

Echelon Financial Holdings Inc.

Annual Information Form

(in respect of the financial year ended December 31, 2016)

March 10, 2017

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Unless otherwise indicated, all information in this Annual Information Form (“AIF”) is presented as at and for the year ended December 31, 2016, and amounts are expressed in Canadian dollars. Unless otherwise indicated or the context otherwise requires, references to “EFH” refer to Echelon Financial Holdings Inc. and its subsidiaries, while references to the “Company” refer to Echelon Financial Holdings Inc. itself, both now and in its predecessor forms.

A glossary of terms used but not otherwise defined in this AIF is set out at the end of this document.

CAUTIONARY INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this AIF may constitute “forward-looking” statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this AIF, such statements use such words as “may”, “will”, “expect”, “believe”, “plan” and other similar terminology. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this AIF. Forward-looking statements involve significant risks, uncertainties and assumptions, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results, performance or achievements discussed in the forward-looking statements, including, but not limited to, the factors discussed under “Risk Factors”. Although the forward-looking statements contained in this AIF are based upon what management of the Company believes, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this AIF, and the Company undertakes no obligation to update or revise them to reflect new events or circumstances.

For additional information with respect to these and other risks or factors, reference should be made to the Company’s continuous disclosure materials and documents filed from time to time with Canadian securities regulatory authorities, available at www.sedar.com.

CORPORATE STRUCTURE

The Company

Echelon Financial Holdings Inc. (the “Company”), renamed in May 2015, was formed by Articles of Amalgamation dated January 11, 2005, under the laws of the Province of Ontario on the amalgamation of Canadian Insurance Marketing Inc. (“CIMI”) with its then wholly-owned subsidiary, EGI Financial Holdings Inc. CIMI was originally incorporated by Articles of Incorporation dated August 18, 1997, under the laws of the Province of Ontario.

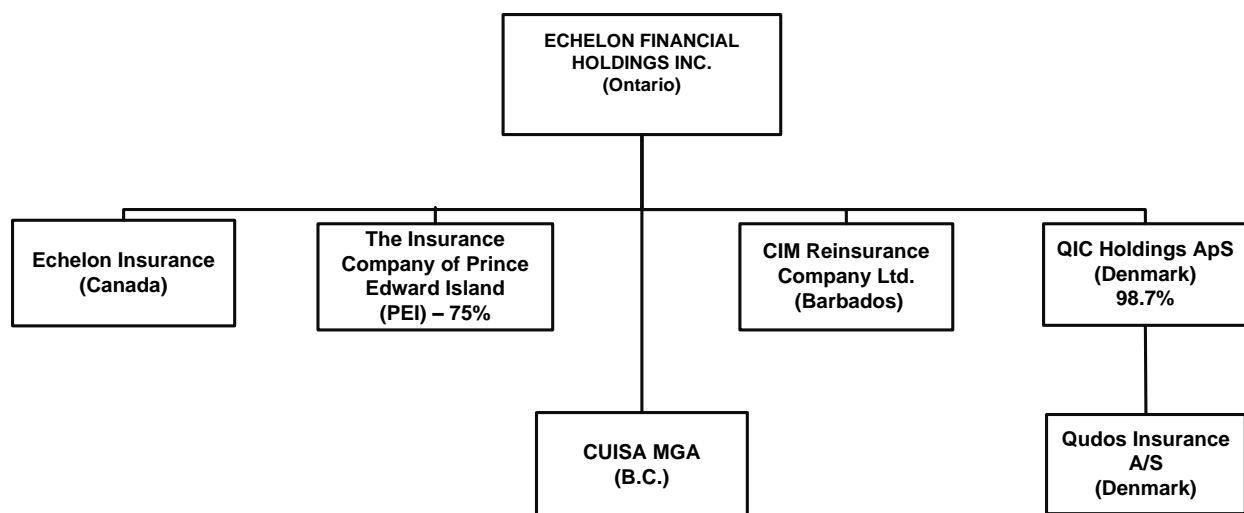
EFH operates in the property and casualty (“P&C”) insurance industry in Canada and Europe. The Company underwrites non-standard automobile insurance and other specialty insurance products, with a focus on niche underserved markets.

EFH operates in Canada through Echelon Insurance, a federally-regulated P&C insurance company and The Insurance Company of Prince Edward Island (“ICPEI”), a provincially regulated insurance company.

EFH’s corporate head office and registered office is located at 2680 Matheson Blvd. E., Suite 300, Mississauga, Ontario L4W 0A5.

Inter-corporate Relationships

The following chart sets out the subsidiaries of the Company as at December 31, 2016, including the jurisdiction of incorporation of such subsidiary. All subsidiaries were wholly-owned other than QIC Holdings ApS and ICPEI.



On January 1, 2015, EGI Insurance Managers Inc. and Echelon Financial Holdings amalgamated to simplify the organizational structure from a taxation and cash management perspective.

On March 7, 2017, the Company completed the sale of its European operations, QIC Holdings ApS and Qudos Insurance A/S,

GENERAL DEVELOPMENT OF THE BUSINESS

Three-Year History

EFH operates in the property and casualty (“P&C”) insurance industry in Canada and Europe. The Company focuses primarily on non-standard automobile insurance and other niche and specialty general insurance products. Founded in 1998 as an insurance and reinsurance broker and marketer, EFH has since developed its business to focus on underwriting opportunities not served by many of the larger, standard insurers.

On May 1, 2012, the Company acquired CUISA Managing General Agency Corporation (“CUISA MGA”), a British Columbia specialty insurance operation. CUISA MGA was established in 1996 and provides insurance services to 160 credit-union-owned insurance broker offices in British Columbia. It provides brokers with access to insurance markets and unique products that they would have difficulty accessing individually. CUISA MGA has developed and offers a broad range of personal and commercial lines products, and has been an authorized distributor for EFH’s subsidiary, since 2006.

On December 3, 2013, the Company completed the sale of its U.S. insurance operations.

