

Unaudited Condensed Consolidated Interim Financial  
Statements of

**Echelon Financial Holdings Inc.**

For six months ended June 30, 2018 and 2017

The external auditors have not reviewed these unaudited consolidated financial statements.

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

	Note	June 30, 2018	December 31, 2017
<b>Assets</b>			
Cash and short-term deposits	6	55,152	44,459
Accounts receivable		105,935	75,622
Loan receivable	7	—	6,553
Investments (including securities on loan)	6	371,568	370,933
Due from insurance companies		824	510
Deferred policy acquisition costs		50,496	40,888
Income taxes recoverable		951	1,001
Prepaid expenses and other assets		3,475	2,462
Reinsurers' share – unearned premiums		11,693	9,957
– provision for unpaid claims	10	24,888	23,471
Property and equipment		1,337	859
Intangible assets	12	9,342	8,037
Deferred income taxes		5,394	5,834
<b>Total assets</b>		<b>641,055</b>	<b>590,586</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities		17,512	18,116
Payable to insurance companies		1,060	610
Unearned premiums		201,980	160,577
Unearned commission		1,060	1,667
Provision for unpaid claims	10	262,281	262,966
<b>Total liabilities</b>		<b>483,893</b>	<b>443,936</b>
<b>Equity</b>			
Share capital		71,941	71,520
Contributed surplus		284	248
Retained earnings		83,758	73,887
Accumulated other comprehensive income	16	(2,413)	(2,833)
Equity attributed to shareholders of the Company		153,570	142,822
Non-controlling interest	19	3,592	3,828
<b>Total equity</b>		<b>157,162</b>	<b>146,650</b>
<b>Total liabilities and equity</b>		<b>641,055</b>	<b>590,586</b>

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)

	Note	3 months ended June 30		6 months ended June 30	
		2018	2017	2018	2017
<b>Revenue</b>					
Gross written and assumed premiums		112,833	85,035	192,120	139,621
Less: premiums ceded to reinsurers		(5,609)	(6,050)	(5,654)	(10,560)
Net written and assumed premiums		107,224	78,985	186,466	129,061
(Increase) in gross unearned premiums		(33,746)	(27,304)	(41,400)	(28,488)
Increase in unearned premiums, reinsurers' share		1,802	1,767	1,736	1,900
Change in provision for unearned premiums		(31,944)	(25,537)	(39,664)	(26,588)
Net earned premiums		75,280	53,448	146,802	102,473
Investment income	6	2,759	2,977	4,718	11,464
<b>Total revenue</b>		<b>78,039</b>	<b>56,425</b>	<b>151,520</b>	<b>113,937</b>
<b>Expenses</b>					
Gross claims incurred		51,868	33,856	93,099	64,302
Less: claims recoveries from reinsurers		(2,871)	(2,048)	(2,362)	(3,626)
Net incurred claims		48,997	31,808	90,737	60,676
Gross acquisition costs		17,803	13,475	35,214	27,073
Less: acquisition (cost) recoveries from reinsurers		(127)	(1,541)	1,927	(3,088)
Net acquisition costs		17,676	11,934	37,141	23,985
Operating costs	14	8,228	8,318	17,601	15,708
<b>Total expenses</b>		<b>74,901</b>	<b>52,060</b>	<b>145,479</b>	<b>100,369</b>
Income before taxes and discount rate impact on claims		3,138	4,365	6,041	13,568
Impact of change in discount rate on claims <sup>(1)</sup>		2,039	—	4,114	—
Income before interest expense and income taxes		5,177	4,365	10,155	13,568
Interest expense	9	—	84	—	155
Income tax expense	13	1,213	1,088	524	2,754
Net income on continued operations		3,964	3,193	9,631	10,659
Net (loss) on discontinued operations	18	—	—	—	(7,268)
<b>Net income</b>		<b>3,964</b>	<b>3,193</b>	<b>9,631</b>	<b>3,391</b>
Attributed to:					
Shareholders of the Company - continued operations		4,020	3,142	9,871	10,597
Shareholders of the Company - discontinued operations	18	—	—	—	(7,268)
Non-controlling interest - continued operations	19	(56)	51	(240)	62
Non-controlling interest - discontinued operations	18	—	—	—	—
<b>Net income</b>		<b>3,964</b>	<b>3,193</b>	<b>9,631</b>	<b>3,391</b>
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income					
Available-for-sale investments:					
Change in net unrealized gains		(148)	(1,899)	(1,018)	(390)
Reclassification of net realized losses to net income		768	(31)	1,493	54
(Loss) on foreign exchange forward		—	—	—	(4,314)
Tax impact		(79)	529	(51)	668
Other comprehensive income (loss) on continued operations		541	(1,401)	424	(3,982)
Other comprehensive income on discontinued operations	18	—	—	—	7,268
<b>Other comprehensive income (loss)</b>		<b>541</b>	<b>(1,401)</b>	<b>424</b>	<b>3,286</b>

