

Unaudited Condensed Consolidated Interim Financial
Statements of

ICPEI Holdings Inc. (formerly EFH Holdings Inc.)

For the nine months ended September 30, 2021 and 2020

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 of the Canadian Securities Administrators, the Company discloses that its external auditors have not reviewed the unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2021. These financial statements have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company.

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

	Note	September 30, 2021	December 31, 2020
Assets			
Cash and short-term deposits	7	10,833	11,859
Accounts receivable		18,497	12,039
Investments	7	54,356	44,582
Due from insurance companies		101	596
Deferred policy acquisition costs		7,096	5,110
Income taxes recoverable		234	460
Prepaid expenses and other assets		1,729	1,688
Reinsurers' share - unearned premiums		697	799
- provision for unpaid claims	8	2,780	3,683
Right of use asset		203	482
Goodwill		378	378
Deferred income taxes		351	195
Total assets		97,255	81,871
Liabilities			
Accounts payable and accrued liabilities		4,944	3,549
Bank loan	16	2,850	-
Unearned premiums		30,983	22,571
Unearned commission		267	220
Income taxes payable		887	1,620
Lease liability		64	409
Provision for unpaid claims	8	32,092	29,668
Total liabilities		72,087	58,037
Equity			
Share capital		4,838	2,794
Contributed surplus		1,507	1,507
Retained earnings		17,934	14,186
Accumulated other comprehensive income	12	889	616
Equity attributed to shareholders of the Company		25,168	19,103
Non-controlling interest	15	-	4,731
Total equity		25,168	23,834
Total liabilities and equity		97,255	81,871

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

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

	Note	3 months ended September 30		9 months ended September 30	
		2021	2020	2021	2020
Revenue					
Gross written and assumed premiums		18,422	11,739	47,923	31,569
Less premiums ceded to reinsurers		(763)	(598)	(1,852)	(1,630)
Net written and assumed premiums		17,659	11,141	46,071	29,939
Change in gross unearned premiums		(3,704)	(1,766)	(8,412)	(2,810)
Change in unearned premiums, reinsurers' share		7	66	(102)	(258)
Change in provision for unearned premiums		(3,697)	(1,700)	(8,514)	(3,068)
Net earned premiums		13,962	9,441	37,557	26,871
Investment income	7	533	3,046	1,763	4,012
Total revenue		14,495	12,487	39,320	30,883
Expenses					
Gross claims incurred		6,526	5,433	17,142	14,732
Claims (recoveries) from reinsurers		68	(98)	313	(242)
Net incurred claims		6,594	5,335	17,455	14,490
Gross acquisition costs		3,941	2,423	9,723	6,540
Recoveries from reinsurers		(16)	(17)	(47)	(50)
Net acquisition costs		3,925	2,406	9,676	6,490
Operating costs	11	2,443	1,483	6,366	4,710
Total expenses		12,962	9,224	33,497	25,690
Income before taxes and discount rate impact on claims		1,533	3,263	5,823	5,193
Impact of change in discount rate on claims ⁽¹⁾		75	(101)	65	(101)
Income before income taxes		1,608	3,162	5,888	5,092
Income tax expense	10	475	55	1,630	665
Net income on continued operations		1,133	3,107	4,258	4,427
Net loss on discontinued operations	14	-	(5,866)	-	(5,866)
Net income (loss)		1,133	(2,759)	4,258	(1,439)
Attributed to:					
Shareholders of the Company – continued operations		1,133	2,923	3,942	3,877
Shareholders of the Company – discontinued operations		-	(5,866)	-	(5,866)
Non-controlling interest	15	-	184	316	550
Net income (loss)		1,133	(2,759)	4,258	(1,439)
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income					
Available-for-sale investments:					
Change in net unrealized gains		(23)	1,002	52	1,379
Reclassification of net realized losses / (gains) to net income		(7)	(2,407)	40	(2,509)
Tax impact		12	(83)	(24)	(316)
Other comprehensive (loss) income		(18)	(1,488)	68	(1,446)