On July 1, 2014, the Company acquired 75% ownership of ICPEI. ICPEI primarily underwrites auto, personal and commercial property products distributed through independent brokers in Prince Edward Island, New Brunswick and Nova Scotia.

On March 7, 2017, the Company completed the sale of its European operations, QIC Holdings A/S and Qudos Insurance A/S.

In 2017 the Company will focus its attention on the expansion and development of its Canadian operations. In particular the Company will develop and expand its surety, long haul trucking and commercial lines, all new lines introduced in 2016.

DESCRIPTION OF THE BUSINESS

General

EFH provides Personal and Commercial Insurance across Canada through Echelon Insurance and ICPEI. Both standard and specialty products are available to businesses and individuals.

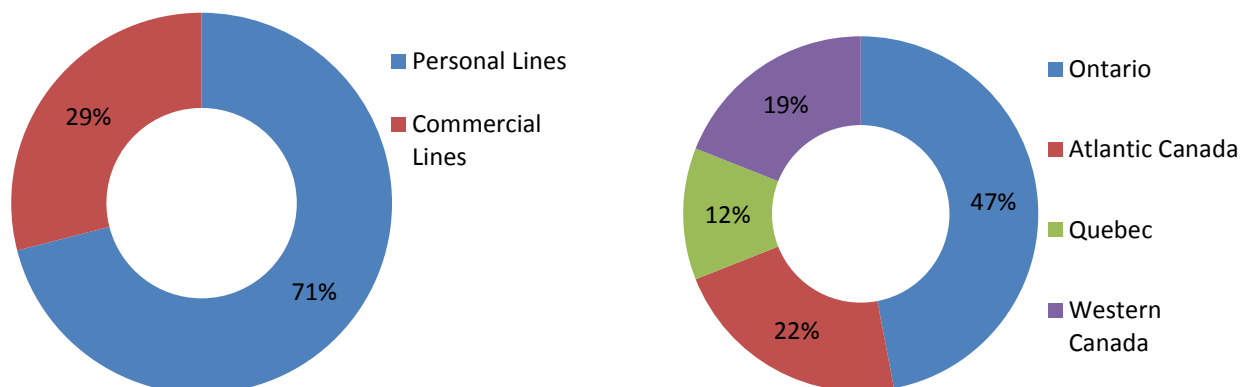
EFH is committed to offering a consistent line of products across Canada and to provide an alternative market to the brokers from the larger investors. By offering a complete and diverse lineup of products and an ability to transact efficiently with its brokers through modern systems and outstanding service, EFH is positioned to become a more meaningful partner and gain a greater share of its broker's business.

From 2011 until 2017, EFH operated outside of Canada through Qudos, which wrote specialty programs across various European countries from their Denmark office. On March 7, 2017, EFH divested the European operations as a part of efforts to restore profitability and refocus its operations in Canada.

The business of EFH and its subsidiaries, including critical accounting estimates and assumptions, is described in more detail in the Company's annual Management's Discussion & Analysis for the financial year ended December 31, 2016, which is incorporated by reference in this AIF.

Products and Services

The breakdown of net written premiums during 2016 by business line and region is illustrated below:



Personal Lines

EFH offers standard and specialty private passenger vehicle coverage through ICPEI in the Maritime provinces and Echelon Insurance in the rest of Canada, respectively. Both brands also provide coverage for specialty and recreational vehicles.

In addition to automobile products which form the bulk of EFH's Personal Lines business, Property coverage is offered in select provinces.

PERSONAL AUTOMOBILE

Non-standard automobile insurance is the largest single component of EFH's business, with approximately \$100M in direct premiums written over the 12 months ended December 31, 2016. Offered through Echelon Insurance, the non-standard automobile product targets drivers of private passenger and single commercial vehicles who are unable to obtain coverage from standard insurers.

EFH writes specialty automobiles and recreational vehicles through both Echelon Insurance and ICPEI. Coverage is available for motorcycles, antique and classic cars, trailers, motorhomes, snowmobiles and all-terrain vehicles. Standard personal and commercial automobile insurance is offered across the Maritimes through ICPEI only.

Moving forward, the Company intends to increase focus on profitable automobile products, evaluating whether these could be successfully expanded into new regional markets within Canada. At the same time, unprofitable products will be reviewed and refined.

PERSONAL PROPERTY

EFH offers homeowners, condo and tenant packages through ICPEI in the Maritimes and through Echelon Insurance in Quebec and British Columbia.

Commercial Lines

EFH writes commercial property, liability and automobile coverage for small- to mid-sized businesses under the Echelon Insurance and ICPEI brands.

In addition to standard commercial policies, Echelon Insurance also excels in niche business lines, including Surety, Long Haul Trucking, and Specialty Programs. In 2016, the Company grew its Commercial Lines Management and underwriting teams to include seasoned experts with proven track-records and deep networks in their respective markets.

With a now-profitable portfolio and an experienced and connected management team, steps are underway to expand the Company's commercial product offering into Ontario, Quebec and Alberta. Echelon Insurance will target underserved and specialty brokers, offering flexible, risk-underwritten coverage.

COMMERCIAL PROPERTY

EFH offers commercial property coverage in the Maritimes, Quebec and British Columbia, differentiating from competitors by applying risk vs. class underwriting. Simple, low-touch packages target small to mid-sized businesses like contractors and professional service providers. Coverages can be customized to meet the more unique needs of larger businesses.

COMMERCIAL AUTOMOBILE

The Company offers commercial automobile coverage through Echelon Insurance in Alberta, Ontario and Quebec, and through ICPEI in the Maritimes. Coverage is available for single vehicles, cargo trailers and small fleets, and both standard and non-standard risks are written.

LONG-HAUL TRUCKING (LHT)

In response to growing market demands, Echelon Insurance expanded its Commercial Automobile offering to include LHT products. It writes policies for both fleets and owner operators that package commercial automobile, motor truck cargo liability, commercial general liability, and garage coverages, as well as special endorsements. The head of Echelon Insurance's LHT line brings 35 years of experience and strong relationships with specialty brokers, which has led to rapid growth in 2016.

