Consolidated Financial Statements of

Echelon Financial Holdings Inc.

December 31, 2019 and 2018

Management’s Responsibility for Financial Reporting

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements (“the financial statements”), management’s discussion and analysis and other information in the annual report. The financial statements of Echelon Financial Holdings Inc. ("the Company") were prepared in accordance with International Financial Reporting Standards. Where necessary, these financial statements reflect amounts based on the best estimates and judgement of management.

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

Role of Appointed Actuary

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

Role of External Auditor

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

Toronto, Ontario
February 21, 2020

(Signed) Serge Lavoie
Chief Executive Officer

(Signed) Teddy Chien
Chief Financial Officer

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

	Note	December 31, 2019	December 31, 2018
Assets			
Cash and short–term deposits		70,932	22,785
Accounts receivable		10,020	8,909
Investments	6	48,019	45,576
Due from insurance companies		324	—
Deferred policy acquisition costs	7	4,209	3,995
Income taxes recoverable		1,184	—
Prepaid expenses and other assets	8	4,028	3,026
Reinsurers' share – unearned premiums	10	1,031	1,522
– provision for unpaid claims	11	3,268	4,889
Right of use asset	9	777	--
Deferred income taxes	14	228	781
Assets of the disposal group held for sale	23	--	576,733
Total assets		144,020	668,216
Liabilities			
Income taxes payable		--	41
Accounts payable and accrued liabilities		4,528	11,075
Payable to insurance companies		--	1,041
Lease Liability	9	712	--
Unearned premiums	10	18,749	16,848
Unearned commissions	7	195	179
Provision for unpaid claims	11	26,629	24,090
Liabilities of the disposal group held for sale	23	--	465,433
Total liabilities		50,813	518,707
Equity			
Share capital	15	2,794	71,997
Contributed surplus		1,507	303
Retained earnings		83,140	76,244
Accumulated other comprehensive income	21	2,034	(2,877)
Equity attributed to shareholders of the Company		89,475	145,667
Non-controlling interest	24	3,732	3,842
Total equity		93,207	149,509
Total liabilities and equity		144,020	668,216

The accompanying notes are an integral part of these consolidated financial statements approved on February 21, 2020.

On behalf of the Board of Directors:

(Signed) Serge Lavoie
Chief Executive Officer

(Signed) Murray Wallace
Chairman of the Board

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

		For the year ended December 31	
	Note	**2019**	**2018**
Revenue			
Gross written and assumed premiums		36,829	33,937
Less: premiums ceded to reinsurers		(2,040)	(3,406)
Net written and assumed premiums		34,789	30,531
(Decrease) in gross unearned premiums		(1,901)	(656)
Increase in unearned premiums, reinsurers' share		(491)	62
Change in provision for unearned premiums		(2,392)	(594)
Net earned premiums		32,397	29,937
Investment income	6	2,942	1,463
Total revenue		35,339	31,400
Expenses			
Gross claims incurred		23,059	20,479
Less: claims recoveries from reinsurers		(161)	(676)
Net incurred claims		22,898	19,803
Gross acquisition costs		7,208	7,145
Less: acquisition recoveries from reinsurers		(239)	(82)
Net acquisition costs		6,969	7,063
Operating costs	17	5,769	7,898
Total expenses		35,636	34,764
(Loss) Income before taxes and discount rate impact on claims		(297)	(3,364)
Impact of change in discount rate on claims(1)		(457)	360
(Loss) Income before interest expense and income taxes		(754)	(3,004)
Income tax (recovery)	14	(449)	(603)
Net income from continued operations		(305)	(2,401)
Net Income from discontinued operations	23	45,722	4,776
Net income		45,417	2,375
Attributed to:			
Shareholders of the Company - continued operations		(127)	(2,419)
Shareholders of the Company - discontinued operations		45,722	4,776
Non-controlling interest - continued operations		(178)	18
Net income		45,417	2,375
Other comprehensive income (loss), net of taxes that may be classified subsequently to net income			
Available-for-sale investments:			
Change in net unrealized (losses)/gains		2,517	(614)
Reclassification of net realized (gains) losses to net income		(156)	376
Cumulative translation (loss)		--	(46)
Tax impact	14	(111)	3
Other comprehensive (loss) on continued operations		2,250	(281)
Other comprehensive income on discontinued operations		1,254	233
Other comprehensive (loss) income		3,504	(48)

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

	Note	2019	2018
Attributed to:			
Shareholders of the Company - continued operations		2,182	(277)
Shareholders of the Company - discontinued operations		1,254	233
Non-controlling interest - continued operation		68	(4)
Other comprehensive (loss) income		3,504	(48)
Total comprehensive income		48,921	2,327
Attributed to:			
Shareholders of the Company - continued operations		2,055	(2,696)
Shareholders of the Company - discontinued operations		46,976	5,009
Non-controlling interest - continued operation		(110)	14
Total comprehensive income		48,921	2,327
Earnings per share attributable to shareholders of the Company	22		
Earnings per share continued operations - basic		$(0.01)	$(0.20)
Earning (Loss) per share discontinued operations - basic		3.82	0.40
Earnings per share - basic		3.81	0.20
Earnings per share continued operations - diluted		(0.01)	(0.20)
Earning (Loss) per share discontinued operations - diluted		3.78	0.39
Earnings per share - diluted		3.77	0.19

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

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

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statement of Changes in Equity
(in thousands of Canadian dollars)

