Unaudited Condensed Consolidated Interim Financial Statements of

Echelon Financial Holdings Inc.

For six months ended June 30, 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	June 30, 2019	December 31, 2018
Assets			
Cash and short–term deposits	5	70,516	22,785
Accounts receivable includes: (loans of $2.6 million to brokers)		17,599	11,738
Investments	5	46,538	45,576
Deferred policy acquisition costs		4,258	3,995
Prepaid expenses and other assets		232	191
Reinsurers' share – unearned premiums		1,283	1,522
– provision for unpaid claims	6	3,804	4,889
Property and equipment		383	6
Right of use asset	9	829	—
Deferred income taxes		594	781
Income Taxes Receivable		32	---
Assets of the disposal group held for sale	12	---	576,733
Total assets		146,068	668,216
Liabilities			
Income taxes payable			41
Accounts payable and accrued liabilities		7,672	11,075
Payable to insurance companies		2,229	1,041
Lease liability	9	910	—
Unearned premiums		18,053	16,848
Unearned commission		179	179
Provision for unpaid claims	6	23,156	24,090
Liabilities of the disposal group held for sale	12	---	465,433
Total liabilities		52,199	518,707
Equity			
Share capital		2,794	71,997
Contributed surplus		303	303
Retained earnings		86,664	76,244
Accumulated other comprehensive income (loss)	10	5	(2,877)
Equity attributed to shareholders of the Company		89,766	145,667
Non-controlling interest	13	4,103	3,842
Total equity		93,869	149,509
Total liabilities and equity		146,068	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 June 30		6 months ended June 30	
		2019	**2018**	**2019**	**2018**
Revenue					
Gross written and assumed premiums		10,972	10,425	17,929	17,184
Less: Premiums ceded to reinsurers		(566)	(998)	(1,022)	(1,705)
Net written and assumed premiums		10,406	9,427	16,907	15,479
(Increase) in gross unearned premiums		(2,509)	(2,086)	(1,206)	(872)
Increase in unearned premiums, reinsurers' share		24	156	(239)	61
Change (decrease) in provision for unearned premiums		(2,485)	(1,930)	(1,445)	(811)
Net earned premiums		7,921	7,497	15,462	14,668
Investment income	5	430	377	985	802
Total revenue		8,351	7,874	16,447	15,470
Expenses					
Gross claims incurred		4,534	5,774	9,471	11,627
Less: claims (recoveries) from reinsurers		319	(841)	(66)	(929)
Net incurred claims		4,853	4,933	9,405	10,698
Gross acquisition costs		1,720	1,910	3,401	3,787
Less: acquisition cost (recoveries) from reinsurers		(19)	(14)	(37)	(47)
Net acquisition costs		1,701	1,896	3,364	3,740
Operating costs		1,440	1,654	2,865	3,142
Total expenses		7,994	8,483	15,634	17,580
Income before taxes and discount rate impact on claims		357	(609)	813	(2,110)
Impact of change in discount rate on claims		(138)	56	(308)	149
Income before interest expense and income taxes		219	(553)	505	(1,961)
Interest expense					
Income tax expense (recovery)	8	22	(294)	105	(605)
Net income on continued operations		197	(259)	400	(1,356)
Net income on discontinued operations	12	55,405	4,223	46,220	10,987
Net income		55,602	3,964	46,620	9,631
Attributed to :					
Shareholders of the Company - continued operations		138	(203)	220	(1,116)
Shareholders of the Company - discontinued operations	12	55,405	4,223	46,220	10,987
Non-controlling interest - continued operations	13	59	(56)	180	(240)
Net income		55,602	3,964	46,620	9,631
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income					
Available-for-sale investments:					
Change in net unrealized gains		124	300	1,932	100
Reclassification of net realized losses to net income		(48)	169	(81)	225
Tax impact		(22)	(38)	(142)	(9)
Other comprehensive income gain on continued operations		54	431	1,709	316
Other comprehensive income (loss) on discontinued operations	12	(753)	110	1,254	108
Other comprehensive income (loss)		(699)	541	2,963	424