SPECIALTY PROGRAMS

Echelon Insurance partners with MGAs across Canada to underwrite a range of specialty and warranty programs including home, home system and major appliance warranties. In 2017, it will continue to grow its warranty programs by building deeper expertise and operational infrastructure in home, product and equipment warranty.

SURETY

In early 2016, Echelon Insurance introduced a Surety division to meet growing demand for mid-market surety bonds. Initially, Echelon Insurance will focus on distributing contract bonds through specialty surety brokers and will expand to include commercial bonds, and access will be extended to a broader group of brokers.

Distribution

EFH's products are distributed exclusively through insurance brokers and agents. With a growing number of insurers selling directly to consumers, EFH's commitment to the broker channel differentiates Echelon Insurance and ICPEI from competitors and forms a foundation for mutually beneficial relationships. On this commitment, the Company has built and maintained an effective network of distribution partners by:

OFFERING DIVERSE PRODUCTS THAT SATISFY UNMET NEEDS

The bulk of EFH's products were designed to respond to the unmet needs of our distribution partners. Echelon Insurance has excelled in the non-standard auto market by delivering expertly underwritten coverage for hard to insure drivers. ICPEI's nuanced understanding of Maritime families and businesses has shaped the products and coverages that meet the unique needs of Atlantic Canadians. Now, Echelon Insurance has identified new areas where brokers are unsatisfied with existing products and service, and is responding by launching Surety and LHT solutions.

INVESTING IN TALENT AND LEVERAGING RELATIONSHIPS

EFH's management and underwriting teams have the skillsets to understand and effectively underwrite risks. Echelon Insurance and ICPEI benefit from this seasoned expertise, but also from employee reputations and long-standing relationships in their industries. With the addition of LHT and Surety teams in 2016, EFH gained a number of new broker relationships.

IMPROVING TECHNOLOGY AND CONNECTIVITY

EFH is committed to investing in technology to connect more seamlessly with its brokers and agents. In 2015, Echelon Insurance purchased and launched a new policy management system (GIS) that will be instrumental in streamlining how brokers and agents write business with Echelon Insurance. It has rolled out the GIS system across Canada and by 2018, GIS will be its sole policy management system, greatly simplifying broker system interactions.

The type and number of distributors that EFH partners with varies by business line. Property and Automobile products are marketed through a broad network of insurance brokers and agents across Canada. Specialty products, including Long Haul Trucking and Surety, are distributed exclusively through specialty brokers at this time. These specialty distributors have both the expertise to underwrite good risks, and the volume of premium to support good loss ratios in these business lines.

EFH compensates brokers based on a fixed percentage of premiums written and distributes contingent commission to brokers that meet premium volume and loss ratio targets.

Reinsurance

EFH has reinsurance treaties with several unaffiliated reinsurers, all of whom are selected on the basis of their credit worthiness. EFH purchases reinsurance to reduce its exposure to the insurance risks that it assumes in writing business.

In accordance with industry practice, EFH's reinsurance recoverables with licensed Canadian and International reinsurers have lower capital requirements than non-licensed reinsurers under Canadian and Solvency II capital regulations. For reinsurance recoverables with non-licensed reinsurers, EFH maintains security against reinsurance recoverables in the form of cash and letters of credit.

EFH believes that there is currently adequate reinsurance capacity in those classes of business which it underwrites and EFH is not aware of any developments that might cause a serious shortage of capacity in the future.

Pricing and Underwriting

EFH prices its products taking into account numerous factors, including claims frequency and severity trends, product line expense ratios, special risk factors, the capital required to support the product line, and the investment income earned on that capital. EFH's pricing process is designed to ensure an appropriate return on capital and long-term rate stability, avoiding wide fluctuations in rate unless necessary. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

However, pricing for automobile insurance must be submitted to each provincial government regulator and in certain Provinces pre-approved by the regulator. It is possible that, in spite of EFH's best efforts, regulator decisions may impede automobile rate increases or other actions that EFH may wish to take. Also, during periods of intense competition for any product line to gain market share, EFH's competitors may price their products below the rates EFH considers acceptable. Although EFH may adjust its pricing up or down to maintain EFH's competitive position, EFH strives to ensure its pricing will produce an appropriate return on invested capital. There is no assurance that EFH will not lose market share during periods of intense pricing competition.

Claims Management

In order to manage the quality of claims adjusting with established standards on performance and service, Echelon Insurance's Claims Department has audit processes and management reporting in place. These audit and reporting processes are designed to monitor outsourced and insourced adjusting. Outsourced adjusters are committed to claim reporting standards.

On a monthly basis, the Claims Committee convenes to review open claims files with the purpose of providing direction and instruction for future claim handling, action plans, strategy and reserve management. In addition, a monthly report is prepared by the VP Claims and is provided to the CEO addressing claims counts, closure rates and reserves as well as operational issues in the claims department.

CLAIMS ADJUSTING MODEL

The Claims Department is currently operating an Outsourced/Insourced hybrid model for Ontario accident benefits adjusting between Echelon Insurance and third party claim adjusters. Small claims are outsourced to third party claim adjusters whereas larger claims over \$100K are brought in-house. The Claims Department has access to claims information through the claim adjuster's web-enabled paperless system.

For specialty program claims adjusted by Managing General Agents/Third Party Adjusters with no underlying claims authority, the Claims Department utilizes a selection of consultants/TPAs that are directed by a small internal department that controls and audits the programs.

Facility Association

For applicants paying the higher premiums for non-standard automobile insurance, price is the single most important consideration. EFH provides selected drivers with a lower premium option to the higher premium coverage offered by the Facility Association (or the Groupement in Quebec), the industry-operated pools that serve as the "markets of last resort." EFH targets drivers most likely to be "reformers"

not “repeaters”. These non-standard auto risks fall between Facility Association and the applicants normally targeted by standard market insurers.

