Audited Financial Statements

Ardellis Insurance Ltd.
Periods Ended December 31, 2022 and
December 25, 2021
With Report of Independent Auditors

Ardellis Insurance Ltd.

Audited Financial Statements

Periods Ended December 31, 2022 and December 25, 2021

Contents

Deloitte.

Deloitte Ltd.
Corner House
20 Parliament Street
P.O. Box HM 1556
Hamilton HM FX
Bermuda

Tel: + 1 (441) 292 1500
Fax: + 1 (441) 292 0961
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholder of
Ardellis Insurance Ltd.

Qualified Opinion

We have audited the financial statements of Ardellis Insurance Ltd. (the "Company"), which comprise the balance sheets as of December 31, 2022 and December 25, 2021, and the related statements of income, comprehensive income, stockholder's equity, and cash flows, for the period then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, except for the omission of the information described in the Basis for Qualified Opinion section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and December 25, 2021, and the results of its operations and its cash flows for the Period then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

Management has omitted disclosure of short-duration contracts that accounting principles generally accepted in the United States of America requires to be presented in and supplement to the financial statements. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our 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.

Required Supplementary Information

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

Deloitte Ltd.

April 28, 2023

Ardellis Insurance Ltd.
Balance Sheets
(Expressed in United States Dollars)
December 31, 2022 and December 25, 2021

	December 31, 2022	December 25, 2021
Assets		
Cash and cash equivalents	$ 5,693,995	$ 16,632,458
Marketable securities *(Note 3)*	55,910,449	55,804,561
Factored receivables *(Note 4)*	34,802,250	34,949,101
Due from Parent *(Note 5)*	24,139,729	24,042,455
Insurance balances receivable	14,396,442	11,529,223
Loss escrow funds & prefunded claims *(Note 6)*	1,255,000	1,155,000
Prepaid expenses	49,688	27,824
Deferred tax assets (*Note 8*)	888,161	-
	$ 137,135,714	$ 144,140,622
Liabilities		
Reserve for losses and loss expenses *(Note 7)*	$ 37,141,199	$ 35,073,511
Reserve for unearned premiums	10,606,370	9,212,604
Income tax payable *(Note 8)*	2,859,819	3,780,132
Deferred tax liability *(Note 8)*	-	815,037
Reinsurance balances payable	650,000	681,420
Accounts payable and accrued liabilities	707,085	1,479,675
	51,964,473	51,042,379
Shareholder's equity		
Share capital *(Note 10)*	120,000	120,000
Additional paid-in capital	2,820,000	2,820,000
Retained earnings	83,118,160	89,215,382
Accumulated other comprehensive (loss) income (Note 9) *(Net of tax of $235,763 (2021: ($250,633))*	(886,919)	942,861
	85,171,241	93,098,243
	$ 137,135,714	$ 144,140,622

See accompanying notes.

On behalf of the Board:

____
Director

Ardellis Insurance Ltd.
Statements of Income
(Expressed in United States Dollars)
December 31, 2022 and December 25, 2021

	December 26, 2021 to December 31, 2022	December 27, 2020 to December 25, 2021
Premiums written, net of premium taxes	$ 53,729,452	$ 49,636,725
Reinsurance premiums ceded	(432,287)	(379,286)
Change in reserve for unearned premiums	(1,393,767)	(2,077,607)
Premiums earned	51,903,398	47,179,832
Losses and allocated expenses *(Note 7)*	(38,910,624)	(28,593,600)
Net underwriting income	12,992,774	18,586,232
Other income and expenses		
Net interest income *(Notes 4 and 5)*	1,989,418	1,303,285
Net investment income *(Notes 3)*	(3,164,678)	6,260,468
General and administrative expenses	(3,785,432)	(4,918,444)
Income before income tax expense	8,032,082	21,231,541
Federal income tax expense *(Note 8)*	(1,629,305)	(4,426,941)
Net income	$ 6,402,777	$ 16,804,600

See accompanying notes.

