FLEMING REINSURANCE LTD.
INCORPORATED IN BERMUDA

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

June 16, 2021

Report of Independent Auditors

To the Board of Directors and Shareholder of Fleming Reinsurance Ltd.

We have audited the accompanying consolidated financial statements of Fleming Reinsurance Ltd. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, changes in shareholder's equity and cash flows for the years then ended.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fleming Reinsurance Ltd. and its subsidiary as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

FLEMING REINSURANCE LTD.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in U.S. dollars)

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2020 AND 2019

(Expressed in U.S. dollars)

	2020 $	2019 $
ASSETS		
Cash and cash equivalents (note 4)	9,978,771	1,327,445
Investments (note 9)	6,811,132	-
Funds withheld (note 6)	7,611,837	5,945,399
Insurance balances receivable	1,681	-
Tax receivable (note 12)	-	74,424
Deferred tax asset (note 12)	59,448	120,389
Accrued interest income	23,548	-
Prepaid expenses	72,640	11,497
	24,559,057	7,479,154
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES		
Reserve for losses and loss expenses (note 8)	10,024,664	2,585,000
Accounts payable and accrued expenses (note 10)	3,911,394	200,721
Intercompany loan payable (note 5)	1,031,250	-
Loan interest payable (note 5)	43,151	-
Insurance balances payable	851,597	-
Tax payable (note 12)	91,944	-
Deferred gain on reinsurance contracts (note 7)	1,061,807	168,801
Unearned premiums	-	60,999
	17,015,807	3,015,521
SHAREHOLDER'S EQUITY		
Share capital (note 11)	120,000	120,000
Contributed surplus (note 11)	6,886,139	5,199,000
Accumulated other comprehensive income	(43,474)	-
Retained earnings	580,585	(855,367)
	7,543,250	4,463,633
	24,559,057	7,479,154

FLEMING REINSURANCE LTD.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in U.S. dollars)

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in U.S. dollars)

	2020 $	2019 $
UNDERWRITING REVENUE		
Gross premiums written	10,103,332	547,069
Reinsurance premiums ceded	-	(1,400)
Change in unearned premiums	60,999	617,419
Net premiums earned	10,164,331	1,163,088
UNDERWRITING EXPENSES		
Incurred losses (note 8)	1,524,960	643,597
Commissions	(23,516)	209,598
Change in reserves for losses and loss expenses	5,612,619	(558,304)
Change in deferred gain on reinsurance contracts (note 7)	893,006	(39,928)
	8,007,069	254,963
NET UNDERWRITING INCOME	2,157,262	908,125
NET INVESTMENT INCOME	257,009	223,882
OTHER INCOME	50,000	-
GAIN ON BARGAIN PURCHASE (note 14)	447,396	-
GENERAL AND ADMINISTRATIVE EXPENSES	(1,248,406)	(1,322,316)
NET INCOME / (LOSS) BEFORE INCOME TAXES	1,663,261	(190,309)
INCOME TAX (note 12)	(227,309)	(96,393)
NET INCOME / (LOSS)	1,435,952	(286,702)
OTHER COMPREHENSIVE INCOME		
Change in unrealized holding losses on available-for-sale investment securities arising during the year	(43,474)	-
Other comprehensive income	(43,474)	-
COMPREHENSIVE INCOME/ (LOSS)	1,392,478	(286,702)

FLEMING REINSURANCE LTD.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in U.S. dollars)

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in U.S. dollars)

	2020 $	2019 $
SHARE CAPITAL (note 11)		
Balance, beginning and end of year	120,000	120,000
CONTRIBUTED SURPLUS (note 11)		
Balance, beginning of year	5,199,000	5,199,000
Additional contributed surplus	1,687,139	-
Balance, end of year	6,886,139	5,199,000
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	-	-
Net change in unrealized gain/ (losses) on investments	(43,474)	-
Balance, end of year	(43,474)	-
RETAINED EARNINGS		
Balance, beginning of year	(855,367)	(568,665)
Net income / (loss)	1,435,952	(286,702)
Balance, end of year	580,585	(855,367)
TOTAL SHAREHOLDER'S EQUITY	7,543,250	4,463,633

FLEMING REINSURANCE LTD.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in U.S. dollars)

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019

(Expressed in U.S. dollars)

