Unaudited Condensed Consolidated Interim Financial Statements of

ICPEI Holdings Inc.

For six months ended June 30, 2022 and 2021

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 six months ended June 30, 2022. 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 Sheets
(unaudited, in thousands of Canadian dollars)

	Note	June 30, 2022	December 31, 2021
Assets			
Cash and cash equivalents	7	20,798	16,485
Accounts receivable		27,311	19,815
Investments	7	50,955	54,518
Deferred policy acquisition costs		10,922	8,156
Income taxes recoverable		1,169	310
Reinsurers' share - unearned premiums		4,104	1,050
- provision for unpaid claims	8	4,130	4,230
Deferred income taxes		683	341
Prepaid expenses and other assets		2,395	1,907
Right of use asset		119	273
Goodwill		378	378
Total assets		122,964	107,463
Liabilities			
Accounts payable and accrued liabilities		7,096	8,097
Bank loan	15	2,625	2,775
Income taxes payable		-	1,178
Unearned premiums		44,860	33,339
Unearned commission		309	269
Provision for unpaid claims	8	37,271	34,430
Lease liability		42	111
Due to reinsurers		2,119	112
Total liabilities		94,322	80,311
Shareholder's Equity			
Share capital		7,591	6,679
Contributed surplus		1,507	1,507
Retained earnings		21,070	18,510
Accumulated other comprehensive (loss) income	12	(1,526)	456
Shareholder's equity		28,642	27,152
Total liabilities and shareholder's equity		122,964	107,463

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

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

	Note	3 months ended June 30		6 months ended June 30	
		2022	2021	2022	2021
Revenue					
Gross written and assumed premiums		31,222	18,127	48,689	29,501
Less premiums ceded to reinsurers		(3,746)	(682)	(5,238)	(1,089)
Net written and assumed premiums		27,476	17,445	43,451	28,412
Change in gross unearned premiums		(10,916)	(4,562)	(11,521)	(4,708)
Change in unearned premiums, reinsurers' share		2,395	9	3,054	(109)
Change in provision for unearned premiums		(8,521)	(4,553)	(8,467)	(4,817)
Net earned premiums		18,955	12,892	34,984	23,595
Investment income, net	7	(188)	556	35	1,230
Total revenue		18,767	13,448	35,019	24,825
Expenses					
Gross claims incurred		9,906	5,486	17,540	10,616
Claims (Recoveries) from reinsurers		22	(29)	100	245
Net incurred claims		9,928	5,457	17,640	10,861
Gross acquisition costs		5,487	3,186	9,785	5,782
Recoveries from reinsurers		(15)	(15)	(30)	(31)
Net acquisition costs		5,472	3,171	9,755	5,751
Operating costs	11	2,655	2,001	5,187	3,923
Income before income taxes and impact of change in discount rate on claims		712	2,819	2,437	4,290
Impact of change in discount rate on claims (1)		520	(5)	1,102	(10)
Income before income taxes		1,232	2,814	3,539	4,280
Income tax expense	10	322	778	979	1,155
Net income		910	2,036	2,560	3,125
Attributed to:					
Shareholders of the Company		910	2,036	2,560	2,809
Non-controlling interest	14	-	-	-	316
Net income		910	2,036	2,560	3,125
Other comprehensive (loss) income, net of taxes that may be classified subsequently to net income					
Available-for-sale investments:					
Change in net unrealized (losses) income		(1,443)	175	(3,179)	75
Reclassification of net realized losses to net income		316	12	476	47
Tax impact		275	(55)	721	(36)
Other comprehensive (loss) income		(852)	132	(1,982)	86

