

FERGUS REINSURANCE LIMITED

FINANCIAL STATEMENTS

(AND INDEPENDENT AUDITORS' REPORT THEREON)

FOR THE YEARS ENDED

DECEMBER 31, 2022 AND 2021

FERGUS REINSURANCE LIMITED
FINANCIAL STATEMENTS
AS AT DECEMBER 31, 2022 AND 2021
CONTENTS

| | |
|-----------------------------------------------------|--------|
| Independent Auditors' Report | 2 - 3 |
| Statements of Financial Position | 4 |
| Statements of Comprehensive Income | 5 |
| Statements of Changes in Shareholder's Equity | 6 |
| Statements of Cash Flows | 7 |
| Notes to the Financial Statements | 8 - 30 |



INDEPENDENT AUDITORS' REPORT

To the Shareholder,
Fergus Reinsurance Limited,

Opinion

We have audited the financial statements of Fergus Reinsurance Limited (the "Company"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of comprehensive income, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Fergus Reinsurance Limited as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



INDEPENDENT AUDITORS' REPORT *(continued)*

Auditors' Responsibilities for the Audit of the Financial Statements *(continued)*

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audits in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control related matters that we identified during the audits.

A handwritten signature in black ink that reads "Mazars Limited".

Chartered Professional Accountants
Hamilton, Bermuda
May 30, 2023

FERGUS REINSURANCE LIMITED
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022 AND 2021
(Expressed in United States Dollars)

| | December 31 2022 | December 31 2021 |
|---------------------------------------------------|---------------------|---------------------|
| Note | \$ | \$ |
| ASSETS: | | |
| Cash and cash equivalents | 3 9,007,067 | 10,038,097 |
| Cash and cash equivalents – restricted | 3,4 35,956,826 | 106,849,622 |
| Investments | 3,4,5,6 142,584,000 | 3,499,678 |
| Accrued interest | 626,945 | 42,702 |
| Reinsurance balances receivable | 9,990,699 | 17,191,113 |
| Funds withheld | 7 2,379,553 | 2,007,495 |
| Deferred acquisition costs | 14,417,282 | 12,195,989 |
| Prepaid expenses | 30,136 | 72,322 |
| Total assets | 214,992,508 | 151,897,018 |
| LIABILITIES AND SHAREHOLDER'S EQUITY: | | |
| LIABILITIES | | |
| Unearned premium | 13 46,707,935 | 37,523,472 |
| Losses and loss adjustment expenses | 9 72,611,807 | 49,201,238 |
| Funds held for reinsured company | 10,303 | 10,303 |
| Reinsurance balances payable | 12,175,854 | 8,070,745 |
| Deferred income | 9 2,692,972 | 3,660,183 |
| Deposit liabilities | 10 925,331 | 1,037,748 |
| Accounts payable and accrued expenses | 8 641,874 | 408,440 |
| Share subscriptions received in advance | 12 - | 500,000 |
| Total liabilities | 135,766,076 | 100,412,129 |
| SHAREHOLDER'S EQUITY | | |
| Share capital | 11 120,000 | 3,159,924 |
| Share premium | 12 - | 45,694,076 |
| Additional paid-in capital | 12 78,181,421 | 8,432,421 |
| Retained earnings (deficit) | 1,342,051 | (5,862,797) |
| Accumulated other comprehensive (loss) income | (417,040) | 61,265 |
| Total shareholder's equity | 79,226,432 | 51,484,889 |
| Total liabilities and shareholder's equity | 214,992,508 | 151,897,018 |

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

SIGNED ON BEHALF OF THE BOARD OF DIRECTORS:

DIRECTOR

DIRECTOR

FERGUS REINSURANCE LIMITED
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(Expressed in United States Dollars)

| | Note | December 31 2022 \$ | December 31 2021 \$ |
|---------------------------------------------------------------------------------|------|---------------------------|---------------------------|
| UNDERWRITING INCOME: | | | |
| Premiums earned, net | 13 | 87,226,441 | 48,522,580 |
| UNDERWRITING EXPENSES: | | | |
| Losses and loss adjustment expenses incurred | 9 | 52,043,942 | 23,629,746 |
| Acquisition costs | | 28,082,372 | 16,248,482 |
| Change in deferred income | 9 | (967,211) | 2,842,021 |
| Other underwriting expense | | 152,393 | 33,636 |
| Total underwriting expenses | | 79,311,496 | 42,753,885 |
| NET UNDERWRITING PROFIT | | 7,914,945 | 5,768,695 |
| OTHER INCOME AND EXPENSES: | | | |
| Investment income (loss), net | 5,8 | 1,134,432 | (187,030) |
| General and administrative expenses | 8 | (1,982,765) | (1,595,937) |
| Total other income and expenses | | (848,333) | (1,782,967) |
| NET INCOME FROM OPERATIONS | | 7,066,612 | 3,985,728 |
| OTHER COMPREHENSIVE INCOME (LOSS): | | | |
| Net unrealized holding losses arising during the year | | (410,425) | (107,382) |
| Less: Reclassification adjustment for net realized gains included in net income | | (67,880) | (78,397) |
| COMPREHENSIVE INCOME | | 6,588,307 | 3,799,949 |

