SANDELL HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

(AND INDEPENDENT AUDITOR’S REPORT THEREON)

FOR THE YEARS ENDED

DECEMBER 31, 2018 AND 2017

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Sandell Holdings Ltd.

We have audited the accompanying consolidated financial statements of Sandell Holdings Ltd. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these 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 the auditor's 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, the auditor considers internal control relevant to the entity'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 entity'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 Sandell Holdings Ltd. and its subsidiary as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other matter

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

KPMG Audit Limited

Chartered Professional Accountants
Hamilton, Bermuda
September 23, 2019

SANDELL HOLDINGS LTD.
CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 2018 AND DECEMBER 31, 2017
(Expressed in United States Dollars)

	Note	December 31, 2018 $	December 31, 2017 $
ASSETS:			
Cash and cash equivalents	3	59,703,998	36,337,958
Restricted cash and cash equivalents	4	3,310,478	14,354,193
Investments in marketable securities, at fair value	3,4,5,7	23,341,051	20,731,213
Derivative assets, at fair value	6,7	298,408	834,751
Investment in joint venture	8	-	4,806,034
Reinsurance balances receivable		4,866,940	7,025,369
Funds held by ceding companies		1,491,154	1,491,154
Deferred acquisition costs		5,516,538	1,496,930
Loan to affiliates	10	1,744,713	500,000
Loan to others	11	1,205,740	1,205,740
Prepaid expenses and other assets		44,714	483,098
Total assets		101,523,734	89,266,440
LIABILITIES AND SHAREHOLDERS' EQUITY:			
LIABILITIES			
Unearned premium		18,316,542	6,879,885
Losses and loss adjustment expenses	9	30,045,425	23,244,073
Reinsurance balances payable		14,267,343	8,637,801
Securities sold short, at fair value	7	1,343,795	6,311,231
Derivative liabilities, at fair value	6,7	86,127	378,110
Accounts payable and accrued expenses		554,117	377,683
Total liabilities		64,613,349	45,828,783
SHAREHOLDERS' EQUITY			
Share capital	12	5,038	5,038
Additional paid-in capital	13	42,994,962	42,994,962
Retained earnings		(6,089,615)	437,657
Total shareholders' equity		36,910,385	43,437,657
Total liabilities and shareholders' equity		101,523,734	89,266,440

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

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS:

R F Eshlow

DIRECTOR

DIRECTOR

SANDELL HOLDINGS LTD.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017
(Expressed in United States Dollars)

	Note	December 31, 2018 $	December 31, 2017 $
UNDERWRITING INCOME:			
Gross premium written		40,259,669	9,733,583
Change in unearned premium		(11,436,658)	(4,267,667)
Premium earned		28,823,011	5,465,916
UNDERWRITING EXPENSES:			
Losses and loss adjustment expenses incurred	9	19,581,155	11,417,302
Acquisition costs		10,601,383	1,730,825
Commissions		98,783	(438,154)
Total underwriting expenses		30,281,321	12,709,973
NET UNDERWRITING LOSS		(1,458,310)	(7,244,057)
OTHER INCOME AND EXPENSES:			
Investment income, net	5	1,606,179	2,859,557
Loss on write-off of intercompany loan	8	(4,123,121)	-
Share of joint venture	8	(326,714)	1,317,102
General and administrative expenses	10	(2,225,306)	(1,575,555)
Total other income and expenses		(5,068,962)	2,601,104
NET LOSS		(6,527,272)	(4,642,953)

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

SANDELL HOLDINGS LTD.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017
(Expressed in United States Dollars)

	Share Capital $	Additional Paid-in Capital $	Retained Earnings $	Totals $
Shareholders' equity – January 1, 2017	5,038	49,994,962	5,080,610	55,080,610
Return of capital	-	(7,000,000)	-	(7,000,000)
Net loss for the period	-	-	(4,642,953)	(4,642,953)
Shareholders' equity – December 31, 2017	5,038	42,994,962	437,657	43,437,657

	Share Capital $	Additional Paid-in Capital $	Retained Earnings $	Totals $
Shareholders' equity – January 1, 2018	5,038	42,994,962	437,657	43,437,657
Net loss for the period	-	-	(6,527,272)	(6,527,272)
Shareholders' equity – December 31, 2018	5,038	42,994,962	(6,089,615)	36,910,385

