Unaudited Condensed Consolidated Interim Financial Statements of

Echelon Financial Holdings Inc.

For nine months ended September 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	September 30, 2019	December 31, 2018
Assets			
Cash and short–term deposits	5	72,574	22,785
Accounts receivable		12,823	11,738
Investments	5	47,224	45,576
Deferred policy acquisition costs		4,427	3,995
Prepaid expenses and other assets		223	191
Reinsurers' share – unearned premiums		1,237	1,522
– provision for unpaid claims	6	3,784	4,889
Property and equipment		351	6
Right of use asset	9	780	—
Deferred income taxes		656	781
Income Taxes Receivable		441	—
Assets of the disposal group held for sale	12	—	576,733
Total assets		144,520	668,216
Liabilities			
Income Taxes payable		79	41
Accounts payable and accrued liabilities		4,238	11,075
Payable to insurance companies		935	1,041
Lease liability	9	735	—
Unearned premiums		19,324	16,848
Unearned commission		200	179
Provision for unpaid claims	6	25,500	24,090
Liabilities of the disposal group held for sale	12	—	465,433
Total liabilities		51,011	518,707
Equity			
Share capital		2,794	71,997
Contributed surplus		303	303
Retained earnings		86,160	76,244
Accumulated other comprehensive income (loss)	10	324	(2,877)
Equity attributed to shareholders of the Company		89,581	145,667
Non-controlling interest	13	3,928	3,842
Total equity		93,509	149,509
Total liabilities and equity		144,520	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 September 30		9 months ended September 30	
		2019	**2018**	**2019**	**2018**
Revenue					
Gross written and assumed premiums		10,271	9,284	28,200	26,468
Less: Premiums ceded to reinsurers		(591)	(960)	(1,613)	(2,665)
Net written and assumed premiums		9,680	8,324	26,587	23,803
(Increase) in gross unearned premiums		(1,271)	(819)	(2,477)	(1,691)
Increase / (Decrease) in unearned premiums, reinsurers' share		(47)	104	(286)	165
Change (decrease) in provision for unearned premiums		(1,318)	(715)	(2,763)	(1,526)
Net earned premiums		8,362	7,609	23,824	22,277
Investment income	5	874	379	1,859	1,181
Total revenue		9,236	7,988	25,683	23,458
Expenses					
Gross claims incurred		6,687	5,450	16,158	17,077
Less: claims (recoveries) from reinsurers		(165)	126	(231)	(803)
Net incurred claims		6,522	5,576	15,927	16,274
Gross acquisition costs		1,887	1,978	5,288	5,765
Less: acquisition cost (recoveries) from reinsurers		(19)	(17)	(56)	(64)
Net acquisition costs		1,868	1,961	5,232	5,701
Operating costs		1,782	3,336	4,647	6,477
Total expenses		10,172	10,872	25,806	28,452
Income before taxes and discount rate impact on claims		(936)	(2,884)	(123)	(4,994)
Impact of change in discount rate on claims(1)		(78)	69	(386)	218
Income before interest expense and income taxes		(1,014)	(2,815)	(509)	(4,776)
Interest expense					
Income tax expense (recovery)	8	(341)	(788)	(236)	(1,393)
Net income on continued operations		(673)	(2,027)	(273)	(3,383)
Net income on discontinued operations	12	-	2,197	46,220	13,184
Net income		(673)	170	45,947	9,801
Attributed to :					
Shareholders of the Company - continued operations		(505)	(1,930)	(284)	(3,047)
Shareholders of the Company - discontinued operations	12	-	2,197	46,220	13,184
Non-controlling interest - continued operations	13	(169)	(96)	11	(336)
Net income		(673)	170	45,947	9,801
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income					
Available-for-sale investments:					
Change in net unrealized gains		301	260	2,233	360
Reclassification of net realized losses to net income		2	111	(79)	336
Tax impact		10	31	(132)	22
Other comprehensive income gain on continued operations		313	402	2,022	718
Other comprehensive income (loss) on discontinued operations	12	0	(612)	1,254	(504)
Other comprehensive income (loss)		313	(210)	3,276	214