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

		3 months ended June 30		6 months ended June 30	
	Note	2018	2017	2018	2017
Attributed to:					
Shareholders of the Company - continued operations		527	(1,360)	420	(3,958)
Shareholders of the Company - discontinued operations	18	—	—	—	7,268
Non-controlling interest - continued operation	19	14	(41)	4	(24)
Non-controlling interest - discontinued operation	18	—	—	—	—
Other comprehensive income (loss)		541	(1,401)	424	3,286
<b>Total comprehensive income</b>		<b>4,505</b>	<b>1,792</b>	<b>10,055</b>	<b>6,677</b>
Attributed to:					
Shareholders of the Company - continued operations		4,547	1,782	10,291	6,639
Shareholders of the Company - discontinued operations	18	—	—	—	—
Non-controlling interest - continued operation	19	(42)	10	(236)	38
Non-controlling interest - discontinued operation	18	—	—	—	—
<b>Total comprehensive income</b>		<b>4,505</b>	<b>1,792</b>	<b>10,055</b>	<b>6,677</b>
Earnings per share attributable to shareholders of the Company	17				
Earnings per share continued operations - basic		\$0.34	\$0.27	\$0.83	\$0.90
(Loss) per share discontinued operations - basic		\$0.00	\$0.00	\$0.00	\$(0.62)
Earnings per share - basic		\$0.34	\$0.27	\$0.83	\$0.28
Earnings per share continued operations - diluted		\$0.33	\$0.26	\$0.81	\$0.88
(Loss) per share discontinued operations - diluted		\$0.00	\$0.00	\$0.00	\$(0.62)
Earnings per share - diluted		\$0.33	\$0.26	\$0.81	\$0.28
<b>Net income</b>		<b>3,964</b>	<b>3,193</b>	<b>9,631</b>	<b>3,391</b>

(1) As interest rates may change each period, and have an impact to the incurred claims and therefore management believes it is beneficial to the user to see the impact of this change separately in order to understand the true movement in claims incurred.

The accompanying notes are an integral part of these condensed consolidated 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, 2018	71,520	248	(2,833)	73,887	142,822	3,828	146,650
Net income (loss)	—	—	—	9,871	9,871	(240)	9,631
Other comprehensive income	—	—	420	—	420	4	424
Total comprehensive income	—	—	420	9,871	10,291	(236)	10,055
Common shares issued on stock options exercised	421	(13)	—	—	408	—	408
Stock compensation expense	—	49	—	—	49	—	49
Balance at June 30, 2018	71,941	284	(2,413)	83,758	153,570	3,592	157,162

	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	—	—	—	3,329	3,329	62	3,391
Other comprehensive income	—	—	3,310	—	3,310	(24)	3,286
Total comprehensive income	—	—	3,310	3,329	6,639	38	6,677
Transfer of currency translation adjustment	—	—	(99)	318	219	(219)	—
Common shares issued on stock options exercised	878	(107)	—	—	771	—	771
Stock options expense	—	14	—	—	14	—	14
Balance at June 30, 2017	71,105	229	(1,859)	75,582	145,057	3,779	148,836

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

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

	6 months ended	
	June 30, 2018	June 30, 2017
Cash provided by (used in):		
Operating activities		
Net income from continued operations	9,631	10,659
Net loss from discontinued operations	—	(7,268)
Adjusted for:		
Reinsurers' share of unearned premiums	(1,736)	(1,900)
Reinsurers' share of unpaid claims	(1,417)	(1,085)
Provision for unpaid claims	(685)	(842)
Unearned premiums	41,403	28,488
Deferred income taxes	440	128
Unearned commissions	(607)	(39)
Deferred policy acquisition costs	(9,608)	(6,019)
Amortization on property plant equipment and intangible assets	2,340	2,894
Amortization of premiums on bonds	688	813
Fair value change on FVTPL investments	525	(2,951)
Options expense	49	14
Foreign exchange forward	—	(4,314)
Prepaid expenses & other assets	(1,013)	(386)
	30,379	14,801
Cash flow from changes in		
Accounts receivable	(30,313)	(23,094)
Loan receivable	6,553	(18,238)
Net realized losses	1,516	958
Income taxes payable	(1)	1,926
Due to insurance companies	136	2,899
Other liabilities	(604)	4,228
Cash provided (used) by continuing operating activities	17,297	(5,861)
Cash (used) by discontinued operating activities	—	(137,935)
Cash inflow (outflow) from operating activities	17,297	(143,796)
Financing activities		
Proceeds from issuing of common shares for stock options	408	771
Cash provided by continuing financing activities	408	771
Cash inflow from financing activities	408	771
Investing activities		
Purchases of property, equipment and intangible assets	(4,123)	(3,579)
Purchases of investments	(216,620)	(179,722)
Sale/maturity of investments	213,731	174,942
Proceeds received from the sale of subsidiary	—	5,117
Cash (used) by continuing investing activities	(7,012)	(3,242)
Cash provided by discontinued investing activities	—	62,619
Cash (outflow) from investing activities	(7,012)	59,377