Insurance Regulatory Matters

While Echelon Insurance is federally regulated by OSFI, under the *Insurance Companies Act* (Canada), the marketing of insurance is regulated on a provincial and territorial basis in Canada. ICPEI is provincially regulated in Prince Edward Island. EFH’s affairs are regulated in many respects including the assets in which it may invest, the levels of capital and surplus, the standards of solvency that it must maintain, and the amount of dividends that it may declare and pay. Under such legislation, insurance administrators are given broad powers of administration and enforcement over insurers. The legislation and policies of different jurisdictions may not be consistent. Compliance with the capital standards of OSFI will generally satisfy the regulatory capital requirements of all Canadian jurisdictions.

The regulation of insurance policies, in particular auto insurance policies, varies significantly between different jurisdictions. Automobile accident benefits coverage is compulsory everywhere in Canada except Newfoundland. Collision insurance is optional in all jurisdictions in Canada other than Manitoba and Saskatchewan. In all provinces and territories except for Quebec, Manitoba, Saskatchewan and British Columbia, auto insurance is provided by private insurers. Manitoba, Saskatchewan and British Columbia require that basic auto insurance coverage be issued through their provincial government-owned insurer. In these provinces, the government and private insurers compete for optional and excess coverage. In Quebec, the government insurer administers bodily injury claims, while first and third party property damage claims are covered by private insurers. In Ontario, there are limited rights of recovery through lawsuits for death and serious injury. In Quebec and Manitoba, lawsuits are not permitted with respect to injuries sustained in auto accidents. Victims and their dependents resident in those provinces are compensated by their government insurer for their injuries whether or not the accident occurs in their home province. In Quebec, accident victims who do not reside there are entitled to compensation only to the extent that they are not responsible for the accident, unless otherwise agreed between the Quebec government insurer and authorities of the victim’s place of residence; additional compensation may be available from their own insurers. The legislation in Manitoba contains provisions similar to those of Quebec.

Competitive Conditions

The P&C insurance business is highly competitive with pricing being a primary means of competition. Other elements of competition include availability and quality of products, quality and speed of service, financial strength, distribution systems and technical expertise.

EFH competes with many other insurance companies. Certain of these competitors are larger and have greater financial resources than EFH has. In addition, certain competitors have from time to time decreased their prices in an attempt to gain market share.

As competitors introduce new products and as new competitors enter the market, the Company and its insurance subsidiaries may encounter additional and more intense competition. There can be no assurance that EFH will continue to increase revenues or be profitable. To a large degree, future revenues of EFH are dependent upon its ability to continue to develop and market its products and to enhance the capabilities of its products to meet changes in customer needs.

Cycles and Seasonality

Historically, the results of companies in the P&C insurance industry have been subject to significant fluctuations and uncertainties. The profitability of P&C insurers can be affected significantly by many factors, including regulatory regimes, developing trends in tort and class action litigation, adoption of consumer initiatives regarding rates or claims handling procedures, and privacy and consumer protection laws that prevent insurers from assessing risk, or factors that have a high correlation with risks considered, such as credit scoring.

The financial performance of the P&C insurance industry has historically tended to fluctuate in cyclical patterns of “soft” markets characterized generally by increased competition, resulting in lower premium rates and underwriting standards, followed by “hard” markets characterized generally by lessening competition, stricter underwriting standards and increasing premium rates. EFH’s profitability tends to follow this cyclical market pattern with profitability generally increasing in hard markets and decreasing in soft markets. These fluctuations in demand and competition could produce underwriting results that would have a negative impact on EFH’s results of operations and financial condition.

Employees

As at December 31, 2016, EFH had 189 full-time employees. None of EFH’s employees are subject to a collective bargaining agreement.

Investment Management

EFH’s investment objectives are to produce an attractive total return on its invested assets after taxes, maximize returns on a return to regulatory capital basis and to maintain adequate liquidity for insurance operations.

The two most important methods employed by EFH to reduce the level of risk while achieving attractive rates of return on its investment portfolio are diversification and the use of experienced investment professionals to manage the investment portfolio.

EFH conducts an efficient frontier analysis that seeks to optimize asset allocation decisions from a risk and return perspective. In addition, EFH ensures that the asset allocation is optimum from a use of regulatory capital perspective.

Diversification is achieved through principles that ensure each asset class has limited exposure by region, industry, issuer and type of underlying security. Target ranges are set for each asset class and are monitored by the Investment Committee to ensure that EFH’s investment managers comply with these guidelines.

EFH outsources all trading decisions on individual securities to a small number of reputable and professional investment managers. The Investment Committee regularly monitors the performance of each manager and measures their performance against appropriate market index benchmarks.

RISK FACTORS

The risks inherent in EFH’s operations are described in the Company’s 2016 Management’s Discussion and Analysis under the heading “*Risk Factors*” which is hereby incorporated by reference in this AIF and is available on SEDAR at www.sedar.com.

NORMAL COURSE ISSUER BID

On August 19, 2014, the Company received approval from the TSX to commence an NCIB on August 21, 2014, to repurchase and cancel up to 703,792 common shares, representing approximately 10% of its public float of issued and outstanding common shares at that time. This was in force until August 20, 2015.

On October 8, 2015, the Company received approval from the TSX to commence an NCIB to repurchase and cancel up to 619,265 common shares, representing 10% of the public float issued and outstanding common shares at that time. This was in force until October 7, 2016.

Up to March 10, 2016, the Company has purchased and cancelled 90,700 common shares under the NCIB at an average cost of \$13.77 per share for a total cost of \$1.2 million.

DIVIDENDS

Common Shares

The payment of a common share dividend is at the discretion of the Board of Directors and depends on, among other things, EFH's financial condition, results of operations, regulatory capital requirements, and other factors that the Board of Directors deems relevant.

