777 Re Ltd. and Subsidiary

Consolidated Financial Statements and
Report of Independent Certified Public Accountants

As of December 31, 2021 and 2020

Contents

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Shareholders and Audit Committee
777 Re Ltd.

Opinion
We have audited the consolidated financial statements of 777 Re Ltd. (a Bermuda Exempt Company) and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and comprehensive (loss) income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, 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 of the consolidated financial statements 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 Auditor's 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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.

Grant Thornton

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 judgment made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Grant Thornton LLP

Hartford, Connecticut
April 29, 2022

777 Re Ltd. and Subsidiary

Consolidated Balance Sheets

(expressed in U.S. dollars)

		December 31,		
		2021		**2020**
Assets				
Fixed income investments, at fair value	$	17,678,069	$	6,940,661
Fixed income investments, at amortized cost		-		6,000,000
Equity securities, at fair value		20,000,000		14,684,839
Equity method investments		7,162,547		-
Investment funds, at fair value		2,805,862		267,714
Other invested assets, at fair value		-		7,325,371
Total investments		47,646,478		35,218,585
Modco funds withheld receivable, at fair value		2,279,190,681		561,662,396
Cash and cash equivalents		22,634,140		3,904,824
Deferred tax asset, net		4,195,908		-
Other assets, net		2,070,970		21,350,159
Intangible assets		101,100		-
Property and equipment		37,257		-
Income taxes receivable		24,711		-
Total assets	**$**	**2,355,901,245**	**$**	**622,135,964**
Liabilities				
Modco insurance liabilities, at fair value	$	2,124,865,839	$	539,989,958
Reinsurance payables		59,013,878		13,840,404
Accounts payable and accrued expenses		1,839,586		1,276,528
Deferred tax liability		-		956,046
Income taxes payable		-		72,997
Total liabilities		**2,185,719,303**		**556,135,933**
Shareholders' equity				
Share capital		250,000		250,000
Additional paid-in capital		185,276,504		61,885,421
(Accumulated deficit) retained earnings		(16,368,427)		4,704,632
Accumulated other comprehensive income (loss)		1,023,865		(840,022)
Total shareholders' equity		**170,181,942**		**66,000,031**
Total liabilities and shareholders' equity	**$**	**2,355,901,245**	**$**	**622,135,964**

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

777 Re Ltd. and Subsidiary

Consolidated Statements of Operations and Comprehensive (Loss) Income

(expressed in U.S. dollars)

	Years ended December 31,	
	2021	**2020**
Revenues		
Fair value changes associated with reinsurance contracts	$ (24,429,151)	$ 6,434,104
Net investment income	2,929,035	1,543,586
Net investment gains	480,354	326,828
Total revenues	**$ (21,019,762)**	**$ 8,304,518**
Expenses		
Professional fees	2,473,618	1,847,001
Salaries and benefits	2,265,743	1,142,844
General and administrative	866,579	785,405
Depreciation and amortization	28,672	-
Total expenses	**5,634,612**	**3,775,250**
Net (loss) income before income taxes	**(26,654,374)**	**4,529,268**
Income tax (benefit) expense	(5,581,315)	951,174
Net (loss) income	**$ (21,073,059)**	**$ 3,578,094**
Other comprehensive income (loss)		
Change in insurance liabilities due to change in own credit risk, net of tax expense (benefits) of $451,843 and $194,676, respectively	1,699,797	(732,354)
Change in fair value of available-for-sale securities, net of tax expense of $43,619 and $0, respectively	164,090	-
Other comprehensive income (loss), net of tax	**1,863,887**	**(732,354)**
Total comprehensive (loss) income	**$ (19,209,172)**	**$ 2,845,740**

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

777 Re Ltd. and Subsidiary

Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2021 and 2020

(expressed in U.S. dollars)

	Common Share Capital	Additional Paid In Capital	Accumulated Other Comprehensive Income (Loss)	(Accumulated Deficit) Retained Earnings	Total Shareholders' Equity
Balance, December 31, 2019	$ 250,000	$ 34,185,421	$ (107,668)	$ 1,126,538	$ 35,454,291
Net income	-	-	-	3,578,094	3,578,094
Other comprehensive loss	-	-	(732,354)	-	(732,354)
Paid-in capital contributed	-	27,700,000	-	-	27,700,000
Balance, December 31, 2020	250,000	61,885,421	(840,022)	4,704,632	66,000,031
Net loss	-	-	-	(21,073,059)	(21,073,059)
Other comprehensive income	-	-	1,863,887	-	1,863,887
Paid-in capital contributed	-	123,305,070	-	-	123,305,070
Equity-based compensation	-	86,013	-	-	86,013
Balance, December 31, 2021	$ 250,000	$ 185,276,504	$ 1,023,865	$ (16,368,427)	$ 170,181,942

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

777 Re Ltd. and Subsidiary

Consolidated Statements of Cash Flows

(expressed in U.S. dollars)

	Years ended December 31, 2021	2020
Cash Flows from Operating Activities		
Net (loss) income	$ (21,073,059)	$ 3,578,094
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Deferred income tax (benefit) expense	(5,647,416)	878,177
Net loss (gain) on equity securities	134,031	(196,017)
Net gain on fixed income investments	(8,674)	(130,811)
Net gain on equity method investments	(560,093)	-
Net fair value gain on investment funds	(45,618)	-
Net amortization of premiums and accretion of discounts on fixed income investments	84,411	(3,871)
Depreciation and amortization expense	28,672	-
Equity-based compensation	86,013	-
Change in operating assets and liabilities:		
Modco funds withheld receivable	(1,717,528,285)	(252,084,335)
Other assets	19,279,189	(951,088)
Income taxes receivable	(24,711)	-
Modco insurance liabilities	1,587,027,521	234,454,152
Reinsurance payables	45,173,474	13,840,404
Accounts payable and accrued expenses	563,058	58,029
Income taxes payable	(72,997)	72,997
Net cash used in operating activities	**(92,584,484)**	**(484,269)**
Cash Flows from Investing Activities		
Payments for the purchase of:		
Property and equipment	(45,709)	-
Intangible assets	(121,320)	-
Fixed income investments, trading	-	(3,573,249)
Fixed income investments, available for sale	(14,560,555)	-
Equity securities	-	(959,302)
Equity method investments	(8,753,206)	-
Investment funds, at fair value	(2,492,530)	(267,714)
Other invested assets, at fair value	(7,250,000)	(7,500,000)
Preferred equity, at fair value	(15,000,000)	(5,000,000)
Proceeds from the sale/maturity/prepayment of:		
Fixed income investments, held for trading	-	3,497,444
Fixed income investments, held to maturity	6,019,732	-
Fixed income investments, available for sale	3,935,387	843
Other invested assets, at fair value	14,575,371	-
Equity securities	9,550,808	1,501,259
Equity method investments	6,957,344	-
Net cash used in investing activities	**(7,184,678)**	**(12,300,719)**

