FERGUS REINSURANCE LIMITED

FINANCIAL STATEMENTS

(AND INDEPENDENT AUDITORS' REPORT THEREON)

FOR THE YEARS ENDED

DECEMBER 31, 2020 AND 2019

FERGUS REINSURANCE LIMITED
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2020 AND 2019
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INDEPENDENT AUDITORS' REPORT

To the Shareholders,
Fergus Reinsurance Limited,

We have audited the accompanying financial statements of Fergus Reinsurance Limited (the "Company"), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of comprehensive income (loss), changes in shareholders' equity, 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 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 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 audits to obtain reasonable assurance 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 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 Fergus Reinsurance Limited 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.

Mazars Limited

CHARTERED PROFESSIONAL ACCOUNTANTS
Hamilton, Bermuda
June 16, 2021

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FERGUS REINSURANCE LIMITED
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

	Note	December 31 2020 $	December 31 2019 $
ASSETS:			
Cash and cash equivalents	3	13,685,942	18,084,608
Cash and cash equivalents - restricted	3,4	42,691,026	3,199,975
Investments	3,4,5,6	9,701,704	17,308,980
Accrued interest		121,994	201,565
Reinsurance balances receivable		27,765,311	13,249,260
Funds withheld	7	1,323,696	1,284,837
Deferred acquisition costs		5,371,238	2,656,443
Prepaid expenses		30,134	-
Total assets		100,691,045	55,985,668
LIABILITIES AND SHAREHOLDERS' EQUITY:			
LIABILITIES			
Unearned premium	13	16,582,405	7,945,659
Losses and loss adjustment expenses	9	41,197,877	16,982,259
Funds held for reinsured company		69,601	69,601
Reinsurance balances payable		3,343,383	1,963,894
Deferred income	9	818,162	1,062,548
Deposit liabilities	10	1,097,748	1,133,842
Accounts payable and accrued expenses	8	257,679	221,365
Total liabilities		63,366,855	29,379,168
SHAREHOLDERS' EQUITY			
Share capital	11	3,036,744	2,958,242
Share premium	12	35,267,256	29,310,758
Additional paid-in capital		8,432,421	8,432,421
Retained deficit		(9,659,275)	(14,136,062)
Accumulated other comprehensive income		247,044	41,141
Total shareholders' equity		37,324,190	26,606,500
Total liabilities and shareholders' equity		100,691,045	55,985,668

The accompanying notes should be read in conjunction with these financial statements

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS:

DIRECTOR **DIRECTOR**

FERGUS REINSURANCE LIMITED
STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

	Note	December 31 2020 $	December 31 2019 $
UNDERWRITING INCOME:			
Premiums earned, net	13	45,404,354	15,352,303
UNDERWRITING EXPENSES:			
Losses and loss adjustment expenses incurred	9	32,576,725	13,015,906
Acquisition costs		7,608,517	3,515,861
Change in deferred income	9	(244,386)	1,062,548
Other underwriting expense (income)		57,494	(61,011)
Total underwriting expenses		39,998,350	17,533,304
NET UNDERWRITING PROFIT (LOSS)		5,406,004	(2,181,001)
OTHER INCOME AND EXPENSES:			
Investment income, net	5,8	146,321	479,089
General and administrative expenses		(1,075,538)	(770,070)
Total other income and expenses		(929,217)	(290,981)
NET INCOME (LOSS) FROM OPERATIONS		4,476,787	(2,471,982)
OTHER COMPREHENSIVE INCOME (LOSS):			
Net unrealized holding gains arising during the year		257,329	136,877
Less: Reclassification adjustment for net realized gains included in net income (loss)		(51,426)	(18,991)
COMPREHENSIVE INCOME (LOSS)		4,682,690	(2,354,096)

The accompanying notes should be read in conjunction with these financial statements

FERGUS REINSURANCE LIMITED
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

	Share capital $	Share premium $	Additional paid-in capital $	Retained deficit $	Accumulated other comprehensive income $	Total $
Shareholders' equity December 31, 2018	2,702,271	10,047,729	8,432,421	(11,664,080)	(76,745)	9,441,596
Contributed during the year	255,971	19,263,029	-	-	-	19,519,000
Comprehensive loss for the year	-	-	-	(2,471,982)	117,886	(2,354,096)
Shareholders' equity December 31, 2019	2,958,242	29,310,758	8,432,421	(14,136,062)	41,141	26,606,500
Contributed during the year	78,502	5,956,498	-	-	-	6,035,000
Comprehensive income for the year	-	-	-	4,476,787	205,903	4,682,690
Shareholders' equity December 31, 2020	3,036,744	35,267,256	8,432,421	(9,659,275)	247,044	37,324,190