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

		3 months ended		9 months ended	
		September 30		September 30	
	Note	2021	2020	2021	2020
Attributed to:					
Shareholders of the Company – continued operations		(18)	(1,535)	79	(1,628)
Non-controlling interest	15	-	47	(11)	182
Other comprehensive (loss) income		(18)	(1,488)	68	(1,446)
Total comprehensive income (loss)		1,115	(4,247)	4,326	(2,885)
Attributed to:					
Shareholders of the Company - continued operations		1,115	1,388	4,021	2,249
Shareholders of the Company – discontinued operations		-	(5,866)	-	(5,866)
Non-controlling interest	15	-	231	305	732
Total comprehensive income (loss)		1,115	(4,247)	4,326	(2,885)
Earnings per share attributable to shareholders of the Company	13				
Earnings per share continued operations– basic		0.08	0.24	0.28	0.32
Earnings per share discontinued operations – basic		-	(0.49)	-	(0.49)
Earnings per share – basic		0.08	(0.25)	0.28	(0.17)
Earnings per share continued operations – diluted		0.08	0.24	0.28	0.32
Earnings per share discontinued operations – diluted		-	(0.49)	-	(0.49)
Earnings per share – diluted		0.08	(0.25)	0.28	(0.17)

(1) As interest rates may change each period, and have an impact to the incurred claims and therefore management believes it is beneficial to the users to see the impact of this change separately in order to understand the true movement in claims incurred.

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

ICPEI HOLDINGS INC.
Consolidated Statement of Changes in Equity
(unaudited, in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders' Equity	Non- controlling Interest	Total Equity
Balance at January 1, 2021	2,794	1,507	616	14,186	19,103	4,731	23,834
Net income	-	-	-	3,942	3,942	316	4,258
Other comprehensive income (loss)	-	-	79	-	79	(11)	68
Total comprehensive income	-	-	79	3,942	4,021	305	4,326
Common Shares issued	3,885	-	-	-	3,885	-	3,885
Purchase of Non-Controlling Interest	(1,841)	-	194	(194)	(1,841)	(5,036)	(6,877)
Balance at September 30, 2021	4,838	1,507	889	17,934	25,168	-	25,168

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

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

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

	9 months ended	
	September 30, 2021	September 30, 2020
Cash provided by (used in)		
Operating activities		
Net income from continued operations	4,258	4,427
Net loss from discontinued operations	-	(5,866)
Adjusted for		
Reinsurers' share of unearned premiums	102	258
Reinsurers' share of unpaid claims	903	499
Provision for unpaid claims	2,424	713
Unearned premiums	8,412	2,810
Deferred income taxes	(156)	12
Unearned commissions	47	34
Deferred policy acquisition costs	(1,986)	(555)
Amortization on leased assets	279	290
Amortization on property plant equipment and intangible assets	309	185
Amortization of premiums on bonds	128	35
Fair value change on FVTPL investments	(460)	89
Prepaid expenses & other assets	(27)	2,431
	9,975	6,801
Cash flow from changes in		
Accounts receivable	(6,458)	(1,812)
Net realized losses (gains)	12	(2,478)
Income taxes (recoverable)	(532)	(66)
Due from insurance companies	495	(744)
Other liabilities	1,395	(860)
Cash provided by continuing operating activities	9,145	5,268
Cash used by discontinued operating activities	-	(5,866)
Cash inflow (outflow) from operating activities	9,145	(598)
Financing activities		
Common shares issued	3,885	-
Dividends paid	-	(67,237)
Term loan from bank	2,850	-
Payment of lease liabilities	(345)	(302)
Cash provided (used) by financing activities	6,390	(67,539)
Investing activities		
Purchases of property, equipment and intangible assets	(323)	(358)
Purchase of minority interest	(6,877)	-
Purchases of investments	(30,017)	(16,179)
Sale/maturity of investments	20,656	27,839
Cash (used) provided by investing activities	(16,561)	11,302
Decrease in cash and short-term deposits	(1,026)	(56,835)
Cash and short-term deposits, beginning of year	11,859	70,932
Cash and short-term deposits, end of year	10,833	14,097
Supplementary information		
Income taxes paid (recovered)	2,675	(415)
Interest paid	36	-

ICPEI HOLDINGS INC.