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

SANDELL HOLDINGS LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017
(Expressed in United States Dollars)

	December 31, 2018 $	December 31, 2017 $
OPERATING ACTIVITIES:		
Net loss from operations	(6,527,272)	(4,642,953)
Adjustments to reconcile net income from operations to cash provided by operating activities:		
Unrealized gain on investments	(136,926)	(1,560,006)
Net changes in non-cash balances relating to operations:		
Reinsurance balances receivable	2,158,429	13,033,421
Loan to affiliates	(1,256,432)	122,361
Investment in joint venture	4,806,034	(1,387,379)
Deferred acquisition costs	(4,019,608)	(1,496,930)
Prepaid expenses and other assets	450,103	(376,181)
Loan to others	-	(1,205,740)
Unearned premium	11,436,657	4,267,668
Losses and loss adjustment expenses	6,801,352	(87,656)
Reinsurance balances payable	5,629,542	7,189,521
Accounts payable and accrued expenses	176,433	(3,199,971)
Cash and cash equivalents provided by operating activities	19,518,312	10,656,155
INVESTING ACTIVITIES:		
Change in restricted cash and cash equivalents	11,043,715	4,239,281
Purchase of investments and derivatives	(160,993,095)	(128,542,317)
Proceeds from sale of investments and derivatives	153,797,108	145,904,842
Cash and cash equivalents provided by investing activities	3,847,728	21,601,806
FINANCING ACTIVITIES:		
Return of capital	-	(7,000,000)
Cash and cash equivalents used in financing activities	-	(7,000,000)
Increase in cash and cash equivalents for the period	23,366,040	25,257,961
Cash and cash equivalents, beginning of period	36,337,958	11,079,997
Cash and cash equivalents, end of period	59,703,998	36,337,958

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

1. Nature of the business

Sandell Holdings Ltd. (the "Company"), was incorporated under the laws of Bermuda on December 18, 2014 and through its wholly-owned Bermuda domiciled subsidiary, Sandell Re Ltd., (the "Subsidiary") carries on reinsurance business, assuming risks from a number of international insurance markets. The Subsidiary is licensed as a Class 3A reinsurer pursuant to The Insurance Act 1978 ("the Act") and is also registered as a Segregated Accounts Company under The Segregated Accounts Companies Act 2000. The Company is managed and has its principal place of business in Bermuda.

The Subsidiary is part of a panel of participating reinsurers supported by and providing reinsurance to Multi Strat Re Ltd. ("MSRe"), a related party, for all classes of property and casualty business.

MSRe, is licensed as a Class 3A insurer under the Act and provides reinsurance for captives, insurance and reinsurance companies, managing general agencies, risk retention groups, run-off companies, and other insurance-related companies requiring surplus relief, risk capacity, and risk protection by assuming low loss volatility loss portfolio transfers and capped quota share business through multiple sources.

The Subsidiary and each of the other participating reinsurers have entered into: i) a Master Services Agreement with MSRe whereby MSRe provides certain underwriting and administrative services to the Subsidiary, and ii) a Quota Share Retrocession Agreement whereby the Subsidiary agrees to assume a quota share percentage of the business written by MSRe. Under the terms of its license, currently the Subsidiary cannot write non-MSRe business without the prior approval of the Bermuda Monetary Authority ("BMA").

On July 1, 2016, the Subsidiary received approval from the BMA to write non- MSRe business to reinsure American Millennium Insurance Company ("AMIC") for commercial automobile risk on a quota share basis.

As noted above, the Company is also registered under the SAC Act. 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 sponsor capital provider 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.

Effective March 31st 2018 Insuratex Ltd ("Insuratex"), a company incorporated in Bermuda and registered as a Class 3 was merged with the Company, with the Company continuing as the surviving entity in Bermuda. Immediately following the merger, the assets and liabilities of Insuratex were contributed into a segregated account of the Company, the account owner of which are SOBC Beta Holding Company Limited.

2. Significant accounting policies

The accompanying Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S.GAAP"), and are denominated in U.S. dollars. These Consolidated Financial Statements include the results of the Company and its wholly-owned Subsidiary. Intercompany accounts and transactions have been eliminated on consolidation. The following are the significant accounting policies adopted by the Company:

2. Significant accounting policies (continued)

Use of estimates

To prepare the consolidated 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 consolidated 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. It is believed that the estimates utilized in preparing these consolidated financial statements are reasonable; however, actual results could differ from these estimates and such differences could be material.