The accompanying notes should be read in conjunction with these financial statements

FERGUS REINSURANCE LIMITED
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Expressed in United States Dollars)

	December 31 2020 $	December 31 2019 $
OPERATING ACTIVITIES:		
Net income (loss) from operations	4,476,787	(2,471,982)
Adjustments to reconcile net income (loss) from operations to net cash and cash equivalents applied to operating activities:		
Amortization of net premiums on investments	195,222	31,228
Realized gains on sale of investments	(51,426)	(18,991)
Net changes in non-cash balances relating to operations:		
Accrued interest	79,571	(101,031)
Reinsurance balances receivable	(14,516,051)	(12,543,694)
Funds withheld	(38,859)	17,347
Deferred acquisition costs	(2,714,795)	(2,656,443)
Prepaid expenses	(30,134)	5,156
Unearned premium	8,636,746	7,696,765
Losses and loss adjustment expenses	24,215,618	7,928,446
Funds held for reinsured company	-	(181,081)
Reinsurance balances payable	1,379,489	718,679
Deferred income	(244,386)	1,062,548
Deposit liabilities	(36,094)	(70,248)
Accounts payable and accrued expenses	36,314	101,439
Cash and cash equivalents provided by (used in) operating activities	21,388,002	(481,862)
FINANCING ACTIVITIES:		
Issuance of preference shares	6,035,000	19,519,000
Cash and cash equivalents provided by financing activities	6,035,000	19,519,000
INVESTING ACTIVITIES:		
Purchase of investments	(6,435,532)	(16,328,999)
Proceeds from sale of investments	14,104,915	10,419,684
Cash and cash equivalents provided by (used in) investing activities	7,669,383	(5,909,315)
Increase in cash, cash equivalents and restricted cash and cash equivalents for the year	35,092,385	13,127,823
Cash, cash equivalents and restricted cash and cash equivalents, beginning of year	21,284,583	8,156,760
Cash, cash equivalents and restricted cash and cash equivalents, end of year	56,376,968	21,284,583
Comprised of:		
Cash and cash equivalents	13,685,942	18,084,608
Restricted cash and cash equivalents	42,691,026	3,199,975

The accompanying notes should be read in conjunction with these financial statements

1. The Company

Fergus Reinsurance Limited (the "Company"), was incorporated under the laws of Bermuda on June 11, 2008 and is registered as a Class 3A insurer under The Insurance Act 1978, amendments thereto and related regulations (the "Act"). The Company is managed and has its principal place of business in Bermuda. The Company is privately owned by a limited group of U.S. persons.

The Company is also registered under the Segregated Accounts Company Act 2000 of Bermuda. The Company may establish segregated accounts where directed by the related reinsurance agreement. For each segregated account, the Company has an account ownership governing instrument. These agreements describe the terms and conditions of establishing the segregated account including an obligation by the account owner to fund any deficiency of segregated account liabilities over segregated account assets. Creditors of segregated accounts established to date have no claim upon the assets of other segregated accounts or upon the Company's general account assets.

The Company carries on reinsurance business, assuming risks from a number of international insurance markets. The Company has entered into one specific contract which does not involve a transfer of underwriting risk. Deposit accounting has been applied to this agreement. Certain contracts include a profit share with the ceding reinsurers. The brokers involved in placing certain other contracts with the Company participate by way of agreement with the Company in the profits and losses of the respective policies.

As of December 31, 2020 and 2019, there were two active segregated accounts within the Company. One of the segregated accounts assumes a 2% share of a specific reinsurance program within the Company's general account, and the other segregated account assumes all of the remaining business within the Company's general account.

2. Significant accounting policies

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, denominated in U.S. dollars, which is the Company's functional currency, and which apply the following significant accounting policies adopted by the Company:

Use of estimates

To prepare the financial statements, management has to make estimates and assumptions that affect the book value of assets and liabilities, income and expenses, and data disclosed in the notes to the financial statements.

All estimates are subjective in nature and could materially influence the financial statements. Accordingly, management makes these estimates and assessments on an ongoing basis according to past experience and various factors that are deemed reasonable and which constitute the basis for these assessments. The amounts shown in the Company's future financial statements are likely to differ from these estimates in accordance with changes in assumptions or different conditions.

The principal significant estimates made by the Company's management primarily affect the provision for outstanding losses and loss expenses, unearned premiums, recoverability of deferred acquisition costs, fair value of investments and determination of other than temporary impairment ("OTTI") of investments.

2. Significant accounting policies *(continued)*

Presentation of amounts relating to segregated accounts

The Company consolidates the assets, liabilities, income and expenses of its segregated accounts with those of its general account in arriving at the amounts recorded in its financial statements. The liabilities of the segregated accounts and the liabilities of the general account have access to only the assets of the relevant cell or general account as the case may be in a winding up.