Notes to the Consolidated Financial Statements

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

1. Nature of operations

ICPEI 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 July 15, 2021 after receiving approval from shareholders, the Company changed its name to ICPEI Holdings Inc. from EFH Holdings Inc. Earlier the Company's name had 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 the Maritimes provinces along with Quebec and Ontario, Canada through its 100% owned subsidiary – The Insurance Company of Prince Edward Island ("ICPEI"). On April 1, 2021, the Company acquired the remaining 25% ownership of ICPEI that it did not already own. The Company's head office is located at 2800 Skymark Avenue, Suite 200, Mississauga, Ontario.

2. COVID-19 pandemic

Due to the strict restrictions on activity in early spring combined with rapid gains in vaccinations, the numbers of COVID-19 cases have gradually decreased and we are seeing the gradual re-opening of the Canadian economy in the second half of 2021. However, the risk of COVID-19 still remains but varies between and within communities and regions. Currently, COVID-19 did not have any significant impact on the results of the Company, but the impact remains uncertain as the pandemic evolves.

The effects on the Company's development of critical estimates during the third quarter of 2021 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 the COVID-19 pandemic are covered perils. ICPEI will continue to monitor all developments in future. There has been no development since the annual financial statements for the year ended December 31, 2020.

Credit risk

During the third quarter of 2021, the Company's exposure to credit risk continued to remain high primarily due to the continued potential effects of the COVID-19 pandemic on the Company's reinsurers, insurance contract receivables from customers, and issuers of the Company's investments in bonds. There were no significant changes used in the third quarter of 2021 to monitor and evaluate credit risks. There was no downgrade of reinsurers' credit rating and there were no significant delinquent payments from customers. Valuation of investment bonds is based on observable market values, which already reflect the associated credit risks associated with the issuers.

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

3. Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2020, which have been prepared in accordance with IFRS.

These consolidated financial statements have been authorized for issue by the Board of Directors on November 18, 2021.

4. Summary of significant accounting policies

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

Standards, amendments and interpretations not yet adopted or effective

IFRS 9, Financial Instruments

In July 2014, the International Accounting Standards Board (IASB) published the complete version of IFRS 9, which is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The new standard includes requirements on the classification and measurement of financial assets and liabilities, an expected credit loss model that replaces the existing incurred loss impairment model, and new hedge accounting guidance. The Company has evaluated and meets the requirements to defer the adoption of IFRS 9, since the percentage of liabilities connected with insurance contracts over total liabilities meets the 90% threshold. The company has deferred adoption, until the new insurance contracts standard is adopted effective January 1, 2023.

IFRS 17, Insurance Contracts

IASB published IFRS 17 with effective date delayed to January 1, 2023, with retrospective application. The standard replaces IFRS 4. The standard is comprehensive in scope and addresses recognition, measurement, presentation and disclosure for insurance contracts. The standard requires the entity to recognize a group of insurance contracts it issues from the earliest of the following: (a) the beginning of the coverage period of the group of contracts; (b) the date when the first payment from a policyholder in the group becomes due; and (c) for a group of onerous contracts, when the group becomes onerous. The measurement approach is based on the following building blocks: (i) a current, unbiased probability-weighted estimate of future cash flows expected to arise as the insurer fulfills the contract; (ii) the effect of the time value of money; (iii) a risk adjustment that measures the effects of uncertainty about the amount and timing of future cash flows; and (iv) a contractual service margin which represents the unearned profit in a contract (that is recognized in net earnings as the insurer fulfills its performance obligations under the contract). Estimates are required to be re-measured each reporting period. In addition, a simplified measurement approach is permitted for short-duration contracts in which the coverage period is approximately one year or less. The Company is currently evaluating the impacts of IFRS 17 on its consolidated financial statements.