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

	<b>6 months ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
Increase (decrease) in cash and short-term deposits	10,693	(83,648)
Cash and short-term deposits, beginning of period	44,459	137,635
Cash and short-term deposits, end of period	55,152	53,987
Supplementary information		
Income taxes paid	95	818

The accompanying notes are an integral part of these consolidated 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 in Canada on August 18, 1997, under the Business Corporations Act (Ontario). The Company is domiciled in Canada and 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").

The Company completed the sale of Qudos Insurance A/S ("Qudos") on March 7, 2017. Please refer to note 18.

**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, 2017, which have been prepared in accordance with IFRS.

These consolidated financial statements have been authorized for issue by the Board of Directors on August 8, 2018.

**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***

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 has evaluated and meets the requirements to defer the adoption of IFRS 9, since the percentage of liabilities connected with insurance contracts over total liabilities is above the 80% threshold. The company has deferred adoption, until the new insurance contracts standard is adopted effective January 1, 2021.

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

***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. 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. Revenue arising from insurance contracts and from financial instruments is outside the scope of IFRS 15. There are no other revenues arising from other sources of income.

***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 has evaluated the impact of IFRS 16 on its Consolidated Financial Statements, and the impact will be minimal.

***IFRS 17, Insurance Contracts***

In May 2017, the IASB published IFRS 17 which is effective January 1, 2021, with retrospective application. The standard replaces IFRS 4. The standard is comprehensive in scope and addresses recognition, measurement, presentation and disclosure for insurance contracts. The standard requires the entity to recognize a group of insurance contracts it issues from the earliest of the following: (a) the beginning of the coverage period of the group of contracts; (b) the date when the first payment from a policyholder in the group becomes due; and (c) for a group of onerous contracts, when the group becomes onerous. The measurement approach is based on the following building blocks: (i) a current, unbiased probability-weighted estimate of future cash flows expected to arise as the insurer fulfills the contract; (ii) the effect of the time value of money; (iii) a risk adjustment that measures the effects of uncertainty about the amount and timing of future cash flows; and (iv) a contractual service margin which represents the unearned profit in a contract (that is recognized in net earnings as the insurer fulfills its performance obligations under the contract). Estimates are required to be re-measured each reporting period. In addition, a simplified measurement approach is permitted for short-duration contracts in which the coverage period is approximately one year or less. The Company is currently evaluating the impacts of IFRS 17 on its consolidated financial statements.

**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 re-insurers, 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 2017 consolidated financial statements.

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

**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.

**6 Investments**

The following table provides a breakdown of the investment portfolio as at June 30, 2018 and December 31, 2017:

<b>Available-for-sale</b>	<b>Fair values</b>	
	<b>As at June 30, 2018</b>	<b>As at December 31, 2017</b>
Fixed income		
Canadian		
Federal	33,090	39,408
Provincial	43,413	29,883
Municipal	895	14
Corporate	126,332	127,701
	<b>203,730</b>	<b>197,006</b>
Fixed income lent through securities lending program		
Federal	62,999	63,864
Provincial	6,051	17,564
Municipal	832	1,322
Corporate	8,564	8,535
	<b>78,446</b>	<b>91,285</b>
Foreign fixed income		
Corporate	5,773	2,014
	<b>5,773</b>	<b>2,014</b>
Foreign fixed income lent through securities lending program		
Corporate	484	—
<b>Total fixed income</b>	<b>288,433</b>	<b>290,305</b>
Corporate value pooled fund	4,997	—
Money market pooled funds	488	1,014
Short-term fixed income and mortgage pooled funds	14,416	19,303
Specialty pooled fund	9,236	8,240
<b>Total pooled funds</b>	<b>29,137</b>	<b>28,557</b>
Common shares		
Canadian	1,141	889
Foreign	1,426	1,043
Global Equity Pooled Fund	7,590	7,385
<b>Total common shares</b>	<b>10,157</b>	<b>9,317</b>
<b>Total available-for-sale</b>	<b>327,727</b>	<b>328,179</b>
<b>Fair value through profit or loss</b>		
Preferred shares	43,808	42,754
Preferred shares lent through securities lending program	33	—
<b>Total preferred shares</b>	<b>43,841</b>	<b>42,754</b>
<b>Total investments</b>	<b>371,568</b>	<b>370,933</b>
Cash and short-term deposits	55,152	44,459
<b>Total investments including cash and short-term deposits</b>	<b>426,720</b>	<b>415,392</b>

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

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 June 30, 2018, the Company had collateral of \$89,060 (December 31, 2017 – \$98,798) for the loaned securities or approximately 108% 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 technique employed has remained the same from December 31, 2017. 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:

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 rationality 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.