Ardellis Insurance Ltd.
Statements of Changes in Shareholder's Equity
(Expressed in United States Dollars)
December 31, 2022 and December 25, 2021

		Share Capital		Additional Paid-in Capital		Retained Earnings		Accumulated Other Comprehensive Income/ (Loss)		Total
Balance, December 26, 2020	$	120,000	$	2,820,000	$	82,410,782	$	1,013,216	$	86,363,998
Net income for the period		-		-		16,804,600		-		16,804,600
Dividends declared & paid		-		-		(10,000,000)		-		(10,000,000)
Net unrealized losses on debt instruments (net of tax benefit of $18,702)		-		-		-		(70,355)		(70,355)
Balance, December 25, 2021		120,000		2,820,000		89,215,382		942,861		93,098,243
Net income for the period						6,402,777				6,402,777
Dividends declared & paid						(12,500,000)				(12,500,000)
Net unrealized losses on debt instruments (net of tax benefit of $486,397)								(1,829,779)		(1,829,779)
Balance, December 31, 2022	$	120,000	$	2,820,000	$	83,118,159	$	(886,918)	$	85,171,241

See accompanying notes.

Ardellis Insurance Ltd.
Statements of Cash Flows
(Expressed in United States Dollars)
December 25, 2022 and December 25, 2021

	December 26, 2021 to December 31, 2022	December 27, 2020 to December 25, 2021
Operating activities		
Net income	$ 6,402,777	$ 16,804,600
Adjustment for back unrealized losses/(gains) on investments	5,582,163	(4,060,082)
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Realized investment gains	(1,073,789)	(1,185,837)
Increase in insurance balances receivable	(2,867,219)	(1,288,918)
Increase in deferred tax asset	(888,161)	-
Increase in loss escrow funds	(100,000)	(650,000)
Increase in prepaid expenses	(21,864)	(19,949)
Increase in reserve for loss expenses	2,067,688	5,962,747
Increase in reserve for unearned premiums	1,393,766	2,077,607
(Decrease)/Increase in income tax payable	(920,313)	649,042
(Decrease)/Increase in deferred tax liability	(815,037)	641,453
(Decrease)/Increase/(decrease) in reinsurance balances payable	(31,420)	656,730
(Decrease)/Increase in accounts payable and accrued liabilities	(772,590)	373,954
Cash flows provided by operating activities	7,956,001	19,961,347
Financing activities		
Dividends declared & paid	(12,500,000)	(10,000,000)
Investing activities		
Net increase in factored receivables	146,851	385
(Increase)/Decrease in due from Parent	(97,274)	3,548
Purchases of marketable securities	(14,129,682)	(23,637,678)
Sales of marketable securities	7,685,641	14,881,979
Cash flows used in investing activities	(6,394,464)	(8,751,766)
Net (Decrease)/Increase in cash and cash equivalents	(10,938,463)	1,209,581
Cash and cash equivalents, beginning of period	16,632,458	15,422,877
Cash and cash equivalents, end of period	$ 5,693,995	$ 16,632,458
Supplemental disclosure of cash flow information		
Cash paid during the period for:		
Income tax	$ 3,766,421	$ 3,117,743

See accompanying notes.

1. Operations

Ardellis Insurance Ltd. (the Company) was incorporated on April 21, 2001, under the laws of Bermuda and is licensed as a Class 3A insurer under the Insurance Act 1978 of Bermuda. The Company is ultimately wholly-owned by UFP Industries, Inc. (the Parent), a company incorporated in the state of Michigan, United States of America.

During 2011, the Company changed its name from UFP Insurance Ltd. to Ardellis Insurance Ltd.

The Company currently provides coverage for medical stop loss, general liability, automobile physical damage liability, property, workers' compensation, trade credit insurance and environmental liabilities of the Parent and its subsidiaries. The Company also currently provides coverage for medical stop loss, excess general liability, professional liability, property reinsurance of unrelated third parties. (approximately 44% (2021: 48%) of total is related party business).

The Board of Directors approved the Company's fiscal period-end to end on the last Saturday closest to December 31 calendar year. As a result, the period-end date fluctuates from period to period by one or more days.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, and expenses during the reporting period. Actual results could differ from those estimates. The following are the significant accounting policies adopted by the Company.

Cash and Cash Equivalents

The Company considers all time deposits and highly liquid debt investments purchased with an original maturity of ninety days or less as cash and cash equivalents.

Investments

The Company classifies its fixed maturity investments as available-for-sale with the changes in fair value of unrealized gains or losses, net of deferred taxes, reported as a separate component of comprehensive income or loss until sold. Realized gains and losses on the sale of fixed maturity investments are accounted for in the income statement.

The Company classifies its equity securities as available-for-sale, the changes in fair value of the equity investments are recognized within net investment income or loss on the statement of income statement.

2. Significant Accounting Policies (continued)

Reserve for Losses and Loss Expenses

Reserve for the provision for unsettled, reported losses is based on estimates of the final settlement.

