

Unaudited Condensed Consolidated Interim Financial
Statements of

Echelon Financial Holdings Inc.

For three months ended March 31, 2017 and 2016

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Balance Sheets
(Unaudited, in thousands of Canadian dollars)

| | Note | March 31, 2017 | December 31, 2016 |
|---|------|-------------------|----------------------|
| Assets | | | |
| Cash and short-term deposits | 6 | 51,351 | 50,588 |
| Accounts receivable | | 48,950 | 46,705 |
| Loan receivable | 7 | 17,503 | — |
| Investments | 6 | 337,867 | 336,535 |
| Due from insurance companies | | 1,477 | 1,587 |
| Deferred policy acquisition costs | | 31,183 | 30,689 |
| Income taxes recoverable | | 230 | 867 |
| Prepaid expenses and other assets | | 3,224 | 2,270 |
| Reinsurers' share – unearned premiums | | 9,108 | 8,975 |
| – provision for unpaid claims | 10 | 27,288 | 27,023 |
| Property and equipment | | 878 | 881 |
| Intangible assets | 12 | 8,378 | 8,197 |
| Deferred income taxes | | 5,670 | 5,860 |
| Assets of the disposal group held for sale | 3 | — | 280,042 |
| Total assets | | 543,107 | 800,219 |
| Liabilities | | | |
| Derivative financial instruments | 8 | 135 | 268 |
| Accounts payable and accrued liabilities | | 18,606 | 17,332 |
| Payable to insurance companies | | 517 | 450 |
| Unearned premiums | | 121,368 | 120,184 |
| Unearned commission | | 2,219 | 2,288 |
| Provision for unpaid claims | 10 | 253,510 | 255,129 |
| Liabilities of the disposal group held for sale | 3 | — | 263,194 |
| Total liabilities | | 396,355 | 658,845 |
| Equity | | | |
| Share capital | | 70,773 | 70,227 |
| Contributed surplus | | 269 | 322 |
| Retained earnings | | 72,440 | 71,935 |
| Accumulated other comprehensive income | 16 | (499) | (5,070) |
| Equity attributed to shareholders of the Company | | 142,983 | 137,414 |
| Non-controlling interest | 19 | 3,769 | 3,960 |
| Total equity | | 146,752 | 141,374 |
| Total liabilities and equity | | 543,107 | 800,219 |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statements of Income and Comprehensive Income
(Unaudited, in thousands of Canadian dollars, except per share amounts)

| | | 3 months ended March 31 | |
|--|-------------|------------------------------------|----------------|
| | Note | 2017 | 2016 |
| Revenue | | | |
| Gross written and assumed premiums | | 54,586 | 42,121 |
| Less: Premiums ceded to reinsurers | | (4,510) | (3,412) |
| Net written and assumed premiums | | 50,076 | 38,709 |
| (Increase) in gross unearned premiums | | (1,184) | 5,441 |
| Increase in unearned premiums, reinsurers' share | | 133 | (802) |
| Change in provision for unearned premiums | | (1,051) | 4,639 |
| Net earned premiums | | 49,025 | 43,348 |
| Investment income | 6 | 8,487 | 3,945 |
| Total revenue | | 57,512 | 47,293 |
| Expenses | | | |
| Gross claims incurred | | 30,446 | 29,998 |
| Less: claims recoveries from reinsurers | | (1,578) | (1,695) |
| Net incurred claims | | 28,868 | 28,303 |
| Gross acquisition costs | | 13,598 | 11,092 |
| Less: acquisition cost recoveries from reinsurers | | (1,547) | (1,308) |
| Net acquisition costs | | 12,051 | 9,784 |
| Operating costs | 14 | 7,390 | 8,800 |
| Total expenses | | 48,309 | 46,887 |
| Income before interest expense and income taxes | | 9,203 | 406 |
| Interest expense | 9 | 71 | 44 |
| Income tax expense (recovery) | 13 | 1,666 | (539) |
| Net income on continued operations | | 7,466 | 901 |
| Net (loss) on discontinued operations | 18 | (7,268) | (1,685) |
| Net income (loss) | | 198 | (784) |
| Attributed to: | | | |
| Shareholders of the Company - continued operations | | 7,455 | 943 |
| Shareholders of the Company - discontinued operations | | (7,268) | (1,588) |
| Non-controlling interest - continued operations | 19 | 11 | (42) |
| Non-controlling interest - discontinued operations | | — | (97) |
| Net income (loss) | | 198 | (784) |
| Other comprehensive income (loss), net of taxes that may be classified subsequently to net income | | | |
| Available-for-sale investments: | | | |
| Change in net unrealized (losses) | | 1,509 | (1,418) |
| Reclassification of net realized (gains) to net income | | 85 | (2,333) |
| Cumulative translation gain (loss) | | — | (222) |
| Foreign exchange forward | 6 | (4,314) | 3,483 |
| Tax impact | | 139 | 300 |
| Other comprehensive (loss) on continued operations | | (2,581) | (190) |
| Other comprehensive income (loss) income on discontinued operations | | 7,268 | (795) |
| Other comprehensive income (loss) | | 4,687 | (985) |

