Unaudited Condensed Consolidated Interim Financial Statements of

Echelon Financial Holdings Inc.

For nine months ended September 30, 2017 and 2016

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

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

	Note	September 30, 2017	December 31, 2016
Assets			
Cash and short–term deposits	6	43,138	50,588
Accounts receivable		77,028	46,705
Loan receivable	7	18,185	—
Investments	6	357,659	336,535
Due from insurance companies		826	1,587
Deferred policy acquisition costs		40,142	30,689
Income taxes recoverable		—	867
Prepaid expenses and other assets		2,769	2,270
Reinsurers' share – unearned premiums		12,039	8,975
– provision for unpaid claims	10	29,896	27,023
Property and equipment		872	881
Intangible assets	12	8,517	8,197
Deferred income taxes		5,963	5,860
Assets of the disposal group held for sale	3	—	280,042
Total assets		597,034	800,219
Liabilities			
Income taxes payable		804	—
Derivative financial instruments	8	57	268
Accounts payable and accrued liabilities		19,732	17,332
Payable to insurance companies		2,706	450
Unearned premiums		162,330	120,184
Unearned commission		1,850	2,288
Provision for unpaid claims	10	261,667	255,129
Liabilities of the disposal group held for sale	3	—	263,194
Total liabilities		449,146	658,845
Equity			
Share capital		71,342	70,227
Contributed surplus		227	322
Retained earnings		76,440	71,935
Accumulated other comprehensive income	16	(3,807)	(5,070)
Equity attributed to shareholders of the Company		144,202	137,414
Non-controlling interest	19	3,686	3,960
Total equity		147,888	141,374
Total liabilities and equity		597,034	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 September 30		9 months ended September 30	
	Note	2017	2016	2017	2016
Revenue					
Gross written and assumed premiums		78,047	58,171	217,668	168,083
Less: Premiums ceded to reinsurers		(5,536)	(5,299)	(16,096)	(12,958)
Net written and assumed premiums		72,511	52,872	201,572	155,125
(Increase) in gross unearned premiums		(13,658)	(7,050)	(42,146)	(20,334)
Increase in unearned premiums, reinsurers' share		1,164	630	3,064	256
Change in provision for unearned premiums		(12,494)	(6,420)	(39,082)	(20,078)
Net earned premiums		60,017	46,452	162,490	135,047
Investment income	6	2,416	4,487	13,880	13,348
Total revenue		62,433	50,939	176,370	148,395
Expenses					
Gross claims incurred		46,945	26,886	111,247	88,547
Less: claims recoveries from reinsurers		(3,632)	1,687	(7,258)	(3,429)
Net incurred claims		43,313	28,573	103,989	85,118
Gross acquisition costs		14,267	12,310	41,340	35,068
Less: acquisition cost recoveries from reinsurers		(1,431)	(1,495)	(4,519)	(4,203)
Net acquisition costs		12,836	10,815	36,821	30,865
Operating costs	14	7,382	8,477	23,090	25,530
Total expenses		63,531	47,865	163,900	141,513
(Loss) income before taxes and discount rate impact on claims		(1,098)	3,074	12,470	6,882
Impact of change in discount rate on claims(1)		2,034	(1,452)	2,034	(1,452)
Income before interest expense and income taxes		936	1,622	14,504	5,430
Interest expense	9	—	57	155	154
Income tax expense	13	126	163	2,880	759
Net income on continued operations		810	1,402	11,469	4,517
Net (loss) on discontinued operations	18	—	(2,232)	(7,268)	(27,850)
Net income (loss)		810	(830)	4,201	(23,333)
Attributed to:					
Shareholders of the Company - continued operations		858	1,235	11,455	4,008
Shareholders of the Company - discontinued operations		—	(2,201)	(7,268)	(27,729)
Non-controlling interest - continued operations	19	(48)	167	14	509
Non-controlling interest - discontinued operations		—	(31)	—	(121)
Net income (loss)		810	(830)	4,201	(23,333)
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income					
Available-for-sale investments:					
Change in net unrealized (losses)/gains		(2,814)	687	(3,204)	2,457
Reclassification of net realized (gains) losses to net income		93	(873)	147	(5,602)
Cumulative translation gain (loss)		—	(1)	—	(395)
Foreign exchange forward	6	—	(215)	(4,314)	4,099
Tax impact		728	51	1,396	74
Other comprehensive (loss) income on continued operations		(1,993)	(351)	(5,975)	633
Other comprehensive income (loss) income on discontinued operations		—	(700)	7,268	(3,826)
Other comprehensive (loss) income		(1,993)	(1,051)	1,293	(3,193)

