Unaudited Condensed Consolidated Interim Financial Statements of

Echelon Financial Holdings Inc.

For nine months ended September 30, 2018 and 2017

The external auditors have not reviewed these unaudited consolidated financial statements.

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Balance Sheets
(Unaudited, in thousands of Canadian dollars)

	Note	September 30, 2018	December 31, 2017
Assets			
Cash and short–term deposits	6	73,937	44,459
Accounts receivable		107,349	75,622
Loan receivable	7	—	6,553
Investments (including securities on loan)	6	381,166	370,933
Due from insurance companies		519	510
Deferred policy acquisition costs		52,345	40,888
Income taxes recoverable		—	1,001
Prepaid expenses and other assets		3,249	2,462
Reinsurers' share – unearned premiums		12,603	9,957
– provision for unpaid claims	9	20,715	23,471
Property and equipment		1,154	859
Intangible assets	11	9,678	8,037
Deferred income taxes		5,075	5,834
Total assets		667,790	590,586
Liabilities			
Income taxes payable	12	734	—
Accounts payable and accrued liabilities		21,834	18,116
Payable to insurance companies		2,921	610
Unearned premiums		207,776	160,577
Unearned commission		986	1,667
Provision for unpaid claims	9	276,385	262,966
Total liabilities		510,636	443,936
Equity			
Share capital		71,977	71,520
Contributed surplus		280	248
Retained earnings		84,024	73,887
Accumulated other comprehensive income	15	(2,603)	(2,833)
Equity attributed to shareholders of the Company		153,678	142,822
Non-controlling interest	18	3,476	3,828
Total equity		157,154	146,650
Total liabilities and equity		667,790	590,586

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

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

		3 months ended September 30		9 months ended September 30	
	Note	**2018**	**2017**	**2018**	**2017**
Revenue					
Gross written and assumed premiums		105,027	78,047	297,147	217,668
Less: premiums ceded to reinsurers		(4,429)	(5,536)	(10,083)	(16,096)
Net written and assumed premiums		100,598	72,511	287,064	201,572
(Increase) in gross unearned premiums		(5,799)	(13,658)	(47,199)	(42,146)
Increase in unearned premiums, reinsurers' share		910	1,164	2,646	3,064
Change in provision for unearned premiums		(4,889)	(12,494)	(44,553)	(39,082)
Net earned premiums		95,709	60,017	242,511	162,490
Investment income	6	3,028	2,416	7,746	13,880
Total revenue		98,737	62,433	250,257	176,370
Expenses					
Gross claims incurred		60,949	46,945	154,048	111,247
Less: claims recoveries from reinsurers		3,811	(3,632)	1,449	(7,258)
Net incurred claims		64,760	43,313	155,497	103,989
Gross acquisition costs		22,054	14,267	57,268	41,340
Less: acquisition (cost) recoveries from reinsurers		(144)	(1,431)	1,783	(4,519)
Net acquisition costs		21,910	12,836	59,051	36,821
Operating costs	13	10,582	7,382	28,183	23,090
Total expenses		97,252	63,531	242,731	163,900
Income before taxes and discount rate impact on claims		1,485	(1,098)	7,526	12,470
Impact of change in discount rate on claims[1]		93	2,034	4,207	2,034
Income before interest expense and income taxes		1,578	936	11,733	14,504
Interest expense	8	—	—	—	155
Income tax expense	12	1,408	126	1,932	2,880
Net income on continued operations		170	810	9,801	11,469
Net (loss) on discontinued operations	17	—	—	—	(7,268)
Net income		170	810	9,801	4,201
Attributed to:					
Shareholders of the Company - continued operations		266	858	10,137	11,455
Shareholders of the Company - discontinued operations	17	—	—	—	(7,268)
Non-controlling interest - continued operations	18	(96)	(48)	(336)	14
Non-controlling interest - discontinued operations	17	—	—	—	—
Net income		170	810	9,801	4,201
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)		(1,160)	(2,814)	(2,178)	(3,204)
Reclassification of net realized losses to net income		696	93	2,189	147
Foreign exchange forward		—	—	—	(4,314)
Tax impact		254	728	203	1,396
Other comprehensive income (loss) on continued operations		(210)	(1,993)	214	(5,975)
Other comprehensive income on discontinued operations	17	—	—	—	7,268
Other comprehensive income (loss)		(210)	(1,993)	214	1,293