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statements of Income and Comprehensive Income
(in thousands of Canadian dollars, except per share amounts)

| | | | |
|--|----|----------|----------|
| Attributed to: | | | |
| Shareholders of the Company - continued operations | | (2,598) | (200) |
| Shareholders of the Company - discontinued operations | | 7,268 | (779) |
| Non-controlling interest - continued operation | 19 | 17 | 10 |
| Non-controlling interest - discontinued operation | | — | (16) |
| Other comprehensive income (loss) | | 4,687 | (985) |
| Total comprehensive income (loss) | | 4,885 | (1,769) |
| Attributed to: | | | |
| Shareholders of the Company - continued operations | | 4,857 | 743 |
| Shareholders of the Company - discontinued operations | | — | (2,367) |
| Non-controlling interest - continued operation | 19 | 28 | (32) |
| Non-controlling interest - discontinued operation | | — | (113) |
| Total comprehensive income (loss) | | 4,885 | (1,769) |
| Earnings per share attributable to shareholders of the Company | 17 | | |
| Earnings per share continued operations - basic | | \$0.63 | \$0.08 |
| (Loss) per share discontinued operations - basic | | \$(0.62) | \$(0.14) |
| (Loss) earnings per share - basic | | \$0.02 | \$(0.06) |
| Earnings per share continued operations - diluted | | \$0.62 | \$0.08 |
| (Loss) per share discontinued operations - diluted | | \$(0.62) | \$(0.14) |
| (Loss) earnings per share - diluted | | \$0.02 | \$(0.06) |
| Net income (loss) | | 198 | (784) |

The accompanying notes are an integral part of these condensed interim financial statements.

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statements of Changes in Equity
(Unaudited, in thousands of Canadian dollars)

| | Share Capital | Contributed Surplus | Accumulated Other Comprehensive Income | Retained Earnings | Shareholders' Equity | Non-controlling Interest | Total Equity |
|---|---------------|---------------------|--|-------------------|----------------------|--------------------------|--------------|
| Balance at January 1, 2017 | 70,227 | 322 | (5,070) | 71,935 | 137,414 | 3,960 | 141,374 |
| Net income | — | — | — | 187 | 187 | 11 | 198 |
| Other comprehensive income | — | — | 4,670 | — | 4,670 | 17 | 4,687 |
| Total comprehensive income | — | — | 4,670 | 187 | 4,857 | 28 | 4,885 |
| Transfer of currency translation adjustment | — | — | (99) | 318 | 219 | (219) | — |
| Common shares issued on stock options exercised | 546 | (60) | — | — | 486 | — | 486 |
| Stock compensation expense | — | 7 | — | — | 7 | — | 7 |
| Balance at March 31, 2017 | 70,773 | 269 | (499) | 72,440 | 142,983 | 3,769 | 146,752 |

| | Share Capital | Contributed Surplus | Accumulated Other Comprehensive Income | Retained Earnings | Shareholders' Equity | Non-controlling interest | Total Equity |
|---|---------------|---------------------|--|-------------------|----------------------|--------------------------|--------------|
| Balance at January 1, 2016 | 69,653 | 436 | 6,060 | 104,786 | 180,935 | 4,010 | 184,945 |
| Net income (loss) | — | — | — | (645) | (645) | (139) | (784) |
| Other comprehensive income (loss) | — | — | (979) | — | (979) | (6) | (985) |
| Total comprehensive income (loss) | — | — | (979) | (645) | (1,624) | (145) | (1,769) |
| Common shares repurchased | (263) | — | — | (358) | (621) | — | (621) |
| Dividends paid | — | — | — | (1,406) | (1,406) | — | (1,406) |
| Investment in subsidiary - Qudos | — | — | — | (94) | (94) | 94 | — |
| Common shares issued on stock options exercised | 395 | — | — | — | 395 | — | 395 |
| Stock options expense | — | (54) | — | — | (54) | — | (54) |
| Balance at March 31, 2016 | 69,785 | 382 | 5,081 | 102,283 | 177,531 | 3,959 | 181,490 |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statements of Cash Flows
(Unaudited, in thousands of Canadian dollars)

| | March 31, 2017 | March 31, 2016 |
|--|----------------|----------------|
| Cash provided by (used in): | | |
| Operating activities | | |
| Net income from continuing operations | 7,466 | 901 |
| Net loss from discontinued operations | (7,268) | (1,685) |
| Adjusted for: | | |
| Reinsurers' share of unearned premiums | (133) | 802 |
| Reinsurers' share of unpaid claims | (265) | 615 |
| Provision for unpaid claims | (1,619) | 1,406 |
| Unearned premiums | 1,184 | (5,441) |
| Deferred income taxes | 190 | (1,030) |
| Unearned commissions | (69) | 80 |
| Deferred policy acquisition costs | (494) | 528 |
| Amortization on property plant equipment and intangible assets | 1,477 | 904 |
| Amortization of premiums on bonds | 414 | 505 |
| Fair value change on FVTPL investments | (2,750) | 1,903 |
| Options expense | 7 | (54) |
| Currency translation | — | (222) |
| Foreign exchange forward | (4,314) | 3,483 |
| Prepaid expenses & other assets | (954) | (4,114) |
| | (7,326) | (635) |
| Cash flow from changes in | | |
| Accounts receivable | (2,245) | 9,273 |
| Loan receivable | (17,503) | — |
| Net realized losses (gains) | 931 | (2,014) |
| Income taxes payable | 775 | 227 |
| Due to insurance companies | 177 | 749 |
| Other liabilities | 1,141 | (674) |
| Cash (used) provided by continuing operating activities | (16,584) | 7,827 |
| Cash (used) by discontinued operating activities | (137,935) | (9,612) |
| Cash (outflow) from operating activities | (154,519) | (1,785) |
| Financing activities | | |
| Proceeds from issue of common shares for stock options | 486 | 395 |
| Common share dividends | — | (1,406) |
| Share repurchases | — | (621) |
| Cash provided (used) by continuing financing activities | 486 | (1,632) |
| Cash inflow (outflow) from financing activities | 486 | (1,632) |
| Investing activities | | |
| Purchases of property, equipment and intangible assets | (1,654) | (1,578) |
| Purchases of investments | (56,329) | (74,490) |
| Sale/maturity of investments | 57,996 | 102,254 |
| Proceeds received from the sale of subsidiary | 5,117 | — |
| Cash provided by continuing investing activities | 5,130 | 26,186 |
| Cash provided (used) by discontinued investing activities | 62,619 | (15,409) |
| Cash inflow from investing activities | 67,749 | 10,777 |
| (Decrease) Increase in cash and short-term deposits | (86,284) | 7,360 |