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

		3 months ended June 30		6 months ended June 30	
	Note	**2022**	**2021**	**2022**	**2021**
Attributed to:					
Shareholders of the Company		(852)	132	(1,982)	97
Non-controlling interest	14	-	-	-	(11)
Other comprehensive (loss) income		(852)	132	(1,982)	86
Total comprehensive income		58	2,168	578	3,211
Attributed to:					
Shareholders of the Company		58	2,168	578	2,906
Non-controlling interest	14	-	-	-	305
Total comprehensive income		58	2,168	578	3,211
Earnings per share attributable to shareholders of the Company	13				
Earnings per share – basic and diluted		$0.06	$0.14	$0.17	$0.21

(1) As interest rates may change each period, and have an impact to the incurred claims, 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 Statements 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, 2022	6,679	1,507	456	18,510	27,152	-	27,152
Net income	-	-	-	2,560	2,560	-	2,560
Other comprehensive loss	-	-	(1,982)	-	(1,982)	-	(1,982)
Total comprehensive (loss) income	-	-	(1,982)	2,560	578	-	578
Common shares issued	912	-	-	-	912	-	912
Balance at June 30, 2022	7,591	1,507	(1,526)	21,070	28,642	-	28,642

	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	-	-	-	2,809	2,809	316	3,125
Other comprehensive income (loss)	-	-	97	-	97	(11)	86
Total comprehensive (loss) income	-	-	97	2,809	2,906	305	3,211
Common shares issued	3,885	-	-	-	3,885	-	3,885
Purchase of non-controlling interest	-	-	194	(2,035)	(1,841)	(5,036)	(6,877)
Balance at June 30, 2021	6,679	1,507	907	14,960	24,053	-	24,053

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

ICPEI HOLDINGS INC.
Consolidated Statements of Cash Flows
(unaudited, in thousands of Canadian dollars)

	6 months ended	
	June 30, 2022	**June 30, 2021**
Cash provided by (used in)		
Operating activities		
Net income	2,560	3,125
Adjusted for		
Reinsurers' share of unearned premiums	(3,054)	109
Reinsurers' share of unpaid claims	100	836
Provision for unpaid claims	2,841	834
Unearned premiums	11,521	4,708
Deferred income taxes	(342)	(129)
Unearned commissions	40	5
Deferred policy acquisition costs	(2,766)	(1,143)
Amortization on right of use asset	292	190
Amortization on property plant equipment and intangible assets	294	203
Amortization of premiums on bonds	79	77
Fair value change on FVTPL investments	499	(397)
Prepaid expenses & other assets	(329)	(77)
	9,175	5,216
Cash flow from changes in		
Accounts receivable	(7,496)	(2,741)
Net realized losses	475	22
Income taxes recoverable	(1,316)	(1,538)
Due to reinsurers	2,007	-
Due from insurance companies	-	479
Accounts payable and accrued liabilities	353	(75)
Cash provided by operating activities	4,404	4,488
Financing activities		
Common shares issued	912	3,885
Term loan from bank	(150)	3,000
Payment of lease liabilities	(206)	(239)
Cash provided by financing activities	556	6,646
Investing activities		
Purchases of property, equipment and intangible assets	(452)	(206)
Purchase of minority interest	-	(6,877)
Purchases of investments	(19,889)	(23,704)
Sale/maturity of investments	19,694	15,977
Cash used in investing activities	(647)	(14,810)
Increase (Decrease) in cash and cash equivalents	4,313	(3,676)
Cash and cash equivalents, beginning of period	16,485	11,859
Cash and cash equivalents, end of period	20,798	8,183
Supplementary information		
Income taxes paid	3,313	2,675
Interest received	622	435
Interest paid	67	26
Dividends received	180	186

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

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, Quebec and Ontario, Canada through its 100% owned subsidiary – The Insurance Company of Prince Edward Island ("ICPEI"). ICPEI recently received a license in April 2022 and began to write business in Alberta. 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 201, Mississauga, Ontario.

2. COVID-19 pandemic

COVID-19 did not have any significant impact on the premiums, collections, investments or other operational activities of the Company, but the impact remains uncertain as the pandemic continues to evolve.

The effects on the Company's development of critical estimates during the second quarter of 2022 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. No specific provisions have been provided.