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

		3 months ended September 30		9 months ended September 30	
		2019	**2018**	**2019**	**2018**
Attributed to:					
Shareholders of the Company - continued operations		319	422	1,947	734
Shareholders of the Company - discontinued operations	12	0	(612)	1,254	(504)
Non-controlling interest - continued operation	13	(7)	(20)	75	(16)
Other comprehensive income (loss)		313	(210)	3,276	214
Total comprehensive income		(360)	(40)	49,222	10,015
Attributed to:					
Shareholders of the Company - continued operations		(185)	(1,508)	1,663	(2,313)
Shareholders of the Company - discontinued operations	12	0	1,585	47,474	12,680
Non-controlling interest - continued operation	13	(175)	(116)	86	(352)
Total comprehensive (loss) income		(360)	(40)	49,222	10,015
Earnings per share attributable to shareholders of the Company	11				
Earnings (loss) per share continued operations - basic		(0.04)	(0.16)	(0.02)	(0.26)
Earning (Loss) per share discontinued operations - basic		-	0.18	3.86	1.11
Earnings per share - basic		(0.04)	0.02	3.84	0.85
Earnings (loss) per share continued operations - diluted		(0.04)	(0.16)	(0.02)	(0.26)
Earning (Loss) per share discontinued operations - diluted		-	0.18	3.80	1.08
Earnings per share - diluted		(0.04)	0.02	3.78	0.83

(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)	-	-	-	45,936	45,936	11	45,947
Other comprehensive income (loss)	-	-	3,201	-	3,201	75	3,276
Total comprehensive income (loss)	-	-	3,201	45,936	49,137	86	49,223
Dividends Paid	(69,611)	-	-	(36,020)	(105,631)	-	(105,631)
Common shares issued on stock options exercised	408	-	-	-	408	-	408
Balance at September 30, 2019	2,794	303	324	86,160	89,581	3,928	93,509

	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)	-	-	-	10,137	10,137	(336)	9,801
Other comprehensive income (loss)	-	-	230	-	230	(16)	214
Total comprehensive income (loss)	-	-	230	10,137	10,367	(352)	10,015
Common shares issued on stock options exercised	457	(45)	-	-	412	-	412
Stock Compensation expense	-	77	-	-	77	-	77
Balance at September, 30, 2018	71,977	280	(2,603)	84,024	153,678	3,476	157,154

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)

	9 months ended	
	September 30, 2019	**September 30, 2018**
Cash provided by (used in):		
Operating activities		
Net income from continued operations	(273)	(3,383)
Net Income (loss) from discontinued operations	46,220	13,184
Adjusted for:		
Reinsurers' share of unearned premiums	285	(165)
Reinsurers' share of unpaid claims	1,105	(805)
Provision for unpaid claims	1,410	2,195
Unearned premiums	2,476	1,691
Deferred income taxes	125	(881)
Unearned commissions	21	48
Deferred policy acquisition costs	(432)	(323)
Lease assets and liabilities	(45)	--
Amortization on property plant equipment and intangible assets	45	3,784
Amortization of premiums on bonds	13	42
Fair value change on FVTPL investments	(2)	369
Options expense	--	77
Prepaid expenses & other assets	(32)	(216)
	4,969	5,818
Cash flow from changes in		
Accounts receivable	(1,085)	(2,241)
Net realized losses	(58)	360
Income taxes payable	(904)	685
Due to insurance companies	(106)	502
Other liabilities	(6,837)	2,055
Cash (used) provided by continuing operating activities	(4,294)	3,796
Cash (used) provided by discontinued operating activities	(241,744)	38,750
Cash (outflow) inflow from operating activities	(246,038)	42,546
Financing activities		
Issue of Common Shares	408	412
Common share Dividends	(105,631)	--
Cash (used) provided by continuing financing activities	(105,223)	412
Cash (outflow) inflow from financing activities	(105,223)	412
Investing activities		
Purchases of property, equipment and intangible assets	(390)	(6)
Purchases of investments	(15,620)	(18,933)
Sale/maturity of investments	16,176	18,460
Proceeds received from the sale of Subsidiary	--	6,553

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

	September 30, 2019	September 30, 2018
Cash provided by continuing investing activities	166	6,074
Cash provided (used) by discontinued investing activities	294,064	(19,553
Cash provided (used) from investing activities	294,230	(13,480)
Increase (decrease) in cash and short-term deposits	(57,030)	29,478
Cash and short-term deposits, beginning of year	129,604	44,459
Cash and short-term deposits, end of year	72,574	73,937
Supplementary information		
Income taxes paid (recovered)	2,341	(755)

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 November 14, 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 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 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.

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual 2018 consolidated financial statements.