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statements of Cash Flows
(Unaudited, in thousands of Canadian dollars)

| | | |
|---|---------|--------|
| Cash and short-term deposits, beginning of period | 137,635 | 23,373 |
| Cash and short-term deposits, end of period | 51,351 | 30,733 |
| Supplementary information | | |
| Operating activities | | |
| Income taxes paid | 813 | 11 |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements
(Unaudited, in thousands of Canadian dollars, except per share amounts)

1 Nature of operations

Echelon Financial Holdings Inc. ("the Company") was incorporated on August 18, 1997, under the Business Corporations Act (Ontario) and is incorporated and domiciled in Canada. The Company is principally engaged, through its subsidiaries, in property and casualty insurance in Canada. The Company's head office is located at 2680 Matheson Blvd. East, Suite 300, Mississauga, Ontario.

The Company's wholly-owned subsidiaries are Echelon Insurance ("Echelon"), CIM Reinsurance Company Ltd. ("CIM Re") and CUISA Managing General Agency Corporation ("CUISA MGA"). The Company also owns 75% of The Insurance Company of Prince Edward Island ("ICPEI").

2 Basis of preparation

These condensed consolidated interim financial statements 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 condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS.

These consolidated financial statements have been authorized for issue by the Board of Directors on May 3, 2017.

3 Summary of significant accounting policies

The accounting policies adopted are consistent with those of the previous financial year end except as described below.

Discontinued Operations

Assets and liabilities are classified as held for sale (discontinued operations) if their carrying amounts are recovered through a sales transaction rather than through continuing use. This condition is satisfied when the asset is available for immediate sale in its present condition, management is committed to the sale and it is highly probably to occur within one year. Assets and liabilities classified as held-for-sale are measured at the lower of their previous carrying amount and fair value, less costs to sell, and are presented separately from other assets on our Consolidated Balance Sheets.

A disposal group is classified as a discontinued operation if it meets the following conditions: (a) it is a component that can be distinguished operationally and financially from the rest of our operations, and (b) it represents either a separate major line of business or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Standards, amendments and interpretations not yet adopted or effective

IFRS 9, Financial Instruments

In July 2014, the IASB published the complete version of IFRS 9 which is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The new standard includes requirements on the classification and measurement of financial assets and liabilities, an expected credit loss model that replaces the existing incurred loss impairment model and new hedge accounting guidance. The Company

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

is currently evaluating the impacts of IFRS 9 on its consolidated financial statements, as well as the implementation options for insurers set out in the September 2016 amendment to *IFRS 17 Insurance Contracts* which allows eligible insurers to defer the adoption of IFRS 9 until the new insurance contracts standard is adopted, or 2021 at the latest. The Company has decided to defer adoption to IFRS 17.

IFRS 15, Revenue from contracts with customers

IFRS 15, Revenue from contracts with customers deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its Consolidated Financial Statements and based on its preliminary workings, the impact will be minimal.

IFRS 16, Leases

In January 2016, the IASB published IFRS 16 which is effective January 1, 2019. The new standard requires the capitalization of all leases by recognizing the present value of the lease payments and showing them as lease assets, and recognizing a financial liability representing an obligation to make future lease payments. The Company is currently evaluating the impact of IFRS 16 on its Consolidated Financial Statements and based on its preliminary workings, the impact will be minimal.

4 Critical accounting estimates and assumptions

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual 2016 consolidated financial statements.

5 Seasonality

The P&C insurance business is seasonal in nature. While net earned premiums are generally stable from quarter to quarter, net underwriting income can be driven by weather conditions which may vary significantly by quarter.

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

6 Investments

The following table provides a breakdown of the investment portfolio as at March 31, 2017, and December 31, 2016.

| | Fair values | |
|---|-------------------------|----------------------------|
| | As at March 31, 2017 | As at December 31, 2016 |
| Available-for-sale | | |
| Fixed income | | |
| Canadian | | |
| Federal | 63,932 | 67,826 |
| Provincial | 43,827 | 44,147 |
| Municipal | 515 | 519 |
| Corporate | 129,030 | 136,984 |
| | 237,304 | 249,476 |
| Fixed income lent through securities lending program | | |
| Federal | 21,580 | 15,390 |
| Provincial | 411 | 998 |
| Municipal | 848 | 845 |
| Corporate | 7,673 | 1,885 |
| | 30,512 | 19,118 |
| Total fixed income | 267,816 | 268,594 |
| Commercial mortgages pooled funds | 17,489 | 17,423 |
| Money market pooled funds | 320 | 200 |
| Short-term fixed income and mortgage pooled funds | 17,361 | 17,229 |
| Total pooled funds | 35,170 | 34,852 |
| Common shares | | |
| Canadian | 321 | 312 |
| Total common shares | 321 | 312 |
| Total available-for-sale | 303,307 | 303,758 |
| Fair value through profit or loss | | |
| Preferred shares | 34,560 | 32,678 |
| Preferred shares lent through securities lending program | — | 99 |
| Total preferred shares | 34,560 | 32,777 |
| Total investments | 337,867 | 336,535 |
| Cash and short-term deposits | 51,351 | 50,588 |
| Total investments including cash and short-term deposits | 389,218 | 387,123 |

In accordance with the securities lending agreement, the amount of the collateral must be at least 105% of the fair value of the securities loaned. As at March 31, 2017, the Company had collateral of \$32,256 (March 31, 2016 – \$19,494) for the loaned securities or approximately 105% of the fair value of the loaned securities.