Credit risk

During the second quarter of 2022, 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 second quarter of 2022 to monitor and evaluate credit risks. There was no downgrade of reinsurers' credit rating and there were no significant delinquent payments from customers. Valuation of investment bonds is based on observable market values, which already reflect the associated credit risks associated with the issuers.

3. Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2021, which have been prepared in accordance with IFRS.

These consolidated financial statements have been authorized for issue by the Board of Directors on August 17, 2022.

4. Summary of significant accounting policies

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

Standards, amendments and interpretations not yet adopted or effective

IFRS 9, Financial Instruments

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

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 in the process of implementing the new IFRS 17 accounting standard and evaluating the impact on the results of the Company.

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.

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

These estimates and judgements principally relate to the establishment of reserves for claims and expenses, impairments of investment securities, amounts recoverable from re-insurers, and income taxes. As more information becomes known, these estimates and judgements could change and impact future results.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual 2021 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:

	Fair values	
Available for sale	**As at June 30, 2022**	**As at December 31, 2021**
Fixed income		
Canadian		
Federal	7,154	6,256
Provincial	4,767	5,543
Municipal	87	102
Corporate	10,825	12,364
Foreign		
Government	232	-
Corporate	575	626
Total fixed income	23,640	24,891
Corporate value pooled fund	6,791	7,383
Money market pooled funds	567	326
Short-term fixed income and mortgage pooled funds	13,762	14,350
Short-term and Floating rate pooled fund	1,449	2,000
Total pooled funds	22,569	24,059
Common shares		
Canadian	428	452
Canadian - ETF	734	812
Total common shares	1,162	1,264
Total available for sale	47,372	50,214
Fair value through profit or loss		
Preferred shares	2,893	3,527
Preferred shares - ETF	691	777
Total preferred shares	3,584	4,304
Total investments	50,955	54,518
Cash and cash equivalents	20,798	16,485
Total investments including cash and cash equivalents	71,753	71,003

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, 2021. The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. A description of the inputs used in the valuation of financial instruments is as follows:

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

Level 2 – Inputs, other than quoted prices, that are observable for the investment either directly or indirectly. These inputs include quoted prices for similar instruments exchanged in active markets; quoted prices for identical or similar instruments exchanged in inactive markets; inputs other than quoted prices that are observable for the instruments, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates where available; and inputs that are derived principally from or corroborated by observable market data and correlation or other means. The Company's investments in government securities (including federal, provincial and municipal bonds), corporate securities, commercial mortgage pooled funds, money market pooled funds and infrequently traded securities are priced using publicly traded, over-the-counter prices or broker-dealer quotes which are based on market observable inputs. Observable inputs such as benchmark yields, reported trades, broker dealer quotes, issuer spreads and bids are available for these investments.

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

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

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined, as at June 30, 2022 and December 31, 2021:

June 30, 2022	**Level 1**	**Level 2**	**Total**
Fixed income	—	23,640	23,640
Corporate value pooled funds	—	6,791	6,791
Money market pooled funds	—	567	567
Short-term fixed income and mortgage pooled funds	—	13,762	13,762
Short-term and Floating rate pooled fund		1,449	1,449
Common Shares – ETF	734	—	734
Preferred Shares – ETF	691	—	691
Common Shares	428	—	428
Preferred Shares	2,893	—	2,893
	4,746	46,209	50,955

December 31, 2021	**Level 1**	**Level 2**	**Total**
Fixed income	—	24,891	24,891
Corporate value pooled funds	—	7,383	7,383
Money market pooled funds	—	326	326
Short-term fixed income and mortgage pooled funds	—	14,350	14,350
Short-term and Floating rate pooled fund	—	2,000	2,000
Common Shares – ETF	812	—	812
Preferred Shares – ETF	777	—	777
Common Shares	452	—	452
Preferred Shares	3,527	—	3,527
	5,568	48,950	54,518

The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers from the existing portfolio for the quarter ended June 30, 2022 and for the year ended December 31, 2021.

