

Consolidated Financial Statements of

EFH Holdings Inc.

December 31, 2020 and 2019

Management's Responsibility for Financial Reporting

Roles of Management, Board of Directors and Audit and Risk Committee

Management is responsible for the preparation and fair presentation of the consolidated financial statements ("the financial statements"). The financial statements of EFH Holdings Inc. ("the Company") were prepared in accordance with International Financial Reporting Standards. Where necessary, these financial statements reflect amounts based on the best estimates and judgement of management.

In meeting its responsibility for the reliability of the financial statements, management maintains the necessary system of internal controls. These controls are designed to provide management with reasonable assurance that the financial records are reliable for preparing financial statements and other financial information, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The Audit and Risk Committee composed of directors who are not officers or employees of the Company, meets, as required, with management, the Appointed Actuary and the external auditor to review actuarial, accounting, reporting and internal control matters. The Audit and Risk Committee is responsible for reviewing the financial statements and recommending them to the Board of Directors for approval.

Role of Appointed Actuary

The Actuary is appointed by the Board of Directors, pursuant to the Insurance Companies Act. The Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. The Appointed Actuary is also required to provide an opinion regarding the appropriateness of the policy liabilities to meet all policyholder obligations of the Company at the consolidated balance sheet date. Examination of supporting data for accuracy and completeness and consideration of the Company's assets are important elements of the work required to form this opinion. The Appointed Actuary uses the work of the external auditor in verifying data used for valuation purposes. Policy liabilities include unearned premiums, provision for unpaid claims, reinsurers' share of unearned premiums and provision for unpaid claims and deferred policy acquisition costs.

Role of External Auditor

PricewaterhouseCoopers LLP, external auditor, has been appointed by the shareholders to conduct an independent audit of the financial statements of the Company in accordance with Canadian generally accepted auditing standards and report to the shareholders regarding the fairness of the annual financial statements. The external auditor considers the work of the Appointed Actuary in respect of policy liabilities included in the financial statements, on which the Appointed Actuary has rendered an opinion.

Toronto, Ontario
March 4, 2021



(Signed) Serge Lavoie
Chief Executive Officer



(Signed) Teddy Chien
Chief Financial Officer



Independent auditor's report

To the Shareholders of EFH Holdings Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of EFH Holdings Inc. (formerly Echelon Financial Holdings Inc.) and its subsidiary (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2020 and 2019;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error,



as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Akif Siddiqui.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 4, 2021

EFH HOLDINGS INC.
Consolidated Balance Sheets
(in thousands of Canadian dollars)

	Note	December 31, 2020	December 31, 2019
Assets			
Cash and short-term deposits	7	11,859	70,932
Accounts receivable		12,039	10,020
Investments	7	44,582	48,019
Due from insurance companies		596	324
Deferred policy acquisition costs	8	5,110	4,209
Income taxes recoverable		460	1,184
Prepaid expenses and other assets	9	1,688	4,028
Reinsurers' share - unearned premiums	11	799	1,031
- provision for unpaid claims	12	3,683	3,268
Right of use asset	10	482	777
Goodwill		378	-
Deferred income taxes	15	195	228
Total assets		81,871	144,020
Liabilities			
Accounts payable and accrued liabilities		3,549	4,528
Unearned premiums	11	22,571	18,749
Unearned commission	8	220	195
Income taxes payable		1,620	-
Lease liability	10	409	712
Provision for unpaid claims	12	29,668	26,629
Total liabilities		58,037	50,813
Equity			
Share capital	16	2,794	2,794
Contributed surplus		1,507	1,507
Retained earnings	16	14,186	83,140
Accumulated other comprehensive income	22	616	2,034
Equity attributed to shareholders of the Company		19,103	89,475
Non-controlling interest	25	4,731	3,732
Total equity		23,834	93,207
Total liabilities and equity		81,871	144,020

The accompanying notes, which include significant accounting policies and other explanatory information, are an integral part of these consolidated financial statements approved on March 4, 2021.

On behalf of the Board of Directors:



(Signed) Serge Lavoie
Chief Executive Officer



(Signed) Murray Wallace
Chairman of the Board

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

		For the year ended December 31	
	Note	2020	2019
Revenue			
Gross written and assumed premiums		43,188	36,829
Less: premiums ceded to reinsurers		(2,122)	(2,040)
Net written and assumed premiums		41,066	34,789
(Increase) in gross unearned premiums		(3,822)	(1,901)
(Decrease) in unearned premiums, reinsurers' share		(232)	(491)
Change in provision for unearned premiums		(4,054)	(2,392)
Net earned premiums		37,012	32,397
Investment income	7	4,795	2,942
Total revenue		41,807	35,339
Expenses			
Gross claims incurred		21,118	23,059
Less: claims recoveries from reinsurers		(1,205)	(161)
Net incurred claims		19,913	22,898
Gross acquisition costs		8,984	7,208
Less: acquisition recoveries from reinsurers		(66)	(239)
Net acquisition costs		8,918	6,969
Operating costs	18	7,040	5,769
Total expenses		35,871	35,636
Income (loss) before taxes and discount rate impact on claims		5,936	(297)
Impact of change in discount rate on claims ⁽¹⁾		(342)	(457)
Income (loss) before income taxes		5,594	(754)
Income tax expense (recovery)	15	698	(449)
Net income (loss) from continuing operations		4,896	(305)
Net (loss) Income from discontinued operations	24	(5,866)	45,722
Net (loss) income		(970)	45,417
Attributed to:			
Shareholders of the Company - continuing operations		4,149	(127)
Shareholders of the Company - discontinued operations		(5,866)	45,722
Non-controlling interest - continued operations		747	(178)
Net (loss) income		(970)	45,417
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income			
Available-for-sale investments:			
Change in net unrealized gains (losses)		1,800	2,517
Reclassification of net realized (gains) losses to net income		(2,538)	(156)
Tax impact	15	(428)	(111)
Other comprehensive (loss) income on continuing operations		(1,166)	2,250
Other comprehensive income on discontinued operations		-	1,254
Other comprehensive (loss) income		(1,166)	3,504

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

	Note	2020	2019
Attributed to:			
Shareholders of the Company - continuing operations		(1,418)	2,182
Shareholders of the Company - discontinued operations		-	1,254
Non-controlling interest - continuing operation		252	68
Other comprehensive (loss) income		(1,166)	3,504
Total comprehensive (loss) income		(2,136)	48,921
Attributed to:			
Shareholders of the Company - continuing operations		2,731	2,055
Shareholders of the Company - discontinued operations		(5,866)	46,976
Non-controlling interest - continuing operation		999	(110)
Total comprehensive income		(2,136)	48,921
Earnings per share attributable to shareholders of the Company	23		
Earnings per share continuing operations - basic		\$0.35	\$(0.01)
Earnings per share discontinued operations - basic		(0.49)	3.82
Earnings per share – basic		(0.14)	3.81
Earnings per share continuing operations - diluted		0.35	(0.01)
Earnings per share discontinued operations - diluted		(0.49)	3.78
Earnings per share – diluted		(0.14)	3.77

⁽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 consolidated financial statements.