Fair value

The Company is responsible for determining the fair value of its investment portfolio by utilizing market-driven fair value measurements from active markets, where available, by considering other observable and unobservable inputs and by employing valuation techniques which make use of current market data. The Company uses a fair-value hierarchy to categorize the inputs used in valuation techniques to measure fair value. A description of the inputs used in the valuation of financial instruments is as follows:

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. The fair value of the Company’s common and preferred shares is determined based on quoted prices in active markets obtained from external pricing sources.

Level 2 – Inputs, other than quoted prices, that are observable for the investment either directly or indirectly. These inputs include quoted prices for similar instruments exchanged in active markets; quoted prices for identical or similar instruments exchanged in inactive markets; inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data and correlation or other means.

The Company’s investments in government securities (including federal, provincial and municipal bonds), corporate securities, commercial mortgage pooled funds, money market pooled funds and infrequently traded securities are priced using publicly traded, over-the-counter prices or broker-dealer quotes which are based on market observable inputs. Observable inputs such as benchmark yields, reported trades, broker dealer quotes, issuer spreads and bids are available for these investments.

Level 3 – Inputs that are not based on observable market data. Management is required to use assumptions regarding unobservable inputs as there is little, if any, market activity in these investments or related observable inputs that can be corroborated at the measurement date. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets. To verify pricing, the Company assesses the reasonability of the fair values by comparing to industry-accepted valuation models, to movements in credit spreads and to recent transaction prices for similar assets where available.

The following table provides the classification of the Company’s investments within the fair value hierarchy, as outlined above, as at March 31, 2017, and December 31, 2016:

| March 31, 2017 | | | | |
|---|----------------|----------------|----------------|----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Fixed income | — | 267,816 | — | 267,816 |
| Commercial mortgages pooled funds | — | 17,489 | — | 17,489 |
| Money market pooled funds | — | 320 | — | 320 |
| Short-term fixed income and mortgage pooled funds | — | 17,361 | — | 17,361 |
| Equities | 321 | — | — | 321 |
| Preferred Shares | 34,560 | — | — | 34,560 |
| | 34,881 | 302,986 | — | 337,867 |

| December 31, 2016 | | | | |
|---|----------------|----------------|----------------|----------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Fixed income | — | 268,594 | — | 268,594 |
| Commercial mortgages pooled funds | — | 17,423 | — | 17,423 |
| Money market pooled funds | — | 200 | — | 200 |
| Short-term fixed income and mortgage pooled funds | — | 17,229 | — | 17,229 |
| Equities | 312 | — | — | 312 |
| Preferred Shares | 32,777 | — | — | 32,777 |
| | 33,089 | 303,446 | — | 336,535 |

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

Investment in commercial mortgage pooled funds is valued using the Company's share of the net asset value of the commercial mortgage pooled fund as of March 31, 2017, and December 31, 2016.

The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers during the three months ended March 31, 2017 or 2016.

The fair values of cash and short-term deposits, account receivables and financial liabilities, other than the provision for unpaid claims, approximate their carrying values due to their short-term nature.

The Company has interests in unconsolidated structured entities, through investments in pooled funds, which are included in investments on the balance sheets. These entities are not controlled by the Company. The carrying value of pooled funds and maximum exposure to loss as of March 31, 2017 was \$35,170 (December 31, 2016 – \$34,852). Investments in pooled funds consist of units invested in underlying money market and mortgage securities managed by third-party managers. The pooled funds are perpetual private trusts created under trust agreements. Financing and support is only provided to the pooled funds through the purchase of units and is therefore limited to the investment made.

Impaired assets and provisions for losses

Management has reviewed currently available information regarding those financial assets where estimated fair values are less than amortized cost. For those investments that are considered impaired, the Company records the difference between the amortized cost of the financial assets and its fair value as an impairment which reduces investment income recorded in the period.

No impairments on AFS investments were recognized for the period ended March 31, 2017 and 2016. A remaining gross unrealized loss of \$906 on AFS investments held as at March 31, 2017 (March 31, 2016 – \$2,500) is recorded, net of tax, in the amount of \$659 (March 31, 2016 – \$1,842) in Accumulated Other Comprehensive Income.

Investment income

The table below provides additional details on net investment income:

| | 3 months ended | |
|--|-----------------------|--------------|
| | March 31 | |
| | 2017 | 2016 |
| Interest income | 2,102 | 3,152 |
| Dividend income | 370 | 464 |
| Net realized (losses) gains | (931) | 2,014 |
| Fair value change on FVTPL investments | 2,750 | (1,903) |
| Realized and unrealized foreign exchange gains | 4,380 | 467 |
| Investment expenses | (184) | (249) |
| Investment income | 8,487 | 3,945 |

7 Loan receivable

On March 7, 2017, the Company entered into a loan agreement with New Nordic Odin Guernsey Limited to lend the principal amount of 91.5 million Danish Krone payable on December 31, 2017.