The provision for losses incurred but not reported is based upon a review of the past loss experience estimates of management and actuarial evaluation. The final settlement of losses may be materially greater or less than amounts provided. Any such differences, when they become known, will be recognized in current operations.

Fair Value of Financial Instruments

Fair value disclosures with respect to certain financial instruments (as defined by Accounting Standards Codification (ASC) 825, *Financial Instruments)* are included separately herein where appropriate. The carrying values of other financial instruments approximate their fair values due to the short-term nature of the balances. These include due from parent, loans receivable, factored receivables, insurance balance receivable, loss escrow funds, income tax payable, and accounts payable and accrued liabilities.

Premiums

Premiums written are recognized on a pro rata basis over the terms of the policies.

Premiums written that relate to future periods are reflected as unearned premiums.

The Company may examine and audit the Parent's books and records at any time during a policy period and within five years after the final termination date of a policy. Any resulting adjustment to premium is reflected in the period they become known.

Investment Income

Interest income comprises income earned on cash and cash equivalents, common stock, marketable securities, factored receivables, amounts due from parent, and loans receivable.

Income Taxes

The Company has elected to be treated as a United States of America domestic insurance company for United States of America federal income tax purposes. The Company records its income tax liability and deferred tax assets in accordance with ASC 740, *Income Taxes*. The Company records deferred income taxes, which reflect the net tax effect of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is recognized, if based on the weight of available evidence, it is more likely than not, that some portion or all of the deferred tax asset will not be recognized.

2. Significant Accounting Policies (continued)

New Accounting Standards

New Accounting Standards – Not yet Adopted

Credit losses

In June 2016, the FASB issued a new credit loss standard ASU 2016-13 that changes the impairment model for most financial assets and certain other instruments. The guidance will replace the current "incurred loss" approach with a more forward looking "expected loss" model for instruments measured at amortized cost and will require entities to record allowances for available-for-sale debt securities rather than reduce the carrying amount. This guidance is effective for fiscal periods beginning after December 15, 2020 for public entities and effective for fiscal periods beginning after December 15, 2022 for all other entities. The Company is currently assessing the impact this guidance will have on future financial statements and related disclosures.

(Expressed in United States dollars)

3. Investments

The cost/amortized cost and estimated fair market value of the Company's investments as at December 31, 2022 and December 25, 2021, are as follows:

As of December 31, 2022:

	Cost/ Amortized Cost	Net Unrealized Gains	Net Unrealized Losses	Estimated Fair Value
Corporate bonds	$ 15,968,893	$ -	$ (1,323,837)	$ 14,645,056
Foreign bonds	774,597	-	(43,800)	730,797
U.S. Government bonds	1,081,361	-	(121,600)	959,761
Preferred stock	1,253,903	-	(296,543)	957,360
Certificates of deposit	2,931,957	-	(327,382)	2,604,575
Domestic stock	24,768,110	2,798,459	-	27,566,569
International stock	4,028,669	-	(158,605)	3,870,064
Alternative investments	3,585,787	990,480	-	4,476,267
Total	$ 54,393,277	$ 3,788,939	$ (2,271,767)	$ 55,910,449

As of December 25, 2021:

	Cost/ Amortized Cost	Net Unrealized Gains	Net Unrealized Losses	Estimated Fair Value
Corporate bonds	$ 14,697,781	$ 410,302	$ -	$ 15,108,083
Foreign bonds	422,698	10,516	-	433,214
U.S. Government bonds	1,078,881	-	(3,198)	1,075,683
Preferred stock	1,003,003	16,250	-	1,019,253
Certificates of deposit	1,698,466	-	(24,894)	1,673,572
Domestic stock	19,859,409	7,712,464	-	27,571,873
International stock	4,145,178	509,553	-	4,654,731
Alternative investments	3,483,635	784,517	-	4,268,152
Total	$ 46,389,051	$ 9,443,602	$ (28,092)	$ 55,804,561

The Company's marketable securities consist of a portfolio of common stock, fixed income securities and alternative investments in a variety of industry sectors managed by Merrill Lynch and Blackrock. Fixed income investments consist of short, intermediate, and long-term bonds, as well as fixed blend bonds. Within the fixed income investments, there is a specific mixture of US treasury notes and various corporate securities. Equity funds investments consist of small, mid, and large cap growth and value funds, as well as international equity.