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

FERGUS REINSURANCE LIMITED
STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Expressed in United States Dollars)

| | Share capital \$ | Share premium \$ | Additional paid-in capital \$ | Retained (deficit) earnings \$ | Accumulated other comprehensive income (loss) \$ | Total \$ |
|-----------------------------------------------|------------------------|------------------------|----------------------------------------|-----------------------------------------|--------------------------------------------------------------|-------------|
| Shareholders' equity December 31, 2020 | 3,036,744 | 35,267,256 | 8,432,421 | (9,659,275) | 247,044 | 37,324,190 |
| Contributed during the year | 149,574 | 12,400,426 | - | - | - | 12,550,000 |
| Redeemed during the year | (26,394) | (1,973,606) | - | (189,250) | - | (2,189,250) |
| Comprehensive income for the year | - | - | - | 3,985,728 | (185,779) | 3,799,949 |
| Shareholders' equity December 31, 2021 | 3,159,924 | 45,694,076 | 8,432,421 | (5,862,797) | 61,265 | 51,484,889 |
| Contributed during the year | 90,643 | 8,144,357 | 12,930,000 | - | - | 21,165,000 |
| Redeemed during the year | (1,500) | (148,500) | - | 138,236 | - | (11,764) |
| Conversion of redeemable preference shares | (3,129,067) | (53,689,933) | 56,819,000 | - | - | - |
| Comprehensive income for the year | - | - | - | 7,066,612 | (478,305) | 6,588,307 |
| Shareholder's equity December 31, 2022 | 120,000 | - | 78,181,421 | 1,342,051 | (417,040) | 79,226,432 |

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

FERGUS REINSURANCE LIMITED
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Expressed in United States Dollars)

| | December 31 2022 | December 31 2021 |
|-------------------------------------------------------------------------------------------------------------------------------|----------------------|---------------------|
| OPERATING ACTIVITIES: | \$ | \$ |
| Net income from operations | 7,066,612 | 3,985,728 |
| Adjustments to reconcile net income from operations to net cash and cash equivalents provided by operating activities: | | |
| Amortization of net premiums on investments | (150,603) | 71,397 |
| Realized gains on sale of investments | (67,880) | (78,397) |
| Net changes in non-cash balances relating to operations: | | |
| Accrued interest | (584,243) | 79,292 |
| Reinsurance balances receivable | 7,200,414 | 10,574,198 |
| Funds withheld | (372,058) | (683,799) |
| Deferred acquisition costs | (2,221,293) | (6,824,751) |
| Prepaid expenses | 42,186 | (42,188) |
| Unearned premium | 9,184,463 | 20,941,067 |
| Losses and loss adjustment expenses | 23,410,569 | 8,003,362 |
| Funds held for reinsured company | - | (59,298) |
| Reinsurance balances payable | 4,105,109 | 4,727,362 |
| Deferred income | (967,211) | 2,842,021 |
| Deposit liabilities | (112,417) | (60,000) |
| Accounts payable and accrued expenses | 233,434 | 150,760 |
| Share subscriptions received in advance | (500,000) | 500,000 |
| Cash and cash equivalents provided by operating activities | 46,267,082 | 44,126,754 |
| FINANCING ACTIVITIES: | | |
| Additional paid-in capital | 12,930,000 | - |
| Issuance of preference shares | 7,735,000 | 12,550,000 |
| Redemptions of preference shares | - | (2,189,250) |
| Cash and cash equivalents provided by financing activities | 20,665,000 | 10,360,750 |
| INVESTING ACTIVITIES: | | |
| Purchase of investments | (157,341,330) | - |
| Proceeds from sale of investments | 18,485,422 | 6,023,247 |
| Cash and cash equivalents (used in) provided by investing activities | (138,855,908) | 6,023,247 |
| (Decrease) increase in cash, cash equivalents and restricted cash and cash equivalents for the year | (71,923,826) | 60,510,751 |
| Cash, cash equivalents and restricted cash and cash equivalents, beginning of year | 116,887,719 | 56,376,968 |
| Cash, cash equivalents and restricted cash and cash equivalents, end of year | 44,963,893 | 116,887,719 |
| Comprised of: | | |
| Cash and cash equivalents | 9,007,067 | 10,038,097 |
| Restricted cash and cash equivalents | 35,956,826 | 106,849,622 |
| Supplemental information: | | |
| Additional paid-in capital in-kind | 56,819,000 | - |

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

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

(Expressed in United States Dollars)

1. The Company

Fergus Reinsurance Limited (the “Company”), was incorporated under the laws of Bermuda on June 11, 2008 and is registered as a Class 3A insurer under The Insurance Act 1978, amendments thereto and related regulations (the “Act”). The Company is managed and has its principal place of business in Bermuda. The Company was privately owned by a limited group of U.S. persons. During the year ended December 31, 2022, ownership of the Company transferred to Fergus Holdings Limited.

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

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

As of December 31, 2022, there was one (2021: two) active segregated accounts within the Company. One of the segregated accounts assumed a 2% share of a specific reinsurance program within the Company’s general account. During the year ended December 31, 2022, this business was novated to the other segregated account and the cell was closed. The other segregated account assumes all of the business within the Company’s general account.

2. Significant accounting policies

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

Use of estimates

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

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

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

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

2. Significant accounting policies *(continued)*

Presentation of amounts relating to segregated accounts

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

Cash and cash equivalents

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

Investments

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

Revenue recognition and acquisition costs

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

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

Interest income and general and administrative expenses

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

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

2. Significant accounting policies *(continued)*

Losses and loss adjustment expenses

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

Foreign currency transactions

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

Taxation

Under current Bermuda law, the Company is not required to pay taxes in Bermuda on either income or capital gains. The Company has received an undertaking from the Minister of Finance in Bermuda that in the event of such taxes being imposed, the Company will be exempted from taxation until the year 2035. The Company is subject to withholding tax on investment income from foreign securities.