	Share Capital	Contributed Surplus	Accumulated Other Comprehensive Income	Retained Earnings	Shareholders' Equity	Non-controlling Interest	Total Equity
Balance at January 1, 2019	71,997	303	(2,877)	76,244	145,667	3,842	149,509
Net income (Loss)				45,595	45,595	(178)	45,417
Other comprehensive income (loss)			3,436		3,436	68	3,504
CIM RE Wind Up		1,204	1,475	(2,679)			
Total comprehensive income (loss)		1,204	4,911	42,916	49,031	(110)	48,921
Dividends Paid	(69,611)			(36,020)	(105,631)		(105,631)
Common shares issued on stock options exercised	408				408		408
Balance at December 31, 2019	2,794	1,507	2,034	83,140	89,475	3,732	93,207

	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				2,357	2,357	18	2,375
Other comprehensive			(44)		(44)	(4)	(48)
Total comprehensive income (loss)			(44)	2,357	2,313	14	2,327
Common shares issued on stock options exercised	477	(46)			431		431
Stock compensation expense		101			101		101
Balance at December 31, 2018 71,997	71,997	303	(2,877)	76,244	145,667	3,842	149,509

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

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statement of Cash Flows
(in thousands of Canadian dollars)

	For the year ended December 31	
	2019	**2018**
Cash provided by (used in):		
Operating activities		
Net loss from continued operations	(305)	(2,401)
Net Income from discontinued operations	45,722	4,776
Adjusted for:		
Reinsurers' share of unearned premiums	491	(62)
Reinsurers' share of unpaid claims	1,621	(509)
Provision for unpaid claims	2,539	(157)
Unearned premiums	1,901	656
Deferred income taxes	553	(127)
Unearned commissions	16	47
Deferred policy acquisition costs	(214)	(170)
Amortization on Right of Use Asset	331	--
Amortization on property plant equipment and intangible assets	98	3
Amortization of premiums on bonds	18	48
Fair value change on FVTPL investments	(55)	338
Options expense	--	101
Currency translation	--	(46)
Prepaid expenses & other assets	(349)	(235)
	6,950	(113)
Cash flow from changes in		
Accounts receivable	(1,111)	(1,185)
Net realized (gains) losses	(136)	408
Income taxes recoverable and payable	(1,337)	349
Due to insurance companies	(1,365)	1,041
Other liabilities	(6,547)	5,604
Cash provided (used) by continuing operating activities	(3,851)	3,703
Cash provided (used) by discontinued operating activities	(242,607)	46,852
Cash inflow (outflow) from operating activities	(246,458)	50,555
Financing activities		
Proceeds from issuing of common shares for stock options	408	431
Common Share Dividends	(105,631)	
Payment of lease liabilities	(396)	
Cash provided (used) by continuing financing activities	(105,619)	431
Cash inflow (outflow) from financing activities	(105,619)	431
Investing activities		
Purchases of property, equipment and intangible assets	(752)	(7)
Purchases of investments	(23,220)	(26,013)
Sale/maturity of investments	23,313	24,806

ECHELON FINANCIAL HOLDINGS INC.
Consolidated Statement of Cash Flows
(in thousands of Canadian dollars)

	2019	2018
Proceeds received from the sale of subsidiary	170,241	6,553
Cash provided (used) by continuing investing activities	169,582	5,339
Cash provided by discontinued investing activities	123,823	28,820
Cash from investing activities	293,405	34,159
Increase (decrease) in cash and short-term deposits	(58,672)	85,145
Cash and short-term deposits, beginning of year	129,604	44,459
Cash and short-term deposits, end of year	70,932	129,604
Supplementary information		
Income taxes paid (recovered)	2,341	(719)

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 Echelon Insurance and ICPEI, in property and casualty insurance in Canada. The Company's head office is located at 2800 Skymark Avenue. Suite 200, Mississauga, Ontario.

The Company has a 75% owned subsidiary -The Insurance Company of Prince Edward Island ("ICPEI"). On December 30, 2019, the Company also dissolved its wholly owned subsidiary CIM Re in Barbados.

Discontinued Operations

On November 9, 2018, the Company entered into a definitive agreement to sell Echelon Insurance, its main operating subsidiary, and the unregulated warranty business of Echelon Financial Holdings Inc. and the sale was completed May 31, 2019.

2 Basis of preparation

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

These consolidated financial statements have been authorized for issue by the Board of Directors, on February 18, 2020.

3 Summary of significant accounting policies

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

Adoption of IFRS 16 - Leases

The company has adopted IFRS 16 from January 1, 2019 using the modified approach, and has not restated comparatives for the 2018 reporting period, as permitted under the transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognized in the opening consolidated balance sheet on January 1, 2019.

On adoption of IFRS 16, right-of-use assets are measured at the amount of the initial measurement of the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. The Company recognized lease liabilities in relation to leases which had previously been classified as operating leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of January 1, 2019. The incremental borrowing rate applied to the lease liabilities on January 1, 2019 was based on the prime rate plus a margin of 1.3%. The Company considered the leases as renewable and therefore did not consider short term or low value leases.

The change in accounting policy affected occupancy and printing equipment leases in the consolidated balance sheet on January 1, 2019 and there was no impact on the retained earnings on January 1, 2019.

Basis of measurement

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

Discontinued Operations

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

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

Balance sheet presentation

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

The maturity profile of the investment portfolio is described in note 13 based on expected settlements. The estimated payment period for insurance claims, less related reinsurance recoverable, is provided in note 13. Property and equipment and right of use assets are charged to expense over their estimated useful lives of up to three years. Intangible assets with finite useful lives are charged to expense over their estimated useful lives of two years while an impairment analysis is done on all other intangible assets. Cash and short term deposits, due from insurance companies, accounts receivables deferred policy acquisition costs, prepaid expenses and other asserts,, income taxes receivables and payable, accounts payable and accrued liabilities, payable to insurance companies, unearned premium, unearned commission, lease liability and assets and liabilities of the disposal group held for sale are expected to be recovered or settled within twelve months of the year end.

Certain balances for the prior financial year have been reclassified to conform with current year presentation.