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 September 30, 2019**	**As at December 31, 2018**
Fixed income		
Canadian		
Federal	5,317	4,254
Provincial	3,066	3,047
Corporate	3,836	4,592
Total fixed income	12,219	11,893
Corporate value pooled fund	5,222	4,998
Money market pooled funds	531	459
Short-term fixed income and mortgage pooled funds	13,527	14,610
Total pooled funds	19,280	20,067
Common shares		
Canadian	1,499	1,138
Foreign	2,187	1,481
Global Equity Pooled Fund	8,371	7,417
Total common shares	12,057	10,036
Total available-for-sale	43,556	41,996
Fair value through profit or loss		
Preferred shares	3,668	3,580
Total preferred shares	3,668	3,580
Total investments	47,224	45,576
Cash and short-term deposits	72,574	22,785
Total investments including cash and short-term deposits	119,798	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 September 30, 2019 and December 31, 2018:

September 30, 2019	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed income	—	12,219	—	12,219
Corporate value pooled funds	—	5,222	—	5,222
Money market pooled funds	—	531	—	531
Short-term fixed income and mortgage pooled funds	—	13,527	—	13,527
Global equity pooled funds	—	8,371		8,371
Common Shares	3,686	—	—	3,686
Preferred Shares	3,668	—	—	3,668
	7,354	39,870	—	47,224

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 September 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 September 30, 2019 was $27,651 (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 $440 on Available for Sale (AFS) investments at September 30, 2019 (December 31, 2018 – $886) is recorded, net of tax, in the amount of $338 (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.

There were no impairments recognized during the nine months ended September 30, 2019. An impairment loss of $98K was recognized during the nine months ended September 30, 2018.

Investment income

The table below provides additional details on net investment income:

	3 months ended September 30		9 months ended September 30	
	2019	**2018**	**2019**	**2018**
Interest income	748	380	1,560	1,289
Dividend income	185	143	432	380
Net realized (losses)	(3)	(12)	58	(262)
Impairment Loss	-	(98)	-	(98)
Fair value change on FVTPL investments	10	12	2	(36)
Realized and unrealized foreign exchange gains	-	9	-	63
Investment expenses	(66)	(55)	(193)	(155)
Investment income	874	379	1,859	1,181

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	September 30, 2019	December 31, 2018
ICPEI	2.85%	3.67%

The Company recorded a $1,589 addition, as at September 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

(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 $1,560 as at September 30, 2019 (December 31, 2018 – $1,484).

Claims development

Provision for unpaid claims analysis	**September 30, 2019**	**December 31, 2018**
Unpaid claims, beginning of year, net	19,201	19,867
Unfavourable (favourable) prior year claims development	1,589	(1,835)
Net claims incurred in current period	14,724	21,278
Paid on claims occurring during		
Current year	(8,393)	(13,798)
Prior year	(5,405)	(6,311)
Unpaid claims, end of period, net	21,716	19,201
Reinsurers' share	3,784	4,889
Gross unpaid claims	25,500	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.

(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 September 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 September 30, 2019	Fair value of fixed income	Hypothetical change on fair value	Effect of OCI net of tax
200 basis point rise	29,900	(5)%	(1,115)
100 basis point rise	30,700	(3)%	(557)
No change	31,499	—	—
100 basis point decline	32,299	3 %	557
200 basis point decline	33,099	5 %	1,115

Change in interest rates As at December 31, 2018	Fair value of fixed income	Hypothetical change on fair value	Effect of 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.

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

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

September 30, 2019	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Greater than 5 years**	**Total**
Bonds	288	3,280	4,906	3,745	12,219
Cash and cash equivalents	72,574	—	—	—	72,574
Accounts receivable	12,823	—	—	—	12,823
Total	85,685	3,280	4,906	3,745	97,616
Percentage of total	88%	3%	5%	4%	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 September 30, 2019 and December 31, 2018:

September 30, 2019	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Greater than 5 years**	**Total**
Gross claim liabilities (undiscounted)	9,834	7,827	3,604	3,974	25,239
Less: Reinsurance recoverable (undiscounted)	1,657	1,297	431	337	3,722
Net actuarial liabilities	8,177	6,530	3,173	3,637	21,517

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 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 September 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.