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

The Company has interests in unconsolidated structured entities, through investments in pooled funds, which are included in investments on the balance sheet. These entities are not controlled by the Company. The carrying value of pooled funds and maximum exposure to loss as of June 30, 2022 was $22,569 (December 31, 2021 – $24,059). The Company has also invested in Common Shares and Preferred Shares ETFs totaling $1,425 as of June 30, 2022 (December 31, 2021 - $1,589). Investments in pooled funds consist of units invested in underlying money market and mortgage securities managed by third-party managers. The pooled funds are perpetual private trusts created under trust agreements. Financing is only provided to the pooled funds through the purchase of units and is therefore limited to the investment made.

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

Impaired assets and provisions for losses

A gross unrealized loss of $2,221 on Available for Sale (AFS) investments at June 30, 2022 (December 31, 2021 – $205) is recorded, net of tax, in the amount of $1,602 (December 31, 2021 – $143) in Accumulated Other Comprehensive Income, primarily due to the impact of higher 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 impairment on AFS investments was recognized for the six months ended June 30, 2022 (June 30, 2021 - $nil).

Investment income

The table below provides additional details on net investment income.

	3 months ended June 30		6 months ended June 30	
	2022	**2021**	**2022**	**2021**
Interest income	508	423	915	827
Dividend income	58	53	179	105
Net realized losses	(315)	(12)	(475)	(22)
Fair value change on FVTPL investments	(395)	135	(499)	397
Investment expenses	(44)	(43)	(85)	(77)
Investment income	(188)	556	35	1,230

8. Provision 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 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	June 30, 2022	December 31, 2021
ICPEI	4.04%	2.09%

The Company recorded a $1,166 addition, as at June 30, 2022, to the net provision for unpaid claims relating to unfavourable development in prior years' estimates (December 31, 2021 – $611 favourable).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial liabilities are adequate to pay future claims, the Company includes provisions for adverse deviations (PFADs) in some assumptions relating to claims development, reinsurance recoveries, and future investment income. The PFADs selected are in the mid-range of those recommended by the Canadian Institute of Actuaries. The aggregate impact of the provision for adverse deviation is to increase the provision for unpaid claims on a net basis by $2,104 as at June 30, 2022 (December 31, 2021 – $1,947).

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

Claims development

Provision for unpaid claims analysis	**June 30, 2022**	**December 31, 2021**
Unpaid claims, beginning of year, net	30,200	25,985
Unfavourable / (favourable) prior year claims development	1,166	(611)
Net claims incurred in current period	15,372	24,706
Paid on claims occurring during		
Current period	(6,942)	(12,988)
Prior period	(6,655)	(6,892)
Unpaid claims, end of period, net	33,141	30,200
Reinsurers' share	4,130	4,230
Gross unpaid claims	37,271	34,430

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 loss development factors and payment patterns, reinsurance recoveries, claims frequency and severity, 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 first quarter 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, cyber security risk, and to a lesser extent foreign exchange risk.

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

Insurance risk

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

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

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

Interest rate risk

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

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on other comprehensive income ("OCI") relating to the fixed income investment portfolio as at June 30, 2022, and December 31, 2021, based on parallel 100 basis point shifts in interest rates up and down in 50 basis point increments.