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

777 Re Ltd. and Subsidiary

Consolidated Statements of Cash Flows

(expressed in U.S. dollars)

	Years ended December 31, 2021	2020
Cash Flows from Financing Activities		
Capital contributions	118,498,478	7,700,000
Net cash provided by financing activities	**118,498,478**	**7,700,000**
Net increase (decrease) in cash and cash equivalents	18,729,316	(5,084,988)
Cash and cash equivalents, beginning of year	3,904,824	8,989,812
Cash and cash equivalents, end of year	**$ 22,634,140**	**$ 3,904,824**

Supplemental cash flow information:

	2021	2020
Cash paid for interest and penalties	$ 1,324	$ -
Cash paid for income taxes	$ 163,810	$ -

Supplemental schedules of non-cash investing and financing activities:

	2021	2020
Contribution of additional paid-in capital by its parent, in the form of an investment included in equity method investments	$ 4,806,592	$ -
Contribution of additional paid-in capital by its parent, in the form of a promissory note included in other assets	$ -	$ 20,000,000

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

1. Organization, Nature of Operations and Significant Accounting Policies

Organization

On March 4, 2019, 777 Re Ltd ("777 Re" or the "Company") was incorporated as a Bermuda exempt company in accordance with Section 14 of the Companies Act 1981. Pursuant to Section 4 of the Insurance Act 1978 the Company was registered as a Class D Insurer effective July 19, 2019. Subsequent to this, effective November 2, 2021, the Company was registered as a Class E Insurer. The Company received a Financial Strength Rating of A- (Excellent) and a Long-Term Issuer Credit Rating of "a-" (Excellent) from AM Best on November 3, 2021.

The Company has a wholly owned subsidiary, Salt Lake Acquisition Corporation ("SLAC"), a company incorporated in the state of Delaware on July 31, 2019. The Company is a 98% directly held subsidiary of Brickell Insurance Holdings LLC (the "Holding Company") and 2% directly held by management. The Holding Company is an affiliate of 777 Partners LLC (the "Parent"). The Parent is structured as a holding company, a Miami based private investment firm that invests across a number of attractive high growth verticals with a focus on financial services. The Parent initially applied its expertise in underwriting and financing esoteric assets to diversify across a broad spectrum of financial services businesses, asset originators, and financial technology/service providers. The Parent has broadened its mandate and now invests across six different industries: consumer and commercial finance, insurance, litigation finance, aviation, media and entertainment and direct lending.

Nature of Operations

The Company was established as a long-term reinsurer to acquire both active and run-off blocks of life insurance and annuity business underwritten by global insurance companies. The product focus includes multi-year guaranteed annuities, fixed indexed annuities, structured settlements, whole-life insurance and pension risk transfer.

As of December 31, 2021, the Company has completed 6 reinsurance agreements with third-party companies. The in-force business consists of reinsurance of multi-year guarantee annuities and fixed indexed annuities.

Significant Accounting Policies

<u>Principles of Consolidation</u>

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant accounts and transactions are eliminated in consolidation.

<u>Use of Estimates</u>

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and notes. Actual results could differ from those estimates and such differences could be material. The Company's principal estimates include hard to value investment assets and assets within the modco funds withheld receivable, at fair value, modco insurance liabilities, at fair value, other-than temporary impairments of investments and valuation of deferred tax assets.

Cash and cash equivalents

The Company considers all cash on hand and highly liquid instruments purchased with original maturity dates of three months or less to be cash equivalents. The Company maintains cash balances at banks insured by the Federal Deposit Insurance Corporation, which many times may exceed the federally insured limits of $250,000.

Investments

Fixed income investments that are classified as available-for-sale ("AFS") or trading ("HFT") are stated at fair value. Fixed income investments that are classified as held to maturity ("HTM") are carried at amortized cost. Unrealized gains and losses, net of related tax effects, on AFS fixed income investments are recorded directly to accumulated other comprehensive income (loss). Investments in equity securities and fixed income investments classified as trading are stated at fair value and unrealized holdings gains and losses are credited or charged to net (loss) income as incurred and are included in net investment gains in the accompanying consolidated statements of operations and comprehensive (loss) income.

Realized gains and losses on sales of equity securities and fixed income investments, as well as other investments, are recognized into income based upon specific identification method. Interest and dividends are recognized as earned. Short-term investments are considered to be highly liquid investments that are less than one year in term to the dates of maturity at purchase dates, and they present insignificant risk of changes in value due to changing interest rates.

The Company regularly evaluates all of its investments based on current economic conditions, credit loss experience, and other specific developments. If there is a decline in an investment's net realizable value that is other-than-temporary, it is considered as a realized loss and the cost basis in the investment is reduced to its estimated fair value.

A fixed income investment is considered to be other-than-temporarily impaired when the investment's fair value is less than its amortized cost and 1) the Company intends to sell the investment, 2) it is more likely than not that the Company will be required to sell the investment before recovery of the investment's amortized cost basis, or 3) the Company believes it will be unable to recover the entire amortized cost basis of the investment (i.e. credit loss has occurred). Other-than-temporary-impairments ("OTTI") of fixed income investments are separated into credit and non-credit related amounts when there are credit-related losses associated with the impaired fixed income investment for which management asserts that it does not have the intent to sell the investment, and it is more likely than not that it will not be required to sell the investment before recovery of its cost basis. The amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other factors is recorded in other comprehensive (loss) income. A credit loss is determined by assessing whether the amortized cost basis of the investment will be recovered, by comparing the present value of cash flows expected to be collected from the investment, computed using original yield as the discount rate, to the amortized cost basis of the investment. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is considered to be the "credit loss".

Intangible Assets

Intangible assets of $101,100 and $0 as of December 31, 2021 and 2020, respectively, consist of software licenses. Such licenses will be amortized over a period of five years from purchase date. An amortization expense of $20,220 and $0 was recorded in 2021 and 2020, respectively.

Property and equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation on property and equipment is calculated utilizing the straight-line method over their estimated useful lives. Maintenance and repairs are charged to expense.

Modified Coinsurance and Funds Withheld Reinsurance Contracts, at Fair Value

In accordance with the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") ASC 825-10-15-4, *Financial Instruments,* the Company elected to carry assets and liabilities associated with reinsurance contracts at fair value. This election is made on a contract-by-contract basis. For those contracts for which this election is made, assets and liabilities associated with the reinsurance contract are carried at fair value with the change in the fair value of the assets and the liabilities being recorded in the line titled fair value changes associated with reinsurance contracts on the consolidated statements of operations and comprehensive (loss) income. This reduces earnings volatility in the accounting of the coinsurance agreements.