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

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined, as at June 30, 2018 and December 31, 2017:

<b>June 30, 2018</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Fixed income	—	288,433	—	288,433
Corporate value pooled funds	—	4,997	—	4,997
Money market pooled funds	—	488	—	488
Short-term fixed income and mortgage pooled funds	—	14,416	—	14,416
Specialty pooled fund	—	—	9,236	9,236
Common Shares	2,567	7,590	—	10,157
Preferred Shares	43,841	—	—	43,841
	46,408	315,924	9,236	371,568

  

<b>December 31, 2017</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Fixed income	—	290,305	—	290,305
Money market pooled funds	—	1,014	—	1,014
Short-term fixed income and mortgage pooled funds	—	19,303	—	19,303
Specialty pooled fund	—	—	8,240	8,240
Common Shares	1,932	7,385	—	9,317
Preferred Shares	42,754	—	—	42,754
	44,686	318,007	8,240	370,933

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 from the existing portfolio for the quarter ended June 30, 2018 or 2017.

The specialty pooled fund includes Level 3 private debt securities assets. The fund provides special situation financing solutions, generally in the form of senior or subordinated loans to both public and private companies. The fair value of the limited partnership investments is based on the net asset value ("NAV") provided by management of the limited partnership investments. For securities in the fund that are publicly traded, the fund uses the current available market prices provided the market price is reasonable taking into consideration both value and liquidity. Private securities in the fund are valued based upon the value of the underlying components. The loan component is valued by a discounted cash flow method taking into account current market interest rate spreads. The discount rate is determined to be the sum of the following components:

- a) Benchmark yield - for Canadian loans, this is the on-the-run Government of Canada bond with equivalent duration to the loan. For U.S. loans, this is the on-the-run U.S. Treasury with equivalent duration to the loan.
- b) Credit spread - this is the BBB index for equivalent duration to the loan.
- c) Excess credit spread and excess illiquidity spread - the excess credit spread and excess illiquidity spread are included so as to account for the additional risk and illiquidity of the loan compared to a comparable publicly traded bond.

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

Warrants and Gifted Equity make up a small proportion of the fund's valuation. Warrants are valued using a Black-Scholes model, with the implicit volatility of the warrants used in the calculation. This calculated implicit volatility is used for future warrant pricing. The gifted equity component is calculated using a combination of a modified discounted cash flow model and a normalized earnings-based enterprise value model.

Based on the unobservable nature of these NAVs, Echelon does not assess whether applying reasonably possible alternative assumptions would have an impact on the fair value of the limited partnership investments. In the second quarter of 2018, the company increased its investment in the specialty pooled fund by \$1,156. The total unrealized gain on the specialty pooled fund as at June 30, 2018 was \$207 (June 30, 2017 - nil). The following table summarizes the changes in the fair value measurement for financial instruments in level 3 amount of the fair value hierarchy as at June 30, 2018 and December 31, 2017:

	As at June 30, 2018	As at December 31, 2017
Opening Balance, January 1	8,240	—
Purchases	1,156	8,139
Sales	—	—
Realized gain (loss)	—	—
Change in unrealized gain in value of investment	106	101
Principal repayment	(266)	—
Closing Balance	9,236	8,240

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 June 30, 2018 was \$29,137 (December 31, 2017 – \$28,557). Investments in pooled funds consist of units invested in underlying money market and mortgage securities managed by third-party managers in addition to units invested in a Specialty Pooled Fund that provides special situation financing solutions, generally in the form of senior or subordinated loans to both public and private companies. The pooled funds are perpetual private trusts created under trust agreements. Financing 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**

A gross unrealized loss of \$3,281 on Available for Sale (AFS) investments at June 30, 2018 (December 31, 2017 – \$3,326) is recorded, net of tax, in the amount of \$2,393 (December 31, 2017 – \$2,415) in Accumulated Other Comprehensive Income, primarily due to the impact of higher government bond yields on the Company's fixed income portfolio.

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 June 30, 2018 and 2017.