Cash and cash equivalents

Cash and cash equivalents include cash held in banks, money market funds and other short-term deposits having maturities within three months of the date of purchase.

Investments

Fixed maturity and equity investments have been classified as available-for-sale and are carried at fair value with unrealized gains or losses included in the statements of financial position as a component of accumulated other comprehensive income. Fair value of investments is based on market quotations. Realized gains and losses on sales of fixed maturity investments are accounted for using the first-in and first-out method and are reflected in the statements of comprehensive income (loss) in the period of sale.

Revenue recognition and acquisition costs

Premiums are recognized as revenue on a pro-rata basis over the periods of the respective policies or contracts of reinsurance, with the exception of premiums earned through Loss Portfolio Transfers which are recognized immediately. Premiums which are subject to adjustment are estimated based upon available information. Any variances from the estimates are recorded in the periods in which they become known. Commissions and other costs incurred on the acquisition of new and renewal business are deferred and amortized over the terms of the policies or contracts of reinsurance to which they relate. The method followed in determining the deferred acquisition costs limits the amount of deferral to its realizable value by giving consideration to losses and expenses expected to be incurred as premiums are earned and also considers anticipated investment income.

Realized gains on retrospective policies assumed through novation agreements are deferred and amortized over the anticipated payout period.

Interest income and general and administrative expenses

Interest income and general and administrative expenses are recognized on the accrual basis of accounting. Interest income is recognized net of withholding taxes.

2. Significant accounting policies *(continued)*

Losses and loss adjustment expenses

Losses and loss expenses paid are recorded when advised by ceding companies. The liability for losses and loss expense provisions includes an amount determined from loss reports and individual cases and an amount, based on past experience and industry loss development factors, for losses incurred but not reported. These estimates are continually reviewed and are necessarily subject to the impact of future changes in such factors as claims severity and frequency. While management believes that the amount is adequate, the ultimate liability is subject to inherent uncertainty given the nature of the reinsurance coverage in place and may be materially in excess of, or less than, the amounts provided and any adjustments will be reflected in the periods in which they become known.

Foreign currency transactions

Assets and liabilities denominated in foreign currencies are translated into United States dollars at the rates prevailing at the reporting date. Revenues and expenses are translated at the rate of exchange prevailing as at the date of the transaction. Gains and losses arising from translation are included in the determination of comprehensive income (loss) for the year.

Taxation

Under current Bermuda Law, the Company is not required to pay 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 such taxes being imposed, the Company will be exempted from taxation until the year 2035. The Company is subject to withholding tax on investment income from foreign securities.

Legal/regulatory risk

Legal/regulatory risk is the risk that the legal or regulatory environment in which an insurer operates will change and create additional loss costs or expenses not anticipated by the insurer in pricing its products. That is, regulatory initiatives designed to reduce insurer profits or new legal theories may create costs for the insurer beyond those recorded in the financial statements. The Company mitigates this risk through its underwriting and loss adjusting practices which identify and minimize the adverse impact of this risk.

New accounting standards adopted during the year

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, which amended the guidance on impairment of financial instruments and significantly changed how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The ASU replaced the existing "incurred loss" approach, with an "expected loss" model for instruments measured at amortized cost and requires entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount under the existing other-than temporary-impairment model. The ASU also simplified the accounting model for purchased credit-impaired debt securities and loans. The ASU was effective for annual reporting periods beginning after December 15, 2019. The adoption of this standard did not have a material effect on the Company's financial statements.

2. Significant Accounting Policies *(continued)*

New accounting standards adopted during the year *(continued)*

In August 2018, the FASB issued ASU 2018-13, which changed the fair value measurement disclosure requirements of ASC 820. The amendments in this ASU were the result of a broader disclosure project called 'FASB Concepts Statement, Conceptual Framework for Financial Reporting - Chapter 8: Notes to Financial Statements.' The ASU was effective for annual reporting periods beginning after December 15, 2019. The adoption of this standard did not have a material effect on the Company's financial statements.

New accounting standards to be adopted

In October 2020, the FASB issued ASU 2020-10 "Codification Improvements". The amendments in this update contains improvements that vary in nature and enhance the consistency of the Codification. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2021.

Management does not believe the adoption of these amendments will have a material effect on the Company's financial statements.

The Company has determined that all other recently issued pronouncements do not apply to its operations.

3. Concentration of credit risk

As of December 31, 2020 and 2019, cash and cash equivalents are held with three international financial institutions. As of December 31, 2020 and 2019, the Company's investment portfolios are held by two large internationally recognized financial institutions.