The principal significant estimates made by the Company's management primarily affect the provision for losses and loss adjustment expenses and fair value of investments.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of purchase. The carrying value approximates fair value because of the short-term nature and high liquidity of these assets. Restricted cash and cash equivalents are separately reported in the Consolidated Balance Sheet at December 31, 2018. Changes in restricted cash and cash equivalents are reported as an investing activity in the Statement of Cash flows for the period ended December 31, 2018.

Investments in securities

The Company's investments are classified as "held for trading" under the definition included in Accounting Standards Board ("ASC") 320-10, "Accounting for Certain Investments in Debt and Equity Securities". Realized and unrealized gains and losses are included in the Consolidated Statement of Operations. Security transactions are accounted for on a trade-date basis with investment purchases and sales pending settlement accrued in the Consolidated Balance Sheet.

Investment in joint venture

The Company's investment in joint venture is considered a corporate joint venture under the definition included in Accounting Standards Board ("ASC") 323-10-20, "Accounting for equity method investments and joint ventures". The Company accounts for the corporate joint venture using the equity method of accounting ASC 323-10-15-6 whereby the initial measurement of the equity investment in the corporate joint venture is at cost (ASC 323-10-30-2) and subsequently the carrying amount of the equity investment is increased to reflect the Company's share of income in the corporate joint venture and reduced to reflect the Company's share of losses in the corporate joint venture.

2. Significant accounting policies (continued)

Derivative financial instruments

Derivative financial instruments include swaps at fair value. They derive their value from the underlying instrument and are subject to the same risks as that underlying instrument, including liquidity, credit, and market risk. Estimated fair values are based on exchange or broker-dealer quotations. Changes in the estimated fair value of instruments that do not qualify for hedge accounting are recognized in current period income. The Company does not hold any derivatives classified as hedging instruments.

Derivative financial assets and liabilities are reported on a gross basis in the Consolidated Balance Sheet only to the extent there is a legally enforceable right of offset and there is an intention to settle on a net basis, or to realize the assets and liabilities simultaneously. Derivative financial assets and liabilities are derecognized when the Company has transferred substantially all of the risks and rewards of ownership or the liability is discharged, cancelled, or expired.

Securities sold short

The Company may sell a security it does not own in anticipation of a decline in the fair value of that security. The Company must borrow the security or enter into an arrangement to borrow the security before the Company sells a security short. The Company is required to maintain collateral with the broker-dealer from which the security was borrowed. A gain, limited to the price at which the Company sold the security short, or a loss, unlimited in size, will be recognized upon the termination of a short sale.

The Company is also subject to the risk that it may be unable to reacquire a security to close a short position except at a price substantially in excess of the last quoted price. Realized and unrealized gains and losses arising from short sales are recorded within Investment income in the Consolidated Statement of Operations. Securities sold short are recorded as liabilities in the Balance Sheet at fair value.

Fair value – definition and hierarchy

The Company's investments are classified as "held for trading" under the definition included in Accounting Standards Board ("ASC") 320-10, "Accounting for Certain Investments in Debt and Equity Securities. The Company's investment portfolio is reported at fair value based on market prices quoted on the relevant exchange or net asset values per share of each fund at the measurement date, with unrealized gains and losses included in net income. Realized gains or losses on sales of investments are determined on a specific identification basis.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described as follows:

Level 1 – Financial assets and liabilities which are valued using unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially and full term of the asset or liability.

2. Significant accounting policies (continued)

Level 3 – Financial assets and liabilities, for which there is little or no market price transparency, are not traded in active markets and/or are subject to transfer restrictions. The fair values of such investments are generally derived using valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. Such inputs reflect management's best estimates and assumptions about the assumptions a market participant would use in valuing the asset or liability.

The Company generally uses similar models to value similar financial instruments. Valuation models require a variety of inputs, including contractual terms, market prices, yield curves, credit spreads and measures of volatility, all of which differ in objectivity and observability. As required by the accounting standard, when the inputs used to measure fair value fall within different levels of the valuation 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 measure in its entirety.