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

The loan bears interest on the principal amount outstanding at the rate of six percent (6%) per annum that is payable monthly and commences on July 6th 2017.

8 Derivative financial instruments

The details of the outstanding contracts for hedging the sales proceeds of the European subsidiary are as follows:

| Contract Party | Deal Date | Value Date | FX Contract Purchase Amount CAD\$ | FX Contract Sale Amount DKK | Contract Rate | Rate as at March 31, 2017 | Net Settlement Amount at March 31, 2017 CAD\$ |
|----------------|-----------|------------|-----------------------------------|-----------------------------|---------------|---------------------------|---|
| RBC Royal Bank | 8-Dec-16 | 6-Jul-17 | 12.0M | 63.4M | 5.2850 | 5.2261 | (0.1) M |

9 Line of credit

The Company has a \$10.0 million two-year secured revolving term credit facility effective June 30, 2015, maturing on July 1, 2017. This credit facility may be drawn at the prime rate plus a margin or at the bankers' acceptances rate plus a margin. This facility was undrawn as at March 31, 2017. As part of the covenants of the loans under the credit facilities, the Company is required to maintain certain ratios and financial limits. All financial limits and ratios have been met as at March 31, 2017.

For the year ended March 31, 2017, the Company has expensed \$0.1 million on the income statement, below income before interest expense and income tax, related to the maintenance of the credit facility (March 31, 2016 – \$44).

10 Provision for unpaid claims

The fair value of the provision for unpaid claims approximates the carrying value determined in accordance with generally accepted actuarial methods in Canada, which discounts future cash flows and includes a margin for adverse deviation.

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 Company discounts its best estimate as follows for each entity, which is for all lines of business within reporting entity:

| Entity | March 31, 2017 | December 31, 2016 |
|-------------------|----------------|-------------------|
| Echelon Insurance | 1.90% | 1.90% |
| ICPEI | 1.75% | 1.75% |

The Company recorded a \$3,280 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (March 31, 2016 – \$2,068).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial liabilities are adequate to pay future claims, the Company includes provisions for adverse deviations (PFADs) in some assumptions relating to claims development, reinsurance recoveries and future investment income. The PFADs selected are in the mid-range of those recommended by the Canadian Institute of Actuaries. The aggregate impact of the provision

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

for adverse deviation is to increase the provision for unpaid claims on a net basis by \$21,478 as at March 31, 2017 (December 31, 2016 – \$21,388).

Claims development

| Provision for unpaid claims analysis | March 31, 2017 | March 31, 2016 |
|--|-----------------------|-----------------------|
| Unpaid claims, beginning of year, net | 228,106 | 307,056 |
| Favourable prior year claims development | (3,280) | (2,068) |
| Provision for claims occurring in current period | 32,148 | 30,371 |
| Paid on claims occurring during | | |
| Current year | (9,549) | (7,620) |
| Prior year | (21,203) | (20,893) |
| Discontinued Operations | — | (75,430) |
| Unpaid claims, end of period, net | 226,222 | 231,416 |
| Reinsurers' share | 27,288 | 28,607 |
| Gross unpaid claims | 253,510 | 260,023 |

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims.

Assumptions used to develop the provision estimate for unpaid claims and adjustment expenses are selected by class of business and geographic location. Consideration is given to the characteristics of the risks, historical trends, and the amount of data available on individual claims, inflation and any other pertinent factors. Some assumptions require a significant amount of judgement such as the expected impacts of future judicial decisions and government legislation. The diversity of these considerations results in it not being practical to identify and quantify all individual assumptions that are more likely than others to have a significant impact on the measurement of the Company's insurance contracts. There were no new assumptions identified in the period as having a potential or identifiable material impact on the overall claims estimate.

11 Risk management

As a provider of insurance products, effective risk management is fundamental to the Company's ability to protect the interests of its customers and shareholders. The Company is exposed to risks of loss pertaining to insurance products. These include risks surrounding product and pricing, underwriting and claims, catastrophic exposure, and matching of assets and liabilities. The Company is also exposed to potential loss from various risks, including interest rate risk, equity market fluctuation risk, credit risk, liquidity risk, and foreign exchange risk.

The Company has written principles for overall risk management, as well as written policies covering specific areas such as underwriting, reinsurance, foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

Insurance risk

The risk under any one insurance contract is the possibility that the event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable. The principal risk that the Company faces under its insurance contract is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

frequency or the severity of the claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the estimate.

The concentration of insurance risk by product line, country, province or state, and underlying currency, will also impact financial results depending on the nature and location of events.

Compared to year end there was no material change to insurance risk.

Interest rate risk

Fluctuations in interest rates have a direct impact on the fair valuation and future cash flow of the Company's fixed income investment portfolio. Generally, the Company's investment income will be reduced during sustained periods of lower interest rates as higher yielding fixed income investments mature or are sold and the proceeds are reinvested at lower rates. During periods of rising interest rates, the fair value of the Company's existing fixed income investments will generally decrease and gains on fixed income securities will likely be reduced.