On January 2, 2014, the Board of Directors of the Company commenced paying quarterly dividends to shareholders, with the first dividend declaration being \$0.10 per Common Share. The Company declared and paid cash dividends in the aggregate amount of \$0.40 per share during 2014.

On November 6, 2014, the Board of Directors approved an increase in the quarterly dividend by 10% to \$0.11 per outstanding common share, payable on January 2, 2015. The Company declared and paid cash dividends in the aggregate amount of \$0.44 per share during 2015.

On November 5, 2015, the Board of Directors approved an increase in the quarterly dividend by 9% to \$0.12 per outstanding common share, payable on January 4, 2016.

Since May 2016, the Company has suspended declaring quarterly dividends to its common shareholders, to assist in building a stronger capital base to support future growth in Canada.

Common Shares

<u>Announcement date</u>	<u>Payment date</u>	<u>Dividend amount</u>
December 3, 2013	January 2, 2014	\$0.10
February 20, 2014	April 1, 2014	\$0.10
May 8, 2014	July 2, 2014	\$0.10
August 7, 2014	October 1, 2014	\$0.10
November 6, 2014	January 2, 2015	\$0.11
February 17, 2015	April 1, 2015	\$0.11
May 6, 2015	July 2, 2015	\$0.11
August 6, 2015	October 1, 2015	\$0.11
November 5, 2015	January 4, 2016	\$0.12
February 17, 2016	April 1, 2016	\$0.12

DESCRIPTION OF CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of Common Shares of which 11,747,736 were issued and outstanding as of December 31, 2016. All outstanding Common Shares are fully paid and non-assessable.

The holders of the Common Shares are entitled to:

- (a) one vote per Common Share on all matters to be voted on at all meetings of shareholders of the Company, except meetings at which only holders of a specified class of shares are entitled to vote;
- (b) receive, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, any dividends declared by the Company; and

- (c) receive, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Company, the remaining property of the Company upon the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary.

The Company has no debt and there are no pre-emptive, redemption, purchase or conversion rights attaching to the Common Shares.

MARKET FOR SECURITIES

The Company's Common Shares are listed and posted for trading on the Toronto Stock Exchange (the "TSX") under the trading symbol "EFH".

The following chart provides information on the high and low sale prices and volume for the Common Shares of the Company on the TSX for the periods indicated.

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume</u>
January 2016	13.47	12.86	126,376
February 2016	13.91	13.10	72,052
March 2016	13.67	12.83	1,020,091
April 2016	14.25	13.24	1,246,769
May 2016	14.13	11.44	194,808
June 2016	13.06	11.55	345,979
July 2016	12.57	10.92	301,149
August 2016	12.57	10.98	123,033
September 2016	13.00	11.95	152,989
October 2016	13.00	12.19	49,458
November 2016	12.49	11.50	217,732
December 2016	12.15	10.87	302,269

There were 52,600 Common Shares issued on the exercise of options granted pursuant to the Company's Stock Option Plan. There were 48,321 Restricted Share Units exercised during 2016.

DIRECTORS AND OFFICERS

The names and Provinces of residence of the directors and executive officers of the Company, positions held by them with the Company and their principal occupations for the past five years are as set forth below. Each of the directors will serve until the next annual meeting of shareholders.

Name and Place of Residence	Current Office⁽¹⁾	Principal Occupation⁽²⁾	Director Since
Robert Purves Ontario, Canada	Director and Chairman of the Board	Chairman, Purves Redmond Limited, an insurance brokerage firm	August 1997
Peter Crawford Ontario, Canada	Director	Retired. Formerly Chief Financial Officer and Treasurer of the Co-operators Group	January 2013
Ani Hotoyan-Joly Ontario, Canada	Director	Chief Financial Officer and Corporate Secretary, Coventree Inc.	May 2014
Serge Lavoie Quebec, Canada	Director	President & Chief Executive Officer of the Company	May 2016
Andrew Pastor Ontario, Canada	Director	Portfolio Manager, EdgePoint Investment Group Inc.	May 2016
Sharon Ranson Ontario, Canada	Director	President, The Ranson Group Inc.	May 2016
Brian Reeve Ontario Canada	Director	Partner and Chair of the Corporate and Regulatory Insurance Group of Cassels Brock & Blackwell LLP	December 2015
Angus Ross Ontario, Canada	Director	Independent consultant on reinsurance and environmental issues	January 2013
Murray Wallace Ontario, Canada	Director	Executive Chairman of Financial Horizons Group	December 2015
Ken Coulson Ontario, Canada	Officer	Vice President & General Counsel	
Alvin Sharma Ontario, Canada	Secretary and Officer	Chief Financial Officer of the Company	

(1) Office is with the Company unless otherwise indicated.

(2) During the past five years each of the foregoing directors and executive officers has been engaged in the principal occupation shown opposite his or her name, except as follows: (i) Robert Purves was also President, Purvest Inc. and a director and Secretary of Iridium Risk Services Inc; (ii) Serge Lavoie was President & Chief Executive Officer of Echelon Insurance since December 1, 2015. Between May 2014 and November 13, 2015, Mr. Lavoie was a director of the Corporation. Mr. Lavoie served as President, GDI Integrated Facility Services Inc. from 2012 to November 2015.; (iii) Alvin Sharma, prior to his appointment as Chief Financial Officer of the Company in September 2012, was Vice President, Global Treasury at American Life Insurance Company and Director, Global Treasury Services at RBC Capital Markets.

As of March 10, 2016, the directors and executive officers of the Company as a group, beneficially owned, directly or indirectly, or exercised control or direction over 420,121 Common Shares, representing approximately 3.6% of the outstanding Common Shares.