	2020 $	2019 $
CASH AND CASH EQUIVALENTS PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net income / (loss)	1,435,952	(286,702)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Investment securities on novation included in gross premiums written	(8,768,612)	-
Gain on bargain purchase	(447,396)	-
Net investment income	(256,937)	-
Realized (gain)/ loss on investment securities	(72)	-
Change in operational balance sheet items:		
Insurance balances receivable	(1,681)	-
Funds withheld	(1,666,438)	85,053
Accrued interest income	(23,548)	-
Tax receivable	74,424	(74,424)
Deferred tax asset	60,941	52,646
Prepaid expenses	(61,143)	(10,597)
Accounts payable and accrued expenses	3,710,673	(93,736)
Accrued interest payable	43,151	(32,527)
Insurance balances payable	851,597	-
Deferred gain on reinsurance contracts	893,006	(39,928)
Tax payable	91,944	(77,703)
Unearned premiums	(60,999)	(617,420)
Reserve for loss and loss expenses	7,439,664	(558,304)
Net cash provided by operating activities	3,314,526	(1,653,642)
INVESTING ACTIVITIES		
Purchase of investment securities	(2,615,277)	-
Proceeds on maturities of investments	2,564,451	-
Proceeds on sales of investments	2,669,237	-
Net cash provided by investing activities	2,618,411	-
FINANCING ACTIVITIES		
Proceeds from short-term debt	1,031,250	-
Proceeds from capital contributions	1,687,139	-
Net cash provided by financing activities	2,718,389	-
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	8,651,326	(1,653,642)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,327,445	2,981,087
CASH AND CASH EQUIVALENTS, END OF YEAR	9,978,771	1,327,445

1. THE COMPANY AND ITS ACTIVITIES

The Company is a Bermuda exempted company limited by shares incorporated March 6, 2015.

The Company was registered as a Class 3 insurer under the Bermuda Insurance Act 1978, as amended (the "Insurance Act"). The Company upgraded its insurance license, effective December 28, 2018 and is now registered as a Class 3A insurer under the Bermuda Insurance Act 1978, as amended (the "Insurance Act"). The Company is registered as a Segregated Accounts Company under the Segregated Account Companies Act 2000, as amended.

The Company is wholly-owned by Fleming Re Holdings LLC (Delaware) (Fleming LLC) with authorized and issued share capital of US$120,000 consisting of 120,000 common shares of par value US$1.00 each. Fleming LLC is majority-owned by Fleming Corporation (Fleming Corp), a private equity company incorporated in Delaware.

The Company's business activities:

The Company is building a specialty run-off acquirer and legacy reinsurance liability carrier focused on the North American P&C industry. Assumed lines of business include Workers Compensation and General Liability. As of December 31, 2020 the Company has completed several transactions consisting of Workers' Compensation, General Liability, Auto Liability and other P&C liabilities. During the year ended December 31, 2020 the Company acquired 100% of the shares of Sinclair Insurance Company Ltd, an insurance company domiciled in Bermuda. In Q1 2021, the Company also completed a novation transaction, for certain policy years, of a Hawaii domiciled beverage group captive.

2. BASIS OF PREPARATION AND CONSOLIDATION

(a) Use of estimates

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that 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 year. Actual results could differ from those estimates.

(b) Basis of consolidation

The Company's consolidated financial statements include the assets, liabilities, equity, revenue, expenses and cash flows of the Company. A subsidiary is an entity over which the Company has control. The Company controls an entity when the Company has power over the entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Assessment of control is based on the substance of the relationship between the Company and the entity and includes consideration of both existing voting rights and, if applicable, potential voting rights that are currently exercisable and convertible. The operating results of subsidiaries acquired are included in the consolidated financial statements from the date control is acquired (typically the acquisition date). The operating results of subsidiaries that are divested during the year are included up to the date control ceased (typically the disposition date) and any difference between the fair value of the consideration received and the carrying value of a divested subsidiary is recognized in the consolidated income statements. Accounting policies of subsidiaries have been aligned with those of the Company where necessary.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and include the following significant accounting policies:

(a) Business combinations

Business combinations are recognized at 100% of the fair value of the business acquired (i.e., the full fair value of the assets acquired, liabilities assumed and any non-controlling interests) as of the acquisition date. When the fair value of the consideration transferred is less than the fair value of the net assets of the business acquired this results in an economic gain (gain on bargain purchase) to the Company. Any such gain is recognized in earnings only after a thorough reassessment of all elements of the accounting for the acquisition.

During the year ended December 31, 2020 the Company acquired 100% of the shares of Sinclair Insurance Company Ltd. A gain of $447,396 has been recognized in the income statement in relation to this acquisition.