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

		3 months ended September 30		9 months ended September 30	
	Note	**2017**	**2016**	**2017**	**2016**
Attributed to:					
Shareholders of the Company - continued operations		(1,948)	(347)	(5,906)	637
Shareholders of the Company - discontinued operations		—	(691)	7,268	(3,777)
Non-controlling interest - continued operation	19	(45)	(4)	(69)	(4)
Non-controlling interest - discontinued operation		—	(9)	—	(49)
Other comprehensive (loss) income		(1,993)	(1,051)	1,293	(3,193)
Total comprehensive (loss) income		(1,183)	(1,881)	5,494	(26,526)
Attributed to:					
Shareholders of the Company - continued operations		(1,090)	888	5,549	4,645
Shareholders of the Company - discontinued operations		—	(2,892)	—	(31,506)
Non-controlling interest - continued operation	19	(93)	163	(55)	505
Non-controlling interest - discontinued operation		—	(40)	—	(170)
Total comprehensive (loss) income		(1,183)	(1,881)	5,494	(26,526)
Earnings per share attributable to shareholders of the Company	17				
Earnings per share continued operations - basic		$0.07	$0.10	$0.97	$0.34
(Loss) per share discontinued operations - basic		$0.00	$(0.19)	$(0.62)	$(2.36)
Earnings (loss) per share - basic		$0.07	$(0.08)	$0.35	$(2.02)
Earnings per share continued operations - diluted		$0.07	$0.10	$0.95	$0.33
(Loss) per share discontinued operations - diluted		$0.00	$(0.19)	$(0.62)	$(2.36)
Earnings (loss) per share - diluted		$0.07	$(0.08)	$0.35	$(2.02)
Net income (loss)		810	(830)	4,201	(23,333)

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	—	—	—	4,187	4,187	14	4,201
Other comprehensive income	—	—	1,362	—	1,362	(69)	1,293
Total comprehensive income	—	—	1,362	4,187	5,549	(55)	5,494
Transfer of currency translation adjustment	—	—	(99)	318	219	(219)	—
Common shares issued on stock options exercised	1,115	(116)	—		999	—	999
Stock compensation expense	—	21	—	—	21	—	21
Balance at September 30, 2017	71,342	227	(3,807)	76,440	144,202	3,686	147,888

	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)	—	—	—	(23,721)	(23,721)	388	(23,333)
Other comprehensive income (loss)	—	—	(3,140)	—	(3,140)	(53)	(3,193)
Total comprehensive income (loss)	—	—	(3,140)	(23,721)	(26,861)	335	(26,526)
Common shares repurchased	(292)	—	—	(384)	(676)	—	(676)
Dividends paid	—	—	—	(2,814)	(2,814)	—	(2,814)
Investment in subsidiary - Qudos	—	—	—	155	155	(155)	—
Common shares issued on stock options exercised	653	—	—	—	653	—	653
Stock options expense	—	(55)	—	—	(55)	—	(55)
Balance at September 30, 2016	70,014	381	2,920	78,022	151,337	4,190	155,527

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)

	9 months ended	
	September 30, 2017	**September 30, 2016**
Cash provided by (used in):		
Operating activities		
Net income from continued operations	11,469	4,517
Net loss from discontinued operations	(7,268)	(27,850)
Adjusted for:		
Reinsurers' share of unearned premiums	(3,064)	(256)
Reinsurers' share of unpaid claims	(2,873)	1,277
Provision for unpaid claims	6,538	(788)
Unearned premiums	42,146	20,333
Deferred income taxes	(103)	(139)
Unearned commissions	(438)	280
Deferred policy acquisition costs	(9,453)	(5,211)
Amortization on property plant equipment and intangible assets	4,134	2,913
Amortization of premiums on bonds	1,190	1,438
Fair value change on FVTPL investments	(2,739)	(3,236)
Options expense	21	(55)
Currency translation	—	(395)
Foreign exchange forward	(4,314)	4,099
Prepaid expenses & other assets	(499)	158
	30,546	20,418
Cash flow from changes in		
Accounts receivable	(30,323)	(12,335)
Loan receivable	(18,185)	—
Net realized losses (gains)	1,071	(569)
Income taxes payable	3,070	3,061
Due to insurance companies	3,017	(175)
Other liabilities	2,190	4,563
Cash (used) provided by continuing operating activities	2,855	19,480
Cash (used) provided by discontinued operating activities	(137,935)	7,242
Cash (outflow) inflow from operating activities	(135,080)	26,722
Financing activities		
Proceeds from issuing of common shares for stock options	999	653
Common share dividends	—	(2,814)
Share repurchases	—	(676)
Cash provided (used) by continuing financing activities	999	(2,837)
Cash inflow (outflow) from financing activities	999	(2,837)
Investing activities		
Purchases of property, equipment and intangible assets	(4,445)	(4,700)
Purchases of investments	(232,320)	(248,020)
Sale/maturity of investments	208,613	315,673
Proceeds received from the sale of subsidiary	5,117	—
Cash (used) provided by continuing investing activities	(23,035)	62,953
Cash provided (used) by discontinued investing activities	62,619	(15,353)
Cash inflow from investing activities	39,584	47,600

