SPORTING ACTIVITIES INSURANCE LIMITED

Financial Statements
(With Auditor's Report Thereon)

Years Ended November 30, 2020 and 2019

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of Sporting Activities Insurance Limited

We have audited the accompanying financial statements of Sporting Activities Insurance Limited (the "Company"), which comprise the balance sheets as of November 30, 2020 and 2019, and the related statements of operations and retained earnings, and cash flows for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of Sporting Activities Insurance Limited as of November 30, 2020 and 2019 , and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other matter

Management has omitted certain disclosures related to short-duration contracts that U.S. generally accepted accounting principles require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
May 26, 2021

SPORTING ACTIVITIES INSURANCE LIMITED

Balance Sheets

November 30, 2020 and 2019
(Expressed in United States Dollars)

	2020	2019
Assets		
Cash and cash equivalents (Note 4)	$ 4,024,662	$ 2,504,850
Investments (Note 3)	1,257,573	1,767,261
Accounts receivable	226,117	289,146
Insurance balances receivable	–	522,665
Reinsurance balance recoverable (Note 5)	71,092	179,860
Deferred acquisition cost	121,795	121,630
Deferred reinsurance premiums	246,648	232,668
Reinsurance premiums paid in advance	28,238	28,238
Funds withheld – Loss fund	25,000	25,000
Prepaid expenses	12,059	5,315
Total assets	$ 6,013,184	$ 5,676,633
Liabilities		
Outstanding losses and loss expenses (Note 5)	$ 1,650,162	$ 995,212
Unearned premiums	722,259	621,662
Accounts payable and accrued expenses	48,322	125,797
Reinsurance balances payable	385,513	568,631
Total liabilities	2,806,256	2,311,302
Shareholders' equity		
Ordinary shares (Note 7)	120,001	120,001
Share premium (Note 7)	11,500	11,500
Retained earnings	3,075,427	3,233,830
Total shareholders' equity	3,206,928	3,365,331
Total liabilities and shareholders' equity	$ 6,013,184	$ 5,676,633

See accompanying notes to financial statements

Signed on behalf of the Board

________________________________ Director

________________________________ Director

SPORTING ACTIVITIES INSURANCE LIMITED

Statements of Operations and Retained Earnings

Years Ended November 30, 2020 and 2019
(Expressed in United States Dollars)

	2020	2019
Income		
Premiums written (Note 8)	$ 1,699,390	$ 1,534,000
Change in unearned premium reserve	(100,597)	(305,199)
Premiums earned	1,598,793	1,228,801
Reinsurance premiums ceded	573,162	597,068
Change in deferred reinsurance premiums	(13,980)	(107,600)
Premiums Ceded	559,182	489,468
Net premiums earned	1,039,611	739,333
Net investment income	144,583	165,652
Other underwriting income	125,971	(85,396)
Total income	1,310,165	819,589
Expenses		
Net losses and loss expenses incurred (Note 5)	964,852	1,014,929
Acquisition expenses	269,774	222,682
General and administrative expenses	233,942	269,085
Total expenses	1,468,568	1,506,696
Net loss	(158,403)	(687,107)
Retained earnings at beginning of year	3,233,830	3,920,937
Retained earnings at end of year	$ 3,075,427	$ 3,233,830

See accompanying notes to financial statements

SPORTING ACTIVITIES INSURANCE LIMITED

Statements of Cash Flows

Years Ended November 30, 2020 and 2019
(Expressed in United States Dollars)