Modco funds withheld receivable, at fair value results from reinsurance contracts executed on a modified coinsurance basis. The fair value for the equity, fixed income investments, and derivative instruments that support modco funds withheld receivable, at fair value is determined by the Company considering various sources of information, including information provided by third party pricing services. The Company obtains an understanding of the pricing service's valuation methodologies and related inputs. The determination of the fair value of modco funds withheld receivable, at fair value is further explained in Note 2.

Modco insurance liabilities, at fair value include amounts for unpaid losses and future policy benefits. The fair value related to insurance liabilities is determined using the income approach allowed under ASC 820, *Fair value measurement and disclosure*s. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. Those valuation techniques include present value techniques.

The liability cash flows are generated using best estimate assumptions (plus a risk margin where applicable) and are consistent with market prices where available. Risk margins are typically applied to non-observable, non-hedgeable market inputs such as long-term volatility, mortality, morbidity, surrender, etc. Best estimate assumptions are made with respect to these inputs (including mortality, morbidity, surrender and investment returns). Actual experience is monitored to ensure that the assumptions remain appropriate and changes are made when warranted. The liability cash flows consist of all directly related cash flows of the reinsurance agreement, including premiums, policyholder benefits, expense allowance, premium tax and commissions.

Policies are terminated through surrenders and maturities, where surrenders represent the voluntary terminations of policies by policyholders and maturities are determined by policy contract terms. Surrender assumptions are based upon cedent experience adjusted for expected future conditions. The Company uses duration weighting in the development of the discount rate. The Company uses the market yields on the underlying assets backing the liabilities plus a risk margin to reflect uncertainty and adjusts the discount rate to reflect the credit risk of the Company. The liability cash flows are discounted using a rate that is composed of the following:

- Risk-free rate, plus
- Non-performance risk spread, less
- Risk margin to reflect uncertainty

The non-performance risk spread refers to the risk that the obligation will not be fulfilled and includes the Company's own credit risk. The non-performance risk relating to the liability is assumed to be the same before and after its transfer. The risk margin is reflective of the uncertainty within the cash flows associated with the reinsurance contract.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, short-term investments and non-U.S. government bonds. Cash and cash equivalents are deposited with financial institutions with balances that fluctuate in excess of federally insured limits. If the financial institutions were not to honor their contractual liability to the Company, it could incur losses. The Company is of the opinion that there is low risk because of the financial strength of the respective financial institutions. The Company is also subject to concentrations of credit risk through short-term money market investments. The credit risk related to short-term money market investments is minimized by investing in money market funds or repurchase agreements, both secured by U.S. government securities.

Net Investment Income

Dividends and interest income, recorded in net investment income per the consolidated statements of operations and comprehensive (loss) income, are recognized on an accrual basis. Amortization of premiums and accretion of discounts on investments in fixed income investments are reflected in net investment income over the contractual terms of the investments in a manner that produces a constant effective yield. Net investment income is presented net of incurred investment management fees.

Net Investment Gains

Net investment gains include net realized and unrealized investment gains and losses from the sale of investments, write-downs for other-than-temporary impairments of AFS investments and HTM investments. It also includes investment expenses and gains and losses on securities carried at fair value, including trading securities. Realized gains and losses on the sale of investments are determined using the specific cost identification method.

Comprehensive (Loss) Income

Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale fixed income investments, unrealized losses related to factors other than credit on fixed income investments and change in modco insurance liabilities, at fair value due to change in own credit risk, are reported as a separate component in the equity section in the accompanying consolidated balance sheets. Such items, along with net (loss) income, are components of comprehensive (loss) income, and are reflected in the accompanying consolidated statements of operations and comprehensive (loss) income. Reclassifications of realized gains and losses on sales of investments out of accumulated other comprehensive income (loss) are recorded in net investment (losses) gains, if any, in the accompanying consolidated statements of operations and comprehensive (loss) income.

Translation of Foreign Currencies

Foreign currency assets and liabilities considered monetary items are translated at exchange rates in effect at the consolidated balance sheets date. Foreign currency income and expenses are translated at the transaction date exchange rates. Exchange gains and losses are included in net investment gains on the consolidated statements of operations and comprehensive (loss) income. For the purpose of the consolidated statements of cash flows, all foreign currency gains and losses recognized in the consolidated statements of operations and comprehensive (loss) income are treated as cash items and included in cash flows from operating or investing activities along with movements in the principal balances.

Income taxes

The Company made a 953 (d) election in 2020 to retroactively be regarded as a U.S. tax payer from 2019. The Company will be taxed as a corporation for U.S income tax purposes and will file its own standalone tax return. The Company's subsidiary SLAC is also treated as a corporation for U.S. income tax purposes and will file its own standalone tax return. The taxable items resulting from the Company and SLAC are included in the tax provision computation.

The Company accounts for income taxes under the asset and liability approach, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the consolidated financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the consolidated financial statements and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company records net deferred tax assets to the extent it believes these assets will more likely than not be realized. In making such determination, the Company considers all available positive and negative evidence, including future reversal of existing taxable temporary differences, tax planning strategies, projected future taxable income, and recent financial operations.

The Company recognizes tax benefits in accordance with the provisions of the standard for accounting for uncertainty in income taxes. Penalties and interest on the Company's tax positions are classified as a component of the Company's income tax provision.

Recently Issued Accounting Standards

Leases
(ASC 842: ASU 2020-05, ASU 2020-02, ASU 2019-01, ASU 2018-20, ASU 2018-11, ASU 2018-10, ASU 2018-01, ASU 2017-13, ASU 2016-02)

These updates are intended to increase transparency and comparability for lease transactions. ASU 2016-02 requires a lessee to recognize a right-of-use asset and lease liability on the consolidated balance sheets for all leases with an original term longer than twelve months and disclose key information about leasing arrangements. Lessor accounting is largely unchanged. ASU 2016-02 requires the adoption on a modified retrospective basis. However, with the issuance of ASU 2018-11, the Company has the option to recognize the cumulative effect as an adjustment to the opening balance of retained earnings in the year of adoption, while continuing to present all prior periods under the previous lease guidance. These updates provide optional practical expedients in transition. The Company is required to adopt this standard for fiscal years beginning after December 15, 2021. The Company has reviewed its existing lease contracts and noted that, at present, this update is not expected to have a material impact on its future consolidated financial statements.