4. Pledged assets

Pursuant to its reinsurance agreements, the Company is required to provide its ceding companies with collateral to secure its obligations to them. The Company has satisfied such obligations with letters of credit and reinsurance trusts which are issued and held by two financial institutions.

Accordingly, at December 31, 2020 and 2019 cash and cash equivalents amounting to $42,691,026 and $3,199,975, respectively, and investments with a carrying value of $6,201,559 and $9,673,008, respectively, are restricted.

(Expressed in United States Dollars)

5. Investments

The cost or amortized cost, gross unrealized holding gains and losses, and estimated fair value of available for sale investments at December 31, 2020 and 2019 are as follows:

As at December 31, 2020	Cost/ Amortized Cost $	Gross Unrealized Gains $	Gross Unrealized Losses $	Fair Value $
Fixed maturity investments:				
U.S. government obligations	121,801	2,074	-	123,875
Collateralized mortgage obligations	336,461	11,749	-	348,210
Corporate bonds	8,996,398	244,017	(10,796)	9,229,619
Total investments	9,454,660	257,840	(10,796)	9,701,704

As at December 31, 2019	Cost/ Amortized Cost $	Gross Unrealized Gains $	Gross Unrealized Losses $	Fair Value $
Fixed maturity investments:				
U.S. government obligations	2,187,772	3,829	(71)	2,191,530
Collateralized mortgage obligations	339,213	-	(7,056)	332,157
Corporate bonds	14,740,854	56,538	(12,099)	14,785,293
Total investments	17,267,839	60,367	(19,226)	17,308,980

(Expressed in United States Dollars)

5. Investments *(continued)*

The tables below summarize the Company's available for sale investments in an unrealized loss position and the aggregate fair value and gross unrealized loss by length of time the security has continuously been in an unrealized loss position:

	2020		2019	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	$	$	$	$
Fixed maturity investments:				
U.S. government obligations	-	-	115,828	(71)
Collateralized mortgage obligations	-	-	332,157	(7,056)
Corporate bonds	357,648	(10,796)	5,315,249	(12,099)
Investments available for sale	357,648	(10,796)	5,763,234	(19,226)

As of December 31, 2020 and 2019, there were 7 and 121 securities, respectively in an unrealized loss position with an estimated fair value of $357,648 and $5,763,234, respectively. Of these securities, there were 3 and 13 at December 31, 2020 and 2019 with an estimated fair value of $188,980 and $828,295 that had been in an unrealized loss position for 12 months or greater; none of these securities were considered to be other than temporarily impaired. The Company has no intent to sell, and it is not more likely than not that the Company will be required to sell these securities before their fair values recover above the adjusted cost. The unrealized losses from these securities were not a result of credit, collateral or structural issues.

The cost or amortized cost, estimated fair value, and contractual maturity of fixed maturity investments at December 31, 2020 and 2019 are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations without penalties.

	December 31, 2020		December 31, 2019	
	Amortized Cost/Cost	Fair Value	Amortized Cost/Cost	Fair Value
	$	$	$	$
Due within one year	5,120,138	5,230,928	9,023,384	9,033,104
Due after one year to five years	3,998,061	4,122,566	7,905,242	7,943,720
Due after five years to ten years	-	-	-	-
Due after more than ten years	336,461	348,210	339,213	332,156
Total fixed maturity securities	9,454,660	9,701,704	17,267,839	17,308,980

(Expressed in United States Dollars)

5. Investments *(continued)*

The following table sets forth certain information regarding the investment ratings of the Company's available for sale fixed maturity securities for the years ended December 31, 2020 and 2019. Ratings are the lower of those assigned by Standard & Poor's or Moody's.

	December 31, 2020		December 31, 2019	
	Amortized Cost/Cost	%	Amortized Cost/Cost	%
	$		$	
AAA	336,461	4	2,576,895	15
AA	222,429	2	302,047	2
A	1,274,353	14	4,847,615	28
BBB	7,030,783	74	9,541,282	55
BB+ and lower	590,634	6	-	-
	9,454,660	100	17,267,839	100

Major categories of net investment income are summarized as follows:

	2020	2019
	$	$
Interest income	581,201	654,053
Amortization expense	(195,222)	(31,228)
Realized gains	51,426	18,991
Investment expenses	(291,084)	(162,727)
Net investment income	146,321	479,089

6. 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 statements of financial position for these instruments approximate their fair values.

(Expressed in United States Dollars)

6. Fair value of financial instruments *(continued)*

Investments:

The following tables show the fair value of the Company's investments in accordance with ASC 820, "Fair Value Measurements and Disclosures" as of December 31, 2020 and 2019.

