Unaudited Condensed Consolidated Interim Financial Statements of

Echelon Financial Holdings Inc.

For nine months ended September 30, 2020 and 2019

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2020. These financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

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

	Note	September 30, 2020	December 31, 2019
Assets			
Cash and short-term deposits	7	14,097	70,932
Accounts receivable		11,832	10,020
Investments	7	37,583	48,019
Due from insurance companies		1,068	324
Deferred policy acquisition costs		4,764	4,209
Income taxes recoverable		2,179	1,184
Prepaid expenses and other assets		1,772	4,028
Reinsurers' share - unearned premiums		773	1,031
- provision for unpaid claims	8	2,769	3,268
Right of use asset		487	777
Deferred income taxes		216	228
Total assets		77,540	144,020
Liabilities			
Accounts payable and accrued liabilities		3,668	4,528
Lease liability		411	712
Unearned premiums		21,559	18,749
Unearned commission		229	195
Income taxes payable		1,246	-
Provision for unpaid claims	8	27,342	26,629
Total liabilities		54,455	50,813
Equity			
Share capital		2,794	2,794
Contributed surplus		1,507	1,507
Retained earnings		13,914	83,140
Accumulated other comprehensive income	12	406	2,034
Equity attributed to shareholders of the Company		18,621	89,475
Non-controlling interest	15	4,464	3,732
Total equity		23,085	93,207
Total liabilities and equity		77,540	144,020

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)

	Note	3 months ended September 30		9 months ended September 30	
		2020	2019	2020	2019
Revenue					
Gross written and assumed premiums		11,739	10,271	31,569	28,200
Less premiums ceded to reinsurers		(598)	(591)	(1,630)	(1,613)
Net written and assumed premiums		11,141	9,680	29,939	26,587
Change in gross unearned premiums		(1,766)	(1,271)	(2,810)	(2,477)
Change in unearned premiums, reinsurers' share		66	(47)	(258)	(286)
Change in provision for unearned premiums		(1,700)	(1,318)	(3,068)	(2,763)
Net earned premiums		9,441	8,362	26,871	23,824
Investment income	7	3,046	874	4,012	1,859
Total revenue		12,487	9,236	30,883	25,683
Expenses					
Gross claims incurred		5,433	6,687	14,732	16,158
Claims (recoveries) from reinsurers		(98)	(165)	(242)	(231)
Net incurred claims		5,335	6,522	14,490	15,927
Gross acquisition costs		2,423	1,887	6,540	5,288
Acquisition cost (recoveries) from reinsurers		(17)	(19)	(50)	(56)
Net acquisition costs		2,406	1,868	6,490	5,232
Operating costs	11	1,483	1,782	4,710	4,647
Total expenses		9,224	10,172	25,690	25,806
Income (loss) before taxes and discount rate impact on claims		3,263	(936)	5,193	(123)
Impact of change in discount rate on claims (1)		(101)	(78)	(101)	(386)
Income (loss) before income taxes		3,162	(1,014)	5,092	(509)
Income tax expense (recovery)	10	55	(341)	665	(236)
Net income (loss) on continued operations		3,107	(673)	4,427	(273)
Net income (loss) on discontinued operations	14	(5,866)	-	(5,866)	46,220
Net income (loss)		(2,759)	(673)	(1,439)	45,947
Attributed to:					
Shareholders of the Company – continued operations		2,923	(505)	3,877	(284)
Shareholders of the Company – discontinued operations	14	(5,866)	-	(5,866)	46,220
Non-controlling interest – continued operations	15	184	(168)	550	11
Net income (loss)		(2,759)	(673)	(1,439)	45,947
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income Available-for-sale investments:					
Change in net unrealized gains		1,002	301	1,379	2,233
Reclassification of net realized (gains) losses to net income		(2,407)	2	(2,509)	(79)
Tax impact		(83)	10	(316)	(132)
Other comprehensive income (loss) on continued operations		(1,488)	313	(1,446)	2,022
Other comprehensive income on discontinued operations		-	-	-	1,254
Other comprehensive income (loss)		(1,488)	313	(1,446)	3,276