(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**	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
10% rise	268	249	880	733
10% decline	(268)	(249)	(880)	(733)

Credit risks

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 September 30, 2019 and December 31, 2018:

	As at September 30, 2019		**As at December 31, 2018**	
	Fair value	**%**	**Fair value**	**%**
AAA	6,018	49%	5,347	45%
AA	2,449	20%	2,211	19%
A	2,714	22%	3,483	29%
BBB	1,038	9%	852	7%
Total	12,219	100%	11,893	100%

Preferred share portfolio

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

	As at September 30, 2019		**As at December 31, 2018**	
	Fair value	**%**	**Fair value**	**%**
P2	3,241	88%	3,137	88%
P3	427	12%	443	12%
Total	3,668	100%	3,580	100%

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

8. Income taxes

The income tax is as follows:

	9 months ended September 30		3 months ended September 30	
	2019	**2018**	**2019**	**2018**
Current	(221)	(1,314)	(281)	(722)
Deferred	(15)	(79)	(60)	(66)
	(236)	(1,393)	(341)	(788)

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:

	9 months ended September 30		3 months ended September 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	22.5%	0.9%	4.9%	0.6%
Statutory rate differences	(2.6%)	1.3%	1.9%	0.4%
Other	(0.5%)	-	(0.1%)	-
Effective Income tax rate	46.4%	29.2%	33.7%	28.0%

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 September 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	192
Disposals	—
Ending accumulated depreciation	342
Net Book Value as at September 30	780

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

A reconciliation of the movement in the lease liability is shown below, as at September 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	241
Disposals	—
Ending lease payments and interest	387
Net Book Value as at September 30	735

10. Accumulated other comprehensive income

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

	As at September 30, 2019	**As at December 31, 2018**
Gross unrealized losses	(210)	(3,877)
Foreign currency translation adjustments	453	453
Tax impact	81	547
Ending balance	324	(2,877)

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

11. Earning per share

	3 months ended September 30		9 months ended September 30	
	2019	**2018**	**2019**	**2018**
Earnings Per Share on Continued Operations				
Basic earnings per share on continued operations:				
Net (loss) income available to shareholders	(505)	(1,930)	(284)	(3,047)
Average number of common shares	12,007	11,923	11,966	11,907
Basic (loss) earnings per share on continued operations	-$0.04	-$0.16	-$0.02	-$0.26
Diluted earnings per share:				
Average number of common shares	12,007	11,923	11,966	11,907
Average number of dilutive common shares under employee stock compensation plan	0	282	185	285
Average number of diluted common shares	12,007	12,205	12,151	12,192
Diluted (loss) earnings per share on continued operations	-$0.04	-$0.16	-$0.02	-$0.25
Earnings Per Share on Discontinued Operations	**2019**	**2018**	**2019**	**2018**
Basic earnings (loss) per share on discontinued operations:				
Net income (loss) available to shareholders	-	2,197	46,220	13,184
Average number of common shares	12,007	11,923	11,966	11,907
Basic earnings (loss) per share on discontinued operations	$0.00	$0.18	$3.86	$1.11
Diluted earnings per share:				
Average number of common shares	12,007	11,923	11,966	11,907
Average number of dilutive common shares under employee stock compensation plan	0	282	185	285
Average number of diluted common shares	12,007	12,205	12,151	12,192
Diluted earnings (loss) per share on discontinued operations	$0.00	$0.18	$3.80	$1.08
Total Earnings Per Share	**2019**	**2018**	**2019**	**2018**
Basic earnings per share:				
Net income available to shareholders	(505)	267	45,936	10,137
Average number of common shares	12,007	11,923	11,966	11,907
Basic earnings per share	-$0.04	$0.02	$3.84	$0.85
Diluted earnings per share:				
Average number of common shares	12,007	11,923	11,966	11,907
Average number of dilutive common shares under employee stock compensation plan	-	282	185	285
Average number of diluted common shares	12,007	12,205	12,151	12,192
Diluted earnings per share	-$0.04	$0.02	$3.78	$0.83

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

12. Held for sale classification and discontinued operations

On November 9, 2018, 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 September 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 September 30, 2019 and September 30, 2018:

	3 months ended September 30			9 months ended September 30	
Revenues	**2019**	**2018**		**2019**	**2018**
Net earned premiums	-	88,100		133,164	220,234
Investment Income (loss)	-	2,648		4,656	6,564
Total Revenue	-	90,748		137,820	226,798
Expenses	-	0			
Net incurred claims	-	59,159		99,889	135,233
Net acquisition costs	-	19,950		31,402	53,351
Operating costs	-	7,245		16,411	21,704
Total Expenses	-	86,354		147,702	210,288
Income (Loss) before income taxes	-	4,393		(9,882)	16,509
Income tax expense (recovery)	-	2,196		(2,974)	3,325
Net Income (loss) on discontinued operations	-	2,197		(6,908)	13,184
Gain (loss) on sale, net of expenses	-	0		53,128	0
Net Income on discontinued operations	-	2,197		46,220	13,184

