FLEMING REINSURANCE LTD.
INCORPORATED IN BERMUDA

FINANCIAL STATEMENTS

DECEMBER 31, 2023 AND 2022

April 30, 2024

Report of Independent Auditors

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

Opinion

We have audited the accompanying financial statements of Fleming Reinsurance Ltd. (the “Company”), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income and comprehensive income, changes in shareholder’s equity and cash flows for the years then ended, including the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, 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 audit in accordance with auditing standards generally accepted in the United States of America (US 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 audit. 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 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 US 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 judgement made by a reasonable user based on the financial statements.

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In performing an audit in accordance with US GAAS, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- 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 audit 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 judgement, 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 audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required supplemental information

Management has omitted the required supplemental information pertaining to *Short-Duration Contracts* disclosures that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

PricewaterhouseCoopers Ltd.

Chartered Professional Accountants

FLEMING REINSURANCE LTD.

BALANCE SHEETS

DECEMBER 31, 2023 AND 2022

(Expressed in U.S. dollars)

	2023 $	2022 $
ASSETS		
Cash and cash equivalents (note 4)	4,451,657	52,657,663
Investments (note 9)	24,681,099	2,406,981
Funds withheld (note 5)	4,330,783	18,279,546
Right-of-use assets – operating leases (note 7)	27,460	104,810
Insurance balances receivable	82,938	-
Deferred acquisition costs	219,726	472,297
Accrued income	-	41,594
Tax receivable (note 11)	23,312	-
Deferred tax asset (note 11)	-	-
Accrued interest income	105,839	23,632
Amounts due from related parties (note 12)	14,381,341	626,667
Prepaid expenses	71,144	93,779
	48,375,299	74,706,969
LIABILITIES AND SHAREHOLDER'S EQUITY		
LIABILITIES		
Reserve for losses and loss expenses (note 8)	19,846,723	37,363,921
Accounts payable and accrued expenses	1,071,978	597,393
Lease liabilities – operating leases (note 7)	27,460	104,810
Insurance balances payable	4,337,065	4,050,024
Tax payable (note 11)	-	244,472
Deferred gain on reinsurance contracts (note 6)	981,229	1,507,645
	26,264,455	43,868,265
SHAREHOLDER'S EQUITY		
Share capital (note 10)	120,000	120,000
Contributed surplus (note 10)	35,236,614	35,236,614
Accumulated other comprehensive income/(loss)	84,620	(133,154)
Retained deficit	(13,330,390)	(4,384,756)
	22,110,844	30,838,704
	48,375,299	74,706,969

FLEMING REINSURANCE LTD.

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(Expressed in U.S. dollars)

	2023 $	2022 $
UNDERWRITING EXPENSE		
Loss and loss expenses paid (note 8)	(24,485,558)	(9,712,384)
Acquisition costs	(342,947)	(127,703)
Change in reserves for losses and loss expenses	18,088,211	8,998,452
Change in deferred gain on reinsurance contracts (note 6)	611,974	510,146
NET UNDERWRITING LOSS	(6,128,320)	(331,489)
NET INVESTMENT INCOME (note 9)	1,805,030	395,746
OTHER INCOME	7,235	53,105
GENERAL AND ADMINISTRATIVE EXPENSES	(4,612,363)	(4,469,164)
NET LOSS BEFORE INCOME TAXES	(8,928,418)	(4,351,802)
INCOME TAX (note 11)	(17,216)	(320,561)
NET LOSS	(8,945,634)	(4,672,363)
OTHER COMPREHENSIVE LOSS		
Change in unrealized holding losses on available-for-sale investment securities arising during the year	217,774	(29,001)
Other comprehensive income/(loss)	217,774	(29,001)
COMPREHENSIVE LOSS	(8,727,860)	(4,701,364)

FLEMING REINSURANCE LTD.