EFH HOLDINGS INC.
Consolidated Statements of Changes in Equity
(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)	-	-	-	(1,717)	(1,717)	747	(970)
Other comprehensive (loss) income	-	-	(1,418)	-	(1,418)	252	(1,166)
Total comprehensive (loss) income	-	-	(1,418)	(1,717)	(3,135)	999	(2,136)
Dividends paid	-	-	-	(67,237)	(67,237)	-	(67,237)
Balance at December 31, 2020	2,794	1,507	616	14,186	19,103	4,731	23,834

	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)	-	-	-	45,595	45,595	(178)	45,417
Other comprehensive income (loss)	-	-	3,436	-	3,436	68	3,504
CIM RE Wind Up	-	1,204	1,475	(2,679)	-	-	-
Total comprehensive income (loss)	-	1,204	4,911	42,916	49,031	(110)	48,921
Dividends Paid	(69,611)	-	-	(36,020)	(105,631)	-	(105,631)
Commons shares issued on stock options exercised	408	-	-	-	408	-	408
Balance at December 31, 2019	2,794	1,507	2,034	83,140	89,475	3,732	93,207

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

EFH HOLDINGS INC.
Consolidated Statements of Cash Flows
(in thousands of Canadian dollars)

	For the year ended December 31	
	2020	2019
Cash provided by (used in):		
Operating activities		
Net income (loss) from continued operations	4,896	(305)
Net (loss) Income from discontinued operations	(5,866)	45,722
Adjusted for:		
Reinsurers' share of unearned premiums	232	491
Reinsurers' share of unpaid claims	(415)	1,621
Provision for unpaid claims	2,384	2,539
Unearned premiums	3,822	1,901
Deferred income taxes	33	553
Unearned commissions	25	16
Deferred policy acquisition costs	(901)	(214)
Amortization on right of use asset	399	331
Amortization on property plant equipment and intangible assets	264	98
Amortization of premiums on bonds	66	18
Fair value change on FVTPL investments	(40)	(55)
Prepaid expenses & other assets	2,543	(349)
	8,412	6,950
Cash flow from changes in		
Accounts receivable	(2,019)	(1,111)
Net realized (gains)	(2,512)	(136)
Income taxes recoverable and payable	1,915	(1,337)
Due from insurance companies	(272)	(1,365)
Accounts payable and accrued liabilities	(979)	(6,547)
Cash provided (used) by continuing operating activities	9,441	(3,851)
Cash (used) by discontinued operating activities	(5,866)	(242,607)
Cash inflow (outflow) from operating activities	3,575	(246,458)
Financing activities		
Proceeds from issuing of common shares for stock options	-	408
Common share dividends	(67,237)	(105,631)
Payment of lease liabilities	(407)	(396)
Cash (used) by continuing financing activities	(67,644)	(105,619)
Cash (outflow) from financing activities	(67,644)	(105,619)
Investing activities		
Purchases of property, equipment and intangible assets	(454)	(752)
Net cash acquired through business combination	265	
Purchases of investments	(36,305)	(23,220)
Sale/maturity of investments	41,490	23,313

EFH HOLDINGS INC.
Consolidated Statement of Cash Flows (continued)
(in thousands of Canadian dollars)

	2020	2019
Proceeds received from the sale of subsidiary	-	170,241
Cash provided by continuing investing activities	4,996	169,582
Cash provided by discontinued investing activities	-	123,823
Cash from investing activities	4,996	293,405
(Decrease) in cash and short-term deposits	(59,073)	(58,672)
Cash and short-term deposits, beginning of year	70,932	129,604
Cash and short-term deposits, end of year	11,859	70,932
Supplementary information		
Income taxes (recovered) paid	(2,385)	2,341

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

EFH HOLDINGS INC.

Notes to the Consolidated Financial Statements (continued)

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

1 Nature of operations

EFH Holdings Inc. ("the Company"), incorporated in Canada on August 18, 1997, under the Business Corporations Act (Ontario) is domiciled in Canada and its shares are traded on the TSX Venture Exchange. On December 22, 2020 company migrated from TSX to TSX Venture Exchange. The Company's name was changed from Echelon Financial Holdings Inc. to EFH Holdings Inc. after receiving approval from shareholders on December 11, 2020. The Company is principally engaged in property and casualty insurance in Canada through its 75% owned subsidiary – The Insurance Company of Prince Edward Island ("ICPEI"). The Company's head office is located at 2800 Skymark Avenue, Suite 200, Mississauga, Ontario.

Discontinued Operations

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. and the sale was completed May 31, 2019.

On December 30, 2019, the Company also dissolved its wholly owned subsidiary CIM Re in Barbados.

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 have experienced hardship because of COVID-19 and adjusted 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. 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 increases in New Brunswick, which were to be effective June 1, 2020 to September 1, 2020 and at the same time offered a 10% COVID discount on renewals and new business in New Brunswick. ICPEI implemented a 5% reduction in auto rates in Nova Scotia effective June 1, 2020.

The effects on the Company's development of critical estimates in year 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. COVID 19 did not have any adverse impact on valuation of investments.

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. ICPEI will continue to monitor all developments in future.

Credit risk

During the year 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 year to monitor and evaluate credit risks. There was no downgrade of reinsurers' credit rating and there were

EFH HOLDINGS INC.

Notes to the Consolidated Financial Statements (continued)

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

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

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

These consolidated financial statements have been authorized for issue by the Board of Directors, on March 4, 2021.

4 Summary of significant accounting policies

Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for investments and insurance contracts which are carried at fair value and in accordance with IFRS 4, respectively.

Discontinued Operations

Assets and liabilities are classified as held for sale (discontinued operations) if their carrying amounts are recovered through a sales transaction rather than through continuing use. This condition is satisfied when the asset is available for immediate sale in its present condition, management is committed to the sale and it is highly probable to occur within one year. Assets classified as held-for-sale are measured at their lower of their previous carrying amount and fair value, less costs to sell, and are presented separately from other assets on the consolidated balance sheet.

A disposal group is classified as a discontinued operation if it meets the following conditions: (a) it is a component that can be distinguished operationally and financially from the rest of our operations, and (b) it represents either a separate major line of business or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.

Balance sheet presentation

The Company does not classify its assets and liabilities as current and non-current on its consolidated balance sheet. As a financial institution, the Company provides insurance services over a period of years, rather than within a clearly identifiable short-term operating cycle. The consolidated balance sheet is presented in the order of liquidity, based on expectations regarding recovery or settlement within 12 months after the reporting date, and more than 12 months after the reporting date as presented in the respective notes.

The maturity profile of the investment portfolio is described in note 14 based on expected settlements. The estimated payment period for insurance claims, less related reinsurance recoverable, is provided in note 14. Cash and short term deposits, due from insurance companies, accounts receivable, deferred policy acquisition costs, income taxes recoverable and payable, accounts payable and accrued liabilities, payable to insurance companies, unearned premium, and unearned commission are expected to be recovered or settled within twelve months of the year end.

Consolidation

The consolidated financial statements of the Company consolidate the accounts of EFH Holdings Inc. and its subsidiary. All inter-company transactions, balances and unrealized gains and losses from inter-company transactions are eliminated on consolidation.

The subsidiary is the entity which EFH Holdings Inc., through its investment in the entity, is exposed or has rights to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether EFH Holdings Inc. controls another entity. The subsidiary is fully consolidated from the date on which control is obtained by EFH Holdings Inc. and is de-consolidated from the date that control ceases.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity.

EFH HOLDINGS INC.

Notes to the Consolidated Financial Statements (continued)

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

Changes in the parent company's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to senior management, the Chief Executive Officer and Board of Directors of the Company.

Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a controlled entity comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the controlled entity.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Within 12 months of completing the acquisition, identifiable intangible assets are valued and separately recognized in the statement of financial position. On an acquisition-by-acquisition basis, the company recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the company's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the controlled entity acquired and the measurement of all amounts has been reviewed, the difference is recognized directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognized in the statement of comprehensive income.

Cash and short-term deposits

Cash and short-term deposits include cash-on-hand, cash balances with banks and short-term investments. Short-term investments are defined as loans of less than one year to maturity at the time of acquisition. These financial assets are classified as loans and receivables and are recorded at an amortized cost which approximates fair value.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

EFH HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
(audited, in thousands of Canadian dollars, except per share amounts)

- i. *Financial assets and liabilities at fair value through profit or loss (FVTPL)*: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term, or if it is designated at FVTPL by management. The Company has designated as FVTPL under the fair value option financial assets which contain embedded derivatives that significantly alter the cash flows of the underlying asset.

Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the consolidated statements of income and comprehensive income within investment income in the year in which they arise. The Company's investments in preferred shares are classified as FVTPL.

- ii. *Available-for-sale (AFS) investments*: Non-derivative financial assets that are either designated in this category or not classified in any of the other categories are AFS investments. The Company's AFS investments are comprised of marketable securities and investments in debt and common equity securities.