Legal/regulatory risk

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

New accounting standards adopted during the year

A number of new and revised standards were effective for the year ended December 31, 2022, and have been applied in the preparation of these financial statements, including:

In October 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-10, Codification Improvements. The amendments in this update contain improvements that vary in nature and enhance the consistency of the Codification. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2021.

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

2. Significant accounting policies *(continued)*

New accounting standards to be adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended December 31, 2022 and have not been applied in the preparation of these financial statements. Those which may be relevant to the financial statements of the Company are as follows:

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this update significantly change the impairment model for most financial assets that are measured at amortized cost and certain other instruments from an incurred loss model to an expected loss model. The update also provides for recording credit losses on available-for-sale debt securities through an allowance account. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2022.

In November 2018, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments—Credit Losses. This update defers the implementation date of the new credit loss standard for nonpublic entities by one year, and clarifies that operating lease receivables are not within its scope. The amendments are effective upon adoption of the amendments in ASU 2016-13.

In May 2019, the FASB issued ASU 2019-05, Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief. This update provides transition relief by providing entities with an alternative to irrevocably elect the fair value option for eligible financial assets measured at amortized cost upon adoption of the credit losses standard. The amendments are effective upon adoption of the amendments in ASU 2016-13.

In November 2019, the FASB issued ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses. This update was issued to clarify the new credit impairment guidance in ASC 326 based on implementation issues raised by stakeholders. The amendments are effective upon adoption of the amendments in ASU 2016-13.

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, 2022 and 2021, cash and cash equivalents are held with four and four international financial institutions, respectively. As of December 31, 2022 and 2021, the Company's investment portfolios are held by three and two large internationally recognized financial institutions, respectively.

4. Pledged assets

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

Accordingly, at December 31, 2022 and 2021, cash and cash equivalents amounting to \$35,956,826 and \$106,849,622, respectively, and investments with a carrying value of \$131,712,878 and \$2,401,229, respectively, are restricted.

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

5. Investments

The cost or amortized cost, gross unrealized holding gains and losses, and estimated fair value of available for sale investments at December 31, 2022 and 2021 are as follows:

| | Cost/ Amortized Cost \$ | Gross Unrealized Gains \$ | Gross Unrealized Losses \$ | Fair Value \$ |
|-------------------------------------|----------------------------------|------------------------------------|-------------------------------------|---------------------|
| As at December 31, 2022 | | | | |
| Fixed maturity investments: | | | | |
| U.S. government obligations | 51,938,003 | 147,333 | (342,346) | 51,742,990 |
| Agency bonds | 54,147,567 | 85,478 | (339,723) | 53,893,322 |
| Collateralized mortgage obligations | 342,299 | 5,913 | - | 348,212 |
| Corporate bonds | 36,573,171 | 144,101 | (117,796) | 36,599,476 |
| Total investments | 143,001,040 | 382,825 | (799,865) | 142,584,000 |
| As at December 31, 2021 | | | | |
| Fixed maturity investments: | | | | |
| U.S. government obligations | 60,700 | 1,312 | - | 62,012 |
| Collateralized mortgage obligations | 343,546 | 4,664 | - | 348,210 |
| Corporate bonds | 2,970,898 | 122,666 | (4,108) | 3,089,456 |
| Total investments | 3,375,144 | 128,642 | (4,108) | 3,499,678 |

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

5. Investments *(continued)*

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

| | 2022 | | 2021 | |
|-------------------------------------|------------|-----------------|------------|-----------------|
| | Fair Value | Unrealized Loss | Fair Value | Unrealized Loss |
| | \$ | \$ | \$ | \$ |
| Fixed maturity investments: | | | | |
| U.S. government obligations | 18,645,927 | (342,346) | - | - |
| Agency bonds | 31,541,929 | (339,723) | - | - |
| Collateralized mortgage obligations | - | - | - | - |
| Corporate bonds | 16,951,475 | (117,796) | 204,290 | (4,108) |
| Investments available for sale | 67,139,331 | (799,865) | 204,290 | (4,108) |

As of December 31, 2022 and 2021, there were 311 and 6 securities, respectively, in an unrealized loss position with an estimated fair value of \$67,139,331 and \$204,290, respectively. Of these securities, there were 0 and 3 at December 31, 2022 and 2021 with an estimated fair value of \$- and \$120,836 that had been in an unrealized loss position for 12 months or greater; none of these securities were considered to be other than temporarily impaired. The Company has no intent to sell, and it is not more likely than not that the Company will be required to sell these securities before their fair values recover above the adjusted cost. The unrealized losses from these securities were not a result of credit, collateral or structural issues.