5. Critical accounting estimates and assumptions

The preparation of the Company's condensed consolidated interim financial statements requires management to use estimates and judgements that affect the amounts reported in the financial statements. These estimates and judgements principally relate to the establishment of reserves for claims and expenses, impairments of investment securities, amounts recoverable from re-insurers, and income

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

taxes. As more information becomes known, these estimates and judgements could change and impact future results.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual 2020 consolidated financial statements.

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 or random occurrences, which may vary significantly by quarter.

7. Investments

The following table provides a breakdown of the investment portfolio:

Available for sale	Fair values	
	As at September 30, 2021	As at December 31, 2020
Fixed income		
Canadian		
Federal	4,244	6,704
Provincial	7,372	5,163
Municipal	-	110
Corporate	10,868	6,747
Foreign		
Corporate	809	-
Total fixed income	23,293	18,724
Corporate value pooled fund	7,310	6,481
Money market pooled funds	1,895	852
Short-term fixed income and mortgage pooled funds	14,396	14,439
Short-term and Floating rate pooled fund	2,005	-
Total pooled funds	25,606	21,772
Common shares		
Canadian	426	339
Canadian - ETF	754	-
Total common shares	1,180	339
Total available for sale	50,079	40,835
Fair value through profit or loss		
Preferred shares	3,745	3,747
Preferred shares - ETF	532	-
Total preferred shares	4,277	3,747
Total investments	54,356	44,582
Cash and short-term deposits	10,833	11,859
Total investments including cash and short-term deposits	65,189	56,441

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

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, 2020. The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. A description of the inputs used in the valuation of financial instruments is as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities. The fair value of the Company's common and preferred shares is determined based on quoted prices in active markets obtained from external pricing sources.

Level 2 – Inputs, other than quoted prices, that are observable for the investment either directly or indirectly. These inputs include quoted prices for similar instruments exchanged in active markets; quoted prices for identical or similar instruments exchanged in inactive markets; inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data and correlation or other means.

The Company's investments in government securities (including federal, provincial and municipal bonds), corporate securities, commercial mortgage pooled funds, money market pooled funds and infrequently traded securities are priced using publicly traded, over-the-counter prices or broker-dealer quotes which are based on market observable inputs. Observable inputs such as benchmark yields, reported trades, broker dealer quotes, issuer spreads and bids are available for these investments.

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

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

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined, as at September 30, 2021 and December 31, 2020:

September 30, 2021			
	Level 1	Level 2	Total
Fixed income	-	23,293	23,293
Corporate value pooled funds	-	7,310	7,310
Money market pooled funds	-	1,895	1,895
Short-term fixed income and mortgage pooled funds	-	14,396	14,396
Short-term and Floating Rate pooled fund	-	2,005	2,005
Common Shares - ETF	754	-	754
Preferred Shares - ETF	532	-	532
Common Shares	426	-	426
Preferred Shares	3,745	-	3,745
	5,457	48,899	54,356

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

The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers from the existing portfolio for the quarter ended September 30, 2021 or December 31, 2020.

The fair values of cash and short-term deposits, account receivables and financial liabilities approximate their carrying values due to their short-term nature.

The Company has interests in unconsolidated structured entities, through investments in pooled funds, which are included in investments on the balance sheet. These entities are not controlled by the Company. The carrying value of pooled funds and maximum exposure to loss as of September 30, 2021 was \$25,606 (December 31, 2020 – \$21,772). The Company has also invested in Common Shares and Preferred Shares ETFs totaling \$1,286 (December 31, 2020 - \$nil). Investments in pooled funds consist of units invested in underlying money market and mortgage securities managed by third-party managers. The pooled funds are perpetual private trusts created under trust agreements. Financing is only provided to the pooled funds through the purchase of units and is therefore limited to the investment made.

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

Impaired assets and provisions for losses

A gross unrealized loss of \$122 on Available for Sale (AFS) investments at September 30, 2021 (December 31, 2020 – \$25) is recorded, net of tax, in the amount of \$85 (December 31, 2020 – \$17) in Accumulated Other Comprehensive Income.