Ani Hotoyan-Joly was the Chief Financial Officer of Coventree Inc. on November 8, 2011, when the Ontario Securities Commission issued an order that trading in any securities by Coventree cease and any exemptions contained in Ontario securities law do not apply to Coventree until such time as Coventree completes its winding-up. The order was made on the basis that Coventree had contravened Ontario securities law by failing to issue and file certain news releases and material change reports in 2007. The events in question occurred before Ms. Hotoyan-Joly became the Chief Financial Officer of Coventree Inc. in May 2009. Coventree continues in the process of a court-supervised winding-up and the order is still in effect.

Committees of the Board of Directors

The Board of Directors of the Company (the "Board") has established three Board committees: the Audit and Risk Committee, the Governance Committee and the Investment Committee. The information below sets out the current members of each of the Company's Board committees.

Governance Committee

The Governance Committee consists of four members, all of whom are independent Directors, currently comprised of Ani Hotoyan-Joly (Chair), Peter Crawford, Andrew Pastor and Brian Reeve.

Investment Committee

The Investment Committee consists of four members, all of whom are independent Directors, currently comprised of Angus Ross (Chair), Andrew Pastor, Sharon Ranson and Brian Reeve.

Audit and Risk Committee

The Audit and Risk Committee has been structured to comply with the requirements of National Instrument 52-110 Audit Committees ("NI 52-110") of the Canadian Securities Administrators.

Composition of Audit and Risk Committee

The Audit and Risk Committee is composed of the following members: Peter Crawford (Chair), Ani Hotoyan-Joly, Sharon Ranson, Angus Ross, and Murray Wallace.

The Board has determined that each of the Audit and Risk Committee members is unrelated, independent and financially literate within the meaning of NI 52-110.

A copy of the Audit and Risk Committee Charter is appended hereto as Appendix "A".

Relevant Education and Experience of Committee Members

The education and experience of each Audit and Risk Committee member that is relevant to such members' responsibilities as a member of the Audit and Risk Committee are set out below:

Peter Crawford

Peter Crawford has been a Director of Echelon Financial Holdings since January 2013 and a Director of Echelon Insurance since 2000. Peter Crawford is a former Chief Financial Officer of The Co-operators Group Limited, with over twenty-five years of experience in the insurance and financial services industry. As the CFO and Senior Vice President Finance of The Co-operators Group of companies, he was a director of most of the enterprise's subsidiary companies and chairman of several subsidiary boards. He was a founding director of the Agency for Co-operative Housing, chairman of its Audit Committee and a member of its Governance Committee.

He was for many years a member of the Advisory Council to the Administration of the University of Waterloo. Mr. Crawford was also chairman of a major Capital Study Committee advising the board of the International Co-operative and Mutual Insurance Federation. Mr. Crawford is a Chartered Professional Accountant, CGA.

Ani Hotoyan-Joly

Ani Hotoyan-Joly has been a director of both Echelon Financial Holding Inc. and Echelon Insurance since May 2014. Ms. Hotoyan-Joly is a Chartered Professional Accountant and Chartered Accountant with 30 years of business experience. She holds a Bachelor of Commerce degree from the University of Toronto and the ICD.D designation from The Institute of Corporate Directors.

Currently, she is the Chief Financial Officer and Corporate Secretary of Coventree Inc. Prior to Coventree, Ani has held several senior financial and management roles in the insurance industry. She is the National Treasurer of International Women's Forum of Canada and the Past Chair of the A.R.S. Armenian Private School's Board of Trustees.

Sharon Ranson

Sharon Ranson has been a director of both Echelon Financial Holdings Inc. and Echelon Insurance since May 2016. Sharon has over 20 years experience in the Financial Services industry in executive positions. She was a top ranked Financial Services Analyst and Director with RBC Dominion Securities. Ms. Ranson is a Chartered Professional Accountant and Chartered Accountant and holds the ICD.D designation. She graduated from Queen's University with a Bachelor of Commerce and holds a Masters of Business Administration from York University.

Angus Ross

Angus Ross has been a Director of Echelon Financial Holdings Inc. since January 2013 and a director of Echelon Insurance since 2000. Mr. Ross is currently an independent consultant on reinsurance and environmental issues. He has over 35 years of insurance experience, including 8 as the CEO of a major French reinsurer's Canadian operations. He has also served as Chairman of the Canadian Reinsurance Research Council and as a Director of the Insurance Bureau of Canada.

Murray Wallace

Murray Wallace has been a director of both Echelon Financial Holdings Inc. and Echelon Insurance since May 2016. He has extensive experience in the financial services industry and both public and private company management.

Mr. Wallace is a Chartered Professional Accountant and Chartered Account.

Pre-Approval Policy

The Audit and Risk Committee shall pre-approve all services provided to EFH by the external auditor other than professional services performed by the external auditor for the audit and review of the Company's financial statements or services normally provided by the external auditor in connection with statutory and regulatory filings or engagements.

External Auditor Service Fees

During the two most recently completed financial years, the Company incurred the following fees to PricewaterhouseCoopers LLP, the Company's external auditor, for audit, audit-related and non-audit services:

<u>External Auditor Fees (\$)</u>	<u>2016</u>	<u>2015</u>
Audit fees	796,000	831,000
Audit- related fees	–	–
Tax fees	70,000	35,000
All other fees	29,000	23,000

Audit fees relate to professional services rendered by the auditors for the audit of our annual consolidated financial statements, the statements of subsidiary financial statements and services related to statutory and regulatory filings.

Tax fees relate to tax compliance, tax advice and tax planning.

All other fees relate to products and services other than audit and tax as described above.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

In the normal course of carrying on our business, EFH becomes the subject of insurance claims and is involved in various legal proceedings. Otherwise, EFH is not currently involved in any material legal proceedings, nor is it aware of any pending or threatened proceedings or claims for damages, where it believes the amount would have a material adverse effect upon its financial condition or results of operations.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

EFH has entered into transactions with two related parties, Co-operators (Co-operators Group Limited and Co-operators General Insurance Company); and Purves Redmond Limited ("Purves Redmond"). These transactions are carried out in the normal course of operations and are measured at cost which approximates fair value. Co-operators, which is a significant shareholder of EFH, distributes EFH products through its agents. Purves Redmond is involved in arranging insurance coverage for the companies within the EFH group. Robert Purves, a shareholder and director of EFH, is also a shareholder and Chairman of Purves Redmond.