Income taxes – simplifying the accounting for income taxes
(ASC 740: ASU 2019-12)

The amendments in this update simplify the accounting for income taxes by:

- Exception to the incremental approach for intra period tax allocation when there is a loss from continuing operations and income or a gain from other items (for example discontinued operations or OCI)
- Exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment
- Exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary
- Exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year

  The Company is required to adopt this standard for fiscal years beginning after December 15, 2021. At present, this accounting standard does not have any impact on the Company's consolidated financial statements. The Company is in the process of evaluating the impact of this guidance on its future consolidated financial statements.

Financial instruments - credit losses
(ASC 326: ASU 2020-02, ASU 2019-11, ASU 2019-05, ASU 2019-04, ASU 2018-19, ASU 2016-13)

This update is designed to reduce complexity by limiting the number of credit impairment models used for different assets. The model will result in accelerated credit loss recognition on assets held at amortized cost. The identification of credit-deteriorated securities will include all assets that have experienced a more than significant deterioration in credit since origination. Additionally, any changes in the expected cash flows of credit deteriorated securities will be recognized immediately in the consolidated income statements. AFS fixed maturity securities are not in scope of the new credit loss model but will undergo targeted improvements to the current reporting model including the establishment of a valuation allowance for credit losses versus the current direct write down approach. The most recent update provides entities that have certain instruments within the scope credit losses - measured at amortized cost, with an option to irrevocably elect the fair value option in ASC 825-10. The fair value option election does not apply to HTM fixed income investments. An entity that elects the fair value options should subsequently apply the guidance as per ASC 825-10. The Company is required to adopt this standard for fiscal years beginning after December 15, 2022. The Company is in the process of evaluating the impact of this guidance on its consolidated financial statements. At present, this update does not have a material impact on the consolidated financial statements due to the low balance of assets held at amortized cost and classified as AFS on the consolidated balance sheets.

Insurance - targeted improvements to the accounting for long-duration contracts
(ASC 944: ASU 2020-11. ASU 2019-09, ASU 2018-12)
This update amends four key areas pertaining to the accounting and disclosures for long-duration insurance and investment contracts:

- The update requires cash flow assumptions used to measure the liability for future policy benefits to be updated at least annually and no longer allows a provision for adverse deviation. The remeasurement of the liability associated with the update of assumptions is required to be recognized in net income. Loss recognition testing is eliminated for traditional and limited payment contracts. The update also requires the discount rate utilized in measuring the liability to be an upper-medium grade fixed-income instrument yield, which is to be updated at each reporting date. The change in liability due to changes in the discount rate is to be recognized in OCI.
- The update simplifies the amortization of deferred acquisition costs and other balances amortized in proportion to premiums, gross profits, or gross margins, requiring such balances to be amortized

(expressed in U.S. dollars)

on a constant level basis over the expected term of the contracts. Deferred costs are required to be written off for unexpected contract terminations but are subject to impairment testing.

- The update requires certain contract features meeting the definition of market-risk benefits to be measured at fair value. Among the features included in this definition are the guaranteed lifetime withdrawal benefits (GLWB) and guaranteed minimum death benefits (GMDB) riders attached to annuity products. The change in the fair value of the market risk benefits is to be recognized in net income, excluding the portion attributable to changes in instrument- specific credit risk which is recognized in OCI.
- The update also introduces disclosure requirements which include disaggregated roll forwards of balances and information about significant inputs, judgements, assumptions and methods used in their measurement.

The Company is required to adopt this update for fiscal years beginning after December 15, 2024. At present, this accounting standard does not have an impact on the Company's consolidated financial statements due to the election of the fair value option for accounting for reinsurance contracts.

2. Modco funds withheld receivable, at fair value

The underlying components of the modco funds withheld receivable, at fair value are as follows as of December 31, 2021 and 2020:

Modco funds withheld receivable, at fair value	**2021**	**2020**
Asset-backed securities	$ 781,837,947	$ 200,008,073
U.S. corporates	745,552,363	85,046,836
Mortgage-backed securities	240,352,133	41,088,363
Equity securities	27,821,470	5,000,000
U.S. government states, municipalities, and other government	114,586,925	-
Total fixed income and equity investments	1,910,150,838	331,143,272
Net receivables	216,229,084	214,835,762
Cash and cash equivalents	136,703,419	10,517,555
Accrued investment income	16,107,340	5,165,807
Modco funds withheld receivable, at fair value	$ 2,279,190,681	$ 561,662,396

(expressed in U.S. dollars)

The roll-forward of modco funds withheld receivable, at fair value for the years ended December 31, 2021 and 2020 was as follows:

Modco funds withheld receivable, at fair value roll-forward		**2021**		**2020**
Modco funds withheld receivable, at fair value – beginning of year	$	561,662,396	$	309,578,061
Contribution from assumed reinsurance		558,092,529		201,132,787
Reinsurance contract payments from cedent		983,746,611		34,668,955
Cash settlements from (to) 777 Re		116,891,630		(830,344)
Fair value changes associated with reinsurance contracts		58,797,515		17,112,937
Modco funds withheld receivable, at fair value – end of year	$	2,279,190,681	$	561,662,396

The roll-forward of modco insurance liabilities, at fair value for the years ended December 31, 2021 and 2020 was as follows:

Modco insurance liabilities, at fair value roll-forward		**2021**		**2020**
Modco insurance liabilities, at fair value – beginning of year	$	539,989,958	$	304,608,776
Change from assumed reinsurance		520,054,244		189,106,364
Reinsurance contract payments from cedent		983,746,611		34,668,955
Fair value changes associated with reinsurance contracts		83,226,666		10,678,833
Change in insurance liabilities due to change in own credit risk		(2,151,640)		927,030
Modco insurance liabilities, at fair value – end of year	$	2,124,865,839	$	539,989,958

(expressed in U.S. dollars)

3. Investments

The following table below shows amortized cost, fair value and gross unrealized gains and losses of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category as of December 31, 2021 and 2020:

December 31, 2021

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed income investments				
Available-for-sale				
Asset backed securities	$ 1,548,744	$ 200,780	$ -	$ 1,749,524
U.S. corporates	12,265,886	187,208	(180,278)	12,272,816
Total available-for-sale	$ 13,814,630	$ 387,988	$ (180,278)	$ 14,022,340
Trading				
U.S. corporates	$ 3,666,787	$ -	$ (11,058)	$ 3,655,729
Investment funds	2,760,244	45,618	-	2,805,862
Total trading	$ 6,427,031	$ 45,618	$ (11,058)	$ 6,461,591
Equity securities				
Preferred equity	$ 20,000,000	$ -	$ -	$ 20,000,000
Equity method investments	7,162,547	-	-	-
Total equity securities	$ 27,162,547	$ -	$ -	$ 20,000,000
Total investments	$ 47,404,208	$ 433,606	$ (191,336)	$ 40,483,931