To the extent that valuation is based on models or inputs that are less observable or unobservable in the market the determination of fair value request more judgements. Because of the inherent uncertainly of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the investments existed. Accordingly, the degree of judgement exercised by the Company is determining fair value is greatest for investments categorized in Level 3.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

Foreign currency

Asset and liabilities dominated in currencies other than U.S dollars are translated at the closing rates of exchange at the end of the reporting period with the resulting foreign exchange rate differences included in net investment income in the Consolidated Statement of Operations. Transactions denominated in foreign currencies including purchases and sales of investments and income and expenses are translated at the rates of exchange prevailing on the respective dates of the transaction.

Revenue recognition and acquisition costs

Insurance premiums for prospective reinsurance contracts are earned over the loss exposure or coverage period of the underlying policies. Premiums for retroactive reinsurance policies are earned at the inception of the contracts, as all of the underlying loss events covered by the underlying policies occurred in the past. Any underwriting profit at inception related to retroactive exposures in a reinsurance contract is deferred and recognized over the estimated future payout period of the losses and loss adjustment expense reserves. Any underwriting loss at inception related to retroactive exposures in a reinsurance contract is recognized immediately. Premium adjustments 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.

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 loss and loss expense provisions includes an amount determined from loss reports and individual cases and an amount based on the recommendations of an independent actuary using the past loss experience and industry loss development factors, for losses incurred but not reported ("IBNR"). 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.

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. However, certain U.S dividend income and interest income may be subject to a maximum 30% withholding tax. Further, certain U.S dividend income may be subject to a tax at a prevailing treaty or standard withholding rates with applicable country or local jurisdiction.

Variable Interest Entities and Non-controlling Interests

The legal and regulatory construct of segregated account companies ("SACs") allows for the effective segregation of the various pools of activities. While segregated accounts within SACs are not separate legal entities, due to their unique characteristics and legal structure of the Company as a whole, SACs are considered a Variable Interest Entity (VIE) under U.S. GAAP. A VIE refers to an entity that has characteristics such as (i) insufficient equity at risk to allow the entity to finance its activities without additional financial support or (ii) instances where the equity investors, as a group, do not have characteristics of a controlling financial interest. The primary beneficiary of a VIE is defined as the variable interest holder that is determined to have the controlling financial interest as a result of having both (i) the power to direct the activities of a VIE that most significantly impact the economic performance of the VIE and (ii) the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE. If a company is determined to be the primary beneficiary, it is required to consolidate the VIE in its financial statements.

At inception of the VIE as well as on an ongoing basis, the Company determines whether it is the primary beneficiary based on an analysis of the Company's level of involvement in the VIE, the contractual terms, and the overall structure of the VIE. The Company reviewed the facts and circumstances of each of the segregated accounts in operation within the Company, including corporate governance, underwriting activity and the receipt of fees and concluded that the Company itself is not the primary beneficiary of the segregated account and have therefore not included the results of its segregated account in these consolidated financial statements. See Note 16 for the condensed balance sheets and statements of operations for the segregated account.

2. Significant accounting policies (continued)

Recently adopted accounting standards

Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230)—Classification of Certain Cash Receipts and Cash Payments”, which addresses diversity in practice in how eight specific cash receipts and cash payments should be presented and classified on the statement of cash flows. The Company adopted ASU 2016-15 for the annual period ending December 31, 2018. As this guidance relates solely to the classification on the statement of cash flows financial statement disclosures, the adoption of ASU 2016-15, did not impact the Company’s results of operations, financial condition and liquidity.

Statement of Cash Flows - Restricted Cash

In November 2016, the FASB issued ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash”, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted ASU 2016-18 for the annual period ending December 31, 2018. The adoption of this guidance did not have a material impact on the Company’s consolidated financial statements.

New accounting standards not yet adopted

Financial Services - Insurance

In August 2018, the FASB issued ASU 2018-12, which amends the scope of Topic 944 via improvements to the accounting for long-duration contracts. This guidance is effective for annual periods beginning after December 15, 2021 for private entities, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, which amends the fair value measurement disclosure framework in Subtopic 820. This guidance is effective for annual periods beginning after December 15, 2019 for private entities, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company’s consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”). ASU 2014-09 provides a framework, through a five-step process, for recognizing revenue from customers, improves comparability and consistency of recognizing revenue across entities, industries, jurisdictions and capital markets, and requires enhanced disclosures. Certain contracts with customers are specifically excluded from the scope of ASU 2014-09, including; amongst others, insurance contracts accounted for under Accounting Standard Codification 944, Financial Services - Insurance.

