Unaudited Condensed Consolidated Interim Financial Statements of

Echelon Financial Holdings Inc.

For three months ended March 31, 2019 and 2018

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

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Balance Sheet
(unaudited, in thousands of Canadian dollars)

	Note	March 31, 2019	December 31, 2018
Assets			
Cash and short–term deposits	6	12,906	22,785
Accounts receivable		10,954	11,738
Investments (including securities on loan)	6	46,161	45,576
Deferred policy acquisition costs		3,827	3,995
Prepaid expenses and other assets		218	191
Reinsurers' share – unearned premiums		1,260	1,522
– provision for unpaid claims	7	4,850	4,889
Property and equipment		5	6
Right of use asset	12	133	—
Deferred income taxes		797	781
Assets of the disposal group held for sale	15	608,116	576,733
Total assets		689,227	668,216
Liabilities			
Income taxes payable		156	41
Accounts payable and accrued liabilities		11,648	11,075
Payable to insurance companies		171	1,041
Lease liability	12	141	—
Unearned premiums		15,545	16,848
Unearned commission		170	179
Provision for unpaid claims	7	23,241	24,090
Liabilities of the disposal group held for sale	15	493,689	465,433
Total liabilities		544,761	518,707
Equity			
Share capital		72,276	71,997
Contributed surplus		303	303
Retained earnings		67,139	76,244
Accumulated other comprehensive income (loss)	13	718	(2,877)
Equity attributed to shareholders of the Company		140,436	145,667
Non-controlling interest	16	4,030	3,842
Total equity		144,466	149,509
Total liabilities and equity		689,227	668,216

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

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

		3 months ended March 31	
	Note	**2019**	**2018**
Revenue			
Gross written and assumed premiums		6,957	6,759
Less: premiums ceded to reinsurers		(456)	(707)
Net written and assumed premiums		6,501	6,052
Increase in gross unearned premiums		1,303	1,214
(Decrease) in unearned premiums, reinsurers' share		(263)	(95)
Change in provision for unearned premiums		1,040	1,119
Net earned premiums		7,541	7,171
Investment income	6	555	425
Total revenue		8,096	7,596
Expenses			
Gross claims incurred		4,936	5,853
Less: claims recoveries from reinsurers		(385)	(88)
Net incurred claims		4,551	5,765
Gross acquisition costs		1,681	1,877
Less: acquisition recoveries from reinsurers		(18)	(33)
Net acquisition costs		1,663	1,844
Operating costs	11	1,425	1,488
Total expenses		7,639	9,097
Income (loss) before taxes and discount rate impact on claims		457	(1,501)
Impact of change in discount rate on claims(1)		(171)	93
Income (loss) before interest expense and income taxes		286	(1,408)
Income tax expense (recovery)	10	83	(311)
Net Income (loss) on continued operations		203	(1,097)
Net (loss) income on discontinued operations	15	(9,187)	6,739
Net (loss) income		(8,984)	5,642
Attributed to:			
Shareholders of the Company - continued operations		82	(913)
Shareholders of the Company - discontinued operations	15	(9,187)	6,739
Non-controlling interest - continued operations	16	121	(184)
Net (loss) income		(8,984)	5,642
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income			
Available-for-sale investments:			
Change in net unrealized gains (losses)		1,808	(200)
Reclassification of net realized (gains) losses to net income		(33)	56
Tax impact		(120)	29
Other comprehensive income (loss) on continued operations		1,655	(115)
Other comprehensive income (loss) on discontinued operations	15	2,007	(2)
Other comprehensive income (loss)		3,662	(117)