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	
	Note	**2020**	**2019**	**2020**	**2019**
Attributed to:					
Shareholders of the Company – continued operations		(1,535)	320	(1,628)	1,947
Shareholders of the Company – discontinued operations		-	-	-	1,254
Non-controlling interest – continued operations	15	47	(7)	182	75
Other comprehensive income (loss)		(1,488)	313	(1,446)	3,276
Total comprehensive income (loss)		(4,247)	(360)	(2,885)	49,223
Attributed to:					
Shareholders of the Company – continued operations		1,388	(185)	2,249	1,663
Shareholders of the Company – discontinued operations		(5,866)	-	(5,866)	47,474
Non-controlling interest – continued operations	15	231	(175)	732	86
Total comprehensive income (loss)		(4,247)	(360)	(2,885)	49,223
Earnings per share attributable to shareholders of the Company	13				
Earnings per share continued operations – basic		0.24	(0.04)	0.32	(0.02)
Earnings per share discontinued operations – basic		(0.49)	-	(0.49)	3.86
Earnings per share – basic		(0.25)	(0.04)	(0.17)	3.84
Earnings per share continued operations – diluted		0.24	(0.04)	0.32	(0.02)
Earnings per share discontinued operations – diluted		(0.49)	-	(0.49)	3.80
Earnings per share – diluted		(0.25)	(0.04)	(0.17)	3.78

(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, 2020	2,794	1,507	2,034	83,140	89,475	3,732	93,207
Net income (loss)	-	-	-	(1,989)	(1,989)	550	(1,439)
Other comprehensive (loss) income	-	-	(1,628)	-	(1,628)	182	(1,446)
Total comprehensive (loss) income	-	-	(1,628)	(1,989)	(3,617)	732	(2,885)
Dividends paid	-	-	-	(67,237)	(67,237)	-	(67,237)
Balance at September 30, 2020	2,794	1,507	406	13,914	18,621	4,464	23,085

	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	-	-	-	45,936	45,936	11	45,947
Other comprehensive income	-	-	3,201	-	3,201	75	3,276
Total comprehensive income	-	-	3,201	45,936	49,137	86	49,223
Dividends Paid	(69,611)	-	-	(36,020)	(105,631)	-	(105,631)
Commons 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

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, except per share amounts)

	9 months ended	
	September 30, 2020	**September 30, 2019**
Cash provided by (used in)		
Operating activates		
Net income (loss) from continued operations	4,427	(273)
Net income (loss) from discontinued operations	(5,866)	46,220
Adjusted for		
Reinsurers' share of unearned premiums	258	285
Reinsurers' share of unpaid claims	499	1,105
Provision for unpaid claims	713	1,410
Unearned premiums	2,810	2,476
Deferred income taxes	12	125
Unearned commissions	34	21
Deferred policy acquisition costs	(555)	(432)
Amortization on leased assets	290	196
Amortization on property plant equipment and intangible assets	185	45
Amortization of premiums on bonds	35	13
Fair value change on FVTPL investments	89	(2)
Prepaid expenses & other assets	2,431	(32)
	6,801	5,210
Cash flow from changes in		
Accounts receivable	(1,812)	(1,085)
Net realized gains	(2,478)	(58)
Income taxes recoverable	(66)	(904)
Due from insurance companies	(744)	(106)
Other liabilities	(860)	(6,837)
Cash provided (used) by continuing operating activities	5,268	(4,053)
Cash used by discontinued operating activities	(5,866)	(241,744)
Cash outflow from operating activities	(598)	(245,797)
Financing activities		
Proceeds from issuing of common shares for stock options	-	408
Dividends paid	(67,237)	(105,631)
Payment of lease liabilities	(302)	(241)
Cash used by continuing financing activities	(67,539)	(67,539)
Cash outflow from financing activities	(67,539)	(105,464)
Investing activities		
Purchases of property, equipment and intangible assets	(358)	(390)
Purchases of investments	(16,179)	(15,620)
Sale/maturity of investments	27,839	16,176

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statement of Cash Flows (continued)
(unaudited, in thousands of Canadian dollars, except per share amounts)