(Expressed in United States dollars)

3. Investments (continued)

In evaluating credit losses, the Company considers a variety of factors in the assessment of a security including: (1) the time period during which there has been a significant decline below cost; (2) the extent of the decline below cost and par; (3) the potential for the security to recover in value; (4) an analysis of the financial condition of the issuer; (5) the rating of the issuer; and (6) failure of the issuer of the security to make scheduled interest or principal payments.

Based on the factors described above, the Company determined that no credit losses existed for the Company's investments in fixed income securities.

The amortized cost and estimated fair values of debt securities classified as available for sale as at December 31, 2022 and December 25, 2021 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

As of December 31, 2022:

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,689,533	$ 1,671,674
Due after one year through five years	10,210,665	9,509,855
Due after five years through ten years	8,088,768	7,129,647
Due after ten years	2,021,745	1,586,373
Fixed income securities	$ 22,010,711	$ 19,897,549

As of December 25, 2021:

	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 1,488,302	$ 1,487,041
Due after one year through five years	6,980,289	7,190,734
Due after five years through ten years	9,158,303	9,350,375
Due after ten years	1,273,935	1,281,655
Fixed income securities	$ 18,900,829	$ 19,309,805

(Expressed in United States dollars)

3. Investments (continued)

Major categories of net investment income are summarized as follows:

	2022	2021
Interest	$ 606,645	$ 497,342
Dividends	941,038	723,744
Net realized gains	1,073,790	1,185,837
Net unrealized gains/ (losses)	(5,582,162)	4,060,082
Investment expenses	(203,989)	(206,537)
Net investment income/ (loss)	$ (3,164,678)	$ 6,260,468

Fair value measurement

The Company follows ASC Topic 820, Fair Value Measurements and Disclosures, which provides a consistent definition of fair value, focuses on exit price, prioritizes the use of market-based inputs over entity-specific inputs for measuring fair value and establishes a three-tier hierarchy for fair value measurements. This topic requires fair value measurements to be classified and disclosed in one of the following three categories:

Level 1: Financial instruments with unadjusted, quoted prices listed on active market exchanges.

Level 2: Financial instruments lacking unadjusted, quote prices from active market exchanges, including over-the-counter traded financial instruments. Financial instrument values are determined using prices for recently traded financial instruments with similar underlying terms and direct or indirect observational inputs, such as interest rates and yield curves at commonly quoted intervals.

Level 3: Financial instruments not actively traded on a market exchange and there is little, if any, market activity. Values are determined using significant and unobservable inputs or valuation technologies.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement of the asset or liability. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and the Company considers factors specific to the asset or liability.

(Expressed in United States dollars)

3. Investments (continued)

The Company reviews its investments measured at fair value and discusses the proper classification of such investments with its investment advisors. The Company's review process includes, but is not limited to initial and ongoing evaluation of methodologies used by outside parties to calculate fair value, where information is available, which includes selecting securities sold and comparing the executed prices to the fair value estimates from the pricing services. The Company values its investments using published market prices.

Fair value measurement

Below is a summary of the financial instruments that are measured at fair value on a recurring basis at December 31, 2022 and December 25, 2021.

As of December 31, 2022:	Level 1	Level 2	Level 3	*Practical Expedient	Total
Corporate bonds	$ -	$ 14,645,056	$ -	$ -	$ 14,645,056
Foreign bonds	-	730,797	-	-	730,797
U.S. Government bonds	959,761	-	-	-	959,761
Certificates of deposit	2,604,575	-	-	-	2,604,575
Preferred stock	-	957,360	-	-	957,360
Domestic Stocks	27,566,569	-	-	-	27,566,569
International stocks	3,870,064	-	-	-	3,870,064
Alternative Investments	474,150	-	-	4,102,117	4,576,267
Total	$ 35,475,119	$ 16,333,213	$ -	$ 4,102,117	$ 55,910,449

As of December 25, 2021:	Level 1	Level 2	Level 3	*Practical Expedient	Total
Corporate bonds	$ -	$ 15,108,082	$ -	$ -	$ 15,108,082
Foreign bonds	-	433,214	-	-	433,214
U.S. Government bonds	1,075,683	-	-	-	1,075,683
Certificates of deposit	1,673,572	-	-	-	1,673,572
Preferred stock	-	1,019,253	-	-	1,019,253
Domestic Stocks	27,571,874	-	-	-	27,571,874
International stocks	4,654,731	-	-	-	4,654,731
Alternative Investments	483,016	-	-	3,785,136	4,268,152
Total	$ 38,458,876	$ 16,560,549	$ -	$ 3,785,136	$ 55,804,561

* In accordance with Subtopic 820-10, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

4. Factored Receivables

On October 14, 2008, the Company entered into a Program for Accounts Receivable Transfer Agreement with a related company and the Parent. In 2022 this agreement was terminated and a new agreement executed. As of December 31, 2022, the Company had $34,802,250 (December 25, 2021 – $34,949,101) of receivables purchased and outstanding under the agreement. This receivable is recorded based on the face value of the receivables purchased less an agreed dilution percentage based on historical performance and is recorded net of prepaid interest of $197,750 (December 25, 2021 - $50,899).