Consolidation

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

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

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

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

Segment reporting

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

Cash and short-term deposits

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

Financial instruments

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

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

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

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

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

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

AFS investments are comprised of marketable securities and investments in debt and common equity securities.

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

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

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

(iv) *Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable. Accounts payable are initially recognized at fair value. Subsequently, accounts payable are measured at amortized cost using the effective interest method.*

Impairment of financial assets and liabilities

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

i. Significant financial difficulty of the obligor;
ii. Delinquencies in interest, principal or dividend payments; and
iii. It becomes probable that the borrower will enter bankruptcy or other financial reorganization.

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

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

Loans and receivables carried at amortized costs: The loss is the difference between the amortized cost of the loan and receivables and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

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

Debt Impairment Model

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

Equity Impairment Model

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

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

Insurance contracts

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

Provision for unpaid claims

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

Structured settlements

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

Reinsurance

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

Revenue recognition

Premiums and unearned premiums

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

Ceded Premiums and reinsurers' share of unearned premiums

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

Deferred policy acquisition costs

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

Unearned commission

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

Property and equipment

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

Intangible assets

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

Impairment of non-financial assets

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

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

Employee benefits

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

Income taxes

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

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

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

Stock-based compensation

The Company has a Stock Option Plan and a Share Unit Plan that provide for the issuance of shares of the Company's common stock not exceeding 10% of the total issued and outstanding shares (on a diluted basis).

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

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

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

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

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

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

Provisions

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

Share capital

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

Dividends

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

Earnings per share

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

Standards, amendments and interpretations not yet adopted or effective

IFRS 9, Financial Instruments

In July 2014, the IASB published the complete version of IFRS 9 which is effective for annual periods beginning on or after January 1, 2018, with retrospective application. The new standard includes requirements on the classification and measurement of financial assets and liabilities, an expected credit loss model that replaces the existing incurred loss impairment model, and new hedge accounting guidance. The Company has evaluated and meets the requirements to defer the adoption of IFRS 9, since the percentage of liabilities connected with insurance contracts over total liabilities meets the 90% threshold. The company has deferred adoption, until the new insurance contracts standard is adopted effective January 1, 2022.

IFRS 17, Insurance Contracts

In May 2017, the IASB published IFRS 17 which is proposed to be effective January 1, 2022, 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 judgements

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

Valuation of provisions for unpaid claims

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

Variables in the reserve estimation process can be affected by both internal and external events, such as changes in claims handling procedures, economic inflation, legal trends and legislative changes. Many of these items are not directly quantifiable, particularly on a prospective basis. Additionally, there may be significant reporting lags between the occurrence of the insured event and the time it is actually reported to the insurer. These estimates are refined in a systematic ongoing process as historical loss experience develops and additional claims are reported and settled. Because the establishment of reserves is an inherently uncertain process involving estimates, current reserves may not be sufficient. Adjustments to reserves, both positive and negative, are reflected in the consolidated statements of income and comprehensive income for the year in which such estimates are updated. Please see note 11.

Valuation of Reinsurer's share of provision for unpaid claims

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

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

Valuation of deferred tax asset

Deferred income taxes, accumulated as a result of temporary differences, which are probable to reverse, are included in the consolidated balance sheet. In addition, the consolidated statements of income and comprehensive income contains items that are non-taxable or non-deductible for income tax purposes, which cause the income tax provision to differ from what it would be if based on statutory rates. Recoverability of deferred tax assets is primarily based on current and expected profitability applicable to the Company and its ability to utilize any recorded tax assets taking into consideration of tax planning strategies and the expiry date of tax losses. Please see note 14.

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.

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

6 Investments

The following table provides a breakdown of the investment portfolio:

	Fair values	
Available-for-sale	**As at December 31, 2019**	**As at December 31, 2018**
Fixed income		
Canadian		
Federal	5,053	4,254
Provincial	2,771	3,047
Corporate	4,336	4,592
Total fixed income	12,160	11,893
Corporate value pooled fund	5,320	4,998
Money market pooled funds	604	459
Short-term fixed income and mortgage pooled funds	13,550	14,610
Total pooled funds	19,474	20,067
Common shares		
Canadian	1,798	1,138
Foreign	2,057	1,481
Global Equity Pooled Fund	8,784	7,417
Total common shares	12,639	10,036
Total available-for-sale	44,273	41,996
Fair value through profit or loss		
Preferred shares	3,746	3,580
Total preferred shares	3,746	3,580
Total investments	48,019	45,576
Cash and short-term deposits	70,932	22,785
Total investments including cash and short-term deposits	118,951	68,361

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, 2018. 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.

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

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

The following table provides the classification of the Company's investments within the fair value hierarchy, as outlined, as at December 31, 2019 and December 31, 2018:

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

December 31, 2018			
	Level 1	**Level 2**	**Total**
Fixed income	—	11,893	11,893
Corporate value pooled funds	—	4,998	4,998
Money market pooled funds	—	459	459
Short-term fixed income and mortgage pooled funds	—	14,610	14,610
Global Equity Pooled Fund	—	7,417	7,417
Common shares	2,619	—	2,619
Preferred Shares	3,580	—	3,580
	6,199	39,377	45,576

The Company's policy is to recognize transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfers from the existing portfolio for the year ended December 31, 2019 or 2018.

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

The Company has interests in unconsolidated structured entities, through investments in pooled funds, which are included in investments on the consolidated balance sheet. These entities are not controlled by the

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

Company. The carrying value of pooled funds and maximum exposure to loss as of December 31, 2019 was $28,258 (December 31, 2018 – $27,484). Investments in pooled funds consist of units invested in underlying money market and mortgage securities managed by third-party managers in addition to units invested in a Global Equity Pooled Fund. The pooled funds are perpetual private trusts created under trust agreements. Financing is only provided to the pooled funds through the purchase of units and is therefore limited to the investment made.