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

(Expressed in U.S. dollars)

	2023 $	2022 $
SHARE CAPITAL (note 10)		
Balance, beginning and end of year	120,000	120,000
CONTRIBUTED SURPLUS (note 10)		
Balance, beginning of year	35,236,614	6,262,587
Additional contributed surplus	-	28,974,027
	-	-
Balance, end of year	35,236,614	35,236,614
ACCUMULATED OTHER COMPREHENSIVE LOSS		
Balance, beginning of year	(133,154)	(104,153)
Net change in unrealized gain/ (losses) on investments	217,774	(29,001)
Balance, end of year	84,620	(133,154)
RETAINED (DEFICIT) / EARNINGS		
Balance, beginning of year	(4,384,756)	287,607
Net loss	(8,945,634)	(4,672,363)
Balance, end of year	(13,330,390)	(4,384,756)
TOTAL SHAREHOLDER'S EQUITY	22,110,844	30,838,704

FLEMING REINSURANCE LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2023 AND 2022

(Expressed in U.S. dollars)

	2023 $	2022 $
CASH AND CASH EQUIVALENTS PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES		
Net loss	(8,945,634)	(4,672,363)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Realized (gain) / loss on investment securities	166,368	49,919
Change in operational balance sheet items:		
Insurance balances receivable	(82,938)	327
Funds withheld	13,948,763	(11,451,550)
Right-of-use assets – operating leases	77,350	(104,810)
Accrued income	41,595	(41,594)
Accrued interest income	(82,207)	(10,560)
Tax receivable	(23,312)	34,996
Deferred tax asset	-	41,093
Prepaid expenses	22,635	20,980
Amounts due from related parties	(13,754,674)	(626,667)
Accounts payable and accrued expenses	474,584	479,946
Lease liabilities – operating leases	(77,350)	104,810
Loan interest payable	-	(148,151)
Insurance balances payable	287,041	3,727,367
Deferred acquisition costs	252,571	(472,297)
Deferred gain on reinsurance contracts	(526,416)	587,676
Tax payable	(244,472)	244,472
Reserve for loss and loss expenses	(17,517,198)	29,177,544
Net cash (used in) / provided by operating activities	(25,983,294)	16,941,138
INVESTING ACTIVITIES		
Proceeds on sales, maturities and paydowns of financial assets	19,558,947	2,058,266
Purchases of financial assets	(41,781,659)	-
Net cash (used in) / provided by investing activities	(22,222,712)	2,058,266
FINANCING ACTIVITIES		
Repayments of short-term debt	-	(1,050,000)
Net proceeds of capital contributions	-	28,974,027
Net cash provided by financing activities	-	27,924,027
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(48,206,006)	46,923,431
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	52,657,663	5,734,232
CASH AND CASH EQUIVALENTS, END OF YEAR	4,451,657	52,657,663

NOTES TO THE FINANCIAL STATEMENTS

1. THE COMPANY AND ITS ACTIVITIES

Fleming Reinsurance Ltd. (the "Company") is a Bermuda exempted company limited by shares incorporated on March 6, 2015.

The Company is registered as a Class 3A insurer under the Bermuda Insurance Act 1978 amendments thereto and the Insurance Account Rules 2016 (the "Insurance Act"). The Company is registered as a Segregated Accounts Company under the Segregated Account Companies Act 2000, as amended.

On May 5, 2022, there was a change of ownership of the Company. Fleming Holdings (Blocker) LLC (Delaware), a company that is 100% owned by Fleming Holdings LLC (Cayman), which is ultimately majority-owned between The Fleming Corporation and ACP Insurance Management, LLC (Cayman), acquired 100% ownership of the Company, previously held by Fleming Re Holdings LLC (Delaware). Fleming Holdings (Blocker) LLC (Delaware) acquired the authorized and issued share capital of US$120,000 consisting of 120,000 common shares of par value US$1.00 each for a total consideration equal to the net book value of the Company prior to the share transfer.

The change in ownership provides the Company with access to significant capital that will be used to facilitate acquisition of liabilities and further develop infrastructure.

The Company is a specialty run-off acquirer and legacy reinsurance liability carrier focused on the North American Property & Casualty ("P&C") industry. The Company assumes various lines of business, primarily Workers Compensation, General Liability and Auto Liability. As of December 31, 2023, the Company has completed several transactions consisting of Workers' Compensation, General Liability, Auto Liability and other P&C liabilities. During the year ended December 31, 2023, the Company completed a novation of liabilities related to the Company's recurring planned Loss Portfolio Transfer ("LPT") solution.

2. BASIS OF PREPARATION

Use of estimates

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ materially from those estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Investment Income

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

Interest income for fixed maturity investments is recognized when earned and is accrued to the balance sheet date based on the contractual terms of the fixed maturity investments and is included in “net investment income” in the statements of income and comprehensive income.