Under the terms of this arrangement, the Company purchases specific receivables, on a non-recourse basis, from the related company at an agreed-upon price; the related company services the receivables sold and outstanding on behalf of the Company at a rate of 0.5%; and the maximum amount of receivables that may be outstanding at any point in time under this arrangement is $40,000,000 (December 25, 2021 – $40,000,000). A servicing fee for the period ended December 31, 2022 amounts to $183,875 (December 25, 2021 – $189,514), which is recorded in net interest income in the statement of income.

The Company assesses the collectability of the receivables purchased regularly and an allowance for doubtful accounts is recorded as needed. There was no allowance recorded as at December 31, 2022 or December 25, 2021.

5. Due from Parent

The Company entered into a revolving line of credit agreement with variable interest rates with the Parent and includes a loan established on September 1, 2007, amounting to $15,000,000, accruing interest based on the 90-day Libor rate on the date of inception, plus 1%. This agreement was revised on June 23, 2011, June 23, 2017, and again on June 23, 2022.

According to the terms, the Parent can borrow up to $24,000,000, as a term loan of $16,000,000, accruing interest at the rate of 4.25% compounded annually and a revolving line of credit with a limit of $8,000,000, accruing interest based on the SOFR rate on the date of inception, plus 1.75%. This agreement can be closed at any time at the mutual will of both parties.

The current amount outstanding on the notes as of December 31, 2022 is $24,139,729 (December 25, 2021 – $24,042,455), which also includes accrued interest in the amount of $139,729 (December 25, 2021 – $42,455).

6. Loss Escrow Funds

As at December 31, 2022, loss escrow funds amounted to $800,089 (December 25, 2021 – $702,950) and prefunded claims of $454,911 (December 25, 2021 - $452,050). These funds represent amounts paid as a guarantee for losses and loss expenses paid by the claims handler on behalf of the Company.

(Expressed in United States dollars)

7. Reserve for Losses and Loss Expenses

The activity in the reserve for losses and loss expenses is summarized as follows:

	December 31, 2022	December 25, 2021
Balance, beginning of period	$ 35,073,511	$ 29,110,764
Incurred related to:		
Current period	33,963,653	22,384,848
Prior periods	4,946,971	6,208,752
Total incurred	38,910,624	28,593,600
Paid related to:		
Current period	(17,225,558)	(8,069,703)
Prior periods	(19,617,378)	(14,561,150)
Total paid	(36,842,936)	(22,630,853)
Net balance, end of period	$ 37,141,199	$ 35,073,511

Open claims, and reserves associated with any liability are reviewed, and assessed by management on a case by case basis throughout the period. These reserves are adjusted accordingly based on the best information available at that time.

Inherent in estimates of losses are expected trends in claim severity, and frequency, and other factors, which could vary significantly as claims are settled. The outcome of these matters is not presently determinable. Accordingly, ultimate losses may differ materially from the amounts provided in the financial statements, and potential variations in the estimates could have a significant effect on shareholder's equity, and the Company's compliance with statutory solvency requirements.

For the period ended December 31, 2022, the net adverse loss development of $4,946,971 for prior periods was primarily due to unfavorable development on workers' compensation, auto liability, medical stop loss and general liability for the 2021 policy period. For the period ended December 25, 2021, the net adverse loss development of $6,208,752 for prior periods was primarily due to unfavorable development on workers' compensation, auto liability, medical stop loss and general liability for the 2020 policy period.

(Expressed in United States dollars)

8. Taxation

Bermuda

At the present time, no taxes are levied in Bermuda on receipts, dividends, capital gains, gifts or net income. 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.

United States of America (U.S.)

The Company elected to be treated as a U.S. domestic insurance company for U.S. federal tax purposes under section 953(d) of the U.S. Internal Revenue Code, and is therefore subject to income taxation in the U.S. Under this election, the Company is included in a U.S. consolidated federal income tax return with its parent company. The parent allocates current and deferred income taxes on a separate company basis, as if the Company was not included in the consolidated income tax return.