		Fair value measurement using		
	Total fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2020:	$	$	$	$
Fixed maturity investments:				
U.S. government obligations	123,875	123,875	-	-
Collateralized mortgage obligations	348,210	-	348,210	-
Corporate bonds	9,229,619	-	9,229,619	-
Total investments	9,701,704	123,875	9,577,829	-

		Fair value measurement using		
	Total fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2019:	$	$	$	$
Fixed maturity investments:				
U.S. government obligations	2,191,530	-	2,191,530	-
Collateralized mortgage obligations	332,157	-	332,157	-
Corporate bonds	14,785,293	-	14,785,293	-
Total investments	17,308,980	-	17,308,980	-

6. Fair value of financial instruments *(continued)*

U.S. government obligations were transferred between Level 2 to Level 1 at December 31, 2020.

In accordance with U.S. GAAP, the Company is are required to recognize certain assets at their fair value in the statements of financial position. This includes the Company's fixed maturity investments. In accordance with the Fair Value Measurements and Disclosures Topic of FASB's ASC 820 ("ASC 820"), fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon whether the inputs to the valuation of an asset or liability are observable or unobservable in the market at the measurement date, with quoted market prices being the highest level (Level 1) and unobservable inputs being the lowest level (Level 3). A fair value measurement will fall within the level of the hierarchy based on the input that is significant to determining such measurement.

The three levels are defined as follows:

Level 1: Observable inputs to the valuation methodology that are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Observable inputs to the valuation methodology other than quoted market prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical assets and liabilities in markets that are not active and inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology that are unobservable for the asset or liability.

At each measurement date, the Company estimates the fair value of the financial instrument using various valuation techniques. The Company utilizes, to the extent available, quoted market prices in active markets or observable market inputs in estimating the fair value of the investments. When quoted market prices or observable market inputs are not available, the Company utilizes valuation techniques that rely on unobservable inputs to estimate the fair value of investments. The following describes the valuation techniques used to determine the fair value of investments held as of December 31, 2020 and 2019 and what level within the fair value hierarchy each valuation technique resides:

Fixed maturity investments:
Comprised of fixed income obligations of the U.S. government and corporations. The fair values of these securities are based on quotes and current market spread relationships and are classified as Level 2 in the fair value hierarchy. The fair values of U.S. government obligation securities are classified as Level 1. The Company considers that there is a liquid market for the types of securities held. Broker quotes are not used for fair value pricing.

6. Fair value of financial instruments *(continued)*

While the Company obtains pricing from independent pricing services, management is ultimately responsible for determining the fair value measurements for all securities. To ensure fair value measurement is applied consistently and in accordance with U.S. GAAP, the Company periodically updates its understanding of the pricing methodologies used by the independent pricing services. The Company also challenges any prices it believes may not be representative of fair value under current market conditions. The Company's review process includes, but is not limited to: (i) initial and ongoing evaluation of the pricing methodologies and valuation models used by outside parties to calculate fair value; (ii) quantitative analysis; (iii) a review of multiple quotes obtained in the pricing process and the range of resulting fair values for each security, if available, and (iv) randomly selecting purchased or sold securities and comparing the executed prices to the fair value estimates provided by the independent pricing sources.

There have been no material changes to any of the Company's valuation techniques from what was used as of December 31, 2019. Since the fair value of a financial instrument is an estimate of what a willing buyer would pay for the asset if sold, the Company will not know the ultimate value of the financial instruments until they are sold. The Company believes the valuation techniques utilized provide it with the best estimate of the price that would be received to sell the assets or transfer the liabilities in an orderly transaction between participants at the measurement date.

Other assets and liabilities:

The fair value of accrued interest, reinsurance balances receivable and payable, funds withheld, and accounts payable and accrued expenses approximates their carrying value due to their relative short-term nature.

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 instruments such as other assets, unearned premiums, outstanding losses and loss expenses and deposit liabilities are excluded from fair value disclosure. Thus the total fair value amounts cannot be aggregated to determine underlying economic value of the Company.

7. Funds withheld

Pursuant to certain reinsurance contracts, the Company is required to provide security for the payment of its obligations. Included in funds withheld is $1,097,748 and $1,133,843 at December 31, 2020 and 2019, respectively, provided as security for the policy recorded as a deposit liability as disclosed in Note 10.

(Expressed in United States Dollars)

8. Related party transactions

Included in investment expenses for the years ended December 31, 2020 and 2019 are $255,301 and $128,669, respectively, relating to investment management fees charged by a company owned by a director and shareholder of the Company, of which $75,177 and $50,308 were payable at December 31, 2020 and 2019 and are included within accounts payable and accrued expenses of $257,680. An investment management agreement is in place and the fees charged are based on a percentage of assets under management.

