Audited Financial Statements

Kuvare Life Re Ltd.
For the Year Ended December 31, 2017 and the period from
May 27, 2016 (incorporation date) to December 31, 2016
With Report of Independent Auditors

Kuvare Life Re Ltd.

Audited Financial Statements

For the Year Ended December 31, 2017

Contents

Report of Independent Auditors

The Shareholder of
Kuvare Life Re Ltd.

We have audited the accompanying financial statements of Kuvare Life Re Ltd., which comprise the balance sheet as of December 31, 2017, and December 31, 2016, and the statements of operations, changes in shareholder's equity and cash flows for the Year Ended Jan 1, 2017 to December 31, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kuvare Life Re Ltd. at December 31, 2017, and the results of its operations and its cash flows for the year ended December 31, 2017 and December 31, 2016 in conformity with U.S. generally accepted accounting principles.

April 20, 2018

Kuvare Life Re Ltd.

Balance Sheets

As at December 31, 2017 and December 31, 2016

(expressed in U.S. dollars)

	December 31, 2017 $	December 31, 2016 $
Assets		
Cash and cash equivalents	196,164	2,567,106
Restricted cash	96,853	357,301
Fixed maturity securities, at fair value (notes 3 and 5)	33,143,647	21,599,854
Derivative assets (notes 4 and 5)	13,344,126	-
Funds withheld (note 4)	583,577,170	621,855,652
Total cash and invested assets	630,357,960	646,379,913
Accrued investment income	321,729	199,759
Prepaid expenses	15,275	-
Accounts receivable	3,805,920	852,692
Total assets	634,500,884	647,432,364
Liabilities		
Deposit liability (note 4)	557,925,053	589,566,499
Derivative liabilities (notes 4 and 5)	-	34,496,877
Accounts payable and accrued expenses	1,326,167	1,220,968
Total liabilities	559,251,220	625,284,344
Shareholder's equity		
Share capital (note 6)	250,000	250,000
Additional paid-in capital (note 6)	60,181,456	60,181,456
Retained earnings / (accumulated deficit)	14,818,208	(38,283,436)
Total shareholder's equity	75,249,664	22,148,020
Total liabilities and shareholder's equity	634,500,884	647,432,364

Director

The accompanying notes are an integral part of these financial statements.

Kuvare Life Re Ltd.

Statements of Operations

For the year ended December 31, 2017 and the period from May 27, 2016 (incorporation date) to December 31, 2016

(expressed in U.S. dollars)

	December 31, 2017 $	December 31, 2016 $
Revenues		
Funds withheld and deposit liability		
Realized gains on derivatives	13,571,589	3,106,069
Unrealized gains (losses) on derivatives	47,841,003	(34,496,877)
Amortization of deferred commission	(6,637,036)	(1,731,772)
Investment management expenses	(2,472,011)	(625,817)
Net results from funds withheld and deposit liability	52,303,545	(33,748,397)
Net investment income	1,346,478	57,858
Net realized and unrealized gains on investments	1,251,623	14,836
Total revenues	54,901,646	(33,675,703)
Expenses		
Operating expenses (note 7)	1,800,002	4,607,733
Net income / (loss)	53,101,644	(38,283,436)

The accompanying notes are an integral part of these financial statements.

Kuvare Life Re Ltd.

Statements of Changes in Shareholder's Equity

For the year ended December 31, 2017 and the period from May 27, 2016 (incorporation date) to December 31, 2016

(expressed in U.S. dollars)

	Share capital $	Additional paid-in-capital $	Retained earnings/ (accumulated deficit) $	Total $
Balance, May 27, 2016	-	-	-	-
Issuance of common shares (note 6)	250,000	60,181,456	-	60,431,456
Net loss	-	-	(38,283,436)	(38,283,436)
Balance, December 31, 2016	250,000	60,181,456	(38,283,436)	22,148,020
Net Income	-	-	53,101,644	53,101,644
Balance, December 31, 2017	250,000	60,181,456	14,818,208	75,249,664

The accompanying notes are an integral part of these financial statements.

Kuvare Life Re Ltd.

