Condensed Interim Financial Statements of

CROSSWINDS HOLDINGS INC.

(formerly C.A. Bancorp Inc.)

September 30, 2014

Crosswinds Holdings Inc.
Suite 800
365 Bay Street
Toronto, Ontario
M5H 2V1

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim financial statements (the "financial statements"), the financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying financial statements of Crosswinds Holdings Inc. (the "Company"), for the three and nine month periods ended September 30, 2014 and comparative information for 2013 have been prepared by and are the responsibility of management of the Company.

The Company's independent auditor has not performed a review of the accompanying financial statements in accordance with the standards established by Chartered Professional Accountants Canada for a review of interim financial statements by an entity's auditor.

November 14, 2014

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CROSSWINDS HOLDINGS INC.
September 30, 2014
(Expressed in Canadian dollars or unless otherwise stated)

CROSSWINDS HOLDINGS INC.
Condensed Statements of Financial Position

Expressed in Canadian Dollars	**Note**	**September 30, 2014**	December 31, 2013	January 1, 2013
				(Note 15)
ASSETS				
Cash and cash equivalents	**5**	**$ 17,509,504**	$ 25,796,708	$ 25,126,375
Marketable securities	**6**	**-**	537,116	-
Accounts receivable and other assets		**29,488**	262,316	199,170
Investments in private entities	**7**	**3,948,442**	18,860,775	16,619,451
		$ 21,487,434	$ 45,456,915	$ 41,944,996
LIABILITIES				
Accounts payable and accrued liabilities		**$ 207,786**	129,234	$ 622,865
Deferred revenue		**-**	-	214,286
		207,786	129,234	837,151
SHAREHOLDERS' EQUITY				
Share capital	**9**	**15,273,044**	35,333,030	35,333,030
Contributed surplus		**11,788,999**	16,107,468	16,107,468
Deficit		**(5,782,395)**	(6,112,817)	(10,332,653)
		21,279,648	45,327,681	41,107,845
		$ 21,487,434	$ 45,456,915	$ 41,944,996

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

Robert Wolf .... Director

J. Roy Pottle .... Director

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

CROSSWINDS HOLDINGS INC.
Condensed Statements of Income and Comprehensive Income

Expressed in Canadian Dollars	Note	Three months ended September 30 2014	Three months ended September 30 2013	Nine months ended September 30 2014	Nine months ended September 30 2013
REVENUE					
Interest and investment income		$ **137,095**	$ 411,389	$ **534,228**	$ 1,208,666
Fee income		**-**	53,571	**-**	161,372
		137,095	464,960	**534,228**	1,370,038
NET RESULTS OF INVESTMENTS					
Realized gain on sale of marketable securities		**-**	312,000	**84,929**	442,521
Change in unrealized gain on marketable securities		**-**	(62,272)	**(52,497)**	134,213
Realized gain on sale of investments in private entities	**7**	**161,209**		**5,092,126**	-
Change in unrealized gain on investments in private entities	**7**	**-**	1,518,096	**(4,712,719)**	1,518,096
Realized foreign exchange gain		**-**	-	**242,704**	-
		161,209	1,767,824	**654,543**	2,094,830
EXPENSES					
Management fees		**64,388**	21,019	**108,536**	41,019
Audit & tax fees		**14,509**	10,000	**58,341**	29,055
Legal fees		**121,144**	43,005	**288,696**	112,462
Employee & administrative services fees		**-**	500	**-**	41,460
Consulting fees		**25,877**	33,779	**138,156**	109,925
Directors' fees		**34,339**	33,631	**104,367**	195,631
General and administrative		**58,988**	141,784	**160,253**	257,616
Cost of abandoned Realization Strategy and change of control	**8**	**-**	9,860	**-**	631,422
Liquidation costs		-	(129,860)	-	(129,860)
		319,245	163,718	**858,349**	1,288,729
INCOME/(LOSS) BEFORE INCOME TAXES		**(20,941)**	2,069,066	**330,422**	2,176,139
PROVISION FOR INCOME TAXES					
Current tax provision		**-**	-	**-**	-
NET INCOME/(LOSS) AND COMPREHENSIVE INCOME		$ **(20,941)**	$ **2,069,066**	$ **330,422**	$ 2,176,139
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (in thousands)					
Basic		**5,304,007**	12,269,280	**8,008,472**	12,269,280
Diluted		**5,304,007**	12,269,280	**8,008,472**	12,269,280
NET INCOME/(LOSS) PER SHARE					
Basic		$ **(0.00)**	$ 0.17	$ **0.04**	$ 0.18
Diluted		$ **(0.00)**	$ 0.17	$ **0.04**	$ 0.18

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

CROSSWINDS HOLDINGS INC.
Condensed Statements of Changes in Equity

Expressed in Canadian Dollars	Note	Nine months ended September 30 2014	2013
Share Capital			
Balance at beginning of period		**$ 35,333,030**	$ 35,333,030
Repurchase of shares		**(20,059,986)**	-
Balance at end of period	**9**	**15,273,044**	35,333,030
Contributed Surplus			
Balance at beginning of period		**16,107,468**	16,107,468
Repurchase of shares		**(4,318,469)**	-
Balance at end of period		**11,788,999**	16,107,468
Deficit			
Balance at beginning of period		**(6,112,817)**	(10,332,653)
Net income for the period		**330,422**	2,176,139
Balance at end of period		**(5,782,395)**	(8,156,514)
Total Shareholders' Equity		**$ 21,279,648**	$ 43,283,984

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

CROSSWINDS HOLDINGS INC.