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

(Decrease) increase in cash and short-term deposits	(94,497)	71,485
Cash and short-term deposits, beginning of period	137,635	23,373
Cash and short-term deposits, end of period	43,138	94,858
Supplementary information		
Operating activities		
Income taxes paid (recovered)	139	(1,712)

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

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 November 2, 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 probable 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 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 has evaluated the impact of IFRS 16 on its Consolidated Financial Statements and based on its workings, 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 reinsurers and income taxes. As more information becomes known, these estimates and judgements could change and impact future results.

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

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.

6 Investments

The following table provides a breakdown of the investment portfolio as at September 30, 2017, and December 31, 2016.

	Fair values	
Available-for-sale	**As at September 30, 2017**	**As at December 31, 2016**
Fixed income		
Canadian		
Federal	29,850	67,826
Provincial	29,998	44,147
Municipal	13	519
Corporate	114,497	136,984
	174,358	249,476
Fixed income lent through securities lending program		
Federal	76,902	15,390
Provincial	14,679	998
Municipal	1,326	845
Corporate	12,010	1,885
	104,917	19,118
Total fixed income	279,275	268,594
Commercial mortgage pooled funds	—	17,423
Money market pooled funds	1,224	200
Short-term fixed income and mortgage pooled funds	19,227	17,229
Specialty pooled fund	7,356	—
Total pooled funds	27,807	34,852
Common shares		
Canadian	754	312
Foreign	7,914	0
Total common shares	8,668	312
Total available-for-sale	315,750	303,758
Fair value through profit or loss		
Preferred shares	41,909	32,678
Preferred shares lent through securities lending program	—	99
Total preferred shares	41,909	32,777
Total investments	357,659	336,535
Cash and short-term deposits	43,138	50,588
Total investments including cash and short-term deposits	400,797	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 September 30, 2017, the Company had collateral of $115,124

(December 31, 2016 – $20,580) for the loaned securities or approximately 107% 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, 2016. 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.

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined above, as at September 30, 2017, and December 31, 2016:

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

September 30, 2017				
	Level 1	**Level 2**	**Level 3**	**Total**
Fixed income	—	279,275	—	279,275
Money market pooled funds	—	1,224	—	1,224
Short-term fixed income and mortgage pooled funds	—	19,227	—	19,227
Specialty pooled fund	9	104	7,243	7,356
Equities	8,668	—	—	8,668
Preferred Shares	41,909	—	—	41,909
	50,586	299,830	7,243	357,659

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

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 during the nine months ended September 30, 2017 or 2016.

A new specialty pooled fund was added in the portfolio during the three months ended September 30, 2017 which has level three assets.The fund is valued based on net asset per unit. Total unrealized loss on the fund during the quarter was $117.

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 September 30, 2017 was $27,807 (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.

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

No impairments on AFS investments were recognized for the period ended September 30, 2017 and 2016. A gross unrealized loss of $3,978 on AFS investments at September 30, 2017 (December 31, 2016 – $1,691) is recorded, net of tax, in the amount of $2,914 (December 31, 2016 – $1,231) in Accumulated Other Comprehensive Income.

Investment income

The table below provides additional details on net investment income:

	3 months ended September 30		9 months ended September 30	
	2017	**2016**	**2017**	**2016**
Interest income	2,589	2,485	6,935	8,347
Dividend income	498	378	1,265	1,397
Net realized (losses) gains	(113)	847	(1,071)	569
Fair value change on FVTPL investments	(212)	965	2,739	3,236
Realized and unrealized foreign exchange gains	(110)	21	4,617	480
Investment expenses	(236)	(209)	(605)	(681)
Investment income	2,416	4,487	13,880	13,348

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 (DKK) payable on December 31, 2017.