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

		3 months ended September 30		9 months ended September 30	
	Note	2018	2017	2018	2017
Attributed to:					
Shareholders of the Company - continued operations		(190)	(1,948)	230	(5,906)
Shareholders of the Company - discontinued operations	17	—	—	—	7,268
Non-controlling interest - continued operation	18	(20)	(45)	(16)	(69)
Non-controlling interest - discontinued operation	17	—	—	—	—
Other comprehensive income (loss)		(210)	(1,993)	214	1,293
Total comprehensive income (loss)		(40)	(1,183)	10,015	5,494
Attributed to:					
Shareholders of the Company - continued operations		76	(1,090)	10,367	5,549
Shareholders of the Company - discontinued operations	17	—	—	—	—
Non-controlling interest - continued operation	18	(116)	(93)	(352)	(55)
Non-controlling interest - discontinued operation	17	—	—	—	—
Total comprehensive income (loss)		(40)	(1,183)	10,015	5,494
Earnings per share attributable to shareholders of the Company	16				
Earnings per share continued operations - basic		$0.02	$0.07	$0.85	$0.97
(Loss) per share discontinued operations - basic		$0.00	$0.00	$0.00	$(0.62)
Earnings per share - basic		$0.02	$0.07	$0.85	$0.35
Earnings per share continued operations - diluted		$0.02	$0.07	$0.83	$0.95
(Loss) per share discontinued operations - diluted		$0.00	$0.00	$0.00	$(0.62)
Earnings per share - diluted		$0.02	$0.07	$0.83	$0.35
Net income		170	810	9,801	4,201

(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 user to see the impact of this change separately in order to understand the true movement in claims incurred.

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

ECHELON FINANCIAL HOLDINGS INC.
Consolidated 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, 2018	71,520	248	(2,833)	73,887	142,822	3,828	146,650
Net income (loss)	—	—	—	10,137	10,137	(336)	9,801
Other comprehensive income	—	—	230	—	230	(16)	214
Total comprehensive income	—	—	230	10,137	10,367	(352)	10,015
Common shares issued on stock options exercised	457	(45)	—	—	412	—	412
Stock compensation expense	—	77	—	—	77	—	77
Balance at September 30, 2018	71,977	280	(2,603)	84,024	153,678	3,476	157,154

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders' Equity	Non-controlling interest	Total Equity
Balance at January 1, 2017	70,227	322	(5,070)	71,935	137,414	3,960	141,374
Net income	—	—	—	4,187	4,187	14	4,201
Other comprehensive income	—	—	1,362	—	1,362	(69)	1,293
Total comprehensive income	—	—	1,362	4,187	5,549	(55)	5,494
Transfer of currency translation adjustment	—	—	(99)	318	219	(219)	—
Common shares issued on stock options exercised	1,115	(116)	—		999	—	999
Stock options expense	—	21	—	—	21	—	21
Balance at September 30, 2017	71,342	227	(3,807)	76,440	144,202	3,686	147,888

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

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

	9 months ended	
	September 30, 2018	**September 30, 2017**
Cash provided by (used in):		
Operating activities		
Net income from continued operations	9,801	11,469
Net loss from discontinued operations	—	(7,268)
Adjusted for:		
Reinsurers' share of unearned premiums	(2,646)	(3,064)
Reinsurers' share of unpaid claims	2,756	(2,873)
Provision for unpaid claims	13,419	6,538
Unearned premiums	47,199	42,146
Deferred income taxes	759	(103)
Unearned commissions	(681)	(438)
Deferred policy acquisition costs	(11,457)	(9,453)
Amortization on property plant equipment and intangible assets	4,362	4,134
Amortization of premiums on bonds	942	1,190
Fair value change on FVTPL investments	369	(2,739)
Options expense	77	21
Foreign exchange forward	—	(4,314)
Prepaid expenses & other assets	(787)	(499)
	54,312	30,546
Cash flow from changes in		
Accounts receivable	(31,727)	(30,323)
Loan receivable	—	(18,185)
Net realized losses	2,202	1,071
Income taxes payable	1,938	3,070
Due to insurance companies	2,302	3,017
Other liabilities	3,718	2,190
Cash provided (used) by continuing operating activities	42,546	2,855
Cash (used) by discontinued operating activities	—	(137,935)
Cash inflow (outflow) from operating activities	42,546	(135,080)
Financing activities		
Proceeds from issuing of common shares for stock options	412	999
Cash provided by continuing financing activities	412	999
Cash inflow from financing activities	412	999
Investing activities		
Purchases of property, equipment and intangible assets	(6,298)	(4,445)
Purchases of investments	(325,845)	(232,320)
Sale/maturity of investments	312,110	208,613
Proceeds received from the sale of subsidiary	6,553	5,117
Cash (used) by continuing investing activities	(13,480)	(23,035)
Cash provided by discontinued investing activities	—	62,619
Cash (outflow) from investing activities	(13,480)	39,584