	9 months ended	
	September 30, 2020	**September 30, 2019**
Cash provided by continuing investing activities	11,302	166
Cash provided by discontinued investing activities	-	294,064
Cash inflow from investing activities	11,302	294,230
Decrease in cash and short-term deposits	(56,835)	(57,030)
Cash and short-term deposits, beginning of year	70,932	129,604
Cash and short-term deposits, end of year	14,097	72,574
Supplementary information		
Income taxes (recovered) paid	(415)	2,341

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

1. Nature of operations

Echelon Financial Holdings Inc. ("the Company") was incorporated in Canada on August 18, 1997, under the Business Corporations Act (Ontario). The Company is domiciled in Canada and principally engaged, through its subsidiary, 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 75% owned subsidiary – The Insurance Company of Prince Edward Island ("ICPEI"). The Company is listed on the Toronto Stock Exchange but has applied to migrate to the TSX Venture Exchange.

2. COVID-19 pandemic

The rapid spread of the COVID-19 virus, which was declared by the World Health Organization to be a pandemic on March 11, 2020, and actions taken in Canada and globally in response to COVID-19, has significantly disrupted business activities. ICPEI implemented its emergency operational plan, which included transitioning most employees to work from home and only a small number of staff in the office to perform functions, which could not be performed remotely. Although the office was closed to the public, claim services and support for brokers continued during this time. Since June 2020, ICPEI has resumed full operations in its office in Charlottetown.

ICPEI has provided a number of accommodations to its policyholders if they experience hardship because of COVID-19 and adjust their auto premiums due to reduction of use. ICPEI has only experienced a very minor increase in the number of customer defaults and very few requests to lower monthly premiums based on lower usage of vehicles. These did not have a significant impact on the results of the Company in the first quarter of 2020 as it recorded a provision of $200 for expenses. In the second quarter, provision for unpaid claims was increased by $647 as provision for adverse development ("PFAD") to incorporate uncertainty of COVID 19 impact on claims. The number of motor vehicle claims decreased in the year compared to prior year. The impact is reflected in the lower claims expense.

ICPEI postponed auto rate increase in New Brunswick, which was to be effective June 1, 2020 to September 1, 2020 and at the same time offered a 10% COVID discount to New Brunswick auto rates. ICPEI implemented a slight reduction in auto rates in Nova Scotia.

The effects on the Company's development of critical estimates during the third quarter of 2020 are described below:

Investment valuation

The Company's valuation technique and recognition of impairment remain unchanged. The Company's investments are valued at fair value using Level 1 or Level 2 inputs that are primarily based on quoted market prices. The Company has no Level 3 investments that require more assumptions and judgement in their valuation. As at the end of third quarter, the Company recorded a gain in investment of $2,389 in its profit and loss and recorded $1,379 of unrealized gain in its other comprehensive income.

Provision for unpaid claims

ICPEI does not provide insurance coverage specifically for pandemic risk. However, in its commercial property policies, it offers coverage for business interruption. Based on outside legal counsel review, ICPEI does not believe that business interruption claims from pandemic Covid-19 are covered perils. PFAD margin factors were revised to incorporate uncertainty of COVID 19 impact on claims which resulted in increase in IBNR of $647 year-to-date. ICPEI will continue to monitor all developments in future.

Credit risk

During the third quarter of 2020, the Company's exposure to credit risk continued to remain high primarily due to the continued potential effects of COVID-19 pandemic on the Company's reinsurers, insurance contract receivables from customers, and issuers of the Company's investments in bonds. There were no significant changes used in the third quarter of 2020 to monitor and evaluate credit risks. There was no downgrade of reinsurers' credit rating and there were no significant delinquent payments from customers. Valuation of investment bonds is based on observable market values which already reflect the associated credit risks associated with the issuers.

3. 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, 2019, which have been prepared in accordance with IFRS.

These consolidated financial statements have been authorized for issue by the Board of Directors on November 12, 2020.

4. Summary of significant accounting policies

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

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 meets the 90% threshold. The company has deferred adoption, until the new insurance contracts standard is adopted effective January 1, 2023

IFRS 17, Insurance Contracts

IASB published IFRS 17 with effective date delayed to January 1, 2023, 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.

5. 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 2019 consolidated financial statements except for impacts discussed in note 2.