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

No impairment on AFS investments was recognized for the nine month period ended September 30, 2021 (September 30, 2020 - \$nil). However, in the third quarter of 2020, there was an impairment reversal of \$124.

Investment income

The table below provides additional details on net investment income.

	3 months ended		9 months ended	
	September 30		September 30	
	2021	2020	2021	2020
Interest income	452	378	1,279	1,541
Dividend income	57	56	162	273
Net realized gains (losses)	10	2,282	(12)	2,478
Impairment Reversal	-	124	-	-
Fair value change on FVTPL investments	62	264	459	(89)
Investment expenses	(48)	(58)	(125)	(191)
Investment income	533	3,046	1,763	4,012

8. Provision for unpaid claims

The fair value of the provision for unpaid claims approximates the carrying value determined in accordance with generally accepted actuarial methods in Canada, which discounts future cash flows and includes a margin for adverse deviation.

The Company determines the discount rate based on the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments. The Company discounts its best estimate as follows, which is for all lines of business within the reporting entity:

Entity	September 30, 2021	December 31, 2020
ICPEI	1.88%	1.75%

The Company recorded a \$779 addition, as at September 30, 2021, to the net provision for unpaid claims relating to unfavourable development in prior years' estimates (December 31, 2020 – \$113 unfavourable).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial liabilities are adequate to pay future claims,

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

the Company includes provisions for adverse deviations (PFADs) in some assumptions relating to claims development, reinsurance recoveries, and future investment income. The PFADs selected are in the mid-range of those recommended by the Canadian Institute of Actuaries. The aggregate impact of the provision for adverse deviation is to increase the provision for unpaid claims on a net basis by \$2,001 as at September 30, 2021 (December 31, 2020 – \$1,846).

Claims development

Provision for unpaid claims analysis	September 30, 2021	December 31, 2020
Unpaid claims, beginning of year, net	25,985	23,361
Unfavourable prior year claims development	779	113
Net claims incurred in current period	16,610	20,143
Paid on claims occurring during		
Current period	(7,801)	(10,788)
Prior period	(6,261)	(6,844)
Unpaid claims, end of period, net	29,312	25,985
Reinsurers' share	2,780	3,683
Gross unpaid claims	32,092	29,668

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 nine months ended September 30 as having a potential or identifiable material impact on the overall claims estimate.

9. Risk management

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

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

Insurance risk

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

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

number and amount of claims will vary from year-to-year from the estimate.

The concentration of insurance risk by product line, province or state, and underlying currency, will also impact financial results depending on the nature and location of events.

Interest rate risk

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

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on other comprehensive income ("OCI") relating to the fixed income investment portfolio as at September 30, 2021, and December 31, 2020, based on parallel 50 basis point shifts in interest rates up and down in 25 basis point increments.

Change in interest rates As at September 30, 2021	Fair value of fixed income and pooled funds	Hypothetical change on fair value	Effect on OCI net of tax
50 basis point rise	48,229	(1.4)%	(467)
25 basis point rise	48,564	(0.7)%	(233)
No change	48,899	-	-
25 basis point decline	49,234	0.7%	233
50 basis point decline	49,569	1.4%	467

Change in interest rates 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	(1.5)%	(423)
25 basis point rise	40,193	(0.7)%	(211)
No change	40,496	-	-
25 basis point decline	40,800	0.7%	211
50 basis point decline	41,103	1.5%	423

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. To ensure the company meets its obligation, the company maintains a portion of its assets in liquid investments and it also matches its assets duration to its liability.