Impaired assets and provisions for losses

A gross unrealized loss of $395 on Available for Sale (AFS) investments at December 31, 2019 (December 31, 2018 – $886) is recorded, net of tax, in the amount of $292 (December 31, 2018 – $663) in Accumulated Other Comprehensive Income, primarily due to the impact of higher government bond yields on the Company's fixed income portfolio.

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

No Impairments on AFS investments were recognized for the year ended December 31, 2019 (December 31, 2018 - $129).

Investment income

The table below provides additional details on net investment income for the year ended December 31, 2019 and December 31, 2018:

	2019	**2018**
Interest income	2,312	1,741
Dividend income	692	626
Net realized gains/(losses)	135	(279)
Impairment loss recognized on AFS investment	—	(129)
Fair value change on FVTPL investments	55	(338)
Realized and unrealized foreign exchange gains	—	63
Investment expenses	(252)	(221)
Investment income	2,942	1,463

7 Deferred policy acquisition costs

Commissions, premium taxes and general expenses incurred in the writing of premiums are deferred in accordance with the Accounting Policy set out in Note 3.

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

	2019		**2018**	
	Gross	**Ceded**	**Gross**	**Ceded**
Balance at the beginning of the year	3,995	179	3,825	132
Acquisition costs during the year	7,422	255	7,315	129
Amortization of acquisition costs during the year	(7,208)	(239)	(7,145)	(82)
Acquisition costs deferred at end of the year	4,209	195	3,995	179

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

8 Prepaid and Other Assets

	December 31st 2019	December 31st 2018
Prepaid expenses	720	191
Broker Loans	2,649	2,829
Property Plant and equipment- net	64	6
Computer Software Net	595	—
Total	**4,028**	**3,026**

9 Right of Use Asset and Lease Liability

Right of Use Asset

Cost	
As at January 1, 2019	**321**
Additions	933
Disposals	—
Ending Cost as at December 31, 2019	**1254**
Accumulated Depreciation	
As at January 1, 2019	**151**
Depreciation Charge	326
Disposals	—
Ending accumulated depreciation	**477**
As at December 31, 2019	**777**

Lease Liability

As at January 1, 2019	**321**
Additions	933
Disposals	0
Ending Cost as at December 31, 2019	**1254**
Accumulated Lease Payments and Interest	
As at January 1, 2019	**146**
Change during year 2019	396
Ending lease payments and interest	**542**
As at December 31, 2019	**712**

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

10 Unearned premiums

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

	2019		2018	
	Gross	**Ceded**	**Gross**	**Ceded**
Automobile				
– accident benefits	1,471	50	1,191	84
– liability	6,849	279	6,028	431
– other	5,605	218	4,670	372
Property				
– commercial	1,680	89	1,830	213
– personal	2,108	241	2,003	233
Liability	915	36	991	80
Other	121	118	135	109
	18,749	1,031	16,848	1,522

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

	2019		2018	
	Gross	**Ceded**	**Gross**	**Ceded**
Unearned premium at the beginning of the year	16,848	1,522	16,192	1,460
Premium written and ceded during the year	36,829	2,040	33,937	3,406
Premium earned in income	(34,928)	(2,531)	(33,281)	(3,344)
Unearned premium at the end of the year	18.749	1,031	16,848	1,522

11 Provision for unpaid claims

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

The Company determines the discount rate based on the expected return on its investment portfolio of assets with appropriate assumptions for interest rates relating to reinvestment of maturing investments. The investment portfolio has experienced a decrease in yields compared to December 31, 2018. The Company discounts its best estimate using 2.5% (December 31, 2018: 3.67%) for all lines of business.

The Company recorded a $2,391 addition to the net provision for unpaid claims relating to unfavourable development in prior years' estimates (December 31, 2018 – Favorable development $1,835).

To recognize the uncertainty in establishing these best estimates, to allow for possible deterioration in experience, and to provide greater comfort that the actuarial liabilities are adequate to pay future claims, the Company includes provisions for adverse deviations (PFADs) in some assumptions relating to claims development, reinsurance recoveries, and future investment income. The PFADs selected are in the mid-range of those recommended by the Canadian Institute of Actuaries. The aggregate impact of the provision for adverse deviation is to increase the provision for unpaid claims on a net basis by $1,595 as at December 31, 2019 (December 31, 2018 – $1,484).

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

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

	2019		2018	
	Gross	**Ceded**	**Gross**	**Ceded**
Automobile				
– accident benefits	3,069	578	3,012	601
– liability	14,688	2,100	14,602	2,783
– other	2,844	242	2,831	1,303
Property				
– commercial	958	87	711	77
– personal	2,300	17	1,286	10
Liability	1,983	148	1,838	98
Other (PFAD and discounting)	787	96	(190)	17
Total unpaid claims	26,629	3,268	24,090	4,889

Claims development

The table below provides additional details on the provision for unpaid claims as at December 31, 2019 and December 31, 2018:

Provision for unpaid claims analysis	**December 31, 2019**	**December 31, 2018**
Unpaid claims, beginning of year, net	19,201	19,867
Unfavourable (favourable) prior year claims development	2,391	(1,835)
Net claims incurred in current year	20,962	21,278
Paid on claims occurring during		
Current year	(12,476)	(13,798)
Prior year	(6,717)	(6,311)
Unpaid claims, end of year, net	23,361	19,201
Reinsurers' share	3,268	4,889
Gross unpaid claims	26,629	24,090

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

Assumptions used to develop the provision estimate for unpaid claims and adjustment expenses are selected by class of business and geographic location. Consideration is given to the characteristics of the risks, historical trends, and the amount of data available on individual claims, inflation and any other pertinent factors. Some assumptions require a significant amount of judgement such as the expected impacts of future judicial decisions and government legislation. There were no new assumptions identified in the year as having a potential or identifiable material impact on the overall claims estimate.