Condensed Statements of Cash Flows

Expressed in Canadian Dollars	Note	Nine months ended September 30 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		$ 330,422	$ 2,176,139
Adjustments to determine net cash flows from (used in) operating activities:			
Interest income	7	(534,228)	(1,208,666)
Non-cash fee income		-	(161,372)
Realized gain on sale of marketable securities	7	(84,929)	(442,521)
Change in unrealized gain on marketale securities	7	52,497	(134,213)
Net decrease/(increase) in financial assets at fair value through profit and loss	7	4,712,719	(1,518,096)
Net decrease in receivables		232,828	108,363
Net increase/(decrease) in accounts payables and accrued liabilities		78,552	(496,414)
Cash provided by/(used in) operations		4,787,861	(1,676,780)
Interest received		280,807	425,497
Net Cash provided by/(used in) operating activities		5,068,668	(1,251,283)
CASH FLOWS FROM INVESTING ACTIVITIES			
Sale of investments in private entities	7	10,453,035	1,907,568
Purchase of marketable securities		-	(5,440,800)
Proceeds from sale of marketable securities	7	569,548	3,805,446
Net Cash provided by investing activities		11,022,583	272,214
CASH FLOWS FROM FINANCING ACTIVITIES			
Common shares repurchased	12	(24,378,455)	-
Net Cash used in financing activities		(24,378,455)	-
NET DECREASE IN CASH AND CASH EQUIVALENTS		(8,287,204)	(979,069)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD		25,796,708	25,126,375
CASH AND CASH EQUIVALENTS - END OF PERIOD		17,509,504	$ 24,147,306

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

1. ORGANIZATION

Crosswinds Holdings Inc. (“Crosswinds” or the “Company”) (formerly C.A. Bancorp Inc.) is a publicly traded private equity firm with a focus on the insurance industry. The Company is incorporated under the *Business Corporations Act* (Alberta), with its head office at 365 Bay St., Suite 800, Toronto, Ontario M5H 2V1. The registered office of the Company is located at 3700 Canterra Tower, 400 Third Avenue SW, Calgary, Alberta T2P 4H2.

The Company’s common shares trade on the Toronto Stock Exchange (“TSX”) under the symbol “CWI”.

The Company filed articles of amendment to change its name from “C.A. Bancorp Inc.” to “Crosswinds Holdings Inc.”.

2. ADOPTION OF NEW AND REVISED STANDARDS

Standards, amendments and Interpretations that are issued but not yet effective for annual reporting periods ending December 31, 2014

The Company has not applied the following revised International Financial Reporting Standard (“IFRS”) that has been issued but is not yet effective:

IFRS 9 Financial Instruments

Two phases of IFRS 9, Financial Instruments (“IFRS 9”) were issued by the International Accounting Standards Board (“IASB”) in November 2009 and October 2010. IFRS 9 will replace International Accounting Standard (“IAS”) 39, Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss (“FVTPL”) and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. In February 2014 the IASB set January 1, 2018 as the effective date for mandatory application of IFRS 9. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

(a) Statement of compliance

These condensed interim financial statements comply with IAS 34, Interim Financial Reporting. These are the Company’s IFRS condensed interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1, First-time Adoption of International Financial Reporting Standards, has been applied. The condensed interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 15.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

(b) Basis of preparation

These financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Company qualifies as an investment entity as defined under accounting guidelines as it meets all of the following three tests:

- Obtains funds from one or more investors for the purpose of providing those investors with investment management services;
- Commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measures and evaluates the performance of all of its investments on a fair value basis.

No significant judgments were made in respect of making this determination.

Judgments made by management in the application of IFRS that have significant effects on the financial statements are disclosed, where applicable, in the relevant notes to the financial statements.

The principal accounting policies applied by the Company are set out below.

(c) Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of the Company are measured in the currency of the primary economic environment in which the Company operates (the “functional currency”). The financial statements of the Company are presented in Canadian dollars (“CAD”), which is the Company’s functional and presentation currency for the periods covered by these statements.

(ii) Foreign currency translation

Transactions in currencies other than CAD are recorded at the rates of exchange prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary items and non-monetary assets and liabilities that are denominated in foreign currencies are recognized in profit or loss in the period in which they arise. Foreign exchange gains and losses on financial assets and financial liabilities at fair value through profit or loss are recognized together with other changes in the fair value. Net foreign exchange gains/(losses) on non-monetary and monetary financial assets and liabilities other than those classified as at fair value through profit or loss are netted with realized gains/losses in the statements of income and comprehensive income.

(d) Revenue recognition

(i) Investment income

Dividend income is recognized when the Company’s right to receive the payment has been established, normally being the ex-dividend date. Dividend income is recognized gross of withholding tax, if any.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

(d) Revenue recognition (continued)

(i) Investment income (continued)

Interest income on debt securities at fair value through profit or loss is recognized using the accrual basis of accounting. Interest income is recognized gross of withholding tax, if any.

(ii) Asset management fees

Asset management fees are recorded as revenue and recognized on an accrual basis.

(iii) Other fees

Deal fees or work fees are recognized when the engagement services have been fully completed and management is assured of their realization.

(e) Financial assets and financial liabilities at fair value through profit or loss

(i) Classification

The Company classifies its financial assets and financial liabilities as follows:

- Investments in private entities and marketable securities are classified as fair value through profit or loss ("FVTPL"). Gains and losses arising from the change in fair value are recognized in net income.