The cost or amortized cost, estimated fair value, and contractual maturity of fixed maturity investments at December 31, 2022 and 2021 are shown below. Expected maturities may differ from contractual maturities as borrowers may have the right to call or prepay obligations without penalties.

| | December 31, 2022 | | December 31, 2021 | |
|-----------------------------------|---------------------|-------------|---------------------|------------|
| | Amortized Cost/Cost | Fair Value | Amortized Cost/Cost | Fair Value |
| | \$ | \$ | \$ | \$ |
| Due within one year | 75,484,614 | 75,600,574 | 2,103,438 | 2,182,621 |
| Due after one year to five years | 67,174,126 | 66,635,214 | 928,160 | 968,847 |
| Due after five years to ten years | - | - | - | - |
| Due after more than ten years | 342,300 | 348,212 | 343,546 | 348,210 |
| Total fixed maturity securities | 143,001,040 | 142,584,000 | 3,375,144 | 3,499,678 |

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

5. Investments *(continued)*

The following table sets forth certain information regarding the investment ratings of the Company's available for sale fixed maturity securities for the years ended December 31, 2022 and 2021. Ratings are the lower of those assigned by Standard & Poor's or Moody's.

| | December 31, 2022 | | December 31, 2021 | |
|---------------|------------------------------|------------|------------------------------|------------|
| | Amortized Cost/Cost \$ | % | Amortized Cost/Cost \$ | % |
| AAA | 4,954,331 | 3 | 343,546 | 10 |
| AA | 65,248,905 | 46 | 161,098 | 5 |
| A | 42,852,043 | 30 | 395,212 | 12 |
| BBB | 25,968,894 | 18 | 2,231,592 | 66 |
| BB+ and lower | 3,976,867 | 3 | 243,696 | 7 |
| | 143,001,040 | 100 | 3,375,144 | 100 |

Major categories of net investment income (loss) are summarized as follows:

| | 2022 \$ | 2021 \$ |
|-------------------------------|------------------|------------------|
| Interest income | 1,702,801 | 314,358 |
| Amortization income (expense) | 150,603 | (71,378) |
| Realized gains | 67,880 | 78,397 |
| Investment expenses | (786,852) | (508,407) |
| Net investment income (loss) | 1,134,432 | (187,030) |

6. Fair value of financial instruments

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

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

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

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

Investments:

The following tables show the fair value of the Company's investments in accordance with ASC 820, "Fair Value Measurements and Disclosures" as of December 31, 2022 and 2021.

| | Total fair value | Quoted prices in active markets for identical assets (Level 1) | Fair value measurement using | |
|-------------------------------------|------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
| | | | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| | \$ | \$ | \$ | \$ |
| December 31, 2022: | | | | |
| Fixed maturity investments: | | | | |
| U.S. government obligations | 51,742,990 | 51,742,990 | - | - |
| Agency bonds | 53,893,322 | - | 53,893,322 | - |
| Collateralized mortgage obligations | 348,212 | - | 348,212 | - |
| Corporate bonds | 36,599,476 | - | 36,599,476 | - |
| Total investments | 142,584,000 | 51,742,990 | 90,841,010 | - |

| | Total fair value | Quoted prices in active markets for identical assets (Level 1) | Fair value measurement using | |
|-------------------------------------|------------------|----------------------------------------------------------------|-----------------------------------------------|-------------------------------------------|
| | | | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| | \$ | \$ | \$ | \$ |
| December 31, 2021: | | | | |
| Fixed maturity investments: | | | | |
| U.S. government obligations | 62,012 | 62,012 | - | - |
| Collateralized mortgage obligations | 348,210 | - | 348,210 | - |
| Corporate bonds | 3,089,456 | - | 3,089,456 | - |
| Total investments | 3,499,678 | 62,012 | 3,437,666 | - |

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

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

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

The three levels are defined as follows:

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

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

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

At each measurement date, the Company estimates the fair value of the financial instrument using various valuation techniques. The Company utilizes, to the extent available, quoted market prices in active markets or observable market inputs in estimating the fair value of the investments. When quoted market prices or observable market inputs are not available, the Company utilizes valuation techniques that rely on unobservable inputs to estimate the fair value of investments. The following describes the valuation techniques used to determine the fair value of investments held as of December 31, 2022 and 2021 and what level within the fair value hierarchy each valuation technique resides:

Fixed maturity investments:

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

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

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

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

There have been no material changes to any of the Company's valuation techniques from what was used as of December 31, 2021. Since the fair value of a financial instrument is an estimate of what a willing buyer would pay for the asset if sold, the Company will not know the ultimate value of the financial instruments until they are sold. The Company believes the valuation techniques utilized provide it with the best estimate of the price that would be received to sell the assets or transfer the liabilities in an orderly transaction between participants at the measurement date.

Other assets and liabilities:

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

The estimates of fair values presented herein are subjective in nature and are not necessarily indicative of the amounts that the Company would actually realize in a current market exchange. However, any differences would not be expected to be material. Certain instruments such as other assets, unearned premiums, outstanding losses and loss expenses and deposit liabilities are excluded from fair value disclosure. Thus the total fair value amounts cannot be aggregated to determine underlying economic value of the Company.

7. Funds withheld

Pursuant to certain reinsurance contracts, the Company is required to provide security for the payment of its obligations. Included in funds withheld is \$925,331 and \$1,037,748 at December 31, 2022 and 2021, respectively, provided as security for the policy recorded as a deposit liability as disclosed in Note 10.

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

8. Related party transactions

Included in investment expenses for the years ended December 31, 2022 and 2021 are \$735,287 and \$449,094, respectively, relating to investment management fees charged by a company owned by a director and shareholder of the Company, of which \$171,531 and \$132,697 were payable at December 31, 2022 and 2021 and are included within accounts payable and accrued expenses of \$641,874 and \$408,440, respectively. An investment management agreement is in place and the fees charged are based on a percentage of assets under management.

Included in general and administrative expenses for year ended December 31, 2022 are fees paid to Directors and Shareholders of the Company for consulting services of \$535,000 (2021: \$306,667) and fees paid to Directors of \$13,333 (2021: \$15,700).