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

		3 months ended June 30		6 months ended June 30	
		2019	**2018**	**2019**	**2018**
Attributed to:					
Shareholders of the Company - continued operations		40	417	1,628	312
Shareholders of the Company - discontinued operations	12	(753)	110	1,254	108
Non-controlling interest - continued operation	13	14	14	81	4
Other comprehensive income (loss)		(699)	541	2,963	424
Total comprehensive income		54,903	4,505	49,583	10,055
Attributed to:					
Shareholders of the Company - continued operations		178	214	1,848	(804)
Shareholders of the Company - discontinued operations	12	54,652	4,333	47,474	11,095
Non-controlling interest - continued operation	13	73	(42)	261	(236)
Total comprehensive (loss) income		54,903	4,505	49,583	10,055
Earnings per share attributable to shareholders of the Company	11				
Earnings (loss) per share continued operations - basic		0.01	(0.02)	0.02	(0.09)
Earning (Loss) per share discontinued operations - basic		4.62	0.35	3.86	0.92
Earnings per share - basic		4.64	0.34	3.88	0.83
Earnings (loss) per share continued operations - diluted		0.01	(0.02)	0.02	(0.09)
Earning (Loss) per share discontinued operations - diluted		4.54	0.35	3.77	0.90
Earnings per share - diluted		4.55	0.33	3.79	0.81

(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 income (loss)	-	-	-	46,440	46,440	180	46,620
Other comprehensive income (loss)	-	-	2,882	-	2,882	81	2,963
Total comprehensive income (loss)	-	-	2,882	46,440	49,322	261	49,583
Dividends Paid	(69,611)	-	-	(36,020)	(105,631)	-	(105,631)
Common shares issued on stock options exercised	408	-	-	-	408	-	408
Balance at June 30, 2019	2,794	303	5	86,664	89,766	4,103	93,869

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders' Equity	Non–controlling interest	Total Equity
Balance at January 1, 2018	71,520	248	(2,833)	73,887	142,822	3,828	146,650
Net income (loss)	-	-	-	9,871	9,871	(240)	9,631
Other comprehensive income (loss)	-	-	420	-	420	4	424
Total comprehensive income (loss)	-	-	420	9,871	10,291	(236)	10,055
Common shares issued on stock options exercised	421	(13)	-	-	408	-	408
Stock Compensation expense	-	49	-	-	49	-	49
Balance at June 30, 2018	71,941	284	(2,413)	83,758	153,570	3,592	157,162

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)

	6 months ended	
	June 30, 2019	**June 30, 2018**
Cash provided by (used in):		
Operating activities		
Net income (loss) from continued operations	400	(1,356)
Net Income from discontinued operations	46,220	10,987
Adjusted for:		
Reinsurers' share of unearned premiums	239	(61)
Reinsurers' share of unpaid claims	1085	(929)
Provision for unpaid claims	(934)	1,726
Unearned premiums	1,205	873
Deferred income taxes	187	135
Unearned commissions	-	18
Deferred policy acquisition costs	(263)	(137)
Lease assets and liabilities	81	-
Amortization on property plant equipment and intangible assets	12	2
Amortization of premiums on bonds	9	32
Fair value change on FVTPL investments	9	48
Options expense	—	49
Prepaid expenses & other assets	(41)	(189)
	1,589	1,567
Cash flow from changes in		
Accounts receivable	(5,861)	(1,620)
Loan receivable	—	6,553
Net realized (gains) losses	(61)	252
Income taxes payable	(581)	(431)
Due to insurance companies	1,188	-
Other liabilities	(3,403)	(316)
Cash provided (used) by continuing operating activities	(6,729)	4,649
Cash provided (used) by discontinued operating activities	(241,744)	12,647
Cash inflow (outflow) from operating activities	(248,473)	17,296
Financing activities		
Proceeds from issuing of common shares for stock options	408	408
Dividends paid	(105,631)	-
Cash provided (used) by continuing financing activities	(105,223)	408
Cash inflow (outflow) from financing activities	(105,223)	408
Investing activities		
Purchases of property, equipment and intangible assets	(390)	(7)
Purchases of investments	(11,835)	(16,502)
Sale/maturity of investments	12,769	16,384