Claims development table, net of reinsurance

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

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

Claims development table, net of reinsurance

	Accident Years									
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Net ultimate loss at the end of:	11,445	14,434	10,895	13,460	17,537	16,808	12,631	15,563	17,969	17,069
1 year later	10,653	13,979	10,736	12,772	15,377	14,966	12,130	14,956	18,223	
2 years later	10,328	13,673	10,205	12,768	14,925	14,914	12,127	14,941		
3 years later	10,348	14,359	9,886	12,803	15,125	14,982	12,599			
4 years later	10,209	13,714	9,866	12,911	15,102	15,039				
5 years later	10,207	14,005	9,627	12,900	15,196					
6 years later	10,289	14,049	9,392	12,793						
7 years later	10,126	13,955	9,680							
8 years later	10,177	13,727								
9 years later	10,092									
Cumulative (favourable) unfavourable loss development	(1,353)	(707)	(1,215)	(667)	(2,341)	(1,769)	(32)	(622)	254	
Cumulative loss development as a % of original ultimate loss	(11.82)%	(4.90)%	(11.15)%	(4.96)%	(13.35)%	(10.52)%	(0.25)%	(4.00)%	1.41%	

	Accident Years										
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Total**
Current estimate of net ultimate loss	10,092	13,727	9,680	12,793	15,196	15,039	12,599	14,941	18,223	17,069	
Cumulative paid	(9,773)	(13,698)	(8,979)	(12,146)	(13,893)	(12,848)	(11,167)	(12,497)	(14,600)	(9,491)	
Net provision of unpaid claims by recent accident years	319	29	701	647	1,303	2,191	1,432	2,444	3,623	7,578	20,267
Other reconciling items											582
Net provision for unpaid claims											20,849

12 Underwriting policy and reinsurance ceded

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

During 2019, the Company followed the policy of underwriting and reinsuring contracts of insurance, which limits the net exposure of the Company to a maximum amount on any one loss to $1,000 (2018 – $500) for auto and liability and $500 (2018-$500) for property. In addition, the Company obtained catastrophe reinsurance which limits the loss from a series of claims arising from a single occurrence to $1,000 (2018 – $500), to a maximum coverage of $29,000 (2018 – $99,500).

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

The Company places all its reinsurance with registered reinsurers.

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

Reinsurance recoverable

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

December 31, 2018		
Credit rating	**Gross reinsurance recoverable**	**Net exposure**
A or higher	3,505	3,505
Not rated	794	794
	4,299	4,299

December 31, 2018		
Credit rating	**Gross reinsurance recoverable**	**Net exposure**
A or higher	4,529	4,529
Not rated	1,882	1,882
	6,411	6,411

Included in gross reinsurance recoverable is reinsurers' share of unearned premiums of $1,031 (December 31, 2018 – $1,522), reinsurers' share of provision for unpaid claims of $3,268 (December 31, 2018 – $4,889). No balances due from reinsurers are considered past due as at December 31, 2019 and 2018. There is no valuation allowance or amounts written off during the years ended December 31, 2019 and 2018.

13 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.

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

Insurance risk

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

Direct Written Premium	**December 31, 2019**	**December 31, 2018**
Lines		
Automobiles	74%	71%
Property	26%	29%
Regions		
New Brunswick	27%	29%
Nova Scotia	43%	40%
Prince Edward Island	30%	31%

Sensitivity to insurance risk

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

	December 31, 2019		**December 31, 2018**	
Sensitivity Factor	**Net income before income taxes**	**Shareholders' equity**	**Net income before income taxes**	**Shareholders' equity**
Increase of 1 % to loss ratio	(324)	(226)	(299)	(209)
Increase of 1% to claims settlement costs	(234)	(163)	(192)	(134)

Product and pricing

The Company prices its products taking into account numerous factors, including claims frequency and severity trends, product line expense ratios, special risk factors, the capital required to support the product line, and the investment income earned on that capital. The Company's pricing process is designed to ensure an appropriate return on capital and long-term rate stability avoiding wide fluctuations in rates, unless necessary. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

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

Underwriting and claims

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

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

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

Unpredictable catastrophic events

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

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

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

Asset and liability matching

The Company is exposed to:

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

The Company's exposures are monitored on a regular basis and actions are taken to balance investment positions when approved risk tolerance limits are exceeded.

Risk management is carried out by the Audit and Risk Committee under policies approved by the Board of Directors.

Market risk

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

Interest rate risk

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

The sensitivity analysis for interest rate risk as set out in the table below illustrates the impact of changes in interest rates on other comprehensive income ("OCI") relating to the fixed income investment portfolio as at December 31, 2019, and December 31, 2018, based on parallel 200 basis point shifts in interest rates up and down in 100 basis point increments.

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

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

Change in interest rate As at December 31, 2018	Fair value of fixed income	Hypothetical change on fair value	Effect on OCI net of tax
200 basis point rise	30,353	(5)%	(1,120)
100 basis point rise	31,156	(3)%	(560)
No change	31,960	—	—
100 basis point decline	32,763	3%	560
200 basis point decline	33,567	5%	1,120

As discussed in note 11, the discount rate used in the determination of the provision for unpaid claims is based on the expected return of assets on its investment portfolio with appropriate assumptions for interest rates relating to reinvestment of maturing investments. Fluctuations in market interest rates will therefore have an impact on the discount rate used in the valuation of the net provision for unpaid claims. The table below shows the potential impact of interest rate fluctuations on the net provision for unpaid claims and income statement:

Change in discount rate	Net provision for unpaid claims	Hypothetical change in value	Effect on net income net of tax
As at December 31. 2019			
100 basis point rise	22,921	(2)%	(307)
No change	23,361	—%	—
100 basis point decline	23,813	2%	316
As at December 31, 2018			
100 basis point rise	18,740	(2)%	(321)
No change	19,200	—%	—
100 basis point decline	19,677	2%	333