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

The maturity profile of bonds, cash and cash equivalents and accounts receivable is as follows, as at September 30, 2021 and December 31, 2020:

September 30, 2021	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	520	7,794	8,480	6,499	23,293
Cash and cash equivalents	10,833	-	-	-	10,833
Accounts receivable	18,497	-	-	-	18,497
Total	29,850	7,794	8,480	6,499	52,623
Percentage of total	57%	15%	16%	12%	100%

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%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at September 30, 2021 and December 31, 2020:

September 30, 2021	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Gross claim liabilities	15,987	7,266	3,368	3,898	30,519
Less: Reinsurance recoverable	720	778	105	982	2,585
Net actuarial liabilities	15,267	6,488	3,263	2,916	27,934

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

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 market and, consequently, the value of the equity 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

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

(common and preferred shares) on net income and OCI for the nine months ended September 30, 2021, and the year ended December 31, 2020. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumption that all equity holdings increased/decreased by 10% with all other variables held constant.

Change in equity holdings	Effect on net income (loss) net of tax		Effect on OCI net of tax	
	September 30, 2021	December 31, 2020	September 30, 2021	December 31, 2020
10% rise	298	261	86	25
10% decline	(298)	(261)	(86)	(25)

Credit risk

The Company is exposed to credit risk principally through its investment securities and balances receivable from policyholders and reinsurers. The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of investment securities which do not carry the guarantee of a national or Canadian provincial government. The Company's credit exposure to any one individual policyholder is not material. The Company has policies that limit its exposure to individual reinsurers and regular review processes to assess the creditworthiness of reinsurers, with whom it transacts business.

Fixed income portfolio

A breakdown of the fixed income portfolio by credit rating is shown below as at September 30, 2021 and December 31, 2020:

	As at September 30, 2021		As at December 31, 2020	
	Fair value	%	Fair value	%
AAA	5,383	23%	8,179	44%
AA	6,253	27%	4,577	24%
A	9,835	42%	4,918	26%
BBB	1,822	8%	1,050	6%
Total	23,293	100%	18,724	100%

Preferred share portfolio

A breakdown of the preferred shares portfolio (excluding preferred share ETF portfolio) by credit rating is shown below as at September 30, 2021 and December 31, 2020:

	As at September 30, 2021		As at December 31, 2020	
	Fair value	%	Fair value	%
P2	3,238	86%	3,234	86%
P3	507	14%	513	14%
Total	3,745	100%	3,747	100%

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

10. Income taxes

The income tax is as follows:

	3 months ended		9 months ended	
	September 30		September 30	
	2021	2020	2021	2020
Current	504	156	1,623	653
Deferred	(29)	(101)	7	12
Total	475	55	1,630	665

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 and the Company operates in different jurisdictions with different tax rates, 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:

	3 months ended		9 months ended	
	September 30		September 30	
	2021	2020	2021	2020
Income tax expense calculated on statutory rates	26.5%	26.5%	26.5%	26.5%
Increase (decrease) in income tax rates resulting from:				
Non-taxable dividend income	(1.7)%	(0.2)%	(0.8)%	(1.3)%
Non-taxable portion of capital gains	-	(21.8)%	(0.5)%	(13.7)%
Tax benefit of losses not previously recognized	-	-	(0.5)%	-
Statutory rate difference	3.0%	(0.9)%	2.8%	2.4%
Other	1.7%	(1.9)%	0.2%	(0.8)%
Effective income tax rate	29.5%	1.7%	27.7%	13.1%

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

11. Operating costs by nature

The table below presents operating costs by major category.

	3 months ended		9 months ended	
	September 30		September 30	
	2021	2020	2021	2020
Salaries and benefits	1,159	705	3,164	2,257
Systems costs	202	66	620	253
Professional fees	189	171	450	420
Directors' and Regulatory Filing fees	84	84	196	215
Occupancy and lease cost	166	150	508	447
Printing and postage	42	53	128	133
Facility	179	179	482	417
Management Fees	67	57	176	150
Other expenses	355	18	642	418
Total	2,443	1,483	6,366	4,710

12. Accumulated other comprehensive income

A breakdown of the accumulated other comprehensive income is shown below as at September 30, 2021 and December 31, 2020:

	As at September	As at December
	30, 2021	31, 2020
Gross unrealized gains	1,138	841
Tax impact	(249)	(225)
Ending balance	889	616