Statements of Cash Flows

For the year ended December 31, 2017 and the period from May 27, 2016 (incorporation date) to December 31, 2016

(expressed in U.S. dollars)

	December 31, 2017 $	December 31, 2016 $
Cash flows from operating activities		
Net income / (loss)	53,101,644	(38,283,436)
Adjustments to reconcile net income / (loss) to net cash flows generated by / (used in) operating activities:		
Realized and unrealized gains on investments	(1,251,623)	(14,836)
Changes in assets and liabilities:		
Funds withheld	38,278,482	(621,855,652)
Accrued investment income	(121,970)	(199,759)
Prepaid expenses	(15,275)	-
Accounts receivable	(2,953,228)	(852,692)
Deposit liability	(31,641,446)	589,566,499
Unrealized (gains) losses on embedded derivatives	(47,841,003)	34,496,877
Accounts payable and accrued expenses	105,199	1,220,968
Net cash generated by / (used in) operating activities	7,660,780	(35,922,031)
Cash flows from investing activities		
Change in restricted cash	260,448	(357,301)
Purchase of fixed maturity securities	(16,070,808)	(21,585,018)
Sale of fixed maturity securities	5,778,638	-
Net cash used in investing activities	(10,031,722)	(21,942,319)
Cash flows from financing activities		
Paid in share capital	-	250,000
Additional paid in capital	-	60,181,456
Net cash provided by financing activities	-	60,431,456
Change in cash and cash equivalents	(2,370,942)	2,567,106
Cash and cash equivalents - beginning of period	2,567,106	-
Cash and cash equivalents - end of period	196,164	2,567,106

The accompanying notes are an integral part of these financial statements

(expressed in U.S. dollars)

1. *Organization and corporate structure*

Kuvare Life Re Ltd. ("the Company") was incorporated as a Bermuda exempted company with limited liability on May 27, 2016 and registered as a Class E insurer under The Insurance Act 1978 of Bermuda, effective October 3, 2016.

The Company is solely owned by Kuvare UK Holdings Limited, a holding company incorporated under the laws of England and Wales. Kuvare Holdings LP, ("Kuvare LP") a Cayman Islands exempted limited partnership is the direct shareholder of Kuvare UK Holdings Limited, which is ultimately held by management and long-term investors who have committed capital to Kuvare LP.

Effective September 30, 2016, the Company entered into a Funds Withheld Retrocession Agreement with a Cedant ("the Cedant") to reinsure a 75% quota share of a block of certain fixed deferred annuity contracts. On December 15, 2017, the Company announced it had entered into a letter of intent to reinsure a further $850 million, representing a 75% funds withheld coinsurance agreement on a block of fixed annuity structured settlements.

2. *Summary of significant accounting policies*

a) Basis of preparation

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

b) Fixed maturity securities

The Company's fixed maturity securities are classified as trading and are recorded at fair value through profit and loss following the fair value option. Changes in the fair value of the Company's fixed maturity securities are included in net realized and unrealized gains on investments within the statement of operations. The Company records fixed maturity securities on a trade date basis, with any unsettled trades at year end recorded in accounts receivable or accounts payable and accruals on the balance sheet.

Investment income is recognized on a gross basis as it accrues or is legally due. Premium or discount on purchases is amortized using the effective interest method. Investment management fees are calculated and expensed on an accruals basis. For presentation purposes in the statement of operations, investment income is shown net of investment management fees.

c) Funds withheld and deposit liability

The Company has determined that its reinsurance agreement with the Cedant does not meet all criteria to be accounted for as reinsurance and therefore the Company has accounted for the contract in accordance with FASB ASC Topic 720 using the deposit method of accounting with the funds withheld balance representing an asset and a separate deposit liability that represents reserves as determined under the reinsurance agreement. At inception, the funds withheld or deposit liability is measured based on consideration paid or received, less any explicitly identified premiums or fees to be retained by the insurer or reinsurer. Any Commission paid is recorded as a contra-liability offsetting the Deposit liability and amortized to expense over the life of the business. The amount of the funds withheld or liability and any balances receivable from or payable to the Cedant will be adjusted at subsequent reporting dates by calculating the effective yield on the deposit to reflect actual payments to date and expected future payments with a corresponding credit or charge to interest income or expense.

d) Derivative asset and liability

Authoritative guidance for derivatives and hedging (ASC Topic 815) states that an embedded derivative shall be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risk of the host contract.

The coinsurance funds withheld agreement with the Cedant results in an embedded derivative as the assets backing the liabilities are retained by the Cedant but their underlying value is determined by factors separate from the host contract, namely interest rate and credit spread movement. The embedded derivative was initially valued at zero and subsequently valued at based on the change in fair value of the underlying funds withheld assets.

e) Fair value measurements

Authoritative guidance for *Fair Value Measurements and Disclosures* defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the inputs used to measure fair value and enhances disclosure requirements for fair value measurements. In compliance with these principles, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three level hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input that is significant to the fair value measurement of the instrument. In accordance with the authoritative guidance for Fair Value Measurements and Disclosures, assets and liabilities recorded at fair value on the balance sheet are categorized as Level 1, 2 and 3.

- Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. The Company defines an active market as a market in which transactions take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Quoted prices in markets that are not active or valuation techniques that require inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

(expressed in U.S. dollars)

- Quoted prices for similar assets or liabilities (other than quoted prices in Level 1) in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Inputs other than quoted market prices that are observable; and
- Inputs that are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the assets or liabilities.

- Level 3 - Prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These valuations, whether derived internally or obtained from a third party, use critical assumptions that are not widely available to estimate market participant expectations in valuing the asset or liability. When available, the estimated fair value of securities is based on quoted prices in active markets that are readily and regularly obtainable. When quoted prices in active markets are not available, the determination of estimated fair value may be based on market standard valuation methodologies (pricing models), including discounted cash flow methodologies, matrix pricing, or other similar techniques, as well as significant management judgement or estimation.

f) Cash and cash equivalents
Cash and cash equivalents include deposits and short-term highly liquid investments (maturity of less than ninety days from the date of acquisition) that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

g) Restricted cash
Restricted cash consists of cash held as part of pledged assets, as additional collateral to further secure the obligations of the Company under the Funds Withheld Retrocession Agreement with the Cedant, pursuant to a Trust Agreement between the Company and the Cedant.

Restricted cash is reported as a separate line item on the balance sheet. Changes in the restricted cash balance are reported in investing activities within the statement of cash flows.

h) Income taxes
At the present time, no taxes are levied in Bermuda on the Company’s receipts, dividends, capital gains, gifts or net profit. In the event that such taxes are levied, the Company has received an undertaking from the Bermuda Government exempting it from all such taxes until March 31, 2035.

(expressed in U.S. dollars)

3. *Fixed maturity securities*

As of December 31, 2017, the Company's fixed maturity securities holdings were approximately $33.1 million (2016 – $21.6 million). The following table sets forth certain information regarding the investment ratings of the Company's fixed maturity securities portfolio as of December 31, 2017. Investment ratings are the middle of Moody's, Fitch or Standard & Poor's ratings for each investment security.

	December 31,2017		December 31, 2016	
Rating	**Fair value $**	**Percentage of total**	**Fair value $**	**Percentage of total**
AA	1,178,590	3.56%	1,796,853	8.32%
A	8,832,843	26.65%	7,062,873	32.70%
BBB	8,310,335	25.07%	6,493,947	30.06%
BB	10,848,751	32.73%	3,013,863	13.95%
B	599,820	1.81%	-	-
Not Rated	3,373,308	10.18%	3,232,318	14.97%
Total	33,143,647	100.00%	21,599,854	100.00%

Contractual maturities summary

Fixed maturity securities	**December 31, 2017 $**	**December 31, 2016 $**
Due less than one year	-	-
Due after one year through to five years	102,250	99,500
Due after five years through to ten years	5,365,324	5,697,222
Due after ten years	6,486,740	5,679,652
Asset-backed and mortgage-backed securities (1)	21,189,333	10,123,480
Total	33,143,647	21,599,854

(1) Asset-backed and mortgage backed securities have a legal stated maturity that does not correspond to the underlying cash flows and are shown as a separate category as a result.

(expressed in U.S. dollars)

4. Funds withheld, deposit liability and embedded derivative

The Company has determined that the retrocession reinsurance agreement with the Cedant does not transfer insurance risk, as the timing of cash flows is the most significant component of the contract and leaves a remote possibility of the Company recovering the ceding commission paid. Therefore, the appropriate treatment would be to not treat this agreement as a reinsurance treaty, but as an investment contract and therefore utilize Deposit accounting. Furthermore, it was determined that an embedded derivative exists within the agreement due to the credit risk related to the underlying investment assets and the risk that arises from the counter-party credit risk. The Company has bifurcated the embedded derivative and recorded it separately on the balance sheet.