2. Significant accounting policies (continued)

In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers - Principal versus Agent Considerations," which clarifies the implementation guidance for principal versus agent considerations in ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers - Identifying Performance Obligations and Licensing", which amends the guidance in ASU 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers - Narrow-Scope Improvements and Practical Expedients", which clarifies the following aspects in ASU 2014-09 - (1) collectability, (2) presentation of sales taxes and other similar taxes collected from customers, (3) noncash considerations, (4) contract modifications at transition, (5) completed contracts at transition, and (6) technical correction.

ASU 2016-08, ASU 2016-10 and ASU 2016-12 together with ASU 2014-09 are effective for interim and annual reporting periods beginning after December 15, 2018.

ASU 2016-01, Financial Statements - Overall

In January 2016, the FASB issued ASU 2016-01, which enhances the reporting model for financial instruments including equity investments measured at fair value in net income and valuation allowances for deferred tax assets related to available-for-sale securities. This guidance is effective for annual periods beginning after December 15, 2018 for private entities, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

Clarifying the Definition of a Business

In January 2017, the FASB issued ASU 2017-01 to clarify the definition of a business in Accounting Standards Codification ("ASC") "805 Business Combinations" with the intent of making the application of the guidance more consistent and cost efficient. This clarification may result in fewer acquired sets of assets and liabilities being identified as businesses. This guidance is effective for annual periods beginning after December 15, 2018 for private entities, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

Technical Corrections and Improvements to Financial Instruments - Overall

In February 2018, the FASB issued ASU 2018-03, which amends multiple areas in Subtopic 825-10 via improvements to clarify the Codification or to correct unintended application of guidance. This guidance is effective for annual periods beginning after December 15, 2018 for private entities, with early adoption permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated 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, 2018, cash and cash equivalents are held with three international financial institutions with credit rating of A- and above. As of December 31, 2018, the Company's entire investment portfolio is held by three large internationally recognized prime brokers. The Company believes that there are no significant concentrations of credit risk associated with its investments in any issuer or market.

4. Restricted cash and cash equivalents

The Company has arranged letter of credits of $66,065,647 at December 31, 2018 (2017 - $35,397,656) to secure liabilities pursuant to the Quota Share Retrocession Agreement with MSRe, Insuratex and Accredited Surety and Casualty Company Inc. The Company has also provided its ceding companies with insurance trusts held by Bank of New York Mellon, with cash and deposits amounting to $1,805,654 (2017 - $7,140,116). The Company also had collateral amounts pledged under prime brokerage agreements of Nil and $1,504,824 (2017 - $3,960,000 and $3,254,077).

5. Investments in marketable securities

The fair value of investments by security type as of December 31, 2018 and 2017 are as follows:

	2018	2017
	$	$
Equity securities	23,341,051	20,731,213
Total	23,341,051	20,731,213

Investment income within the Consolidated Statement of Operations for the period ended December 31, 2018 and 2017 consisted of the following:

	2018	2017
	$	$
Interest income	120,404	413,299
Dividend income	666,683	1,205,873
Net realized gains on investments	(1,449,158)	1,253,426
Net realized gains on derivatives	1,867,097	153,889
Net unrealized (loss) / gains on investments	289,705	(301,000)
Net unrealized gains on derivatives	(152,779)	134,070
Gain on disposal of joint venture	264,227	-
Net investment income	1,606,179	2,859,557

6. Derivative financial instruments

The following tables identify the listing currency, fair value and notional amounts of derivative instruments included in the Consolidated Balance Sheet. Balances are presented on a gross basis as of December 31, 2018 and 2017:

	Listing currency	Notional amount of underlying instruments	Fair value of net assets on derivatives
Derivative assets 2018		$	$
Swaps	USD/GBP/AUD/EUR	1,559,954	298,408

	Listing currency	Notional amount of underlying instruments	Fair value of net liabilities on derivatives
Derivative liabilities 2018		$	$
Swaps	USD/GBP/AUD/EUR	6,093,312	86,127

	Listing currency	Notional amount of underlying instruments	Fair value of net assets on derivatives
Derivative assets 2017		$	$
Swaps	USD/GBP/AUD/EUR	23,326,419	834,751

	Listing currency	Notional amount of underlying instruments	Fair value of net liabilities on derivatives
Derivative liabilities 2017		$	$
Swaps	USD/GBP/AUD/EUR	4,155,656	378,110

The absolute notional exposure represents the Companies derivative activities as of December 31, 2018 and 2017, which is representative of the volume of derivatives held during the periods.