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

(b) Cash and cash equivalents

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

Certain cash and cash equivalent balances are held as security for letters of credit (Note 4). Cash and cash equivalents of $2,722,185 (2022: $37,371,786) are held as collateral in trust accounts for the benefit of ceding reinsurers.

(c) Segregated assets and liabilities

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

(d) Reserve for losses and loss expenses

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Accounts Receivable

Receivables are recognized at amounts receivable less a provision for impairment where necessary, at December 31, 2023 there was no provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivable. Any increase or decrease in the provision for impairment is recognized in the statements of income and comprehensive income within underwriting expenses. When a receivable is uncollectible, it is written off against the provision for impairment account. Subsequent recoveries of amounts previously written off are credited against the underwriting expenses in the statements of income and comprehensive income.

(f) Assumed Reinsurance Contracts

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

(g) Deferred Acquisition Costs

Deferred acquisition costs consist of commissions, brokerage expenses and other costs which are directly attributable to the successful acquisition of legacy reinsurance liabilities. These costs are deferred and amortized over the settlement period of the assumed reserves.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Investments in securities

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

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

Included within investments is an amount totaling $3,666,244 (2022: $2,406,981) held as collateralized investments for a letter of credit held in favor of Arch Insurance Company (see Note 4).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases

The Company adopted ASC Topic 842, Leases on May 1, 2022, when the Company entered into an operating lease. Among other requirements, lessees are required to identify leases as either operating or finance and to recognize the following for all leases (except for short-term leases) as of the date of adoption: 1) a lease liability, which is the lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) a right-of use (ROU) asset, which is an asset that represents the lessee's ROU, or control the use of a specified asset for the lease term.

The Company determines if an arrangement is a lease or contains a lease at inception of a contract and classifies each lease as an operating or finance lease. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. The Company records a right-of-use (ROU) asset for the right to use an underlying asset for the lease term and a lease liability, on a discounted basis, for the obligation to make lease payments arising from the lease. The discount rate used is typically the Company's secured borrowing rate, as most of the Company's leases do not provide an implicit rate. The lease term includes options to extend or to terminate the lease that the Company is reasonably certain to exercise. The Company has elected for all classes of underlying assets the practical expedient to not separate lease and non-lease components and account for them as a single lease component. ROU assets are subject to review for impairment.

For operating leases, lease expense relating to fixed payments is recognized on a straight-line basis over the lease term and lease expense relating to variable payments is expensed as incurred.

For finance leases, the amortization of the ROU asset is recognized over the shorter of the lease term or useful life of the underlying asset and interest expense is recorded using the effective interest rate method. The Company has elected as an accounting policy not to record ROU assets and lease liabilities that arise from short-term leases for any class of underlying asset.

(j) Business combinations

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

There have been no business combinations occurring in the periods presented.

(k) Income taxes

For U.S. tax purposes, each segregated account (or "cell") and the general account ("Core") within the Company are considered separate entities. Effective January 1, 2022, all eligible cells have made an irrevocable election under Section 953(d) of the Internal Revenue Code of 1986, as amended, to be treated as a domestic insurance company for United States federal tax purposes. As a result of this "domestic election", the cells within the Company are subject to taxation on their worldwide income as if they were a U.S. corporation. The Sequre cell also made an irrevocable election under IRC §831(b) that allows it to only pay tax on its investment income; however, this election is not applicable during the year due to the amount of premiums written in the Company. Current and deferred income taxes are calculated by applying currently enacted tax laws.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Income taxes (continued)

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. A valuation allowance is recorded for the amount of deferred income tax assets for which realization is not likely in the near term.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

As at the year ended December 31, 2023, the Company has recognized a deferred tax asset in the amount of $nil (2022: $nil).

When necessary, the Company recognizes interest and penalties associated with tax matters as a component of income tax expense and the related liability as due to related party.

Accounting standards not yet adopted

On December 14, 2023, the FASB issued ASU 2023-09 'Improvements to Income Tax Disclosures'. The new standard is intended to enhance the transparency and usefulness of income tax disclosures. The effective date of this new standard is for financial years beginning after December 15, 2025.

Newly adopted accounting standards

In June 2016, the FASB issued ASU No. 2016-13, 'Financial Instruments – Credit Losses (Topic 326)'. The ASU introduces a new credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The standard is effective for financial years beginning after December 15, 2022.

The CECL Methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. The methodology replaced the multiple existing impairment methods in GAAP, which generally required that a loss be incurred before it is recognized. For available-for-sale securities where fair value is less than cost, credit related impairment, if any, is recognized through an allowance for credit losses and adjusted each period for changes in credit risk.