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

13. Earnings per share

Earnings per share are calculated in the following table:

	3 months ended		9 months ended	
	September 30		September 30	
Earnings per Share on continued operations	2021	2020	2021	2020
Basic earning per share on continued operations:				
Net income available to shareholders	1,133	2,923	3,942	3,877
Average number of common shares	14,742	12,007	13,840	12,007
Basic earnings per share on continued operations	\$0.08	\$0.24	\$0.28	\$0.32
Diluted earnings per share:				
Average number of common shares	14,742	12,007	13,840	12,007
Average number of dilutive common shares under employee stock compensation plan	258	-	192	-
Average number of diluted common shares	15,000	12,007	14,032	12,007
Diluted earnings per share on continued operations	\$0.08	\$0.24	\$0.28	\$0.32
Earnings per Share on discontinued operations	2021	2020	2021	2020
Basic loss per share				
Net loss available to shareholders	-	(5,866)	-	(5,866)
Average number of common shares	14,742	12,007	13,840	12,007
Basic loss per share on discontinued operations	-	\$(0.49)	-	\$(0.49)
Diluted earnings per share:				
Average number of common shares	14,742	12,007	13,840	12,007
Average number of dilutive common shares under employee stock compensation plan	258	-	192	-
Average number of diluted common shares	15,000	12,007	14,032	12,007
Diluted loss per share on discontinued operations	-	\$(0.49)	-	\$(0.49)
Total Earnings per Share	2021	2020	2021	2020
Basic earning (loss) per share				
Net income (loss) available to shareholders	1,133	(2,943)	3,942	(1,989)
Average number of common shares	14,742	12,007	13,840	12,007
Basic earnings (loss) per share	\$0.08	\$(0.25)	\$0.28	\$(0.17)
Diluted earnings per share:				
Average number of common shares	14,742	12,007	13,840	12,007
Average number of dilutive common shares under employee stock compensation plan	258	-	192	-
Average number of diluted common shares	15,000	12,007	14,032	12,007
Diluted earnings (loss) per share	\$0.08	\$(0.25)	\$0.28	\$(0.17)

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

14. Net loss from discontinued operations

The table below presents results of discontinued operations for the period ended September 30, 2021 and September 30, 2020:

	3 months ended		9 months ended	
	September 30		September 30	
	2021	2020	2021	2020
Revenue				
Net earned premiums	-	-	-	-
Investment Income	-	-	-	-
Total revenue	-	-	-	-
Expenses				
Net incurred claims	-	-	-	-
Net acquisition costs	-	-	-	-
Operating costs	-	-	-	-
Total expenses	-	-	-	-
Settlement of New Nordic lawsuit	-	(7,000)	-	(7,000)
Loss before income taxes	-	(7,000)	-	(7,000)
Income tax (recovery)	-	(1,134)	-	(1,134)
Net loss on discontinued operations	-	(5,866)	-	(5,866)
Gain on sale, net of expenses	-	-	-	-
Net income (loss) on discontinued operations	-	(5,866)	-	(5,866)

15. Non-controlling interest

On April 1, 2021, the Company acquired the remaining 25% ownership of ICPEI that it did not already own. Total cash consideration paid was \$6,315 plus expenses. The former CEO of ICPEI was part of the minority interest group and the transaction was completed at arm's length.

The transaction was financed partly by issuing 2,735,600 common shares of the Company through a non-brokered private placement at a price of \$1.42 per Share for \$3,885. The Company also obtained a \$3,000 Term Loan (refer to note 16).

