

**SANDELL HOLDINGS LTD.**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
(AND INDEPENDENT AUDITOR'S REPORT THEREON)  
FOR THE YEARS ENDED  
DECEMBER 31, 2016 AND 2015

**SANDELL HOLDINGS LTD.  
CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2016 AND DECEMBER 31, 2015  
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## Independent Auditor's Report

The Board of Directors  
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, 2016 and 2015, 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, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

*KPMG Audit Limited*

Chartered Professional Accountants  
Hamilton, Bermuda  
June 30, 2017

**SANDELL HOLDINGS LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
**AS AT DECEMBER 31, 2016 AND DECEMBER 31, 2015**  
(Expressed in United States Dollars)

	Note	December 31, 2016 \$	December 31, 2015 \$
<b>ASSETS:</b>			
Cash and cash equivalents	3	11,079,997	15,012,178
Restricted cash and cash equivalents	4	18,593,474	21,065,610
Investments in marketable securities, at fair value	3,4,5,7	34,631,433	20,067,308
Derivative assets, at fair value	6,7	344,810	491,109
Investment in Joint Venture	8	3,418,655	-
Reinsurance balances receivable		20,058,790	11,796,771
Funds held by ceding companies		1,491,154	7,819,967
Deferred acquisition costs		-	47,765
Prepaid expenses and other assets		729,278	44,072
<b>Total assets</b>		<b>90,347,591</b>	<b>76,344,780</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>			
<b>LIABILITIES</b>			
Unearned premium		2,612,217	1,313,824
Losses and loss adjustment expenses	9	23,331,729	18,710,203
Reinsurance balances payable		1,448,280	2,457,673
Securities sold short, at fair value	7	4,195,012	3,136,428
Derivative liabilities, at fair value	6,7	102,089	415,679
Accounts payable and accrued expenses		3,577,654	147,980
<b>Total liabilities</b>		<b>35,266,981</b>	<b>26,181,787</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	11	5,038	5,038
Additional paid-in capital	12	49,994,962	49,994,962
Retained earnings		5,080,610	162,993
<b>Total shareholders' equity</b>	13	<b>55,080,610</b>	<b>50,162,993</b>
<b>Total liabilities and shareholders' equity</b>		<b>90,347,591</b>	<b>76,344,780</b>

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

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS:

\_\_\_\_\_  
DIRECTOR

\_\_\_\_\_  
DIRECTOR

**SANDELL HOLDINGS LTD.**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015**  
(Expressed in United States Dollars)

		December 31, 2016	December 31, 2015
	Note	\$	\$
<b>UNDERWRITING INCOME:</b>			
Gross premium written		15,737,889	23,423,183
Change in unearned premium		(1,298,393)	(1,313,824)
Premium earned		14,439,496	22,109,359
<b>UNDERWRITING EXPENSES:</b>			
Losses and loss adjustment expenses incurred	9	12,685,038	20,658,825
Acquisition costs		1,294,060	906,436
Commissions		(508,060)	1,012,617
<b>Total underwriting expenses</b>		<b>13,471,038</b>	<b>22,577,878</b>
<b>NET UNDERWRITING PROFIT/ (LOSS)</b>		<b>968,458</b>	<b>(468,519)</b>
<b>OTHER INCOME AND EXPENSES:</b>			
Investment income, net	5	5,487,870	1,119,946
General and administrative expenses	10	(1,538,711)	(488,434)
<b>Total other income and expenses</b>		<b>3,949,159</b>	<b>631,512</b>
<b>NET INCOME</b>		<b>4,917,617</b>	<b>162,993</b>

*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, 2016 AND 2015**  
(Expressed in United States Dollars)

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	Share Capital \$	Additional Paid-in Capital \$	Retained Earnings \$	Totals \$
Shareholders' equity – January 1, 2015				
Issue of Shares	5,038	-	-	5,038
Additional Paid in Capital	-	49,994,962	-	49,994,962
Net income for the period	-	-	162,993	162,993
<hr/>				
Shareholders' equity – December 31, 2015	5,038	49,994,962	162,993	50,162,993