9. Losses and loss adjustment expenses

The liability for losses and loss adjustment expenses comprises:

	2020 $	2019 $
Outstanding losses	18,487,034	8,061,265
Losses incurred but not reported ("IBNR")	22,710,843	8,920,994
	41,197,877	16,982,259

Activity in the liability for losses and loss adjustment expenses comprises:

	2020 $	2019 $
Gross balance at beginning of year	16,982,259	9,053,813
Less: Reinsurance recoverable	-	-
Net balance at beginning of year	16,982,259	9,053,813
Incurred losses related to:		
Current year	27,097,028	3,857,850
Prior years	5,479,697	3,416,370
Novation and assumption agreement	-	5,741,686
Total incurred	32,576,725	13,015,906
Paid losses related to:		
Current year	1,108,958	190,405
Prior years	7,252,149	4,897,055
Total paid	8,361,107	5,087,460
Net balance at end of year	41,197,877	16,982,259
Plus: Reinsurance recoverable	-	-
Gross balance at end of year	41,197,877	16,982,259

9. Losses and loss adjustment expenses *(continued)*

Effective December 2020, the Company entered into two novation agreements for a combined premium of $21,238,586, which was receivable at year end. As a result of the agreements, losses and loss adjustment expense provisions were increased by $21,238,586.

Effective December 31, 2019, the Company entered into a novation and assumption agreement for an amount of $7,904,233, which was receivable at December 31, 2019. As a result of the agreement, losses and loss adjustment expense provisions were increased by $5,741,686 and reinsurance balances payable were increased by $1,100,000. The resulting gain on the agreement of $1,062,548 was deferred for amortization over the anticipated payout period. During 2020, $244,386 was recognized in income, with the remaining $818,162 (2019: $1,062,548) deferred at year end.

Management believes that the assumptions used to establish its provision for losses and loss adjustment expenses represent a realistic and appropriate basis for estimating those reserves as of December 31, 2020 and 2019.

However, these assumptions are subject to change and the Company continually reviews and adjusts its reserve estimates taking into account all currently known information and updated assumptions related to unknown information. While management believes it has made a reasonable estimate of loss expenses occurring up to the statements of financial position date, the ultimate costs of claims incurred could exceed the Company's reserves and have a materially adverse effect on its future results of operations and financial condition.

Changes in the prior years' provision for claims and claims adjustment are due to the ongoing analysis of loss development trends across all accident years on the Company's book of business which are not attributable to any specific occurrence or event.

The following tables present information about incurred and paid claims development as of December 31, 2020, net of reinsurance, as well as cumulative claim frequency and the total of IBNR reserves plus expected development on reported claims. The tables include unaudited information about incurred and paid claims development for the years ended December 31, 2013 through 2016, which presented as supplementary information.

(Expressed in United States Dollars)

9. Losses and loss adjustment expenses *(continued)*

Workers compensation:

Accident year	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $	At December 31, 2020 Total IBNR Plus Expected Development on Reported Claims $	At December 31, 2020 Cumulative Number of Reported Claims
	Unaudited									
2013	1,258,816	2,947,157	2,931,948	2,967,069	2,905,605	2,966,802	2,867,698	2,766,108	79,592	180
								2,766,108	79,592	
Older years, prior to 2013								9,723,681	115,566	
								12,489,789	195,158	

Incurred claims and allocated claim adjustment expenses, net of reinsurance — For the years ended December 31

Workers compensation:

Paid claims and allocated claim adjustment expenses, net of reinsurance — For the years ended December 31

Accident year	2013 $	2014 $	2015 $	2016 $	2017 $	2018 $	2019 $	2020 $
	Unaudited							
2013	103,260	691,951	1,453,267	1,923,325	2,325,108	2,568,787	2,614,167	2,635,529
								2,635,529
Older years, prior to 2013								9,460,834
								12,096,363
Liability for losses and loss adjustment expenses, net of reinsurance								393,426

(Expressed in United States Dollars)

9. Losses and loss adjustment expenses *(continued)*

Commercial trucking:

	Incurred claims and allocated claim adjustment expenses, net of reinsurance								At December 31, 2020	
	For the years ended December 31								Total IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
Accident year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**		
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	
	Unaudited									
2013	44,949	47,840	49,845	250,901	245,425	250,610	164,327	163,575	-	11
2014		2,297,179	2,361,053	2,869,806	3,556,472	3,808,838	4,534,314	5,137,953	316,162	743
2015			4,574,096	4,204,849	5,668,278	6,797,732	7,816,984	8,098,669	34,047	1,307
2016				4,961,545	6,087,307	7,617,075	8,354,756	9,032,358	583,799	1,419
2017					3,338,271	3,611,956	4,465,960	5,166,910	445,655	878
2018						1,146,612	1,427,231	1,573,613	248,828	316
2019							76,094	-	-	-
2020								905,651	343,428	225
								30,078,729	1,971,919	
Older years, prior to 2013								-	-	
								30,078,729	1,971,919	