6. Seasonality

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

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

7. Investments

The following table provides a breakdown of the investment portfolio:

	Fair values	
Available for sale	**As at September 30, 2020**	**As at December 31, 2019**
Fixed income		
Canadian		
Federal	4,562	5,053
Provincial	3,054	2,771
Municipal	110	-
Corporate	4,979	4,336
Total fixed income	12,705	12,160
Corporate value pooled fund	5,858	5,320
Money market pooled funds	806	604
Short-term fixed income and mortgage pooled funds	14,343	13,550
Total pooled funds	21,007	19,474
Common shares		
Canadian	314	1,798
Foreign	-	2,057
Global Equity Pooled Fund	-	8,784
Total common shares	314	12,639
Total available for sale	34,026	44,273
Fair value through profit or loss		
Preferred shares	3,557	3,746
Total preferred shares	3,557	3,746
Total investments	37,583	48,019
Cash and short-term deposits	14,097	70,932
Total investments including cash and short-term deposits	51,680	118,951

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, 2019. 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, 2020 and December 31, 2019:

September 30, 2020	**Level 1**	**Level 2**	**Total**
Fixed income		12,705	12,705
Corporate value pooled funds		5,858	5,858
Money market pooled funds		806	806
Short-term fixed income and mortgage pooled funds		14,343	14,343
Common Shares	314	-	314
Preferred Shares	3,557	-	3,557
	3,871	33,712	37,583

December 31, 2019	**Level 1**	**Level 2**	**Total**
Fixed income	-	12,160	12,160
Corporate value pooled funds	-	5,320	5,320
Money market pooled funds	-	604	604
Short-term fixed income and mortgage pooled funds	-	13,550	13,550
Global equity pooled funds	-	8,784	8,784
Common Shares	3,855	-	3,855
Preferred Shares	3,746	-	3,746
	7,601	40,418	48,019

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, 2020 or December 31, 2019.

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, 2020 was $21,007 (December 31, 2019 – $28,258). Investments in pooled funds consist of units invested in underlying money market and mortgage securities managed by third-party managers. The pooled funds are perpetual private trusts created under trust agreements. Financing is only provided to the pooled funds through the purchase of units and is therefore limited to the investment made.

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

Impaired assets and provisions for losses

A gross unrealized loss of $34 on Available for Sale (AFS) investments at September 30, 2020 (December 31, 2019 – $395) is recorded, net of tax, in the amount of $24 (December 31, 2019 – $292) 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.

An impairment of $124 on AFS investments was recognized in the first quarter, which was reversed in the third quarter as the impaired securities were sold.

Investment income

The table below provides additional details on net investment income.

	3 months ended September 30		9 months ended September 30	
	2020	**2019**	**2020**	**2019**
Interest income	378	748	1,541	1,560
Dividend income	56	185	273	432
Net realized gains (losses)	2,282	(3)	2,478	58
Impairment (writedown) / Reversal	124	-	-	-
Fair value change on FVTPL investments	264	10	(89)	2
Investment expenses	(58)	(66)	(191)	(193)
Investment income	3,046	874	4,012	1,859

8. 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 Company discounts its best estimate as follows, which is for all lines of business within the reporting entity:

Entity	September 30, 2020	December 31, 2019
ICPEI	2.3%	2.5%

The Company recorded a $30 reduction, as at September 30, 2020, to the net provision for unpaid claims relating to favourable development in prior years' estimates (December 31, 2019 – $2,391 unfavourable).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial liabilities are adequate to pay future claims, the 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 $2,280 as at September 30, 2020 (December 31, 2019 – $1,595). PFAD margin factors were revised to incorporate COVID 19 impact which resulted in increase in IBNR of $647 year-to-date.

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

Claims development

Provision for unpaid claims analysis	September 30, 2020	December 31, 2019
Unpaid claims, beginning of year, net	23,361	19,201
(Favourable) unfavourable prior year claims development	(30)	2,391
Net claims incurred in current year	14,621	20,962
Paid on claims occurring during		
Current year	(7,796)	(12,476)
Prior year	(5,583)	(6,717)
Unpaid claims, end of year, net	24,573	23,361
Reinsurers' share	2,769	3,268
Gross unpaid claims	27,342	26,629

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. PFAD margin factors were revised to incorporate COVID 19 impact which resulted in increase in IBNR of $647 year-to-date.

