Governance Re Ltd.
(Incorporated in Bermuda)

Financial Statements
December 31, 2020 and 2019
(expressed in U.S. dollars)

May 19, 2021

Report of Independent Auditors

To the Shareholder of Governance Re Ltd.

We have audited the accompanying financial statements of Governance Re Ltd., which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, of comprehensive income, of changes in shareholder's equity and of cash flows for the years then ended.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; 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.

Auditors' responsibility
Our responsibility is to express an opinion on the 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 our 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, we consider 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 Governance Re Ltd. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter
Management has omitted the required supplemental information under Accounting Standards Update 2015-09, *Disclosure about Short-Duration Contracts* that accounting principles generally accepted in the United States of America 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 considers 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.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

Governance Re Ltd.
Balance Sheets
December 31, 2020 and 2019

(expressed in U.S. dollars)

	2020 $	2019 $
Assets		
Cash and cash equivalents (notes 7 and 8)	2,475,443	3,053,115
Held-for-trading securities (note 4)	7,262,341	12,589,413
Accrued interest receivable	20,795	39,984
Due from parent company (note 9)	222,390	182,261
Income tax receivable	138,173	49,243
Net deferred income tax assets (note 11)	969,400	-
Other receivables	7,117	7,064
Prepaid expenses	9,406	8,916
Total assets	11,105,065	15,929,996
Liabilities		
Losses payable	156,496	156,496
Reserves for losses and loss expenses (note 5)	1,360,442	1,131,442
Accrued interest payable	571	43,103
Deferred income tax liabilities (note 10)	-	435,682
Accounts payable and accrued expenses	65,700	73,125
Total liabilities	1,583,209	1,839,848
Shareholder’s equity		
Share capital (note 6)	13,050,000	13,050,000
Advance to parent company (note 9)	(5,413,927)	(5,473,720)
Retained earnings	1,885,783	6,513,868
	9,521,856	14,090,148
Total liabilities and shareholder’s equity	11,105,065	15,929,996

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

Governance Re Ltd.

Statements of Operations

For the years ended December 31, 2020 and 2019

(expressed in U.S. dollars)

	2020 $	2019 $
Underwriting revenue		
Gross premiums written (note 9)	330,000	300,000
Net premiums and earned	330,000	300,000
Underwriting expenses		
Losses and loss expenses incurred (note 5)	1,123,194	970,000
	1,123,194	970,000
Underwriting loss	(793,194)	(670,000)
Other (expenses) income		
Net Investment (loss) income (note 4)	(4,983,685)	570,611
General and administrative expenses	(300,218)	(238,356)
	(5,283,903)	332,255
Net loss before tax	(6,077,097)	(337,745)
Income tax – current benefit (expense) (note 11)	43,930	(166,787)
– deferred benefit (note 11)	1,405,082	147,625
	1,449,012	(19,162)
Net loss for the year	(4,628,085)	(356,907)

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

Governance Re Ltd.

Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019

(expressed in U.S. dollars)

	2020 $	2019 $
Net loss for the year	(4,628,085)	(356,907)
Other comprehensive income	-	-
	-	-
Comprehensive loss for the year	(4,628,085)	(356,907)

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

Governance Re Ltd.
Statements of Changes in Shareholder’s Equity
For the years ended December 31, 2020 and 2019

(expressed in U.S. dollars)

	Share capital $	Advance to parent company $	Retained earnings $	Total $
At December 31, 2018	13,050,000	(4,987,488)	6,870,775	14,933,287
Net loss for the year	-	-	(356,907)	(356,907)
Net advances to parent company	-	(486,232)	-	(486,232)
At December 31, 2019	13,050,000	(5,473,720)	6,513,868	14,090,148
Net loss for the year	-	-	(4,628,085)	(4,628,085)
Net advances to parent company	-	59,793	-	59,793
At December 31, 2020	13,050,000	(5,413,927)	1,885,783	9,521,856

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

Governance Re Ltd.

