CROSSWINDS HOLDINGS INC.

Condensed Interim Consolidated Financial Statements

For the three months ended March 31, 2017 and 2016
(Unaudited)

Notice of No Auditor Review of Condensed Interim Consolidated Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

CROSSWINDS HOLDINGS INC.

Crosswinds Holdings Inc.

Condensed Interim Consolidated Statements of Financial Position *(unaudited)*

(expressed in Canadian Dollars)

As at		March 31, 2017		December 31, 2016
Assets				
Current assets				
Cash	$	**6,016,951**	$	1,566,053
Due from related parties (note 9)		**97,284**		89,982
Interest receivable and prepaid expenses		**86,348**		84,376
		6,200,583		1,740,411
Non-current assets				
Investment in an associate (note 7)		**18,118,288**		18,269,925
Investment in private entity (note 6)		**3,027,140**		3,052,140
Capital assets, net of accumulated depreciation		**25,127**		27,459
	$	**27,371,138**	$	23,089,935
Liabilities				
Accounts payable and accrued liabilities	$	**293,670**	$	277,353
		293,670		277,353
Shareholders' equity				
Share capital (note 8)		**20,088,751**		15,273,044
Contributed surplus		**13,451,154**		13,405,355
Deficit		**(9,576,151)**		(9,145,948)
Accumulated other comprehensive income		**525,524**		670,281
Total equity attributable to shareholders of Crosswinds		**24,489,278**		20,202,732
Non-controlling interests		**2,588,190**		2,609,850
		27,077,468		22,812,582
	$	**27,371,138**	**$**	**23,089,935**

Commitment (note 11)

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

Crosswinds Holdings Inc.

Condensed Interim Consolidated Statements of Loss *(unaudited)*

For the three months ended March 31

(expressed in Canadian Dollars, except per share amounts)		**2017**		2016
Revenue				
Interest (note 6)	**$**	**28,135**	$	28,938
Investment management fees (note 9)		**96,501**		77,640
		124,636		106,578
Net results of investments				
Share of income of an associate, net of tax (note 7)		**26,418**		110,600
Net foreign exchange loss		**(15,495)**		(89,050)
		10,923		21,550
Expenses				
Salaries and benefits		**190,907**		194,077
General and administration		**183,449**		134,585
Share-based payments (note 8(d))		**45,799**		123,526
Audit and tax fees		**48,964**		47,136
Directors' fees		**41,038**		49,406
Consulting fees		**32,725**		-
Legal fees expense		**19,106**		10,427
		561,988		559,158
Loss before income taxes		**(426,429)**		(431,030)
Current income tax provision		**-**		-
Net loss for the period	**$**	**(426,429)**	$	(431,030)
Attributable to:				
Shareholders of Crosswinds		**(430,203)**		(446,830)
Non-controlling interests		**3,774**		15,800
	$	**(426,429)**	$	(431,030)
Net loss per share				
Basic and diluted	**$**	**(0.06)**	$	(0.07)
Weighted average number of common shares outstanding				
Basic and diluted (note 8(c))		**7,104,378**		5,999,032

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

Crosswinds Holdings Inc.

Condensed Interim Consolidated Statements of Comprehensive Loss *(unaudited)*

For the three months ended March 31

(expressed in Canadian Dollars)		**2017**		2016
Net loss	**$**	**(426,429)**	$	(431,030)
Other comprehensive income (loss)				
Change in unrealized foreign currency translation losses on foreign operations		**(151,295)**		(1,091,415)
Share of other comprehensive income (loss) of an associate (note 7)		**(18,896)**		257,805
Other comprehensive loss		**(170,191)**		(833,610)
Comprehensive loss	**$**	**(596,620)**	$	(1,264,640)
Attributable to:				
Shareholders of Crosswinds		**(574,960)**		(1,153,613)
Non-contolling interests		**(21,660)**		(111,027)
	$	**(596,620)**	$	(1,264,640)

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

Crosswinds Holdings Inc.