AFS investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in OCI.

Interest on AFS investments, calculated using the effective interest method, is recognized in the consolidated statements of income and comprehensive income within investment income. Dividends on AFS equity instruments are recognized in the consolidated statements of income and comprehensive income as part of investment income when the Company's right to receive payment is established. When an AFS investment is sold or impaired, the accumulated gains or losses are moved from accumulated OCI to the consolidated statements of income and comprehensive income and included within investment income.

- iii. *Loans and receivables*: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables are comprised of accounts receivables, due from insurance companies, loans to brokers and cash and short-term deposits. Loans and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less any provision for impairment.

Impairment of financial assets

The Company determines, at each reporting date, whether there is objective evidence that financial assets are impaired. The criteria used to determine if objective evidence of an impairment loss include:

- i. Significant financial difficulty of the obligor;
- ii. Delinquencies in interest, principal or dividend payments; and
- iii. It becomes probable that the borrower will enter bankruptcy or other financial reorganization.
- iv. For equity securities, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired.

If such evidence exists, the Company recognizes an impairment loss, as follows:

AFS investments: The impairment loss is the difference between the amortized cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the consolidated statements of income and comprehensive income. This amount represents the cumulative loss in accumulated OCI that is reclassified to the consolidated statements of income and comprehensive income.

Loans and receivables carried at amortized cost: The loss is the difference between the amortized cost of the loan and receivables and the present value of the estimated future cash flows, discounted using the instrument's

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original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent years if the amount of the loss decreases or the fair value of financial assets carried at amortized cost increases and the decrease/increase can be related objectively to an event occurring after the impairment was recognized. In contrast, impairment losses on AFS equity instruments are not reversed.

Debt Impairment Model

- One or more loss events (a payment default for example) and change in credit rating that occurred after initial recognition and that has an impact on the estimated future cash flows of the financial asset.

Equity Impairment Model

- A significant, a prolonged, or a significant and prolonged decline in the fair value of an investment below cost.

Unrealized loss position	Common shares
Significant	Unrealized loss of 50% or more
Prolonged	Unrealized loss for 15 consecutive months or more
Significant and prolonged	Unrealized loss for 9 consecutive months or more and unrealized loss of 30%

Right of use assets and lease liabilities

The Company's right of use assets and liabilities consist primarily of real estate and equipment. At the lease commencement date, the Company recognizes a right-of-use asset and a lease liability on the balance sheet. At inception of a contract the company determines whether a contract is or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

The right of use assets are initially measured at cost. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis from the commencement of the lease, over the shorter of the lease term and the estimated useful lives of the assets. The right-of-use asset is adjusted for certain remeasurement of the lease liability and impairment losses.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, an estimate of the company's incremental borrowing rate. Generally, the company uses its estimated incremental borrowing rate as the discount rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from the company changing its assessment of whether it will exercise a purchase, extension or termination option. If the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

Goodwill

Purchased goodwill is not amortized, but is subject to impairment tests on at least an annual basis or more frequently if events or changes in circumstances indicate that it may be impaired and is carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill related to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

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Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk arises when the Company agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. Significant risk is defined as the possibility of having to pay significantly more in a scenario where the insured event occurs than when it does not occur.

Provision for unpaid claims

Provision for unpaid claims, including adjustment expenses, represents the estimated amounts required to settle all outstanding and unreported claims incurred to the end of the year. Unpaid claims liabilities are discounted to take into account the time value of money. It also includes a provision for adverse deviation. Expected reinsurance recoveries on unpaid claims and adjustment expenses, net of any required provision for doubtful amounts, are recognized as assets at the same time, using principles consistent with the Company's method for establishing the related liability.

Structured settlements

In the normal course of claims adjudication, the Company settles certain obligations to claimants through the purchase of annuities from third party life insurance companies under structured settlement arrangements (structured settlements). In accordance with OSFI Guideline D-5, these contracts are categorized as either Type 1 or Type 2 based on the characteristics of the claim settlement. When the Company does not retain a reversionary interest under the contractual arrangement to any current or future benefits of the annuity, and the Company has obtained a legal release of the obligation from the claimant, it will be classified as a Type 1 structured settlement. For such contracts, any gain or loss arising on the purchase of an annuity is recognized in the consolidated statement of income at the date of purchase and the related claims liabilities are de-recognized. All other structured settlements that do not meet these criteria are classified as Type 2, with the Company recognizing the annuity contract in other investments within invested assets. A corresponding liability representing the outstanding obligation to the claimant is recognized in insurance contracts.

Reinsurance

Reinsurance assets include the reinsurers' share of claims liabilities and unearned premiums. The Company reports third party reinsurance balances on the consolidated balance sheet on a gross basis to indicate the extent of credit risk related to third party reinsurance. The estimates for the reinsurers' share of claims liabilities are presented as an asset and are determined on a basis consistent with the related claims liabilities. Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period.

Revenue recognition

Premiums and unearned premiums

Insurance premiums written are deferred as unearned premiums and recorded in income as the premium is earned on a straight line basis over the terms of the underlying policies. The portion of the premiums related to the unexpired term of the policy at the end of the year is reflected in unearned premiums.

Ceded Premiums and reinsurers' share of unearned premiums

The reinsurers' share of unearned premiums, net of a provision for doubtful amounts, is recognized as an asset at the same time and using principles consistent with the Company's method for determining the unearned premium liability.

Deferred policy acquisition costs

Commissions, premium taxes and general expenses incurred in the writing of premiums are deferred only to the extent that they are expected to be recovered from unearned premiums and are amortized to income as the related premiums are earned. If unearned premiums are not sufficient to pay expected claims and expenses, including policy maintenance expenses and unamortized policy acquisition costs, a premium deficiency is said to exist. Premium deficiency is recognized by a charge to income initially by writing down deferred policy acquisition costs. If the premium deficiency is greater than the deferred policy acquisition costs, a liability would be accrued for the excess deficiency.

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Unearned commission

Unearned commissions are based on ceded premiums with a coverage period beyond the current year end. Unearned commissions are recognized as liabilities using principles consistent with the Company's method of determining policy acquisition costs.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization and impairment. Amortization is provided over the estimated useful lives of three years using the straight-line method.

Intangible assets

Intangible assets with finite useful lives, comprised primarily of computer software, are recorded at cost less accumulated amortization and impairment. Amortization is provided over the estimated useful life of the asset (2-3 years) using the straight-line method. Intangible assets with indefinite lives are recorded at lower of cost and recoverable amount.

Impairment of non-financial assets

Property and equipment and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units – or "CGUs"). Recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU, as determined by management).

The Company evaluates impairment losses, for potential reversals when events or circumstances warrant such consideration.

Employee benefits

The Company contributes to a group registered savings plan for employees as services are incurred. Contributions are charged to operating expenses. There are no other post-employment benefit expenses.

Income taxes

Income taxes are recognized in the consolidated statements of income and comprehensive income except to the extent that it relates to items recognized in OCI or directly in equity. In those cases, the related taxes are also recognized in OCI or directly in equity, respectively.

Current income tax is based on the results of the operations, adjusted for items that are not taxable or not deductible, that is payable for the current year. Current income tax is calculated based on income tax laws and rates enacted or substantively enacted as at the consolidated balance sheet date.

The Company follows the asset and liability method of accounting for income taxes, whereby deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the carrying values of existing assets and liabilities and their respective income tax bases and taxable losses and tax credit carry-forwards. Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income or OCI or equity in the year which includes the date of enactment or substantive enactment. Deferred income tax assets are recognized only to the extent the realization of such assets is probable. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is intention to settle the balances on a net basis.

Stock-based compensation

The Company has a Stock Option Plan and a Share Unit Plan that provide for the issuance of shares of the Company's

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common stock not exceeding 10% of the total issued and outstanding shares (on a diluted basis).