	2020	2019
Cash flows from operating activities		
Net loss	$ (158,403)	$ (687,107)
Changes in non-cash working capital		
Net change in investments	(121,603)	(106,374)
Accounts receivable	63,029	85,396
Deferred acquisition cost	(165)	(30,718)
Insurance balances receivable	522,665	(91,715)
Reinsurance balance recoverable	108,768	4,346
Deferred reinsurance premiums	(13,980)	(107,600)
Prepaid expenses	(6,744)	6,705
Outstanding losses and loss expenses	654,950	(156,722)
Unearned premiums	100,597	305,199
Accounts payable and accrued expenses	(77,475)	(3,329)
Reinsurance balances payable	(183,118)	409,567
Cash flows provided by operating activities	888,521	(372,352)
Cash flows from investing activities		
Sales of investments	631,291	–
Net Cash applied to investing activities	631,291	–
Net decrease in cash and cash equivalents	1,519,812	(372,352)
Cash and cash equivalents at beginning of year	2,504,850	2,877,202
Cash and cash equivalents at end of year	$ 4,024,662	$ 2,504,850

See accompanying notes to financial statements

1. Nature of the business

Sporting Activities Insurance Limited (the "Company") was incorporated in Bermuda on June 12, 1986 as Sporting Arms Insurance Limited. On March 20, 1996 it changed its name to Sporting Activities Insurance Limited. The Company holds a Class 3A license under The Insurance Act, 1978 of Bermuda.

The Company provides facultative reinsurance of a domestic US insurer that writes general liability, products' liability and completed operations insurance on a claims made basis to manufacturers and importers in sporting activities. Coverage is provided up to $2,000,000 per claim and in aggregate, with excess of loss reinsurance limited to in excess of $200,000 on each claim an aggregate up to $6,000,000 per insured covered by the US domestic insurer.

The Company has retroceded specific excess of loss reinsurance which limits the Company's exposure to the first $200,000 of each claim with an aggregate reinsurance limit of up to $6,000,000.

2. Summary of significant accounting policies

Basis of presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles in the United States ("U.S. GAAP").

Reporting currency

The financial information is reported in United States dollars ('U.S. dollars' or '$').

Use of estimates

The preparation of these financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported and disclosed amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates reflected in the financial statements are reserves for loss and loss expenses.

The following are the significant policies adopted by the Company.

(a) Premiums earned and deferred acquisition expenses

Premiums assumed are recorded on the accruals basis. Premiums are recognized as income on a pro-rata basis over the terms of the underlying contracts. Unearned premium reserves are established to cover the unexpired portion of premiums assumed. Ceded reinsurance premiums are similarly pro-rated over the terms of the contracts with the unexpired portion deferred in the balance sheet.

Premium adjustments to written and ceded premiums based on the insured's actual sales volume are recorded in operations in the period when determined.

Acquisition costs related to unearned premiums are deferred and amortized to income over the period in which the premiums are earned. The method followed in determining deferred acquisition expenses limits the amount of the deferral to its realizable value by giving consideration to losses and expenses and future investment income expected to be incurred as premiums are earned.

2. Summary of significant accounting policies (continued)

(b) Outstanding losses and loss adjustment expenses

Outstanding losses and loss adjustment expenses represent the amounts needed to provide for the estimated ultimate cost of settling claims relating to insured events (both reported and unreported) that have occurred before the balance sheet date. These amounts are based upon management's estimate of losses reported by policy holders and estimates for developments on outstanding case reserves and reported claims not yet recorded based on the review by the company's claims committee using the past experience of the Company and industry data.

All provisions are periodically reviewed and evaluated in the light of emerging claim experience and changing circumstances. It is reasonably possible that changes in future conditions in the near term could require a material change in the amount estimated. The resulting changes in estimates of the ultimate liability are recorded as incurred claims in the current period.

Amounts recoverable from reinsurers are estimated in a manner consistent with the underlying liabilities.

While management, believes that the provision for outstanding losses and loss adjustment expenses established at the balance sheet date is adequate to cover the ultimate cost of losses incurred to the balance sheet dates, net of anticipated investment income on funds prior to settlement, the provisions are necessarily estimates and may ultimately be settled for a significantly greater or lesser amount. It is at least reasonably possible that management will revise this estimate significantly in the near term. Any subsequent differences arising are recorded in the period in which they are determined.