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

	June 30, 2019	**June 30, 2018**
Cash provided (used) by continuing investing activities	544	(125)
Cash provided (used) by discontinued investing activities	294,064	(6,886)
Cash provided (used) from investing activities	294,608	(7,011)
Increase (decrease) in cash and short-term deposits	(59,088)	10,693
Cash and short-term deposits, beginning of period	129,604	44,459
Cash and short-term deposits, end of period	70,516	55,152
Supplementary information		
Income taxes paid	2,460	95

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

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 2800 Skymark Avenue, Suite 200, Mississauga, Ontario.
The Company has a wholly-owned subsidiary CIM Reinsurance Company Ltd. ("CIM Re") and a 75% owned subsidiary 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 the sale was completed May 31, 2019.

1. 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 August 6, 2019.

2. 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 9 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.

3. 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.

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

4. 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.

5. Investments

The following table provides a breakdown of the investment portfolio:

	Fair values	
Available-for-sale	**As at June 30, 2019**	**As at December 31, 2018**
Fixed income		
Canadian		
Federal	4,928	4,254
Provincial	3,065	3,047
Corporate	4,169	4,592
Total fixed income	12,162	11,893
Corporate value pooled fund	5,173	4,998
Money market pooled funds	488	459
Short-term fixed income and mortgage pooled funds	13,477	14,610
Total pooled funds	19,138	20,067
Common shares		
Canadian	1,355	1,138
Foreign	2,108	1,481
Global Equity Pooled Fund	8,118	7,417
Total common shares	11,581	10,036
Total available-for-sale	42,881	41,996
Fair value through profit or loss		
Preferred shares	3,657	3,580
Total preferred shares	3,657	3,580
Total investments	46,538	45,576
Cash and short-term deposits	70,516	22,785
Total investments including cash and short-term deposits	117,054	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 June 30, 2019 and December 31, 2018:

June 30, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed income	—	12,162	—	12,162
Corporate value pooled funds	—	5,173	—	5,173
Money market pooled funds	—	488	—	488
Short-term fixed income and mortgage pooled funds	—	13,477	—	13,477
Global equity pooled funds	—	8,118		8,118
Common Shares	3,463	—	—	3,463
Preferred Shares	3,657	—	—	3,657
	7,120	39,418	—	46,538

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 June 30, 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 June 30, 2019 was $27,256 (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.

Impaired assets and provisions for losses

A gross unrealized loss of $432 on Available for Sale (AFS) investments at June 30 , 2019 (December 31, 2018 – $886) is recorded, net of tax, in the amount of $334 (December 31, 2018 – $663) in Accumulated Other Comprehensive Income.

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

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 June 30, 2019 and 2018.

Investment income

The table below provides additional details on net investment income:

	3 months ended June 30		6 months ended June 30	
	2019	2018	2019	2018
Interest income	388	471	812	909
Dividend income	147	141	247	237
Net realized (losses)	48	(181)	61	(250)
Fair value change on FVTPL investments	(87)	(7)	(8)	(48)
Realized and unrealized foreign exchange gains	--	5	--	54
Investment expenses	(66)	(52)	(127)	(100)
Investment income	430	377	985	802

6. 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	June 30, 2019	December 31, 2018
ICPEI	2.99%	3.67%

The Company recorded a $1,110 addition, as at June 30, 2019, to the net provision for unpaid claims relating to unfavourable development in prior years' estimates (December 31, 2018 – $1,835 favourable).

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 $1,486 as at June 30, 2019 (December 31, 2018 – $1,484).

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

Claims development

Provision for unpaid claims analysis	June 30, 2019	December 31, 2018
Unpaid claims, beginning of year, net	19,201	19,867
Unfavourable prior year claims development	1,110	(1,835)
Net claims incurred in current year	8,602	21,278
Paid on claims occurring during		
Current year	(5,252)	(13,798)
Prior year	(4,309)	(6,311)
Unpaid claims, end of year, net	19,352	19,201
Reinsurers' share	3,804	4,889
Gross unpaid claims	23,156	24,090

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.

7. 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.

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.