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 has received all interest payments due to date.

8 Derivative financial instruments

The Company has entered into a number of derivative contracts with a major Canadian bank that have varying contract dates to hedge both interest payments received and principal repayments from the loan receivable from New Nordic Odin Guernsey Limited. The total notional value of the derivative contracts is $18.6 million. The fair value for these derivative contracts is a liability of $0.1 million.

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 year ended September 30, 2017, the Company has expensed $0.2 million on the income statement, below income before interest expense and income tax, related to the maintenance of the credit facility (September 30, 2016 – $0.2 million).

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

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 investment portfolio has experienced an increase in yields compared to December 31, 2016. The Company discounts its best estimate as follows for each entity, which is for all lines of business within reporting entity:

Entity	September 30, 2017	December 31, 2016
Echelon Insurance	2.55%	1.90%
ICPEI	2.60%	1.75%

The Company recorded a $23,465 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (September 30, 2016 – $13,801).

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 $17,922 as at September 30, 2017 (December 31, 2016 – $21,388).

Claims development

Provision for unpaid claims analysis	September 30, 2017	September 30, 2016
Unpaid claims, beginning of year, net	228,106	231,626
Favourable prior year claims development	(23,465)	(13,801)
Provision for claims occurring in current period	125,420	100,371
Paid on claims occurring during		
Current year	(47,521)	(38,603)
Prior year	(50,769)	(47,478)
Unpaid claims, end of period, net	231,771	232,115
Reinsurers' share	29,896	27,945
Gross unpaid claims	261,667	260,060

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.

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

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.

Following the sale of its European operations completed in the first quarter of 2017 (see note 18) the Company's Insurance risk is lower compared to the year end.

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 September 30, 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 **As at September 30, 2017**	**Fair value of fixed income**	**Hypothetical change on fair value**	**Effect on OCI net of tax**
200 basis point rise	263,668	(6)%	(11,393)
100 basis point rise	271,471	(3)%	(5,697)
No change	279,275	—	—
100 basis point decline	287,078	3%	5,696
200 basis point decline	294,881	6%	11,391

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

Change in interest rates As at December 31, 2016	Fair value of fixed income	Hypothetical change on fair value	Effect on OCI net of tax
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 September 30, 2017, and December 31, 2016, are as follows:

September 30, 2017	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	17,374	104,452	94,217	63,232	279,275
Percentage of total	6%	37%	34%	23%	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 September 30, 2017, and December 31, 2016:

September 30, 2017	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Actuarial liabilities (undiscounted)	90,667	91,764	45,715	25,004	253,150
Less: Reinsurance recoverable (undiscounted)	10,192	9,875	4,027	4,968	29,062
Net actuarial liabilities	80,475	81,889	41,688	20,036	224,088

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.

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

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 nine months ended September 30, 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.

Change in equity holdings	**Effect on net income (loss) net of tax**		**Effect on OCI net of tax**	
	September 30, 2017	**December 31, 2016**	**September 30, 2017**	**December 31, 2016**
10% rise	3,059	2,393	633	23
10% decline	(3,059)	(2,393)	(633)	(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. 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.

The following table sets forth the Company's fixed income securities portfolio by credit quality as at September 30, 2017, and December 31, 2016.

Fixed income portfolio

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

	As at September 30, 2017		**As at December 31, 2016**	
	Fair value	**%**	**Fair value**	**%**
AAA	130,691	47%	107,267	40%
AA	46,007	16%	52,728	20%
A	71,117	26%	67,360	25%
BBB	31,460	11%	41,239	15%
Total	279,275	100%	268,594	100%

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

Preferred share portfolio

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

	As at September 30, 2017		As at December 31, 2016	
	Fair value	%	Fair value	%
P2	35,684	85%	29,600	90%
P3	6,225	15%	3,177	10%
Total	41,909	100%	32,777	100%

12 Intangible assets

	Opening cost	Purchases	Sales	End of period cost	Accumulated amortization	Net
Software						
September 30, 2017	28,712	3,863	—	32,575	24,458	8,117
December 31, 2016	23,014	5,698	—	28,712	20,915	7,797
Goodwill						
September 30, 2017	400	—	—	400	—	400
December 31, 2016	400	—	—	400	—	400
Total intangible assets						
September 30, 2017	29,112	3,863	—	32,975	24,458	8,517
December 31, 2016	23,414	5,698	—	29,112	20,915	8,197

13 Income taxes

The income tax is as follows:

	3 months ended September 30		9 months ended September 30	
	2017	2016	2017	2016
Current	338	31	2,964	898
Deferred	(212)	132	(84)	(139)
	126	163	2,880	759

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.