The Company utilizes the fair-value-based method of accounting for stock based compensation. The fair value of stock based compensation determined using an option pricing model, is recorded over the vesting period as a charge to net earnings with a corresponding credit to contributed surplus. Awards are equity settled.

Stock options which contain a graded vesting feature (the total options granted vest on a graded basis such as annually over 5 years) are accounted for separately based on the date of vesting. At the time the options are granted, expected forfeiture rates are estimated and used to reduce the amount expensed over the life of the options. The estimated forfeiture rate is adjusted to actual forfeiture experience as information becomes available.

The Company has established a Share Unit Plan, under which the Board of Directors may from time to time determine (i) those eligible employees and directors (a "participant") who shall receive a grant of Restricted Share Units ("RSUs") and/or Performance Share Units ("PSUs") (RSUs and PSUs are collectively referred to as "Share Units"), (ii) the number of such RSUs and/or PSUs and (iii) the grant date(s) applicable to such RSUs and/or PSUs. Compensation expense and the related liability are recorded equally over the vesting period, taking into account fluctuations in the market price of the Company's share price.

Each Share Unit granted under the Share Unit Plan will entitle the participant, upon satisfying all applicable vesting criteria, to receive one common share or a cash payment equal to the market value of such share, calculated based on the weighted average trading price per common share on the Toronto Stock Exchange for the 5 trading days prior to a fixed date. The grant of a Share Unit will not entitle the participant to exercise any voting rights, or exercise any other right which attaches to ownership of common shares.

Grant date fair value of each Share Unit is calculated based on the weighted average trading price per common share on the relevant stock exchange for the 5 trading days prior to a fixed date. The fair value of the Share Unit is re-measured each period for subsequent changes in the market value of common shares.

Members of the Board, who are not otherwise employees of the Company or any affiliate and are not employed by a corporation that holds at least 100,000 Shares of the Corporation, are eligible to participate in a Deferred Share Unit Incentive Plan, which allows them to elect to defer all or a portion of their annual retainer received in the form of Deferred Share Units (DSUs), each of which is equivalent in value to one common share of the Company. The number of DSUs is established by dividing the amount of retainers not paid in cash by the weighted average trading price of the Common Shares for the last 5 trading days preceding the determination. Whenever cash dividends are paid on the common shares, the director's account under the DSU plan is credited with additional DSUs corresponding to the dividend paid on the common shares. The fair value of the DSUs is re-measured each period for subsequent changes in the market value of common shares.

Provisions

Provisions are recognized as liabilities when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Company performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Share capital

Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity. The cost method is used to account for the shares purchased under a normal course issuer bid with the average cost of the shares reducing share capital and any excess recorded as a deduction to retained earnings.

Dividends

Dividends on common shares are recognized in the Company's consolidated financial statements in the year in which the dividends are approved by the Board of Directors.

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Earnings per share

Basic earnings per share ("EPS") are calculated by dividing the net income (loss) for the year attributable to shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, and similar instruments is computed using the treasury stock method. The Company's potentially dilutive common shares comprise stock options, DSUs and RSUs granted to employees and directors.

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

In May 2017, the IASB published IFRS 17 which is proposed to be effective 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 judgements

The preparation of the Company's consolidated financial statements requires management to use estimates and judgements that affect the amounts reported in the financial statements. These estimates and judgements principally relate to the establishment of reserves for claims and expenses, impairments of investment securities, amounts recoverable from reinsurers and income taxes. As more information becomes known, these estimates and judgements could change and impact future results.

Valuation of provisions for unpaid claims

Provision for unpaid claims are maintained to cover the Company's estimated ultimate liability for unpaid losses and loss adjustment expenses with respect to reported and unreported claims incurred as of the end of each accounting period. The provision for unpaid claims and adjustment expenses is first determined on a case-by-case basis as claims are reported and then reassessed as additional information becomes known. The provision also accounts for the future development of these claims, including claims incurred but not reported (IBNR). Provision for unpaid claims do not represent an exact calculation of liability, but instead represent estimates developed using projection techniques in accordance with Canadian accepted actuarial practice. These estimates are expectations of the ultimate cost of settlement and administration of claims based on the Company's assessment of facts and circumstances then known, its review of historical settlement patterns, estimates of trends in claims severity and frequency, legal theories of liability and other factors. The appointed actuary of the Company's subsidiary, using appropriate actuarial techniques, evaluates the

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adequacy of the policy liabilities at the end of each reporting period.

Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer. These estimates are refined in a systematic ongoing process as historical loss experience develops and additional claims are reported and settled. Because the establishment of reserves is an inherently uncertain process involving estimates, current reserves may not be sufficient. Adjustments to reserves, both positive and negative, are reflected in the consolidated statements of income and comprehensive income for the year in which such estimates are updated. Please see note 12.

Impairment of Financial Assets

The Company considers an impairment if there is objective evidence that an available-for-sale financial asset is impaired, including in the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its carrying value.

Factors considered by the Company include but are not limited to:

- a. significant financial difficulty of the issuer or obligor;
- b. a breach of contract, such as a default or delinquency in interest or principal payments;
- c. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- d. it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- e. the disappearance of an active market for that financial asset because of financial difficulties; or
- f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - i. adverse changes in the payment status of borrowers in the group (e.g., an increased number of delayed payments or an increased number of credit card borrowers who have reached their credit limit and are paying the minimum monthly amount); or
 - ii. national or local economic conditions that correlate with defaults on the assets in the group (e.g., an increase in the unemployment rate in the geographical area of the borrowers, a decrease in property prices for mortgages in the relevant area, a decrease in oil prices for loan assets to oil producers, or adverse changes in industry conditions that affect the borrowers in the group).

Valuation of Reinsurer's share of provision for unpaid claims

Reinsurer's share of the provision for unpaid claims include amounts for expected recoveries related to provision for unpaid claims. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves. The ceding of an insurance liability to a reinsurer does not discharge the Company's primary liability to the policyholders. The Company's policy is to record an estimated allowance for doubtful accounts on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, credit ratings of reinsurers, collateral held by the Company, management's experience and current economic conditions.

The Company is exposed to disputes on, and defects in, contracts with reinsurers and the possibility of default by reinsurers.

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.

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7 Investments

The following table provides a breakdown of the investment portfolio:

Available for sale	Fair Values	
	As at December 31, 2020	As at December 31, 2019
Fixed income		
Canadian		
Federal	6,704	5,053
Provincial	5,163	2,771
Municipal	110	-
Corporate	6,747	4,336
Total fixed income	18,724	12,160
Corporate value pooled fund	6,481	5,320
Money market pooled funds	852	604
Short-term fixed income and mortgage pooled funds	14,439	13,550
Total pooled funds	21,772	19,474
Common Shares		
Canadian	339	1,798
Foreign	-	2,057
Global Equity Pooled Fund	-	8,784
Total common shares	339	12,639
Total available-for-sale	40,835	44,273
Fair value through profit or loss		
Preferred shares	3,747	3,746
Total preferred shares	3,747	3,746
Total investments	44,582	48,019
Cash and short-term deposits	11,859	70,932
Total investments including cash and short-term deposits	56,441	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

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observable inputs. Observable inputs such as benchmark yields, reported trades, broker dealer quotes, issuer spreads and bids are available for these investments.

Level 3 – Inputs that are not based on observable market data. Management is required to use assumptions regarding unobservable inputs as there is little, if any, market activity in these investments or related observable inputs that can be corroborated at the measurement date. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in pricing assets. To verify pricing, the Company assesses the rationality of the fair values by comparing to industry-accepted valuation models, to movements in credit spreads and to recent transaction prices for similar assets where available.