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

	9 months ended	
	September 30, 2018	**September 30, 2017**
Increase (decrease) in cash and short-term deposits	29,478	(94,497)
Cash and short-term deposits, beginning of period	44,459	137,635
Cash and short-term deposits, end of period	73,937	43,138
Supplementary information		
Interest paid (recovered)	(2)	(3)
Income taxes paid (recovered)	(755)	139

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

1 Nature of operations

Echelon Financial Holdings Inc. ("the Company") was incorporated in Canada on August 18, 1997, under the Business Corporations Act (Ontario). The Company is domiciled in Canada and principally engaged, through its subsidiaries, in property and casualty insurance in Canada. The Company's head office is located at 2680 Matheson Blvd. East, Suite 300, Mississauga, Ontario.

The Company's wholly-owned subsidiaries are Echelon Insurance ("Echelon"), CIM Reinsurance Company Ltd. ("CIM Re") and CUISA Managing General Agency Corporation ("CUISA MGA"). The Company also owns 75% of The Insurance Company of Prince Edward Island ("ICPEI").

The Company completed the sale of Qudos Insurance A/S ("Qudos") on March 7, 2017. Please refer to note 17.

2 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, 2017, which have been prepared in accordance with IFRS.

These consolidated financial statements have been authorized for issue by the Board of Directors on November 14, 2018.

3 Summary of significant accounting policies

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

Discontinued Operations

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 co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

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 is above the 80% threshold. The company has deferred adoption, until the new insurance contracts standard is adopted effective January 1, 2021.

IFRS 15, Revenue from contracts with customers

IFRS 15, Revenue from contracts with customers deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after January 1, 2018. Revenue arising from insurance contracts and from financial instruments is outside the scope of IFRS 15. There are no other revenues arising from other sources of income.

IFRS 16, Leases

In January 2016, the IASB published IFRS 16, which is effective January 1, 2019. The new standard requires the capitalization of all leases by recognizing the present value of the lease payments and showing them as lease assets, and recognizing a financial liability representing an obligation to make future lease payments. The Company has evaluated the impact of IFRS 16 on its Consolidated Financial Statements, and the impact will be minimal.

IFRS 17, Insurance Contracts

In May 2017, the IASB published IFRS 17 which is effective January 1, 2021, 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.

4 Critical accounting estimates and assumptions

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying accounting policies and the key sources of estimation uncertainty were the same as those applied to the annual 2017 consolidated financial statements.

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

5 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.

6 Investments

The following table provides a breakdown of the investment portfolio as at September 30, 2018 and December 31, 2017:

	Fair values	
Available-for-sale	**As at September 30, 2018**	**As at December 31, 2017**
Fixed income		
Canadian		
Federal	52,144	39,408
Provincial	44,473	29,883
Municipal	1,069	14
Corporate	129,631	127,701
	227,317	197,006
Fixed income lent through securities lending program		
Federal	47,993	63,864
Provincial	5,415	17,564
Municipal	1,307	1,322
Corporate	8,406	8,535
	63,121	91,285
Foreign fixed income		
Government	645	—
Corporate	7,070	2,014
	7,715	2,014
Foreign fixed income lent through securities lending program		
Corporate	579	—
Total fixed income	298,732	290,305
Corporate value pooled fund	5,063	—
Money market pooled funds	401	1,014
Short-term fixed income and mortgage pooled funds	14,419	19,303
Specialty pooled fund	7,463	8,240
Total pooled funds	27,346	28,557
Common shares		
Canadian	1,120	889
Foreign	1,647	1,043
Global Equity Pooled Fund	7,863	7,385
Total common shares	10,630	9,317
Total available-for-sale	336,708	328,179
Fair value through profit or loss		
Preferred shares	44,458	42,754
Total preferred shares	44,458	42,754
Total investments	381,166	370,933
Cash and short-term deposits	73,937	44,459
Total investments including cash and short-term deposits	455,103	415,392

In accordance with the securities lending agreement, the amount of the collateral must be at least 105% of the fair value of the securities loaned. As at September 30, 2018, the Company had collateral of $69,185 (December 31, 2017 – $98,798) for the loaned securities or approximately 108% of the fair value of the loaned securities.