Statements of Cash Flows

For the years ended December 31, 2020 and 2019

(expressed in U.S. dollars)

	2020 $	2019 $
Cash flows from operating activities		
Net loss for the year	(4,628,085)	(356,907)
Non-cash adjustments:		
Net unrealized loss on held-for-trading securities	5,523,409	767,885
Realized (gain) loss on held-for-trading securities	(233,045)	4,798
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Accrued interest receivable	19,189	(8,891)
Deferred income tax assets	(969,400)	-
Due from parent company	(40,129)	(33,287)
Income tax receivable	(88,930)	(15,213)
Other receivables	(53)	12,887
Prepaid expenses	(490)	5,220
Reserves for loss and loss expenses	229,000	970,000
Accrued interest payable	(42,532)	43,103
Deferred income tax liabilities	(435,682)	(147,625)
Accounts payable and accrued expenses	(7,425)	(20,872)
Net cash (used in) provided by operating activities	(674,173)	1,221,098
Cash flows provided by (used in) investing activities		
Purchases of equity securities	(259,798)	(1,026,244)
Purchases of other investments	(775)	(19,818)
Proceeds from sale of equity securities	38	-
Proceeds from sale of other investments	297,243	23,616
Net cash provided by (used in) investing activities	36,708	(1,022,446)
Cash flows provided by (used in) financing activity		
Net contributions from (advances to) parent company	59,793	(486,232)
Cash provided by (used in) financing activity	59,793	(486,232)
Net decrease in cash and cash equivalents	(577,672)	(287,580)
Cash and cash equivalents - Beginning of year	3,053,115	3,340,695
Cash and cash equivalents - End of year	2,475,443	3,053,115

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

(expressed in U.S. dollars)

1. The Company

Governance Re Ltd. (the "Company") was incorporated in Bermuda on October 22, 2007 and was registered as a Class 3 insurer under The Insurance Act 1978 (Bermuda), amendments thereto and related Regulations ("The Act"). Effective February 17, 2009, the Company was licensed as a Class 3A insurer under the Act as amended by the Insurance Amendment Act 2008. The Company is beneficially owned by Highland Capital Management Services, Inc., a company incorporated in the United States of America, which in turn, is wholly-owned by two individual shareholders.

2. Insurance business

The Company provides claims made Management, Employer and Professional Liability Insurance coverage to a Bermuda trust whose beneficiary is an affiliate of the Company. During 2020 and 2019 the policy limit for this coverage was $10,000,000 per occurrence and in the aggregate and was written excess of a $3,500,000 per claim retention.

The Company also provides Healthcare Professional Liability and General Liability (HPL/GL) coverage to two healthcare providers who are portfolio companies affiliated with the Company's parent. The policy limits for the two policies provided are:

- $4,000,000 each claim / $6,000,000 aggregate, including ALAE, excess of self-insured retentions ranging from $10,000 to $500,000.
- $1,000,000 each claim / $5,000,000 aggregate (HPL) / $7,000,000 aggregate (GL), including ALAE, excess of $50,000 per claim / $500,000 aggregate self-insured retention

These programs expired on December 31, 2014 and were not renewed.

3. Significant accounting policies

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosures of contingent assets and liabilities as at the balance sheet date. Estimates also affect the reported amounts of income and expenses for the reporting period. Actual results could differ from those estimates.

Certain comparative figures have been reclassified to conform to the current year's presentation and disclosure.

The following is a summary of the significant accounting policies adopted by the Company:

(a) **Premiums written**
Premiums are recorded on an accrual basis. Premiums are recognized on a pro-rata basis over the periods covered by the insurance policies to which they relate. Unearned premiums represent the amounts of premiums applicable to the unexpired terms of the policies.

(b) **Losses and loss expenses**
Losses paid are recorded when settled. Outstanding losses comprise estimates of the amount of reported losses and loss expenses received from the insured. The provision for claims that had been reported but were outstanding was $812,602 (2019 - $812,602).

(expressed in U.S. dollars)

3. Significant accounting policies (continued)

Management believes that the reserves for losses and loss expenses will be adequate to cover the ultimate net cost of losses incurred to the balance sheet date, but the provision is necessarily an estimate and may ultimately be settled for a greater or lesser amount. Any subsequent differences arising will be recorded in the period in which they are determined.

(c) **Cash and cash equivalents**
Cash and cash equivalents include balances held by a broker and cash in a money market fund that are both readily convertible to cash and have original maturities of three months or less from the date of acquisition.

(d) **Investments**
The Company's held-for-trading portfolio consists of securities for which the Company has elected the fair value option prescribed under U.S. GAAP. Investments in the held-for-trading portfolios are carried at fair value based on quoted market prices, where available, or valuation models in cases where an active market for the investments does not currently exist.