December 31, 2020

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Fixed income investments				
Available-for-sale				
U.S. corporates	$ 3,284,930	$ -	$ -	$ 3,284,930
Total available-for-sale	$ 3,284,930	$ -	$ -	$ 3,284,930
Trading				
U.S. corporates	$ 3,655,731	$ -	$ -	$ 3,655,731
Investment funds	267,714	-	-	267,714
Total trading	$ 3,923,445	$ -	$ -	$ 3,923,445
Held-to-maturity				
U.S. corporates	$ 6,000,000	$ -	$ -	$ -
Total held-to-maturity	$ 6,000,000	$ -	$ -	$ -
Equity securities				
Common stock	$ 9,306,750	$ 378,089	$ -	$ 9,684,839
Preferred equity	5,000,000	-	-	5,000,000
Total equity securities	$ 14,306,750	$ 378,089	$ -	$ 14,684,839
Other invested assets	$ 7,325,371	$ -	$ -	$ 7,325,371
Total investments	$ 34,840,496	$ 378,089	$ -	$ 29,218,585

(expressed in U.S. dollars)

Included in the unrealized gain on equity securities are foreign exchange gains of approximately $0 and $711,000 as of December 31, 2021 and 2020, respectively. None of the Company's securities have been in a continuous unrealized loss position exceeding twelve months as of December 31, 2021 and 2020.

As of December 31, 2021 and 2020, contractual maturities of investments in fixed income investments by classification are as follows:

December 31, 2021

Available-for-sale	**Amortized cost**	**Fair value**
Within one year	$ -	$ -
From one to five years	-	-
From five to ten years	3,292,460	3,239,384
After ten years	10,522,170	10,782,956
Total	$ 13,814,630	$ 14,022,340

During the year, there was a repayment on principal of $1,435,387 on available-for-sale investments. During the year, the held-to-maturity investments were sold for $6,019,732, realizing a gain of $19,732 included in net investment gains.

December 31, 2020

Available-for-sale	**Amortized cost**	**Fair value**
Within one year	$ -	$ -
From one to five years	-	-
From five to ten years	-	-
After ten years	3,284,930	3,284,930
Total	$ 3,284,930	$ 3,284,930

Held-to-maturity	**Amortized cost**	**Fair value**
Within one year	$ -	$ -
From one to five years	-	-
From five to ten years	-	-
After ten years	6,000,000	6,000,000
Total	$ 6,000,000	$ 6,000,000

(expressed in U.S. dollars)

The major categories of net investment income for the years ended December 31, 2021 and 2020 are as follows:

Net investment income		**2021**		**2020**
Interest earned on fixed income investments	$	2,041,389	$	969,955
Interest earned on other invested assets		751,570		674,818
Distribution income earned on investment funds		78,300		-
Dividend income earned on equity securities		375,000		-
Net amortization of premiums and accretion of discounts on fixed income investments		(84,411)		3,871
Gross investment income		3,161,848		1,648,644
Less: Investment expenses		(232,813)		(105,058)
Net investment income	$	2,929,035	$	1,543,586

Realized gains and losses are determined using the specific identification method. The major categories of net investment gains for the years ended December 31, 2021 and 2020 are as follows:

Net investment gains		**2021**		**2020**
Unrealized gain on investment funds	$	45,618	$	-
Gain on equity method investment		560,093		-
Realized gain on fixed income investments		19,732		130,811
Realized loss on equity securities		(134,031)		(182,072)
Unrealized loss on fixed income investments		(11,058)		-
Unrealized gain on equity securities		-		378,089
Net investment gains	$	480,354	$	326,828

Fair values of interest rate sensitive instruments may be affected by increases and decreases in prevailing interest rates, which generally translate, respectively, into decreases and increases in fair values of fixed income investments. The fair values of interest rate sensitive instruments also may be affected by the credit worthiness of the issuer, prepayment options, relative values of other investments, the liquidity of the instrument, and other general market conditions.

The Company evaluated each security and took into account the severity and duration of the impairment, the current rating on the bond, and the outlook for the issuer according to independent analysts. The Company found that the declines in fair value are most likely attributable to increases in interest rates, and there is no evidence that the likelihood of not receiving all of the contractual cash flows as expected has changed. The Company's investment portfolio is managed by its investment manager and monitored by its Investment and Asset Liability Matching Committee ("IALM"). By agreement, the investment manager cannot sell any security without the consent of its IALM if such sale will result in a net realized loss. The Company monitors its investment portfolios and reviews securities that have experienced a decline in fair value below cost to evaluate whether the decline is other-than-temporary. When assessing whether the amortized cost basis of the security will be recovered, the Company compares the present value of the cash flows likely to be collected, based on an evaluation of all available information relevant to the collectability of the security, to the amortized cost basis of the security. The shortfall of the present value of the cash flows expected to be collected in relation to the amortized cost basis is referred to as the "credit loss." If there is a credit loss, the impairment is considered to be other-than-temporary. If the Company identifies that an other-than-temporary impairment loss has occurred, the Company then determines whether it intends to sell the security, or if it is more likely than not that it will be required to sell the security prior to recovering the amortized cost basis less any current-period credit losses. If the Company determines that it does not intend to sell, and it is more likely than not that it will not be required to sell the security, then the amount of the impairment loss related to the credit loss will be recorded in earnings, and the remaining portion of the other-than-temporary impairment loss will be recognized in other comprehensive (loss) income, net of tax. If the Company determines that it intends to sell the security, or that it is more likely than not that it will be required to sell the security prior to recovering its amortized cost basis less any current-period credit losses, then the full amount of the other-than-temporary impairment will be recognized in earnings.

For the years ended December 31, 2021 and 2020, the Company determined that none of its securities were other-than-temporarily impaired. Adverse investment market conditions, or poor operating results of underlying investments, could result in impairment charges in the future.

4. Fair Value of Financial Instruments

ASC 820, *Fair Value Measurement and Disclosures*, provides a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under the guidance are described below:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or observable inputs that are corroborated by market data.

Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lower level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(expressed in U.S. dollars)

Investments

The following table presents the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2021 and 2020:

December 31, 2021

	Total	Level 1	Level 2	Level 3
U.S. corporates	$ 15,928,545	$ -	$ 10,375,623	$ 5,552,922
Asset backed securities	1,749,524	-	1,749,524	-
Investment funds	2,805,862	-	-	2,805,862
Equity securities	20,000,000	-	-	20,000,000
Total investments at fair value	$ 40,483,931	$ -	$ 12,125,147	$ 28,358,784

December 31, 2020

	Total	Level 1	Level 2	Level 3
U.S. corporates	$ 6,940,661	$ -	$ -	$ 6,940,661
Other invested assets	7,325,371	-	-	7,325,371
Investment funds	267,714	-	-	267,714
Equity securities	14,684,839	9,684,839	-	5,000,000
Total investments at fair value	$ 29,218,585	$ $9,684,839	$ -	$ 19,533,746

Modco funds withheld receivable, at fair value

The following table presents the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2021 and 2020:

December 31, 2021

	Total	Level 1	Level 2	Level 3
Asset-backed securities	$ 781,837,947	$ -	$ 334,901,679	$ 446,936,268
U.S. corporates	745,552,363	-	309,598,812	435,953,551
U.S. government states, municipalities, and other government	114,586,925	-	114,586,925	-
Mortgage-backed securities	240,352,133	-	217,529,639	22,822,494
Equity securities	27,821,470	27,821,470	-	-
Cash and cash equivalents	136,703,419	136,703,419	-	-
Accrued investment income	16,107,340	-	16,107,340	-
Net receivables	216,229,084	-	216,229,084	-
Total modco funds withheld receivable, at fair value	$ 2,279,190,681	$ 164,524,889	$ 1,208,953,479	$ 905,712,313

(expressed in U.S. dollars)

December 31, 2020

	Total	Level 1	Level 2	Level 3
Asset-backed securities	$ 200,008,073	$ -	$ 78,262,980	$ 121,745,093
U.S. corporates	85,046,836	-	31,703,849	53,342,987
Mortgage-backed securities	41,088,363	-	5,098,315	35,990,048
Equity securities	5,000,000	-	-	5,000,000
Cash and cash equivalents	10,517,555	10,517,555	-	-
Accrued investment income	5,165,807	-	5,165,807	-
Net receivables	214,835,762	-	214,835,762	-
Total modco funds withheld receivable, at fair value	$ 561,662,396	$ 10,517,555	$ 335,066,713	$ 216,078,128

<u>Modco insurance liabilities, at fair value</u>

The following table presents the Company's fair value hierarchy for those liabilities measured at fair value on a recurring basis as of December 31, 2021 and 2020:

December 31, 2021

	Total	Level 1	Level 2	Level 3
Modco insurance liabilities	$ 2,124,865,839	$ -	$ -	$ 2,124,865,839
Total modco insurance liabilities, at fair value	$ 2,124,865,839	$ -	$ -	$ 2,124,865,839

December 31, 2020

	Total	Level 1	Level 2	Level 3
Modco insurance liabilities	$ 539,989,958	$ -	$ -	$ 539,989,958
Total modco insurance liabilities, at fair value	$ 539,989,958	$ -	$ -	$ 539,989,958

(expressed in U.S. dollars)

Quantitative information regarding significant unobservable inputs used for Level 3 fair value measurements of financial instruments carried at fair value as of December 31, 2021 and 2020 is as follows:

December 31, 2021		**Fair value**	**Unobservable inputs**	**Range**
Assets				
Investments				
U.S. corporates	$	5,552,922	Discount rate	6.84% - 7.84%
Equity securities		20,000,000	Transaction price	100%
Investment funds		2,805,862	Transaction price	100.00%
Total investments	$	28,358,784		
Modco funds withheld receivable:				
Asset-backed securities	$	446,936,268	Discount rate	2.31% - 6.69%
			Transaction price	100%
U.S. corporates		435,953,551	Discount rate	4.08% - 14.48%
			Transaction price	100.00%
Mortgage-backed securities		22,822,494	Discount rate	7.29% - 9.29%
			Constant prepayment rate	0%
			Loss severity	50.00% - 60.00%
Total modco funds withheld receivable	$	905,712,313		
Total assets	$	934,071,097		
Liabilities				
Modco insurance liabilities	$	2,124,865,839	Non-performance risk spread	0.63% – 1.37%
			Risk margin to reflect uncertainty	0.50%
Total liabilities	$	2,124,865,839		

(expressed in U.S. dollars)

December 31, 2020		Fair value	Unobservable inputs	Range
Assets				
Investments				
U.S. corporates	$	6,940,661	Discount rate	6.68% - 10.88%
Other invested assets		7,325,371	Discount rate	8.00% - 9.00%
Equity securities		5,000,000	Discount rate	18.04% - 19.04%
Investment funds		267,714	Transaction price	100.00%
Total investments	$	19,533,746		
Modco funds withheld receivable:				
Asset-backed securities	$	121,745,093	Discount rate	2.24% - 14.65%
U.S. corporates		53,342,987	Discount rate	3.39% - 14.65%
			Transaction price	100.00%
Mortgage-backed securities		35,990,048	Discount rate	6.67% - 10.69%
			Constant prepayment rate	0%
			Probability of default	0% - 5.00%
			Loss severity	40.00% - 70.00%
Equity securities		5,000,000	Discount rate	10.22% - 10.42%
Total modco funds withheld receivable	$	216,078,128		
Total assets	$	235,611,874		
Liabilities				
Modco insurance liabilities	$	539,989,958	Non-performance risk spread	0.38% – 0.85%
			Risk margin to reflect uncertainty	0.50%
Total liabilities	$	539,989,958		

(expressed in U.S. dollars)

The following table summarizes changes to the Company's financial instruments carried at fair value and classified within Level 3 of the hierarchy as of December 31, 2021 and 2020, respectively:

December 31, 2021

Level 3 Assets	**Purchases and issuances**	**Transfers in (out) of level 3**
Investments		
U.S. corporates	$ (1,435,987)	$ -
Investment funds	2,492,530	-
Equity securities	15,000,000	-
Total investments	$ 16,056,543	$ -
Modco funds withheld receivable:		
Asset-backed securities	$ 427,436,268	-
Mortgage-backed securities	12,580,372	-
U.S. corporates	397,050,240	-
Total modco funds withheld receivable	$ 837,066,880	$ -
Total assets	$ 853,123,423	$ -

The Company reviews the fair value hierarchy classifications each reporting period. Changes in the observability of the valuation attributes of U.S. corporates and asset-backed securities resulted in a reclassification from Level 2 to Level 3. Such reclassifications are reported as transfers into Level 3 at the beginning fair value for the years ended December 31, 2021 and 2020 in which the changes occur.