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

Prior to this transaction, the Company had non-controlling interests attributable to the subsidiary of ICPEI. The following tables summarize the comprehensive income attributable to the non-controlling shareholders:

	3 months ended		9 months ended	
	September 30		September 30	
	2021	2020	2021	2020
Revenue				
Gross written and assumed premiums	-	2,935	2,844	7,892
Net earned premiums	-	2,360	2,676	6,718
Investment Income	-	180	168	305
Total revenue	-	2,540	2,844	7,023
Expenses				
Net incurred claims	-	1,359	1,351	3,648
Net acquisition costs	-	602	645	1,623
Operating costs	-	317	422	975
Total expenses	-	2,278	2,418	6,246
Income before income taxes	-	262	426	777
Income tax expense	-	78	110	227
Net income attributable to NCI	-	184	316	550
Other comprehensive income (loss) attributable to NCI	-	47	(11)	182
Comprehensive income attributable to NCI	-	231	305	732

The following table summarizes the net assets of the non-controlling shareholders as at September 30, 2021 and December 31, 2020:

	September 30,	December 31,
	2021	2020
Assets		
Cash and investments	-	13,008
Other assets	-	6,224
Total assets	-	19,232
Liabilities		
Unearned premium	-	5,643
Unpaid claims	-	7,417
Other liabilities	-	1,441
Total liabilities	-	14,501
Equity		
AOCI	-	205
Retained earnings	-	4,526
Total equity	-	4,731
Total liabilities and equity	-	19,232

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

The following table summarizes the cash flows of the non-controlling shareholders for the nine months period ended September 30, 2021 and twelve months period ended December 31, 2020:

	September 30, 2021	December 31, 2020
Cash flow from operating activities	-	2,732
Cash flow from investing activities	-	(1,850)
Cash flow from financing activities	-	(102)
Net increase in cash and short-term deposits	-	780

16. Bank loan

The Company drew a \$3,000 term loan with the National Bank maturing on March 31, 2024 with repayment terms of \$300 per year and \$2,400 on March 31, 2024. During the third quarter, a repayment of \$150 was made to the bank. The bank has general security on all of the assets of the Company except the shares and any assets of ICPEI. The Company is subject to certain covenants pursuant to its loan agreement, which include a Funded Debt to EBITDA ratio, a Funded Debt to Capitalization ratio and a Fixed Charge Coverage ratio (as such terms are defined in the credit agreement). The Company monitors these ratios and reports them to its lenders on a quarterly basis. As at September 30, 2021, the Company was in compliance with all covenants. Interest rates on the term loan are based on Canadian Bankers' Acceptance rates, adjusted by the Company's credit spread. At September 30, 2021, the interest rate of the loan was 2.41%. Interest expense was \$18 and \$36 for the three months and nine months ended September 30, 2021 respectively.

The Company has a \$2,000 revolving credit line with National Bank which has not been drawn.

17. Segmented information

The Company operates through two segments: Personal Lines and Commercial Lines businesses. Through its Personal Lines segment, the Company is engaged primarily in the underwriting of automobile insurance and personal property. Through its Commercial Lines, the Company designs and underwrites commercial property and commercial automobile.

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.

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

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

	3 months ended		9 months ended	
	September 30		September 30	
	2021	2020	2021	2020
Revenue				
Net earned premiums				
- Personal Lines	7,964	6,559	21,955	18,754
- Commercial Lines	5,998	2,882	15,602	8,117
Total net earned premium	13,962	9,441	37,557	26,871
Net claims incurred				
- Personal Lines	4,449	4,023	11,395	9,858
- Commercial Lines	2,145	1,312	6,060	4,632
Net claims	6,594	5,335	17,455	14,490
Net expenses				
- Personal Lines	3,521	2,656	9,447	7,200
- Commercial Lines	2,408	1,019	5,762	3,193
Total	5,929	3,675	15,209	10,393
Total net expenses	12,523	9,010	32,664	24,883
Underwriting income (loss) before income taxes				
- Personal Lines	(6)	(120)	1,113	1,696
- Commercial Lines	1,445	551	3,780	292
Total	1,439	431	4,893	1,988
Corporate and other	(439)	(214)	(833)	(807)
Underwriting income	1,000	217	4,060	1,181
Impact of change in net claims discount rate	75	(101)	65	(101)
Investment income	533	3,046	1,763	4,012
Total income before income taxes	1,608	3,162	5,888	5,092