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

Interest rate risk

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

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on other comprehensive income ("OCI") relating to the fixed income investment portfolio as at June 30, 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 June 30, 2019**	**Fair value of fixed income**	**Hypothetical change on fair value**	**Effect on OCI net of tax**
200 basis point rise	29,767	(5)%	(1,068)
100 basis point rise	30,534	(2)%	(534)
No change	31,300	—	—
100 basis point decline	32,066	2 %	534
200 basis point decline	32,833	5 %	1,068

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

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

Liquidity Risk

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

The maturity profile of bonds are as follows, as at June 30, 2019 and December 31, 2018.

June 30, 2019	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	1,159	2,617	4,881	3,505	12,162
Cash and cash equivalents	70,516	—	—	—	70,516
Accounts receivable	17,599	—	—	—	17,599
Total	89,274	2,617	4,881	3,505	100,277
Percentage of total	89%	3%	5%	3%	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 June 30, 2019 and December 31, 2018:

June 30, 2019	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Gross claim liabilities (undiscounted)	7,961	7,492	3,597	3,925	22,975
Less: Reinsurance recoverable (undiscounted)	1,572	1,333	481	357	3,743
Net actuarial liabilities	6,389	6,159	3,116	3,568	19,232

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.

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

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 June 30, 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.

Change in equity holdings	**Effect on net income (loss) net of tax**		**Effect on OCI net of tax**	
	June 30, 2019	December 31, 2018	June 30, 2019	December 31, 2018
10% rise	255	249	845	733
10% decline	(255)	(249)	(845)	(733)

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 June 30, 2019 and December 31, 2018:

	As at June 30, 2019		**As at December 31, 2018**	
	Fair value	**%**	**Fair value**	**%**
AAA	5,559	46%	5,347	45%
AA	2,443	20%	2,211	19%
A	2,987	25%	3,483	29%
BBB	1,173	9%	852	7%
Total	12,162	100%	11,893	100%

Preferred share portfolio

A breakdown of the preferred shares portfolio by credit rating is shown below as at June 30, 2019 and December 31, 2018:

	As at June 30, 2019		**As at December 31, 2018**	
	Fair value	**%**	**Fair value**	**%**
P2	3,190	87%	3,137	88%
P3	467	13%	443	12%
Total	3,657	100%	3,580	100%

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

8. Income taxes

The income tax is as follows:

	6 months ended June 30		3 months ended June 30	
	2019	**2018**	**2019**	**2018**
Current	60	(592)	(39)	(260)
Deferred	45	(13)	61	(34)
	105	(605)	22	(294)

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 income tax is as follows

The difference is broken down as follows:

	6 months ended June 30		3 months ended June 30	
	2019	**2018**	**2019**	**2018**
Income tax expense calculated at statutory rates	27%	27%	27%	27%
Increase (decrease) in income tax rates resulting from:				
Non-taxable dividend income	(13.5)%	1.4%	(23)%	(4.0)%
Statutory rate differences	7.2%	2.5%	6.0%	3.4%
Other	0.2%	(0.1)%	0.0%	26.7%
Effective Income tax rate	20.9%	30.9%	10.0%	53.1

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

9. 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 June 30, 2019:

	Right of use total
Cost	
As at January 1	321
Additions	801
Disposals	—
Ending cost	1,122
Accumulated Depreciation	
As at January 1	150
Charge	143
Disposals	—
Ending accumulated depreciation	293
Net Book Value as at June 30	829

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

A reconciliation of the movement in the lease liability is shown below, as at June 30, 2019:

	Lease liability total
Cost	
As at January 1	321
Additions	801
Disposals	—
Ending cost	1,122
Accumulated Lease Payments and Interest	
As at January 1	146
Charge	66
Disposals	—
Ending lease payments and interest	212
Net Book Value as at June 30	910

10. Accumulated other comprehensive income

A breakdown of the accumulated other comprehensive income is shown below as at June 30, 2019 and December 31, 2018:

	As at June 30, 2019	**As at December 31, 2018**
Gross unrealized losses	(520)	(3,877)
Foreign currency translation adjustments	453	453
Tax impact	72	547
Ending balance	5	(2,877)