Condensed Interim Consolidated Statements of Changes in Equity *(unaudited)*

For the three months ended March 31, 2017 and 2016

(expressed in Canadian Dollars)

	Share capital		Contributed surplus	Deficit	Accumulated other comprehensive income	Equity attributable to shareholders of Crosswinds	Non-controlling interests	Total equity
	Number of shares	Amount						
Balance - January 1, 2016	**5,304,007**	**$ 15,273,044**	**$ 13,061,803**	**$ (8,321,126)**	**$ 979,260**	**$ 20,992,981**	**$ 2,609,484**	**$ 23,602,465**
Net income (loss) for the period	-	-	-	(446,830)	-	(446,830)	15,800	(431,030)
Change in unrealized foreign currency translation losses on foreign operations	-	-	-	-	(927,758)	(927,758)	(163,657)	(1,091,415)
Share of OCI of an associate	-	-	-	-	220,975	220,975	36,830	257,805
Share-based payments	-	-	123,526	-	-	123,526	-	123,526
Balance - March 31, 2016	**5,304,007**	**$ 15,273,044**	**$ 13,185,329**	**$ (8,767,956)**	**$ 272,477**	**$ 19,962,894**	**$ 2,498,457**	**$ 22,461,351**
Balance - January 1, 2017	**5,304,007**	**$ 15,273,044**	**$ 13,405,355**	**$ (9,145,948)**	**$ 670,281**	**$ 20,202,732**	**$ 2,609,850**	**$ 22,812,582**
Shares issued under rights offering	3,904,092							
Net income (loss) for the period	-	-	-	(430,203)	-	(430,203)	3,774	(426,429)
Net proceeds from rights offering	-	4,815,707	-	-	-	4,815,707	-	4,815,707
Change in unrealized foreign currency translation losses on foreign operations	-	-	-	-	(128,560)	(128,560)	(22,735)	(151,295)
Share of OCI of an associate	-	-	-	-	(16,197)	(16,197)	(2,699)	(18,896)
Share-based payments	-	-	45,799	-	-	45,799	-	45,799
Balance - March 31, 2017	**9,208,099**	**$ 20,088,751**	**$ 13,451,154**	**$ (9,576,151)**	**$ 525,524**	**$ 24,489,278**	**$ 2,588,190**	**$ 27,077,468**

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

Crosswinds Holdings Inc.

Condensed Interim Consolidated Statements of Cash Flows *(unaudited)*

For the three months ended March 31

(expressed in Canadian dollars)	**2017**	2016
Operating activities		
Net loss	**$ (426,429)**	$ (431,030)
Add (deduct)		
Interest income	**(25,246)**	(18,909)
Share of income of an associate, net of tax (note 7)	**(26,418)**	(110,600)
Depreciation	**2,332**	1,316
Share-based payments (note 8(d))	**45,799**	123,526
Net (increase) decrease in due from related parties (note 9)	**(7,302)**	3,974
Net increase in interest receivable and prepaid expenses	**(1,972)**	(11,480)
Net increase (decrease) in accounts payable and accrued liabilities	**16,317**	(122,683)
Cash used by operating activities	**(422,919)**	(565,886)
Interest received	**25,247**	26,263
Net cash (used) provided by operating activities	**(397,672)**	(539,623)
Investing activities		
Proceeds from partial debt repayment from private entity (note 6)	**25,000**	6,250
Purchase of furniture and equipment	**-**	(10,332)
Cash provided (used) by investing activities	**25,000**	(4,082)
Financing activities		
Net proceeds from rights offering	**4,815,707**	-
Cash provided by financing activities	**4,815,707**	-
Effect of exchange rate changes on cash	**7,866**	54,241
Increase (decrease) in cash	**4,450,901**	(489,464)
Cash - beginning of period	**1,566,053**	3,013,848
Cash - end of period	**$ 6,016,954**	$ 2,524,384

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

1. Corporate information

Crosswinds Holdings Inc. ("Crosswinds" or the "Company") is a publicly traded private equity firm. The Company is incorporated under the *Business Corporations Act* (Alberta), with its head office at 365 Bay St., Suite 400, 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".

These unaudited condensed interim consolidated financial statements of the Company for the three months ended March 31, 2017 were approved and authorized for issue by the Board of Directors of the Company on May 8, 2017.

2. Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the Handbook of Chartered Professional Accountants of Canada applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. These unaudited condensed interim consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Company's annual consolidated financial statements as at and for the year ended December 31, 2016.

These unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for the investment in private entity which is presented at fair value as described in note 6.

3. Summary of significant accounting policies

These unaudited condensed interim consolidated financial statements, including comparatives, have been prepared following the same accounting policies and methods of computation as the audited annual consolidated financial statements for the year ended December 31, 2016.

4. Significant accounting judgments and estimates

The preparation of these condensed interim consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. In preparing these condensed interim consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Company's annual consolidated financial statements for the year ended December 31, 2016.

5. Recent accounting pronouncements

The following are future changes in accounting policies not yet effective as at March 31, 2017:

(a) *IFRS 9 - Financial Instruments* - The standard was issued in its final version by the International Accounting Standards Board ("IASB") in July 2014 bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, "Financial instruments: recognition and measurement" ("IAS 39"). The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is assessing the impact of this standard.

(Expressed in Canadian dollars except per share amounts or unless otherwise stated)

(b) *IFRS 15 - Revenue from Contracts with Customers* – This standard was issued by the IASB on May 28, 2014, and amended on April 12, 2016, and will replace IAS 18, "Revenue", IAS 11 "Construction Contracts", and related interpretations on revenue. IFRS 15 sets out the requirements for recognizing revenue that apply to all contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 uses a control based approach to recognize revenue which is a change from the risk and reward approach under the current standard. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company is assessing the impact of this standard.

(c) *IFRS 16 – Leases* – The standard was issued by the IASB on January 13, 2016, and will replace IAS 17, "Leases". IFRS 16 will bring most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and financing leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. The new standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 has also been applied. The Company is assessing the impact of this standard.

6. Investment in private entity

A summary of the face/contractual value, cost, fair value and unrealized gain on each of the Company's financial instruments as at March 31, 2017 and December 31, 2016 is presented below:

		March 31, 2017			
Financial Instrument	**Maturity Date**	**Face / Contractual Value**	**Cost**	**Fair Value**	**Unrealized Gain**
Salbro Bottle Group					
Debentures	December 31, 2021	**$ 1,565,140**	**$ 1,565,140**	**$ 1,565,140**	**$ -**
Common share warrants	n/a	**-**	**580,000**	**1,462,000**	**882,000**
		$ 1,565,140	**$ 2,145,140**	**$ 3,027,140**	**$ 882,000**

		December 31, 2016			
Financial Instrument	Maturity Date	Face / Contractual Value	Cost	Fair Value	Unrealized Gain
Salbro Bottle Group					
Debentures	December 31, 2021	$ 1,590,140	$ 1,590,140	$ 1,590,140	$ -
Accrued interest on debenture	n/a	-		$ -	-
Common share warrants	n/a	-	580,000	1,462,000	882,000
		$ 1,590,140	$ 2,170,140	$ 3,052,140	$ 882,000

Salbro Bottle Inc. and related companies (collectively "Salbro")

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 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, increasing the total amount of debentures outstanding to $4,000,000.

In August 2012, Salbro completed a refinancing resulting in a principal repayment to the Company of $1,700,000. In addition, the 12% debentures were amended such that interest was subsequently to be paid in kind instead of in cash.

On December 21, 2015, Salbro repaid $1,800,000 comprising a principal repayment of $676,627 and accrued interest of $1,123,373 owing under the Salbro debentures. As a condition to the repayment, certain terms of the Salbro debentures and common share warrants were amended, including the interest rate, maturity date, amortization schedule, return to cash interest payments and the percentage of warrants owned.

The Company became entitled to receive monthly principal and interest payments from Salbro commencing December 31, 2015 until maturity of the debentures, calculated at a revised interest rate of 6%. In addition, Salbro amalgamated its corporate entities and issued the Company 7.5% warrants in the newly amalgamated entity.

For the three months ended March 31, 2017, interest income in the amount of $23,727 (2016 - $24,290) has been recorded in the consolidated statements of loss.