7. Fair value of financial instruments

As of December 31, 2018, and 2017, financial instruments at fair value, categorized by their respective valuation levels, were as follows:

Assets (at fair value) 2018

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Equity securities	23,341,051	-	-	23,341,051
Total investments in marketable securities	23,341,051	-		23,341,051
Derivative assets	-	298,408	-	298,408
Total Assets	23,341,051	298,408	-	23,639,459

Liabilities (at fair value)

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Equity securities sold short	1,343,795	-	-	1,343,795
Derivative liabilities	-	86,127	-	86,127
Total Liabilities	1,343,795	86,127	-	1,429,922

Assets (at fair value) 2017

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Equity securities	20,731,213	-	-	20,731,213
Total investments in marketable securities	20,731,213	-	-	20,731,213
Derivative assets	-	834,751	-	834,751
Total Assets	20,731,213	834,751	-	21,565,964

Liabilities (at fair value)

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Equity securities sold short	6,311,231	-	-	6,311,231
Derivative liabilities	-	378,110	-	378,110
Total Liabilities	6,311,230	378,110	-	6,689,341

7. Fair value of financial instruments (continued)

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

Equity securities and equity securities sold short are traded on a national securities exchange and are generally stated at the last reported sales price on the date of valuation. Securities for which there was no sales price or which are traded over-the-counter are generally valued at the average of the last reported "bid" and "ask" prices. Securities that are not traded on a national securities exchange are generally valued based upon an average of closing "bid" and "ask" prices obtained from brokers and other market participants. Equity securities and equity securities sold short are categorized in Level 1 of the fair value hierarchy.

Debt securities is bank debt which represent term loans from financial institutions for a specific amount that has a specified repayment schedule and a floating interest rate. The fair value of bank debt is generally measured using recently executed transactions, market price quotations (where observable) and market observable credit default swap levels. When quotations are unobservable, proprietary valuation models and default recovery analysis methods are employed. Bank debt is categorized in Level 2 or 3 of the fair value hierarchy.

Derivative assets and liabilities are total return swaps. Total return swaps are entered into on the over the counter market. The fair value of total return swaps is recorded at the swap contract's net equity value. Net equity is calculated by determining the notional fair value of the assets or liabilities underlying the swap contracts, which are equity securities and is consistent with the valuation procedures discussed previously. Total return swaps are generally categorized in Level 2 of the fair value hierarchy.

Restricted cash and cash equivalents and cash and cash equivalents: The carrying amounts reported in the statement of financial position for these instruments approximate their fair values.

Other assets and liabilities: The fair value of reinsurance balances receivable, 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 deferred acquisition costs, prepaid expenses, 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.

8. Investment in joint venture

In October 2016 the Company entered into a sales and purchase agreement with SOBC Holdings Limited (UK) ("SOBC") to acquire 50% of the share capital (equity) of SOBC by cash acquisition of existing loan notes amounting to $3,463,767 and an agreement to purchase all B shares and warrants held by Class B shareholders of SOBC other than from the executive directors. Thereafter SOBC Sandell Holding Company Limited ("SOBC Sandell"), a corporate joint venture, owned jointly (50:50) by the Company and the executive directors of SOBC was incorporated on 12 October 2016 to undertake all new business following the completion of the sales and purchase agreement. SOBC Sandell made a loss of $653,428 (2017: Profit of $2,634,204) for the period ended December 31, 2018, half of which is attributed to the Company.

8. Investment in joint venture (continued)

As at December 31, 2018, the shares held by the Company were sold to SOBC Darag Holding Company Limited. The Consideration for B shares amounted to $1,209,503 and the gain on sale of shares amounted to $264,227. As at December 31, 2018, because of non-recoverability the Company wrote-off loans and interest of $4,123,121. These comprised of Investment in SOBC (Cash Consideration) of $3,534,044 along with accumulated accrued interest of $126,107 and interest receivable on Loans to others of $462,970 disclosed in Note 11.