9. Losses and loss adjustment expenses

The liability for losses and loss adjustment expenses comprises:

| | 2022 | 2021 |
|-------------------------------------------|------------|------------|
| | \$ | \$ |
| Outstanding losses | 32,692,022 | 22,578,336 |
| Losses incurred but not reported ("IBNR") | 39,919,785 | 26,622,902 |
| | 72,611,807 | 49,201,238 |

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

| | 2022 | 2021 |
|------------------------------------|------------|------------|
| | \$ | \$ |
| Gross balance at beginning of year | 49,201,238 | 41,197,877 |
| Less: Reinsurance recoverable | - | - |
| Net balance at beginning of year | 49,201,238 | 41,197,877 |
| Incurred losses related to: | | |
| Current year | 46,866,419 | 11,180,537 |
| Prior years | 5,177,523 | 12,449,209 |
| Total incurred | 52,043,942 | 23,629,746 |
| Paid losses related to: | | |
| Current year | 8,031,347 | 385,837 |
| Prior years | 20,602,026 | 15,240,548 |
| Total paid | 28,633,373 | 15,626,385 |
| Net balance at end of year | 72,611,807 | 49,201,238 |
| Plus: Reinsurance recoverable | - | - |
| Gross balance at end of year | 72,611,807 | 49,201,238 |

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

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

Effective December 2020, the Company entered into two novation agreements for a combined premium of \$21,238,586. Effective January 2021, the Company entered into an additional novation agreement, for a premium of \$3,091,142. The resulting gain on the agreements was deferred for amortization over the anticipated payout period. During 2022, \$967,211 was recognized as income (2021: expense of \$2,842,021) with the remaining \$2,692,972 (2021: \$3,660,183) deferred at year end.

Management believes that the assumptions used to establish its provision for losses and loss adjustment expenses represent a realistic and appropriate basis for estimating those reserves as of December 31, 2022 and 2021.

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

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

The following tables present information about incurred and paid claims development as of December 31, 2022, net of reinsurance, as well as cumulative claim frequency and the total of IBNR reserves plus expected development on reported claims. The tables include unaudited information about incurred and paid claims development for the years ended December 31, 2013 through 2016, which presented as supplementary information.

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

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

Workers compensation:

| | | | | | | | | | | At December 31, 2022 | | | |
|--------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|----------------------|----------------------------------------------|---------------------------|--------|
| Incurred claims and allocated claim adjustment expenses, net of reinsurance | | | | | | | | | | Total IBNR | Cumulative | | |
| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Plus Expected Development on Reported Claims | Number of Reported Claims | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | | | |
| | Unaudited | | | | | | | | | | | | |
| 2013 | 1,258,816 | 2,947,157 | 2,931,948 | 2,967,069 | 2,905,605 | 2,966,802 | 2,867,698 | 2,766,108 | 2,746,238 | 2,673,861 | 31,452 | 180 | |
| 2020 | | | | | | | | | 8,854,075 | 6,893,813 | 9,323,914 | 1,293,435 | 19,504 |
| | | | | | | | | | | | 11,997,775 | 1,324,887 | |
| Older years, prior to 2014 | | | | | | | | | | | 6,261,090 | 66,415 | |
| | | | | | | | | | | | 18,258,865 | 1,391,302 | |
| Paid claims and allocated claim adjustment expenses, net of reinsurance | | | | | | | | | | | | | |
| For the years ended December 31 | | | | | | | | | | | | | |
| Accident Year | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | | | |
| | Unaudited | | | | | | | | | | | | |
| 2013 | 103,260 | 691,951 | 1,453,267 | 1,923,325 | 2,325,108 | 2,568,787 | 2,614,167 | 2,635,529 | 2,648,263 | 2,657,688 | | | |
| 2020 | | | | | | | | | 2,234,662 | 4,407,591 | | | |
| | | | | | | | | | | | 7,065,279 | | |
| Older years, prior to 2013 | | | | | | | | | | | 6,062,992 | | |
| | | | | | | | | | | | 13,128,271 | | |
| Liability for losses and loss adjustment expenses, net of reinsurance | | | | | | | | | | | 5,130,594 | | |

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

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

Commercial trucking:

| Accident Year | Incurred claims and allocated claim adjustment expenses, net of reinsurance | | | | | | | | | | At December 31, 2022 | |
|----------------------------|-----------------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|---------------------------------------------------------|--------------------------------------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total IBNR Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| | Unaudited | | | | | | | | | | | |
| 2013 | 44,949 | 47,840 | 49,845 | 250,901 | 245,425 | 250,610 | 164,327 | 163,575 | 163,576 | 163,576 | - | - |
| 2014 | | 2,297,179 | 2,361,053 | 2,869,806 | 3,556,472 | 3,808,838 | 4,534,314 | 5,137,953 | 5,173,319 | 5,173,319 | - | 279 |
| 2015 | | | 4,574,069 | 4,204,849 | 5,668,278 | 6,797,732 | 7,816,984 | 8,098,669 | 8,208,428 | 8,208,428 | - | 1,306 |
| 2016 | | | | 4,961,545 | 6,087,307 | 7,617,075 | 8,354,756 | 9,032,358 | 8,403,284 | 8,403,284 | - | 1,478 |
| 2017 | | | | | 3,338,271 | 3,611,956 | 4,465,960 | 5,166,910 | 5,126,131 | 5,126,131 | - | 901 |
| 2018 | | | | | | 1,146,612 | 1,427,231 | 1,573,613 | 2,009,103 | 2,009,103 | - | 316 |
| 2019 | | | | | | | 76,094 | - | - | - | - | - |
| 2020 | | | | | | | | 905,651 | 4,215,335 | 4,315,335 | 931,058 | 2,251 |
| 2021 | | | | | | | | | 1,644,512 | 1,533,350 | 1,700,107 | 6,124 |
| 2022 | | | | | | | | | | 19,038,556 | 6,818,669 | 1,629 |
| | | | | | | | | | | 53,971,082 | 9,449,834 | |
| Older years, prior to 2013 | | | | | | | | | | - | - | |
| | | | | | | | | | | 53,971,082 | 9,449,834 | |