Fair value of private investment in Salbro

The fair value of financial assets that are not traded in an active market is determined by using the following valuation technique:

EBITDA Multiple

This valuation method estimates the net enterprise value by (i) performing an analysis of the maintainable EBITDA; (ii) applying an enterprise value/twelve-month trailing EBITDA multiple; and (iii) deducting any indebtedness. Where the Company uses a multiple of publicly traded companies or precedent transactions to derive an appropriate range of multiples it will apply, the multiples chosen are typically below the average comparables surveyed to recognize the Company's minority equity position and the fact that the investees are privately held.

Salbro

An EBITDA multiple of 8.5 was used to value Salbro as at March 31, 2017 and December 31, 2016. Different assumptions were used to derive a range of valuations used to arrive at an estimate. A 1x change in the EBITDA multiple would increase or decrease the value of the investment by approximately $262,000 as at March 31, 2017 and December 31, 2016.

The carrying amount of the Salbro investment at March 31, 2017 was $3,027,140 (December 31, 2016 - $3,052,140).

Management has assessed and determined that using reasonable possible alternative assumptions would not result in significantly different fair values.

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:

- 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 observable if they are developed using market data, such as publicly available information about actual events or transactions and the assumption that market participants would use such when pricing assets and/or liabilities.

(Expressed in Canadian dollars except per share amounts or unless otherwise stated)

	March 31, 2017			
	Fair value measurements using:			
Asset	**Level 1**	**Level 2**	**Level 3**	**Assets at fair value**
Investment in private entity	**-**	**-**	**$ 3,027,140**	**$ 3,027,140**

	December 31, 2016			
	Fair value measurements using:			
Asset	Level 1	Level 2	Level 3	Assets at fair value
Investment in private entity	-	-	$ 3,052,140	$ 3,052,140

There were no transfers between the levels during the three months ended March 31, 2017 or the year ended December 31, 2016.

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.

Three months ended March 31, 2017						
Asset	**Fair value December 31, 2016**	**Total unrealized gain included in income**	**Investment in private entity**	**Settlement of investment in private entity**	**Fair value March 31, 2017**	**Change in unrealized gain (loss) included in income for the three months ended March 31, 2017 for assets still held**
Investment in private entity	**$ 3,052,140**	**$ -**	**$ -**	**$ (25,000)**	**$ 3,027,140**	**$ -**

Unrealized gains and losses recognized for Level 3 investments are reported as change in unrealized gain (loss) on investment in private entity.

7. Investment in an associate

On March 19, 2015, the Company completed the formation of its joint venture (the "Monarch Joint Venture") with Federated National Insurance Company ("Federated") and Transatlantic Reinsurance Company ("TransRe") to establish Monarch National Insurance Company ("MNIC"). MNIC is a Florida-based property and casualty insurance carrier.

On December 9, 2014, Crosswinds Monarch GP LLC was formed as a 100% owned subsidiary of Crosswinds with the sole purpose of being the General Partner of Crosswinds Investor Monarch LP ("CIMLP") which was formed on the same date. On March 19, 2015, Crosswinds invested US $12 million ($15,322,800) in CIMLP while a U.S. investor contributed US $2 million, which gave Crosswinds and the U.S. investor an 85.7% and 14.3%, respectively, interest in CIMLP. Concurrently, CIMLP invested the US $14 million received into Monarch Delaware Holdings LLC ("Monarch Delaware"), the indirect parent company of MNIC for a 42.4% equity interest and a 50% voting interest in Monarch Delaware. At March 31, 2017, the carrying value of the investment in Monarch Delaware is $18,118,288 (December 31, 2016 - $18,269,925).