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. Balance $4.8 million in settlement of final determination of the Minimum Capital Test (“MCT”) ratio was received on August 1, 2019. The gain on disposal is comprised of:

$ Thousands	**3 months ended September 30, 2019**	**9 months ended September 30, 2019**
Proceeds	-	$170,241
Net assets disposed	-	$112,984
Gain on sale	-	$57,257
Expenses relating to the sale	-	$4,128
Net gain	-	$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 September 30		9 months ended September 30	
	2019	2018	2019	2018
Revenue				
Gross written and assumed premiums	2,568	2,321	7,050	6,617
Net earned premiums	2,091	1,902	5,956	5,569
Investment income	94	88	286	185
Total revenue	2,185	1,990	6,242	5,755
Expenses				
Net incurred claims	1,650	1,377	4,078	4,014
Net acquisitions costs	467	491	1,308	1,426
Operating costs	314	267	855	814
Total expenses	2,431	2,135	6,241	6,254
(Loss) income before income taxes	(247)	(145)	1	(500)
Income tax (recovery)	(78)	(49)	(10)	(164)
Net (loss) income attributable to NCI	(169)	(96)	11	(336)
Other comprehensive (loss) income attributable to NCI	(7)	(20)	75	(16)
Comprehensive (loss) income attributable to NCI	(176)	(116)	86	(352)

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

	September 30, 2019	December 31, 2018
Assets		
Cash and Investments	10,037	9,294
Other Assets	5,950	5,640
Total Assets	15,986	14,934
Liabilities		
Unearned premium	4,831	4,212
Unpaid claims	6,375	6,023
Other liabilities	852	857
Total liabilities	12,058	11,092
Equity		
Share capital	-	-
AOCI	(40)	(115)
Retained Earnings	3,968	3,957
Total Equity	3,928	3,842
Total liabilities and equity	15,986	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 automobile insurance and personal property.

Through its Commercial Lines, the Company designs and underwrites commercial property, commercial automobile.

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 September 30		9 months ended September 30	
	2019	**2018**	**2019**	**2018**
Revenue				
Net Earned Premiums				
- Personal Lines	5,729	5,016	16,148	14,743
- Commercial Lines	2,633	2,593	7,677	7,534
Total net earned premium	8,362	7,609	23,824	22,277
Net claims incurred				
- Personal Lines	4,696	3,981	11,815	11,507
- Commercial Lines	1,826	1,595	4,112	4,767
Total net claims incurred	6,522	5,576	15,927	16,274
Net expenses				
- Personal Lines	2,079	1,970	5,637	5,671
- Commercial Lines	1,047	1,060	3,014	3,285
Total	3,126	3,030	8,651	8,957
Total net expenses	9,648	8,606	24,578	25,231
(Loss) underwriting income				
- Personal Lines	(1,045)	(936)	(1,304)	(2,435)
- Commercial Lines	(241)	(61)	551	(519)
Total	(1,286)	(996)	(753)	(2,954)
Corporate and other	(524)	(2,266)	(1,227)	(3,221)
Income (loss) before taxes	(1,810)	(3,263)	(1,980)	(6,175)
Impact of change in net claims discount rate	(78)	69	(386)	218
Investment income	874	379	1,858	1,181
Total income before interest expense and income taxes	(1,014)	(2,815)	(509)	(4,776)

15. Contingencies

From time to time, in connection with its insurance operations, the Company is named as a defendant in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome, such actions have generally been resolved with minimal damage or expenses in excess of amounts provided as policy liabilities. The Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

New Nordic Advisors Limited (NNAL) filed a Statement of Claim with the Danish Institute of Arbitration in October 2018. The Claim sought €45.8 million in damages arising from the sale of 100% of EFH's interest in QIC Holdings ApS to New Nordic Odin Denmark Ltd in March of 2017. The Statement of Claim alleged breach of contract and willful misrepresentation. On July 16, 2019 the claim was dismissed. There is no right to an appeal.

On August 2, 2019 New Nordic Odin Denmark (NNOD) filed a Statement of Claim with the Danish Institute of Arbitration. The Claim is essentially the same claim made by New Nordic Advisors Limited (NNAL), which was dismissed. The Claim seeks €45.8 million in damages arising from the sale of 100% of EFH's interest in QIC Holdings ApS to NNOD in March of 2017. EFH does not believe there is any merit to the claim and we expect that the case will be heard in the first half of Year 2020. No provision has been made for the outcome of this contingency.