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on OCI relating to the fixed income investment portfolio as at March 31, 2017, and December 31, 2016, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

| Change in interest rates | Fair value of fixed income | Hypothetical change on fair value | Effect on OCI net of tax |
|-----------------------------|----------------------------|-----------------------------------|--------------------------|
| As at March 31, 2017 | | | |
| 200 basis point rise | 252,283 | (6)% | (11,339) |
| 100 basis point rise | 260,050 | (3)% | (5,669) |
| No change | 267,816 | — | — |
| 100 basis point decline | 275,584 | 3% | 5,668 |
| 200 basis point decline | 283,351 | 6% | 11,337 |

| Change in interest rates | Fair value of fixed income | Hypothetical change on fair value | Effect on OCI net of tax |
|--------------------------------|----------------------------|-----------------------------------|--------------------------|
| As at December 31, 2016 | | | |
| 200 basis point rise | 252,340 | (6)% | (11,865) |
| 100 basis point rise | 260,468 | (3)% | (5,932) |
| No change | 268,594 | — | — |
| 100 basis point decline | 276,722 | 3% | 5,931 |
| 200 basis point decline | 284,850 | 6% | 11,863 |

Liquidity risk

Liquidity risk is the risk that the Company may not have sufficient liquid financial resources to meet its obligations when they fall due, or would have to incur excessive costs to do so. The Company's liquidity management strategy is to ensure that there is sufficient cash to meet its financial commitments as they become due. To manage cash flow requirements, the Company maintains a portion of invested assets in liquid investments.

The maturity profile of bonds as at March 31, 2017, and December 31, 2016, are as follows:

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

| March 31, 2017 | Less than 1 year | 1 – 3 years | 3 – 5 years | Greater than 5 years | Total |
|-----------------------|-----------------------------|--------------------|--------------------|---------------------------------|--------------|
| Bonds | 19,332 | 81,453 | 94,765 | 72,266 | 267,816 |
| Percentage of total | 7% | 31% | 35% | 27% | 100% |

| December 31, 2016 | Less than 1 year | 1 – 3 years | 3 – 5 years | Greater than 5 years | Total |
|--------------------------|-----------------------------|--------------------|--------------------|---------------------------------|--------------|
| Bonds | 18,190 | 76,090 | 100,469 | 73,845 | 268,594 |
| Percentage of total | 7% | 28% | 37% | 28% | 100% |

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at March 31, 2017, and December 31, 2016:

| March 31, 2017 | Less than 1 year | 1 – 3 years | 3 – 5 years | Greater than 5 years | Total |
|--|-----------------------------|--------------------|--------------------|---------------------------------|--------------|
| Actuarial liabilities (undiscounted) | 86,316 | 87,403 | 43,565 | 23,829 | 241,113 |
| Less: Reinsurance recoverable (undiscounted) | 9,173 | 8,881 | 3,585 | 4,616 | 26,255 |
| Net actuarial liabilities | 77,143 | 78,522 | 39,980 | 19,213 | 214,858 |

| December 31, 2016 | Less than 1 year | 1 – 3 years | 3 – 5 years | Greater than 5 years | Total |
|--|-----------------------------|--------------------|--------------------|---------------------------------|--------------|
| Actuarial liabilities (undiscounted) | 86,700 | 87,875 | 43,864 | 24,008 | 242,447 |
| Less: Reinsurance recoverable (undiscounted) | 9,251 | 8,928 | 3,608 | 4,660 | 26,447 |
| Net actuarial liabilities | 77,449 | 78,947 | 40,256 | 19,348 | 216,000 |

All other financial liabilities are for duration of one year or less. The contractual maturities for lease commitments are listed in note 15.

Equity price risk

Fluctuations in the value of equity investments affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. General economic conditions, political conditions and many other factors can also adversely affect the stock and bond markets and, consequently, the value of the equity and fixed income investments held.

The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of equity securities.

The table below summarizes the potential impact of a 10% change in the value of the equity securities (common and preferred shares) on net income and OCI for the three months ended March 31, 2017, and the year ended December 31, 2016. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumption that all equity holdings increased/decreased by 10% with all other variables held constant.

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

| Change in equity holdings | Effect on net income (loss) net of tax | | Effect on OCI net of tax | |
|---------------------------|---|----------------------|-----------------------------|----------------------|
| | March 31, 2017 | December 31, 2016 | March 31, 2017 | December 31, 2016 |
| 10% rise | 2,523 | 2,393 | 23 | 23 |
| 10% decline | (2,523) | (2,393) | (23) | (23) |

Credit risk

The Company is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of investment securities which do not carry the guarantee of a national or Canadian provincial government. The Company's credit exposure to any one individual policyholder is not material. The Company has policies that limit its exposure to individual reinsurers and regular review processes to assess the creditworthiness of reinsurers with whom it transacts business.

The Company is exposed to risk from reinsurers' inability to cover balances. 99.3% of the Company's reinsurance balances are from registered reinsurers. The Company holds sufficient collateral to cover the 0.7% of reinsurance balances from unregistered reinsurers.

The following table sets forth the Company's fixed income securities portfolio by credit quality as at March 31, 2017, and December 31, 2016.