The following provides additional information relating to the Company's investment in Monarch Delaware:

Statements of Financial Position

(in Cdn dollars) 100% basis, as at		**March 31, 2017**		December 31, 2016
Assets				
Cash and cash equivalents	**$**	**18,898,404**	$	21,037,605
Other current assets		**8,099,994**		7,977,843
Long-term investments available for sale		**35,156,605**		36,695,518
Total assets		**62,155,003**		65,710,966
Liabilities				
Unearned premiums		**8,650,465**		11,286,718
Loss reserves		**2,156,904**		2,228,101
Accounts payable and other current liabilities		**2,095,435**		2,536,206
Long-term debt		**6,540,534**		6,590,811
Total liabilities		**19,443,338**		22,641,835
Net assets	**$**	**42,711,665**	$	43,069,130
Carrying value of investment in an associate (42.42%)	**$**	**18,118,288**	$	18,269,925

Results of Operations

(in Cdn dollars) 100% basis		**For the three months ended March 31, 2017**		For the three months ended March 31, 2016
Revenue	**$**	**3,903,793**	$	1,111,153
Losses and loss adjustment expenses		**(2,394,623)**		(312,582)
Commission expense		**(1,207,413)**		(148,144)
Operating and underwriting expenses		**(239,485)**		(389,727)
Income before income taxes		**62,272**		260,700
Income tax provision		**-**		-
Net income		**62,272**		260,700
Other comprehensive income (loss)		**(44,541)**		607,633
Comprehensive income	**$**	**17,731**	$	868,333

Share of income of an associate, net of tax (42.42%)	**$**	**26,418**	$	110,600
Share of other comprehensive income (loss) of an associate, net of tax (42.42%)	**$**	**(18,896)**	$	257,805

(Expressed in Canadian dollars except per share amounts or unless otherwise stated)

Change in Investment in an Associate

Investment in an associate - December 31, 2016	$	**18,269,925**
Increase in net assets of associate for the three months ended March 31, 2017		**7,563**
Unrealized foreign exchange loss on opening balance		**(159,200)**
Investment in an associate - March 31, 2017	$	**18,118,288**

8. 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

Common shares	Number	Amount
Balance - December 31, 2016	**5,304,007**	**$ 15,273,044**
Shares issued under rights offering (i)	3,904,092	4,815,707
Balance - March 31, 2017	**9,208,099**	**$20,088,751**

(i) The Company announced a rights offering to holders of its common shares of record at the close of business on January 30, 2017. Pursuant to the rights offering, which expired February 28, 2017, each holder of common shares received one transferable right for each common share held. Each right entitled a holder to purchase one common share at a price of $1.25 (the subscription price). The subscription price was approximately a 48.7% discount to the market price of the common shares on the Toronto Stock Exchange for the 20 trading days immediately preceding the offering date. As a result of the offering, 3,904,092 common shares were issued, for net proceeds (after transaction costs of $64,408) of $4,815,707.

(Expressed in Canadian dollars except per share amounts or unless otherwise stated)

c) Weighted average basic and diluted number of common shares outstanding

	For the three months ended March 31	
	2017	2016
Basic weighted average number of shares	**7,104,378**	5,999,032
Effect of dilutive deferred share units	**-**	-
Diluted weighted average number of shares	**7,104,378**	5,999,032

In conjunction with the rights offering described in Note 8(b)(i) above, the number of shares issued for prior year calculations of earnings per share have been adjusted for the discounted rights issue in order to provide a comparable basis for the current year.

Diluted weighted average number of common shares for the three months ended March 31, 2017 excludes 297,283 (2016 – 162,500) deferred share units that were anti-dilutive.

d) Deferred share units

Under the Company's Deferred Share Unit Plan, units vested as set out in the chart below:

Grant Date	Number vested in 2017	Price per DSU	Remaining number to vest
November 17,2016	11,444	$ 2.81	11,444
March 30,2017	14,395	$ 1.32	-

For the three months ended March 31, 2017, the Company recorded a share-based payments expense of $45,799 (2016 - $123,526).

9. Related party transactions

Investment Management Services Agreement

In conjunction with the closing of the Monarch Joint Venture (see note 7), Crosswinds AUM LLC ("AUM"), a 100% owned subsidiary of the Company, entered into an investment management services agreement with MNIC and its parent Monarch National Holding Company ("MNHC"). Under the agreement, AUM acts as an investment advisor and manages the assets of MNHC and MNIC for a management fee paid quarterly in arrears.