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, 2017. The Company uses a fair value hierarchy to categorize the inputs used in valuation techniques to measure fair value. A description of the inputs used in the valuation of financial instruments is as follows:

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

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

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

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

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

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined, as at September 30, 2018 and December 31, 2017:

September 30, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed income	—	298,732	—	298,732
Corporate value pooled funds	—	5,063	—	5,063
Money market pooled funds	—	401	—	401
Short-term fixed income and mortgage pooled funds	—	14,419	—	14,419
Specialty pooled fund	—	—	7,463	7,463
Common Shares	2,767	7,863	—	10,630
Preferred Shares	44,458	—	—	44,458
	47,225	326,478	7,463	381,166

December 31, 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Fixed income	—	290,305	—	290,305
Money market pooled funds	—	1,014	—	1,014
Short-term fixed income and mortgage pooled funds	—	19,303	—	19,303
Specialty pooled fund	—	—	8,240	8,240
Common Shares	1,932	7,385	—	9,317
Preferred Shares	42,754	—	—	42,754
	44,686	318,007	8,240	370,933

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, 2018 or 2017.

The specialty pooled fund includes Level 3 private debt securities assets. The fund provides special situation financing solutions, generally in the form of senior or subordinated loans to both public and private companies. The fair value of the limited partnership investments is based on the net asset value ("NAV") provided by management of the limited partnership investments. For securities in the fund that are publicly traded, the fund uses the current available market prices provided the market price is reasonable taking into consideration both value and liquidity. Private securities in the fund are valued based upon the value of the underlying components. The loan component is valued by a discounted cash flow method taking into account current market interest rate spreads. The discount rate is determined to be the sum of the following components:

a) Benchmark yield - for Canadian loans, this is the on-the-run Government of Canada bond with equivalent duration to the loan. For U.S. loans, this is the on-the-run U.S. Treasury with equivalent duration to the loan.

b) Credit spread - this is the BBB index for equivalent duration to the loan.

c) Excess credit spread and excess illiquidity spread - the excess credit spread and excess illiquidity spread are included so as to account for the additional risk and illiquidity of the loan compared to a comparable publicly traded bond.

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

Warrants and Gifted Equity make up a small proportion of the fund's valuation. Warrants are valued using a Black-Scholes model, with the implicit volatility of the warrants used in the calculation. This calculated implicit volatility is used for future warrant pricing. The gifted equity component is calculated using a combination of a modified discounted cash flow model and a normalized earnings-based enterprise value model.

Based on the unobservable nature of these NAVs, Echelon does not assess whether applying reasonably possible alternative assumptions would have an impact on the fair value of the limited partnership investments. The total unrealized gain on the specialty pooled fund as at September 30, 2018 was $253 (September 30, 2017 - ($117)). The following table summarizes the changes in the fair value measurement for financial instruments in level 3 amount of the fair value hierarchy as at September 30, 2018 and December 31, 2017:

	As at September 30, 2018	**As at December 31, 2017**
Opening Balance, January 1	8,240	—
Purchases	1,656	8,139
Sales	—	—
Realized gain (loss)	—	—
Change in unrealized gain in value of investment	152	101
Principal repayment	(2,585)	—
Closing Balance	7,463	8,240

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 sheets. These entities are not controlled by the Company. The carrying value of pooled funds and maximum exposure to loss as of September 30, 2018 was $27,346 (December 31, 2017 – $28,557). 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 Specialty Pooled Fund that provides special situation financing solutions, generally in the form of senior or subordinated loans to both public and private companies. 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.

Impaired assets and provisions for losses

A gross unrealized loss of $4,062 on Available for Sale (AFS) investments at September 30, 2018 (December 31, 2017 – $3,326) is recorded, net of tax, in the amount of $2,965 (December 31, 2017 – $2,415) 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 period.

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

Impairments of $173K on AFS investments were recognized for the period ended September 30, 2018 (December 31, 2017 - nil).

Investment income

The table below provides additional details on net investment income for the period ended September 30, 2018 and September 30, 2017:

	3 months ended September 30		9 months ended September 30	
	2018	**2017**	**2018**	**2017**
Interest income	3,286	2,589	9,270	6,935
Dividend income	587	498	1,675	1,265
Net realized (losses)	(513)	(113)	(2,029)	(1,071)
Impairment loss recognized on AFS investment	(173)	—	(173)	—
Fair value change on FVTPL investments	156	(212)	(369)	2,739
Realized and unrealized foreign exchange gains	(53)	(110)	146	4,617
Investment expenses	(262)	(236)	(774)	(605)
Investment income	3,028	2,416	7,746	13,880

7 Loan receivable

As part of the sale of its European operations, the Company entered into a loan agreement with New Nordic Odin Guernsey Limited (NNGL) on March 7, 2017 to lend the principal amount of 91.5 million Danish Krone (DKK), payable on December 31, 2017. On December 29, 2017, the Company received 59.4 million DKK as partial repayment of the principal amount of the loan. The loan bears interest on the principal amount outstanding at the rate of six percent (6%) per annum that commenced on July 6, 2017, and is payable monthly. The Company extended the maturity date for the outstanding balance of the loan with NNGL to May 27, 2018, and further to July 20, 2018.