(c) Investments

The Company classifies all its investments as trading securities. Investments in funds are carried at fair value based on either quoted market prices, the market value of the underlying investments within the fund as estimated by the fund manager. Investment income includes interest income recognized on the accruals basis and both net realized and unrealized gains on the mark to market adjustment. Realized and unrealized gains are determined on the specific identification method.

(d) Cash and cash equivalents

The Company considers all cash on hand, deposits with financial institutions that can be withdrawn without prior notice or penalty, money market funds and short-term deposits with an original maturity of ninety days or less as equivalent to cash.

(e) Fair value of financial instruments

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for these instruments approximate their fair values. Money market funds of $2,438,633 (2019 - $2,437,848) are presented within Cash and Cash Equivalents and carried at fair value using level 1 inputs in the fair value hierarchy.

Investments, held for trading: The fair value of investments, held for trading is disclosed in Note 3. Fair value is estimated using quoted market prices for the listed funds and net asset value as reported by the investment manager which approximated the market values of the underlying investments within the fund.

Other assets and liabilities: The fair value of the insurance balances receivable, accrued interest receivable, reinsurance premiums paid in advance, reinsurance balances payable, accounts payable and accrued expenses and commission payable approximates their carrying value due to their relative short-term nature.

(Expressed in United States Dollars)

2. Summary of significant accounting policies (continued)

(e) Fair value of financial instruments (continued)

The estimates of fair values presented herein are subjective in nature and are not necessarily indicative of the amounts that the Company would actually realize in a current market exchange. However, any differences would not be expected to be material. Certain balances such as the prepaid expenses, reinsurance balance recoverable, outstanding losses and loss expenses and unearned premiums are excluded from fair value disclosure. Thus, the total fair value amounts cannot be aggregated to determine the underlying economic value of the Company.

3. Investments

(a) The cost and market value of investments is as follows:

	2020		
	Cost	Unrealized gain	Market value
Russell 2000 Index Fund	$ 174,610	$ 356,865	$ 531,475
S&P 500 Index Fund	173,952	364,793	538,745
Orbis Optimal Fund	150,000	37,353	187,353
	$ 498,562	$ 759,011	$ 1,257,573

	2019		
	Cost	Unrealized gain	Market value
Russell 2000 Index Fund	$ 174,610	$ 300,347	$ 474,957
S&P 500 Index Fund	173,952	293,741	467,693
Orbis Optimal Fund	150,000	44,145	194,145
Butterfield Bond Fund	580,856	49,610	630,466
	$ 1,079,418	$ 687,843	$ 1,767,261

The investments represent the Company's participation in several independently managed investment funds consisting of portfolios of equity and debt securities. The investments are diversified to give minimal concentration by industry type and geographic region. There are no restrictions on the Company's ability to make further investments in, or withdrawals from, the funds at any time.

(b) The following is a description of the valuation methodologies used for the investments measured at fair value:

Orbis optimal fund: Valued using net asset value as reported by the investment manager, which approximates the market values of the underlying investments within the fund or realizable value as estimated by the investment manager.

The Company has adopted the provisions of ASU 2015-07, which remove the requirement to categorize investments in the fair value hierarchy if their fair value is at net asset value (NAV) using the practical expedient in the FASB's fair value measurement guidance.

(Expressed in United States Dollars)

3. Investments (continued)

The Russell 2000 and S&P Index Fund are exchange traded funds as they are listed on an active trade. As at November 30, 2020 and 2019, the exchange traded securities are classified as level 1 in the fair value hierarchy.

4. Concentration of credit risk

Credit risk is the risk of financial loss resulting from the failure of debtors to make payments of interest and/or principal when due.

The Company is exposed to credit risk principally through its cash and cash equivalents, investments and insurance balances receivable. Concentrations of credit risk arise from exposures to a single debtor or groups of debtors that have similar credit risk characteristics, such as debtors in the same geographic regions or in similar industries. The Company's maximum credit risk exposure is the carrying value of the assets net of any allowances for doubtful debts.