The Company has evaluated the effect that ASU 2016-13 on its financial statements and related disclosures, and concluded no provision for additional credit loss was required to be made in these financial statements.

4. LETTERS OF CREDIT

The Company's bankers have issued a letter of credit in the amount of $75,000 (2022: $75,000) in favor of the Internal Revenue Service. Included within cash and cash equivalents is an amount totaling $75,000 (2022: $75,000) held as collateralized cash for the letter of credit.

The Company's bankers have issued a letter of credit in the amount of $330,792 (2022: $330,792) in favor of a ceding company in one of the segregated cells. Included within cash and cash equivalents is an amount totaling $330,792 (2022: $330,792) held as collateralized cash for the letter of credit.

The Company's bankers have issued a letter of credit in the amount of $3,666,244 (2022: $5,545,760) in favor of ceding company in one of the segregated cells. This LOC is collateralized by a portfolio of cash, cash equivalents and investments (see Note 9).

5. FUNDS WITHHELD

Funds withheld by ceding companies is $4,330,783 (2022: $18,279,546).

6. DEFERRED GAIN ON REINSURANCE CONTRACTS

The Company has deferred the recognition of gains on LPT and novation transactions in the amount of $981,229 (2022: $1,507,645). Included in this amount is $212,361 of deferred gains on the novation transactions that took place during 2023 (2022: $850,837).

7. LEASES

The Company entered into an operating lease for office space in Hamilton, Bermuda which runs from May 1, 2022 through April 30, 2024. The lease does not contain a yearly rental increase and there is not an automatic renewal. An incentive of a rent-free period of three months was provided on commencement of the lease.

The Company has recognized a Right-of-use asset of $27,460 and a lease liability of $27,460 as at December 31, 2023. The Company has incurred an operating lease expense of $83,363 during 2023. The Company does not have any lease commitments that have not yet commenced as of December 31, 2023.

8. RESERVE FOR LOSSES AND LOSS EXPENSES

The reserve for losses and loss expenses at December 31, 2023 and 2022 are:

	2023	2022
Specific claim reserves	$ 11,748,984	$ 27,312,531
Incurred but not reported	7,113,765	8,353,533
Unallocated loss adjustment expenses	983,974	1,697,857
Total Reserves, end of year	$ 19,846,723	$ 37,363,921

Roll forward of loss and loss expenses reserves
Activity in the reserve for losses and loss expenses is summarized as follows:

	2023	2022
Gross and net reserves for loss and loss adjustment expenses, beginning of year	$ 37,363,921	$ 8,186,377
Increase (decrease) in net loss and loss expenses incurred in respect of losses occurring in:		
Current year	-	-
Prior years	6,397,347	(586,068)
	6,397,347	(586,068)
Net loss and loss adjustment expenses paid in respect of losses occurring in:		
Current year	-	-
Prior years	(24,485,558)	(9,712,384)
	(24,485,558)	(9,712,384)
Other changes		
Assumed business	571,013	39,475,996
Gross and net reserves for loss and loss adjustment expenses, end of year	$ 19,846,723	$ 37,363,921

During 2023, the decrease in reserves reflects the payment of losses, offset by the deterioration in claims experience in one of the segregated cells. In 2022 the increase in reserves is related to a combination of one novation and one loss portfolio transfer that occurred during the year, the increase in reserves due to this assumed business has been offset by favorable development recognized on the entire book.

8. RESERVE FOR LOSSES AND LOSS EXPENSES (continued)

General Reserving Methodology

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

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

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

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

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

8. RESERVE FOR LOSSES AND LOSS EXPENSES (continued)

Incurred and paid development tables

The following is information about incurred and paid claims development as of December 31, 2023 and December 31, 2022, net of reinsurance, as well as cumulative claim frequency and the total of incurred-but-not-reported liabilities plus expected development on reported claims included within the net incurred claims amounts.

The Required Supplementary Information (RSI) under US GAAP has not been disclosed as management of the Company believes the supplementary disclosures are not material to the financial statements and that the omission of the supplementary disclosures will not materially impede the readers understanding of the financial statements.