The loan outstanding amount was repaid on June 29, 2018.

Please refer to note 17 for further details.

8 Line of credit

For the period ended September 30, 2018, the Company has expensed nil on the income statement, related to the maintenance of the credit facility (September 30, 2017 – $0.2 million).

9 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 an increase in yields compared to December 31, 2017. The Company discounts its best estimate as follows for each entity, which is for all lines of business within the reporting entity:

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

Entity	September 30, 2018	December 31, 2017
Echelon Insurance	3.50%	2.65%
ICPEI	3.45%	2.80%

The Company recorded a $13,284 reduction to the net provision for unpaid claims relating to redundancies in prior years' estimates (September 30, 2017 – $23,465).

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 $20,850 as at September 30, 2018 (December 31, 2017 – $19,349).

Claims development

The table below provides additional details on the provision for unpaid claims as at September 30, 2018 and September 30, 2017:

Provision for unpaid claims analysis	September 30, 2018	September 30, 2017
Unpaid claims, beginning of year, net	239,495	228,106
Favourable prior year claims development	(13,284)	(23,465)
Net claims incurred in current period	164,574	125,420
Paid on claims occurring during		
Current year	(65,752)	(47,521)
Prior year	(69,363)	(50,769)
Unpaid claims, end of period, net	255,670	231,771
Reinsurers' share	20,715	29,896
Gross unpaid claims	276,385	261,667

The development of insurance liabilities provides a measure of the Company's ability to estimate the ultimate value of claims.

Assumptions used to develop the provision estimate for unpaid claims and adjustment expenses are selected by class of business and geographic location. Consideration is given to the characteristics of the risks, historical trends, and the amount of data available on individual claims, inflation and any other pertinent factors. Some assumptions require a significant amount of judgement such as the expected impacts of future judicial decisions and government legislation. The diversity of these considerations results in it not being practical to identify and quantify all individual assumptions that are more likely than others to have a significant impact on the measurement of the Company's insurance contracts. There were no new assumptions identified in the period as having a potential or identifiable material impact on the overall claims estimate.

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

10 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.

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

Interest rate risk

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

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on other comprehensive income ("OCI") relating to the fixed income investment portfolio as at September 30, 2018, and December 31, 2017, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

Change in interest rates **As at September 30, 2018**	**Fair value of fixed income**	**Hypothetical change on fair value**	**Effect on OCI net of tax**
200 basis point rise	307,722	(6)%	(13,400)
100 basis point rise	316,900	(3)%	(6,700)
No change	326,078	—	—
100 basis point decline	335,256	3 %	6,699
200 basis point decline	344,435	6 %	13,402

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

Change in interest rates As at December 31, 2017	Fair value of fixed income	Hypothetical change on fair value	Effect on OCI net of tax
200 basis point rise	301,610	(5)%	(12,594)
100 basis point rise	310,085	(3)%	(6,407)
No change	318,862	—	—
100 basis point decline	327,639	3 %	6,406
200 basis point decline	336,114	5 %	12,596

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 are as follows, as at September 30, 2018 and December 31, 2017:

September 30, 2018	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	29,423	93,547	112,997	62,765	298,732
Cash and cash equivalents	73,937	—	—	—	73,937
Accounts receivable	107,349	—	—	—	107,349
Total	210,709	93,547	112,997	62,765	480,018
Percentage of total	44%	19%	24%	13%	100%

December 31, 2017	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	24,001	117,230	84,152	64,922	290,305
Cash and cash equivalents	44,459	—	—	—	44,459
Accounts receivable	82,175	—	—	—	82,175
Total	150,635	117,230	84,152	64,922	416,939
Percentage of total	36%	28%	20%	16%	100%

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at September 30, 2018 and December 31, 2017:

September 30, 2018	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Gross claim liabilities (undiscounted)	99,355	97,097	49,827	27,740	274,019
Less: Reinsurance recoverable (undiscounted)	12,455	5,462	1,779	1,024	20,720
Net actuarial liabilities	86,900	91,635	48,048	26,716	253,299

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

December 31, 2017	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Gross claim liabilities (undiscounted)	92,218	94,500	47,584	26,407	260,709
Less: Reinsurance recoverable (undiscounted)	12,261	8,343	3,038	1,873	25,515
Net actuarial liabilities	79,957	86,157	44,546	24,534	235,194

All other financial assets and liabilities are for a duration of one year or less. The contractual maturities for lease commitments are listed in note 14.