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

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

Commercial trucking *(continued)*:

| Accident year | Paid claims and allocated claim adjustment expenses, net of reinsurance | | | | | | | | | |
|-----------------------------------------------------------------------|-------------------------------------------------------------------------|---------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|
| | For the years ended December 31 | | | | | | | | | |
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| | Unaudited | | | | | | | | | |
| 2013 | 1,272 | 8,304 | 30,186 | 226,712 | 241,234 | 243,840 | 163,575 | 163,575 | 163,576 | 163,576 |
| 2014 | | 350,087 | 1,017,968 | 1,652,291 | 3,080,706 | 3,356,844 | 3,811,756 | 4,252,369 | 4,902,138 | 4,927,649 |
| 2015 | | | 734,021 | 1,778,851 | 3,108,288 | 4,932,447 | 6,313,001 | 8,003,303 | 8,141,354 | 8,144,717 |
| 2016 | | | | 863,558 | 2,581,635 | 4,766,515 | 6,266,212 | 7,397,108 | 7,952,427 | 9,256,083 |
| 2017 | | | | | 661,842 | 1,364,560 | 2,655,072 | 3,918,608 | 4,503,382 | 4,899,489 |
| 2018 | | | | | | 288,588 | 550,700 | 841,267 | 1,439,509 | 1,634,097 |
| 2019 | | | | | | | - | - | - | - |
| 2020 | | | | | | | | 401,136 | 2,352,352 | 4,149,724 |
| 2021 | | | | | | | | | 69,786 | 1,532,924 |
| 2022 | | | | | | | | | | 3,809,456 |
| | | | | | | | | | | 38,517,715 |
| Older years, prior to 2013 | | | | | | | | | | - |
| | | | | | | | | | | 38,517,715 |
| Liability for losses and loss adjustment expenses, net of reinsurance | | | | | | | | | | 15,453,367 |

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

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

General liability:

| Accident year | Incurred claims and allocated claim adjustment expenses, net of reinsurance | | | | | | | | At December 31, 2022 | |
|---------------|-----------------------------------------------------------------------------|------|------|------|-----------|------------|------------|------------|----------------------|------------|
| | For the years ended December 31 | | | | | | | | Total IBNR | Cumulative |
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Plus Expected | Number |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | Development | of |
| | Unaudited | | | | | | | | on Reported | Reported |
| | | | | | | | | | Claims | Claims |
| | | | | | | | | | \$ | |
| 2016 | | - | - | - | 907,728 | 1,233,080 | 2,215,979 | 2,399,821 | 498,592 | 1,745 |
| 2017 | | | - | - | 1,827,225 | 2,729,495 | 3,481,127 | 3,667,895 | 553,176 | 1,962 |
| 2018 | | | | - | 2,210,699 | 2,867,397 | 3,693,935 | 4,392,577 | 997,073 | 2,035 |
| 2019 | | | | | 4,157,205 | 5,034,237 | 7,494,547 | 8,535,825 | 1,625,389 | 1,937 |
| 2020 | | | | | | 22,844,809 | 25,127,374 | 16,298,249 | 5,063,100 | 4,211 |
| 2021 | | | | | | | 9,380,397 | 10,581,300 | 8,849,528 | 2,465 |
| 2022 | | | | | | | | 20,927,325 | 9,557,800 | 570 |
| | | | | | | | | 66,802,992 | 27,144,658 | |

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

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

General liability *(continued)*:

| Paid claims and allocated claim adjustment expenses, net of reinsurance | | | | | | | | |
|-------------------------------------------------------------------------|-----------|------|------|------|---------|---------|-----------|------------|
| For the years ended December 31 | | | | | | | | |
| Accident year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| | Unaudited | | | | | | | |
| 2016 | | - | - | - | - | 414,128 | 1,290,985 | 2,098,882 |
| 2017 | | | - | - | - | 582,168 | 1,469,978 | 2,385,869 |
| 2018 | | | | - | - | 775,129 | 1,751,127 | 2,699,316 |
| 2019 | | | | | 171,111 | 735,837 | 2,421,893 | 4,171,597 |
| 2020 | | | | | | 607,401 | 2,912,381 | 5,554,076 |
| 2021 | | | | | | | 316,052 | 2,266,827 |
| 2022 | | | | | | | | 530,854 |
| | | | | | | | | 19,707,421 |
| | | | | | | | | 47,095,571 |

Liability for losses and loss adjustment expenses, net of reinsurance

Professional liability:

| Incurred claims and allocated claim adjustment expenses, net of reinsurance | | | | | | | | | At December 31, 2022 | |
|-----------------------------------------------------------------------------|-----------|------|------|--------|---------|-----------|-----------|-----------|--------------------------|------------|
| For the years ended December 31 | | | | | | | | | Total IBNR | Cumulative |
| Accident year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Plus Expected | Number |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | Development <td>of </td> | of |
| | Unaudited | | | | | | | | on Reported | Reported |
| | | | | | | | | | Claims | Claims |
| 2018 | | | | 26,818 | 43,357 | 303,723 | 371,620 | 346,545 | 20,184 | 110 |
| 2019 | | | | | 285,525 | 241,229 | 330,228 | 277,584 | 26,136 | 110 |
| 2020 | | | | | | 3,319,278 | 3,284,702 | 5,345,324 | 455,406 | 1,583 |
| 2021 | | | | | | | 130,248 | 90,753 | 40,000 | 4 |
| 2022 | | | | | | | | 1,062,109 | 1,073,366 | 4 |
| | | | | | | | | 7,122,315 | 1,615,092 | |