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	Share Capital \$	Additional Paid-in Capital \$	Retained Earnings \$	Totals \$
Shareholders' equity – January 1, 2016	5,038	49,994,962	162,993	50,162,993
Net income for the period	-	-	4,917,617	4,917,617
<hr/>				
Shareholders' equity – December 31, 2016	5,038	49,994,962	5,080,610	55,080,610

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*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, 2016 AND 2015**  
(Expressed in United States Dollars)

	December 31, 2016	December 31 2015
<b>OPERATING ACTIVITIES:</b>	<b>\$</b>	<b>\$</b>
Net income from operations	4,917,617	162,993
<b>Adjustments to reconcile net income from operations to cash provided by operating activities:</b>		
Net gain on investments	(5,084,829)	(913,953)
<b>Net changes in non-cash balances relating to operations:</b>		
Reinsurance balances receivable	(8,262,019)	(11,796,771)
Investment in Joint venture	(3,418,655)	-
Funds held by ceding companies	6,328,813	(7,819,967)
Deferred acquisition costs	47,765	(47,765)
Prepaid expenses and other assets	(685,206)	(44,072)
Unearned premium	1,298,393	1,313,824
Losses and loss adjustment expenses	4,621,526	18,710,203
Reinsurance balances payable	(1,009,393)	2,457,673
Accounts payable and accrued expenses	3,429,674	147,980
<b>Cash and cash equivalents provided by operating activities</b>	<b>2,183,686</b>	<b>2,170,145</b>
<b>INVESTING ACTIVITIES:</b>		
Change in restricted cash and cash equivalents	2,472,136	(21,065,610)
Purchase of investments and derivatives	(175,443,840)	(53,103,504)
Proceeds from sale of investments and derivatives	166,855,837	37,011,147
<b>Cash and cash equivalents used in investing activities</b>	<b>(6,115,867)</b>	<b>(37,157,967)</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds on issuance of shares	-	50,000,000
<b>Cash and cash equivalents provided by financing activities</b>	<b>-</b>	<b>50,000,000</b>
(Decrease) increase in cash and cash equivalents for the period	(3,932,181)	15,012,178
<b>Cash and cash equivalents, beginning of period</b>	<b>15,012,178</b>	<b>-</b>
<b>Cash and cash equivalents, end of period</b>	<b>11,079,997</b>	<b>15,012,178</b>

*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.

**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:

**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.



2. **Significant Accounting Policies** *(continued)*

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, 2016. 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, 2016.

***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.

***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.

2. **Significant Accounting Policies** *(continued)*

***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.

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.

**2. Significant Accounting Policies** *(continued)*

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 uncertainty 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.

**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.

2. **Significant Accounting Policies** *(continued)*

**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.

**New Accounting Standards Adopted in 2016**

*Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*

In August 2014, the FASB issued Accounting Standards Update 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern" ("ASU 2014-15"). There was no guidance under U.S. GAAP regarding management's responsibility to assess whether there is substantial doubt about an entity's ability to continue as a going concern. Under ASU 2014-15, the Company assesses its ability to continue as a going concern each interim and annual reporting period and provide certain disclosures if there is substantial doubt about the entity's ability to continue as a going concern, including management's plan to alleviate the substantial doubt. ASU 2014-15 was effective for the year ended December 31, 2016. The adoption of ASU 2014-15 did not have on a material impact on the Company's consolidated financial statements.

**Accounting Standards Not Yet Adopted**

*Revenue from Contracts with Customers*

In May 2014, the FASB issued Accounting Standards Update 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.

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.

**SANDELL HOLDINGS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND DECEMBER 31, 2015**

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**2. Significant Accounting Policies** *(continued)*

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

The Company is currently assessing the impact the adoption of ASU 2014-09 will have on future financial statements and related disclosures.

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, 2016 cash and cash equivalents are held with three international financial institutions. As of December 31, 2016 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 \$1,176,855 at December 31, 2016 (2015 - \$1,474,923) to secure liabilities pursuant to the Quota Share Retrocession Agreement with MSRe. Cash and deposits equal to this amount are restricted as collateral for this letter of credit. The Company has also provided its ceding companies with insurance trusts held by Bank of New York Mellon, with cash and deposits amounting to \$8,893,385 (2015 - 4,480,687). The Company also had collateral amounts pledged under prime brokerage agreements of \$830,000 and \$7,693,234 (2015 - \$10,080,000 and \$5,030,000).