Change in interest rates As at June 30, 2022	**Fair value of fixed income and pooled funds**	**Hypothetical change on fair value**	**Effect on OCI net of tax**
100 basis point rise	44,948	(2.7)%	(880)
50 basis point rise	45,579	(1.4)%	(440)
No change	46,210	—	—
50 basis point decline	46,841	1.4%	440
100 basis point decline	47,473	2.7%	880

Change in interest rates As at December 31, 2021	**Fair value of fixed income and pooled funds**	**Hypothetical change on fair value**	**Effect on OCI net of tax**
100 basis point rise	47,601	(2.8)%	(939)
50 basis point rise	48,275	(1.4)%	(470)
No change	48,949	—	—
50 basis point decline	49,623	1.4%	470
100 basis point decline	50,297	2.8%	939

Liquidity risk

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

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

The maturity profile of bonds is as follows, as at June 30, 2022 and December 31, 2021:

June 30, 2022	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	132	8,982	4,935	9,591	23,640
Cash and cash equivalents	20,798	—	—	—	20,798
Broker loans	—	571	—	—	571
Accounts receivable	27,311	—	—	—	27,311
Total	48,241	9,553	4,935	9,591	72,320
Percentage of total	67%	13%	7%	13%	100%

December 31, 2021	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	699	8,974	8,514	6,704	24,891
Cash and cash equivalents	16,485	—	—	—	16,485
Broker loans	—	667	—	—	667
Accounts receivable	19,815	—	—	—	19,815
Total	36,999	9,641	8,514	6,704	61,858
Percentage of total	60%	15%	14%	11%	100%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at June 30, 2022 and December 31, 2021:

June 30, 2022	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Gross claim liabilities	16,843	11,343	5,273	3,960	37,419
Less: Reinsurance recoverable	2,431	773	327	640	4,171
Net actuarial liabilities	14,412	10,570	4,946	3,320	33,248

December 31, 2021	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Gross claim liabilities	14,173	10,322	4,957	3,837	33,289
Less: Reinsurance recoverable	2,258	902	266	675	4,101
Net actuarial liabilities	11,915	9,420	4,691	3,162	29,188

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 (common and preferred shares) on net income and OCI for the six months ended June 30, 2022, and the year ended December 31, 2021. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumption that all equity holdings increased/decreased by 10% with all other variables held constant.

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

Change in equity holdings	Effect on net income (loss) net of tax		Effect on OCI net of tax	
	June 30, 2022	December 31, 2021	June 30, 2022	December 31, 2021
10% rise	259	300	84	88
10% decline	(259)	(300)	(84)	(88)

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.

Cyber security risk

Information technology and cyber security risks continue to increase as attacks have become more frequent and sophisticated. We are more dependent on technology and critical applications to operate our business more effectively. To ensure the security of our systems, the safeguard of our information, we plan, test and execute our continuity and security plans. This includes threat and vulnerability assessments and monitoring of trending threats to mitigate vulnerabilities.

Fixed income portfolio

A breakdown of the fixed income portfolio by credit rating is shown below as at June 30, 2022 and December 31, 2021:

	As at June 30, 2022		As at December 31, 2021	
	Fair value	%	Fair value	%
AAA	8,411	35%	7,399	30%
AA	4,161	18%	5,262	21%
A	8,997	38%	10,096	41%
BBB	2,071	9%	2,134	8%
Total	23,640	100%	24,891	100%

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

Preferred share portfolio

A breakdown of the preferred shares portfolio by credit rating is shown below as at June 30, 2022 and December 31, 2021:

	As at June 30, 2022		As at December 31, 2021	
	Fair value	**%**	**Fair value**	**%**
P2	2,597	90%	3,025	86%
P3	296	10%	502	14%
Total	2,893	100%	3,527	100%

10. Income taxes

The income tax expense is as follows:

	3 months ended June 30		6 months ended June 30	
	2022	**2021**	**2022**	**2021**
Current	510	713	1,320	1,119
Deferred	(188)	65	(341)	36
	322	778	979	1,155

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:

	3 months ended June 30		6 months ended June 30	
	2022	**2021**	**2022**	**2021**
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	(1.3)%	-	(1.4)%	(0.4)%
Non-taxable portion of capital losses (gains)	1.0%	(1.0)%	0.5%	(0.7)%
Tax benefit of losses not previously recognized	0.6%	(1.0)%	0.4%	(0.7)%
Statutory rate difference	(0.7)%	3.8%	1.7%	2.7%
Other	(0.1)%	(0.6)%	-	(0.4)%
Effective income tax rate	26.0%	27.7%	27.7%	27.0%