- Cash and cash equivalents and accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest method less any allowance for impairment. As at September 30, 2014, December 31, 2013 and January 1, 2013, recorded amounts approximated fair value due to their short-term nature.

The Company classifies its financial instruments as financial assets or financial liabilities at fair value through profit or loss on the basis that the Company's financial assets and financial liabilities are classified as held for trading. Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purpose of selling or repurchasing in the near future or on initial recognition they are part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking.

Financial assets that are measured at amortized cost are assessed for impairment each reporting period. Financial assets measured at amortized cost are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows have been affected. The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows.

(ii) Recognition

Financial assets and liabilities at fair value through profit or loss are recognized when the Company becomes party to the contractual provisions of the instrument. Recognition takes place on the trade date where the

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

(e) Financial assets and financial liabilities at fair value through profit or loss (continued)

(ii) Recognition (continued)

purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

Dividend and interest income relating to the Company's investments in equity and debt securities is recognized according to Note 3 (d) (i) Revenue recognition above. Dividend expense relating to equity securities sold short is recognized when the shareholders' right to receive the payment has been established.

(iii) Measurement

At initial recognition financial assets and liabilities are measured at fair value. Transaction costs on financial assets and liabilities at fair value through profit or loss are expensed as incurred in the statements of income and comprehensive income.

Subsequent to initial recognition, financial assets and liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in their fair value are included in the statements of income and comprehensive income for the period in which they arise. Dividend or interest earned on financial assets at fair value through profit or loss and dividend or interest expense on the financial liabilities at fair value through profit or loss are disclosed in a separate line item in the statements of income and comprehensive income. Fair value is determined in the manner described in Note 7.

(A) Publicly traded investments

Publicly traded investments, which include marketable securities, are carried at fair value. Quoted market prices are used in determining the fair value of individual investments held. The Company records security purchases and sales on a trade date basis. Purchases or sales that have not settled at year-end are recorded as "Due to/from broker".

(B) Investments in private entities

Investments in securities where no quoted market values are available are generally valued initially at the cost of acquisition on the basis that such cost is a reasonable estimate of fair value. Such investments are subsequently revalued using accepted industry valuation techniques such as a substantial arm's length transaction, earnings multiples of comparable publicly traded companies and discounted cash flow analysis. Any sale, size or other liquidity restrictions on the investment is considered by Management in its determination of fair value. Due to the inherent uncertainty of valuation, Management's estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

(iv) Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

Financial liabilities at fair value through profit or loss are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

Financial assets and financial liabilities at fair value through profit or loss (continued)

(v) Offsetting

The Company only offsets financial assets and financial liabilities at fair value through profit or loss if the Company has a legally enforceable right to offset recognized amounts and either intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(e) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term investments in an active market with original maturities of three months or less, bank overdrafts and money market funds with daily liquidity and all highly liquid financial instruments that mature within three months of being purchased.

(f) Receivable from and due to brokers

Amounts due from brokers include margin accounts and receivables for securities sold that have been contracted for but not yet delivered on the reporting date. Margin accounts represent cash deposits held with brokers as collateral against open futures contracts.

Amounts due to brokers are payables for securities purchased that have been contracted for but not yet delivered on the reporting date.

(g) Loans and other receivables

Loans and receivables, which are included in accounts receivable and other assets, are recorded at amortized cost using the effective interest method. Management has determined that the amortized cost approximates the fair value. Loans are subject to periodic impairment review and are classified as impaired when there is no longer reasonable assurance of full and timely collection of principal and interest.

(h) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost. As at September 30, 2014, December 31, 2013 and January 1, 2013, the recorded amounts approximated fair value.

(i) Income taxes

The Company uses the liability method to provide for income taxes on all transactions recorded in the financial statements. The liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Future income tax assets and liabilities are determined for each temporary difference and unused losses, as applicable, at substantively enacted tax rates expected to be in effect when the assets are realized or the liabilities are settled. A valuation allowance is established to reduce future income tax assets to the amount that is more likely than not to be realized.

3. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

(j) Income taxes (continued)

Income from investments held by the Company may be subject to withholding taxes in jurisdictions other than that of the Company's as imposed by the country of origin. Withholding taxes, if any, are shown in a separate item in the statements of income and comprehensive income.

(k) Income per share

Basic income per share is calculated using the weighted average number of shares outstanding for the period. The treasury stock method is used to determine diluted income per share.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 3 to the financial statements, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily available from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgments in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

(i) Functional currency

The currency of the primary economic environment in which the Company operates is the CAD as this is the currency which represents the economic effects of underlying transactions, events and conditions. Furthermore, the CAD is the currency in which the Company measures its performance and also issues and redeems its common shares. Since the Company has committed a substantial portion of its cash to the Joint Venture in USD, in subsequent periods the Company may change its functional currency to USD.

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the statements of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(i) Fair value of securities not quoted in an active market and over-the-counter derivative instruments.

As described in Note 7, management uses its judgment in selecting an appropriate valuation technique for financial instruments that are not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Other financial instruments are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates. The

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(b) Key sources of estimation uncertainty (continued)

estimation of fair value of unlisted shares includes some assumptions not supported by observable market prices or rates.

The Company's critical accounting estimates are primarily limited to valuing its investments. The valuation methods and the techniques it employs in valuing its investments and the assumptions used are described below.

Salbro Bottle Group ("Salbro")

The fair market value of Salbro was determined on a going concern basis under an income approach because a hypothetical purchaser would acquire Salbro on the expectation of future earnings and cash flows. Specifically, the Company selected the capitalized cash flow method as the primary valuation methodology given that Salbro is a mature business and is expected to continue to operate as a going concern and historical EBITDA is a good approximation of expected profitability going forward.