(expressed in U.S. dollars)

December 31, 2020

Level 3 Assets		**Purchases and issuances**		**Transfers in (out) of level 3**
Investments				
U.S. corporates	$	3,655,732	$	3,285,773
Investment funds		267,714		-
Equity securities		5,000,000		-
Other invested assets		7,325,371		
Total investments	$	16,248,817	$	3,285,773
Modco funds withheld receivable:				
Asset-backed securities	$	121,889,566	$	(12,133,588)
Mortgage-backed securities		14,153,038		18,100,914
U.S. corporates		40,120,098		-
Equity securities		5,000,000		-
Total modco funds withheld receivable	$	181,162,702	$	5,967,326
				-
Total assets	$	197,411,519	$	9,253,099

December 31, 2021

Level 3 Liabilities		**Purchases and issuances**		**Transfers in (out) of level 3**
Modco insurance liabilities	$	1,503,800,855	$	-
Total liabilities	$	1,503,800,855	$	-

December 31, 2020

Level 3 Liabilities		**Purchases and issuances**		**Transfers in (out) of level 3**
Modco insurance liabilities	$	223,775,319	$	-
Total liabilities	$	223,775,319	$	-

(expressed in U.S. dollars)

5. Other assets, net

Other assets, net as of December 31, 2021 and 2020 are as follows:

Other assets		2021		2020
Related party promissory note	$	-	$	20,000,000
Accrued investment income		1,867,158		1,276,908
Prepaid expenses and other receivables		203,812		73,251
Other assets	$	2,070,970	$	21,350,159

As of December 31, 2020 there was a related party promissory note due from the Holding Company with a principal value of $20 million, which was collected on March 5, 2021.

6. Statutory requirements

The Company is licensed by the Bermuda Monetary Authority ("BMA") as a long-term insurer and is subject to the Bermuda Insurance Act 1978, as amended ("the Act") and regulations promulgated thereunder. The Company is registered as a Class E insurer, which is defined by regulation as having total assets of more than $500 million. The BMA implemented the Economic Balance Sheet framework into the Bermuda Solvency Capital Requirement ("BSCR"), which was granted equivalence to the European Union's Directive (2009/138/EC).

Under the Act, long-term insurers are required to maintain minimum statutory capital and surplus to meet the Minimum Margin of Solvency ("MMS") and the Enhanced Capital Requirement ("ECR"). As a Class E insurer, the MMS is equal to the greater of 1.5% of the statutory assets of the Company or $500,000. The Company is required to calculate the ECR and Target Capital Level ("TCL") as prescribed by or under rules made under Section 6A of the Act, which are additional capital and surplus requirements to the MMS. The Company's ECR is the higher of the BSCR and the MMS. The TCL is calculated as 120% of the ECR. As of December 31, 2021 and 2020, the Company has met the requirements.

7. Taxation

Bermuda

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

United States

The Company has submitted an election under Section 953(d) of the Internal Revenue Code ("IRC") to be treated as a U.S. domestic life insurance corporation for tax purposes. The Company qualifies as a life insurance company under IRC §816 and, consequently, will file U.S. Federal tax returns.

(expressed in U.S. dollars)

For the years ended December 31, 2021 and 2020, income tax (benefit) expense consists of the following:

		2021		**2020**
Current	$	66,101	$	72,997
Deferred		(5,647,416)		878,177
Total	$	(5,581,315)	$	951,174

As of December 31, 2021 and 2020, the components of net deferred tax assets (liabilities) are as follows:

		2021		**2020**
Deferred tax assets:				
Deferred rent	$	816	$	780
Accrued bonus		171,833		57,715
Start-up costs		85,742		92,741
FVO credit risk change		(228,547)		223,297
Net operating losses		33,783,960		984,140
Investments		33,563		18,349
Due and accrued dividends		189,000		-
Capital loss carryforward		24,003		10,765
Total gross deferred tax assets	$	34,060,370	$	1,387,787
Deferred tax liabilities:				
Deferred market discount	$	14,208	$	1,713
Deferred modco premium revenue - FV adjustments		29,706,217		2,248,960
Unrealized gains		144,037		93,160
Total gross deferred tax liabilities	$	29,864,462	$	2,343,833
Net deferred tax assets (liabilities)	$	4,195,908	$	(956,046)

A valuation allowance is recognized if, based on the weight of available evidence, it is “more likely than not” that some portion or all the deferred tax assets will not be realized. The Company determined no valuation allowance was necessary as of December 31, 2021 and 2020.

Tax years 2019 through 2021 are open under the statute of limitations and remains subject to examination by the Internal Revenue Service.

(expressed in U.S. dollars)

The provision for federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items for the years ended December 31, 2021 and 2020 causing this difference are as follows:

		2021		**2020**
Provision computed at the statutory rate	$	(5,597,419)	$	951,146
State taxes		21,432		-
Dividends received deduction		(1,925)		-
Penalties		279		-
Meals and entertainment		-		28
Return to provision		(3,682)		-
Total income taxes	$	(5,581,315)	$	951,174

As of December 31, 2021 and 2020, the Company generated $160,842,665 and $4,688,437 of net operating losses, respectively that can be carried forward indefinitely. As of December 31, 2021 and 2020, the Company has a capital loss carryforward of $114,298, and $0, respectively.

The Company and its subsidiary file an 1120-L and 1120, respectively with the Internal Revenue Service on a separate company basis.

8. Operating Leases

The Company leases office space under an operating lease agreement. Rent expense, including utilities, was $42,963 and $44,810 for the years ended December 31, 2021 and 2020, respectively, which is recorded in general and administrative expense in the accompanying consolidated statements of operations and comprehensive (loss) income.

The lease terminates during 2023. The required future minimum lease payments over the remaining term of the lease consist of the following at December 31, 2021:

Year ending December 31,		
2022	$	35,035
2023		17,745
Total	$	52,780

9. Litigation, claims and assessments

In the ordinary course of its business, the Company may become subject to claims or proceedings from time to time arising in the normal course of its business. As of December 31, 2021 and 2020, the Company does not believe it is involved in any legal action that could have a material adverse effect on its consolidated financial condition, results of operations, or cash flows.

10. Common share capital

Common shares are entitled to one vote per share and are entitled to receive dividends and, in the event of a capital distribution, are entitled to the surplus assets of the Company. The Company's share capital comprises 25,000,000 authorized and 25,000,000 issued and fully paid shares of $0.01 par value each.

11. Additional paid-in capital

Additional paid-in capital represents net amounts contributed by the Company's common shareholders in addition to par value cost of their subscription to the issued share capital. During the years ended December 31, 2021 and 2020, there was contributions of additional paid-in capital from the Company's shareholders of $123,305,070 and $27,700,000 respectively, of which $0 and $20,000,000 respectively, was contributed via a related party promissory note due from the Holding Company, $118,498,477 and $7,700,000 respectively, was cash and $4,806,592 and $0 respectively, was in the form of an investment.

A stock compensation award with a value of $126,000 was granted on April 8, 2019. The award vests over a 4 year period. During 2021, equity compensation expense of $86,013 has been included in salaries and benefits on the consolidated statements of operations and comprehensive (loss) income and in additional paid-in-capital on the consolidated balance sheets.