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

11. Earnings per share

	3 months ended June 30		6 months ended June 30	
	2019	2018	2019	2018
Earnings Per Share on Continued Operations				
Basic earnings per share on continued operations:				
Net (loss) income available to shareholders	138	(203)	220	(1,116)
Average number of common shares	11,983	11,923	11,966	11,907
Basic (loss) earnings per share on continued operations	$0.01	-$0.02	$0.02	-$0.09
Diluted earnings per share:				
Average number of common shares	11,983	11,923	11,966	11,907
Average number of dilutive common shares under employee stock compensation plan	229	309	288	294
Average number of diluted common shares	12,212	12,232	12,021	12,021
Diluted (loss) earnings per share on continued operations	$0.01	-$0.02	$0.02	-$0.09
Earnings Per Share on Discontinued Operations	**2019**	**2018**	**2019**	**2018**
Basic earnings (loss) per share on discontinued operations:				
Net income (loss) available to shareholders	55,405	4,223	46,220	10,987
Average number of common shares	11,983	11,923	11,966	11,907
Basic earnings (loss) per share on discontinued operations	$4.62	$0.35	$3.86	$0.92
Diluted earnings per share:				
Average number of common shares	11,983	11,923	11,966	11,907
Average number of dilutive common shares under employee stock compensation plan	229	309	288	294
Average number of diluted common shares	12,212	12,232	12,254	12,201
Diluted earnings (loss) per share on discontinued operations	$4.54	$0.35	$3.77	$0.90
Total Earnings Per Share	**2019**	**2018**	**2019**	**2018**
Basic earnings per share:				
Net income available to shareholders	55,543	4,020	46,440	9,871
Average number of common shares	11,983	11,923	11,966	11,907
Basic earnings per share	$4.64	$0.34	$3.88	$0.83
Diluted earnings per share:				
Average number of common shares	11,983	11,923	11,966	11,907
Average number of dilutive common shares under employee stock compensation plan	229	309	288	294
Average number of diluted common shares	12,212	12,232	12,254	12,201
Diluted earnings per share	$4.55	$0.33	$3.79	$0.81

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

12. Held for sale classification and discontinued operations

On November 9, 2019, the Company entered into a definitive agreements to sell Echelon Insurance, its main operating subsidiary, and the unregulated warranty business of Echelon Financial Holdings Inc. and the sale was completed May 31, 2019.

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 June 30, 2019	As at December 31, 2018
Assets of the disposal group held for sale		
Cash and short-term deposits	---	106,819
Investments	---	282,662
Accounts Receivable	---	92,619
Deferred policy acquisition costs	---	49,002
Reinsurers' share -unpaid claims	---	12,032
Reinsurer share-unearned premiums	---	10,453
Property Plant and Equipment	---	1,064
	---	—
Intangible assets	---	9,600
All other assets	---	12,482
Total assets of disposal group held for sale	---	576,733
Liabilities of the disposal group held for sale		
Accounts payable and accrued liabilities	---	16,262
	---	—
Unearned premiums	---	192,479
Provision for unpaid claims	---	253,921
All other liabilities	---	2,771
Total liabilities of disposal group held for sale	---	465,433

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

Net income (loss) from discontinued operations

The table below presents results of discontinued operations for the periods ended June 30, 2019 and June 30, 2018:

	3 months ended June 30		**6 months ended June 30**	
Revenues	**2019**	**2018**	**2019**	**2018**
Net earned premiums	59,044	67,783	133,164	131,134
Investment Income (loss)	1,519	2,382	4,656	3,916
Total Revenue	60,563	70,165	137,820	136,050
Expenses				
Net incurred claims	40,554	42,056	99,889	76,074
Net acquisition costs	13,099	15,761	31,402	33,401
Operating costs	7,778	6,618	16,411	14,459
Total Expenses	61,431	64,435	147.702	123,934
Income (Loss) before income taxes	(868)	5,730	(9,882)	12,116
Income tax expense (recovery)	(46)	1,507	(2,974)	1,129
Net Income (loss) on discontinued operations	(822)	4,223	(6,908)	10,837
Gain (loss) on sale, net of expenses	56,227		53,128	--
Net Income on discontinued operations	55,405	4,223	46,220	10,987

The results for 2019 include the financial results to the disposal date of May 31, 2019.