The Insurance Company of Prince Edward Island ("ICPEI"), in which EFH has a 75% ownership, has entered into transactions with three related parties – Charlie Cooke Insurance Agency Ltd. ("CCIA"), Atlantic Adjusting & Appraisals Ltd. ("AAA") and Maritime Finance and Acceptance Corporation ("MFAC"). Some directors and officers of ICPEI are also shareholders of AAA and MFAC. These transactions are carried out in the normal course of operations and are measured at cost which approximates fair value. CCIA distributes ICPEI insurance products through its brokerage operations. CCIA has minority shareholders who are related parties of the minority shareholders of ICPEI. AAA and MFAC provide insurance operational services to ICPEI.

MATERIAL CONTRACTS

The section headed "Arrangements for Election of Directors" in the Company's management proxy solicitation information circular dated March 10, 2017, is hereby incorporated by reference in this AIF

TRANSFER AGENT AND REGISTRAR

The Company's registrar and transfer agent is Computershare Investor Services Inc., Toronto, Ontario.

INTERESTS OF EXPERTS

The financial statements for the financial year ended December 31, 2016, have been audited by PricewaterhouseCoopers LLP ("PwC"), EFH's auditors. PwC is independent within the meaning of the relevant rules of professional conduct prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

Pierre Laurin, a partner with Willis Towers Watson, is the Appointed Actuary for Echelon Insurance and ICPEI. He has provided opinions on the value of policy liabilities for the Company, Echelon Insurance and ICPEI as at December 31, 2016. Mr. Laurin owns no EFH securities.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, and securities authorized for issuance under equity compensation plans,

where applicable, is contained in the Company's management proxy circular for its most recent annual meeting of shareholders involving the election of directors. Additional financial information is also provided in the Company's comparative consolidated financial statements for the financial year ended December 31, 2016, and management's discussion and analysis of such financial results. A copy of such documents and additional information relating to the Company is contained on SEDAR at www.sedar.com, the Internet site maintained by the Canadian Securities Administrators

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GLOSSARY OF SELECTED INSURANCE TERMS

Facility Association refers to an organization of the Canadian automobile insurance industry which exists to ensure that all drivers can obtain basic insurance, even if their application fails to meet the criteria of individual insurance companies;

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

Risk means a person or thing insured on an insurance policy;

Underwriting means the assumption of risk for designated loss or damage by issuing a policy of insurance in respect thereof.

Surety Bond - Unlike an insurance product, the process of writing Surety bonds resembles how a bank would operate. After conducting in-depth assessments to determine the trustworthiness and financial stability of a contractor, a guarantee is issued to minimize risk.

**ECHELON INSURANCE
AUDIT AND RISK COMMITTEE CHARTER**

PURPOSE

The Audit and Risk Committee (the "Committee") is a standing committee of the Board of Directors (the "Board") and shall provide assistance to the Board in fulfilling its responsibility to the Organization¹ by serving as an independent monitor of the Organization's financial reporting processes, risk management activities, systems of internal control and financial compliance. In addition, the Committee shall monitor the independence and performance of the external auditor and the internal audit function. The Committee shall facilitate communication among the Organization's external auditor, the Board and senior and financial management. The Committee shall perform this function by carrying out the activities described in this Charter.

The Committee shall act as the Audit and Risk Committee of the Organization as required under the Insurance Companies Act (Canada), the Business Corporations Act (Ontario) and the Securities Act (Ontario) (the "Acts").

All members of the Committee shall have, or acquire within a reasonable period of time following their appointment, a broad understanding of the operating and financial affairs and related activities of the Organization.

ACCOUNTABILITIES AND RESPONSIBILITIES

FINANCIAL STATEMENTS, FINANCIAL REVIEW AND DISCLOSURE

The Committee shall ensure that the Organization adopts appropriate policies and procedures for the accuracy and integrity of its financial statements and returns and the timely reporting and disclosure of financial information to shareholders and regulators, including, but not restricted to, annual and quarterly financial statements, external auditor's opinions and reports, Appointed Actuary's reports, Management's Discussion and Analysis, annual and quarterly earnings press releases, The Committee shall make recommendations to the Board for its approval of such statements and documentation. The Chief Financial Officer, Appointed Actuary, external auditor, among others, shall be the principal resources available to the Committee.

RISK MANAGEMENT

The Committee shall ensure that the Organization adopts appropriate policies and procedures to identify, assess and prioritize enterprise risk management issues, appetite and tolerance. This includes, but is not restricted to, the review and acceptance of regular and timely reports on the Organization's coordinated resources to minimize, monitor and control the probability and/or impact of events or to maximize the realization of opportunities. The Committee shall review annually and recommend to the Board a Risk Appetite Framework. The Chief Financial Officer, among others, shall be the principal resource available to the Committee on risk management.

EXTERNAL AUDIT

The Committee shall be responsible for assessing the skills, resources and independence of the external auditor, including the audit firm's internal policies and practices for quality control and shall be satisfied with the content of the auditor's plan, including the fee estimate and engagement letter prior to it being signed. This will include determining if any change is required to the auditor's proposed materiality level and scope and the involvement of the Organization's internal audit resources. The Committee shall also

¹ The Committee serves as the Audit and Risk Committee for both Echelon Financial Holdings Inc. and Echelon Insurance. Reference to "Organization" refers to both Echelon Financial Holdings Inc. and Echelon Insurance.

consider areas of significant auditor judgement, key areas of risk for material misstatement of financial statements, significant or unusual transactions and enquire about internal control deficiencies and any disagreements with management. The auditor shall report on any non-audit services rendered to the Organization and related fees. The Committee with management shall assess the overall results of the annual audit using predetermined criteria and recommend the appointment or reappointment of the auditor.