12. Related party transactions

Intercompany Service Agreements

During 2019, the Company entered into an intercompany support services agreement with the Parent. For the year ended December 31, 2020 the expense incurred of $105,000 is included in general and administrative expense in the consolidated statements of operations and comprehensive (loss) income. Effective April 1, 2020 the agreement was terminated, and the Company entered into an intercompany support services agreement with the Holding Company. During 2021 and 2020, the expense incurred of $330,000 and $315,000 respectively, is included in general and administrative expense in the consolidated statements of operations and comprehensive (loss) income.

Intercompany Loan Agreements

During 2020, the Company entered into a revolving loan facility agreement as lender with the Parent as borrower, with a maximum limit of $15 million. The loan is secured by common shares held in a public entity by the Holding Company. During 2020, the Parent requested drawdowns up to $7.5 million. The loan earned interest income of $674,818 included in net investment income in the consolidated statements of operations and comprehensive income. The loan of $7,325,371 (there was an over payment of $174,628 from the Parent incurred in 2019 that was netted off against the drawdowns from the revolving loan facility agreement incurred in 2020) is included in other invested assets, at fair value and accrued investment income of $674,818 is included in other assets, net on the consolidated balance sheets. During 2021, the Parent made a drawdown of $7.25 million. Prior to December 31, 2021, the loan amount of $14,575,371 and related accrued interest was repaid in full. The loan earned interest income of $751,571 included in net investment income in the consolidated statements of operations and comprehensive income.

Effective December 31, 2020, there was a related party promissory note due from the Holding Company with a principal value of $20 million. The promissory note accrued interest on the principle and had a maturity date of April 30, 2021. The purpose of the promissory note was for making a contribution of additional paid-in capital to the Company. The $20 million due from the Holding Company is included in other assets on the consolidated balance sheets. On March 5, 2021, the Holding Company fully paid off the promissory note including the interest earned of $38,261, which is included in net investment income in the consolidated statements of operations and comprehensive income.

(expressed in U.S. dollars)

Effective July 30, 2021, the Company entered into a promissory note agreement with the Holding Company with a principal value of $38,038,285 that had a maturity date of August 13, 2021. The purpose of the promissory note is for making a contribution of additional paid-in capital to the Company. The promissory note including the interest earned of $5,387, which is included in net investment income in the consolidated statements of operations and comprehensive (loss) income, was paid off on August 10, 2021.

Effective September 30, 2021, the Company entered into a promissory note agreement with the Holding Company with a principal value of $22,000,000 that had a maturity date of October 30, 2021. The purpose of the promissory note is for making a contribution of additional paid-in capital to the Company. The promissory note, including the interest earned of $34,945, which is included in net investment income in the consolidated statements of operations and comprehensive (loss) income, was paid off on October 23, 2021.

Investment Management Agreement

The Company has an investment management agreement with 777 Asset Management, LLC for the management of its investments included on the consolidated balance sheets. For the year ended December 31, 2021, asset management fees of $189,784 is included in net investment income on the consolidated statements of operations and comprehensive (loss) income. As of December 31, 2021, an accrual of $51,343 for asset management fees, is included in accounts payable and accrued expenses on the consolidated balance sheets.

Investments

Included in investments on the consolidated balance sheets as of December 31, 2021 and 2020 is the below related party investments:

December 31, 2021

Related party name	**Classification**		**Market value**		**Accrued investment income**
777 Partners, LLC	Equity securities	$	15,000,000	$	-
Ensurem, LLC	U.S. Corporates		3,655,729		67,332
Total investments		$	18,655,729	$	67,332

December 31, 2020

Related party name	**Classification**		**Market value**		**Accrued investment income**
777 Partners, LLC	Other invested assets, at fair value	$	7,325,371	$	674,818
Total investments		$	7,325,371	$	674,818

(expressed in U.S. dollars)

Modco funds withheld receivable, at fair value

Included in the modco funds withheld receivable, at fair value on the consolidated balance sheets as of December 31, 2021 and 2020 is the below related party investments:

December 31, 2021

Related party name	Classification	Market value	Accrued investment income
777 Re Investments, LLC	Asset-backed securities	$ 110,000,000	$ 426,666
Flair Airlines, Ltd	U.S. Corporates	37,638,000	1,675,527
777 Partners, LLC	Equity securities	12,500,000	-
777 Partners, LLC	U.S. Corporates	15,000,000	321,439
Brickell PC Insurance Holdings, LLC	U.S. Corporates	25,000,000	4,278
SPSS 2020 -1, LLC	Asset-backed securities	47,262,650	52,514
SPSS 2021 -1, LLC	Asset-backed securities	52,421,453	64,070
SPSS 2021 -3, LLC	Asset-backed securities	18,216,077	32,257
SPSS Fund 2, LLC	Asset-backed securities	16,492,064	178,664
SPSS Fund 4, LLC	Asset-backed securities	85,070,071	189,044
SuttonPark Servicing, LLC	Asset-backed securities	29,324,905	7,331
Case Strategies Group, LLC	U.S. Corporates	35,000,000	466,027
Heron Finance 2021-1, LLC	U.S. Corporates	40,000,000	11,111
Dexton Way Limited	U.S. Corporates	21,320,577	280,172
Sevillistas Unidos, SL	U.S. Corporates	9,277,600	158,750
777 Asset Management, LLC	Accrued asset management fees	(2,686,855)	-
Total modco funds withheld receivable, at fair value		$ 551,836,542	$ 3,867,850

(expressed in U.S. dollars)

December 31, 2020

Related party name	Classification		Market value		Accrued investment income
777 Re Investments, LLC	Asset-backed securities	$	60,000,000	$	160,000
Brickell Insurance Holdings, LLC	Asset-backed securities		10,000,000		251,507
Brickell Insurance Holdings, LLC	Asset-backed securities		47,389,564		32,909
777 Asset Management, LLC	Accrued asset management fees		(13,822)		-
Total modco funds withheld receivable, at fair value		$	117,375,742	$	444,416

No fair value gain or loss is recorded on related party assets held in the modco account during the years ended December 31, 2021 and 2020. Net investment income earned of $12,603,590 and $2,263,601 in relation to related party assets held in the modco account is included in fair value changes associated with reinsurance contracts on the consolidated statements of operations and comprehensive (loss) income for the years ended December 31, 2021 and 2020, respectively

13. Risks and Uncertainties

Unless otherwise indicated, all information included in these consolidated financial statements is as of December 31, 2021 and 2020 and you should not assume that valuations of assets, including assets within the modco asset account, or other matters are current as of any later date.

14. Subsequent events

The Company has evaluated subsequent events through April 29, 2022, the date these consolidated financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.