Workers Compensation

Incurred losses and loss expenses, net of reinsurance

	As at December 31, 2023			As at December 31, 2022		
Accident year	Incurred loss & loss expenses	IBNR reserve	Claims count	Incurred loss & loss expenses	IBNR reserve	Claims count
2013	-	-	-	11,981,409	168,704	1,305
2014	14,269,931	136,056	1,327	14,240,891	298,908	1,445
2015	10,655,766	194,780	1,122	10,587,277	289,222	1,127
2016	10,921,454	230,712	1,090	10,812,332	441,358	1,097
2017	9,298,597	178,855	1,237	5,954,574	419,275	786
2018	5,214,722	288,584	703	4,210,615	478,039	575
2019	3,167,590	237,397	208	3,340,472	445,592	208
Total	53,528,060			61,127,570		

8. RESERVE FOR LOSSES AND LOSS EXPENSES (continued)

Incurred and paid development tables (continued)

Workers Compensation (continued)

Cumulative paid losses and loss expenses, net of reinsurance

	As at December 31, 2023	**As at December 31, 2022**
2013 accident year	-	11,617,672
2014 accident year	13,680,752	13,589,405
2015 accident year	10,064,547	9,923,387
2016 accident year	10,309,785	9,946,575
2017 accident year	8,954,004	5,350,461
2018 accident year	4,710,727	3,382,661
2019 accident year	2,810,475	2,698,309
Total cumulative paid losses and loss expenses, net of reinsurance	50,530,290	56,508,470
Total incurred loss and loss expenses, net of reinsurance	53,528,060	61,127,570
Total loss reserves	2,997,770	4,619,100
Reserves for losses and loss expenses, before 2013, net of reinsurance	-	1,787,556
Reserves for losses and loss expenses, before 2014, net of reinsurance	1,879,123	-
Reserves for losses and loss expenses, net of reinsurance	4,876,893	6,406,656

8. RESERVE FOR LOSSES AND LOSS EXPENSES (continued)

Incurred and paid development tables (continued)

General liability

Incurred losses and loss expenses, net of reinsurance

Accident year	As at December 31, 2023 Incurred loss & loss expenses	IBNR reserve	Claims count	As at December 31, 2022 Incurred loss & loss expenses	IBNR reserve	Claims count
2013				6,122,863	19,585	350
2014	12,952,888	69,166	713	12,914,926	113,041	713
2015	20,361,489	101,403	955	20,182,443	170,526	942
2016	26,882,633	137,155	1,998	26,784,916	356,956	1,979
2017	35,820,330	557,865	3,552	34,199,018	1,152,719	3,518
2018	44,097,909	1,862,574	4,583	42,699,455	3,136,871	4,540
2019	42,776,117	2,341,583	4,884	39,666,617	5,252,478	4,859
Total	182,891,366			182,570,238		

Cumulative paid losses and loss expenses, net of reinsurance

	As at December 31, 2023	As at December 31, 2022
2013 accident year	-	5,992,412
2014 accident year	12,478,554	12,398,452
2015 accident year	20,080,521	19,647,912
2016 accident year	26,298,967	25,131,798
2017 accident year	33,732,680	30,399,553
2018 accident year	38,192,885	32,317,066
2019 accident year	33,651,440	24,419,977
Total cumulative paid losses and loss expenses, net of reinsurance	164,435,047	150,307,170
Total incurred loss and loss expenses, net of reinsurance	182,891,366	182,570,238
Total loss reserves	18,456,319	32,263,068
Reserves for losses and loss expenses, before 2013, net of reinsurance	-	147,452
Reserves for losses and loss expenses, before 2014, net of reinsurance	166,922	-
Reserves for losses and loss expenses, net of reinsurance	18,623,241	32,410,520

8. RESERVE FOR LOSSES AND LOSS EXPENSES (continued)

Incurred and paid development tables (continued)

Auto liability

Incurred losses and loss expenses, net of reinsurance

Accident year	As at December 31, 2023 Incurred loss & loss expenses	IBNR reserve	Claims count	As at December 31, 2022 Incurred loss & loss expenses	IBNR reserve	Claims count
2013				2,958,480	57,071	440
2014	8,160,610	4,350	475	8,170,773	18,600	605
2015	10,727,049	1,416	782	10,729,652	18,345	784
2016	12,312,607	6,987	803	12,174,893	69,912	800
2017	14,567,398	72,642	769	9,441,181	51,499	380
2018	7,777,489	47,053	388	6,089,756	351,506	262
2019	5,533,581	103,471	272	5,136,461	-	268
Total	59,078,734			54,701,196		