Unrealized gains and losses on the held-for-trading portfolio are recognized in the Statements of Operations as a component of net investment income (loss).

Investment transactions are recorded as of the trade date. Gains and losses on the sale of investments are determined on the basis of specific identification.

(e) **Fair value measurement and hierarchy**
Fair value is the price an entity would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants as of the measurement date. U.S. GAAP requires fair value measurement techniques to reflect the assumptions market participants would use in pricing an asset or liability and, where possible, to maximize the use of observable inputs and minimize the use of unobservable inputs. It also establishes the following hierarchy that prioritizes the valuation inputs into three broad levels:

- Level 1 – Valuations based on quoted prices in active markets for identical assets and liabilities that the Company has the ability to access as of the measurement date. Valuations utilizing Level 1 inputs do not require any degree of judgment.

- Level 2 – Valuations based on (a) quoted prices for similar instruments in active markets; (b) quoted prices for identical or similar instruments in markets that are not active; or (c) models in which all significant inputs are observable, either directly or indirectly.

- Level 3 – Valuations based on models in which the inputs are unobservable and significant to the fair value measurement, which includes situations where there is little, if any, market activity for the asset or liability.

(expressed in U.S. dollars)

3. Significant accounting policies (continued)

The availability of observable inputs varies among financial instruments and is affected by numerous factors, including the type of instruments, the period of time in which the instrument has been established in the marketplace, market liquidity for an asset class and other characteristics particular to a transaction. When the inputs used in a valuation model are unobservable, management is required to exercise a greater degree of judgment to determine fair value than it would for observable inputs. For certain instruments, the inputs used to measure fair value may fall into different levels of the hierarchy discussed above. In those cases, the instruments are categorized for disclosure purposes based on the lowest level of inputs that are significant to their fair value measurements.

The Company uses prices and inputs that are current as of the measurement dates. The Company also considers the counterparty's non-performance risk when measuring the fair value of its investments.

During periods of market dislocation, the ability to observe prices and inputs for certain instruments may change. These circumstances may result in the instruments being re-classified to different levels within the hierarchy over time. They also create an inherent risk in the estimation of fair value that could cause actual amounts to differ from management's estimates. Whenever possible, the Company uses actual market prices or relevant observable inputs to establish the fair value of its assets and liabilities. In cases where observable inputs are not available, the Company develops methodologies that provide appropriate fair value estimates. These methodologies are reviewed on a continuous basis to account for changing market conditions, and there have been no significant changes in methodology from the prior year.

(f) **Investment income**
Investment income consists of interest income, unrealized gains and losses on held-for-trading investments and gains and losses realized on the sale of investments securities. Interest on currently paying debt instruments is accrued as earned and dividend income on equity securities is recorded on the ex-dividend date, net of withholding taxes.

(g) **Use of estimates**
The financial statements include amounts based on informed estimates and judgments of management for those transactions that are not yet complete or for which the ultimate effects cannot be precisely determined. Such estimates and judgments affect the reported amounts of assets and liabilities and 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 to the balance sheet date.

(expressed in U.S. dollars)

4. Investments

The cost, unrealized gains (losses) and estimated fair value of held-for-trading securities are as follows:

2020	Cost $	Unrealized loss, less than 12 months $	Unrealized loss, greater than 12 months $	Unrealized gains $	Market value $
Equity securities	9,250,658	(3,822,759)	(875,444)	2,194,610	6,747,065
Other investments	1,423,605	(61,217)	(847,112)	-	515,276
Held-for-trading securities	10,674,263	(3,883,976)	(1,722,556)	2,194,610	7,262,341

2019	Cost $	Unrealized loss, less than 12 months $	Unrealized loss greater than 12 months $	Unrealized gains $	Market value $
Equity securities	8,990,891	(272,229)	(603,215)	3,862,244	11,977,691
Other investments	1,720,073	(229,416)	(914,413)	35,478	611,722
Held-for-trading securities	10,710,964	(501,645)	(1,517,628)	3,897,722	12,589,413

Proceeds on the sale of held-for-trading securities during the year ended December 31, 2020 were $297,281 (2019 - $23,616). The Company recorded realized gains (losses) of $233,045 (2019 – ($4,798)) on these sales.