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

		3 months ended March 31	
	Note	**2019**	**2018**
Attributed to:			
Shareholders of the Company - continued operations		1,588	(105)
Shareholders of the Company - discontinued operations	15	2,007	(2)
Non-controlling interest - continued operation	16	67	(10)
Other comprehensive income (loss)		3,662	(117)
Total comprehensive (loss) income		(5,322)	5,525
Attributed to:			
Shareholders of the Company - continued operations		1,670	(1,018)
Shareholders of the Company - discontinued operations	15	(7,180)	6,737
Non-controlling interest - continued operation	16	188	(194)
Total comprehensive (loss) income		(5,322)	5,525
Earnings per share attributable to shareholders of the Company	14		
Earnings per share continued operations - basic		$0.01	$(0.08)
Earning (Loss) per share discontinued operations - basic		$(0.77)	$0.57
Earnings per share - basic		$(0.76)	$0.49
Earnings per share continued operations - diluted		$0.01	$(0.08)
Earning (Loss) per share discontinued operations - diluted		$(0.77)	$0.55
Earnings per share - diluted		$(0.76)	$0.48
Net (loss) income		(8,984)	5,642

(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 users 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 Statement 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, 2019	71,997	303	(2,877)	76,244	145,667	3,842	149,509
Net loss	—	—	—	(9,105)	(9,105)	121	(8,984)
Other comprehensive income	—	—	3,595	—	3,595	67	3,662
Total comprehensive loss	—	—	3,595	(9,105)	(5,510)	188	(5,322)
Common shares issued on stock options exercised	279	—	—	—	279	—	279
Stock options expense	—	—	—	—	—	—	—
Balance at March 31, 2019	72,276	303	718	67,139	140,436	4,030	144,466

	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	—	—	—	5,826	5,826	(184)	5,642
Other comprehensive loss	—	—	(107)	—	(107)	(10)	(117)
Total comprehensive income	—	—	(107)	5,826	5,719	(194)	5,525
Common shares issued on stock options exercised	304	(13)	—		291	—	291
Stock options expense	—	24	—	—	24	—	24
Balance at March 31, 2018	71,824	259	(2,940)	79,713	148,856	3,634	152,490

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

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

	3 months ended	
	March 31, 2019	**March 31, 2018**
Cash provided by (used in):		
Operating activities		
Net income from continued operations	203	(1,097)
Net Income (loss) from discontinued operations	(9,187)	6,739
Adjusted for:		
Reinsurers' share of unearned premiums	262	94
Reinsurers' share of unpaid claims	39	(89)
Provision for unpaid claims	(851)	986
Unearned premiums	(1,303)	(1,214)
Deferred income taxes	(16)	134
Unearned commissions	(9)	3
Deferred policy acquisition costs	168	220
Lease assets and liabilities	8	0
Amortization on property plant equipment and intangible assets	1	1
Amortization of premiums on bonds	4	17
Fair value change on FVTPL investments	(79)	41
Options expense	—	24
Prepaid expenses & other assets	(27)	(289)
	(1,803)	(72)
Cash flow from changes in		
Accounts receivable	784	(6,727)
Loan receivable	—	(298)
Net realized losses	(13)	70
Income taxes payable	(746)	(319)
Due to insurance companies	(870)	933
Other liabilities	573	(975)
Cash provided by continuing operating activities	(1,872)	(8,485)
Cash provided (used) by discontinued operating activities	734	(161)
Cash inflow (outflow) from operating activities	(1,138)	(8,646)
Financing activities		
Proceeds from issuing of common shares for stock options	279	291
Cash provided by continuing financing activities	279	291
Cash inflow from financing activities	279	291
Investing activities		
Purchases of property, equipment and intangible assets	—	(6)
Purchases of investments	(5,220)	(7,049)
Sale/maturity of investments	6,498	6,288

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

	March 31, 2019	March 31, 2018
Cash provided (used) by continuing investing activities	1,278	(767)
Cash provided by discontinued investing activities	(7,146)	(5,332)
Cash from investing activities	(5,868)	(6,099)
Increase (decrease) in cash and short-term deposits	(6,727)	(14,454)
Cash and short-term deposits, beginning of year	129,604	44,459
Cash and short-term deposits, end of year	122,877	30,005
Supplementary information		
Income taxes paid (recovered)	2,111	—

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 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").