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

The difference is broken down as follows:

	3 months ended September 30		9 months ended September 30	
	2017	**2016**	**2017**	**2016**
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	(14.4)%	(30.1)%	(2.4)%	(7.0)%
Non-taxable (income) loss	— %	22.0 %	— %	(9.9)%
Non-deductible expenses	2.6 %	1.6 %	0.2 %	5.9 %
Tax benefit of losses not previously recognized	— %	4.4 %	(4.5)%	(11.8)%
Tax benefit of losses recognized	— %	(39.8)%	— %	— %
Statutory rate differences	(0.3)%	0.3 %	— %	1.0 %
Non-taxable portion of capital gains	— %	(35.4)%	— %	(11.8)%
Other	(1.4)%	60.5 %	(0.2)%	21.0 %
Effective income tax rate	13.5 %	10.5 %	20.1 %	14.4 %

14 Operating Costs by nature

The table below presents operating costs by major category:

	3 months ended September 30		9 months ended September 30	
	2017	**2016**	**2017**	**2016**
Salaries and benefits	3,529	3,544	12,048	11,371
Systems costs	1,941	1,839	6,392	5,529
Professional fees	768	756	2,223	1,362
Occupancy	462	385	1,287	959
Severance	86	984	175	3,497
Other expenses	596	969	965	2,812
	7,382	8,477	23,090	25,530

15 Lease commitments

The Company is committed under lease agreements for office equipment with minimum lease payments of $11,210 as follows:

Lease commitments	
2017	441
2018	1,764
2019	1,677
2020	1,400
2021	1,417
2022 and thereafter	4,511
	11,210

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

16 Accumulated other comprehensive income

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

	As at September 30, 2017	As at December 31, 2016
Gross unrealized losses	(5,121)	(459)
Foreign currency translation adjustments	499	(10,776)
Foreign exchange forward	—	4,314
Tax impact	815	1,851
Ending balance	(3,807)	(5,070)

17 Earnings per share

	3 months ended September 30		9 months ended September 30	
	2017	2016	2017	2016
Basic earnings per share on continued operations:				
Net income available to shareholders	858	1,235	11,455	4,008
Average number of common shares	11,857	11,734	11,811	11,732
Basic earnings per share on continued operations	$0.07	$0.10	$0.97	$0.34
Diluted earnings per share:				
Average number of common shares	11,857	11,734	11,811	11,732
Average number of dilutive common shares under employee stock compensation plan	201	255	219	263
Average number of diluted common shares	12,058	11,989	12,030	11,995
Diluted earnings per share on continued operations	$0.07	$0.10	$0.95	$0.33

	3 months ended September 30		9 months ended September 30	
	2017	2016	2017	2016
Basic earnings per share on discontinued operations:				
Net income available to shareholders	—	(2,201)	(7,268)	(27,729)
Average number of common shares	11,857	11,734	11,811	11,732
Basic earnings per share on discontinued operations	$0.00	$(0.19)	$(0.62)	$(2.36)
Diluted earnings per share:				
Average number of common shares	11,857	11,734	11,811	11,732
Average number of dilutive common shares under employee stock compensation plan	201	255	219	263
Average number of diluted common shares	12,058	11,989	12,030	11,995
Diluted earnings per share on discontinued operations	$0.00	$(0.19)	$(0.62)	$(2.36)

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

	3 months ended September 30		9 months ended September 30	
	2017	**2016**	**2017**	**2016**
Basic earnings per share:				
Net income available to shareholders	858	(966)	4,187	(23,721)
Average number of common shares	11,857	11,734	11,811	11,732
Basic earnings (loss) per share	$0.07	$(0.08)	$0.35	$(2.02)
Diluted earnings per share:				
Average number of common shares	11,857	11,734	11,811	11,732
Average number of dilutive common shares under employee stock compensation plan	201	255	219	263
Average number of diluted common shares	12,058	11,989	12,030	11,995
Diluted earnings (loss) per share	$0.07	$(0.08)	$0.35	$(2.02)

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

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 has retained no residual insurance risk or other financial risk other than credit risk associated with the loan receivable from the sale.