(Expressed in United States Dollars)

9. Losses and loss adjustment expenses *(continued)*

Commercial trucking:

	Paid claims and allocated claim adjustment expenses, net of reinsurance For the years ended December 31							
Accident year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
	Unaudited							
2013	1,272	8,304	30,186	226,712	241,234	243,840	163,575	163,575
2014		350,087	1,017,968	1,652,291	3,080,706	3,356,844	3,811,756	4,252,369
2015			734,021	1,778,851	3,108,288	4,932,447	6,313,001	8,003,303
2016				863,558	2,581,635	4,766,515	6,266,212	7,397,108
2017					661,842	1,364,560	2,655,072	3,918,608
2018						288,588	550,700	841,267
2019							-	-
2020								401,136
								24,977,364
Older years, prior to 2013								-
								24,977,364
Liability for losses and loss adjustment expenses, net of reinsurance								5,101,365

(Expressed in United States Dollars)

9. Losses and loss adjustment expenses *(continued)*

General liability:

	Incurred claims and allocated claim adjustment expenses, net of reinsurance								At December 31, 2020	
	For the years ended December 31								Total IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
Accident year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**		
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**	**$**	
	Unaudited									
2016				-	-	-	907,728	1,233,080	344,043	952
2017					-	-	1,827,225	2,729,495	751,020	1,719
2018						-	2,210,699	2,867,397	1,000,292	1,847
2019							4,157,205	5,034,237	1,338,586	629
2020								26,014,416	5,542,522	287
								37,878,625	8,976,464	

General liability:

	Paid claims and allocated claim adjustment expenses, net of reinsurance							
	For the years ended December 31							
Accident year	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
	Unaudited							
2016				-	-	-	-	414,128
2017					-	-	-	582,168
2018						-	-	775,129
2019							171,111	687,842
2020								655,396
								3,114,663
Liability for losses and loss adjustment expenses, net of reinsurance								34,763,962

(Expressed in United States Dollars)

9. Losses and loss adjustment expenses *(continued)*

Professional liability:

	Incurred claims and allocated claim adjustment expenses, net of reinsurance								At December 31, 2020	
	For the years ended December 31								Total IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
Accident year	**2013 $**	**2014 $**	**2015 $ Unaudited**	**2016 $**	**2017 $**	**2018 $**	**2019 $**	**2020 $**	**$**	
2018						26,818	43,357	303,723	55,745	4
2019							285,525	241,229	86,561	41
								544,952	142,306	

Professional liability:

	Paid claims and allocated claim adjustment expenses, net of reinsurance							
	For the years ended December 31							
Accident year	**2013 $**	**2014 $ Unaudited**	**2015 $**	**2016 $**	**2017 $**	**2018 $**	**2019 $**	**2020 $**
2018						-	979	42,229
2019							19,294	71,720
								113,949
Liability for losses and loss adjustment expenses, net of reinsurance								431,003

(Expressed in United States Dollars)

9. Losses and loss adjustment expenses *(continued)*

Property:

	Incurred claims and allocated claim adjustment expenses, net of reinsurance								At December 31, 2020	
	For the years ended December 31								Total IBNR Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
Accident year	2013	2014	2015	2016	2017	2018	2019	2020		
	$	$	$	$	$	$	$	$	$	
	Unaudited									
2020							-	30,231	-	1
								30,231	-	

Property:

	Paid claims and allocated claim adjustment expenses, net of reinsurance							
	For the years ended December 31							
Accident year	2013	2014	2015	2016	2017	2018	2019	2020
	$	$	$	$	$	$	$	$
	Unaudited							
2020							-	-
								-
Liability for losses and loss adjustment expenses, net of reinsurance								30,231

(Expressed in United States Dollars)

9. Losses and loss adjustment expenses *(continued)*

The reconciliation of the incurred and paid claims development tables to the liability for losses and loss adjustment expenses in the statements of financial position is as follows:

	December 31, 2020 $	December 31, 2019 $
Net outstanding liabilities:		
Workers Compensation	393,426	519,126
Commercial Trucking	5,101,364	7,079,350
General Liability	34,763,635	8,931,746
Professional Liability	431,003	308,610
Property	30,231	-
Other insurance lines	478,218	143,428
	41,197,877	16,982,259

The following table is unaudited supplementary information for average annual historical duration of claims:

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance
Unaudited

Years	1	2	3	4	5	6	7	8
Workers compensation	4%	21%	28%	17%	15%	9%	2%	1%
Commercial trucking	13%	11%	18%	42%	11%	10%	-20%	-
General liability	2%	8%	-	-	-	-	-	-
Professional liability	3%	11%	-	-	-	-	-	-

10. Deposit liabilities

The Company entered into a multi-year loss portfolio transfer reinsurance contract with one reinsured company in 2010. As at December 31, 2020 and 2019, there is no significant transfer of underwriting risk.