(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 June 30		6 months ended June 30	
	2022	**2021**	**2022**	**2021**
Salaries and benefits	1,418	1,035	2,851	2,005
Systems costs	282	241	497	418
Professional fees	129	173	267	261
Directors' and Regulatory Filing fees	50	81	95	112
Occupancy cost	49	71	102	144
Facility	70	160	162	303
Interest expense	38	22	67	26
Amortization expense	291	197	585	394
Other expenses	328	21	561	260
	2,655	2,001	5,187	3,923

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

12. Accumulated other comprehensive income

A breakdown of the accumulated other comprehensive income is shown below as at June 30, 2022 and December 31, 2021:

	As at June 30, 2022	**As at December 31, 2021**
Gross unrealized (losses) gains	(2,187)	516
Tax impact	661	(60)
Ending balance	(1,526)	456

13. Earnings per share

Earnings per share are calculated in the following table:

	3 months ended June 30		6 months ended June 30	
Total Earnings per Share	**2022**	**2021**	**2022**	**2021**
Earnings per share:				
Net income available to shareholders	910	2,036	2,560	2,809
Average number of common shares	15,187	14,742	15,175	13,374
Earnings per share – basic and diluted	$0.06	$0.14	$0.17	$0.21

There was no dilution effect during the three and six months ended June 30, 2022 and 2021, therefore, diluted EPS was the same as basic EPS.

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

14. 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 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.

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

	3 months ended June 30		**6 months ended June 30**	
	2022	**2021**	**2022**	**2021**
Revenue				
Gross written and assumed premiums	—	—	—	2,844
Net earned premiums	—	—	—	2,676
Investment Income	—	—	—	168
Total revenue	—	—	—	2,844
Expenses				
Net incurred claims	—	—	—	1,351
Net acquisition costs	—	—	—	645
Operating costs	—	—	—	422
Total expenses	—	—	—	2,418
Income before income taxes	—	—	—	426
Income tax expense	—	—	—	110
Net income attributable to NCI	—	—	—	316
Other comprehensive (loss) attributable to NCI	—	—	—	(11)
Comprehensive income attributable to NCI	—	—	—	305

15. Bank loan

On April 1, 2021, 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 second quarter of 2022, a repayment of $75 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. The Company monitors these ratios and reports them to its lenders on a quarterly basis. As at June 30, 2022, 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 June 30, 2022, the interest rate of the loan was 3.86%. Interest expense was $30 and $52 for the three months and six months ended June 30, 2022.

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

16. Segmented information

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

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

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 income taxes by Personal and Commercial Lines:

	3 months ended June 30		**6 months ended June 30**	
	2022	**2021**	**2022**	**2021**
Revenue				
Net earned premiums				
- Personal Lines	9,584	7,199	18,166	13,991
- Commercial Lines	9,371	5,693	16,818	9,604
Total net earned premium	18,955	12,892	34,984	23,595
Net claims incurred				
- Personal Lines	5,976	3,077	10,843	6,946
- Commercial Lines	3,952	2,380	6,797	3,915
Net claims	9,928	5,457	17,640	10,861
Net expenses				
- Personal Lines	3,418	3,211	6,801	5,926
- Commercial Lines	4,435	1,803	7,506	3,354
Total	7,853	5,014	14,307	9,280
Total net expenses	17,781	10,471	31,947	20,141
Income before income taxes				
- Personal Lines	190	911	522	1,119
- Commercial Lines	984	1,510	2,515	2,335
Underwriting income	1,174	2,421	3,037	3,454
Corporate and other	(274)	(158)	(635)	(394)
Impact of change in net claims discount rate	520	(5)	1,102	(10)
Investment income	(188)	556	35	1,230
Total income before income taxes	1,232	2,814	3,539	4,280