurred

Net claims expense in 2019 was $3.1 million higher than 2018. The increase was largely due to losses incurred from Hurricane Dorian which had approximately 160 small claims amounting to $0.9 million and unfavorable development of claims related to prior years.

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 2019 compared to 2018. The decrease, despite an increase in written premiums, is due to the Company's focus on decreasing costs and less profit commissions to brokers for the year.

Expenses

Total expenses in 2019 were $2.1 million lower than 2018 largely due to accrual of legal expenses in 2018.

Underwriting Income

Underwriting loss of $1.6 million in 2019 was $0.5 million higher than the underwriting loss of $1.1 million in 2018. This reflects the larger increase in claims incurred than the increase in earned premium in 2019 over the previous year.

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 in 2019 was 2.50% compared to 3.67% used in 2018. The change in discount rate was reflective of the expected interest yield in investments closely matching the duration of liabilities.

Investment Income

Investment income was $1.5 million higher in 2019 compared to 2018 largely due to higher interest income earned on discontinued operations sales proceeds, realized gains and fair value change in preferred shares investments.

Net Income before Income Taxes

Net loss before taxes was $0.8 million in 2019 compared to a loss of $3.0 million in 2018. The improvement was largely the result of a reduction in corporate expenses, improved investment income offset by an increase in underwriting loss compared to 2018.

Income Taxes

The recovery for income taxes was $0.4 million in 2019 compared to a recovery of $0.6 million in 2018. See effective tax rates note 14 to the audited consolidated financial statements.

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. and the sale was completed on May 31, 2019.

Net earnings of discontinued operations in 2019 includes results of Echelon Insurance and the unregulated warranty business of Echelon Financial Holdings Inc. to their disposal date of May 31, 2019 and the wind-up of CIM Re in Barbados.

Income statement results

$ Thousands	Year ended December 31	
Revenues	**2019**	**2018**
Net earned premiums	133,164	294,698
Investment Income	4,656	5,690
Total Revenue	137,820	300,388
Expenses		
Net incurred claims	99,889	185,694
Net acquisition costs	31,402	70,988
Operating costs	16,411	37,121
Total Expenses	147,702	293,803
Income (Loss) before income taxes	(9,882)	6,585
Income tax expense (recovery)	(3,148)	1.809
Net Income (loss) on discontinued operations	(6,734)	4,776
Gain on sale, net of expenses	53,128	—
Wind up of CIM Re	(672)	—
Net Income on discontinued operations	45,722	4,776

The Company received $165.5 million on May 31, 2019 including $4.3 million for expenses. The balance $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	Year ended December 31 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

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 seeks €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 alleges breach of contract and willful misrepresentation. On July 16, 2019 the claim was dismissed with costs (approx. C$ 365,000) payable to EFH. There is no right to an appeal.

Arbitration Proceedings between New Nordic Odin Denmark ApS

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 preparing to file a substantive defence by end of March and expects the case will proceed in the 3rd quarter of 2020. EFH does not believe there is any merit to the claim.

SUMMARY OF QUARTERLY RESULTS

The following quarterly financial summary has been restated to exclude Discontinued Operations except for 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			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Direct written and assumed premiums	8,629	10,271	10,972	6,957	7,469	9,284	10,425	6,759
Net earned premiums	8,573	8,362	7,921	7,541	7,660	7,609	7,497	7,171
Underwriting income (loss)	(811)	(1,286)	128	405	1,809	-997	-547	-1,410
Impact of change in net claims discount rate	(71)	(78)	(138)	(171)	142	69	56	93
Investment Income	1,083	874	430	555	280	380	377	425
Net Income (Loss)	(530)	(673)	55,602	(8,984)	(7,426)	170	3,964	5,642
Earnings (loss) per share								
(a) Basic	($0.03)	$(0.04)	$4.64	($0.76)	($0.65)	$0.02	$0.34	$0.49
(b) Diluted	($0.01)	$(0.04)	$4.55	($0.76)	($0.65)	$0.02	$0.33	$0.48
Selected financial ratios								
Book value per share (1)	$7.45	$7.46	$7.48	$11.74	$12.21	$12.89	$12.88	$12.47

(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 5 of the Consolidated Financial Statements.

BALANCE SHEET ANALYSIS

The Balance Sheet analysis that follows should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2019, and notes thereto.