Liquidity risk

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

The maturity profile of bonds is as follows, as at December 31, 2019 and December 31, 2018:

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

December 31, 2018	Less than 1 year	1 – 3 years	3 – 5 years	Greater than 5 years	Total
Bonds	161	2,975	5,921	2,836	11,893
Cash and cash equivalents	22,785	—	—	—	22,785
Accounts receivable	8,909	—	—	—	8,909
Total	31,855	2,975	5,921	2,836	43,587
Percentage of total	73%	7%	14%	6%	100%

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

The following tables summarize the expected timing of cash flows arising from insurance obligations, on an undiscounted basis, as at December 31, 2019 and December 31, 2018:

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

December 31, 2018	**Less than 1 year**	**1 – 3 years**	**3 – 5 years**	**Greater than 5 years**	**Total**
Gross claim liabilities (undiscounted)	9,038	7,725	3,878	3,638	24,279
Less: Reinsurance recoverable (undiscounted)	1,982	1,752	723	415	4,872
Net actuarial liabilities	7,056	5,973	3,155	3,223	19,407

Equity price risk

Fluctuations in the value of equity investments affect the level and timing of recognition of gains and losses on securities held, and cause changes in realized and unrealized gains and losses. General economic conditions, political conditions, and many other factors can also adversely affect the stock and bond markets and, consequently, the value of the equity and fixed income investments held.

The Company has policies to limit and monitor its exposure to individual issuers and classes of issuers of equity securities.
The table below summarizes the potential impact of a 10% change in the value of the equity securities (common and preferred shares) on net income and OCI for the twelve months ended December 31, 2019, and the year ended December 31, 2018. Certain shortcomings are inherent in the method of analysis presented, as the analysis is based on the assumption that all equity holdings increased/decreased by 10% with all other variables held constant.

Change in equity holdings	**Effect on net income (loss) net of tax**		**Effect on OCI net of tax**	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
10% rise	261	249	923	733
10% decline	(261)	(249)	(923)	(733)

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.

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

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

	As at December 31, 2019	As at December 31, 2018
Bonds	12,160	11,893
Gross reinsurance recoverable	4,299	6,411
Accounts receivable	10,020	8,909
Broker Loans	2,649	2,829
Structured settlements (note 18)	976	868
Cash	70,932	22,785
Total	101,036	53,695

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

Fixed income portfolio

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

	As at December 31, 2019		As at December 31, 2018	
	Fair value	%	Fair value	%
AAA	5,940	49%	5,347	45%
AA	2,321	19%	2,211	19%
A	2,861	23%	3,483	29%
BBB	1,038	9%	852	7%
Total	12,160	100%	11,893	100%

Preferred share portfolio

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

	As at December 31, 2019		As at December 31, 2018	
	Fair value	%	Fair value	%
P2	3,305	88%	3,137	88%
P3	441	12%	443	12%
Total	3,746	100%	3,580	100%

Capital management

Capital is comprised of the Company's total equity. As at December 31, 2019, the Company's equity was $89,475 - (December 31, 2018 – $145,667).

The Company's objectives when managing capital consists of:

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

ICPEI is required to maintain minimum capital levels as required by the regulators. As at December 31, 2019, ICPEI's Minimum Capital Test (MCT) in accordance with the Office of the Superintendent of Financial Institutions was 304% (2018 – 370%)

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

14 Income taxes

The income tax is as follows for the year ended December 31, 2019 and December 31, 2018:

	2019	2018
Current	(768)	(349)
Deferred	319	(254)
	(449)	(603)

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:

	2019	2018
Income tax expense calculated at statutory rates	26.5%	27.0 %
Increase (decrease) in income tax rates resulting from:		
Non-taxable dividend income	25.0%	2.0 %
Non-taxable (income) loss	—	(0.4)%
Non-deductible expenses	(0.6)%	(0.1)%
Tax benefit of losses not previously recognized	1.0%	(9.6)%
Statutory rate differences	5.8%	0.3 %
Non-taxable portion of capital gains	1.4%	— %
Other	—	0.9 %
Effective income tax rate	59.1%	20.1 %

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

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

	Losses Carried Forward	Reserves	Investments	Property, equipment and intangible assets	Total
Balance – January 1, 2018	129	4,680	(23)	1,048	5,834
Amounts recorded in discontinued operations	—	(5,272)	22	(522)	(5,772)
Amounts recorded in income statement	(128)	1,375	1	(529)	719
Balance – December 31, 2018	1	783	—	(3)	781

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

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

The Company has tax losses available resulting from capital losses of $16,943. No deferred tax assets have been recognized for these losses as there is no certain probability that these losses will be utilized..

Income taxes included in OCI

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

	2019	2018
Change in unrealized gains	134	(82)
Reclassification to net income of (gains) and losses	(23)	79
Total income tax expense included in OCI	111	(3)

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

15 Share capital

	As at December 31, 2019	As at December 31, 2018
Authorized		
Unlimited common shares (no par value)		
Unlimited special shares issuable in Series (no par value)		
Issued		
12,006,558 common shares (December 31, 2018 - 11,925,906 common shares)	2,794	71,997

In 2019, 47,500 common shares (2018 – 2,000) were issued for the exercise of stock options and 33,152 common shares (2018 – 32,830) were issued pursuant to the Share Unit Plan for eligible employees and Directors with a value of $408 (2018 – $477). In 2019, a total dividend of $105,631 was paid to shareholders of which $69,611 was a return of capital reducing share capital by that amount.

16 Employee stock option plan and share unit plan

For the year ended December 31, 2019, the Company recorded a compensation expense of $nil (2018 – $101), with an offsetting credit to contributed surplus in relation to its stock option plan. It also recorded an expense of $nil (2018 – $720) in relation to its Share Unit Plan and Options.

