



# CROSSWINDS HOLDINGS INC.

## **Condensed Interim Consolidated Financial Statements**

For the three and six months ended June 30, 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.

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# Crosswinds Holdings Inc.

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

(expressed in Canadian Dollars)

| <b>As at</b>  | <b>June 30, 2017</b> | <b>December 31, 2016</b> |
|---|----------------------|--------------------------|
| <b>Assets</b>   |                      |                          |
| <b>Current assets</b>                                   |                      |                          |
| Cash  | \$ 8,426,695         | \$ 1,566,053             |
| Due from related parties (note 9)                       | 95,732               | 89,982                   |
| Interest receivable and prepaid expenses                | 105,703              | 84,376                   |
|   | <b>8,628,130</b>     | <b>1,740,411</b>         |
| <b>Non-current assets</b>                               |                      |                          |
| Investment in an associate (note 7)                     | 17,249,546           | 18,269,925               |
| Investment in private entity (note 6)                   | -                    | 3,052,140                |
| Capital assets, net of accumulated depreciation         | 23,976               | 27,459                   |
|   | <b>\$ 25,901,652</b> | <b>\$ 23,089,935</b>     |
| <b>Liabilities</b>                                      |                      |                          |
| Accounts payable and accrued liabilities                | \$ 203,443           | \$ 277,353               |
|   | <b>203,443</b>       | <b>277,353</b>           |
| <b>Shareholders' equity</b>                             |                      |                          |
| Share capital (note 8)                                  | 20,088,751           | 15,273,044               |
| Contributed surplus                                     | 13,461,874           | 13,405,355               |
| Deficit   | (10,513,857)         | (9,145,948)              |
| Accumulated other comprehensive income                  | 197,349              | 670,281                  |
| Total equity attributable to shareholders of Crosswinds | 23,234,117           | 20,202,732               |
| Non-controlling interests                               | 2,464,092            | 2,609,850                |
|   | <b>25,698,209</b>    | <b>22,812,582</b>        |
|   | <b>\$ 25,901,652</b> | <b>\$ 23,089,935</b>     |

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)

(expressed in Canadian Dollars, except per share amounts)

|  | Three months ended June 30, |                     | Six months ended June 30, |                     |
|--|-----------------------------|---------------------|---------------------------|---------------------|
|  | 2017                        | 2016                | 2017                      | 2016                |
| <b>Revenue</b>   |                             |                     |                           |                     |
| Interest (note 6)  | \$ 31,977                   | \$ 28,204           | \$ 60,112                 | \$ 57,142           |
| Investment management fees (note 9)  | 98,882                      | 74,430              | 195,382                   | 152,070             |
|  | <b>130,859</b>              | <b>102,634</b>      | <b>255,494</b>            | <b>209,212</b>      |
| <b>Net results of investments</b>  |                             |                     |                           |                     |
| Share of income (loss) of an associate, net of tax (note 7)                                | (519,585)                   | 123,623             | (493,167)                 | 234,223             |
| Realized gain on sale of investment in private entity (note 6)                             | 849,650                     | -                   | 849,650                   | -                   |
| Reversal of previously recognized unrealized gain on investment in private entity (note 6) | (882,000)                   | -                   | (882,000)                 | -                   |
| Net foreign exchange loss  | (59,550)                    | (2,319)             | (75,045)                  | (91,369)            |
|  | <b>(611,485)</b>            | <b>121,304</b>      | <b>(600,562)</b>          | <b>142,854</b>      |
| <b>Expenses</b>  |                             |                     |                           |                     |
| Salaries and benefits  | 186,647                     | 171,251             | 377,553                   | 365,328             |
| General and administration   | 180,780                     | 93,857              | 364,229                   | 228,442             |
| Share-based payments (note 8(d))   | 10,720                      | 84,591              | 56,519                    | 208,117             |
| Audit and tax fees   | 21,855                      | 29,206              | 70,819                    | 76,343              |
| Directors' fees  | 61,706                      | 54,133              | 102,744                   | 103,539             |
| Consulting fees  | 41,679                      | 30,968              | 74,404                    | 30,968              |
| Legal fees   | 27,919                      | 7,714               | 47,025                    | 18,141              |
|  | <b>531,306</b>              | <b>471,720</b>      | <b>1,093,293</b>          | <b>1,030,878</b>    |
| <b>Loss before income taxes</b>  | <b>(1,011,932)</b>          | <b>(247,782)</b>    | <b>(1,438,361)</b>        | <b>(678,812)</b>    |
| Current income tax provision   | -                           | -                   | -                         | -                   |
| <b>Net loss for the period</b>   | <b>\$ (1,011,932)</b>       | <b>\$ (247,782)</b> | <b>\$ (1,438,361)</b>     | <b>\$ (678,812)</b> |
| <b>Attributable to:</b>  |                             |                     |                           |                     |
| Shareholders of Crosswinds   | (937,706)                   | (265,442)           | (1,367,909)               | (712,272)           |
| Non-controlling interests  | (74,226)                    | 17,660              | (70,452)                  | 33,460              |
|  | <b>\$ (1,011,932)</b>       | <b>\$ (247,782)</b> | <b>\$ (1,438,361)</b>     | <b>\$ (678,812)</b> |
| <b>Net loss per share</b>  |                             |                     |                           |                     |
| Basic and diluted  | \$ (0.10)                   | \$ (0.04)           | \$ (0.17)                 | \$ (0.12)           |
| <b>Weighted average number of common shares outstanding</b>                                |                             |                     |                           |                     |
| Basic and diluted (note 8(c))  | <b>9,208,099</b>            | <b>5,999,032</b>    | <b>8,162,050</b>          | <b>5,999,032</b>    |