The net deferred tax asset reflects the enacted tax rates and laws that will be in effect when the temporary differences between U.S. GAAP and U.S. tax accounting are expected to reverse for the discounting of reserve for losses and loss expenses and reserve for unearned premiums and unrealized gains or losses on investments.

The components of deferred tax liability as of December 31, 2022 and December 25, 2021, are as follows:

	2022	2021
Discounting of reserve for losses and loss expenses	$ 773,695	$ 782,392
Reserve for unearned premiums	445,468	386,929
Net unrealized gain on investments	(336,597)	(1,991,503)
Accruals	5,595	7,145
Deferred tax asset/(liability)	$ 888,161	$ (815,037)

The components of the income tax expense as of December 31, 2022 and December 25, 2021, are as follows:

	2022	2021
Current income tax expense	$ 2,846,099	$ 3,780,134
Deferred income tax expense	(1,216,794)	646,807
	$ 1,629,305	$ 4,426,941

(Expressed in United States dollars)

9. Other Comprehensive Losses or Income

Other comprehensive income, consisting of unrealized gains on fixed maturity investments, net of tax for the period ended December 31, 2022.

	2022		
	Before Tax Amount	Tax Expense	Net of Tax Amount
Net holding income arising during period	$(1,122,682)	$ 235,763	$ (886,919)
Other comprehensive income/(loss)	$(1,122,682)	$ 235,762	$ (886,919)

Other comprehensive income, consisting of unrealized gains on fixed maturity investments and equity securities, net of tax, was as follows for the period ended December 25, 2021:

	2021		
	Before Tax Amount	Tax Benefit	Net of Tax Amount
Net holding income arising during period	$ 1,193,494	$ (250,633)	$ 942,861
Other comprehensive income	$ 1,193,494	$ (250,633)	$ 942,861

10. Share Capital

	December 31, 2022	December 25, 2021
Authorized, issued and fully paid:		
120,000 shares of $1 each par value	$ 120,000	$ 120,000

11. Concentration of Credit Risk

The Company is a party to financial instruments with concentration of credit risk in the normal course of business. These financial instruments include cash and cash equivalents, factored receivables, due from parent, loans receivable, insurance balances receivable, and escrow.

12. Market Risk

The Company is subject to market risk on its securities owned. As a result of changes in market conditions, the values of these financial instruments will fluctuate.

13. Liquidity Risk

The Company is potentially subject to liquidity risk on some of its privately held or illiquid securities owned. As a result, the Company may be unable to realize the full fair value of these securities since it may not be able to liquidate its positions in a timely manner.

14. Statutory Requirements

The Company is registered under the Bermuda Insurance Act 1978, and Related Regulations (the Act), and is obligated to comply with various provisions of the Act regarding solvency, and liquidity. Statutory capital and surplus as at December 31, 2022 was $84,233,392 (December 25, 2021 – $93,070,419) and the amount required to be maintained by the Company was $8,294,575 (December 25, 2021 – $7,688,616). In addition, a minimum liquidity ratio must be maintained whereby relevant assets, as defined by the Act, must exceed 75% of relevant liabilities. As at December 31, 2022 and December 25, 2021, the liquidity ratio was met.

15. COVID-19

Since the outbreak of COVID-19 in the first quarter of 2021, global financial markets have experienced, and may continue to experience significant volatility and there are significant consequences for the global economy from travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The extent and duration of the impact of COVID-19 on the global economy and the sectors in which the Company and its parent operate is still somewhat uncertain at this time. Management, under the oversight of the Board of Directors, has performed an assessment of the potential effects of COVID-19 on the Company's operations and related financial performance through December 31, 2022. This assessment-included consideration of the Company's exposure to losses on its investment portfolio, the Company's exposure to COVID 19 related insurance claims, and the Company's continued ability to meet its statutory solvency and liquidity ratio requirements through December 31, 2022. Because of this assessment, management has ultimately concluded that as at December 31, 2022, the Company's financial performance has not been significantly impacted by the COVID-19 outbreak and it will continue to monitor the situation and any potential future impact on the Company.

At this time, we do not foresee any adverse implications of COVID-19 on the business of the Company.

16. Subsequent Events

In preparing the financial statements, management evaluated subsequent events through April 28, 2023, which is the date that these financial statements are available to be issued. No subsequent events were noted by management as of the date the issuance of the financial statements.