At inception, the initial ceded premium retained by the Cedant on behalf of the Company on a funds withheld basis was $630,017,118. The Company recorded a Funds withheld equal to the premium and a Deposit liability equal to this amount as well. Furthermore, the fair value of the assets at inception resulted in an unrealized gain on day 1 of $52,380,348, considered an offset to the ceding commission and amortized into income over the life of the contract. The runoff of the unrealized gain is tied to the runoff of the assets, but will mirror that of the ceding commission (i.e. deposit liability), and is amortized using the interest method applicable to deposit/loan accounting. The rationale for matching the amortization of both is due to a duration match of approximately 10 years on both the subject invested assets and deposit liability. The embedded derivative was therefore valued initially at zero on day 1 and subsequently valued at fair value in accordance with ASC 815-10-35-1.

Additionally, the ceding commission of $34,020,924 was recorded as a contra-liability offsetting the Deposit liability and amortized to expense over the underlying profits of the business

(expressed in U.S. dollars)

5. *Fair value measurements*

The fair values of financial instruments have been determined by using available market information and the valuation techniques described below. Considerable judgment is often required in interpreting market data to develop estimates of fair value. The use of different assumptions or valuation techniques may have a material effect on the estimated fair value amounts. The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2017 and December 31, 2016.

	December 31, 2017		December 31, 2016	
	Carrying value $	Estimated fair value $	Carrying value $	Estimated fair value $
Assets:				
Fixed maturity securities	33,143,647	33,143,647	21,599,854	21,599,854
Derivative assets	13,344,126	13,344,126	-	-
	46,487,773	46,487,773	21,599,854	21,599,854
Liabilities:				
Derivative liabilities	-	-	34,496,877	34,496,877

The following tables present the Company's hierarchy for its financial instruments measured at fair value on a recurring basis as of December 31, 2017.

		Fair value measurements using:		
December 31, 2017	**Total** **$**	**Level 1** **$**	**Level 2** **$**	**Level 3** **$**
Fixed maturity securities, fair value:				
Corporate Bonds	10,809,034	-	10,809,034	-
Municipals	1,145,280	-	1,145,280	-
Commercial MBS*	1,245,789	-	1,245,789	-
Collateralized loan obligations	18,084,436		18,084,436	
Asset backed securities	1,859,108		1,859,108	
Embedded derivative	13,344,126	-	13,344,126	-
Total assets	46,487,773	-	46,487,773	-

(expressed in U.S. dollars)

		Fair value measurements using:		
December 31, 2016	**Total** $	**Level 1** $	**Level 2** $	**Level 3** $
Fixed maturity securities, fair value:				
Corporate	10,375,474	-	10,375,474	-
Municipals	1,100,900	-	1,100,900	-
Commercial MBS*	1,028,796	-	1,028,796	-
Residential MBS*	1,103,520	-	1,103,520	-
Collateralized loan obligations	5,909,723	-	5,909,723	-
Asset backed securities	2,081,441	-	2,081,441	-
Total assets	21,599,854	-	21,599,854	-
Derivative liabilities	34,496,877	-	34,496,877	-

* MBS – Mortgage backed securities

Valuations for the Company's fixed maturity securities and derivative assets and liabilities are generally based on third party pricing services for identical or comparable assets or through the use of valuation methodologies using observable market inputs and are classified as Level 2. Based on the typical volumes and the lack of quoted market prices for fixed maturity securities, third party pricing services normally derive the security prices through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available observable market information. Typical inputs include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, credit default assumptions, and/or estimated cash flows and prepayments speed assumptions. If there are no recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are developed based upon collateral performance and discounted market rate.

Transfer between levels

There were no transfers between levels for the year ended December 31, 2017 and the period from May 27, 2016 (incorporation date) to December 31, 2016.

(expressed in U.S. dollars)

6. *Share capital and additional paid-in capital*

Authorized and Issued share capital
The authorized and issued share capital of the Company is $250,000 divided into 250,000 ordinary shares, par value $1 each.

Additional paid-in capital
During the year ended December 31, 2017 there was no issuance of additional capital (2016: $60,181,456).