Balance Sheet Highlights

Selected balance sheet highlights and book value per share details are as follows:

($ THOUSANDS except per share amounts)	As at December 31, 2019	As at December 31, 2018
Cash and short-term deposits	70,932	22,785
Investments	48,019	45,576
Total assets	144,020	668,216
Provision for unpaid claims	26,629	24,090
Unearned premiums	18,749	16,848
Total equity attributable to shareholders	89,475	145,667
Book value per share [1]	$7.45	$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 December 31, 2019 and December 31, 2018.

Available for sale ($ THOUSANDS)	**As at December 31, 2019**	**% of Total**	**As at December 31, 2018**	**% of Total**
Fixed income				
Canadian				
Federal	5,053		4,254	
Provincial	2,771		3,047	
Corporate	4,336		4,592	
Total fixed income	12,160	10.2%	11,893	17.4%
Corporate value pooled fund	5,320		4,998	
Money market pooled funds	604		459	
Short-term fixed income and mortgage pooled funds	13,550		14,610	
Total pooled funds	19,474	16.4%	20,067	29.4%
Common shares				
Canadian	1,798		1,138	
Foreign	2,057		1,481	
Global Equity Pooled Fund	8,784		7,417	
Total common shares	12,639	10.6%	10,036	14.7%
Total available-for-sale	44,273		41,996	
Fair value through profit or loss				
Preferred shares	3,746		3,580	
Total preferred shares	3,746	3.2%	3,580	5.2%
Total investments	48,019	40.4%	45,576	66.7%
Cash and short-term deposits	70,932	59.6%	22,785	33.3%
Total investments including cash and short-term deposits	118,951	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 2019. An impairment loss of $129K was recognized in 2018.

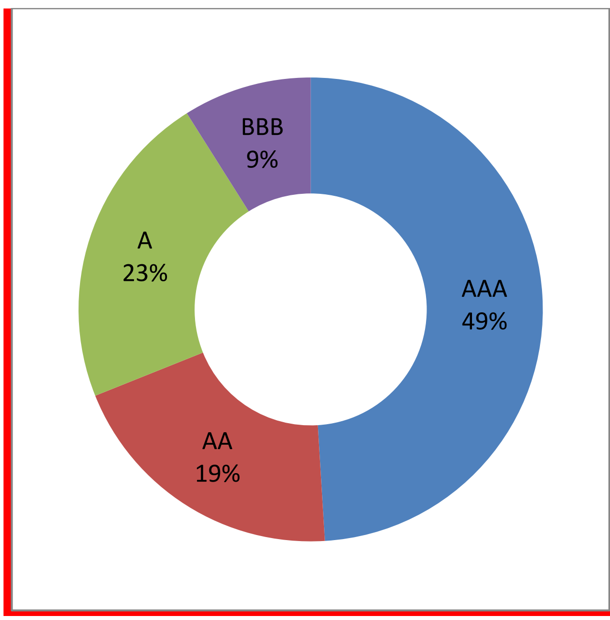
Fixed Income Securities

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.

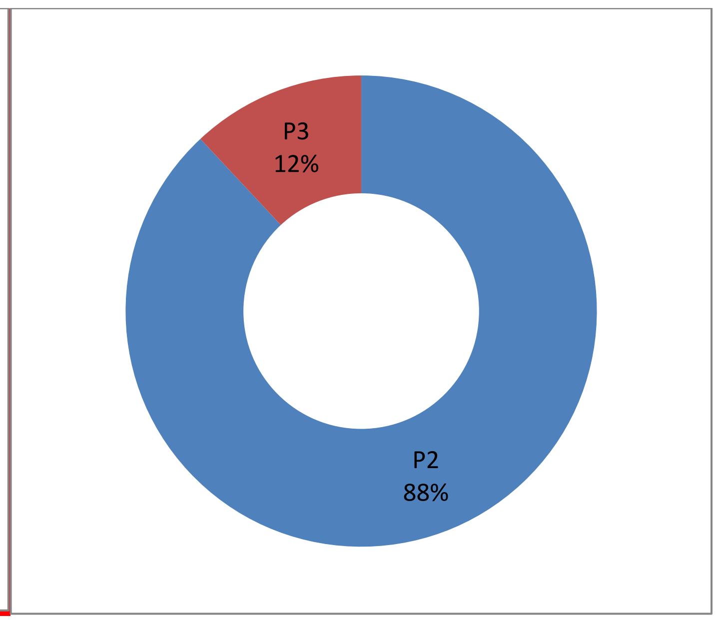
EFH's bond portfolio has a high overall credit quality with an average rating of AA. The preferred shares have an average rating of P2. The duration of the bond portfolio is 2.6 years.

The charts below show EFH's fixed income and preferred share portfolios by credit quality as at December 31, 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 Investment Manager.