On November 9, 2018, the Company entered into a definitive agreement to sell Echelon Insurance, its main operating subsidiary, and the unregulated warranty business of Echelon Financial Holdings Inc. ("Discontinued Canadian Operations") and is awaiting regulatory approval.

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, 2018, which have been prepared in accordance with IFRS.

These consolidated financial statements have been authorized for issue by the Board of Directors on May 14, 2019.

3 Summary of significant accounting policies

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

Adoption of IFRS 16

The company has adopted IFRS 16 from January 1, 2019 using the modified approach, and has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening balance sheet on January 1, 2019.

On adoption of IFRS 16, right-of-use assets are measured at the amount of the initial measurement of the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The Company recognized lease liabilities in relation to leases which had previously been classified as operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The incremental borrowing rate applied to the lease liabilities on January 1, 2019 was based on the prime rate plus a margin of 1.3%. The Company considered the leases as renewable and therefore did not consider short term or low value leases.

The change in accounting policy affected occupancy and printing equipment leases in the balance sheet on January 1, 2019 and the net impact on retained earnings on January 1, 2019 was a decrease of $4.

Standards, amendments and interpretations adopted or in effect

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 decided to adopt the modified approach to lease accounting. The Company has evaluated the impact of IFRS 16 on its Consolidated Financial Statements and the impact on equity is minimal. Refer to Note 12 for details on right of use asset and lease liability.

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 90% threshold. The company has deferred adoption, until the new insurance contracts standard is adopted effective January 1, 2022.

IFRS 17, Insurance Contracts

In May 2017, the IASB published IFRS 17 which is effective January 1, 2022, 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 2018 consolidated financial statements.

5 Seasonality

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

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

6 Investments

The following table provides a breakdown of the investment portfolio:

	Fair values	
Available-for-sale	**As at March 31, 2019**	**As at December 31, 2018**
Fixed income		
Canadian		
Federal	4,280	4,254
Provincial	3,036	3,047
Corporate	4,759	4,592
	12,075	11,893
Total fixed income	12,075	11,893
Corporate value pooled fund	5,085	4,998
Money market pooled funds	476	459
Short-term fixed income and mortgage pooled funds	13,339	14,610
Total pooled funds	18,900	20,067
Common shares		
Canadian	1,296	1,138
Foreign	2,128	1,481
Global Equity Pooled Fund	8,068	7,417
Total common shares	11,492	10,036
Total available-for-sale	42,467	41,996
Fair value through profit or loss		
Preferred shares	3,694	3,580
Total preferred shares	3,694	3,580
Total investments	46,161	45,576
Cash and short-term deposits	12,906	22,785
Total investments including cash and short-term deposits	59,067	68,361

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, 2018. 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.

(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 March 31, 2019 and December 31, 2018:

March 31, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed income	—	12,075	—	12,075
Corporate value pooled funds	—	5,085	—	5,085
Money market pooled funds	—	476	—	476
Short-term fixed income and mortgage pooled funds	—	13,339	—	13,339
Global equity pooled funds	—	8,068		8,068
Common Shares	3,424	—	—	3,424
Preferred Shares	3,694	—	—	3,694
	7,118	39,043	—	46,161

December 31, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed income	—	11,893	—	11,893
Corporate value pooled funds	—	4,998		4,998
Money market pooled funds	—	459	—	459
Short-term fixed income and mortgage pooled funds	—	14,610	—	14,610
Global equity pooled funds	—	7,417	—	7,417
Common Shares	2,619	—	—	2,619
Preferred Shares	3,580	—	—	3,580
	6,199	39,377	—	45,576

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 March 31, 2019 or December 31, 2018.

The fair values of cash and short-term deposits, account receivables and financial liabilities 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 sheet. These entities are not controlled by the Company. The carrying value of pooled funds and maximum exposure to loss as of March 31, 2019 was $26,968 (December 31, 2018 – $27,484). 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 Global Equity Pooled Fund. 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.