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 nine months ended September 30, 2018, and the year ended December 31, 2017. 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, 2018	December 31, 2017	September 30, 2018	December 31, 2017
10% rise	3,245	3,121	776	680
10% decline	(3,245)	(3,121)	(776)	(680)

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.

The Company is exposed to risk from reinsurers' inability to cover balances. 98.7% of the Company's reinsurance balances are from registered reinsurers. The Company holds sufficient collateral to cover the 1.3% of reinsurance balances from unregistered reinsurers.

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

Fixed income portfolio

A breakdown of the fixed income portfolio by credit rating is shown below as at September 30, 2018 and December 31, 2017:

	As at September 30, 2018		As at December 31, 2017	
	Fair value	**%**	**Fair value**	**%**
AAA	122,946	41%	125,595	43%
AA	58,649	19%	50,040	17%
A	73,506	25%	81,816	28%
BBB	33,180	11%	28,156	10%
BB	2,837	1%	1,420	1%
B and lower	4,876	2%	1,925	1%
Unrated	2,738	1%	1,353	—%
Total	298,732	100%	290,305	100%

Preferred share portfolio

A breakdown of the preferred shares portfolio by credit rating is shown below as at September 30, 2018 and December 31, 2017:

	As at September 30, 2018		As at December 31, 2017	
	Fair value	**%**	**Fair value**	**%**
P2	38,021	86%	36,335	85%
P3	6,437	14%	6,419	15%
Total	44,458	100%	42,754	100%

11 Intangible assets

A reconciliation of the movement in Intangible Assets is shown below, as at September 30, 2018 and December 31, 2017:

	Opening cost	**Additions**	**Disposals**	**End of period cost**	**Accumulated amortization**	**Net**
Software						
September 30, 2018	33,210	5,423	—	38,633	29,355	9,278
December 31, 2017	28,712	4,498	—	33,210	25,573	7,637
Goodwill						
September 30, 2018	400	—	—	400	—	400
December 31, 2017	400	—	—	400	—	400
Total intangible assets						
September 30, 2018	33,610	5,423	—	39,033	29,355	9,678
December 31, 2017	29,112	4,498	—	33,610	25,573	8,037

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

12 Income taxes

The income tax is as follows for the period ended September 30, 2018 and September 30, 2017:

	3 months ended September 30		9 months ended September 30	
	2018	**2017**	**2018**	**2017**
Current	1,182	338	1,173	2,964
Deferred	226	(212)	759	(84)
	1,408	126	1,932	2,880

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 company's effective tax rate in 2018 reflects the recognition of a deferred tax asset from the utilization of capital losses though the transfer of information technology assets. The capital losses arose from the sale of the company's European and U.S. subsidiaries.

The difference is broken down as follows:

	3 months ended September 30		9 months ended September 30	
	2018	**2017**	**2018**	**2017**
Income tax expense calculated at statutory rates	27.0 %	27.0 %	27.0 %	27.0 %
Increase (decrease) in income tax rates resulting from:				
Non-taxable dividend income	(7.4)%	(14.4)%	(3.4)%	(2.4)%
Non-deductible expenses	24.4 %	2.6 %	4.5 %	0.2 %
Tax benefit of losses not previously recognized	— %	— %	(17.7)	(4.5)%
Statutory rate differences	(0.8)%	(0.3)%	(1.5)%	— %
Non-taxable portion of capital gains	10.1 %	— %	2.0 %	— %
Other	22.3 %	(1.4)%	5.6 %	(0.2)%
Effective income tax rate	75.6 %	13.5 %	16.5 %	20.1 %

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

13 Operating Costs by nature

The table below presents operating costs by major category for the period ended September 30, 2018 and September 30, 2017:

	3 months ended September 30		9 months ended September 30	
	2018	**2017**	**2018**	**2017**
Salaries and benefits	4,818	3,529	14,124	12,048
Systems costs	1,933	1,941	6,260	6,392
Professional fees	2,578	768	4,089	2,223
Occupancy	524	462	1,523	1,287
Travel costs	252	251	818	742
Severance	48	86	336	175
Other expenses	429	345	1,033	223
	10,582	7,382	28,183	23,090

14 Operating lease commitments

The Company is committed under lease agreements for office and property operating leases with minimum lease payments of $12,183 as at September 30, 2018:

Lease commitments	
2018	580
2019	2,237
2020	1,958
2021	1,975
2022	1,738
2023 and thereafter	3,695
	12,183

15 Accumulated other comprehensive income

A breakdown of the accumulated other comprehensive income is shown below as at September 30, 2018 and December 31, 2017:

	As at September 30, 2018	As at December 31, 2017
Gross unrealized losses	(3,932)	(3,966)
Foreign currency translation adjustments	499	499
Tax impact	830	634
Ending balance	(2,603)	(2,833)

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

16 Earnings per share

The table below presents earnings per share as at September 30, 2018, and September 30, 2017:

	3 months ended September 30		9 months ended September 30	
Earnings Per Share on Continued Operations	**2018**	**2017**	**2018**	**2017**
Basic earnings per share on continued operations:				
Net income available to shareholders	266	858	10,137	11,455
Average number of common shares	11,923	11,857	11,907	11,811
Basic earnings per share on continued operations	$0.02	$0.07	$0.85	$0.97
Diluted earnings per share:				
Average number of common shares	11,923	11,857	11,907	11,811
Average number of dilutive common shares under employee stock compensation plan	282	201	285	219
Average number of diluted common shares	12,205	12,058	12,192	12,030
Diluted earnings per share on continued operations	$0.02	$0.07	$0.83	$0.95

	3 months ended September 30		9 months ended September 30	
Earnings Per Share on Discontinued Operations	**2018**	**2017**	**2018**	**2017**
Basic (loss) per share on discontinued operations:				
Net (loss) available to shareholders	—	—	—	(7,268)
Average number of common shares	11,923	11,857	11,907	11,811
Basic (loss) per share on discontinued operations	$0.00	$0.00	$0.00	$(0.62)
Diluted earnings per share:				
Average number of common shares	11,923	11,857	11,907	11,811
Average number of dilutive common shares under employee stock compensation plan	282	201	285	219
Average number of diluted common shares	12,205	12,058	12,192	12,030
Diluted (loss) per share on discontinued operations	$0.00	$0.00	$0.00	$(0.62)

	3 months ended September 30		9 months ended September 30	
Total Earnings Per Share	**2018**	**2017**	**2018**	**2017**
Basic earnings per share:				
Net income available to shareholders	266	858	10,137	4,187
Average number of common shares	11,923	11,857	11,907	11,811
Basic earnings per share	$0.02	$0.07	$0.85	$0.35
Diluted earnings per share:				
Average number of common shares	11,923	11,857	11,907	11,811
Average number of dilutive common shares under employee stock compensation plan	282	201	285	219
Average number of diluted common shares	12,205	12,058	12,192	12,030
Diluted earnings per share	$0.02	$0.07	$0.83	$0.35

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

17 Discontinued operations

On August 4, 2016, Echelon entered into a definitive stock purchase agreement to sell its European insurance subsidiary, subject to regulatory approval. On February 28, 2017, regulatory approval was received from the Danish Financial Supervisory Authority, which completed the necessary approvals required for the sale. The Company completed the sale on March 7, 2017, and retains no residual insurance risk or other financial risk, other than credit risk associated with the loan receivable from the sale. The loan was repaid on June 29, 2018.

On October 29, 2018, the Company filed a Statement of Defence in response to a claim filed with the Danish Institute of Arbitration by New Nordic Advisors Limited (NNAL). The claim by NNAL relates to the sale of the Company's European Operations to New Nordic Odin Guernsey Limited (NNGL). The Company denies all allegations made against it by NNAL and believes there is no merit to NNAL's claim for €45.8 million in damages.

The table below presents results of discontinued operations for the period ended September 30, 2018 and September 30, 2017:

	3 months ended September 30		9 months ended September 30	
	2018	**2017**	**2018**	**2017**
Revenue				
Gross written and assumed premiums	—	—	—	15,896
Net written premium	—	—	—	12,784
Decrease in provision for unearned premium	—	—	—	6,173
Net earned premiums	—	—	—	18,957
Investment (loss)	—	—	—	(10,562)
Total revenue	—	—	—	8,395
Expenses				
Net incurred claims	—	—	—	10,392
Net acquisition costs	—	—	—	6,254
Operating costs	—	—	—	1,067
Total expenses	—	—	—	17,713
(Loss) before income taxes	—	—	—	(9,318)
Income tax (recovery)	—	—	—	(2,050)
Net (loss) on discontinued operations	—	—	—	(7,268)
Other comprehensive income on discontinued operations	—	—	—	7,268
Comprehensive income on discontinued operations	—	—	—	—