9. 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 September 30, 2020, and December 31, 2019, 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, 2020	Fair value of fixed income	Hypothetical change on fair value	Effect on OCI net of tax
200 basis point rise	31,742	(6)%	(1,373)
100 basis point rise	32,727	(3)%	(687)
No change	33,712	-	-
100 basis point decline	34,698	3%	687
200 basis point decline	35,684	6%	1,373

Change in interest rates As at December 31, 2019	Fair value of fixed income	Hypothetical change on fair value	Effect on OCI net of tax
200 basis point rise	30,081	(5)%	(1,082)
100 basis point rise	30,858	(2%)	(541)
No change	31,634	-	-
100 basis point decline	32,410	2%	541
200 basis point decline	33,187	5%	1,082

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 is as follows, as at September 30, 2020 and December 31, 2019:

September 30, 2020	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	405	4,628	2,891	4,781	12,705
Cash and cash equivalents	14,097	-	-	-	14,097
Accounts receivable	11,832	-	-	-	11,832
Total	26,334	4,628	2,891	4,781	38,634
Percentage of total	68%	12%	8%	12%	100%

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

December 31, 2019	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	227	3,664	3,335	4,934	12,160
Cash and cash equivalents	70,932	-	-	-	70,932
Accounts receivable	10,020	-	-	-	10,020
Total	81,179	3,664	3,335	4,934	93,112
Percentage of total	87%	4%	4%	5%	100%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at September 30, 2020 and December 31, 2019:

September 30, 2020	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Gross claim liabilities (undiscounted)	11,013	8,405	3,540	2,538	25,496
Less: Reinsurance recoverable (undiscounted)	1,559	884	107	60	2,610
Net actuarial liabilities	9,454	7,521	3,433	2,478	22,886

December 31, 2019	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Gross claim liabilities (undiscounted)	11,414	8,410	3,488	2,530	25,842
Less: Reinsurance recoverable (undiscounted)	1,655	1,093	265	159	3,172
Net actuarial liabilities	9,759	7,317	3,223	32,371	22,670

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, 2020, and the year ended December 31, 2019. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumption that all equity holdings increased/decreased by 10% with all other variables held constant.

Change in equity holdings	Effect on net income (loss) net of tax		Effect on OCI net of tax	
	September 30, 2020	December 31, 2019	September 30, 2020	December 31, 2019
10% rise	248	261	23	923
10% decline	(248)	(261)	(23)	(923)

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

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 September 30, 2020 and December 31, 2019:

	As at September 30, 2020		As at December 31, 2019	
	Fair value	**%**	**Fair value**	**%**
AAA	5,644	44%	5,940	49%
AA	2,633	21%	2,321	19%
A	3,652	29%	2,861	23%
BBB	776	6%	1,038	9%
Total	12,705	100%	12,160	100%

Preferred share portfolio

A breakdown of the preferred shares portfolio by credit rating is shown below as at September 30, 2020 and December 31, 2019:

	As at September 30, 2020		As at December 31, 2019	
	Fair value	**%**	**Fair value**	**%**
P2	3,110	87%	3,305	88%
P3	447	13%	441	12%
Total	3,557	100%	3,746	100%

10. Income taxes

The income tax is as follows:

	3 months ended September 30		9 months ended September 30	
	2020	**2019**	**2020**	**2019**
Current	156	(281)	653	(221)
Deferred	(101)	(60)	12	(15)
	55	(341)	665	(236)

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.

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

The difference is broken down as follows:

	3 months ended September 30		9 months ended September 30	
	2020	**2019**	**2020**	**2019**
Income tax expense calculated on statutory rates	26.5%	27.0%	26.5%	27.0%
Increase (decrease) in income tax rates resulting from:				
Non-taxable dividend income	(0.2%)	4.9%	(1.3%)	22.5%
Non-taxable capital gain	(21.8%)	-	(13.7%)	-
Statutory rate difference	(0.9%)	1.9%	2.4%	(2.6%)
Other	(1.9%)	(0.1%)	(0.8%)	(0.5%)
Effective income tax rate	1.7%	33.7%	13.1%	46.4%

11. Operating costs by nature

The table below presents operating costs by major category.