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

	Number of options		Weighted average exercise price per share	
	2019	2018	2019	2018
Outstanding, beginning of year	377,183	400,308	11.80	11.83
Granted during year	—	—	—	—
Exercised during year	(92,500)	(16,625)	8.50	8.68
Canceled during year	(284,683)	(6,500)	13.16	8.89
Expired during year	—	—	—	—
Outstanding, end of year	—	377,183	—	12.02

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

Restricted share unit (RSU) plan

The restricted share units are share-settled awards for which the provision recorded as at December 31, 2019 was $Nil (2018 – $516)

All shares and liabilities relating to stock option plan and share unit plan were settled on May 31, 2019 on the closing of the sale of Echelon Insurance.

17 Operating Costs by nature

The table below presents operating costs by major category for the year ended December 31, 2019 and December 31, 2018:

	2019	**2018**
Salaries and benefits	2,215	2,169
Directors' and Regulatory Filing Fees	771	839
Systems costs	344	455
Professional fees	563	2,662
Occupancy	391	178
Printing and Postage	179	235
Facility	437	385
Other Expenses	869	975
	5,769	**7,898**

18 Structured settlements

In the normal course of claims adjudication, the Company may settle certain long-term losses through the purchase of annuities (structured settlements) from life insurance companies. The fair estimated value of these annuity contracts amounts to $976 (December 31, 2018 – $868) using a discount rate of 1.76% (December 31, 2018 – 2.18%). It is the policy of the Company to purchase annuities from life insurers with proven financial stability. The net risk to the Company is the credit risk related to the life insurance companies and this risk is reduced to the extent of coverage provided by Assuris, the life insurance compensation insurance plan. The Company has determined that no credit risk provision is required.

19 Contingencies

From time to time, in connection with its insurance operations, the Company is named as a defendant in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome, such actions have generally been resolved with minimal damage or expense in excess of amounts provided as policy liabilities. The Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

New Nordic Advisors Limited (NNA) filed a Statement of Claim with the Danish Institute of Arbitration in October 2018. The Claim seeks €45.8 million in damages arising from the sale of 100% of EFH's interest in QIC Holdings ApS to New Nordic Odin Denmark Ltd in March of 2017. The Statement of Claim alleges breach of contract and willful misrepresentation. On July 16, 2019 the claim was dismissed with costs (approx. C$ 365,000) payable to EFH. There is no right to an appeal.

On August 2, 2019 New Nordic Odin Denmark (NNOD) filed a Statement of Claim with the Danish Institute of Arbitration. The Claim is essentially the same claim made by NNA but with a different plaintiff. The Claim seeks €45.8 million in damages arising from the sale of 100% of EFH's interest in QIC

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

Holdings ApS to NNOD in March of 2017. The Statement of Claim alleges breach of contract and willful misrepresentation with respect to the amount of required reserves for Qudos claim liabilities and the overall value of Qudos. It is alleged that officers of Qudos and EFH were aware of the underfunded reserves and failed to disclose to NNOD. A preliminary defence has been filed by EFH, pleading that NNOD has no legal right to bring the claim and seeking an order for security for costs. EFH is preparing to file a substantive defence by end of March and expects the case will proceed in the 3rd quarter of 2020. EFH does not believe there is any merit to the claim.

20 Rate regulations

The Company writes business subject to rate regulation, which comprises approximately 74% (2018 -– 71%) of gross premiums written and assumed. The Company's automobile insurance premiums can be impacted by mandatory rate rollbacks and mandatory rate assessments as legislated by provincial law and by regulation in certain provinces. This could result in lower future premium rates or reductions to premium rates charged by the Company in prior years. In addition, the Company is required, under certain provincial legislation, to participate in risk sharing pools, which may impact positively or negatively on underwriting results. Certain benefit payments are also subject to provincial government regulation, including automobile accident benefits.

21 Accumulated other comprehensive income

A breakdown of the accumulated other comprehensive income is shown below as at December 31, 2019 and December 31, 2018:

	As at December 31, 2019	As at December 31, 2018
Gross unrealized gains (losses)	1,938	(3,877)
Foreign currency translation adjustments	—	453
Tax impact	96	547
Ending balance	2,034	(2,877)

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

22 Earnings per share

The table below presents earnings per share as at December 31, 2019, and December 31, 2018:

Earnings Per Share on Continued Operations	**2019**	**2018**
Basic earnings per share on continued operations:		
Net (loss)income available to shareholders	(127)	(2,419)
Average number of common shares	11,966	11,908
Basic (loss) earnings per share on continued operations	(0.01)	$(0.20)
Diluted earnings per share:		
Average number of common shares	11,966	11,908
Average number of dilutive common shares under employee stock compensation plan	136	293
Average number of diluted common shares	12,102	12,201
Diluted (loss) earnings per share on continued operations	(0.01)	$(0.20)

Earnings Per Share on Discontinued Operations	**2019**	**2018**
Basic (loss) per share on discontinued operations:		
Net income(loss) available to shareholders	45,722	4,776
Average number of common shares	11,966	11,908
Basic earnings (loss) per share on discontinued operations	3.82	$0.40
Diluted earnings per share:		
Average number of common shares	11,966	11,908
Average number of dilutive common shares under employee stock compensation plan	136	293
Average number of diluted common shares	12,102	12,201
Diluted earnings(loss) per share on discontinued operations	3.78	$0.39

Total Earnings Per Share	**2019**	**2018**
Basic earnings per share:		
Net income available to shareholders	45,595	2,357
Average number of common shares	11,966	11,908
Basic earnings per share	3.81	$0.20
Diluted earnings per share:		
Average number of common shares	11,966	11,908
Average number of dilutive common shares under employee stock compensation plan	136	293
Average number of diluted common shares	12,102	12,201
Diluted earnings per share	3.77	$0.19

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

23 Held for sale classification and discontinued operations

On November 9, 2018, the Company entered into definitive agreements to sell Echelon Insurance, its main operating subsidiary, and the unregulated warranty business of Echelon Financial Holdings Inc. and the sale was completed May 31, 2019.