Included in “other investments” above is 43.7% (2019 - 43.7%) equity holding in an affiliate which the Company has elected to account for at fair value.

Also included in other investments is a life settlement contract which cost $141,975 (2019 - $141,200) and has fair value of $140,550 (2019 - $139,780). The Life settlement contract is valued using mortality tables and interest rate assumptions that are deemed appropriate for the demographic characteristics of the party insured under the policy. The Company generally utilizes an independent third-party firm to perform these calculations and provide the relevant inputs. The Company evaluates the results based on visible market activity and market research. Since these inputs are not readily observable, the Company classifies the contract as Level 3 assets.

(expressed in U.S. dollars)

4. Investments (continued)

Fair Value Hierarchy

The following is a summary of held-for-trading securities measured at fair value at December 31, 2020:

	Total $	Level 1 $	Level 2 $	Level 3 $
Equity securities	6,747,065	5,426,320	1,320,745	-
Other investments	515,276	-	-	515,276
	7,262,341	5,426,320	1,320,745	515,276

The following is a summary of held-for-trading securities measured at fair value at December 31, 2019:

	Total $	Level 1 $	Level 2 $	Level 3 $
Equity securities	11,977,691	6,517,916	5,459,775	-
Other investments	611,722	-	-	611,722
	12,589,413	6,517,916	5,459,775	611,722

The following is a summary of the changes in the Company's investments measured on a recurring basis for the years ended December 31, 2020 and 2019.

2020

	Total $	Level 1 $	Level 2 $	Level 3 $
Balance, beginning of year	12,589,413	6,517,915	5,459,776	611,722
Transfer				
Purchases	260,573	259,798	-	775
Sales	(297,281)	(38)	-	(297,243)
Realized gains	233,045	7	-	233,038
Unrealized losses	(5,523,409)	(1,351,362)	(4,139,031)	(33,016)
Balance, end of year	7,262,341	5,426,320	1,320,745	515,276

(expressed in U.S. dollars)

4. *Investments (continued)*

2019

	Total $	Level 1 $	Level 2 $	Level 3 $
Balance, beginning of year	12,339,650	5,032,173	6,458,309	849,168
Transfer	-	-	-	-
Purchases	1,046,062	1,026,244	-	19,818
Sales	(23,616)	-	-	(23,616)
Realized gains	(4,798)	-	-	(4,798)
Unrealized gains/(losses)	(767,885)	459,499	(998,534)	(228,850)
Balance, end of year	12,589,413	6,517,916	5,459,775	611,722

As of December 31, 2020 and 2019, all of the Company's other investments securities were privately held. The fair value of these securities is based on internal models developed by the Company's investment advisor. Specifically, the models estimate the implied value of the equity by calculating the enterprise value of the issuers as a multiple of their earnings. Since the significant inputs to the models include financial information of the issuers that is not readily observable, the Company has classified these securities as Level 3 assets.

The other investments balance consists of an interest that the Company holds in a limited liability company and a life settlement contract.

Net investment (losses) income

	2020 $	2019 $
Interest received	306,679	1,343,294
Net realized and unrealized (losses) gains on held-for-trading securities	(5,290,364)	(772,683)
	(4,983,685)	570,611

(expressed in U.S. dollars)

5. Reserves for losses and loss adjustment expenses

Movement in the provision for losses and loss expenses for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020 $	2019 $
Balance at beginning of year	1,131,442	161,442
Net losses and loss expenses incurred relating to:		
Current year	1,394,194	1,000,000
Prior years	(271,000)	(30,000)
Total incurred	1,123,194	970,000
Losses paid relating to:		
Current year	794,194	-
Prior years	100,000	-
Total paid losses	894,194	-
Balance at end of year	1,360,442	1,131,442

As at December 31, 2020, the reserve for reported losses was $812,602 (2019 - $812,602) and the reserve for losses that had been incurred but not yet reported was $547,840 (2019 - $318,840). The increase in reserves for losses and loss adjustment expenses in 2020 is primarily attributable to increase in claims activity of the Employer and Professional Liability Policy. The Healthcare Professional Liability and General Liability programs are in run-off.

Further details on the incurred and paid losses by line of business and accident year; losses and loss adjustment expenses incurred but not reported by line of business and accident year; loss development in the year ended December 31, 2020 and 2019 by line of business and accident year; and cumulative number of reported claims by accident year are included below.