The capitalized cash flow method generally involves the estimation of future maintainable operating pre-debt cash flows which are then capitalized using a capitalization rate based on a weighted average cost of capital ("WACC"). It is a present value calculation of the future operating cash flow expectations. The enterprise value is then reduced for any debt outstanding.

The carrying amount of the Salbro investment at September 30, 2014 is $3,948,442 (December 31, 2013 - $3,695,022; January 1, 2013 – $2,411,000). Details of assumptions used and of the end results of sensitivity analysis regarding these assumptions are provided in Note 7.

Digital Payment Technologies Corp. ("DPT")

As at December 31, 2013, the Company was in the process of exiting from its investment in DPT. The purchase price for such exit had been established and the final form of the consideration to be provided was in the process of being negotiated between the parties (vendor and purchaser). The plan of arrangement transaction was completed on January 31, 2014.

The basis used for determining the fair market value of DPT was the consideration received from the disposal of the Company's investment in DPT. Given the proximity of the aforementioned dates and a review of the arrangement agreement, management assumed that the proceeds derived from the transaction represent fair market value as at the year-end, after adjusting for interest earned and a foreign exchange gain in January 2014.

As at June 30, 2014, the only proceeds remaining to be received were $585,585 from an amount held in escrow pending any claims by the purchaser for representations made by DPT. In August, 2014, the Company received $661,209 representing the Company`s proportionate share of the funds held in escrow. The increase in the receivable was attributable in part to a DPT working capital adjustment and foreign exchange conversion of the account from USD to CAD which resulted in the Company's proportionate share of the escrow account being higher than anticipated. In 2013, the Company recorded $500,000 as its best estimate of its share of the funds to be received from escrow, resulting in a realized gain of $161,209 in the quarter.

Estimates and assumptions are also used in accounts payable and accrued liabilities and the calculation of taxes. Actual results could differ from these estimates.

5. CASH AND CASH EQUIVALENTS

At September 30, 2014, the company held $17,509,504 (December 31, 2013 – $20,759,164; January 1, 2013 – $25,126,375) in cash at a Canadian chartered bank.

6. MARKETABLE SECURITIES

The fair value of financial assets and liabilities traded in active markets (such as publicly traded securities) are based on quoted market prices at the close of trading on the period-end date. The quoted market price used for financial assets held by the Company is the current bid price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Company held no positions (December 31, 2013 – one position; January 1, 2013 – no positions) in its marketable securities portfolio as at September 30, 2014 - fair value $Nil (December 31, 2013 - fair value $537,116; January 1, 2013 – fair value $Nil).

7. INVESTMENTS IN PRIVATE ENTITIES

The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each period-end date. Valuation techniques used for non-standardized financial instruments include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

For instruments for which there is no active market, the Company may use internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. Valuation models are used primarily to value unlisted equity and debt securities for which markets were or have been inactive during the financial period. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Company holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risk, liquidity risk and counterparty risk.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the inputs to estimate the fair value are observable:

(Expressed in Canadian dollars unless otherwise stated)

7. INVESTMENTS IN PRIVATE ENTITIES (continued)

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The inputs are considered as observable if they are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumption that market participants would use when pricing the assets or liability.

	As at September 30, 2014			
	Fair value measurements using:			
Asset	**Level 1**	**Level 2**	**Level 3**	**Assets at fair value**
Cash and cash equivalents	**$ 17,509,504**	**$ -**	**$ -**	**$ 17,509,504**
Investments in private entities	**-**	**-**	**3,948,442**	**3,948,442**

	As at December 31, 2013			
	Fair value measurements using:			
Asset	Level 1	Level 2	Level 3	Assets at fair value
Cash and cash equivalents	$ 25,796,708	$ -	$ -	$ 25,796,708
Marketable securities	537,116	-	-	537,116
Investments in private entities	-	-	18,860,775	18,860,775

	As at January 1, 2013			
	Fair value measurements using:			
Asset	Level 1	Level 2	Level 3	Assets at fair value
Cash and cash equivalents	$ 25,126,375	$ -	$ -	$ 25,126,375
Investments in private entities	-	-	16,619,451	16,619,451

There were no transfers between levels during the nine months ended September 30, 2014 or September 30, 2013 or the year ended December 31, 2013.

(Expressed in Canadian dollars unless otherwise stated)

7. INVESTMENTS IN PRIVATE ENTITIES (continued)

Changes in fair value measurement for instruments categorized in Level 3

The following table presents a reconciliation of the changes in fair value measurements of financial assets included in Level 3 of the fair value hierarchy.

Nine months ended September 30, 2014

Asset	Fair value December 31, 2013	Total unrealized gains included in income	Investments in Private Entities and Loans Receivable	Settlement of investments in Private Entities and Loans Receivable	Fair value September 30, 2014	Changes in unrealized gains included in earnings for assets for the period ended September 30, 2014 for positions still held
Investments in private entities	$ 18,860,775	$ -	$ 253,421	$ (15,165,754)	$ 3,948,442	$ -

Nine months ended September 30, 2013

Asset	Fair value December 31, 2012	Total unrealized gains included in income	Investments in Private Entities and Loans Receivable	Settlement of investments in Private Entities and Loans Receivable	Fair value September 30, 2013	Changes in unrealized gains included in earnings for assets for the period ended September 30, 2013 for positions still held
Investments in private entities	$ 16,619,451	$ 1,518,096	$ 784,213	$ (1,907,568)	$ 17,014,192	$ 1,518,096

Realized and unrealized gains and losses recognized for Level 3 investments are reported as realized gain/(loss) on sale of investments in private entities, and change in unrealized gain/(loss) on investments in private entities respectively.