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined, as at December 31:

December 31, 2020			
	Level 1	Level 2	Total
Fixed income	—	18,724	18,724
Corporate value pooled funds	—	6,481	6,481
Money market pooled funds	—	852	852
Short-term fixed income and mortgage pooled funds	—	14,439	14,439
Common Shares	339	—	339
Preferred Shares	3,747	—	3,747
	4,086	40,496	44,582

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 Fund	—	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 year ended December 31, 2020 or 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 consolidated balance sheet. These entities are not controlled by the Company. The carrying value of pooled funds and maximum exposure to loss as of December 31, 2020 was \$21,772 (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 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 \$25 on Available for Sale (AFS) investments at December 31, 2020 (December 31, 2019 – \$395) is recorded, net of tax, in the amount of \$17 (December 31, 2019 – \$292) in Accumulated Other Comprehensive Income, primarily due to the impact of higher government bond yields on the Company's fixed income portfolio.

Management has reviewed currently available information regarding those financial assets where estimated fair values are less than amortized cost. For those investments that are considered impaired, the Company records the difference between the amortized cost of the financial assets and its fair value as an impairment which reduces investment income recorded in the year.

No Impairments on AFS investments were recognized for the year ended December 31, 2020 (December 31, 2019 - \$nil).

Investment income

The table below provides additional details on net investment income as at December 31:

	2020	2019
Interest income	2,135	2,312
Dividend income	333	692
Net realized gains	2,512	135
Fair value change on FVTPL investments	40	55
Investment expenses	(225)	(252)
Investment income	4,795	2,942

8 Deferred policy acquisition costs

Commissions, premium taxes and general expenses incurred in the writing of premiums are deferred in accordance with the accounting policies set out above.

A reconciliation of DPAC is shown below as at December 31:

	2020		2019	
	Gross	Ceded	Gross	Ceded
Balance at the beginning of the year	4,209	195	3,995	179
Acquisition costs during the year	9,886	91	7,422	255
Amortization of acquisition costs during the year	(8,985)	(66)	(7,208)	(239)
Acquisition costs deferred at end of the year	5,110	220	4,209	195

9 Prepaid and other assets

	2020	2019
Prepaid expenses	186	720
Broker Loans	640	2,649
Property Plant and equipment- net	52	64
Capital WIP	36	-
Computer Software Net	774	595
Total	1,688	4,028

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10 Right of use asset and lease liability

Right of Use Asset

	2020	2019
Cost		
As at January 1	1,254	321
Additions	104	933
Ending Cost as at December 31	1,358	1,254
Accumulated Depreciation		
As at January 1	477	151
Depreciation Charge	399	326
Ending accumulated depreciation	876	477
As at December 31	482	777

Lease Liability

As at January 1	1,254	321
Additions	104	933
Ending Cost as at December 31	1,358	1,254
Accumulated Lease Payments and Interest		
As at January 1	542	146
Change during year 2019	407	396
Ending lease payments and interest	949	542
As at December 31	409	712

11 Unearned premiums

The following table shows unearned premiums by line of business and nature of risk as at December 31:

	2020		2019	
	Gross	Ceded	Gross	Ceded
Automobile				
– accident benefits	1,822	46	1,471	50
– liability	7,904	236	6,849	279
– other	6,057	184	5,605	218
Property				
– commercial	3,473	109	1,680	89
– personal	2,218	79	2,108	241
Liability	983	31	915	36
Other	114	114	121	118
	22,571	799	18,749	1,031

A reconciliation of unearned premium is shown below as at December 31:

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	2020		2019	
	Gross	Ceded	Gross	Ceded
Unearned premium at the beginning of the year	18,749	1,031	16,848	1,522
Premium written and ceded during the year	43,188	2,122	36,829	2,040
Premium earned in income	39,366	2,354	(34,928)	(2,531)
Unearned premium at the end of the year	22,571	799	18,749	1,031

12 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, 2019. The Company discounts its best estimate using 1.75% (December 31, 2019: 2.50%) for all lines of business.

The Company recorded a \$113 addition to the net provision for unpaid claims relating to unfavourable development in prior years' estimates (December 31, 2019 – Unfavorable development \$2,391).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial liabilities are adequate to pay future claims, the Company includes provisions for adverse deviations (PFADs) in some assumptions relating to claims development, reinsurance recoveries, and future investment income. The PFADs selected are in the mid- range of those recommended by the Canadian Institute of Actuaries. The aggregate impact of the provision for adverse deviation is to increase the provision for unpaid claims on a net basis by \$1,846 as at December 31, 2020 (December 31, 2019 – \$1,595).

The provision for unpaid claims on an actuarial present value (APV) gross and ceded basis by line of business is shown below as at December 31:

	2020		2019	
	Gross	Ceded	Gross	Ceded
Automobile				
– accident benefits	4,493	85	3,069	578
– liability	16,493	2,882	14,688	2,100
– other	1,129	21	2,844	242
Property				
– commercial	1,355	84	958	87
– personal	1,856	383	2,300	17
Liability	2,256	39	1,983	148
ULAE	655	-	-	-
Other (PFAD and discounting)	1,431	189	787	96
Total unpaid claims	29,668	3,683	26,629	3,268

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Claims development

The table below provides additional details on the provision for unpaid claims as at December 31:

Provision for unpaid claims analysis	December 31, 2020	December 31, 2019
Unpaid claims, beginning of year, net	23,361	19,201
Unfavourable prior year claims development	113	2,391
Net claims incurred in current year	20,143	20,962
Paid on claims occurring during		
Current year	(10,788)	(12,476)
Prior years	(6,844)	(6,717)
Unpaid claims, end of year, net	25,985	23,361
Reinsurers' share	3,683	3,268
Gross unpaid claims	29,668	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. There were no new assumptions identified in the year as having a potential or identifiable material impact on the overall claims estimate.

Claims development table, net of reinsurance

The following tables show the estimates of cumulative incurred claims, including IBNR, with subsequent developments during the periods and together with cumulative payments to date. The original reserve estimates are evaluated quarterly for redundancy or deficiency. The evaluation is based on actual payments in full or partial settlement of claims and current estimates of claims liabilities for claims still unreported.

	Accident Years									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Net ultimate loss at the end of	14,434	10,895	13,460	17,537	16,808	12,631	15,563	17,969	17,071	15,570
1 year later	13,979	10,736	12,772	15,377	14,966	12,130	14,956	18,223	16,772	
2 years later	13,673	10,205	12,768	14,925	14,914	12,127	14,941	18,753		
3 years later	14,359	9,886	12,803	15,125	14,982	12,599	14,597			
4 years later	13,714	9,866	12,911	15,102	15,039	12,791				
5 years later	14,005	9,627	12,900	15,196	14,823					
6 years later	14,049	9,392	12,793	15,290						
7 years later	13,955	9,680	12,617							
8 years later	13,727	9,616								
9 years later	14,461									
Cumulative (favourable) unfavourable loss development	27	(1,279)	(843)	(2,247)	(1,985)	160	(966)	783	(299)	
Cumulative loss development as a % of original ultimate loss	0.19%	(11.74)%	(6.26)%	(12.81)%	(11.81)%	1.27%	(6.21)%	4.36%	(1.75)%	

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	Accident Years											Total
	2010 & Prior	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Current estimate of net ultimate loss		14,461	9,616	12,617	15,290	14,823	12,791	14,597	18,753	16,772	15,570	
Cumulative paid	(46,592)	(14,048)	(9,348)	(12,117)	(14,713)	(13,911)	(11,543)	(12,727)	(15,677)	(12,897)	(7,917)	
Net provision of unpaid claims by recent accident years	352	412	268	500	577	912	1,248	1,869	3,076	3,875	7,653	20,743
Facility Association (FA) & Risk Sharing Pool (RSP)												3,256
ULAE												655
Other reconciling items												89
Net provision for unpaid claims												24,743

Underwriting policy and reinsurance ceded

In the normal course of business, the Company seeks to reduce the loss that may arise from catastrophes or other large loss events by purchasing reinsurance to share all or part of the insurance risks originally accepted by the Company in writing premiums. This does not relieve the Company of its primary obligation to policyholders.

During 2020, the Company followed the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss to \$1,000 (2019 – \$1,000) for auto and liability and \$500 (2019- \$500) for property. In addition, the Company obtained catastrophe reinsurance which limits the loss from a series of claims arising from a single occurrence to \$1,000 (2019 – \$1,000), to a maximum coverage of \$35,000 (2019 – \$30,000).