	3 months ended September 30		9 months ended September 30	
	2020	**2019**	**2020**	**2019**
Salaries and benefits	705	552	2,257	1,361
Systems costs	66	-	253	90
Professional fees	171	242	420	659
Directors' and Regulatory Filing fees	84	463	215	643
Occupancy and lease cost	150	87	447	270
Printing and postage	53	46	133	135
Facility	179	152	417	311
Management Fees*	57	43	150	719
Other expenses	18	197	418	459
	1,483	1,782	4,710	4,647

*ICPEI was paying management fees to Echelon till May 31st 2019 to provide for support services. Since 1st June 2019, ICPEI has been operating as a standalone company.

12. Accumulated other comprehensive income

A breakdown of the accumulated other comprehensive income is shown below as at September 30, 2020 and December 31, 2019:

	As at September 30, 2020	As at December 31, 2019
Gross unrealized gains	547	1,938
Tax impact	(141)	96
Ending balance	406	2,034

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

13. Earnings per share

Earnings per share are calculated in the following table:

	3 months ended September 30		9 months ended September 30	
Earnings per share on Continued Operations	**2020**	**2019**	**2020**	**2019**
Basic earnings per share on continued operations:				
Net income (loss) available to shareholders	2,923	(505)	3,877	(284)
Average number of common shares	12,007	12,007	12,007	11,966
Basic (loss) earnings per share on continued operations	$0.24	$(0.04)	$0.32	$(0.02)
Diluted earnings per share:				
Average number of common shares	12,007	12,007	12,007	11,966
Average number of dilutive common shares under employee stock compensation plan	-	-	-	185
Average number of diluted common shares	12,007	12,007	12,007	12,151
Diluted (loss) earnings per share on continued operations	$0.24	$(0.04)	$0.32	$(0.02)

Earnings per share on Discontinued Operations	**2020**	**2019**	**2020**	**2019**
Basic (loss) per share on discontinued operations:				
Net income (loss) available to shareholders	(5,866)	-	(5,866)	46,220
Average number of common shares	12,007	12,007	12,007	11,966
Basic earnings (loss) per share on discontinued operations	$(0.49)	-	$(0.49)	$3.86
Diluted earnings per share:				
Average number of common shares	12,007	12,007	12,007	11,966
Average number of dilutive common shares under employee stock compensation plan	-	-	-	185
Average number of diluted common shares	12,007	12,007	12,007	12,151
Diluted earnings (loss) per share on discontinued operations	$(0.49)	-	$(0.49)	$3.80

Total Earnings per Share	**2020**	**2019**	**2020**	**2019**
Basic earning per share:				
Net income available to shareholders	(2,943)	(505)	(1,989)	45,936
Average number of common shares	12,007	12,007	12,007	11,966
Basic earnings per share	$(0.25)	$(0.04)	$(0.17)	$3.84
Diluted earnings per share:				
Average number of common shares	12,007	12,007	12,007	11,966
Average number of dilutive common shares under employee stock compensation plan	-	-	-	185
Average number of diluted common shares	12,007	12,007	12,007	12,151
Diluted earnings per share	$(0.25)	$(0.04)	$(0.17)	$3.78

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

14. Net income (loss) from discontinued operations

The table below presents results of discontinued operations for the period ended September 30, 2020 and September 30, 2019:

	3 months ended September 30		9 months ended September 30	
	2020	**2019**	**2020**	**2019**
Revenue				
Net earned premiums	-	-	-	133,164
Investment Income	-	-	-	4,656
Total revenue	-	-	-	137,820
Expenses				
Net incurred claims	-	-	-	99,889
Net acquisition costs	-	-	-	31,402
Operating costs	-	-	-	16,411
Total expenses	-	-	-	147,702
Settlement of New Nordic lawsuit	(7,000)	-	(7,000)	-
Loss before income taxes	(7,000)	-	(7,000)	(9,882)
Income tax (recovery)	(1,134)	-	(1,134)	(2,974)
Net loss on discontinued operations	(5,866)	-	(5,866)	(6,908)
Gain on sale, net of expenses	-	-	-	53,128
Net income (loss) on discontinued operations	(5,866)	-	(5,866)	46,220

On August 2, 2019, New Nordic Odin Denmark (NNOD) filed a Statement of Claim with the Danish Institute of Arbitration. The Claim sought €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. The Board concluded that it is in the best interests of EFH and the shareholders to settle the claim for a reasonable amount in order to avoid the expenses and risks of a lengthy litigation. The parties have now settled the claim upon payment by EFH of C$7 million in the third quarter with no further recourse available to the claimant.