**5. Investments in marketable securities**

The fair value of investments by security type as of December 31, 2016 and 2015 are as follows:

	2016	2015
	\$	\$
Equity securities	14,613,208	17,688,790
Debt securities	20,018,225	2,378,518
Total	<u>34,631,433</u>	<u>20,067,308</u>

**SANDELL HOLDINGS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND DECEMBER 31, 2015**

**5. Investments in marketable securities** *(continued)*

Investment income within the Consolidated Statement of Operations for the period ended December 31, 2016 and 2015 consisted of the following:

	2016	2015
	\$	\$
Interest income	315,814	81,357
Dividend income	87,227	124,636
Net realized gains on investments	2,796,654	322,720
Net realized gains on derivatives	2,116,643	306,056
Net unrealized gains on investments	20,150	209,746
Net unrealized gains on derivatives	151,382	75,431
	<u>5,487,870</u>	<u>1,119,946</u>
Net investment income	<u>5,487,870</u>	<u>1,119,946</u>

**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, 2016 and 2015:

	Listing currency	Notional amount of underlying instruments	Fair value of net assets on derivatives
		\$	\$
<b>Derivative assets 2016</b>			
Swaps	USD/GBP/AUD/EUR	19,176,384	344,810

	Listing currency	Notional amount of underlying instruments	Fair value of net liabilities on derivatives
		\$	\$
<b>Derivative liabilities 2016</b>			
Swaps	USD/GBP/AUD/EUR	5,604,357	102,089

SANDELL HOLDINGS LTD.  
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2016 AND DECEMBER 31, 2015

6. Derivative financial instruments *(continued)*

	Listing currency	Notional amount of underlying instruments	Fair value of net assets on derivatives
<b>Derivative assets 2015</b>		\$	\$
Swaps	USD/GBP/AUD/EUR	42,362,114	491,109

	Listing currency	Notional amount of underlying instruments	Fair value of net liabilities on derivatives
<b>Derivative liabilities 2015</b>		\$	\$
Swaps	USD/GBP/AUD/EUR	8,991,008	415,679

The absolute notional exposure represents the Companies derivative activities as of December 31, 2016 and 2015, which is representative of the volume of derivatives held during the periods.

7. Fair value of financial instruments

As of December 31, 2016 and 2015, financial instruments at fair value, categorized by their respective valuation levels, were as follows:

**Assets (at fair value) 2016**

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Equity securities	14,613,208	-	-	14,613,208
Debt securities		20,018,225	-	20,018,225
Total investments in marketable securities	14,613,208	20,018,225		34,631,433
Derivative assets	-	344,810	-	344,810
<b>Total Assets</b>	<b>14,613,208</b>	<b>20,363,035</b>	<b>-</b>	<b>34,976,243</b>

SANDELL HOLDINGS LTD.  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND DECEMBER 31, 2015

7. Fair value of financial instruments (continued)

Liabilities (at fair value)

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Equity securities sold short	4,195,012	-	-	4,195,012
Derivative liabilities	-	102,089	-	102,089
<b>Total Liabilities</b>	<b>4,195,012</b>	<b>102,089</b>	<b>-</b>	<b>4,297,101</b>

Assets (at fair value) 2015

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Equity securities	17,688,790	-	-	17,688,790
Debt securities	-	2,378,518	-	2,378,518
Total investments in marketable securities	17,688,790	2,378,518	-	20,067,308
Derivative assets	-	491,109	-	491,109
<b>Total Assets</b>	<b>17,688,790</b>	<b>2,869,627</b>	<b>-</b>	<b>20,558,417</b>

Liabilities (at fair value)

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Equity securities sold short	3,136,428	-	-	3,136,428
Derivative liabilities	-	415,679	-	415,679
<b>Total Liabilities</b>	<b>3,136,428</b>	<b>415,679</b>	<b>-</b>	<b>3,552,107</b>

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.



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

*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, 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 \$90,224 for the period ended December 31, 2016, half of which is attributed to the Company.