For its Level 3 investments, the Company relies primarily on the capitalized cash flow valuation method. This approach is one of estimating the present value of the projected future cash flows to be generated from the business and theoretically available (though not necessarily paid) to the capital providers of the investee company. A discount rate is applied to the projected future cash flows to arrive at a present value. The discount rate is intended to reflect all risks of ownership and the associated risks of realizing the stream of projected future cash flows. It can also be interpreted as the rate of return that would be required by providers of capital to the company to compensate them for the time value of their money, as well as the risk inherent in the particular investment.

The capitalized cash flow method generally involves the estimation of future maintainable operating pre-debt cash flows which are then capitalized using a capitalization rate based on a weighted average cost of capital (WACC). It is a present value calculation of the future operating cash flow expectations. The enterprise value was then reduced for the debt outstanding. Historical net operating earnings of the company, adjusted for one-time and non-recurring items, were used to estimate its future operating cash flows.

A capitalization rate of 9.5% was used to value the company. A 1% change in that rate would have increased or decreased the value of the investments by approximately $200,000. Management has assessed and determined that using possible alternative assumptions will not result in significantly different fair values.

(Expressed in Canadian dollars unless otherwise stated)

7. INVESTMENTS IN PRIVATE ENTITIES (continued)

A summary of the face/contractual value, cost, fair value and unrealized gain or loss on each of the Company's financial instruments as at September 30, 2014, December 31, 2013 and January 1, 2013 is presented below:

		September 30, 2014			
Financial Instrument	Maturity Date	**Face / Contractual Value**	**Cost**	**Fair Value**	**Unrealized Gain**
Salbro Bottle Group					
Debenture	August 22, 2019	**2,300,000**	**2,300,000**	**2,300,000**	
Accrued Interest on Debenture	August 22, 2019	**658,442**	**658,442**	**658,442**	
Common Share Warrants	n/a	**-**	**580,000**	**990,000**	**410,000**
Total		**$ 2,958,442**	**$ 3,538,442**	**$ 3,948,442**	**$ 410,000**

		December 31, 2013			
Financial Instrument	Maturity Date	Face / Contractual Value	Cost	Fair Value	Unrealized Gain (Loss)
Salbro Bottle Group					
Debenture	August 22, 2019	2,300,000	2,300,000	2,300,000	
Accrued Interest on Debenture	August 22, 2019	405,022	405,022	405,022	
Common Share Warrants	n/a	-	580,000	990,000	410,000
		2,705,022	3,285,022	3,695,022	410,000
Digital Payment Technologies Corp.					
Promissory Note	February 15, 2014	250,000	250,000	250,000	
Debenture	February 15, 2014	6,000,000	6,000,000	6,000,000	
Accrued Interest on Debenture	February 15, 2014	2,789,140	2,789,140	2,789,140	
Amount Receivable	February 15, 2014	250,000	250,000	250,000	
Preferred Share Warrants	n/a	-	969,231	664,828	(304,403)
Common Share Warrants	n/a	-	194,664	5,211,786	5,017,122
		9,289,140	10,453,035	15,165,754	4,712,719
Total		$ 11,994,162	$ 13,738,057	$ 18,860,775	$ 5,122,719

(Expressed in Canadian dollars unless otherwise stated)

7. INVESTMENTS IN PRIVATE ENTITIES (continued)

		January 1, 2013			
Financial Instrument	Maturity Date	Face / Contractual Value	Cost	Fair Value	Unrealized Gain (Loss)
Blue Ant Media Inc.					
Common Shares	n/a	-	1,907,568	1,907,568	
		-	1,907,568	1,907,568	
Salbro Bottle Group					
Debenture	August 22, 2019	2,300,000	2,300,000	2,300,000	
PIK Interest on Debenture	August 22, 2019	100,569	100,569	100,569	
Common Share Warrants	n/a	-	579,532	10,000	(569,532)
		2,400,569	2,980,101	2,410,569	(569,532)
Digital Payment Technologies Corp.					
Promissory Note	December 31, 2013	250,000	250,000	250,000	
Debenture	December 31, 2013	6,000,000	6,000,000	6,000,000	
Accrued Interest on Debenture	December 31, 2013	2,032,083	2,032,083	2,032,083	
Amount Receivable	December 31, 2013	250,000	250,000	250,000	
Preferred Share Warrants	n/a	-	969,231	969,231	
Common Share Warrants	n/a	-	194,664	2,800,000	2,605,336
		8,532,083	9,695,978	12,301,314	2,605,336
Total		$ 10,932,652	$ 14,583,647	$ 16,619,451	$ 2,035,804

i) Salbro Bottle Group

Salbro Bottle Group ("Salbro") is a manufacturer and distributor of packaging components, specializing in glass and plastic bottles.

In February, 2008, the Company invested $3,600,000 in Salbro. The Company was issued (a) debentures from Salbro paying 12% cash interest and (b) common share warrants providing the Company with a 12.5% equity interest in Salbro on a fully diluted basis.

In March 2009, the Company purchased $400,000 of additional 12% debentures at par plus accrued interest. The Company's total invested capital in Salbro increased to $4,000,000.