(b) Gross premiums written

Premiums are earned on a pro rata basis over the policy term. The portion of premiums that will be earned in the future are deferred and reported as unearned premium reserve.

(c) Investment Income

Net investment income primarily comprises of interest earned on funds withheld by ceding reinsurers and is accrued to the balance sheet date. Funds withheld has a stated crediting rate and does not have any underlying investment risks.

Interest income for fixed maturity investments is recognized when earned and is accrued at the year-end based on the contractual terms of the fixed maturity investments and is included in “net investment income” in the consolidated income statements.

Realized gains and losses on the disposition of fixed maturity investments are included in “net investment income” in the consolidated income statements.

(d) Cash and cash equivalents

Cash and cash equivalents include deposits and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and which have maturity dates of less than three months.

Included within cash and cash equivalents is an amount totaling $78,513 (2019 - $78,190) held as collateralized cash for a letter of credit held in favor of the Internal Revenue Service for a total of $75,000 (2019 - $75,000).

Included within cash and cash equivalents is an amount totaling $2,981,721 (2019 - $78,190) held as collateralized cash for a letter of credit held in favor of Arch Insurance Company for a total of $9,792,853 (2019 - $Nil). The letter of credit is collateralized by both cash and investments and is securing policyholder obligations.

(e) Segregated assets and liabilities

Segregated accounts assets and liabilities are recorded consolidated with general account assets and liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Reserve for losses and loss expenses

The reserve for losses and loss expenses comprises reported losses and loss expense as reported by ceding companies plus a provision for losses incurred but not reported and unallocated loss adjustment expenses. The reserve for losses and loss expenses is based upon management's best estimate of the ultimate cost of settlement of losses, loss adjusters' evaluations and the recommendations of an independent actuary. Although management believes such provisions to be adequate, there can be no assurance that the ultimate cost of settlement of losses may not vary materially from the estimates recorded in the financial statements. Future adjustments to the amounts recorded resulting from the continual review process as well as differences between estimates and ultimate settlements, will be reflected in the statements of income when such adjustments become known and are estimable.

(g) Accounts Receivable

Receivables are recognized at amounts receivable less a provision for impairment where necessary, at December 31, 2020 there was no provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Any increase or decrease in the provision for impairment is recognized in the income statement within underwriting expenses. When a receivable is uncollectible, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credited against the underwriting expenses in the income statement.

(h) Assumed Reinsurance Contracts

The reinsurance assumed under various LPTs and the novation agreements qualify to be accounted for as retroactive reinsurance as they provide indemnification of losses and loss adjustment expenses of these run off short-duration insurance contracts with respect to underlying loss events that occurred prior to January 1, 2017. In the absence of US GAAP guidance specific to the accounting for retroactive reinsurance contracts entered into by assuming reinsurance companies, the Company has made an accounting policy election to account for the retroactive reinsurance consistent with guidance specific to ceding companies. Under this accounting model, the retroactive reinsurance is considered to be a financing of an existing obligation, with no immediate gain recognition. For these agreements, the excess of the consideration received over the ultimate payout of the future claims is recognized as a deferred gain liability and amortized into income over the settlement period of the assumed reserves using an effective interest rate method. In applying the interest method, an effective interest rate is derived for these retroactive reinsurance contracts based on the expected timing and amount of the ultimate loss and loss adjustment expense payments such that the present value of these estimated payments equals the premium consideration received. The Company subsequently monitors and adjusts the deferred gain balance to reflect differences between the actual and the estimated timing and amount of the loss payments, as well as to reflect revisions to the estimated remaining undiscounted liability for unpaid losses due to favorable or unfavorable reserve developments. The revised deferred gain balance is determined using the retrospective method so that the adjusted balance reflects the amount that would have existed had the revised estimates been available at the inception of the reinsurance transactions. The amortization of the revised deferred gain is calculated on a retrospective basis with a catch up adjustment recorded in the income statement during the period of change.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Investments in securities

Debt securities are classified as available-for-sale and are carried at fair value with unrealized holding gains and losses excluded from net income and reported as a separate component of other comprehensive income. Investments are periodically reviewed to determine if they have sustained an impairment of value that is considered to be other than temporary. This review involves consideration of several factors including: (i) the significance of the decline in value and the resulting unrealized loss position, (ii) the time period for which there has been a significant decline in value, and (iii) the Company's intent and ability to hold the investment for a sufficient period of time for the value to recover. The identification of potentially impaired investments involves significant management judgment that includes the determination of their fair value and the assessment of whether any decline in value is other than temporary. If available-for-sale investments are determined to be impaired, the cost basis of the investment is written down to fair value at the balance sheet date and a corresponding realized loss is charged to the statement of operations and comprehensive income in the period in which it is determined.