The value of the investment in joint venture using the equity method of accounting as of December 31, 2016 is as follows:

	<b>2016</b>
	<b>\$</b>
Investment in SOBC ( cash consideration)	3,463,767
Company's share of SOBC SANDELL loss (50%)	(45,112)
	<hr/>
Total	3,418,655
	<hr/>

**SANDELL HOLDINGS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND DECEMBER 31, 2015**

**9. Losses and Loss Adjustment Expenses**

The liability for losses and loss adjustment expenses comprises:

	2016	2015
	\$	\$
Outstanding losses	9,674,016	5,994,871
Losses incurred but not reported	13,657,713	12,715,332
	23,331,729	18,710,203

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

	2016	2015
	\$	\$
Gross and Net Balance, beginning of period	18,710,203	-
<b>Incurred losses related to:</b>		
Current year	13,493,797	8,355,116
Prior years	(808,759)	12,303,709
<b>Total incurred</b>	12,685,038	20,658,825
<b>Paid losses related to:</b>		
Current year	(4,894,174)	(693,992)
Prior years	(3,169,338)	(1,254,630)
<b>Total paid</b>	(8,063,512)	(1,948,622)
Gross and Net Balance, end of period	23,331,729	18,710,203

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, 2016. 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 \$13,493,797 relate to paid losses for current year claims of \$4,894,174, case reserves of \$4,872,669 and the establishment of IBNR of \$3,726,954. The incurred losses for prior year claims of (\$808,759) in the year ended December 31, 2016 relate to retroactive insurance contracts written for the period from December 18, 2014 to December 31, 2015.

**SANDELL HOLDINGS LTD.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND DECEMBER 31, 2015**

**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, 2016 (2015 - \$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, 2016, approximately \$848,723 (2015 - 165,174) 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.

**11. Share Capital**

	2016	2015
	\$	\$
<b>Authorized</b>		
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
	<u>12,000</u>	<u>12,000</u>
<b>Issued and fully paid:</b>		
<b>Class A shares</b>		
Balance, beginning of period	120	-
Issued during the period		
120,000 shares of par value of \$0.001 each	-	120
	<u>120</u>	<u>120</u>
<b>Common shares</b>		
Balance, beginning of period	4,918	-
Issued during the period		
4,917,540 shares of par value of \$0.001 each	-	4,918
	<u>4,918</u>	<u>4,918</u>
<b>Total issued and fully paid share capital</b>	<u>5,038</u>	<u>5,038</u>

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

**12. Additional paid in capital**

During the year ended December 31, 2016 amounts totaling \$nil (2015 - \$49,994,962) were provided to the Company by its shareholders as additional paid-in capital.

**13. 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 \$55,032,613 (2015 - \$50,093,080) as of December 31, 2016. The minimum statutory capital and surplus required by the Act for the Subsidiary's current operations amounted to \$3,731,208 (2015 - \$3,813,477) at December 31, 2016. 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.

**14. 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, 2016, 245,877 (2015 - 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, 2016 the Company issued nil (2015 -245,877) warrants.

**15. Subsequent Events**

The Company has evaluated known recognized and non-recognized subsequent events through June 30, 2017, the date the financial statements were available to be issued. There were no material events that occurred subsequent to December 31, 2016.