The Company held cash with two Bermudian financial institution with a credit rating of BBB+ (2019: BBB+) as per S&P and AAA (2019: AAA) as per the Index. Credit risk relating to held for trading investments is managed through monitoring of the issuer, industry and geographical diversification within the investment portfolio. The Company mitigates credit risk on its insurance balances receivable through detailed credit risk and underwriting policies and on-going monitoring of outstanding receivables.

The Company entered into a reinsurance agreement with Lexington Insurance Company and as part of this reinsurance agreement, the Company is required to provide a letter of credit. As at November 30, 2020, cash of $2,406,582 (2019 - $2,406,582) was pledged as collateral to secure the letter of credit.

5. Outstanding losses and loss adjustment expenses

The summary of changes in outstanding losses and loss expenses for 2020 and 2019 is as follows:

	2020	2019
Gross balance at December 1	$ 995,212	$ 1,151,934
Less reinsurance recoverable	(179,860)	(184,206)
Net balance at December 1	815,352	967,728
Incurred losses related to:		
Current year	120,720	214,293
Prior years	844,132	800,636
Net incurred losses	964,852	1,014,929
Paid losses related to:		
Current year	–	–
Prior years	201,134	1,167,305
Total paid losses	201,134	1,167,305
Net balance at November 30	1,579,070	815,352
Plus reinsurance recoverable	71,092	179,860
Gross balance at November 30	$ 1,650,162	$ 995,212

5. Outstanding losses and loss adjustment expenses (continued)

As a result of the change in estimates of insured events in prior years, the provision for losses and loss expenses increased by $844,132 (2019 - $800,636). There was unfavorable development in the prior year reserves due to a significant increase in the 2019 earned premium that resulted in an increase in loss exposure coupled with reported losses that increased the prior year development.

Reserving methodology

The establishment of the provision for outstanding losses and loss adjustment expenses is based on known facts and interpretation of circumstances and is therefore a complex and dynamic process influenced by a large variety of factors. These factors include the Company's experience with similar cases and historical trends involving claim payment patterns, pending levels of unpaid claims, product mix or concentration, claim severity and frequency patterns such as those caused by fires, or accidents, depending on the business.

Other factors include the continually evolving and changing regulatory and legal environment, actuarial studies, professional experience and expertise of the Company's management and independent adjusters retained to handle individual claims, the quality of the data used for projection purposes, existing claims management and settlement practices, the effect of inflationary trends on future claims settlement costs, court decisions, economic conditions and public attitudes. In addition, time can be a critical part of the provision determination, since the longer the span between the incidence of a loss and the payment or settlement of the claims, the more variable the ultimate settlement amount can be. Consequently, the establishment of the provision for outstanding losses and loss adjustment expenses relies on the judgment and opinion of a large number of individuals, on historical precedent and trends, on prevailing legal, economic, social and regulatory trends and on expectations as to future developments. The process of determining the provision necessarily involves risks that the actual results will deviate, perhaps substantially, from the best estimate made.

There have been no significant changes in methodologies and assumptions used to establish outstanding loss and loss expenses during the year ended November 30, 2020.

Incurred and paid claims development

The following is information about incurred and paid claims development as of November 30, 2020, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims amounts.

The Required Supplementary Information (RSI) under US GAAP has not been disclosed as management of the Company believes the supplementary disclosures are not material to the financial statements and that the omission of the supplementary disclosures will not materially impede the readers understanding of the financial statements. The primary users of the financial statements are the shareholders and directors of the Company who have access to the full loss development activity and therefore disclosure in the financial statements is considered duplication.