Effective January 1, 2020, the Company adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-01, Financial Instruments (825-10) ("ASU 2016-01"). ASU 2016-01 requires entities to measure equity securities at fair value with changes in unrealized gains and losses recognized in net income.

Realized gains and losses on sales of securities are recognized in income on the specific identification basis.

Included within investments is an amount totaling $6,811,132 (2019 - $Nil) held as collateralized investments for a letter of credit held in favor of Arch Insurance Company for a total of $9,792,853 (2019 - $Nil). The letter of credit is collateralized by both cash and investments and is securing policyholder obligations.

Accounting standards not yet adopted

<u>Financial instruments - Credit losses</u>

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)", which will change how entities account for credit losses for most financial assets, trade receivables and reinsurance receivables. The standard will replace the existing incurred loss impairment model with a new "current expected credit loss model" that generally will result in earlier recognition of credit losses. The standard will apply to financial assets subject to credit losses, including loans measured at amortized cost, reinsurance receivables and certain off-balance sheet credit exposures. During 2018, 2019 and 2020, the FASB issued a number of amendments and targeted improvements to ease with the application of the standard. These updates are effective in line with the effective date of ASU 2016-13.

This standard is effective for non-public entities for fiscal years beginning after December 15, 2021. The Company is currently assessing the impact of this guidance and whether early adoption will be applied. Although the Company does not anticipate the adoption of this standard to have a material impact on the Consolidated Financial Statements, the quantitative impact of any change will be dependent on the Company's portfolio at the adoption date, as well as economic conditions and other factors at that time.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Codification Improvements

In October 2020, the FASB issued ASU 2020-10, "Codification Improvements". The amendments in this update improve the Codification by ensuring that all guidance that requires or provides an option for an entity to provide information in the notes to financial statements is codified in the Disclosure Section of the Codification.

This standard is effective for non-public entities for fiscal years beginning after December 15, 2021. The Company does not anticipate the adoption of this standard to have a material impact on the Consolidated Financial Statements.

4. LETTERS OF CREDIT

The Company's bankers have issued a letter of credit in the amount of $75,000 (2019 - $75,000) in favor of the Internal Revenue Service. Included within cash and cash equivalents is an amount totaling $78,513 (2019 - $78,190) held as collateralized cash for the letter of credit.

5. INTERCOMPANY LOAN PAYABLE

The company received $1,000,000 from Fleming Corp. on August 5, 2020 as an unsecured promissory note. The note has an issue date of August 3, 2020 and the maturity date is 31 March 2021. The principal amount of the loan is $1,050,000 and was issued with an original issue discount of $50,000. The note bears interest at 10% per annum.

The balance payable on the note as at December 31, 2020 is $1,031,250. Accrued interest payable as at December 31, 2020 amounts to $43,151.

6. FUNDS WITHHELD

Funds withheld by ceding companies of $7,611,837 (2019 - $5,945,399).

7. DEFERRED GAIN ON REINSURANCE CONTRACTS

The Company has deferred the recognition of gains on novation transactions in the amount of $1,260,469 (2019 - $168,801). Included in this amount is $973,836 of deferred gains on the novation transactions that took place during 2020.

(Expressed in U.S. dollars)

8. RESERVE FOR LOSSES AND LOSS EXPENSES

The reserve for losses and loss expenses at December 31, 2020 and 2019 are:

	2020	2019
Specific Claims	$ 5,052,172	$ 775,511
Unallocated loss adjustment expenses	684,286	160,000
Incurred but not reported	4,288,206	1,649,489
Reserve, end of year	$ 10,024,664	$ 2,585,000

Roll forward of loss and loss expenses reserves

Activity in the reserve for losses and loss expenses is summarized as follows:

	2020	2019
Gross reserves for loss and loss adjustment expenses, beginning of year	$ 2,585,000	$ 3,143,304
Less: Reinsurance recoverable, beginning of year	$ -	$ -
Net reserves for loss and loss adjustment expenses, beginning of year	$ 2,585,000	$ 3,143,304
Increase (decrease) in net loss and loss expenses incurred in respect of losses occurring in:		
Current year	-	56,442
Prior years	8,964,624	28,851
	8,964,624	85,293
Net loss and loss adjustment expenses paid in respect of losses occurring in:		
Current year	-	26,152
Prior years	1,524,960	617,445
	1,524,960	643,597
Net reserves for loss and loss adjustment expenses, end of year	$ 10,024,664	$ 2,585,000
Add: Reinsurance recoverable, end of year	-	-
Gross reserves for loss and loss adjustment expenses, end of year	$ 10,024,664	$ 2,585,000