**ECHELON FINANCIAL HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements** (continued)  
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**Investment income**

The table below provides additional details on net investment income for the period ended June 30, 2018 and June 30, 2017:

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Interest income	3,107	2,244	5,984	4,346
Dividend income	586	397	1,088	767
Net realized (losses)	(751)	(27)	(1,516)	(958)
Fair value change on FVTPL investments	33	201	(525)	2,951
Realized and unrealized foreign exchange gains	63	347	199	4,727
Investment expenses	(279)	(185)	(512)	(369)
Investment income	2,759	2,977	4,718	11,464

**7 Loan receivable**

As part of the sale of its European operations, the Company entered into a loan agreement with New Nordic Odin Guernsey Limited (NNGL) on March 7, 2017 to lend the principal amount of 91.5 million Danish Krone (DKK), payable on December 31, 2017. On December 29, 2017, the Company received 59.4 million DKK as partial repayment of the principal amount of the loan. The loan bears interest on the principal amount outstanding at the rate of six percent (6%) per annum that commenced on July 6, 2017, and is payable monthly. The Company extended the maturity date for the outstanding balance of the loan with NNGL to May 27, 2018, and further to July 20, 2018.

The loan outstanding amount was repaid on June 29, 2018.

Please refer to Note 18 for further details.

**8 Derivative financial instruments**

The Company has entered into a derivative contract to hedge the principal repayment from the loan receivable from NNGL. The total notional value of the derivative contracts at June 30, 2018 is \$6.6 million (December 31, 2017 - \$6.6 million). Contracts are classified as Level 2 under the fair value hierarchy. The contract was subsequently settled on July 4, 2018.

**9 Line of credit**

The Company had a \$10.0 million two-year secured revolving term credit facility effective June 30, 2015, which matured on July 1, 2017. The facility expired and has not been renewed.

For the period ended June 30, 2018, the Company has expensed nil on the income statement, related to the maintenance of the credit facility (June 30, 2017 – \$0.2 million).

**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.

**ECHELON FINANCIAL HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements** (continued)  
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The Company determines the discount rate based on the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments. The investment portfolio has experienced an increase in yields compared to December 31, 2017. The Company discounts its best estimate as follows for each entity, which is for all lines of business within the reporting entity:

Entity	June 30, 2018	December 31, 2017
Echelon Insurance	3.48%	2.65%
ICPEI	3.25%	2.80%

The Company recorded a \$9,861 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (June 30, 2017 – \$11,126).

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 for adverse deviation is to increase the provision for unpaid claims on a net basis by \$17,674 as at June 30, 2018 (December 31, 2017 – \$19,349).

### Claims development

The table below provides additional details on the provision for unpaid claims as at June 30, 2018 and June 30, 2017:

Provision for unpaid claims analysis	June 30, 2018	June 30, 2017
Unpaid claims, beginning of year, net	239,495	228,106
Favourable prior year claims development	(9,861)	(11,126)
Net claims incurred in current period	96,504	71,802
Paid on claims occurring during		
Current year	(34,412)	(25,422)
Prior year	(54,333)	(37,181)
Unpaid claims, end of period, net	237,393	226,179
Reinsurers' share	24,888	28,108
Gross unpaid claims	262,281	254,287

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.

**ECHELON FINANCIAL HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements** (continued)  
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**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 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.

**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 other comprehensive income ("OCI") relating to the fixed income investment portfolio as at June 30, 2018, and December 31, 2017, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

<b>Change in interest rates</b>	<b>Fair value of fixed income</b>	<b>Hypothetical change on fair value</b>	<b>Effect on OCI net of tax</b>
<b>As at June 30, 2018</b>			
200 basis point rise	300,220	(5)%	(12,666)
100 basis point rise	308,895	(3)%	(6,333)
No change	317,570	—	—
100 basis point decline	326,245	3 %	6,332
200 basis point decline	334,920	5 %	12,668

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

<b>Change in interest rates</b>	<b>Fair value of fixed income</b>	<b>Hypothetical change on fair value</b>	<b>Effect on OCI net of tax</b>
<b>As at December 31, 2017</b>			
200 basis point rise	301,610	(5)%	(12,594)
100 basis point rise	310,085	(3)%	(6,407)
No change	318,862	—	—
100 basis point decline	327,639	3 %	6,406
200 basis point decline	336,114	5 %	12,596

**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 are as follows, as at June 30, 2018 and December 31, 2017:

<b>June 30, 2018</b>	<b>Less than 1 year</b>	<b>1 – 3 years</b>	<b>3 – 5 years</b>	<b>Greater than 5 years</b>	<b>Total</b>
Bonds	26,399	107,254	81,660	73,120	288,433
Cash and cash equivalents	55,152	—	—	—	55,152
Accounts receivable	105,935	—	—	—	105,935
Total	187,486	107,254	81,660	73,120	449,520
Percentage of total	42%	24%	18%	16%	100%