11. Share capital

	2020 $	2019 $
Authorized:		
Common shares-par value $10.00: 700,000 (2019 - 700,000)	7,000,000	7,000,000
Redeemable preference shares-par value $1.00: 2,000,000 (2019 - 2,000,000)	2,000,000	2,000,000
Total authorized share capital	9,000,000	9,000,000
Issued:		
Common voting shares-par value $10.00: 24,000 (2019 - 24,000)	240,000	240,000
Common non-voting shares-par value $10.00: 236,000 (2019 - 236,000)	2,360,000	2,360,000
Redeemable preference shares-par value $1.00: 436,744 (2019 – 358,242)	436,744	358,242
Total issued share capital	3,036,744	2,958,242

12. Share premium

During the years ended December 31, 2020 and 2019, 78,502 and 255,971 redeemable preference shares were issued at a premium above the par value amounting to $5,956,498 and $19,263,029, respectively.

13. Premiums

Activity in unearned premium for the years ended December 31, 2020 and 2019 is summarized as follows:

	2020			2019		
	Gross $	Ceded $	Net $	Gross $	Ceded $	Net $
At January 1	7,945,659	-	7,945,659	248,894	-	248,894
Premium assumed	54,041,100	-	54,041,100	23,049,068	-	23,049,068
Premiums earned	(45,404,354)	-	(45,404,354)	(15,352,303)	-	(15,352,303)
At December 31	16,582,405	-	16,582,405	7,945,659	-	7,945,659

14. Statutory requirements

The Company is registered as a Class 3A reinsurer under The Insurance Act 1978 (Bermuda), amendments thereto and related regulations (the "Insurance Act"). Under the Insurance Act, the Company is subject to enhanced capital requirements in addition to minimum solvency and liquidity requirements and must maintain statutory economic capital and surplus at a level at least equal to its ECR which is the greater of its minimum solvency margin ("MSM") and the required capital calculated by reference to the Bermuda Solvency Capital Requirement ("BSCR"). The BSCR is calculated using the standard risk-based capital model developed by the Bermuda Monetary Authority ("BMA"). The BSCR model follows a standard formula framework and capital attributed to each risk is calculated by applying capital factors to assets and liabilities. The BMA sets a Target Capital equivalent to 120% of the ECR. While the Company is not required to maintain statutory economic capital and surplus at this level, it serves as an early warning signal for the BMA, and failure to meet the target capital level may result in additional reporting requirements or increased regulatory oversight. The Company is currently completing its 2020 BSCR, which must be filed with the BMA on or before April 30, 2021, and at this time, the Company believes it will exceed the target level of required statutory economic capital and surplus.

Under the Insurance Act, the Company is prohibited from declaring or paying dividends of more than 25% of its total statutory capital and surplus, as shown in its previous financial year statutory balance sheet, unless at least seven days before payment of the dividends it files with the BMA an affidavit that it will continue to meet its minimum capital requirements as described above. The Company must obtain the BMA's prior approval before reducing its total statutory capital, as shown in its previous financial year statutory balance sheet, by 15% or more. The Company is restricted in paying dividends that would result in a failure to comply with the ECR as calculated based on the BSCR or cause the Company to fail to meet its relevant margins.

15. Foreign currency risk

The Company is exposed to foreign currency risk due to reinsurance balances receivable and reserves for insurance contracts in British Pounds and Euros. Due to limited exposure to foreign currency risk, any weakening or strengthening of foreign currency balances would not have a material effect on the financial results of the Company.

16. Market risk

The novel coronavirus ("COVID-19"), a global pandemic, stands to substantially impact the global economy, including significant volatility in the financial markets. The COVID-19 pandemic and government responses are creating disruption in global supply chains and adversely impacting many industries. The outbreak could have a continued material adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as of the ultimate material adverse impact of COVID-19. Although the Company cannot estimate the length or gravity of the impact of the COVID-19 outbreak at this time, if the pandemic continues, it may have an adverse effect on the Company's results of future operations and financial position.

17. Subsequent events

The Company has evaluated all known recognized and non-recognized subsequent events through June 16, 2021, the date the financial statements were available to be issued.