In 2019 the increase in incurred losses of prior years is related to a combination of the recognition of losses related to the unearned premium from the 2018 policy year offset by favorable development recognized on the entire book. In 2020 the increase in incurred losses of prior years is related to a combination of two novations and one acquisition that occurred during the year offset by favorable development recognized on the entire book.

8. RESERVE FOR LOSSES AND LOSS EXPENSES (continued)

General Reserving Methodology

The Company is required to establish reserves for losses and loss adjustment expenses ("loss reserves") that arise from the business the Company underwrites. Loss reserves represent estimates of future amounts required to pay losses and loss adjustment expenses for insured events which have occurred at or before the balance sheet date. Loss reserves do not reflect contingency reserve allowances to account for future loss occurrences. Losses arising from future events will be estimated and recognized at the time the losses are incurred and could be substantial.

Loss reserves are comprised of estimated amounts for (1) reported losses ("case reserves") and (2) incurred but not reported losses ("IBNR reserves"). The reserve for losses and loss expenses are as reported by the ceding company plus a provision for losses incurred but not reported. The reserve for losses incurred but not reported is based upon management's best estimate of the ultimate cost of settlement of losses, loss adjusters' evaluations and the recommendations of an independent actuary.

The actuary has relied on five methodologies for the selection of ultimate losses:

- Reported loss development – this method is based upon the assumption that the relative change in a given year's reported loss estimates from one evaluation point to the next is similar to the relative change in prior years' reported loss estimates at similar evaluation points.
- Paid loss development – this method is similar to the reported loss development method, however case reserves are excluded from the analysis.
- Case reserve development – this method derives implied case reserve development factors by a comparison of the paid loss development factor and the reported loss development factor at a common evaluation period.
- Bornhuetter-Ferguson using reported losses – this method is essentially a blend of two other methods. The first method is the loss development method whereby actual reported losses are multiplied by an expected loss development factor. The second method is the expected loss method whereby the future IBNR reserve equals the difference between a predetermined estimate of expected losses and actual reported losses. The reported B-F method combines these two methods by setting ultimate losses equal to actual reported losses plus expected unreported losses.
- Bornhuetter-Ferguson using paid losses – this method is analogous to the Bornhuetter-Ferguson using reported losses method, using paid losses and development patterns in place of reported losses and patterns.

After reviewing the results of each method, the Company's actuary calculates the selected ultimate losses based on judgment reflecting the range of indications produced by the methods described above and the strengths and weaknesses of each method.

(Expressed in U.S. dollars)

8. RESERVE FOR LOSSES AND LOSS EXPENSES (continued)

Incurred and paid development tables

During the year ended December 31, 2019, the Company adopted ASU 2015-09 and has included the required disclosures in the tables in this note.

The following is information about incurred and paid claims development as of December 31, 2019 and December 31, 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.

Workers Compensation Insurance
Incurred Losses and Loss Expenses, Net of Reinsurance

As of December 31, 2020

Accident Year	Incurred Loss and Loss Expenses	Total IBNR Reserve	Claim Count
2011	4,956,024	96,017	264
2012	6,668,420	109,169	347
2013	9,056,685	229,206	452
2014	9,097,929	423,023	481
2015	5,933,728	362,309	312
2016	4,495,263	391,856	211
2017	3,498,574	448,580	212
2018	2,947,136	661,999	175
2019	2,304,172	577,877	136
2020	120,980	39,553	24
Total	49,078,911	3,339,589	2,613

(Expressed in U.S. dollars)

8. RESERVE FOR LOSSES AND LOSS EXPENSES (continued)

As of December 31, 2019

Accident Year	Incurred Loss and Loss Expenses	Total IBNR Reserve	Claim Count
2010	796,604	21,867	92
2011	970,808	40,918	103
2012	1,204,731	51,452	118
2013	1,285,463	90,888	115
2014	1,101,490	97,290	107
2015	954,740	125,720	92
2016	1,014,231	144,297	70
2017	628,915	184,726	55
2018	486,524	238,832	34
2019	509,025	400,510	26
Total	8,952,531	1,396,500	812

(Expressed in U.S. dollars)