<b>December 31, 2017</b>	<b>Less than 1 year</b>	<b>1 – 3 years</b>	<b>3 – 5 years</b>	<b>Greater than 5 years</b>	<b>Total</b>
Bonds	24,001	117,230	84,152	64,922	290,305
Cash and cash equivalents	44,459	—	—	—	44,459
Accounts receivable	82,175	—	—	—	82,175
Total	150,635	117,230	84,152	64,922	416,939
Percentage of total	36%	28%	20%	16%	100%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at June 30, 2018 and December 31, 2017:

<b>June 30, 2018</b>	<b>Less than 1 year</b>	<b>1 – 3 years</b>	<b>3 – 5 years</b>	<b>Greater than 5 years</b>	<b>Total</b>
Gross claim liabilities (undiscounted)	90,568	92,083	46,250	25,684	254,585
Less: Reinsurance recoverable (undiscounted)	10,941	6,520	2,246	1,263	20,970
Net actuarial liabilities	79,627	85,563	44,004	24,421	233,615

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

<b>December 31, 2017</b>	<b>Less than 1 year</b>	<b>1 – 3 years</b>	<b>3 – 5 years</b>	<b>Greater than 5 years</b>	<b>Total</b>
Gross claim liabilities (undiscounted)	92,218	94,500	47,584	26,407	260,709
Less: Reinsurance recoverable (undiscounted)	12,261	8,343	3,038	1,873	25,515
Net actuarial liabilities	79,957	86,157	44,546	24,534	235,194

All other financial assets and liabilities are for a 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 six months ended June 30, 2018, and the year ended December 31, 2017. 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.

<b>Change in equity holdings</b>	<b>Effect on net income (loss) net of tax</b>		<b>Effect on OCI net of tax</b>	
	June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
10% rise	3,200	3,121	741	680
10% decline	(3,200)	(3,121)	(741)	(680)

### 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. 98.9% of the Company's reinsurance balances are from registered reinsurers. The Company holds sufficient collateral to cover the 1.1% of reinsurance balances from unregistered reinsurers.

**ECHELON FINANCIAL HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements** (continued)  
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**Fixed income portfolio**

A breakdown of the fixed income portfolio by credit rating is shown below as at June 30, 2018 and December 31, 2017:

	As at June 30, 2018		As at December 31, 2017	
	Fair value	%	Fair value	%
AAA	117,302	41%	125,595	43%
AA	50,464	17%	50,040	17%
A	78,375	27%	81,816	28%
BBB	31,760	11%	28,156	10%
BB	2,758	1%	1,420	1%
B and lower	4,467	2%	1,925	1%
Unrated	3,307	1%	1,353	—%
<b>Total</b>	<b>288,433</b>	<b>100%</b>	<b>290,305</b>	<b>100%</b>

**Preferred share portfolio**

A breakdown of the preferred shares portfolio by credit rating is shown below as at June 30, 2018 and December 31, 2017:

	As at June 30, 2018		As at December 31, 2017	
	Fair value	%	Fair value	%
P2	35,594	81%	36,335	85%
P3	8,247	19%	6,419	15%
<b>Total</b>	<b>43,841</b>	<b>100%</b>	<b>42,754</b>	<b>100%</b>

**12 Intangible assets**

A reconciliation of the movement in Intangible Assets is shown below, as at June 30, 2018 and December 31, 2017:

	Opening cost	Additions	Disposals	End of period cost	Accumulated amortization	Net
<b>Software</b>						
June 30, 2018	33,210	3,274	—	36,484	27,542	8,942
December 31, 2017	28,712	4,498	—	33,210	25,573	7,637
<b>Goodwill</b>						
June 30, 2018	400	—	—	400	—	400
December 31, 2017	400	—	—	400	—	400
<b>Total intangible assets</b>						
June 30, 2018	33,610	3,274	—	36,884	27,542	9,342
December 31, 2017	29,112	4,498	—	33,610	25,573	8,037

**ECHELON FINANCIAL HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements** (continued)  
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**13 Income taxes**

The income tax is as follows for the period ended June 30, 2018 and June 30, 2017:

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Current	42	1,150	(9)	2,626
Deferred	1,171	(62)	533	128
	1,213	1,088	524	2,754

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 company's effective tax rate in 2018 reflects the recognition of a deferred tax asset from the utilization of capital losses through the transfer of information technology assets. The capital losses arose from the sale of the company's European and U.S. subsidiaries.