7. *Operating expenses*

	Year Ended December 31, 2017 $	**Period Ended December 31, 2016 $**
Cost sharing fees (note 9)	1,152,737	98,353
Management fees	224,934	43,860
Professional expenses	259,989	2,598,952
Annual Business Fees (BMA)	61,800	-
Membership fees	55,700	-
BMA application fees	10,970	-
Tax consultation expenses	7,372	1,400,000
Staff expenses	757	44,465
Other expenses	25,743	6,273
Accounting expenses	-	379,340
Formation expenses	-	36,490
Total	1,800,002	4,607,733

8. *Statutory requirements*

The Company operates in Bermuda and is subject to Bermuda's Insurance Account Rules, amendments thereto and related Regulations (the "Act"). Under the Act, the Company is prohibited from declaring or paying in any fiscal year dividends of more than 25% of its prior year's statutory capital and surplus without prior approval from the Bermuda Monetary Authority (BMA). Similarly approval from the BMA is required before any reduction of statutory capital by more than 15% compared to the previous year statutory capital. The primary difference between financial statements prepared for insurance regulatory authorities and statements prepared in accordance with US GAAP is that financial statements prepared for the insurance regulatory authorities apply prudential filters to the US GAAP financial statements in order to derive the Statutory Financial Statements. Prudential filters refer to adjustments to eliminate non-admitted assets including goodwill and other similar intangible assets, not considered admissible for solvency purposes; and to include certain off balance sheet assets and liabilities such as guarantees and other instruments that do not relate to insurance contracts. The Company meets all requirements of the Act as of December 31, 2017 and there are no additional restrictions on the distribution of retained earnings.

Bermuda statutory requirements
The Company is licensed as a Class E Long term insurer under the Act and is required to maintain a minimum statutory solvency margin equal to the greater of a minimum solvency margin (MSM) and a percentage of the Enhanced Capital Requirement (ECR). The MSM is equal to the greater of (i) $8 million (ii) 2% of the first $500 million of assets plus 1.5% of assets above $500 million or (iii) 25% of ECR. The ECR is calculated based on a standard risk-based capital model developed by the Bermuda Monetary Authority (BMA). As at December 31, 2017, the company is required to maintain an estimated minimum statutory capital and surplus of $12,017,284 and enhanced capital requirement of $27,439,229. The statutory capital and surplus is $75,234,388 as at December 31, 2017. The Bermuda Solvency Capital Requirement (BSCR) employs a standard mathematical model that can relate more accurately the risks taken on by (re)insurers to the capital that is dedicated to their business. Insurers and reinsurers may adopt the BSCR model or, where an insurer or reinsurer believes that its own internal model better reflects the inherent risk of its business, an in-house model approved by the BMA. The Company has adopted the standard BSCR model.

9. *Related parties*

As of December 31, 2017 included in accounts payable and accruals is an amount of $ 959,795 (2016: $ 98,353) relating to accrued cost sharing fees payable to Kuvare US Holdings, Inc, a Delaware corporation, for certain services provided to the Company at agreed costs and fees pursuant to a Master Services Agreement by and among Kuvare US Holdings, Inc., the Company, Kuvare Insurance Services Ltd. and other parties. Amounts expensed in the period amounted to $3,624,748 (2016: $ 724,170).

(expressed in U.S. dollars)

10. Concentration of credit risk

The Company is a party to financial instruments with a concentration of credit risk in the normal course of business. The creditworthiness of any counterparty is evaluated by the Company, taking into account credit ratings assigned by rating agencies. The credit approval process involves an assessment of factors including, among others, the counterparty and country and industry credit exposure limits. Collateral may be required, at the discretion of the Company, on certain transactions based on the creditworthiness of the counterparty and the nature of the liabilities. The areas where significant concentrations of credit risk may exist include fixed maturity securities, funds withheld and reinsurance balances receivable (collectively, "reinsurance assets"). For reinsurance assets, the risk of loss is mitigated by the Company's ability to offset amounts owed to the ceding company with the amounts owed to the Company by the ceding company. Mitigating factors include using financially sound custodians, investment grade collateral with further investment guidelines governing the quality of the portfolio, ceding companies with high credit rating, and ability to offset amounts owed to ceding companies with amounts due from them.

Fixed maturity securities
The Company's investments are managed following prudent standards of diversification. The Company attempts to limit its credit exposure by purchasing a diversified pool of high quality fixed maturity securities to maintain an investment grade average portfolio that can be pledged as collateral or support retained earnings. As of December 31, 2017 and December 31, 2016 the credit ratings of the securities purchased were detailed in Notes 4.

Funds Withheld Assets
The assets are held and managed by the Cedant, a well-established reinsurer in Bermuda with an A- rating. In addition, the risk of loss is mitigated by the Company's ability to offset amounts owed to the Cedant with the amounts owed to the Company by the Cedant.

11. Subsequent events

The Company has evaluated the effects of events subsequent to December 31, 2017, for recognition and disclosure, through to April 26, 2018, which is the date the financial statements were made available to be issued. There were no material events that occurred subsequent to December 31, 2017.