In August 2012, Salbro completed a refinancing resulting in a principal repayment to the Company of $1,700,000. As of September 30, 2014, $2,300,000 in principal remains owing by Salbro to the Company. As part of the refinancing, the Company agreed to certain amendments to the Salbro debentures, including an extension of the maturity dates and modifications of the terms of certain payment obligations to the Company.

For the nine months ended September 30, 2014, the Company recognized as investment income from the Salbro debentures, accrued interest of $253,421 (2013 – accrued interest of $224,898).

7. INVESTMENTS IN PRIVATE ENTITIES (continued)

iii) Digital Payment Technologies Corp. ("DPT")

In 2008 and 2009 the Company invested in a $6,000,000 debenture paying 12% interest, preferred share warrants and common share warrants representing a 35% equity interest in DPT on a fully diluted basis.

In September 2011, the Company completed a follow-on investment in DPT. A promissory note was issued to the Company in the principal amount of $650,000. The promissory note was secured and matured in September 2012. In connection with the financing, the Company extended the maturity date of the debenture from October 2011 to September 2012 to mature concurrently with the promissory note. Certain other amendments to the terms of the debenture were also made including but not limited to the interest payment terms and certain financial covenants.

In October 2012, DPT completed a refinancing resulting in a payment to the Company of $591,000 in principal and interest owing under the promissory note. Subsequent to the refinancing, $250,000 remained outstanding under the promissory note. As a condition of the refinancing, the Company agreed to extend the maturity date of the promissory note and debenture to December 31, 2013.

On January 31, 2014, the Company, together with the other shareholders of DPT, completed the sale of their interests in DPT to a third party pursuant to a court approved plan of arrangement resulting in payment to the Company of approximately $9,419,450 in respect of contractual amounts that were owing under the debenture and term promissory note including related fees and interest. The Company also received $5,837,515 as consideration for its common and preferred share warrants. In August 2014, the Company received an additional $661,209 representing the Company`s interest in the funds held in escrow to satisfy any claims of the DPT acquirer. In aggregate, the Company received $15,918,174 for the sale of its interests in DPT.

For the nine months ended September 30, 2014, the Company recognized as investment income on the DPT Debenture, $90,310 of cash interest (2013 – $559,315 of accrued interest and $180,000 of cash interest). For the nine months ended September 30, 2014, the Company recognized as investment income on the promissory note, $3,750 of cash interest (2013 – $30,000 of cash interest).

8. COST OF ABANDONED REALIZATION STRATEGY AND CHANGE OF CONTROL

In August 2010, the Company implemented a plan to monetize its existing assets, distribute any realized cash and ultimately dissolve the business (the "Realization Strategy). While pursuing the Realization Strategy, the Company was not operating as a going concern. On March 7, 2013, upon a change of control, in which CDJ Global Catalyst LLC ("CDJ") acquired over 80% of the issued and outstanding common shares of the Company, the Company abandoned the Realization Strategy and resumed operations as a going concern. As of January 1, 2013, while the Company was not operating as a going concern, the Company had recorded its assets at their recoverable amounts and recognized any liabilities for which any contractual commitments had become onerous as a result of the Realization Strategy. Due to this change of control, additional costs, including a $300,000 termination payment to a company controlled by the former CEO and $250,000 reimbursed to CDJ relating to legal fees incurred by CDJ in relation to the change of control of the Company, were incurred during the period ended March 31, 2013. These costs have been included in Cost of abandoned Realization Strategy and change of control in the Statements of Income and Comprehensive Income.

9. SHARE CAPITAL

a) Authorized

The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of Class A, Class B and Class C preference shares, issuable in series without nominal or par value.

b) Issued and Outstanding

At September 30, 2014, 5,304,007 common shares were issued and outstanding (December 31, 2013 – 12,269,280; January 1, 2013 – 12,269,280). (See Note 12. Substantial Issuer Bid)

At the Company`s annual and special meeting on June 23, 2014, shareholders approved the adoption by the Company of a Deferred Share Unit Plan including approval of the issuance of a maximum of 530,400 common shares of the Company under such plan.

10. TRANSACTIONS WITH RELATED PARTIES

Effective March 2013 the Company entered into a management agreement with CDJ Global Catalyst LLC (“CDJ”), a majority shareholder of the Company, to provide the Company with management and administration services. The agreement was for an initial one year term and thereafter automatically renews for additional successive one year terms unless terminated. The management agreement can be terminated with 180 days prior written notice by either party subject to payment to CDJ, in certain circumstances, of a termination fee based on a reasonable estimate of the management fee that would have been payable for the six months following termination. For the nine months ended September 30, 2014, the fee charged to the Company was USD $102,500 (2013 – USD $40,000).

Included in accounts payable and accrued liabilities as at September 30, 2014 is $nil (December 31, 2013 – USD $20,000; January 1, 2013 – $nil) owing to CDJ.

Key management at September 30, 2014, included the Chief Executive Officer and Chief Financial Officer. The service of the Chief Executive Officer is provided pursuant to the management agreement detailed above. The Chief Financial Officer received fees of $60,000 for the nine month period ended September 30, 2014 pursuant to a contract for services with the Company.

11. NORMAL COURSE ISSUER BID

The Company announced on September 9, 2013 that the Toronto Stock Exchange had approved its notice of intention to make a normal course issuer bid for up to 613,464 of its common shares, or approximately 5% of its then outstanding 12,269,280 common shares. The Company was permitted to purchase common shares at prevailing market prices during the period from September 11, 2013 to September 10, 2014.

The bid expired in September 2014 and was not renewed. No shares were purchased under the normal course issuer bid.