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Impaired assets and provisions for losses

A gross unrealized loss of $405 on Available for Sale (AFS) investments at March 31, 2019 (December 31, 2018 – $886) is recorded, net of tax, in the amount of $301 (December 31, 2018 – $663) in Accumulated Other Comprehensive Income.

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 year.

No impairments on AFS investments were recognized for the period ended March 31, 2019 and 2018.

Investment income

The table below provides additional details on net investment income:

	3 months ended March 31	
	2019	**2018**
Interest income	424	438
Dividend income	100	96
Net realized gains (losses)	13	(69)
Fair value change on FVTPL investments	79	(41)
Realized and unrealized foreign exchange gains	—	49
Investment expenses	(61)	(48)
Investment income	555	425

7 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 a decrease in yields compared to December 31, 2018. The Company discounts its best estimate as follows, which is for all lines of business within the reporting entity:

Entity	March 31, 2019	December 31, 2018
ICPEI	3.18%	3.67%

The Company recorded a $499 addition, as at March 31, 2019, to the net provision for unpaid claims relating to unfavourable development in prior years' estimates (March 31, 2018 – $5,758 unfavourable).

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

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

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 $1,417 as at March 31, 2019 (December 31, 2018 – $1,484).

Claims development

Provision for unpaid claims analysis	March 31, 2019	March 31, 2018
Unpaid claims, beginning of year, net	19,201	239,495
(Unfavourable) prior year claims development	(499)	(5,758)
Net claims incurred in current year	4,223	45,448
Paid on claims occurring during		
Current year	(2,493)	(13,235)
Prior year	(3,039)	(28,977)
Unpaid claims, end of year, net	18,391	236,973
Reinsurers' share	4,850	23,004
Gross unpaid claims	23,241	259,977

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 year as having a potential or identifiable material impact on the overall claims estimate.

8 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 claims frequency or severity 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.

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

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 March 31, 2019, and December 31, 2018, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

Change in interest rates **As at March 31, 2019**	**Fair value of fixed income**	**Hypothetical change on fair value**	**Effect on OCI net of tax**
200 basis point rise	29,411	(5)%	(1,090)
100 basis point rise	30,193	(3)%	(545)
No change	30,975	—	—
100 basis point decline	31,758	3 %	545
200 basis point decline	32,540	5 %	1,090

Change in interest rates **As at December 31, 2018**	**Fair value of fixed income**	**Hypothetical change on fair value**	**Effect on OCI net of tax**
200 basis point rise	30,353	(5)%	(1,120)
100 basis point rise	31,156	(3)%	(560)
No change	31,960	—	—
100 basis point decline	32,763	3 %	560
200 basis point decline	33,567	5 %	1,120

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 March 31, 2019 and December 31, 2018:

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

March 31, 2019	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Greater than 5 years**	**Total**
Bonds	165	3,855	4,650	3,405	12,075
Cash and cash equivalents	12,906	—	—	—	12,906
Accounts receivable	10,954	—	—	—	10,954
Total	24,025	3,855	4,650	3,405	35,935
Percentage of total	67%	11%	13%	9%	100%

December 31, 2018	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Greater than 5 years**	**Total**
Bonds	161	2,975	5,921	2,836	11,893
Cash and cash equivalents	22,785	—	—	—	22,785
Accounts receivable	11,738	—	—	—	11,738
Total	34,684	2,975	5,921	2,836	46,416
Percentage of total	75%	6%	13%	6%	100%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at March 31, 2019 and December 31, 2018:

March 31, 2019	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Greater than 5 years**	**Total**
Gross claim liabilities (undiscounted)	8,100	7,498	3,662	3,937	23,197
Less: Reinsurance recoverable (undiscounted)	2,006	1,789	638	349	4,782
Net actuarial liabilities	6,094	5,709	3,024	3,588	18,415

December 31, 2018	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Greater than 5 years**	**Total**
Gross claim liabilities (undiscounted)	9,038	7,725	3,878	3,638	24,279
Less: Reinsurance recoverable (undiscounted)	1,982	1,752	723	415	4,872
Net actuarial liabilities	7,056	5,973	3,155	3,223	19,407

All other financial assets and liabilities are for a duration of one year or less.