8. RESERVE FOR LOSSES AND LOSS EXPENSES (continued)

Workers Compensation Insurance
Cumulative Paid Losses and Loss Expenses, Net of Reinsurance

Accident Year

	2020	2019
2010	-	759,984
2011	4,762,718	861,610
2012	6,197,694	1,097,131
2013	8,271,590	1,046,393
2014	8,162,702	902,062
2015	5,008,506	699,366
2016	3,724,638	770,377
2017	2,693,024	396,056
2018	1,791,602	192,130
2019	1,213,887	77,543
2020	78,005	-
Total Cumulative Paid Losses and Loss Expenses, Net of Reinsurance	41,904,366	6,802,652
Total Incurred Loss and Loss Expenses, Net of Reinsurance	49,078,911	8,952,531
Total Loss Reserves	7,174,545	2,149,879
Reserves for Losses and Loss Expenses, before 2010, Net of Reinsurance		100,121
Reserves for Losses and Loss Expenses, before 2011, Net of Reinsurance	2,115,833	
Reserves for Losses and Loss Expenses, Net of Reinsurance	9,290,378	2,250,000

(Expressed in U.S. dollars)

8. RESERVE FOR LOSSES AND LOSS EXPENSES (continued)

Property & Casualty Insurance
Incurred Losses and Loss Expenses, Net of Reinsurance

As of December 31, 2020

Accident Year	Incurred Loss and Loss Expenses	Total IBNR Reserve	Claim Count
2011	58,356	-	17
2012	106,897	49	13
2013	185,559	490	16
2014	62,556	1,446	12
2015	183,278	3,244	13
2016	69,450	5,596	8
2017	48,961	7,623	11
2018	43,320	11,801	9
2019	23,320	15,762	3
2020	4,440	3,988	0
Total	786,138	50,000	102

As of December 31, 2019

Accident Year	Incurred Loss and Loss Expenses	Total IBNR Reserve	Claim Count
2010	107,233	-	16
2011	58,442	86	17
2012	107,587	740	13
2013	187,318	2,249	16
2014	66,057	4,947	12
2015	189,284	9,250	13
2016	80,313	16,459	8
2017	69,709	28,371	11
2018	74,835	43,322	9
2019	75,988	68,076	4
Total	1,016,766	173,500	119

(Expressed in U.S. dollars)

8. RESERVE FOR LOSSES AND LOSS EXPENSES (continued)

Property & Casualty Insurance
Cumulative Paid Losses and Loss Expenses, Net of Reinsurance

Accident Year

		2020	2019
	2010	-	107,232
	2011	58,356	58,357
	2012	106,847	106,847
	2013	185,069	185,069
	2014	61,109	61,109
	2015	180,034	180,034
	2016	63,855	63,855
	2017	41,338	41,338
	2018	31,519	31,429
	2019	7,558	6,496
	2020	452	-
Total Cumulative Paid Losses and Loss Expenses, Net of Reinsurance		736,138	841,766
Total Incurred Loss and Loss Expenses, Net of Reinsurance		786,138	1,016,766
Total Loss Reserves		50,000	175,000
Reserves for Losses and Loss Expenses, before 2010, Net of Reinsurance			-
Reserves for Losses and Loss Expenses, before 2011, Net of Reinsurance		-	
Reserves for Losses and Loss Expenses, Net of Reinsurance		50,000	175,000

8. RESERVE FOR LOSSES AND LOSS EXPENSES (continued)

Reconciliation of loss development information to the reserves for losses and loss expenses

Outstanding losses and loss expenses	
Workers Compensation	9,290,378
Property & Casualty	50,000
Total outstanding losses and loss expenses	9,340,378
Loss reserve recoverable	
Workers Compensation	-
Property & Casualty	-
Total Loss reserve recoverable	-
Unallocated loss adjustment expenses	684,286
Outstanding losses and loss expenses -other	-
	684,286
Total outstanding losses and loss expenses	10,024,664

(Expressed in U.S. dollars)

9. INVESTMENTS

(a) The amortized cost and fair value of investments in fixed maturity securities classified as available for sale are as follows:

At December 31, 2020	Amortized cost	Unrealized gain/(loss)	Unrealized losses less than 12 months	Unrealized losses greater than 12 months	Fair value
US government	$ 6,388,902	$ (41,205)	$ -	$ -	$ 6,347,697
Asset backed securities	32,114	(466)	-	-	31,647
Mortgage backed securities:					
Commercial	36,791	368	-	-	37,159
Residential	396,800	(2,171)	-	-	394,629
	$ 6,854,606	$ (43,474)	$ -	$ -	$ 6,811,132

During the year the Company sold investments with a carrying value of $5,705,026 realizing net gains of $72.