For the three months ended March 31, 2017, AUM earned $96,501 (2016 - $77,640) in investment management fees. As at March 31, 2017, $97,026 (December 31, 2016 - $89,982) was still owed to the Company and was included in due from related parties on the consolidated statements of financial position.

10. 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 management.

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 currently use derivatives and other instruments for trading purposes or for risk management; however, the Company does hold investments in warrants which are considered a derivative instrument.

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 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.

The Company has a concentration of foreign exchange risk due to its large holding in a U.S. dollar denominated investment - (see 10(g) below).

To manage the concentration of risk, the Company reviews its investment policies and risk management procedures regularly.

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, including Monarch Delaware, 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 seeks to obtain regular cash flow from these investments through interest payments and/or management fees.

All of the Company's accounts payable and accrued liabilities are due within one year.

e) Interest Rate Sensitivity

As at and during the three months ended March 31, 2017, the Company did not have any significant exposure to interest rate risk as the interest earned from the Company's investment in Salbro is at a fixed rate, and therefore, would not be impacted by changes in interest rates.

f) Credit Risk

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

Financial assets exposed to credit risk include debt instruments and derivatives disclosed in note 6 above. 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.

Monarch utilizes reinsurance to mitigate the exposure to losses, manage capacity and protect capital resources. Monarch reinsures (cedes) a portion of written premiums on an excess of loss or a quota share basis in order to limit its loss exposure. To the extent that reinsuring companies are unable to meet their obligations assumed under these reinsurance agreements, Monarch remains primarily liable to its policyholders.

Monarch is selective in choosing reinsurers and considers numerous factors, the most important of which are the financial stability of the reinsurer or capital specifically pledged to uphold the contract, its history of responding to claims and its overall reputation. In an effort to minimize its exposure to the insolvency of a reinsurer, Monarch evaluates the acceptability and reviews the financial condition of the reinsurer at least annually with the assistance of its reinsurance broker.

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.

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 March 31, 2017 and December 31, 2016, none of these financial assets was either impaired or past due. 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 6). The Company also has credit exposure related to deposits placed with Canadian and U.S. chartered banks in the amount of $6,016,951 as at March 31, 2017 (December 31, 2016 – $1,566,053). The banks at which the deposits are held have a senior debt rating of AA- from DBRS.

g) Foreign Exchange Risk

The Company has significant exposure to foreign exchange risk relating to transactions and assets denominated in a foreign currency. Presently the Company does not use derivative instruments to hedge its foreign currency exposure. As at March 31, 2017, approximately $12,630,946 (December 31, 2016 - $12,781,305) of the Company's net assets were denominated in U.S. dollars.

Based on U.S. dollar balances as at March 31, 2017, a strengthening or weakening of $0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have an unfavourable or favourable impact of approximately $631,547 (December 31, 2016 - $ 639,065), respectively, on net assets.

(Expressed in Canadian dollars except per share amounts or unless otherwise stated)

Based on U.S. dollar balances as at December 31, 2016, a strengthening or weakening of $0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have an unfavourable or favourable impact of approximately $6,923 (December 31, 2016 - $ 20,899), respectively, on net loss.

Based on U.S. dollar balances as at December 31, 2016, a strengthening or weakening of $0.05 of the Canadian dollar to the U.S. dollar with all other variables held constant could have a unfavourable or favourable impact of approximately $679,913 (December 31, 2016 - $ 685,642), respectively, on other comprehensive loss.

11. Commitment

The Company entered into a premises lease agreement in the third quarter of 2015 for approximately 3,000 square feet of office space located at 14 Wall Street, New York, New York. The Company estimates the total obligation remaining under the premises lease to be approximately $730,230 (US $549,000).

Future minimum annual lease commitments under the operating lease are as follows:

Less than one year	$	196,827
1-2 years		202,282
3-5 years		331,120
over 5 years		-
	$	730,230

12. 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 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 directly subjected to any material externally imposed capital requirement. The Company's investee MNIC is subject to minimum capital requirements as imposed by the Florida Office of Insurance Regulation and Crosswinds Re is subject to minimum capital requirements as imposed by the Cayman Islands Monetary Authority.