(expressed in U.S. dollars)

5. Reserves for losses and loss adjustment expenses (continued)

The following factors are relevant to the information included in the table below:

- **Table Organization:** The table is organized by accident year and include policies written on an occurrence basis.
- **Groupings:** Our groupings by line of business have homogenous risk characteristics with similar development patterns and would generally be subject to similar trends.
- **Data excluded from table:** Information with respect to accident years older than the most recent accident year has been excluded from the development tables, as are lines of business considered by management to be immaterial to the financial statements and additional information taken as a whole.
- **Claim counts:** A reported claim is considered to be one claim for each claimant for each loss occurrence.
- Claim counts are presented only on a reported (not an ultimate) basis.
- **Other Matters**: The accident years shown are for the programs in run-off. There are no activities or reserves for the other activity program.

Schedules of incurred and paid losses and loss adjustment expenses by accident year for the current reporting period

a) Professional and general liability:

	December 31, 2020			December 31, 2020
	Inception to date Incurred losses	**2020 Reserves for losses and loss adjustment expenses incurred but not reported**	**Inception to date paid losses**	**Cumulative number of reported claims**
Accident year				
2012	998,463	37,558	945,861	4
2013	687,689	10,282	677,689	1
Total	1,686,152	47,840	1,623,550	
Inception to date paid losses and loss adjustment expenses from the column on the right	(1,623,550)			
Reserves for losses and loss adjustment expenses	62,602	47,840		

(expressed in U.S. dollars)

5. *Reserves for losses and loss adjustment expenses (continued)*

b) Employer and Professional Liability:

	December 31, 2020			December 31, 2020
	Inception to date Incurred losses	2020 Reserves for losses and loss adjustment expenses incurred but not reported	Inception to date paid losses	Cumulative number of reported claims
Accident year				
2019	750,000	-	100,000	1
2020	894,194	500,000	794,194	3
Total			894,194	
Inception to date paid losses and loss adjustment expenses from the column on the right	(894,194)			
Reserves for losses and loss adjustment expenses	750,000	500,000		

a) Professional and general liability:

	December 31, 2019			December 31, 2019
	Inception to date Incurred losses	2019 Reserves for losses and loss adjustment expenses incurred but not reported	Inception to date paid losses	Cumulative number of reported claims
Accident year				
2012	998,463	54,558	945,861	4
2013	687,689	14,282	677,689	1
Total	1,686,152	68,840	1,623,550	
Inception to date paid losses and loss adjustment expenses from the column on the right	(1,623,550)			
Reserves for losses and loss adjustment expenses	62,602	68,840		

(expressed in U.S. dollars)

5. *Reserves for losses and loss adjustment expenses (continued)*

b) Employer and Professional Liability:

	December 31, 2019			December 31, 2019
	Inception to date Incurred losses	2019 Reserves for losses and loss adjustment expenses incurred but not reported	Inception to date paid losses	Cumulative number of reported claims
Accident year				
2019	750,000	250,000	-	1
Total	750,000	250,000	-	
Inception to date paid losses and loss adjustment expenses from the column on the right	-			
Reserves for losses and loss adjustment expenses	750,000	250,000		

Reserving Methodology

The Company uses a combination of methods to project ultimate losses for all lines of business, which include:

- **Paid Development method:** The Paid Development method estimates ultimate losses by reviewing paid loss patterns and selecting paid ultimate loss development factors. These factors are then applied to paid losses by applying them to accident years, with further expected changes in paid loss. Since the method does not rely on case reserves, it is not directly influenced by changes in the adequacy of case reserves.
- **Incurred Development method:** The Incurred Development method is similar to the Paid Development method, but it uses case incurred losses instead of paid losses. Since this method uses more data (case reserves in addition to paid losses) than the Paid Development method, the incurred development patterns may be less variable than paid development patterns.

In updating the Company's loss reserve estimates, inputs are considered and evaluated from many sources, including actual claims data, the performance of prior reserve estimates, observed industry trends, internal review processes, including as well as the views of the Company's engaged third-party actuary. These inputs are used to improve evaluation techniques, and to analyze and assess the change in estimated ultimate losses for each accident year by line of business. These analyses produce a range of indications from various methods, from which management's best estimate is selected.