Accordingly, the Directors have paid special cash dividend in the amount of C$5.60 per share for an aggregate of $67.2 million in the quarter.

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

15. 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	
	2020	**2019**	**2020**	**2019**
Revenue				
Gross written and assumed premiums	2,935	2,568	7,892	7,050
Net earned premiums	2,360	2,091	6,718	5,956
Investment Income	180	94	305	286
Total revenue	2,540	2,185	7,023	6,242
Expenses				
Net incurred claims	1,359	1,650	3,648	4,078
Net acquisition costs	602	467	1,623	1,308
Operating costs	317	314	975	855
Total expenses	2,278	2,431	6,246	6,241
Income (loss) before income taxes	262	(246)	777	1
Income tax expense (recovery)	78	(78)	227	(10)
Net income (loss) attributable to NCI	184	(168)	550	11
Other comprehensive income (loss) attributable to NCI	47	(7)	182	75
Comprehensive income (loss) attributable to NCI	231	(175)	732	86

The following tables summarize the net assets of the non-controlling shareholders as at September 30, 2020 and December 31, 2019:

	September 30 2020	**December 31 2019**
Assets		
Cash and investments	12,053	10,019
Other assets	5,887	5,881
Total assets	17,940	15,900
Liabilities		
Unearned premium	5,390	4,687
Unpaid claims	6,836	6,657
Other liabilities	1,250	824
Total liabilities	13,476	12,168
Equity		
AOCI	135	(47)
Retained earnings	4,329	3,779
Total equity	4,464	3,732
Total liabilities and equity	17,940	15,900

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

	As at September 30 2020	As at December 31 2019
Cash flow from operating activities	1,925	893
Cash flow from investing activities	(274)	(44)
Cash flow from financing activities	(76)	(99)
Net increase in cash and short-term deposits	1,575	750

16. 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 Canadian Operations are excluded.

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	
	2020	2019	2020	2019
Revenue				
Net earned premiums				
- Personal Lines	6,559	5,729	18,754	16,148
- Commercial Lines	2,882	2,633	8,117	7,676
Total net earned premium	9,441	8,362	26,871	23,824
Net claims incurred				
- Personal Lines	4,023	4,695	9,858	11,815
- Commercial Lines	1,312	1,827	4,632	4,112
Net claims	5,335	6,522	14,490	15,927
Net expenses				
- Personal Lines	2,656	2,181	7,200	5,707
- Commercial Lines	1,019	945	3,193	2,945
Total	3,675	3,126	10,393	8,652
Total net expenses	9,010	9,648	24,883	24,579
Underwriting income (loss) before income taxes				
- Personal Lines	(120)	(1,147)	1,696	(1,374)
- Commercial Lines	551	(139)	292	619
Total	431	(1,286)	1,988	(755)
Corporate and other	(214)	(524)	(807)	(1,227)
Underwriting income (loss)	217	(1,810)	1,181	(1,982)
Impact of change in net claims discount rate	(101)	(78)	(101)	(386)
Investment income	3,046	874	4,012	1,859
Total income (loss) before income taxes	3,162	(1,014)	5,092	(509)

17. Subsequent Event with a Related Party

Effective October 29 2020, an escrow account was set up to execute agreement with Atlantic Adjusting and Appraisals Ltd (AAA) and Maritime Finance and Acceptance Corporation (MFAC) to bring claims and policy receivables handling and processing in house to ICPEI. Both AAA and MFAC are affiliated with minority shareholder who is also part of ICPEI's senior management. The agreements result in acquisition of all employees of AAA and MFAC employees by ICPEI. This acquisition helps ICPEI in its goal of being an independent company with standalone operations and will save time, efforts and cost to build claims and policy receivables departments from scratch. Total agreement consideration paid in escrow agreement was $535. ICPEI expects to save over $300 annually because of these agreements.

Separately, ICPEI received $800 from AAA reserved for payment to ICPEI under its contract to affect future claims handling expenses.