Fixed income portfolio

A breakdown of the fixed income portfolio by credit rating is shown below:

| | As at March 31, 2017 | | As at December 31, 2016 | |
|-------|----------------------|------------|-------------------------|------------|
| | Fair value | Fair value | Fair value | Fair value |
| AAA | 109,807 | 41% | 107,267 | 40% |
| AA | 52,137 | 20% | 52,728 | 20% |
| A | 67,570 | 25% | 67,360 | 25% |
| BBB | 38,302 | 14% | 41,239 | 15% |
| Total | 267,816 | 100% | 268,594 | 100% |

Preferred share portfolio

A breakdown of the preferred shares portfolio by credit rating is shown below:

| | As at March 31, 2017 | | As at December 31, 2016 | |
|-------|----------------------|------------|-------------------------|------------|
| | Fair value | Fair value | Fair value | Fair value |
| P2 | 31,296 | 91% | 29,600 | 90% |
| P3 | 3,264 | 9% | 3,177 | 10% |
| Total | 34,560 | 100% | 32,777 | 100% |

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

12 Intangible assets

| | Opening cost | Purchases | Sales | End of period cost | Accumulated amortization | Net |
|--------------------------------|--------------|-----------|-------|--------------------|--------------------------|-------|
| Software | | | | | | |
| March 31, 2017 | 28,712 | 1,323 | — | 30,035 | 22,057 | 7,978 |
| December 31, 2016 | 23,014 | 5,698 | — | 28,712 | 20,915 | 7,797 |
| Goodwill | | | | | | |
| March 31, 2017 | 400 | — | — | 400 | — | 400 |
| December 31, 2016 | 400 | — | — | 400 | — | 400 |
| Total intangible assets | | | | | | |
| March 31, 2017 | 29,112 | 1,323 | — | 30,435 | 22,057 | 8,378 |
| December 31, 2016 | 23,414 | 5,698 | — | 29,112 | 20,915 | 8,197 |

13 Income taxes

The income tax (recovery) is as follows:

| | 3 months ended March 31 | |
|----------|----------------------------|-------|
| | 2017 | 2016 |
| Current | 1,476 | (51) |
| Deferred | 190 | (488) |
| | 1,666 | (539) |

The effective income tax rates are different from the combined federal and provincial income tax rates.

The consolidated statements of income and comprehensive income contain items that are non-taxable or non-deductible for income tax purposes, which cause the income tax expense to differ from what it would have been if based on statutory rates.

The difference is broken down as follows:

| | 2017 | 2016 |
|---|--------|----------|
| Income tax expense calculated at statutory rates | 27.0 % | 27.0 % |
| Increase (decrease) in income tax rates resulting from: | | |
| Non-taxable dividend income | (1.1)% | (24.5)% |
| Non-taxable (income) loss | 0.0 % | (134.5)% |
| Non-deductible expenses | 0.3 % | 32.2 % |
| Tax benefit of losses not previously recognized | — % | (9.7)% |
| Tax benefit of losses recognized | (1.5)% | — % |
| Statutory rate differences | (0.1)% | (9.7)% |
| Non-taxable portion of capital gains | (6.5)% | (9.7)% |
| Other | 0.1 % | (20.1)% |
| Effective income tax rate | 18.2 % | (149.0)% |

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

14 Operating Costs by nature

The table below presents operating costs by major category:

| | Three Months Ended March 31, 2016 | |
|-----------------------|--|--------------|
| | 2017 | 2016 |
| Salaries and benefits | 4,077 | 4,420 |
| Systems costs | 2,124 | 1,697 |
| Professional fees | 816 | 294 |
| Occupancy | 388 | 310 |
| Severance | — | 1,484 |
| Other expenses | (15) | 595 |
| | 7,390 | 8,800 |

15 Lease commitments

The Company is committed under lease agreements for office premises and computer equipment with minimum lease payments of \$12,201 as follows:

| Lease commitments | |
|---------------------|---------------|
| 2017 | 1,316 |
| 2018 | 1,843 |
| 2019 | 1,706 |
| 2020 | 1,395 |
| 2021 | 1,411 |
| 2022 and thereafter | 4,530 |
| | 12,201 |

16 Accumulated other comprehensive income

A breakdown of the accumulated other comprehensive income is shown below.

| | As at March 31, 2017 | As at December 31, 2016 |
|--|---------------------------------|------------------------------------|
| Gross unrealized gains | (594) | (459) |
| Foreign currency translation adjustments | 503 | (10,776) |
| Foreign exchange forward | — | 4,314 |
| Tax impact | (408) | 1,851 |
| Ending balance | (499) | (5,070) |

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

17 Earnings per share

| | 2017 | 2016 |
|---|-------------|-------------|
| Basic earnings per share on continued operations: | | |
| Net income available to shareholders | 7,455 | 943 |
| Average number of common shares | 11,783 | 11,720 |
| Basic earnings per share on continued operations | \$0.63 | \$0.08 |
| Diluted earnings per share: | | |
| Average number of common shares | 11,783 | 11,720 |
| Average number of dilutive common shares under employee stock compensation plan | 235 | 272 |
| Average number of diluted common shares | 12,018 | 11,992 |
| Diluted earnings per share on continued operations | \$0.62 | \$0.08 |
| | | |
| | 2017 | 2016 |
| Basic earnings per share on discontinued operations: | | |
| Net income available to shareholders | (7,268) | (1,588) |
| Average number of common shares | 11,783 | 11,720 |
| Basic earnings per share on discontinued operations | \$(0.62) | \$(0.14) |
| Diluted earnings per share: | | |
| Average number of common shares | 11,783 | 11,720 |
| Average number of dilutive common shares under employee stock compensation plan | 235 | 272 |
| Average number of diluted common shares | 12,018 | 11,992 |
| Diluted earnings per share on discontinue operations | \$(0.62) | \$(0.14) |
| | | |
| | 2017 | 2016 |
| Basic earnings per share: | | |
| Net income available to shareholders | 187 | (645) |
| Average number of common shares | 11,783 | 11,720 |
| Basic earnings (loss) per share | \$0.02 | \$(0.06) |
| Diluted earnings per share: | | |
| Average number of common shares | 11,783 | 11,720 |
| Average number of dilutive common shares under employee stock compensation plan | 235 | 272 |
| Average number of diluted common shares | 12,018 | 11,992 |
| Diluted earnings (loss) per share | \$0.02 | \$(0.06) |