(Expressed in United States Dollars)

5. Outstanding losses and loss adjustment expenses (continued)

Incurred and paid claims development (continued)

Accident year	Incurred losses and allocated loss adjustment expenses, net of reinsurance	Cumulative paid losses and paid allocated loss adjustment expenses, net of reinsurance	Total of incurred-but-not-reported liabilities plus expected development on reported claims	Cumulative claim count
	For the Year Ended November 30, 2020		As at November 30, 2020	
2011	101,408	98,788	2,620	1
2012	110,129	102,530	7,599	2
2013	102,142	79,011	23,131	1
2014	585,342	550,000	35,342	1
2015	17,715	0	17,715	0
2016	482,583	286,801	70,782	2
2017	129,094	0	129,094	0
2018	304,710	0	304,710	0
2019	742,357	0	642,357	2
2020	120,720	0	120,720	0
Total	$ 2,696,200	$ 1,117,130	$ 1,354,070	9

The following reconciles the above cumulative incurred and paid data to the liability for unpaid losses and loss adjustment expenses as of November 30, 2020:

	2020
Cumulative incurred losses and ALAE	$ 2,696,200
Less cumulative paid losses and ALAE	(1,117,130)
Outstanding losses and loss expenses, net	1,579,070
Reinsurance recoverable	71,092
Total unpaid losses and LAE	$ 1,650,162

(Expressed in United States Dollars)

6. Reinsurance

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of its reinsurers to minimize the exposure to significant losses from reinsurer insolvencies. The Company's reinsurers are rated A or better per AM Best.

7. Share capital

The Company's authorized share capital is 150,000 ordinary shares of $1.00 par value each and 1,050,000 preferred shares of $1.00 par value each.

The Company had issued 120,001 ordinary shares at $1.00 each, which are fully paid.

The Company's authorized preferred share capital is divided into Series A preference shares and Series B preference shares. The Company has designated 900,000 of the preferred shares as Series B preference shares. The remaining 150,000 preferred shares remain undesignated at the balance sheet date.

All preference shares are redeemable, non-convertible and non-voting and no preferences are currently issued.

Share premium represents the amounts paid for issued shares in excess of the par value.

8. Related party transactions

Premiums written of $450,000 (2019 - $480,000) were derived from shareholders of the Company through the reinsurance agreement with Lexington Insurance Company. Paid losses have been paid to the shareholders during the year in relation to the reinsurance agreement. There are no other related transactions.

9. Taxation

Under current Bermuda law, the Company is not obligated to pay any taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda pursuant to the provisions of the Exempted Undertakings Tax Protection Act 1966 which exempts the Company from any such taxes, at least until the year 2035.

10. Statutory requirements

The Company is required by its license to maintain capital and surplus greater than a minimum margin of solvency and an enhanced capital requirement. At November 30, 2020 the Company has met both of these requirements.

Actual statutory capital and surplus at November 30, 2020, as determined using statutory accounting principles, is as follows:

Total shareholders' equity	$ 3,206,928
Reconciling items to statutory capital and surplus:	
Prepaid expenses	12,059
Statutory capital and surplus	$ 3,194,869

10. Statutory requirements (continued)

The Company is also required to maintain a minimum liquidity ratio whereby the value of its relevant assets is not less than 75% of the amount of its relevant liabilities. Relevant assets include cash and cash equivalents, investments, accrued interest receivable and insurance balances receivable. Certain categories of assets do not qualify as relevant assets under the statute. The relevant liabilities are total general business insurance reserves and total other liabilities, less sundry liabilities.

At November 30, 2020 the Company was required to maintain relevant assets of at least $1,867,000 (2019 - $1,425,000). At that date relevant assets were $5,533,000 (2019 - $5,108,000) and the minimum liquidity ratio was therefore met.

The Company may declare dividends subject to it continuing to meet its solvency and capital requirements, which includes continuing to hold statutory capital and surplus equal to or exceeding its ECR. The Company is prohibited from declaring or paying in any fiscal year dividends of more than 25% of its prior year's statutory capital and surplus unless it files with the BMA a signed affidavit by at least two members of the Board of Directors attesting that a dividend would not cause the Company to fail to meet its relevant margins.

11. Subsequent events

The Company has completed its subsequent events evaluation for the period subsequent to the balance sheet date of November 30, 2020 through to May 26, 2021 the date the financial statements were available for issuance. The evaluation did not result in any subsequent events that necessitated disclosures and/or adjustments.