	3 months ended September 30		9 months ended September 30	
	2017	**2016**	**2017**	**2016**
Revenue				
Gross written and assumed premiums	—	71,520	15,896	204,984
Net written premium	—	36,730	12,784	99,844
Decrease in provision for unearned premium	—	(3,438)	6,173	13,776
Net earned premiums	—	33,292	18,957	113,620
Investment (loss) income	—	577	(10,562)	2,171
Total revenue	—	33,869	8,395	115,791
Expenses				
Net incurred claims	—	22,922	10,392	79,698
Net acquisition costs	—	11,964	6,254	38,585
Operating costs	—	1,577	1,067	5,806
Total expenses	—	36,463	17,713	124,089
(Loss) before income taxes	—	(2,594)	(9,318)	(8,298)
Income tax (recovery)	—	(362)	(2,050)	(2,448)
Net (loss) on discontinued operations	—	(2,232)	(7,268)	(5,850)
Impairment of the net assets of disposal group held for sale	—	—	—	(22,000)
Net (loss) income on discontinued operations	—	(2,232)	(7,268)	(27,850)
Other comprehensive income (loss) on discontinued operations	—	(700)	7,268	(3,826)
Comprehensive (loss) on discontinued operations	—	(2,932)	—	(31,676)

(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. The following tables summarize the comprehensive income attributable to the non-controlling shareholders for year ending September 30:

	3 months ended September 30		9 months ended September 30	
	2017	**2016**	**2017**	**2016**
Revenue				
Gross written and assumed premiums	2,215	2,041	6,315	5,728
Net earned premiums	1,821	1,708	5,217	4,885
Investment income	60	106	264	248
Total revenue	1,881	1,814	5,481	5,133
Expenses				
Net incurred claims	1,193	895	3,442	2,506
Net acquisition costs	484	386	1,323	1,117
Operating costs	277	290	713	796
Total expenses	1,954	1,571	5,478	4,419
Income (loss) before income taxes	(73)	243	3	714
Income tax	(25)	76	(11)	205
Net (loss) income attributable to NCI	(48)	167	14	509
Other comprehensive (loss) income attributable to NCI	(45)	(4)	(69)	(4)
Comprehensive (loss) income attributable to NCI	(93)	163	(55)	505

The following tables are the net assets of the non-controlling shareholders as at September 30, 2017 and December 31, 2016:

	As at September 30, 2017	As at December 31, 2016
Assets		
Cash and investments	9,554	9,421
Other assets	5,129	4,376
Total assets	14,683	13,797
Liabilities		
Unearned premium	4,274	3,699
Unpaid claims	6,198	5,709
Other liabilities	525	648
Total liabilities	10,997	10,056
Equity		
Share capital	—	—
AOCI	(113)	(44)
Retained earnings	3,799	3,785
Total equity	3,686	3,741
Total liabilities and equity	14,683	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.

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

	As at September 30, 2017	As at December 31, 2016
Cash flow from operating activities	207	1,138
Cash flow from investing activities	(668)	(232)
Cash flow from financing activities	—	—
Net increase (decrease) in cash and short-term deposits	(461)	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 non-standard automobile insurance and insurance for motorcycles, antique and classic vehicles, trailers, motorhomes, 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.

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

	3 months ended September 30		9 months ended September 30	
	2017	**2016**	**2017**	**2016**
Revenue				
Net earned premiums				
– Personal Lines	43,717	36,357	120,028	104,331
– Commercial Lines	16,300	10,095	42,462	30,716
Total net earned premium	60,017	46,452	162,490	135,047
Net claims incurred				
– Personal Lines	32,199	24,514	81,183	70,204
– Commercial Lines	11,114	4,059	22,806	14,914
Total net claims incurred	43,313	28,573	103,989	85,118
Net expenses				
– Personal Lines	11,679	11,664	35,766	33,774
– Commercial Lines	6,723	4,741	18,074	13,667
Total	18,402	16,405	53,840	47,441
Corporate Expenses	1,730	1,903	5,896	5,457
Total net expenses	20,132	18,308	59,736	52,898
(Loss) income before income taxes				
– Personal Lines	(161)	179	3,079	353
– Commercial Lines	(1,537)	1,295	1,582	2,135
Total	(1,698)	1,474	4,661	2,488
Corporate and other	(1,730)	(1,903)	(5,896)	(5,457)
Underwriting (loss)	(3,428)	(429)	(1,235)	(2,969)
Impact of change in net claims discount rate	2,034	(1,452)	2,034	(1,452)
Severance expense	(86)	(984)	(175)	(3,497)
Investment income	2,416	4,487	13,880	13,348
Total income before interest expense and income taxes	936	1,622	14,504	5,430