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

18 Discontinued operations

On March 7, 2017, the Company completed the sale of its European operations.

| | 3 months ended | |
|--|-----------------------|-------------|
| | March 31 | |
| | 2017 | 2016 |
| Revenue | | |
| Gross written and assumed premiums | 15,896 | 52,279 |
| Net written premium | 12,784 | 24,385 |
| Decrease in provision for unearned premium | 6,173 | 16,175 |
| Net earned premiums | 18,957 | 40,560 |
| Investment (loss) income | (10,562) | 1,239 |
| Total revenue | 8,395 | 41,799 |
| Expenses | | |
| Net incurred claims | 10,392 | 29,157 |
| Net acquisition costs | 6,254 | 13,100 |
| Operating costs | 1,067 | 2,412 |
| Total expenses | 17,713 | 44,669 |
| (Loss) before income taxes | (9,318) | (2,870) |
| Income tax (recovery) | (2,050) | (1,185) |
| Net (loss) on discontinued operations | (7,268) | (1,685) |
| Other comprehensive income (loss) on discontinued operations | 7,268 | (795) |
| Comprehensive (loss) on discontinued operations | — | (2,480) |

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

19 Non-controlling interest

The Company has non-controlling interests attributable to the subsidiary of ICPEI, please refer to Note 1.

| | Three Months Ended March 31, 2016 | |
|---|--|-------------|
| | 2017 | 2016 |
| Revenue | | |
| Gross written and assumed premiums | 1,641 | 1,461 |
| Net earned premiums | 1,630 | 1,537 |
| Investment income | 131 | 8 |
| Total revenue | 1,761 | 1,545 |
| Expenses | | |
| Net incurred claims | 1,118 | 998 |
| Net acquisition costs | 428 | 354 |
| Operating costs | 205 | 254 |
| Total expenses | 1,751 | 1,606 |
| Income (loss) before income taxes | 10 | (61) |
| Income tax (recovery) | (1) | (19) |
| Net income (loss) attributable to NCI | 11 | (42) |
| Other comprehensive income attributable to NCI | 17 | 10 |
| Comprehensive income (loss) attributable to NCI | 28 | (32) |

| | As at March 31, 2017 | As at December 31, 2016 |
|------------------------------|---------------------------------|------------------------------------|
| Assets | | |
| Cash and investments | 9,282 | 9,421 |
| Other assets | 4,262 | 4,377 |
| Total assets | 13,544 | 13,798 |
| Liabilities | | |
| Unearned premium | 3,506 | 3,699 |
| Unpaid claims | 5,921 | 5,709 |
| Other liabilities | 348 | 648 |
| Total liabilities | 9,775 | 10,056 |
| Equity | | |
| Share capital | — | — |
| AOCI | (27) | (44) |
| Retained earnings | 3,796 | 3,785 |
| Total equity | 3,769 | 3,741 |
| Total liabilities and equity | 13,544 | 13,797 |

The prior year equity balance above excludes discontinued operations and will therefore differ from the non controlling interest amount disclosed on the balance sheet of these financial statements.

ECHELON FINANCIAL HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

| | As at March 31, 2017 | As at December 31, 2016 |
|---|---------------------------------|------------------------------------|
| Cash flow from operating activities | (216) | 1,138 |
| Cash flow from investing activities | (50) | (232) |
| Cash flow from financing activities | | — |
| Net increase (decrease) in cash and short-term deposits | (266) | 906 |

20 Segmented information

The Company operates through two segments: Personal Lines and Commercial Lines businesses. Through its Personal Lines segment, the Company is engaged primarily in the underwriting of high premium, non-standard automobile insurance.

Through its Commercial Lines, the Company designs and underwrites specialized non-auto insurance programs, such as higher premium property, primary and excess liability, legal expense, creditor insurance and warranty coverage.

The European operations are considered to be discontinued and not disclosed.

The effect of reinsurance is reflected in the revenue and results of each segment. The investment activities consist of managing the investment portfolio for the Company as a whole. Investment income is shown net of investment expenses. The corporate and other activities include holding company expenses not attributable to a division.

Echelon Financial Holdings Inc.
Notes to the Consolidated Financial Statements (continued)
(in thousands of Canadian dollars, except per share amounts)

| | 2017 | 2016 |
|---|---------------|---------------|
| Revenue | | |
| Earned premiums | | |
| – Personal Lines | 36,994 | 33,360 |
| – Commercial Lines | 12,031 | 9,988 |
| Total earned premium | 49,025 | 43,348 |
| Net claims Incurred | | |
| – Personal Lines | 23,108 | 21,932 |
| – Commercial Lines | 5,760 | 6,371 |
| Total net claims incurred | 28,868 | 28,303 |
| Net expenses | | |
| – Personal Lines | 11,996 | 10,685 |
| – Commercial Lines | 5,271 | 4,380 |
| Total | 17,267 | 15,065 |
| Corporate Expenses | 2,174 | 2,035 |
| Total net expenses | 19,441 | 17,100 |
| Income (loss) before income taxes | | |
| – Personal Lines | 1,890 | 743 |
| – Commercial Lines | 1,000 | (763) |
| Total Canada | 2,890 | (20) |
| Corporate and other | (2,174) | (2,035) |
| Underwriting (loss) income | 716 | (2,055) |
| Severance expense | — | (1,484) |
| Investment income | 8,487 | 3,945 |
| Total income before income taxes | 9,203 | 406 |