The difference is broken down as follows:

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Income tax expense calculated at statutory rates	27.0 %	27.0 %	27.0 %	27.0 %
Increase (decrease) in income tax rates resulting from:				
Non-taxable dividend income	(2.6)%	(2.5)%	(2.6)%	(1.5)%
Non-deductible expenses	1.5 %	(0.5)%	0.7 %	0.1 %
Tax benefit of losses not previously recognized	—	1.5 %	(21.1)	(4.9)%
Tax benefit of losses recognized	— %	—	— %	—
Statutory rate differences	(2.4)%	0.3 %	(1.6)%	0.1 %
Non-taxable portion of capital gains	(0.3)	—	0.5 %	—
Other	0.6 %	(0.4)%	2.4 %	(0.2)%
Effective income tax rate	23.8 %	25.4 %	5.3 %	20.6 %

**ECHELON FINANCIAL HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements** (continued)  
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**14 Operating Costs by nature**

The table below presents operating costs by major category for the period ended June 30, 2018 and June 30, 2017:

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Salaries and benefits	3,988	4,443	9,306	8,519
Systems costs	2,361	2,327	4,327	4,451
Professional fees	680	639	1,512	1,455
Occupancy	503	437	999	826
Travel costs	334	262	566	491
Severance	—	89	288	89
Other expenses	362	121	603	(123)
	8,228	8,318	17,601	15,708

**15 Operating lease commitments**

The Company is committed under lease agreements for office and property operating leases with minimum lease payments of \$12,131 as at June 30, 2018:

Lease commitments	
2018	1,156
2019	2,028
2020	1,751
2021	1,768
2022	1,733
<b>2023 and thereafter</b>	3,695
	12,131

**16 Accumulated other comprehensive income**

A breakdown of the accumulated other comprehensive income is shown below as at June 30, 2018 and December 31, 2017:

	As at June 30, 2018	As at December 31, 2017
Gross unrealized losses	(3,497)	(3,966)
Foreign currency translation adjustments	499	499
Tax impact	585	634
Ending balance	(2,413)	(2,833)

**ECHELON FINANCIAL HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements** (continued)  
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**17 Earnings per share**

The table below presents earnings per share as at Jun 30, 2018, and June 30, 2017:

	3 months ended June 30		6 months ended June 30	
<b>Earnings Per Share on Continued Operations</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Basic earnings per share on continued operations:				
Net income available to shareholders	4,020	3,142	9,871	10,597
Average number of common shares	11,923	11,829	11,907	11,794
<b>Basic earnings per share on continued operations</b>	<b>\$0.34</b>	<b>\$0.27</b>	<b>\$0.83</b>	<b>\$0.90</b>
Diluted earnings per share:				
Average number of common shares	11,923	11,829	11,907	11,794
Average number of dilutive common shares under employee stock compensation plan	309	201	294	219
Average number of diluted common shares	12,232	12,030	12,201	12,013
<b>Diluted earnings per share on continued operations</b>	<b>\$0.33</b>	<b>\$0.26</b>	<b>\$0.81</b>	<b>\$0.88</b>
	3 months ended June 30		6 months ended June 30	
<b>Earnings Per Share on Discontinued Operations</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Basic (loss) per share on discontinued operations:				
Net (loss) available to shareholders	—	—	—	(7,268)
Average number of common shares	11,923	11,829	11,907	11,794
<b>Basic (loss) per share on discontinued operations</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$(0.62)</b>
Diluted earnings per share:				
Average number of common shares	11,923	11,829	11,907	11,794
Average number of dilutive common shares under employee stock compensation plan	309	201	294	219
Average number of diluted common shares	12,232	12,030	12,201	12,013
<b>Diluted (loss) per share on discontinued operations</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$(0.62)</b>
	3 months ended June 30		6 months ended June 30	
<b>Total Earnings Per Share</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Basic earnings per share:				
Net income available to shareholders	4,020	3,142	9,871	3,329
Average number of common shares	11,923	11,829	11,907	11,794
<b>Basic earnings per share</b>	<b>\$0.34</b>	<b>\$0.27</b>	<b>\$0.83</b>	<b>\$0.28</b>
Diluted earnings per share:				
Average number of common shares	11,923	11,829	11,907	11,794
Average number of dilutive common shares under employee stock compensation plan	309	201	294	219
Average number of diluted common shares	12,232	12,030	12,201	12,013
<b>Diluted earnings per share</b>	<b>\$0.33</b>	<b>\$0.26</b>	<b>\$0.81</b>	<b>\$0.28</b>

**ECHELON FINANCIAL HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements** (continued)  
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**18 Discontinued operations**

On August 4, 2016, Echelon entered into a definitive stock purchase agreement to sell its European insurance subsidiary, subject to regulatory approval. On February 28, 2017, regulatory approval was received from the Danish Financial Supervisory Authority, which completed the necessary approvals required for the sale. The Company completed the sale on March 7, 2017, and retains no residual insurance risk or other financial risk, other than credit risk associated with the loan receivable from the sale. The loan was repaid on June 29, 2018.