In determining management's best estimate of the reserves for losses and loss adjustment expenses as at December 31, 2020 and 2019, consideration was given both to the input of the Company's engaged third party actuary estimate and a number of other internal and external factors, including:

- Competitive changes within the industry;
- Geographic / industry concentrations;
- Changes in terms and conditions being offered;

(expressed in U.S. dollars)

5. *Reserves for losses and loss adjustment expenses (continued)*

- Legislative and judicial changes in the jurisdictions in which the Company writes insurance business;
- Industry experience.

There have been no significant changes in methodologies and assumptions made during the year.

The reserves for losses and loss adjustment expenses have not been discounted.

6. Share capital

The Company has authorized, issued and fully paid share capital of 13,050,000 (2019 - 13,050,000) common shares at par value of $1 each.

7. Letter of credit

At December 31, 2020, the Company had outstanding irrevocable letters of credit in the amount of $885,000 (2019 - $885,000) to the benefit of the Company's ceding insurers. The Company had pledged cash amounts of $885,000 (2019 - $885,000) as collateral for these letters of credit.

8. Market, liquidity, concentration and credit risk

Market risk
Market risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk; interest rate risk and other price risk. Interest rate risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes. Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk. The interest rate risk is not considered to be significant. The financial statements are monitored by management to ensure that actions are taken to mitigate or reduce the risk.

Concentration and credit risk
Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company does not require collateral or other security to support financial instruments with credit risk.

The Company is party to financial instruments with concentration of credit risk. These financial instruments include cash and cash equivalents and marketable securities. As of December 31, 2020, cash and cash equivalents totalling $2,475,443 (2019 - $3,053,115) of which $1,287,456 (2019 - $1,583,791) is held with one financial institution. The Company's bank is a large, well-capitalized Bermuda bank rated as A- (2019 - A-). $1,187,987 (2019 - $1,469,324) is held with brokers. The Company's investments are continuously monitored by the parent company and investment manager to ensure that actions are taken to mitigate or reduce risk.

Liquidity risk
Liquidity risk is the risk that the Company will encounter difficulty in obtaining funds to meet its commitments.

Management continuously monitors forecast and actual cash flows and maintains adequate cash to mitigate the risk.

(expressed in U.S. dollars)

9. Related party transactions

Premiums received from affiliated companies were $330,000 and $300,000 for the years ended December 31, 2020 and 2019, respectively.

During 2020 the Company received net amount of $724,532 (2019 – ($486,232) from an affiliate, Highland Capital Management Services, Inc and repaid $664,739 (2019 – Nil) against the advance payable to Sentinel Reinsurance , Ltd. The advance to the affiliate company of $6,185,951 as of December 31, 2020 (2019 - $6,910,483) represents a loan and is unsecured and payable on demand and accrues interest daily based on the Federal rate as promulgated by the U.S. Internal Revenue Service which is as follows:

Note Receivable (amount in $)	**Rate of Interest (per annum as at December 2020)**
452,123	1.61%
1,609,360	1.61%
1,687,567	0.99%
213,187	0.41%
1,598,244	2.69%
11,617	1.59%
244,259	1.59%
86,594	0.41%
188,000	1.69%
95,000	0.43%
Loan Payable (amount in $)	**Rate of Interest (per annum as at December 2020)**
772,024	3.00%

The aforementioned notes receivable and payable effectively represent a net advance to the parent company, which is deemed a return of capital and therefore was recorded as a reduction in shareholder's equity.

The Company has investments of $1,486 (2019 - $2,012) in affiliate companies. This amount is included in the other investment. Refer to Note 4.

During the year, the Company paid expenses on behalf of the parent company of $40,129 (2019 - $33,287). As at December 31, 2020, $222,390 (2019 - $182,261) was outstanding and this is payable on demand, with no interest applied.

(expressed in U.S. dollars)

10. Statutory capital and surplus

The Company is required by its license to maintain a solvency margin and an enhanced capital requirement in accordance with the provisions of the Insurance Act. Each year the Company is required to file with the Bermuda Monetary Authority (the “Authority”) a capital and solvency return within four months of its relevant financial year end (unless specifically extended).