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

18 Non-controlling interest

The Company has non-controlling interests attributable to the subsidiary of ICPEI. Please refer to Note 1. The following tables summarize the comprehensive income attributable to the non-controlling shareholders for the period ended September 30, 2018 and September 30, 2017:

	3 months ended September 30		9 months ended September 30	
	2018	**2017**	**2018**	**2017**
Revenue				
Gross written and assumed premiums	2,321	2,215	6,617	6,315
Net earned premiums	1,902	1,821	5,569	5,217
Investment income	88	60	185	264
Total revenue	1,990	1,881	5,754	5,481
Expenses				
Net incurred claims	1,377	1,193	4,014	3,442
Net acquisition costs	491	484	1,426	1,323
Operating costs	267	277	814	713
Total expenses	2,135	1,954	6,254	5,478
(Loss) income before income taxes	(145)	(73)	(500)	3
Income tax (recovery)	(49)	(25)	(164)	(11)
Net (loss) income attributable to NCI	(96)	(48)	(336)	14
Other comprehensive (loss) income attributable to NCI	(20)	(45)	(16)	(69)
Comprehensive (loss) income attributable to NCI	(116)	(93)	(352)	(55)

The following tables summarize the net assets of the non-controlling shareholders as at September 30, 2018 and December 31, 2017:

	September 30, 2018	**December 31, 2017**
Assets		
Cash and investments	9,484	9,430
Other assets	5,700	5,018
Total assets	15,184	14,448
Liabilities		
Unearned premium	4,471	4,048
Unpaid claims	6,611	6,062
Other liabilities	625	508
Total liabilities	11,707	10,618
Equity		
Share capital	—	—
AOCI	(125)	(109)
Retained earnings	3,601	3,939
Total equity	3,476	3,830
Total liabilities and equity	15,183	14,448

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

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 balance sheet of these financial statements.

	As at September 30, 2018	**As at December 31, 2017**
Cash flow from operating activities	160	70
Cash flow from investing activities	43	(720)
Net (decrease) Increase in cash and short-term deposits	203	(650)

19 Subsequent event

On November 9, 2018, the Company entered into a definitive agreement to sell Echelon, it's main operating subsidiary and it's unregulated warranty business to CAA Club Group ("CAA") for $175 million. The agreement is subject to include the approval of at least $66^{2/3}$% of EFH shareholders as well as regulatory approval. The voting is expected to be held in January 2019 at a special shareholders meeting. The Company has committed to deliver Echelon to CAA with a Minimum Capital Test ratio of 220% at the closing of the agreement. The agreement follows an extensive strategic review process overseen by a committee of the Company's Board of Directors.

20 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 non-standard automobile insurance and insurance for motorcycles, antique and classic vehicles, trailers, motor-homes, recreational vehicles and personal property.

Through its Commercial Lines, the Company designs and underwrites specialized insurance programs, such as commercial property, commercial automobile, long-haul trucking, surety, liability, creditor insurance, and extended warranty.

The European operations are discontinued. Please refer to note 17.

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.

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

The following tables summarize the net income before interest and income taxes by Personal and Commercial Lines for the period ended September 30, 2018 and September 30, 2017:

	3 months ended September 30		9 months ended September 30	
	2018	**2017**	**2018**	**2017**
Revenue				
Net earned premiums				
– Personal Lines	65,258	43,717	159,922	120,028
– Commercial Lines	30,451	16,300	82,589	42,462
Total net earned premium	95,709	60,017	242,511	162,490
Net claims incurred				
– Personal Lines	43,719	32,199	106,830	81,183
– Commercial Lines	21,041	11,114	48,667	22,806
Total net claims incurred	64,760	43,313	155,497	103,989
Net expenses				
– Personal Lines	17,639	11,679	45,572	35,766
– Commercial Lines	11,193	6,723	33,450	18,074
Total	28,832	18,402	79,022	53,840
Corporate Expenses	3,612	1,730	7,876	5,896
Total net expenses	32,444	20,132	86,898	59,736
(Loss) income before income taxes				
– Personal Lines	3,900	(161)	7,520	3,079
– Commercial Lines	(1,783)	(1,537)	472	1,582
Total	2,117	(1,698)	7,992	4,661
Corporate and other	(3,612)	(1,730)	(7,876)	(5,896)
Underwriting income	(1,495)	(3,428)	116	(1,235)
Impact of change in net claims discount rate	93	2,034	4,207	2,034
Severance expense	(48)	(86)	(336)	(175)
Investment income	3,028	2,416	7,746	13,880
Total income before interest expense and income taxes	1,578	936	11,733	14,504