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

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

Professional liability *(continued)*:

| Accident year | Paid claims and allocated claim adjustment expenses, net of reinsurance | | | | | | | |
|-----------------------------------------------------------------------|-------------------------------------------------------------------------|------|------|------|--------|--------|---------|-----------|
| | For the years ended December 31 | | | | | | | |
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| | Unaudited | | | | | | | |
| 2018 | | | | - | 979 | 42,229 | 125,503 | 219,131 |
| 2019 | | | | | 19,294 | 71,720 | 110,257 | 165,991 |
| 2020 | | | | | | - | 997,543 | 3,821,093 |
| 2021 | | | | | | | - | 3,688 |
| 2022 | | | | | | | | 4,200 |
| | | | | | | | | 4,214,103 |
| Liability for losses and loss adjustment expenses, net of reinsurance | | | | | | | | 2,908,212 |

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

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

Property:

| Accident year | Incurred claims and allocated claim adjustment expenses, net of reinsurance | | | | | | | | At December 31, 2022 | |
|---------------|-----------------------------------------------------------------------------|------------|------------|------------|------------|------------|------------|------------|------------------------------------------------------------------------|--------------------------------------------------|
| | For the years ended December 31 | | | | | | | | Total IBNR Plus Expected Development on Reported Claims | Cumulative Number of Reported Claims |
| | 2015 \$ | 2016 \$ | 2017 \$ | 2018 \$ | 2019 \$ | 2020 \$ | 2021 \$ | 2022 \$ | | |
| | Unaudited | | | | | | | | | |
| 2020 | | | | | | 30,231 | 1,796,580 | 161,200 | 155,637 | 230 |
| 2021 | | | | | | | 25,381 | 1,472,967 | 148,164 | 227 |
| 2022 | | | | | | | | 5,873,620 | 15,098 | - |
| | | | | | | | | 7,507,787 | 318,899 | |

| Accident year | Paid claims and allocated claim adjustment expenses, net of reinsurance | | | | | | | |
|---------------|-------------------------------------------------------------------------|------------|------------|------------|------------|------------|------------|------------|
| | For the years ended December 31 | | | | | | | |
| | 2015 \$ | 2016 \$ | 2017 \$ | 2018 \$ | 2019 \$ | 2020 \$ | 2021 \$ | 2022 \$ |
| | Unaudited | | | | | | | |
| 2020 | | | | | | - | 558,531 | 5,563 |
| 2021 | | | | | | | - | 1,977,777 |
| 2022 | | | | | | | | 3,686,837 |
| | | | | | | | | 5,670,177 |
| | | | | | | | | 1,837,610 |

Liability for losses and loss adjustment expenses, net of reinsurance

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

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

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

| | December 31, 2022 \$ | December 31, 2021 \$ |
|------------------------------|----------------------------|----------------------------|
| Net outstanding liabilities: | | |
| Workers compensation | 5,130,594 | 334,952 |
| Commercial trucking | 15,453,367 | 5,419,164 |
| General liability | 47,095,571 | 41,233,440 |
| Professional liability | 2,908,212 | 646,336 |
| Property | 1,837,610 | 1,263,430 |
| Other insurance lines | 186,453 | 303,916 |
| | 72,611,807 | 49,201,238 |

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

| Years | Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance | | | | | | |
|------------------------|--------------------------------------------------------------------------------|-----|-----|-----|-----|-----|-----|
| | Unaudited | | | | | | |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| Workers compensation | 54% | 18% | 15% | 9% | 2% | 1% | 1% |
| Commercial trucking | 1% | 3% | 7% | 11% | 10% | 12% | 41% |
| General liability | - | 9% | 37% | - | - | - | - |
| Professional liability | - | 19% | 45% | - | - | - | - |
| Property | - | 16% | - | - | - | - | - |

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

10. Deposit liabilities

The Company entered into a multi-year loss portfolio transfer reinsurance contract with one reinsured company in 2010. As at December 31, 2022 and 2021, there is no significant transfer of underwriting risk.

11. Share capital

| | 2022 \$ | 2021 \$ |
|--------------------------------------------------------------------------------|------------|------------|
| <u>Authorized:</u> | | |
| Common shares-par value \$10.00 (2021: \$10.00): 700,000 (2021 - 700,000) | 7,000,000 | 7,000,000 |
| Redeemable preference shares-par value \$1.00: 2,000,000 (2021 - 2,000,000) | 2,000,000 | 2,000,000 |
| Total authorized share capital | 9,000,000 | 9,000,000 |
| <u>Issued:</u> | | |
| Common voting shares-par value \$10.00 (2021: \$10.00): 12,000 (2021 - 24,000) | 120,000 | 240,000 |
| Common non-voting shares-par value \$10.00: nil (2021 - 236,000) | - | 2,360,000 |
| Redeemable preference shares-par value \$1.00: nil (2021 - 559,924) | - | 559,924 |
| Total issued share capital | 120,000 | 3,159,924 |

12. Share premium and contributed surplus

For the years ended December 31, 2022 and 2021, 90,643 and 149,574 redeemable preference shares, respectively, were issued at a premium above the par value amounting to \$8,144,357 and \$12,400,426, respectively.