9. Losses and Loss Adjustment Expenses

The liability for losses and loss adjustment expenses comprises:

	2018	2017
	$	$
Outstanding losses	21,971,134	13,150,062
Losses incurred but not reported	8,074,291	10,094,011
	30,045,425	23,244,073

Activity in the liability for losses and loss adjustment expense comprise:

	2018	2017
	$	$
Gross and Net Balance, beginning of period	23,244,073	23,331,729
Incurred losses related to:		
Current year	14,498,900	8,740,501
Prior years	5,082,255	2,676,800
Total incurred	19,581,155	11,417,301
Paid losses related to:		
Current year	(202,587)	(8,603,531)
Prior years	(12,577,216)	(2,901,426)
Total paid	(12,779,803)	(11,504,957)
Gross and Net Balance, end of period	30,045,425	23,244,073

9. Losses and Loss Adjustment Expenses (continued)

Management believes that the assumptions used establishing its provision for loss and loss adjustment expenses represent a realistic and appropriate basis for estimating those reserves as of December 31, 2018. 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 balance sheet 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. The current year incurred losses of $14,498,900 (2017: $8,740,501) relate to paid losses for current year claims of $202,587 (2017: $8,603,532) case reserves of $371,298 (2017: $1,709,624) and the establishment of IBNR of $13,925,015 (2017: $1,572,654). The incurred losses for prior year claims of $5,082,255 (2017: $2,676,800) in the year ended December 31, 2018 relate to retroactive and prospective insurance contracts.

Claims Development table:

The following tables show the estimates of cumulative incurred claims, including both claims notified and incurred but not reported ("IBNR") reserves for each year at each reporting date, together with cumulative payments to date.

Cumulative Incurred Claims and Allocated Claim Adjustment Expense, Net of Reinsurance

For the year ended December 31, 2018

	(Unaudited) 2015	(Unaudited) 2016	2017	2018	Total IBNR
	$	$	$	$	$
2015	20,731,906	17,398,714	26,059,164	26,059,358	5,065,098
2016	-	11,902,854	17,254,916	21,650,754	9,439,782
2017	-	-	1,447,087	1,400,559	647,188
2018	-	-	-	15,231,651	14,893,357
Total	20,731,906	29,301,568	44,761,167	64,342,322	30,045,425

Cumulative Paid Claims and Allocated Claim Adjustment Expense, Net of Reinsurance

For the year ended December 31, 2018

	(Unaudited) 2015	(Unaudited) 2016	2017	2018
	$	$	$	$
2015	1,948,623	8,177,804	13,859,602	20,994,260
2016	-	1,777,423	7,282,093	12,210,972
2017	-	-	375,399	753,371
2018	-	-	-	338,294
Total	1,948,623	9,955,227	21,517,094	34,296,897

Gross reserve for loss and loss adjustment expenses, end of year	$30,045,245

9. Losses and Loss Adjustment Expenses (continued)

1) The claims development table has been presented from 2015 onwards on aggregate basis, which captures all of Company's underwriting activities.
2) The Company determined that the disclosure of claim frequency analysis was impracticable as the company has Loss portfolio transfers and information on claim frequencies are not available from legacy systems. As a result, no claims frequency information has been disclosed.

10. Related Parties

The Company entered into an investment management agreement with Sandell Asset Management Corp., ("SAMC") a related party, for the latter to provide various investment management services. No investment management fees were paid to SAMC during the period ended December 31, 2018 (2017 - $nil).

The Company is responsible for paying its own expenses as well as certain expenses of the Investment Manager allowable under the Investment Management Agreement. These allowed expenses may include, but are not limited to, costs associated with rent, insurance, IT support, accounting and auditing costs, legal fees and the Investment Manager's back-office personnel including accounting, legal, compliance, investor relations and administrative personnel. During the period ended December 31, 2018, approximately $117,127 (2017 - $568,545) was reimbursed or due to be reimbursed by the Company to the Investment Manager for these expenses and is included in "General and administrative expenses" on the Consolidated Statement of Operations. Any outstanding balances are interest free and carry no fixed repayment terms.

Loans to affiliates consisted of loan provided to SOBC Sandell during the month of November 2016 for $500,000 and carrying an interest rate of 0.25% above one-month LIBOR rate. The loan, along with accumulated interest, was settled as part of sale consideration for the Company's share of joint venture. The amount of $1,744,713 represents the sale consideration receivable at the end of December 2018.