**Sandell Holdings Ltd.**  
Consolidation working paper  
**Balance Sheet**

As at December 31, 2016  
Expressed in United States Dollars

	Sandell Holdings December 31 2016	Sandell Re December 31 2016	Adjustments December 31 2016	Consolidated December 31 2016
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,439,356	\$ 26,234,115	\$ -	\$ 29,673,471
Investments in marketable securities, at fair value	-	34,631,433	-	34,631,433
Derivative assets, at fair value	-	344,810	-	344,810
Investment in Joint Venture	3,418,655	-	-	3,418,655
Reinsurance balances receivable	-	20,058,790	-	20,058,790
Investment in subsidiary	49,975,000	-	(49,975,000)	-
Intercompany Loan	-	3,941,620	(3,941,620)	-
Intercompany notes receivable	500,487	-	-	500,487
Accrued investment income	-	121,874	-	121,874
Funds held by ceding company	-	1,491,154	-	1,491,154
Prepaid expenses	8,421	98,496	-	106,917
	<u>\$ 57,341,919</u>	<u>\$ 86,922,292</u>	<u>\$ (53,916,620)</u>	<u>\$ 90,347,591</u>
<b>LIABILITIES</b>				
Unearned premiums	-	2,612,217	-	2,612,217
Outstanding loss reserves	\$ -	\$ 9,674,016	\$ -	\$ 9,674,016
IBNR reserves	-	13,657,713	-	13,657,713
Reinsurance balances payable	-	1,448,280	-	1,448,280
Securities sold short, at fair value	-	4,195,012	-	4,195,012
Derivative liabilities, at fair value	-	102,089	-	102,089
Accounts payable and accrued expenses	3,463,767	113,887	-	3,577,654
Amount due to parent/subsidiary	12,030	(12,030)	-	-
Intercompany Loan	3,941,620	-	(3,941,620)	-
	<u>7,417,417</u>	<u>31,791,184</u>	<u>(3,941,620)</u>	<u>35,266,981</u>
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	\$ 5,038	\$ 120,000	(120,000)	\$ 5,038
Contributed surplus	49,994,962	49,855,000	(49,855,000)	49,994,962
Retained earnings - Prior year	(8,009)	171,001	-	162,992
Retained earnings - Current Period	(67,489)	4,985,107	-	4,917,618
	<u>49,924,502</u>	<u>55,131,108</u>	<u>(49,975,000)</u>	<u>55,080,610</u>
	<u>\$ 57,341,919</u>	<u>\$ 86,922,292</u>	<u>\$ (53,916,620)</u>	<u>\$ 90,347,591</u>



**Sandell Holdings Ltd.**  
Consolidation working paper  
**Statement of Income**

For the year ended December 31, 2016  
Expressed in United States Dollars

	Sandell Holdings December 31 2016	Sandell Re December 31 2016	Consolidated December 31 2016
<b>UNDERWRITING INCOME</b>			
Net premiums written	\$ -	\$ 15,737,889	\$ 15,737,889
Change in unearned premium reserve	-	(1,298,393)	(1,298,393)
Reinsurance premiums earned	-	14,439,496	14,439,496
	<u>-</u>	<u>14,439,496</u>	<u>14,439,496</u>
<b>UNDERWRITING EXPENSES</b>			
Losses and loss expenses	-	8,063,515	8,063,515
Movement in loss reserves	-	4,621,523	4,621,523
Acquisition costs	-	1,294,060	1,294,060
Commissions	-	(508,060)	(508,060)
	<u>-</u>	<u>13,471,038</u>	<u>13,471,038</u>
<b>NET UNDERWRITING PROFIT</b>	-	968,458	968,458
Investment income, net	487	5,487,383	5,487,870
General and administrative expenses	<u>(67,977)</u>	<u>(1,470,734)</u>	<u>(1,538,711)</u>
<b>NET INCOME (LOSS)</b>	<u>(67,490)</u>	<u>4,985,107</u>	<u>4,917,617</u>



**Sandell Holdings Ltd.**  
Consolidation working paper  
**Statement of Changes in Shareholders' Equity**

For the year ended December 31, 2016  
Expressed in U.S. Dollars

	Sandell Holdings December 31 2016	Sandell Re December 31 2016	Adjustments December 31 2016	Consolidated December 31 2016
<b>SHARE CAPITAL</b>				
Balance at beginning of period	\$ 5,038	\$ 120,000	(120,000)	5,038
Change for the period	-	-	-	-
	<u>\$ 5,038</u>	<u>\$ 120,000</u>	<u>\$ (120,000)</u>	<u>\$ 5,038</u>
<b>CONTRIBUTED SURPLUS</b>				
Balance at beginning of period	\$ 49,994,962	\$ 49,855,000	(49,855,000)	49,994,962
Change for the period	-	-	-	-
	<u>\$ 49,994,962</u>	<u>\$ 49,855,000</u>	<u>\$ (49,855,000)</u>	<u>\$ 49,994,962</u>
<b>RETAINED EARNINGS</b>				
Balance at beginning of period	\$ (8,009)	\$ 171,001		162,992
Net income (loss) for the period	(67,489)	4,985,107		4,917,618
	<u>\$ (75,498)</u>	<u>\$ 5,156,108</u>	<u>\$ -</u>	<u>\$ 5,080,610</u>
Balance at end of period	<u>\$ 49,924,502</u>	<u>\$ 55,131,108</u>	<u>\$ (49,975,000)</u>	<u>\$ 55,080,610</u>