The prescribed form of capital and solvency return, which was revised under new legislation enacted in 2011, comprises the insurer’s Bermuda Solvency Capital Requirement (“BSCR”) model, a schedule of fixed income investments by rating category, a schedule of net loss and loss expense provision by line of business, a schedule of premiums written by line of business, a schedule of risk management and a schedule of fixed income securities. The BSCR includes a standardized model used to measure the risk associated with an insurer’s assets, liabilities and premiums, and a formula to take account of catastrophe risk exposure. The Authority has provided for the use of pre-approved internally developed company models in lieu of the standardized BSCR. The Authority requires all Class 3A insurers to maintain their capital at a target level which is 120% of the minimum amount calculated in accordance with the BSCR or the Company’s approved internal model (the Enhanced Capital Requirement or “ECR”).

The Act also requires the Company to meet certain minimum capital and surplus requirements. To satisfy these requirements, the Company was required to maintain a minimum level of statutory capital and surplus of $1,000,000 at December 31, 2020 and 2019. The Company's statutory capital and surplus was $14,926,377 (2019 - $19,554,952). Accordingly, to the extent that the solvency provisions are met, there are no restrictions on the distribution of dividends from retained earnings. The Company is also required to maintain a minimum liquidity ratio, which was met for both years.

As of December 31, 2020 and 2019, the difference between U.S. GAAP and Statutory Accounting Principles for the Company relate to the advance to parent company and prepaid expenses. For statutory purposes the advance to parent company is recorded as amounts due to/from affiliates and prepaid expenses are fully expensed through income in the year.

11. Taxes

Bermuda
Under the current Bermuda law, the Company is not required 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 that in the event of any such taxes being imposed the Company will be exempted until March 31, 2035.

United States
Effective January 1, 2008, the Company has made an irrevocable election under Section 953(d) of the United States Internal Revenue Code of 1986, as amended, to be taxed as a U.S. domestic insurance company for U.S. federal income tax purposes. As a result of this “domestic election”, the Company is subject to U.S. federal taxation on its world-wide income as if it were a U.S. corporation.

The Company made an irrevocable election under IRC Section 831(b) that allows it to only pay tax on its investment income beginning with the year ended December 31, 2008. As such, the Company will be taxed on its investment income for the year.

(expressed in U.S. dollars)

11. Taxes (continued)

Total income tax for the year ended December 31, 2020 and December 31, 2019, respectively, was allocated as follows:

	2020 $	2019 $
Income tax (benefit) expense from continuing operations	(1,449,012)	19,162
Total income tax (benefit) expense	(1,449,012)	19,162

The significant components of income tax(benefit) expense from continuing operations are as follows:

	2020 $	2019 $
Current tax (benefit) expense	(43,930)	166,787
Deferred tax benefit	(1,405,082)	(147,625)
Total income tax (benefit) expense	(1,449,012)	19,162

The deferred income tax assets and liabilities at December 31, 2020 and December 31, 2019, respectively, are attributable to the following temporary differences.

	2020 $	2019 $
Deferred income tax assets:		
Capital loss carry forward	244,293	5,137
Unrealized loss	765,442	-
Gross deferred tax asset	1,009,735	5,137
Less: Valuation allowance	-	-
Net deferred tax asset	1,009,735	5,137
Deferred income tax liabilities:		
Unrealized losses (gain)	-	(395,482)
Share vesting	(40,335)	(45,337)
Gross deferred income tax assets (liabilities)	(40,335)	(440,819)
Net deferred income tax assets (liabilities)	969,400	(435,682)

The Company has adopted the provisions of ASC 740-10 (formerly FIN 48) Accounting for Uncertainty in Income Taxes, for the year ended December 31, 2020. The Company did not recognize any liabilities for unrecognized tax benefits as a result of the implementation of ASC 740-10.

(expressed in U.S. dollars)

11. Taxes (continued)

The reconciliation of income taxes attributable to continuing operations computed at the expected rate of tax to income tax expense is as follows:

	2020		2019	
	$	%	$	%
Tax expected rates	(1,276,190)	21.00	(70,926)	21.00
Other permanent differences including provision return	(392,211)	6.45	(85,518)	25.32
Permanent difference related to IRC S831(b) and dividend received deduction	219,389	(3.61)	175,606	(51.99)
Income tax (benefit) expense	(1,449,012)	23.84	19,162	(5.67)

12. Subsequent events

In preparing the financial statements, management evaluated subsequent events through May 19, 2021, which is the date these financial statements were available to be issued and determined that there were no significant material matters which would warrant additional recognition or disclosure in these financial statements.