The Company received $165.5 million on May 31, 2019 including $4.3 million for expenses with $12 million to be received pending final determination of the Minimum Capital Test (“MCT”) ratio. On July 22, 2019, the Company agreed with CAA Club Group that $4.8 million will be paid to the Company from the $12 million withheld. The Company recognized a gain of $56.2 million, which is included in the Net Income of discontinued operations. The gain on disposal is comprised of:

$ Thousands 2019	**3 months ended June 30**	**6 months ended June 30**
Proceed	$170,241	$170,241
Net assets disposed	$112,984	$112,984
Gain on sale	$57,257	$57,257
Expenses relating to the sale	$1,030	$4,128
Net gain	$56,227	$53,128

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

13. Non-controlling interest

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

	3 months ended June 30		6 months ended June 30	
	2019	2018	2019	2018
Revenue				
Gross written and assumed premiums	2,743	2,606	4,482	4,296
Net earned premiums	1,980	1,874	3,866	3,667
Investment income	82	39	192	97
Total revenue	2,062	1,913	4,057	3,764
Expenses				
Net incurred claims	1,248	1,219	2,428	2,637
Net acquisitions costs	425	474	841	935
Operating costs	310	303	541	547
Total expenses	1,983	1,996	3,810	4,119
(Loss) income before income taxes	79	(83)	248	(355)
Income tax (recovery)	20	(27)	68	(115)
Net (loss) income attributable to NCI	59	(56)	180	(240)
Other comprehensive (loss) income attributable to NCI	14	14	81	4
Comprehensive (loss) income attributable to NCI	73	(42)	261	(236)

The following tables summarize the net assets of the non-controlling shareholders as at June 30, 2019 and December 31, 2018:

	June 30, 2019	December 31, 2018
Assets		
Cash and Investments	9,365	9,294
Other Assets	5,984	5,640
Total Assets	15,349	14,934
Liabilities		
Unearned premium	4,513	4,212
Unpaid claims	5,789	6,023
Other liabilities	944	857
Total liabilities	11,246	11,092
Equity		
AOCI	(34)	(115)
Retained Earnings	4,137	3,957
Total Equity	4,103	3,842
Total liabilities and equity	15,349	14,934

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

14. 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 Operations are excluded. Please refer to note 12.

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.

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

	3 months ended June 30		6 months ended June 30	
	2019	**2018**	**2019**	**2018**
Revenue				
Net Earned Premiums				
- Personal Lines	5,333	5,011	10,418	9,728
- Commercial Lines	2,588	2,486	5,044	4,940
Total net earned premium	7,921	7,497	15,462	14,668
Net claims incurred				
- Personal Lines	3,804	3,434	7,120	7,526
- Commercial Lines	1,047	1,499	2,285	3,172
Total net claims incurred	4,852	4,933	9,405	10,698
Net expenses				
- Personal Lines	1,909	1,912	3,559	3,701
- Commercial Lines	1,032	1,199	1,967	2,226
Total	2,941	3,111	5,526	5,927
Total net expenses	7,793	8,044	14,931	16,625
(Loss) underwriting income				
- Personal Lines	(380)	(336)	(260)	(1,499)
- Commercial Lines	508	-212	792	(458)
Total	128	-547	531	-1,958
Corporate and other	(201)	(439)	(703)	(954)
Imnome (loss) before taxes	(73)	(986)	(172)	(2,912)
Impact of change in net claims discount rate	(138)	56	(308)	149
Investment income	430	377	985	802
Total income before interest expense and income taxes	219	(553)	505	(1,961)

15. Subsequent Event

As disclosed previously, arbitration proceedings were commenced on September 18, 2018 in Denmark against EFH alleging misrepresentations by the Company at the time EFH sold Qudos Insurance to New Nordic Advisors Limited (“NNAL”). Although the Share Sale Agreement specifically provided that it was not assignable, NNAL purported to assign it to a third party, who commenced the arbitration. The arbitration panel in Denmark has now dismissed entirely the arbitration proceedings, with costs awarded to EFH, on the basis that the third party had no standing to bring them.

A statement of claim naming New Nordic Odin Denmark as plaintiff was filed on August 2, 2019 in the Danish Institute of arbitration. The Company continues to deny all allegations made against it by NNGL and states that there is no merit to NNGL's claim for €45.8 million in damages.