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

Assets and liabilities of discontinued operations

The assets and liabilities of discontinued operations included in the consolidated balance sheet were as follows:

	As at May 31, 2019	As at December 31, 2018
Assets of discontinued operations		
Cash and short-term deposits	-	106,819
Investments	-	282,662
Accounts Receivable	-	92,619
Deferred policy acquisition costs	-	49,002
Reinsurers' share -unpaid claims	-	12,032
Reinsurer share-unearned premiums	-	10,453
Property Plant and Equipment	-	1,064
Intangible assets	-	9,600
All other assets	-	12,482
Total assets of discontinued operations		576,733
Liabilities of discontinued operations		
Accounts payable and accrued liabilities	-	16,262
Unearned premiums	-	192,479
Provision for unpaid claims	-	253,921
All other liabilities	-	2,771
Total liabilities of discontinued operations	-	465,433

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

Net income (loss) from discontinued operations

	2019	2018
Revenue		
Gross written and assumed premiums	184,889	351,495
Net written premium	176,746	340,835
Decrease in provision for unearned premium	(43,582)	(46,137)
Net earned premiums	133,164	294,698
Investment Income (loss)	4,656	5,690
Total revenue	137,820	300,388
Expenses		
Net incurred claims	99,889	191,347
Net acquisition costs	31,402	70,988
Operating costs	16,411	31,180
Transaction cost	—	5,941
Total expenses	147,702	299,456
Profit (Loss) before income taxes	(9,882)	932
Impact of change in discount rate on claims	—	5,653
Interest expense	—	—
Income tax expense (recovery)	(3,148)	1,809
Net Income (loss) on discontinued operations	(6,734)	4,776
Gain on sale, net of expenses	53,128	—
Loss on Wind-up of CIM Re	(672)	—
Net Income (loss) on discontinued operations	45,722	4,776
Other comprehensive income on discontinued operations	1,254	233
Comprehensive income on discontinued operations	46,976	5,009

The results for 2019 include the financial results to the disposal date of May 31, 2019.

The Company received $165,500 on May 31, 2019 including $4.300 for expenses. Balance of $4,800 in settlement of final determination of the Minimum Capital Test (“MCT”) ratio was received on August 1, 2019. The gain on disposal is comprised of:

$ Thousands	**Year 2019**
Proceeds	$170,241
Net assets disposed	($112,984)
Gain on sale	$57,257
Expenses relating to the sale	($4,128)
Net gain	$53,128

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

24 Non-controlling interest

The Company has non-controlling interests attributable to ICPEI. Please refer to Note 1. The following tables summarize the comprehensive income attributable to the non-controlling shareholders for the year ended December 31, 2019 and December 31, 2018.

	2019	**2018**
Revenue		
Gross written and assumed premiums	9,207	8,484
Net earned premiums	8,099	7,484
Investment income	392	199
Total revenue	8,491	7,683
Expenses		
Net incurred claims	5,839	4,861
Net acquisition costs	1,742	1,766
Operating costs	1,188	1,054
Total expenses	8,769	7,681
income before income taxes	(278)	2
Income tax expense (recovery)	(100)	(16)
Net income attributable to NCI	(178)	18
Other comprehensive loss attributable to NCI	68	(4)
Comprehensive income attributable to NCI	(110)	14

The following tables summarize the net assets of the non-controlling shareholders as at December 31, 2019 and December 31, 2018:

	December 31, 2019	**December 31, 2018**
Assets		
Cash and investments	10,019	9,294
Other assets	5,881	5,640
Total assets	15,900	14,934
Liabilities		
Unearned premium	4,687	4,212
Unpaid claims	6,657	6,023
Other liabilities	824	857
Total liabilities	12,168	11,092
Equity		
Share capital	—	—
AOCI	(47)	(115)
Retained earnings	3,779	3,957
Total equity	3,732	3,842
Total liabilities and equity	15,900	14,934

(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 consolidated balance sheet of these financial statements.

	As at December 31, 2019	**As at December 31, 2018**
Cash flow from operating activities	893	36
Cash flow from investing activities	(44)	(30)
Cash flow from financing activities	(99)	--
Net (decrease) Increase in cash and short-term deposits	750	6

25 Segmented information

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

Through its Commercial Lines, the Company designs and underwrites commercial property and commercial automobile.

Discontinued Operations are excluded. Please refer to note 23.

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.

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

The following table summarizes the net income before interest and income taxes by Personal and Commercial Lines for the year ended December 31, 2019 and December 31, 2018:

	2019	**2018**
Revenue		
Net earned premiums		
– Personal Lines	21,800	19,846
– Commercial Lines	10,597	10,091
Total net earned premium	32,397	29,937
Net claims incurred		
– Personal Lines	16,796	14,535
– Commercial Lines	6,102	5,268
Net Claims	22,898	19,803
Net expenses		
– Personal Lines	7,275	7,178
– Commercial Lines	3,788	4,102
Total	11,063	11,280
Corporate Expenses	1,675	3,681
Total net expenses	35,636	34,764
(Loss) income before income taxes		
– Personal Lines	(2,271)	(1,867)
– Commercial Lines	707	721
Total	(1,564)	(1,146)
Corporate and other	(1,675)	(3,681)
Underwriting loss	(3,239)	(4,827)
Impact of change in net claims discount rate	(457)	360
Investment income	2,942	1,463
Total income before interest expense and income taxes	(754)	(3,004)