For the years ended December 31, 2022 and 2021, 1,500 and 26,394 redeemable preference shares issued at a premium above the par value of \$148,500 and \$1,973,606 were redeemed for total proceeds amounting to \$11,764 and \$2,189,250, respectively.

As at December 31, 2021, the Company received \$500,000 in advance relating to 6,579 redeemable preference shares issued during January 2022 at a premium above the par value amounting to \$493,421.

Effective September 30, 2022, the Company underwent a capital restructure. The Company merged with Fergus Merger Sub Limited, a wholly owned subsidiary of Fergus Holding Limited, with the Company being the surviving company of the merger. As a result of the merger:

- All of the share capital of Fergus Merger Sub Limited was cancelled and converted into, and becomes the right to receive the issue of, US\$120,000 common shares in the Company;
- All of the voting and non-voting common shares of the Company were cancelled and converted into, and become the right to receive the issue of, voting and non-voting common shares of Fergus Holding Limited;

FERGUS REINSURANCE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022 and 2021
(Expressed in United States Dollars)

12. Share premium and contributed surplus *(continued)*

- All of the preference shares of Fergus Re were cancelled and converted into the right to be issued corresponding classes of preference shares in Fergus Holding Limited, in each case with the same rights and in the same proportions as previously held in the Company and linked to the Fergus Holding Limited Segregated Account.
- Correspondingly, the merger agreement provides that Fergus Holding Limited is the new account owner of the Company's active segregated account in place of the preference shareholders, who retain the rights to participate in the Company's active segregated account through the agreement rather than by the issuance of shares. The cancelled preferred share capital of Fergus is considered contributed surplus capital of the Company's active segregated account in the amount of \$56,819,000.

The above restructuring enabled the Company's prior structure to be replicated in a new entity, Fergus Holding Limited, and that entity became the sole shareholder of the Company.

During the year ended December 31, 2022, Fergus Holding Limited contributed an additional \$12,930,000 to the Company.

13. Premiums

Activity in unearned premium for the years ended December 31, 2022 and 2021 is summarized as follows:

| | 2022 | | | 2021 | | |
|-----------------|--------------|-------------|--------------|--------------|-------------|--------------|
| | Gross \$ | Ceded \$ | Net \$ | Gross \$ | Ceded \$ | Net \$ |
| At January 1 | 37,523,472 | - | 37,523,472 | 16,582,405 | - | 16,582,405 |
| Premium assumed | 96,410,904 | - | 96,410,904 | 69,463,647 | - | 69,463,647 |
| Premiums earned | (87,226,441) | - | (87,226,441) | (48,522,580) | - | (48,522,580) |
| At December 31 | 46,707,935 | - | 46,707,935 | 37,523,472 | - | 37,523,472 |

14. Statutory requirements

The Company is registered as a Class 3A reinsurer under The Insurance Act 1978 (Bermuda), amendments thereto and related regulations (the "Insurance Act"). Under the Insurance Act, the Company is subject to enhanced capital requirements in addition to minimum solvency and liquidity requirements and must maintain statutory economic capital and surplus at a level at least equal to its ECR which is the greater of its minimum solvency margin ("MSM") and the required capital calculated by reference to the Bermuda Solvency Capital Requirement ("BSCR"). The BSCR is calculated using the standard risk-based capital model developed by the Bermuda Monetary Authority ("BMA"). The BSCR model follows a standard formula framework and capital attributed to each risk is calculated by applying capital factors to assets and liabilities. The BMA sets a Target Capital equivalent to 120% of the ECR. While the Company is not required to maintain statutory economic capital and surplus at this level, it serves as an early warning signal for the BMA, and failure to meet the target capital level may result in additional reporting requirements or increased regulatory oversight. The Company is currently completing its 2022 BSCR, which must be filed with the BMA on or before May 31, 2023, and the Company has exceeded the target level of required statutory economic capital and surplus.

14. Statutory requirements *(continued)*

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

During the year ended December 31, 2022 net premiums written by the Company from unrelated business exceeded the maximum of \$50,000,000 permitted under its registration as a Class 3A reinsurer, pursuant to the Insurance Act 1978. Subsequent to December 31, 2022, an application to relicense the Company as a Class 3B reinsurer was approved by the Bermuda Monetary Authority.

15. Foreign currency risk

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

16. Market risk

In February 2022, Russia invaded neighboring Ukraine. This has had, and may continue to have, a substantial impact on the global capital markets. Capital markets are reacting to the economic effect of sanctions, which include a material increase in commodity prices, which could add to already high inflationary pressures, challenging efforts by the global central banks to curb inflation. The results of sanctions and overall uncertainty have resulted in incremental instability within equity and bond markets, resulting in higher equities volatility and widening bond spreads.

The extent and duration of the impact of Russia's invasion of Ukraine, including the resulting sanctions levied against Russia, on global financial markets is uncertain and ever-evolving. Although the long-term economic fallout of the impact of Russia's invasion of Ukraine is difficult to predict, the Company does not expect to experience a significant impact from illiquidity, operational disruptions or financial loss.

17. Subsequent events

The Company has evaluated all known recognized and non-recognized subsequent events through May 30, 2023, the date the financial statements were available to be issued.

During February 2023, dividends of \$480,405 were declared and paid to the Company's shareholder.

The Company was granted license to operate as a Class 3B Insurer with effect from January 1, 2023.