The table below presents results of discontinued operations for the period ended June 30, 2018 and June 30, 2017:

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Revenue				
Gross written and assumed premiums	—	—	—	15,896
Net written premium	—	—	—	12,784
Decrease in provision for unearned premium	—	—	—	6,173
Net earned premiums	—	—	—	18,957
Investment (loss)	—	—	—	(10,562)
Total revenue	—	—	—	8,395
Expenses				
Net incurred claims	—	—	—	10,392
Net acquisition costs	—	—	—	6,254
Operating costs	—	—	—	1,067
Total expenses	—	—	—	17,713
(Loss) before income taxes	—	—	—	(9,318)
Income tax (recovery)	—	—	—	(2,050)
Net (loss) on discontinued operations	—	—	—	(7,268)
Other comprehensive income on discontinued operations	—	—	—	7,268
Comprehensive income on discontinued operations	—	—	—	—

**ECHELON FINANCIAL HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements** (continued)  
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**19 Non-controlling interest**

The Company has non-controlling interests attributable to the subsidiary of ICPEI. Please refer to Note 1. The following tables summarize the comprehensive income attributable to the non-controlling shareholders:

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Revenue				
Gross written and assumed premiums	2,606	2,459	4,296	4,100
Net earned premiums	1,874	1,766	3,667	3,396
Investment income	39	73	97	204
Total revenue	1,913	1,839	3,764	3,600
Expenses				
Net incurred claims	1,219	1,131	2,637	2,249
Net acquisition costs	474	411	935	839
Operating costs	303	229	547	435
Total expenses	1,996	1,771	4,119	3,523
(Loss) income before income taxes	(83)	68	(355)	77
Income tax (recovery)	(27)	17	(115)	15
Net (loss) income attributable to NCI	(56)	51	(240)	62
Other comprehensive (loss) income attributable to NCI	14	(41)	4	(24)
Comprehensive (loss) income attributable to NCI	(42)	10	(236)	38

The following tables summarize the net assets of the non-controlling shareholders as at June 30, 2018 and December 31, 2017:

	June 30, 2018	December 31, 2017
Assets		
Cash and investments	9,214	9,430
Other assets	5,656	5,018
Total assets	14,870	14,448
Liabilities		
Unearned premium	4,266	4,048
Unpaid claims	6,493	6,062
Other liabilities	519	508
Total liabilities	11,278	10,618
Equity		
Share capital	—	—
AOCI	(107)	(109)
Retained earnings	3,699	3,939
Total equity	3,592	3,830
Total liabilities and equity	14,870	14,448

**ECHELON FINANCIAL HOLDINGS INC.**  
**Notes to the Consolidated Financial Statements** (continued)  
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The prior year equity balance in the previous table excludes discontinued operations, and will therefore differ from the non-controlling interest amount disclosed on the balance sheet of these financial statements.

	As at June 30, 2018	As at December 31, 2017
Cash flow from operating activities	(137)	70
Cash flow from investing activities	107	(720)
Net (decrease) Increase in cash and short-term deposits	(30)	(650)

**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 non-standard automobile insurance and insurance for motorcycles, antique and classic vehicles, trailers, motor-homes, recreational vehicles and personal property.

Through its Commercial Lines, the Company designs and underwrites specialized insurance programs, such as commercial property, commercial automobile, long-haul trucking, surety, liability, creditor insurance, and extended warranty.

The European operations are discontinued. Please refer to note 18.

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)  
(Unaudited, in thousands of Canadian dollars, except per share amounts)

The following tables summarize the net income before interest and income taxes by Personal and Commercial Lines for the period ended June 30, 2018 and June 30, 2017:

	3 months ended June 30		6 months ended June 30	
	2018	2017	2018	2017
Revenue				
Net earned premiums				
– Personal Lines	48,844	39,317	94,664	76,311
– Commercial Lines	26,436	14,131	52,138	26,162
Total net earned premium	75,280	53,448	146,802	102,473
Net claims incurred				
– Personal Lines	33,836	25,876	63,111	48,984
– Commercial Lines	15,161	5,932	27,626	11,692
Total net claims incurred	48,997	31,808	90,737	60,676
Net expenses				
– Personal Lines	13,367	12,091	27,933	24,087
– Commercial Lines	10,267	6,080	22,257	11,351
Total	23,634	18,171	50,190	35,438
Corporate Expenses	2,285	1,992	4,264	4,166
Total net expenses	25,919	20,163	54,454	39,604
(Loss) income before income taxes				
– Personal Lines	1,641	1,350	3,620	3,240
– Commercial Lines	1,008	2,119	2,255	3,119
Total	2,649	3,469	5,875	6,359
Corporate and other	(2,285)	(1,992)	(4,264)	(4,166)
Underwriting income	364	1,477	1,611	2,193
Impact of change in net claims discount rate	2,039	—	4,114	—
Severance expense	15	(89)	(288)	(89)
Investment income	2,759	2,977	4,718	11,464
Total income before interest expense and income taxes	5,177	4,365	10,155	13,568