Recoverable from Reinsurers

($ THOUSANDS)	As at December 31, 2019	As at December 31, 2018
Reinsurers' share of unpaid claims	3,268	4,889
Reinsurers' share of unearned premiums	1,031	1,522
Total	4,299	6,411

As at December 31, 2019, the amount recoverable from reinsurers decreased by $2.1 million, down to $4.3 million from $6.4 million as at December 3, 2018. Reinsurers' share of unpaid claims decreased by $1.6 million as there was a large claim settled during the year and the reinsurers' coverage was changed to start at $1 million loss for auto and catastrophe while they were $0.5 million in 2018. The reinsurers share of unearned premium decreased by $0.5 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 December 31, 2019	As at December 31, 2018
Agents and brokers	9,918	8,909
Other	102	-
Total	10,020	8,909

Agent and broker receivables increased from $8.9 million in 2019 to $9.9 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 December 31, 2019 and December 31, 2018 are:

	As at December 31, 2019	As at December 31, 2018
	2.50%	3.67%

Share Capital

As of February 21, 2020, 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.

5 YEAR FINANCIAL HIGHLIGHTS

	Year ended December 31				
($ THOUSANDS EXCEPT PER SHARE AMOUNTS)	**2019**	**2018**	**2017**	**2016**	**2015**
Revenue					
Direct written and assumed premiums	36,829	33,937	285,718	217,486	199,473
Net earned premiums	32,397	29,937	227,396	181,060	176,468
Underwriting expenses					
Incurred claims	22,898	19,803	156,814	110,772	109,827
Acquisition costs	6,969	7,063	51,994	41,545	39,448
Operating expenses	5,769	7,898	31,031	29,157	27,639
Total underwriting expense	35,636	34,764	239,839	181,474	176,915
Underwriting income (loss)	(3,239)	(4,827)	(12,443)	(414)	(447)
Impact of discount rate on claims	(457)	360	3,254	(2,822)	1,024
Transaction costs from sale and severance	-	-	(262)	(4,266)	-
Investment income	2,942	1,463	17,196	16,507	12,613
Other income	-	-	-	-	748
Income before interest expense and income taxes	(754)	(3,004)	7,745	9,005	13,938
Interest expense	-	-	155	217	-
Income tax expense (recovery)	(449)	(603)	947	1,670	1,676
Net income on continued operations	(305)	(2,401)	6,643	7,118	12,262
Net income on discontinued oeprations	45,722	4,776	-	-	-
Net Income	45,417	2,375	6,643	7,118	12,262
Attributed to:					
Shareholders of the Company-continued operations	45,722	4,776	6,489	6,606	12,254
Shareholders of the Company-discontinued operations	(127)	(2419)	-	-	-
Non-controlling interest	(178)	18	154	512	8
	45,417	2,375	6,643	7,118	12,262
Earnings per share attributable to shareholders of the Company:					
Net income per share continued operations basic	$ (0.01)	$ 0.20	$ 0.55	$ 0.56	$ 1.05
Net income per share continued operations diluted	$ (0.01)	$ 0.20	$ 0.54	$ 0.55	$ 1.02

Selected balance sheet highlights and book value per share details are as follows:

($ THOUSANDS except per share amounts)	2019	2018	2017	2016	2015
Cash and short-term deposits	70,932	22,785	44,459	50,588	23,373
Investments	48,019	45,576	370,933	336,535	513,099
Total assets	144,020	668,216	590,586	800,219	923,795
Provision for unpaid claims	26,629	24,090	262,966	255,129	397,214
Unearned premiums	18,749	16,848	160,577	120,184	264,584
Total equity attributable to shareholders	89,475	145,667	142,822	137,414	180,935
Book value per share (1)	$7.45	$12.21	$12.01	$11.70	$15.75

(1) Shareholders' equity divided by the number of 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 funds needed to fulfill its cash requirements for all commitments and obligations 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 December 31, 2019 are as follows:

($ Thousand)	
Cash and short-term deposits	$66,604
Portfolio investments	$12,270
Investment in Insurance Subsidiary	$11,367
Other assets	$1,894
Liabilities	$2,717

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 audited consolidated financial statements have been prepared in accordance with IFRS. Please refer to note 3 of the audited consolidated financial statements.

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 December 31, 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

For the audited consolidated financial statements ended December 31, 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 December 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.

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 audited consolidated financial statements for the year ended December 31, 2019. A description of EFH's critical accounting estimates and assumptions is also detailed in note 4 of the consolidated the financial statements.