11. Loan to others

Loan to others consist of a loan note with a principal of $1,205,740 at a simple interest of 5% per annum along with a preferred one time interest payment of $394,260 taken over by 54 Capital Corp from Apollo Insurance Company LLC in November 2017. As part of Share purchase agreement with Randall and Quilter II Limited, the total accumulated interest as at December 31, 2018 of $462,970 was written off in 2018 and only the principal amount of $1,205,740 (2017: 1,205,740) is receivable.

12. Share Capital

	2018	2017
	$	$
Authorized		
11,500,000 common shares of par value of $0.001 each	11,500	11,500
500,000 Class A shares of par value of $0.001 each	500	500
	12,000	12,000
Issued and fully paid:		
Class A shares		
Balance, beginning of period	120	120
Balance, end of period	120	120
Common shares		
Balance, beginning of period	4,918	4,918
Balance, end of period	4,918	4,918
Total issued and fully paid share capital	5,038	5,038

All classes of shares rank pari passu except in the event of liquidation upon which Class A shares rank senior to all other classes.

13. Additional paid in capital

During the year ended December 31, 2018 amounts totaling Nil (2017 - Nil) were provided to the Company by its shareholders as additional paid-in capital. During 2018, there was no repayment of capital. On December 29, 2017 an amount of $7,000,000 was paid to Castlerigg Master Investments as return of capital.

14. Statutory Requirements

As a registered insurance company under the Bermuda '*Insurance Act 1978 amendments thereto and related regulations'* ('the Act') the Subsidiary is required to prepare Statutory Financial Statements and to file a Statutory Financial Return annually (or as otherwise agreed, in certain circumstances). The Act also requires the Subsidiary to meet certain defined measures of solvency and liquidity. The statutory capital and surplus amounted to $39,184,257 (2017 - $38,860,036) as of December 31, 2018. The minimum statutory capital and surplus required by the Act for the Subsidiary's current operations amounted to $6,338,950 (2017 - $4,598,341) at December 31, 2018. The principal difference between the Company's statutory capital and surplus and shareholders' equity as reported in conformity with generally accepted accounting principles relate to prepaid expenses which are non-admitted assets under the Act.

15. Warrants

The Company may from time to time issue warrants to acquire common shares of the Company with a par value of $0.001 per common share to directors and consultants, at an exercise price of $10.00 per common share adjusted from time to time. As of December 31, 2018, 245,877 (2017 - 245,877) warrants to acquire common shares of the Company with a par value of $0.001 per common share issued to Multi-Strat Holdings Ltd. at an exercise price of $10.00 per common share were outstanding. During the period ended December 31, 2018 the Company issued nil (2017 -nil) warrants.

16. Segregated Accounts

As discussed in Note 2, during the year the assets and liabilities of Insuratex were contributed into a segregated account, owned by SOBC Beta Holding Company Limited. Set out below are the condensed balance sheets and statements of operations as of and for the year ended December 31, 2018:

Balance Sheet	$
Cash and cash equivalents	211,599
Restricted cash and cash equivalents	450,000
Barclays PLC - LOC	450,000
Other assets	69,713
Prepaid expenses	7,340
Total assets	1,188,652
Losses and loss adjustment expense reserves	199,680
Losses payable	66,133
Accounts payable and accrued expenses	48,219
Total liabilities	314,032
Share capital	2,244,861
Other fixed capital	450,000
Contributed surplus	573,141
Retained deficit	(2,393,382)
Total shareholder's equity	874,620
Total shareholder's equity and liabilities	1,188,652

Statement of Operations	
Losses and loss adjustments expenses incurred	(188,620)
Operating Expenses	(213,567)
Net Investment Income	10,688
Net loss	(391,499)

17. Comparative information

Certain balances in the 2017 consolidated financial statements have been reclassified to conform to the 2018 consolidated financial statement presentation.

18. Subsequent Events

The holders of 100% of the Class A and Common shares entered into a Share Purchase Agreement dated June 28, 2019 for sale of the Company to Randell & Quilter II Holdings Limited, a company incorporated in England. Management expects the transaction to be completed by end of September 2019 subject to the parties to the transaction meeting their respective obligations set out in the Share Purchase Agreement. The Company has evaluated known recognized and non-recognized subsequent events through September 23, 2019, the date the financial statements were available to be issued. There were no other material events that occurred subsequent to December 31, 2018.