Equity price risk

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

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

The table below summarizes the potential impact of a 10% change in the value of the equity securities (common and preferred shares) on net income and OCI for the three months ended March 31, 2019, and the year ended December 31, 2018. 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.

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

Change in equity holdings	**Effect on net income (loss) net of tax**		**Effect on OCI net of tax**	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
10% rise	257	249	24	21
10% decline	(257)	(249)	(24)	(21)

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.

Fixed income portfolio

A breakdown of the fixed income portfolio by credit rating is shown below as at March 31, 2019 and December 31, 2018:

	As at March 31, 2019		**As at December 31, 2018**	
	Fair value	**%**	**Fair value**	**%**
AAA	5,292	44%	5,347	45%
AA	2,184	18%	2,211	19%
A	3,781	31%	3,483	29%
BBB	818	7%	852	7%
Total	12,075	100%	11,893	100%

Preferred share portfolio

A breakdown of the preferred shares portfolio by credit rating is shown below as at March 31, 2019 and December 31, 2018:

	As at March 31, 2019		**As at December 31, 2018**	
	Fair value	**%**	**Fair value**	**%**
P2	3,228	87%	3,137	88%
P3	466	13%	443	12%
Total	3,694	100%	3,580	100%

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

9 Intangible assets

A reconciliation of the movement in Intangible Assets is shown below, as at March 31, 2019 and December 31, 2018:

	Opening cost	Additions	Disposals	Assets held for sale	End of year cost	Accumulated amortization	Net
Software							
March 31, 2019	39,048	1,223	—	9,367	30,904	30,904	—
December 31, 2018	33,210	5,838	—	9,200	29,848	29,848	—
Goodwill							
March 31, 2019	400	—	—	400	—	—	—
December 31, 2018	400	—	—	400	—	—	—
Total intangible assets							
March 31, 2019	39,448	1,223	—	9,767	30,904	30,904	—
December 31, 2018	33,610	5,838	—	9,600	29,848	29,848	—

10 Income taxes

The income tax is as follows:

	3 months ended March 31	
	2019	**2018**
Current	99	(332)
Deferred	(16)	21
	83	(311)

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 the first quarter of 2019 reflects the recognition of a deferred tax asset from the utilization of capital losses through the transfer of information technology assets.

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

The difference is broken down as follows:

	3 months ended March 31	
	2019	**2018**
Income tax expense calculated at statutory rates	27.0 %	27.0 %
Increase (decrease) in income tax rates resulting from:		
Non-taxable dividend income	0.1 %	1.0 %
Statutory rate differences	(0.2)%	2.8 %
Other	— %	(8.7)%
Effective income tax rate	26.9 %	22.1 %

11 Operating Costs by nature

The table below presents operating costs by major category:

	3 months ended March 31	
	2019	**2018**
Salaries and benefits	536	505
Systems costs	90	88
Professional fees	404	427
Occupancy	47	46
Printing and Postage	44	78
Facility	72	63
Other expenses	232	281
	1,425	1,488

12 Right of use asset and lease liability

The right of use asset relates to occupancy and printing equipment. A reconciliation of the movement in the right of use asset is shown below, as at March 31, 2019:

	Right of use total
Cost	
As at January 1	321
Additions	—
Disposals	—
Ending cost	321
Accumulated Depreciation	
As at January 1	150
Charge	38
Disposals	—
Ending accumulated depreciation	188
Net Book Value as at March 31	133

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

A reconciliation of the movement in the lease liability is shown below, as at March 31, 2019:

	Lease liability total
Cost	
As at January 1	321
Additions	—
Disposals	—
Ending cost	321
Accumulated Lease Payments and Interest	
As at January 1	146
Charge	34
Disposals	—
Ending lease payments and interest	180
Net Book Value as at March 31	141