INTERNAL CONTROLS

The Committee shall be responsible for ensuring the Organization adopts appropriate systems of internal control over the preparation of its financial statements and reporting requirements. The Committee shall review annually and recommend to the Board an Internal Control Framework. In addition, the Committee shall review and evaluate regular management reports on the effectiveness of internal controls and procedures including CEO and CFO certification requirements. Material control deficiencies shall be reported to the Committee until remedied. The Chief Financial Officer and Chief Internal Auditor, among others, shall be the principal resources to the Committee on internal controls.

INTERNAL AUDIT

The Committee shall be responsible for assessing the skills, resources and effectiveness of the internal audit function including approval of its annual plan of activities and examinations, review and acceptance of regular reports on its findings and remedial recommendations and follow through to ensure implementation. The Chief Internal Auditor reports functionally to the Chairman of the Committee and administratively to the Chief Financial Officer.

OTHER

The Committee shall review its Charter annually and recommend any changes to the Board for approval.

The Committee shall approve an Annual Work Plan for its activities.

The Committee shall review and approve the annual budgets and work plans of the Finance, Actuarial and Internal Audit Departments.

On a regular basis, the Committee shall meet privately with each of the Chief Financial Officer, Appointed Actuary, the External Auditor and the Chief Internal Auditor.

The Board has delegated to the Committee primary responsibility for certain Board activities, policies and oversight functions. In that respect, the Committee has authority to review, amend and approve the policies and items listed in the attached Appendix "A" (the "Delegated Authority"). Any action taken by the Committee under the Delegated Authority is deemed to have been approved by the Board. The Committee may, if it deems necessary, recommend that the Board review and approve any item for which it has Delegated Authority. On a quarterly basis the Committee will advise the Board what actions were taken under the Delegated Authority.

MEMBERSHIP AND ORGANIZATION

1. *Composition* - The Committee is a standing committee of the Board consisting of a minimum of three members, all of whom are non-management directors. The Committee shall be composed entirely of directors who are independent, as defined by section 1.4 of NI 52-110, and who satisfy all other applicable legal, regulatory and stock exchange requirements necessary for an assignment to any such committee. At the invitation of the Committee, members of the Organization's management and others may attend Committee meetings as the Committee considers necessary or desirable.
2. *Appointment* - The Committee comprises of the Chairperson of the Committee along with a minimum of two other members elected by the non-management directors on the Board. Each member of the Committee shall be appointed by the Board on an annual basis and shall serve at the pleasure of the Board, or until the earlier of: (a) the close of the next annual meeting of shareholders of the Organization, at which the member's term of office expires; (b) the resignation, disqualification or

removal of the member from the Committee or from the Board. The Board may fill a vacancy in the membership of the Committee at any time.

3. *Chair* - At the time of the annual appointment of the members of the Committee, the Board shall appoint a Chair of the Committee. The Chair shall: preside over all Committee meetings; coordinate the Committee's compliance with this Charter; work with management to develop the Committee's meeting agendas and annual work plan; and provide reports on the work of the Committee to the Board. The Chair of the Committee may vote on any matter requiring a vote and shall provide a second vote in the case of a tie vote.
4. *Independence* - Each member of the Committee shall meet the independence standards established by the Board and any additional standards required of a member of an audit and risk committee under the Acts.
5. *Authority* - The Committee shall have unrestricted access to management and employees of the Organization. The Committee shall have the authority to retain and terminate external legal counsel, consultants or other advisors to assist it in fulfilling its responsibilities and to set and pay the compensation for these advisors without consulting or obtaining the approval of the Board or any officer of Organization. The Organization shall provide appropriate funding, as determined by the Committee, for the services of these advisors.
6. *Delegation* - The Committee may designate a sub-committee to review any matter within this Charter as the Committee deems appropriate.
7. *Meetings* - The Committee will meet at least four times per year and as required to carry out its Charter responsibilities, and will meet at the request of the Board or management to review any proposed matters as required. The Chairman of the Committee may call a meeting of the Committee at any time. A majority of the members shall constitute a quorum to transact business at the meeting.

Notice of a meeting of the Committee shall be given to each member of the Committee. Notice of each meeting of the Committee shall be given to the Chairman of the Board who shall be entitled to attend at the meeting. The Committee will however have the right to meet alone without the presence of officers and employees of the Organization. The Committee may, from time to time, invite such persons as it may see fit to attend its meeting and to take part in discussion and consideration of the affairs of the Committee.

8. *Secretary and Minutes* - The Corporate Secretary, his or her designate or any other person the Committee requests, shall act as secretary of Committee meetings. Minutes of Committee meetings shall be recorded and maintained by the Corporate Secretary and subsequently presented to the Committee for approval.
9. *Reporting* - The Chair shall report to the Board on material matters arising at Committee meetings and, where applicable, shall present the Committee's recommendations to the Board for its approval.
10. *Annual Work Plan and Schedule* - The Committee shall adopt a work plan and annual schedule of activities at its first meeting following its election each year.

REFERENCE DOCUMENTS

Board of Directors Charter
Annual Work Plan

APPENDIX "A"
DELEGATED AUTHORITY

The Board has delegated to the Audit and Risk Committee the authority to annually review, amend as necessary and approve the following:

Committee Work Plan

Dividend Policies

Own Risk and Solvency Assessment (ORSA) Work Plan

Business Continuity and Disaster Recovery Programs

Cyber Security Controls

Earthquake Exposure Risk Management Policy

External Auditor's year end Audit Plan including a Statement of Independence and fee estimate

Payment of non audit fees of External Auditor

Assessment of the overall performance of the External Auditor

CFO, Chief Actuary and Chief of Internal Audit role descriptions

Mandate, Budget and Objectives of the Finance Department

Mandate, Budget and Objectives of the Actuarial Department

Mandate, Budget and Objectives of the Internal Audit Department

Three Year Internal Risk Assessment and Review Schedule

Annual Internal Audit Plan