The Company places all its reinsurance with registered reinsurers.

Failure of reinsurers to honour their obligations could result in losses to the Company. Consequently, the Company continually evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses. There have been no defaults and no provision made in the accounts for defaults based on management's review of the creditworthiness of its reinsurers.

Reinsurance recoverable

The following tables summarize the balances outstanding from reinsurers, by risk rating, as at December 31:

December 31, 2020		
Credit rating	Gross reinsurance recoverable	Net exposure
A or higher	4,482	4,482
Not rated	-	-
	4,482	4,482
December 31, 2019		
Credit rating	Gross reinsurance Recoverable	Net exposure
A or higher	3,505	3,505
Not rated	794	794
	4,299	4,299

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14 Risk management

As a provider of insurance products, effective risk management is fundamental to the Company's ability to protect the interests of its customers and shareholders. The Company is exposed to risks of loss pertaining to insurance products. These include risks surrounding product and pricing, underwriting and claims, catastrophic exposure, and matching of assets and liabilities. The Company is also exposed to potential loss from various risks, including interest rate risk, equity market fluctuation risk, credit risk, liquidity risk, and foreign exchange risk.

The Company has written principles for overall risk management, as well as written policies covering specific areas such as underwriting, reinsurance, foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

Insurance risk

The risk under any one insurance contract is the possibility that the event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable. The principal risk that the Company faces under its insurance contract is that the actual claims payments exceed the carrying amount of the insurance liabilities. This could occur because the frequency or the severity of the claims is greater than estimated. Insurance events are random and the actual number and amount of claims will vary from year to year from the estimate.

Direct Written Premium	December 31, 2020	December 31, 2019
Lines		
Automobiles	71%	74%
Property	29%	26%
Regions		
New Brunswick	29%	27%
Nova Scotia	41%	43%
Prince Edward Island	27%	30%
Quebec	3%	-

Sensitivity to insurance risk

The table below shows the sensitivity of earnings from operations before income taxes and total equity after giving effect to a one percentage point increase in the loss ratio and claims settlement costs. The loss ratio is regarded as a non-IFRS measure and is calculated by the Company with respect to its ongoing insurance operations as losses on claims incurred (including losses and loss adjustment expenses) expressed as a percentage of net premiums earned. Such an increase could arise from higher frequency of losses, increased severity of losses, or from a combination of both. The sensitivity analysis presented below does not consider the probability of such losses to loss frequency or severity occurring or any non-linear effects of reinsurance and, as a result, each additional percentage point increase in the loss ratio would result in a linear impact on earnings from operations before income taxes and total equity.

Sensitivity Factor	December 31, 2020		December 31, 2019	
	Net income before income taxes	Shareholders' equity	Net income before income taxes	Shareholders' equity
Increase of 1 % to loss ratio	(370)	(258)	(324)	(226)
Increase of 1% to claims settlement costs	(260)	(181)	(234)	(163)

Product and pricing

The Company prices its products taking into account numerous factors, including claims frequency and severity trends, product line expense ratios, special risk factors, the capital required to support the product line, and the investment income earned on that capital. The Company's pricing process is designed to ensure an appropriate return on capital

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and long-term rate stability avoiding wide fluctuations in rates, unless necessary. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

Pricing for automobile insurance must be submitted to each provincial government regulator and, in certain provinces, pre-approved by the regulator. Regulatory decisions may impede automobile rate increases or other actions that the Company may wish to take. Also, during periods of intense competition for any product line, to gain market share, the Company's competitors may price their products below the rates the Company considers acceptable. Although the Company may adjust its pricing up or down to maintain a competitive position, the Company strives to ensure its pricing will produce an appropriate return on invested capital. There is no assurance that the Company will not lose market share during periods of pricing competition.

Underwriting and claims

The Company is exposed to loss resulting from the underwriting of risks being insured and the exposure to financial loss resulting from greater than anticipated adjudication, settlement and claims costs.

The Company's underwriting objectives are to develop business within target markets on a prudent and diversified basis and to achieve profitable underwriting results. The Company underwrites automobile business after a review of the applicant's driving record and claims experience. Commercial and personal property risks are selected by the Company, working with its external brokers, after consideration of various risk factors associated with these lines of business. Despite its best efforts, and consideration of all known risk factors, there can be no assurance that all risks associated with the insurance policies that it writes can be identified and assessed, and the Company may, therefore, experience increased adjudication, settlement and claims costs.

The Company estimates its claims reserves on a quarterly basis. Every quarter, for each line of business, the Company compares actual and expected claims development. To the extent that actual results differ from expected development, assumptions are re-evaluated and new estimates are derived. Although the Company believes its overall provision levels to be adequate to satisfy its obligations under existing policies, actual losses may deviate, perhaps substantially, from the amounts reflected in the Company's consolidated financial statements. To the extent provisions prove to be inadequate, the Company would have to re-evaluate such provisions and may incur a charge to earnings in the future.

Unpredictable catastrophic events

Catastrophes can be caused by various natural and unnatural events. Natural catastrophic events include hurricanes, windstorms, earthquakes, hailstorms, explosions, severe winter weather, flood and fires. The incidence and severity of catastrophes are inherently unpredictable. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Most catastrophes are restricted to small geographic areas; however, hurricanes, windstorms and earthquakes may produce significant damage in large, heavily populated areas.

Catastrophes can cause losses in a variety of business lines. Claims resulting from natural or unnatural catastrophic events could cause substantial volatility in the Company's financial results and could materially reduce the Company's profitability or harm the Company's financial condition. The Company manages the impact of losses which may result from catastrophic events by purchasing excess of loss and catastrophe reinsurance to share all or part of the insurance risks originally accepted by the Company as well as geographic diversification.

Asset and liability matching

The Company is exposed to:

- changes in the value of its fixed income investments and policy liabilities to the extent that market interest rates change;
- equity price fluctuations, which affect the fair values of equities held by the Company;
- the risk of losses to the extent that the sale of an investment prior to its maturity is required to provide liquidity to satisfy policyholder and other cash outflows;
- the risk that future inflation of policyholder cash flows exceed returns on long-term investments; and
- foreign exchange risks with respect to investments, derivatives, receivables and policy liabilities denominated in

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foreign currencies.

- The Company's exposures are monitored on a regular basis and actions are taken to balance investment positions when approved risk tolerance limits are exceeded.
- Risk management is carried out by the Audit and Risk Committee under policies approved by the Board of Directors.

Market risk

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, equity market fluctuations, foreign exchange rates and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying financial assets are traded. Below is a discussion of the Company's primary market risk exposures and how these exposures are currently managed.

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 December 31, based on parallel 50 basis point shifts in interest rates up and down in 25 basis point increments.