13 Accumulated other comprehensive income

A breakdown of the accumulated other comprehensive income is shown below as at March 31, 2019 and December 31, 2018:

	As at March 31, 2019	**As at December 31, 2018**
Gross unrealized losses	549	(3,877)
Foreign currency translation adjustments	453	453
Tax impact	(284)	547
Ending balance	718	(2,877)

14 Earnings per share

Earnings per share is calculated in the following table:

	3 months ended March 31	
Earnings Per Share on Continued Operations	**2019**	**2018**
Basic earnings per share on continued operations:		
Net (loss)income available to shareholders	82	(913)
Average number of common shares	11,943	11,907
Basic (loss) earnings per share on continued operations	$0.01	$(0.08)
Diluted earnings per share:		
Average number of common shares	11,943	11,907
Average number of dilutive common shares under employee stock compensation plan	351	351
Average number of diluted common shares	12,294	12,258
Diluted (loss) earnings per share on continued operations	$0.01	$(0.08)

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

	3 months ended March 31	
Earnings Per Share on Discontinued Operations	**2019**	**2018**
Basic (loss) per share on discontinued operations:		
Net income(loss) available to shareholders	(9,187)	6,739
Average number of common shares	11,943	11,907
Basic earnings (loss) per share on discontinued operations	$(0.77)	$0.57
Diluted earnings per share:		
Average number of common shares	11,943	11,907
Average number of dilutive common shares under employee stock compensation plan	351	351
Average number of diluted common shares	12,294	12,258
Diluted earnings(loss) per share on discontinued operations	$(0.77)	$0.55

Total Earnings Per Share	**2019**	**2018**
Basic earnings per share:		
Net income available to shareholders	(9,105)	5,826
Average number of common shares	11,943	11,907
Basic earnings per share	$(0.76)	$0.49
Diluted earnings per share:		
Average number of common shares	11,943	11,907
Average number of dilutive common shares under employee stock compensation plan	351	351
Average number of diluted common shares	12,294	12,258
Diluted earnings per share	$(0.76)	$0.48

15 Held for sale classification and discontinued operations

On November 9, 2018, the Company entered into a definitive agreement to sell it's Discontinued Canadian Operations. The agreement was approved by the Company's shareholders on January 23, 2019 and is now subject to regulatory approval.

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

Assets and liabilities of the disposal group held for sale

The assets and liabilities of the disposal group classified as held for sale included in the consolidated balance sheet were as follows:

	As at March 31, 2019	As at December 31, 2018
Assets of the disposal group held for sale		
Cash and short-term deposits	109,971	106,819
Investments	291,070	282,662
Accounts Receivable	97,206	92,619
Deferred policy acquisition costs	51,777	49,002
Reinsurers' share -unpaid claims	11,834	12,032
Reinsurer share-unearned premiums	10,188	10,453
Property Plant and Equipment	900	1,064
Right of use asset (1)	8,969	—
Intangible assets	9,767	9,600
All other assets	16,434	12,482
Total assets of disposal group held for sale	608,116	576,733
Liabilities of the disposal group held for sale		
Accounts payable and accrued liabilities	11,138	16,262
Lease liability (2)	9,198	—
Unearned premiums	205,753	192,479
Provision for unpaid claims	266,052	253,921
All other liabilities	1,548	2,771
Total liabilities of disposal group held for sale	493,689	465,433

(1) The right of use asset relates to occupancy and printing equipment. A reconciliation of the movement in the right of use asset is shown below, as at March 31, 2019:

	Right of use total
Cost	
As at January 1	11,093
Additions	—
Disposals	—
Ending cost	11,093
Accumulated Depreciation	
As at January 1	1,698
Charge	426
Disposals	—
Ending accumulated depreciation	2,124
Net Book Value as at March 31	8,969

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

(2) A reconciliation of the movement in the lease liability is shown below, as at March 31, 2019:

	Lease liability total
Cost	
As at January 1	11,093
Additions	—
Disposals	—
Ending cost	11,093
Accumulated Lease Payments and Interest	
As at January 1	1,464
Charge	431
Disposals	—
Ending lease payments and interest	1,895
Net Book Value as at March 31	9,198

Net income (loss) from discontinued operations

The table below presents results of discontinued operations for the period ended March 31, 2019 and March 31, 2018:

	3 months ended March 31	
	2019	**2018**
Revenue		
Gross written and assumed premiums	91,965	72,528
Net written premium	87,658	73,190
Decrease in provision for unearned premium	(13,538)	(8,839)
Net earned premiums	74,120	64,351
Investment Income (loss)	3,137	1,534
Total revenue	77,257	65,885
Expenses		
Net incurred claims	56,768	35,975
Net acquisition costs	18,303	17,640
Operating costs	8,623	7,563
Severance	10	303
Transaction costs from sale	3,099	—
Total expenses	86,803	61,481
Profit (Loss) before income taxes	(9,545)	4,404
Impact of change in discount rate on claims	(2,570)	1,957
Income tax expense (recovery)	(2,928)	(378)
Net Income (loss) on discontinued operations	(9,187)	6,739
Revaluation of the net assets of disposal group held for sale		
Net Income (loss) on discontinued operations	(9,187)	6,739
Other comprehensive income on discontinued operations	2,007	(2)
Comprehensive income on discontinued operations	(7,180)	6,737

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

16 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 March 31	
	2019	**2018**
Revenue		
Gross written and assumed premiums	1,739	1,690
Net earned premiums	1,885	1,793
Investment income	110	58
Total revenue	1,995	1,851
Expenses		
Net incurred claims	1,181	1,418
Net acquisition costs	416	612
Operating costs	230	93
Total expenses	1,827	2,123
Income before income taxes	168	(272)
Income tax expense (recovery)	47	(88)
Net income attributable to NCI	121	(184)
Other comprehensive loss attributable to NCI	67	(10)
Comprehensive income attributable to NCI	188	(194)

The following tables summarize the net assets of the non-controlling shareholders as at March 31, 2019 and December 31, 2018:

	March 31, 2019	**December 31, 2018**
Assets		
Cash and investments	8,911	9,294
Other assets	5,325	5,640
Total assets	14,236	14,934
Liabilities		
Unearned premium	3,886	4,212
Unpaid claims	5,810	6,023
Other liabilities	510	857
Total liabilities	10,206	11,092
Equity		
AOCI	(47)	(115)
Retained earnings	4,077	3,957
Total equity	4,030	3,842
Total liabilities and equity	14,236	14,934

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

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 March 31, 2019	**As at December 31, 2018**
Cash flow from operating activities	(504)	36
Cash flow from investing activities	330	(30)
Net (decrease) Increase in cash and short-term deposits	(174)	6

17 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.

Discontinued Canadian Operations are excluded. Please refer to note 15.

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.

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

The following table summarizes the net income before interest and income taxes by Personal and Commercial Lines:

	3 months ended March 31	
	2019	**2018**
Revenue		
Net earned premiums		
– Personal Lines	5,085	4,718
– Commercial Lines	2,456	2,453
Total net earned premium	7,541	7,171
Net claims incurred		
– Personal Lines	3,314	4,092
– Commercial Lines	1,237	1,673
Net Claims	4,551	5,765
Net expenses		
– Personal Lines	1,650	1,789
– Commercial Lines	935	1,027
Total	2,585	2,816
Total net expenses	7,136	8,581
Underwriting income (loss) before income taxes		
– Personal Lines	121	(1,163)
– Commercial Lines	284	(247)
Total	405	(1,410)
Corporate and other	(503)	(516)
Underwriting (loss)	(98)	(1,926)
Impact of change in net claims discount rate	(171)	93
Investment income	555	425
Total income before interest expense and income taxes	286	(1,408)