(b) For marketable securities held on December 31, 2020 the maturity distribution is as follows*:*

	Amortized cost	Fair value
Within one year	$ 2,043,052	$ 2,024,956
From one to five years	4,795,582	4,770,080
From five to ten years	-	-
Ten or more years	15,973	16,096
	$ 6,854,606	$ 6,811,132

(c) The components of net investment income for the years ended December 31, 2020 are as follows:

	2020
Interest income	$ 256,937
Amortization of (discount) premium	-
Realized gains	72
	$ 257,009

(d) Investments with a market value of $6,811,132 are held in a Custody account collateralizing a letter of credit in favor of Arch Insurance Company (the beneficiary).

9. INVESTMENTS (continued)

(e) Fair value of investments

ASC 820 “Fair Value Measurement” (“ASC 820”) establishes a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions made by those pricing the Company’s securities. In accordance with ASC 820, these two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices for identical securities in active markets;
- Level 2 – Quoted prices for similar securities in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and
- Level 3 – Model derived valuations in which one or more significant inputs or significant value drivers are unobservable.

Where the Company uses quoted market prices to determine fair value, such items are classified within Level 1. In some cases where a current market price is unavailable, e.g. because particular securities are thinly traded and did not trade on the measurement date, the price of the security will be based on acceptable practical expedients such as matrix pricing, in which case the securities are classified within Level 2.

As required by ASC 820, when inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value prices for all securities within the Company’s fixed investment portfolio are independently provided by the investment managers through utilization of nationally recognized independent pricing services. These pricing services provide pricing for a high volume of liquid securities that are actively traded. For securities that do not trade on an exchange, the pricing services utilize market data and other observable inputs in matrix pricing models to determine prices. These inputs include, but are not limited to, reported trades, benchmark yields, broker/dealer quotes, interest rates, prepayment speeds, default rates and such other inputs as are available from market sources to determine a reasonable fair value. The Company considers these Level 2 inputs as they are corroborated with other externally obtained information.

The fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities provided by the pricing service are included in the amounts disclosed in Level 2 of the hierarchy. As at December 31, 2020, the Company holds no securities which would be classed as Level 3 per the fair value hierarchy established by ASC 820.

(Expressed in U.S. dollars)

9. INVESTMENTS (continued)

(e) Fair value of investments (continued)

The following table presents the Company's fair value hierarchy for those assets or liabilities measured at fair value on a recurring basis as of December 31, 2020:

	Quoted prices in active markets Level 1	Significant other observable inputs Level 2	Significant other unobservable inputs Level 3	Total
US Government	$ –	$ 6,347,697	$ –	$ 6,347,697
Asset backed securities	–	31,647	–	31,647
Mortgage backed securities:				
Commercial	–	37,159	–	37,159
Residential	–	394,629	–	394,629
Total	$ –	$ 6,811,132	$ –	$ 6,811,132

During the year ended December 31, 2020, the Company made no reclassifications of assets or liabilities between Levels 1, 2 and 3.

10. ACCOUNTS PAYABLE

Included within accounts payable is an amount of $3,695,159 (2019 - $Nil) payable for the group's acquisition of Sinclair Insurance Company Ltd.

11. SHARE CAPITAL

The authorized share capital of the Company is $120,000 divided into 120,000 shares of US$1.00 each. The minimum subscribed share capital of the Company is $120,000 fully paid.

Contributed surplus represents cash contributed by the shareholder in excess of the issued share capital. An amount of $1,687,139 (2019 - $nil) was contributed by the shareholder during 2020, being cash of $1,687,139 (2019 - $nil).

(Expressed in U.S. dollars)

12. TAXATION

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 the year 2035.

United States

For U.S. tax purposes, each segregated account (or "cell") and the general account ("Core") within the Company are considered separate entities. The Sequre cell has made an irrevocable election under Section 953(d) of the Internal Revenue Code of 1986, as amended, to be treated as a domestic insurance company for United States federal tax purposes. As a result of this "domestic election", the cell within the Company is subject to taxation on its worldwide income as if it were a U.S. corporation . Current and deferred income taxes are calculated by applying currently enacted tax laws for the Sequre cell.