Change in interest rate As at December 31, 2020	Fair value of fixed income and pooled funds	Hypothetical change on fair value	Effect on OCI net of tax
50 basis point rise	39,890	(2)%	(423)
25 basis point rise	40,193	(1)%	(211)
No change	40,496	-	-
25 basis point decline	40,800	1%	211
50 basis point decline	41,103	2%	423

Change in interest rate As at December 31, 2019	Fair value of fixed income and pooled funds	Hypothetical change on fair value	Effect on OCI net of tax
50 basis point rise	31,246	(1)%	(270)
25 basis point rise	31,440	(1)%	(135)
No change	31,634	-%	-
25 basis point decline	31,828	1%	135
50 basis point decline	32,022	1%	270

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As discussed in note 12, the discount rate used in the determination of the provision for unpaid claims is based on the expected return of assets on its investment portfolio with appropriate assumptions for interest rates relating to reinvestment of maturing investments. Fluctuations in market interest rates will therefore have an impact on the discount rate used in the valuation of the net provision for unpaid claims. The table below shows the potential impact of interest rate fluctuations on the net provision for unpaid claims and income statement:

Change in discount rate	Net provision for unpaid claims	Hypothetical change in value	Effect on net income net of tax
As at December 31, 2020			
100 basis point rise	25,449	(2)%	(374)
No change	25,985	-%	-
100 basis point decline	26,538	2%	385
As at December 31, 2019			
100 basis point rise	22,921	(2)%	(307)
No change	23,361	--%	--
100 basis point decline	23,813	2%	316

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 December 31:

December 31, 2020	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	668	6,724	7,109	4,223	18,724
Cash and cash equivalents	11,859	--	--	--	11,859
Accounts receivable	12,039	--	--	--	12,039
Total	24,566	6,724	7,109	4,223	42,622
Percentage of total	58%	16%	16%	10%	100%
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%

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

December 31, 2020	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Gross claim liabilities	10,209	10,683	4,087	3,257	28,236
Less: Reinsurance recoverable	625	2,361	(223)	730	3,493
Net actuarial liabilities	9,584	8,322	4,310	2,527	24,743

December 31, 2019	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Gross claim liabilities	11,414	8,410	3,488	2,530	25,842
Less: Reinsurance recoverable	1,655	1,093	265	159	3,172
Net actuarial liabilities	9,759	7,317	3,223	2,371	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 twelve months ended December 31. 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	
	December 31, 2020	December 31, 2019	December 31, 2020	December 31, 2019
10% rise	261	261	25	923
10% decline	(261)	(261)	(25)	(923)

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.

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The Company's maximum exposure to credit risk, without taking into account amounts held as collateral, is:

	As at December 31, 2020	As at December 31, 2019
Bonds	18,724	12,160
Gross reinsurance recoverable	4,482	4,299
Accounts receivable	12,039	10,020
Broker Loans	640	2,649
Structured settlements (note 19)	1,102	976
Due from insurance companies	596	324
Cash	11,859	70,932
Total	49,442	101,360

The following table sets forth the Company's fixed income securities portfolio by credit quality as at December 31:

Fixed income portfolio

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

	As at December 31, 2020		As at December 31, 2019	
	Fair value	%	Fair value	%
AAA	8,179	44%	5,940	49%
AA	4,577	24%	2,321	19%
A	4,918	26%	2,861	23%
BBB	1,050	6%	1,038	9%
Total	18,724	100%	12,160	100%

Preferred share portfolio

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

	As at December 31, 2020		As at December 31, 2019	
	Fair value	%	Fair value	%
P2	3,234	86%	3,305	88%
P3	513	14%	441	12%
Total	3,747	100%	3,746	100%

Capital management

Capital is comprised of the Company's total equity. As at December 31, 2020, the Company's total equity was \$23,834(December 31, 2019 – \$93,207).

The Company's objectives when managing capital consists of:

- Maintaining capital to be above minimum regulatory levels,
- Ensuring capital is above internally determined risk management levels,
- Maintaining creditworthiness, financial strength and protect its claims paying abilities.
- Maximizing returns to shareholders over the long term.

ICPEI is required to maintain minimum capital levels as required by the regulators. As at December 31, 2020, ICPEI's Minimum Capital Test (MCT) in accordance with the Office of the Superintendent of Financial Institutions was 312% (2019 – 304%)

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15 Income taxes

The income tax is as follows as at December 31:

	2020	2019
Current	665	(768)
Deferred	33	319
	698	(449)

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 difference is broken down as follows:

	2020	2019
Income tax expense calculated at statutory rates	26.5%	26.5%
Increase (decrease) in income tax rates resulting from:		
Non-taxable dividend income	(1.5)%	25.0%
Tax benefit of losses not previously recognized	(8.2)%	1.0%
Statutory rate differences	2.4%	5.8%
Non-taxable portion of capital gains	(6.9)%	1.4%
Other	0.2%	(0.6)%
Effective income tax rate	12.5%	59.1%

Deferred income taxes are comprised of the following as at December 31:

	Losses Carried Forward	Reserves	Investments	Property, equipment and intangible assets	Total
Balance – January 1, 2020	--	303	--	(75)	228
Amounts recorded in discontinued operations	--	--	--	--	--
Amounts recorded in income statement	0	83	--	(116)	(33)
Balance – December 31, 2020	0	386	--	(191)	195

	Losses Carried Forward	Reserves	Investments	Property, equipment and intangible assets	Total
Balance – January 1, 2019	1	783	--	(3)	781
Amounts recorded in discontinued operations	(1)	(238)	--	6	(233)
Amounts recorded in income statement	--	(242)	--	(78)	(320)
Balance – December 31, 2019	--	303	--	(75)	228

Management reviews the recoverability of the deferred income tax asset on an ongoing basis and adjusts as necessary, to reflect its anticipated realization. Management expects that the recorded deferred income tax asset will be realized in the normal course of operations.

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The Company has tax losses available resulting from capital losses of \$13,115. No deferred tax assets have been recognized for these losses as there is no certain probability that these losses will be utilized.

Income taxes included in OCI

The amounts included in the consolidated statements of comprehensive income are shown net of the following tax benefit, as at December 31:

	2020	2019
Change in unrealized gains	499	134
Reclassification to net income of (gains) and losses	(71)	(23)
Total income tax expense included in OCI	428	111

Income taxes payable are expected to be settled within one year of the financial statement date.

16 Share capital

	As at December 31, 2020	As at December 31, 2019
Authorized		
Unlimited common shares (no par value)		
Unlimited special shares issuable in Series (no par value)		
Issued		
12,006,558 common shares (December 31, 2019 - 12,006,558 common shares)	2,794	2,794

In 2020, no common shares (2019 – 47,500) were issued for the exercise of stock options and no common shares (2019 – 33,152) were issued pursuant to the Share Unit Plan for eligible employees and Directors with a value of nil (2019 – \$408). In 2020, a total dividend of \$67,237 was paid to shareholders out of retained earnings.

17 Employee stock option plan

The following is a continuity schedule of stock options outstanding as at December 31.

	Number of options		Weighted average exercise price per share	
	2020	2019	2020	2019
Outstanding, beginning of year	—	377,183	—	11.80
Granted during year	—	—	—	—
Exercised during year	—	(92,500)	—	8.50
Canceled during year	—	(284,683)	—	13.16
Expired during year	—	—	—	—
Outstanding, end of year	—	—	—	—

18 Operating Costs by nature

The table below presents operating costs by major category as at December 31:

	2020	2019
Salaries and benefits	4,045	2,215
Directors' and Regulatory Filing Fees	285	771
Systems costs	463	344
Professional fees	637	563
Occupancy	634	391

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Printing and Postage	179	179
Facility	585	437
Management Fees	211	827
Other Expenses	1	42
	7,040	5,769

19 Structured settlements

In the normal course of claims adjudication, the Company may settle certain long-term losses through the purchase of annuities (structured settlements) from life insurance companies. The fair estimated value of these annuity contracts amounts to \$1,102 (December 31, 2019 – \$976) using a discount rate of 1.21% (December 31, 2019 – 1.76%). It is the policy of the Company to purchase annuities from life insurers with proven financial stability. The net risk to the Company is the credit risk related to the life insurance companies and this risk is reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan. The Company has determined that no credit risk provision is required.

20 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 expense 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.

21 Rate regulations

The Company writes business subject to rate regulation, which comprises approximately 71% (2019 — 74%) of gross premiums written and assumed. The Company's automobile insurance premiums can be impacted by mandatory rate rollbacks and mandatory rate assessments as legislated by provincial law and by regulation in certain provinces. This could result in lower future premium rates or reductions to premium rates charged by the Company in prior years. In addition, the Company is required, under certain provincial legislation, to participate in risk sharing pools, which may impact positively or negatively on underwriting results. Certain benefit payments are also subject to provincial government regulation, including automobile accident benefits.