Cumulative paid losses and loss expenses, net of reinsurance

	As at December 31, 2023	As at December 31, 2022
2013 accident year	-	2,958,481
2014 accident year	8,087,160	8,058,920
2015 accident year	10,702,600	10,692,791
2016 accident year	12,291,570	12,114,452
2017 accident year	14,257,007	8,911,492
2018 accident year	7,618,492	5,539,117
2019 accident year	5,259,290	4,077,055
Total cumulative paid losses and loss expenses, net of reinsurance	58,216,119	52,352,308
Total incurred loss and loss expenses, net of reinsurance	59,078,734	54,701,196
Total loss reserves	862,615	2,348,888
Reserves for losses and loss expenses, before 2013, net of reinsurance	-	-
Reserves for losses and loss expenses, before 2014, net of reinsurance	-	-
Reserves for losses and loss expenses, net of reinsurance	862,615	2,348,888

8. RESERVE FOR LOSSES AND LOSS EXPENSES (continued)

The reconciliation of loss development information to the reserves for losses and loss expenses is:

	2023	2022
Outstanding loss and loss expenses		
Workers' compensation	$ 4,876,893	$ 6,406,656
General liability	18,623,241	32,410,520
Auto liability	862,615	2,348,888
Total outstanding losses and loss expenses	24,362,749	41,166,064
Loss reserve recoverable		
Loss corridor on Conifer LPT	(5,500,000)	(5,500,000)
Total Loss reserve recoverable	(5,500,000)	(5,500,000)
Unallocated loss adjustment expenses	983,974	1,697,857
Total outstanding losses and loss expenses	19,846,723	37,363,921

9. INVESTMENTS

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

At December 31, 2023	Amortized cost	Unrealized gain	Unrealized losses less than 12 months	Unrealized losses greater than 12 months	Fair value
US government	$ 7,117,920	$ 1,872	$ -	$ -	$ 7,119,792
Asset backed securities	3,454,335	9,525	-	(16,546)	3,447,314
Mortgage backed securities:					
Commercial	41,957	-	-	(1,092)	40,865
Residential	10,125,752	124,993	-	(42,048)	10,208,697
Corporate bonds	2,949,308	7,656	-	(4,172)	2,952,792
Foreign bonds and notes	907,207	4,921	-	(489)	911,639
	$24,596,479	$ 148,967	$ -	$ (64,347)	$24,681,099

At December 31, 2022	Amortized cost	Unrealized gain	Unrealized losses less than 12 months	Unrealized losses greater than 12 months	Fair value
US government	$ 2,292,640	$ -	$ (118,512)	$ -	$ 2,174,128
Asset backed securities	-	-	-	-	-
Mortgage backed securities:					
Commercial	36,579	-	-	(3,428)	33,151
Residential	210,916	-	(9,960)	(1,254)	199,702
Corporate bonds	-	-	-	-	-
Foreign bonds and notes	-	-	-	-	-
	$ 2,540,135	$ -	$ (128,472)	$ (4,682)	$ 2,406,981

(b) For marketable securities held on December 31, 2023 and 2022, the maturity distribution is as follows*:*

		December 31, 2023		December 31, 2022	
		Amortized cost	**Fair value**	**Amortized cost**	**Fair value**
Within one year	$	6,274,636	6,274,636	2,494,021	2,365,549
From one to five years		6,711,401	6,704,644	36,579	33,151
From five to ten years		692,733	699,505	-	-
Ten or more years		10,917,709	11,002,314	9,535	8,281
		24,596,479	24,681,099	2,540,135	2,406,981

9. INVESTMENTS (continued)

(c) The components of net investment income for the years ended December 31, 2023 and 2022 are as follows:

	2023 $	**2022** $
Interest income – investments	1,660,420	237,191
Interest income on funds withheld	188,428	202,939
Interest income – bank and other	122,550	5,535
Realized (losses)/gains	(166,368)	(49,919)
	1,805,030	395,746

(d) Investments with a market value of $3,666,244 (2022: $2,406,981) are held in a Custody account collateralizing a letter of credit in favor of a ceding company in one segregated account (the beneficiary).

(e) Fair value of investments

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

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

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

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

9. INVESTMENTS (continued)

(e) Fair value of investments (continued)

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

The fair value estimates of most fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturities provided by the pricing service are included in the amounts disclosed in Level 2 of the hierarchy. As at December 31, 2023, the Company holds no securities which would be classed as Level 3 per the fair value hierarchy established by ASC 820.