Income taxes have not been provided for Sinclair Insurance Company Ltd., the Core, Arch, Travelers and Sinclair cells (all cells included within Fleming Reinsurance Ltd) as they are not taxable at the cell-level. These cells within the Company are either disregarded entities or controlled foreign corporations ("CFCs") for U.S. tax purposes; therefore, the U.S. taxation of income / (loss) within these cells occurs at the U.S. owner-level. As such, no income taxes are reported by the Company in relation to these cells.

Total income taxes for the year ended December 31, 2020 is as follows:

	2020
	$
Income tax expense (benefit) from continuing operations	227,309
Shareholder's Equity, for unrealized gains and losses recognized for Financial reporting purposes	-
Total income tax expense (benefit)	227,309

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

	2020	**2019**
Federal Income Taxes	$	$
Current	166,368	43,747
Deferred	60,941	52,646
Total income tax expense (benefit)	227,309	96,393

(Expressed in U.S. dollars)

12. TAXATION (continued)

The deferred income tax assets and liabilities as of December 31, 2020 and 2019 are attributable to the following temporary differences:

	2020	**2019**
	$	$
Deferred income tax assets:		
Unearned premiums	-	2,562
Loss reserves	41,342	82,821
Deferred gain on novations	18,474	35,448
Gross deferred income tax asset	59,816	120,831
Less: valuation allowance	-	-
TCJA amortization	(368)	(442)
Total net deferred income tax assets	59,448	120,389

The reconciliation of income taxes attributable to continuing operations computed at U.S. federal statutory tax rates to income tax expense is as follows:

	2020	**2019**
	$	$
Tax at U.S. statutory rates	359,785	(39,965)
Non-taxable income	(132,476)	262,870
831(b) election	-	(126,683)
Other	-	171
Income tax expense (benefit)	227,309	96,393

13. RELATED PARTY TRANSACTIONS

Related party transactions not disclosed elsewhere in these financial statements are disclosed below.

During the year ended December 31, 2020, the Company was charged interest of $74,401 (2019 - $Nil) on a loan payable to the Company's ultimate parent, Fleming Corp. Interest of $43,151 is payable as at December 31, 2020 (2019 - $Nil).

During the year ended December 31, 2020, the Company completed a novation transaction for assets and liabilities from a cell in an unrelated segregated accounts company. The ownership rights of this cell were held by Fleming Holdings LLC, the Company's parent. The amount of assets novated to the Company total $12,074,962, the amount of liabilities novated to the Company total $9,506,504 and the total consideration paid for net assets of $2,568,458 totals $1,303,990.

(Expressed in U.S. dollars)

14. GAIN ON BARGAIN PURCHASE

During the year ended December 31, 2020 the Company acquired 100% of the shares of Sinclair Insurance Company Ltd. The effective date of the acquisition was December 31, 2020.

At the acquisition date the fair value of the assets and liabilities acquired were as follows;

	$
Cash	3,897,709
Funds withheld	547,299
Other assets	888
Intercompany reimbursables	1,574,646
Accrued expenses	(50,943)
Reserves for loss and loss expenses	(1,827,044)

Consideration due on the acquisition is $3,695,159, of which $1,900,000 is deferred until December 31, 2021. The deferred consideration component has been included to provide risk mitigation for any unknown liabilities that may arise due to the nature and age of the liabilities as well as the availability of complete information.

A gain of $447,396 has been recognized in the income statement in relation to this acquisition.

The gain has arisen due to the net book value of the assets of Sinclair Insurance Company Ltd being $4,142,555 at the effective date of acquisition whilst the consideration paid was $3,695,159.

15. STATUTORY REQUIREMENTS

The Company is registered under the Bermuda Insurance Act 1978, amendments thereto and related regulations which require that the Company maintain minimum levels of solvency and liquidity as defined by the Bermuda Insurance Act 1978. For the years ended December 31, 2020 and 2019, these requirements have been met.

At December 31, 2020 and 2019, the minimum required statutory capital and surplus and the minimum required level of liquid assets follows:

	2020 $	**2019** $
Minimum required statutory capital and surplus	1,222,000	1,000,000
Actual statutory capital and surplus	8,235,000	4,499,000
Minimum required level of liquid assets	12,497,000	2,135,000
Actual level of liquid assets	19,982,000	7,272,000

16. SUBSEQUENT EVENTS

The Company has performed a review of events subsequent to December 31, 2020 through May 31, 2021, the date these financial statements were available for issuance.

In Q1 2021, the Company completed a novation transaction, for certain policy years, of a Hawaii domiciled beverage group captive.