22 Accumulated other comprehensive income

A breakdown of the accumulated other comprehensive income is shown below as at December 31:

	As at December 31, 2020	As at December 31, 2019
Gross unrealized gains (losses)	841	1,938
Tax impact	(225)	96
Ending balance	616	2,034

23 Earnings per share

The table below presents earnings per share as at December 31:

Earnings Per Share on Continuing Operations	2020	2019
Basic earnings per share on continuing operations:		
Net income (loss) available to shareholders	4,149	(127)
Average number of common shares	12,007	11,966
Basic income (loss) earnings per share on continuing operations	0.35	(0.01)
Diluted earnings per share:		
Average number of common shares	12,007	11,966
Average number of dilutive common shares under employee stock compensation Plan	--	136

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Average number of diluted common shares	12,007	12,102
Diluted income (loss) earnings per share on continuing operations	0.35	(0.01)

Earnings Per Share on Discontinued Operations	2020	2019
Basic (loss) per share on discontinued operations:		
Net (loss) income available to shareholders	(5,866)	45,722
Average number of common shares	12,007	11,966
Basic earnings (loss) income per share on discontinued operations	(0.49)	3.82
Diluted earnings per share:		
Average number of common shares	12,007	11,966
Average number of dilutive common shares under employee stock compensation Plan	--	136
Average number of diluted common shares	12,007	12,102
Diluted earnings(loss) income per share on discontinued operations	(0.49)	3.78

Total Earnings Per Share	2020	2019
Basic earnings per share:		
Net (loss) income available to shareholders	(1,717)	45,595
Average number of common shares	12,007	11,966
Basic earnings (loss) income per share	(0.14)	3.81
Diluted earnings per share:		
Average number of common shares	12,007	11,966
Average number of dilutive common shares under employee stock compensation Plan	--	136
Average number of diluted common shares	12,007	12,102
Diluted earnings (loss) income per share	(0.14)	3.77

24 Discontinued operations

On November 9, 2018, the Company entered into 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.

On December 30, 2019, the Company dissolved its wholly-owned subsidiary CIM Re in Barbados and as a result all share capital and related shareholder equity balances were extinguished.

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

Net income (loss) from discontinued operations

	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)	
Loss before income taxes	(7,000)	(9,882)
Income tax (recovery)	(1,134)	(3,148)
Net loss on discontinued operations	(5,866)	(6,734)
Gain on sale, net of expenses	—	53,128
Loss on Wind-up of CIM Re	—	(672)
Net Income (loss) on discontinued operations	(5,866)	45,722
Other comprehensive income on discontinued operations	—	1,254
Comprehensive income (loss) on discontinued operations	(5,866)	46,976

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 Statement of Claim alleged breach of contract and willful misrepresentation with respect to the amount of required reserves for Qudos claim liabilities and the overall value of Qudos. The Board concluded that it was in the best interests of EFH and the shareholders to settle the litigation for a reasonable amount. The parties settled litigation upon payment by EFH of \$7,000 in the third quarter with no further recourse from claimant.

EFH HOLDINGS INC.
Notes to the Consolidated Financial Statements (continued)
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25 Non-controlling interest

The Company has non-controlling interests attributable to ICPEI. Please refer to Note 1. The following tables summarize the comprehensive income attributable to the non-controlling shareholders as at December 31.

	2020	2019
Revenue		
Gross written and assumed premiums	10,797	9,207
Net earned premiums	9,253	8,099
Investment income	504	392
Total revenue	9,757	8,491
Expenses		
Net incurred claims	5,064	5,839
Net acquisition costs	2,230	1,742
Operating costs	1,418	1,188
Total expenses	8,712	8,769
income before income taxes	1,045	(278)
Income tax expense (recovery)	298	(100)
Net income (loss) attributable to NCI	747	(178)
Other comprehensive income attributable to NCI	252	68
Comprehensive income (loss) attributable to NCI	999	(110)

The following tables summarize the net assets of the non-controlling shareholders as at December 31:

	December 31, 2020	December 31, 2019
Assets		
Cash and investments	13,008	10,019
Other assets	6,224	5,881
Total assets	19,232	15,900
Liabilities		
Unearned premium	5,643	4,687
Unpaid claims	7,417	6,657
Other liabilities	1,441	824
Total liabilities	14,501	12,168
Equity		
Share capital	---	—
AOCI	205	(47)
Retained earnings	4,526	3,779
Total equity	4,731	3,732
Total liabilities and equity	19,232	15,900

EFH HOLDINGS INC.

Notes to the Consolidated Financial Statements (continued)

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The prior year equity balance in the previous table excludes discontinued operations, and will therefore differ from the non-controlling interest amount disclosed on the consolidated balance sheet of these financial statements.

	As at December 31, 2020	As at December 31, 2019
Cash flow from operating activities	2,732	893
Cash flow from investing activities	(1,850)	(44)
Cash flow from financing activities	(102)	(99)
Net Increase in cash and short-term deposits	780	750

26 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 and commercial automobile.

Discontinued Operations are excluded. Please refer to note 24.

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 as at December 31:

	2020	2019
Revenue		
Net earned premiums		
– Personal Lines	25,594	21,800
– Commercial Lines	11,418	10,597
Total net earned premium	37,012	32,397
Net claims incurred		
– Personal Lines	12,675	16,796
– Commercial Lines	7,238	6,102
Net claims	19,913	22,898
Net expenses		
– Personal Lines	9,967	7,275
– Commercial Lines	4,626	3,788
Total	14,593	11,063
Corporate expenses	1,365	1,675
Total net expenses	35,871	35,636
Income (loss) before income taxes		
– Personal Lines	2,952	(2,271)
– Commercial Lines	(446)	707
Total	2,506	(1,564)
Corporate and other	(1,365)	(1,675)
Underwriting income (loss)	1,141	(3,239)
Impact of change in net claims discount rate	(342)	(457)
Investment income	4,795	2,942
Total income (loss) before income taxes	5,594	(754)

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Notes to the Consolidated Financial Statements (continued)
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27 Related party transactions

Atlantic Adjusting & Appraisals (AAA) and Maritime Finance & Acceptance Corporation (MFAC)

Both AAA and MFAC are affiliated with an ICPEI minority shareholder who is also part of the Company's key management personnel.

AAA provided claims services to ICPEI at a specified percent of earned premiums. ICPEI had paid a fee of \$875 in 2020 (2019 - \$1,170). All of ICPEI's claim services including handling, adjusting, administration, and processing were provided by AAA. ICPEI has premiums financed for policyholders, which are administered by MFAC at a specified amount per policy. The administration fee paid to MFAC totaled \$150 (2019 - \$200).

Effective October 1, 2020, ICPEI acquired certain net assets and employees of AAA and MFAC together with their specialized knowledge, experience and processes. 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. There is no revenue generated from this acquisition, however, there are net savings in the expenses as this has eliminated the fees paid to AAA and MFAC.

Simultaneously and pursuant to the service agreement between the Company and AAA, a trust fund held by AAA for the benefit of ICPEI with respect to claim services to be provided by AAA on the run-off business was terminated. As a result, on termination of the service agreement, ICPEI received \$800 from the trust fund to release obligation of AAA to service run-off claims. ICPEI established a loss adjustment expense reserve of \$655 for future claims handling.

The details of transaction are as follows:

Cash acquired - pursuant to termination of services agreement with AAA	\$800
Furniture and Equipment acquired from AAA and MFAC	\$12
Liabilities assumed - Loss adjustment expenses	(\$655)
Net assets acquired	\$157
Consideration paid in cash to AAA and MFAC	(\$535)
Goodwill recognized	\$378

Goodwill recognized of \$378 is based on the recent acquisition in October 2020 representing the amounts paid to acquire specialized knowledge and experience of the acquired employees. Subsequently, employee's compensation, claims adjustment expenses and other related items have been included in the statement of income and comprehensive income of the Company. The goodwill amount is expected to be deductible for tax purposes over time.

Key Management

Key management includes named executive officers. Compensation to these individuals is summarized in the following table for the year ending December 31:

Compensation	2020	2019
Salaries and other short-term benefits	1,004	3,193
Equity-settled and cash-settled compensation benefits	-	2,225
	1,004	5,418