The following table presents the Company's fair value hierarchy for those assets or liabilities measured at fair value on a recurring basis as of December 31, 2023 and December 31, 2022:

December 31 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
US Government	$ –	$ 7,119,792	$ –	$ 7,119,792
Asset backed securities	–	3,447,314	–	3,447,314
Mortgage backed securities:				
Commercial	–	40,865	–	40,865
Residential	–	10,208,697	–	10,208,697
Corporate bonds	–	2,952,792	–	2,952,792
Foreign bonds and notes	–	911,639	–	911,639
Total	$ –	$ 24,681,099	$ –	$ 24,681,099

December 31, 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
US Government	$ –	$ 2,174,128	$ –	$ 2,174,128
Asset backed securities	–	-	–	-
Mortgage backed securities:				
Commercial	–	33,151	–	33,151
Residential	–	199,702	–	199,702
Corporate bonds	–	-	–	-
Foreign bonds and notes	–	-	–	-
Total	$ –	$ 2,406,981	$ –	$ 2,406,981

9. INVESTMENTS (continued)

(e) Fair value of investments (continued)

During the year ended December 31, 2023 and 2022, the Company made no reclassifications of assets or liabilities between Levels 1, 2 and 3.

10. SHARE CAPITAL

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

Contributed surplus represents cash contributed by the shareholder in excess of the issued share capital. An amount of $Nil (2022: $28,974,027) was contributed by the shareholder during 2023.

11. TAXATION

Bermuda

The Bermuda Corporate Income Tax Act (Bermuda CIT Act) was enacted on December 27, 2023 and is effective in 2025 for Bermuda businesses that are part of multinational groups with annual revenue exceeding €750 million. The Company has determined that it does not fall within the scope of the Bermuda CIT Act.

United States

For U.S. tax purposes, each segregated account (or "cell") and the general account ("Core") within the Company are considered separate entities. Effective January 1, 2022, all eligible cells have made the election under Section 953(d) of the Internal Revenue Code of 1986, as amended, to be treated as a domestic insurance company for United States federal tax purposes. As a result of this “domestic election”, the cells within the Company are subject to taxation on its worldwide income as if they were a U.S. corporation. Deferred taxes have been calculated during the year for the elected entities. The SeQure cell also made an irrevocable election under IRC §831(b) that allows it to only pay tax on its investment income; however, this election is not applicable during the year due to the amount of premiums written in the Company. Current and deferred income taxes are calculated by applying currently enacted tax laws.

Income taxes have not been provided for the Sinclair cell due to its dormant status. It is a controlled foreign corporation ("CFC") for U.S. tax purposes; therefore, the U.S. taxation of income / (loss) within the cell occurs at the U.S. owner-level. As such, no income taxes are reported by the Company in relation to this cell.

During 2023, the Company incurred net operating loss carryforwards of $10,919,765 (2022; $2,970,068), which, if unused, will begin to expire in year 2043 (2022: expire in 2041). The Company also incurred capital loss carryforwards of $166,368 (2022: $49,919), which, if unused, will begin to expire in 2027 (2022: expire in 2026). Certain tax attributes are subject to an annual limitation as a result of the acquisition of the Company by Fleming Holdings (Blocker) LLC, which constitutes a change of ownership as defined under Internal Revenue Code Section 382.

11. TAXATION (continued)

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. Under ASC 740, a significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2023. Such objective negative evidence limits the ability to consider other subjective positive evidence, such as our projections for future growth, as such positive evidence is not objectively verifiable. On the basis of this evaluation, as of December 31, 2023, a valuation allowance of $3,548,318 (2022: $1,639,535) has been recorded. The amount of the deferred tax asset valuation allowance, however, could be adjusted in future years if objective negative evidence in the form of cumulative losses is no longer present and/or positive evidence develops around our future growth which is objectively verifiable. It is management's opinion that the deferred tax assets would be recognized in future years.