12. SUBSTANTIAL ISSUER BID

On March 7, 2014, the Board of Directors of the Company approved a substantial issuer bid (the "Offer") pursuant to which the Company offered to repurchase for cancellation up to $25,000,000 in value of its outstanding common shares (the "Shares") from shareholders for cash. The Offer was by way of a modified Dutch auction process which allowed shareholders to individually select the price, within the specified range (in increments of $0.01 per Share), at which they were willing to sell all or a portion of their Shares. The range of Offer prices was between $3.45 and $3.55 per Share. The Offer expired on April 15, 2014.

A total of 6,995,473 Shares were validly deposited and not withdrawn under the Offer. Pursuant to the terms of the Offer, the Company determined the purchase price to be $3.50 per Share. The Company took up 6,965,273 Shares, representing 99.6% of the total number of Shares tendered to the Offer, for aggregate consideration of $24,378,455. These Shares represented approximately 56.8% of the total Shares issued and outstanding as at April 15, 2014 and, following the purchase and cancellation of these Shares, 5,304,007 Shares remain outstanding.

13. FINANCIAL RISK MANAGEMENT

The Company is exposed to a number of risks due to the nature of its activities. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Company's risk management policies are approved by the Board of Directors and seek to minimize the potential adverse effects of these risks on the Company's financial performance. The risk management process is an ongoing process of identification, measurement, monitoring and controlling risk.

a. Risk management structure

The Board of Directors is ultimately responsible for the overall risk management within the Company but has delegated the responsibility for identifying and controlling risks to CDJ, the Company's Manager.

Risk measurement and reporting system

The Company uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

b. Risk mitigation

The Company does not use derivatives and other instruments for trading purposes or for risk management.

c. Excessive risk concentration

A concentration of risk exists where: (i) positions in financial instruments are affected by changes in the same risk factor or group of correlated factors; and (ii) the exposure could, in the event of large but plausible adverse developments, result in significant losses.

Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market to realize liquid assets. Concentrations of foreign exchange risk may arise if the Company has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together. Concentrations of counterparty risk may arise when a

13. FINANCIAL RISK MANAGEMENT (continued)

c. Excessive risk concentration (continued)

number of financial instruments or contracts are contracted with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

In order to avoid excessive concentration of risk, the Company reviews its investment policies and risk management procedures.

d. Liquidity Risk

Liquidity risk is the risk that the Company may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Company has made investments in private entities which do not typically have an active market. Private investment transactions can be highly structured and the Company takes measures, where possible, to create defined liquidity events and, as part of its strategy, the Company has sought to create or accelerate such liquidity events. However, such liquidity events are rarely expected in the first two or three years of making an investment and may not be realized as expected. The Company has historically sought to obtain regular cash flow from these investments through interest payments and/or management fees.

The Company funds itself with operating cash flows and return of capital and capital gains from its investments. Operating cash flows have historically been sufficient to cover normal operating expenses. The Company's liabilities are expected to be realized in the next 12 months.

e. Interest Rate Sensitivity

As at and during the nine months ended September 30, 2014, the Company did not have any significant exposure to interest rate risk as the Company intends to hold its debt instruments to maturity, and therefore, would not be impacted by changes in interest rates.

f. Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

At reporting date, financial assets exposed to credit risk include debt instruments and derivatives disclosed in Note 7 to the financial statements. The Company has adopted a policy of dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

All purchases and sales of listed securities are settled/paid for upon delivery using approved brokers. The delivery of securities sold is only made once payment has been received by the broker and payment is made on a purchase only after the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

13. FINANCIAL RISK MANAGEMENT (continued)

f. Credit Risk (continued)

The credit risk on cash transactions and transactions involving derivative financial instruments is mitigated by transacting with counterparties that are regulated entities subject to prudential supervision, or with high credit-ratings assigned by international credit-rating agencies.

As at September 30, 2014, December 31, 2013 and January 1, 2013, none of these financial assets was either impaired or past due but not impaired. The Company does not hold any collateral as security.

The Company's maximum exposure to credit risk arising from private equity investments is equal to the fair value of those investments (see Note 7). The Company also has credit exposure related to overnight deposits placed with its Canadian chartered bank of $17,509,504 as at September 30, 2014 (December 31, 2013 – $20,759,164; January 1, 2013 – $25,126,375). The bank has a senior debt rating of AA- from DBRS. The Company also has credit risk associated with the third party that provided a binding commitment to the Company to invest USD$2 million to the Monarch Joint Venture (defined herein).

g. Foreign Exchange Risk

The Company has significant exposure to foreign exchange risk as it has committed a substantial amount of its capital in USD to the Monarch Joint Venture.

h. Concentration Risk

The Company participates in a limited number of investments and, as a consequence, the Company's financial results may be substantially adversely affected by the unfavorable performance of a single investment. The Company has committed a substantial portion of its available resources to a single investment in Monarch National Insurance Company (Note 16).

14. CAPITAL DISCLOSURES

The Company's objectives when managing capital are: (a) to safeguard the Company's ability to continue to execute its strategy, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and (b) to provide an adequate return to shareholders by seeking returns on investments that are commensurate with the level of risk on the investments.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure the Company may buy back shares or sell assets.

The Company views all shareholders' equity as capital. The Company is not subjected to any material externally imposed capital requirement.

15. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in the Statement of compliance (Note 3(a)) and the Basis of preparation (Note 3(b)), these financial statements are prepared in accordance with IFRS.

15. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The policies set out in Note 3, Significant Accounting Policies, have been applied in preparing the financial statements for the period ended September 30, 2014, the comparative information presented in these financial statements for the period ended September 30, 2013, being the statements of income and comprehensive income, changes in equity and cash flows, and the opening IFRS statement of financial position as at January 1, 2013 (the Company's date of transition).

In preparing these IFRS financial statements, the Company determined no adjustments were required to amounts previously reported in the financial statements previously prepared in accordance with Canadian GAAP as those policies are consistent with IFRS policies. There is no impact on the Company's financial position, net income or cash flows as a result of adopting IFRS.

The Company has followed the recommendations in IFRS 1 First-time adoption of IFRS, in preparing its transitional statements. IFRS 1 provides specific one-time choices and mandates specific one-time exceptions with respect to first-time adoption of IFRS.

Exceptions that are mandated by IFRS 1

Estimates

IFRS 1 prohibits use of hindsight to create or revise previous estimates. The estimates previously made by the Company under Canadian GAAP were not revised for application of IFRS except where necessary to reflect any differences in accounting policies.

16. MONARCH JOINT VENTURE

During the third quarter, the Company and Federated National Holding Company ("FNHC"), an insurance holding company, announced an agreement to form a new Florida-based property and casualty insurance carrier (the "Joint Venture") to be named Monarch National Insurance Company ("Monarch"). Transatlantic Reinsurance Company ("TransRe") is taking a minority position in the Joint Venture.

The Company entered into a Subscription Agreement (the "Subscription Agreement") committing USD$14 million to the Joint Venture subject to the satisfaction of a number of conditions including receipt of regulatory approvals, the entering into of the definitive agreements as described herein and completion of the closing of the subscription by December 31, 2014.

The Company plans to establish a majority-owned subsidiary ("Crosswinds Holdco") to make USD$12 million of the USD $14 million equity investment in the Joint Venture and it has received a binding irrevocable commitment from a third party investor to fund the remaining USD$2 million investment in the Joint Venture in exchange for a proportionate minority position in Crosswinds Holdco.

Pursuant to the Subscription Agreement, the parties to the Joint Venture have organized Monarch Delaware Holdings LLC ("Monarch Parent"), which will become the indirect parent of Monarch following receipt of the approval of the Florida Office of Insurance Regulation (the "Florida OIR"). The application to establish Monarch as a licensed insurer in Florida was submitted to the Florida OIR in September 2014. Monarch Parent is expected to have an initial equity capitalization of USD$33 million. Crosswinds Holdco and FNHC are each expected to own 42.4% of Monarch Parent's equity, with capital contributions of USD$14 million each for voting interests,

16. MONARCH JOINT VENTURE (continued)

and TransRe will own the remaining 15.2%, with a capital contribution of USD$5 million for a non-voting interest.

The Subscription Agreement provides that, upon receipt of all required regulatory approvals from the Florida OIR and satisfaction of the other closing conditions as outlined therein, the parties will enter into the following agreements:

- Monarch Parent, Monarch National Holding Company, an intermediate holding company of Monarch ("Monarch Holding") and/or Monarch will enter into an Investment Management Agreement (the "Investment Agreement") with the Company or a newly formed wholly-owned subsidiary of the Company ("Crosswinds AUM"), pursuant to which Crosswinds AUM will manage the Monarch investment portfolio. The management fee, on an annual basis, will be 0.75% of assets under management up to $100 million; 0.50% of assets under management of more than $100 million but less than $200 million; and 0.30% of assets under management of more than $200 million. The Company has been working throughout the quarter to establish Crosswinds AUM.

- Monarch will enter into a Managing General Agent and Claims Administration Agreement (the "MGA Agreement") with Federated National Underwriters, Inc. ("FNU"), a wholly owned subsidiary of FNHC, pursuant to which FNU will provide underwriting, accounting, reinsurance placement and claims administration services to Monarch. For its services under the MGA Agreement, FNU will be entitled to receive 4% of Monarch's total written annual premium, excluding acquisition expenses payable to agents, for FNU's managing general agent services; 3.6% of Monarch's total earned annual premium for FNU's claims administration services; and a per-policy administrative fee of USD$25 for each policy underwritten for Monarch. FNHC will also receive an annual expense reimbursement for accounting and related services.

- TransRe will provide USD$5 million in senior debt to Monarch Holding. The debt will bear interest at 6% per annum, which will be payable annually; will mature in six years; and will be prepayable without penalty.

- Monarch will enter into a Reinsurance Capacity Right of First Refusal Agreement with TransRe, pursuant to which TransRe will have a right of first refusal for all quota share and excess of loss reinsurance that Monarch deems necessary in its sole discretion for so long as TransRe remains a member of Monarch Parent or the senior debt remains outstanding. Pursuant to this agreement, TransRe will have the right to provide, at market rates and terms, a maximum of 15% of any reinsurance coverage obtained by Monarch in any individual reinsurance contract.

The Limited Liability Company Agreement to be entered into upon the formation of Monarch Parent (the "LLC Agreement") will provide that it will be managed by a seven-member Board of Managers, three of whom will be designated by Crosswinds Holdco, three of whom will be designated by FNHC, and one who will be jointly selected by FNHC and Crosswinds Holdco. The LLC Agreement will provide that certain material transactions must be approved by a supermajority of the managers, including a termination or amendment of the Investment Management Agreement or the MGA Agreement. FNHC will be entitled to receive a termination fee equal to the aggregate fees paid under the MGA Agreement for the 12 calendar months prior to the date of termination, if the MGA Agreement is terminated other than for cause. The LLC Agreement will also provide the members with certain redemption, tag-along, drag-along and buy-sell rights.