Total income taxes for the year ended December 31, 2023 and December 31, 2022, were allocated as follows:

	2023	**2022**
	$	$
Income tax expense from continuing operations	17,216	320,561
Shareholder's Equity, for unrealized gains and losses recognized for financial reporting purposes	-	-
	17,216	320,561

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

	2023	**2022**
	$	$
Federal Income Taxes		
Current	17,216	279,468
Deferred	-	41,093
Total income tax expense	17,216	320,561

11. TAXATION (continued)

The deferred income tax assets and liabilities as of December 31, 2023 and 2022 are attributable to the following temporary differences:

	2023 $	2022 $
Deferred income tax assets:		
Unrealized (gains)/losses	(17,770)	27,962
Net operating loss carryforwards	2,922,603	623,714
Capital loss carryforward	45,420	10,483
Change in loss reserves	415,577	782,361
Deferred gain on LPT/novation	206,058	316,605
Organizational costs	4,950	5,777
Gross deferred income tax asset	3,576,838	1,766,902
Less: valuation allowance	(3,530,548)	(1,667,498)
Net deferred tax assets	46,290	99,403
Deferred income tax liabilities:		
Deferred acquisition costs	(46,142)	(99,182)
Loss reserve transition adjustment (tax reform)	(148)	(221)
Gross deferred income tax liabilities	(46,290)	(99,403)
Total net deferred income tax assets	-	-

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

	2023 $	2022 $
Tax at U.S. statutory rates	(1,874,968)	(913,880)
Non-taxable income	-	-
953(d) elections	-	(406,839)
831(b) elections	(20,059)	-
Valuation allowance	1,910,123	1,639,536
Write down of NOLs	2,120	1,743
Income tax expense (benefit)	17,216	320,561

12. RELATED PARTY TRANSACTIONS

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

As at the year ended December 31, 2023, the Company is due $7,820,119 (2022: $Nil) from Augment, an associated company, owned by the same ultimate holding company.

As at the year ended December 31, 2023, the Company is due $2,801,653 (2022: $327,484) from Fleming Insurance Management Services, LLC, an associated company owned by the same ultimate holding company.

As at the year ended December 31, 2023, the Company is due $3,759,569 (2022: $299,183) from Fleming Holdings LLC, its ultimate parent company.

13. STATUTORY REQUIREMENTS

The Company is registered under the Bermuda Insurance Act 1978, amendments thereto and related regulations which require that the Company maintain minimum levels of solvency and liquidity as defined by the Insurance Account Rules 2016. For the years ended December 31, 2023 and 2022, these requirements have been met.

At December 31, 2023 and 2022, the minimum required statutory capital and surplus and the minimum required level of liquid assets follows:

	2023 $	**2022** $
Minimum required statutory capital and surplus	2,977,000	5,605,000
Actual statutory capital and surplus	22,040,000	32,412,000
Minimum required level of liquid assets	26,264,000	32,901,000
Actual level of liquid assets	33,652,000	73,409,000

14. SEGREGATED ACCOUNTS

As discussed in Notes 1 and 2, these financial statements include the seven (2022: seven) Segregated Accounts that were operated by the Company during the years ended December 31, 2023 and December 31, 2022.

Set out below are the net assets as at December 31, 2023, and 2022, and the net income (loss) of the Segregated Accounts for the years ended December 31, 2023, and 2022:

	2023		2022	
	Net income/ (loss)	**Net assets**	**Net income/ (loss)**	**Net assets**
SeQure	229,176	5,218,709	(37,561)	4,989,534
Arch	(55,194)	2,562,372	(437,845)	2,444,234
Travelers	(18,101)	(84,289)	(132,888)	(66,188)
Sparta	(76,854)	(232,804)	(37,566)	(155,951)
Zurich	30,260	(50,472)	171,309	(103,797)
Conifer	(7,878,858)	2,239,004	(2,220,518)	10,096,485
Total	(7,769,571)	9,652,520	(2,695,069)	17,204,317
Core account	(1,176,063)	12,458,324	(1,977,294)	13,634,387
Total	(8,945,634)	22,110,844	(4,672,363)	30,838,704

15. SUBSEQUENT EVENTS

The Company has performed a review of events subsequent to December 31, 2023, through April 30, 2024, the date these financial statements were available for issuance.

Effective January 19, 2024, the Company entered into a reinsurance agreement with a third party reinsurer. The agreement is an adverse development policy that covers the legacy motor, liability and engineering business of the ceding reinsurer. In connection with this agreement, the Company assumed reinsurance liabilities of £39.6 million, received assets from the ceding reinsurer of the same amount and capital from its parent company of $12m.

On March 22, 2024, the Company signed a one year lease extension for its current office space, on substantially the same terms as the existing lease.