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)*

*(expressed in Canadian Dollars)*

|  | Three months ended June 30, |                  | Six months ended June 30, |                       |
|--|-----------------------------|------------------|---------------------------|-----------------------|
|  | 2017                        | 2016             | 2017                      | 2016                  |
| Net loss   | \$ (1,011,932)              | \$ (247,782)     | \$ (1,438,361)            | \$ (678,812)          |
| Other comprehensive income (loss)  |                             |                  |                           |                       |
| Change in unrealized foreign currency translation losses on foreign operations | (470,530)                   | (85,516)         | (621,825)                 | (1,176,931)           |
| Share of other comprehensive income of an associate (note 7)                   | 92,483                      | 75,042           | 73,587                    | 332,847               |
| Other comprehensive loss   | (378,047)                   | (10,474)         | (548,238)                 | (844,084)             |
| Comprehensive loss   | \$ (1,389,979)              | \$ (258,256)     | \$ (1,986,599)            | \$ (1,522,896)        |
| <b>Attributable to:</b>  |                             |                  |                           |                       |
| Shareholders of Crosswinds   | (1,265,881)                 | (273,951)        | (1,840,841)               | (1,427,564)           |
| Non-controlling interests  | (124,098)                   | 15,695           | (145,758)                 | (95,332)              |
|  | <u>(1,389,979)</u>          | <u>(258,256)</u> | <u>\$ (1,986,599)</u>     | <u>\$ (1,522,896)</u> |

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 Six months ended June 30, 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        |                     |                 |  |   |                           |               |
| <b>Balance - January 1, 2016</b>   | 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   | -                | -             | -                   | (712,272)       | -                                      | (712,272)   | 33,460                    | (678,812)     |
| Change in unrealized foreign currency translation losses on foreign operations | -                | -             | -                   | -               | (1,000,589)                            | (1,000,589)                                       | (176,342)                 | (1,176,931)   |
| Share of OCI of an associate   | -                | -             | -                   | -               | 285,297                                | 285,297   | 47,550                    | 332,847       |
| Share-based payments   | -                | -             | 208,117             | -               | -                                      | 208,117   | -                         | 208,117       |
| <b>Balance - June 30, 2016</b>   | 5,304,007        | \$ 15,273,044 | \$ 13,269,920       | \$ (9,033,398)  | \$ 263,968                             | \$ 19,773,534                                     | \$ 2,514,152              | \$ 22,287,686 |
| <b>Balance - January 1, 2017</b>   | 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   | -                | -             | -                   | (1,367,909)     | -                                      | (1,367,909)                                       | (70,452)                  | (1,438,361)   |
| Net proceeds from rights offering  | -                | 4,815,707     | -                   | -               | -                                      | 4,815,707   | -                         | 4,815,707     |
| Change in unrealized foreign currency translation losses on foreign operations | -                | -             | -                   | -               | (536,007)                              | (536,007)   | (85,818)                  | (621,825)     |
| Share of OCI of an associate   | -                | -             | -                   | -               | 63,075                                 | 63,075  | 10,512                    | 73,587        |
| Share-based payments   | -                | -             | 56,519              | -               | -                                      | 56,519  | -                         | 56,519        |
| <b>Balance - June 30, 2017</b>   | 9,208,099        | \$ 20,088,751 | \$ 13,461,874       | \$ (10,513,857) | \$ 197,349                             | \$ 23,234,117                                     | \$ 2,464,092              | \$ 25,698,209 |

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 six months ended June 30

(expressed in Canadian dollars)

|  | 2017                | 2016                |
|--|---------------------|---------------------|
| <b>Operating activities</b>  |                     |                     |
| Net loss   | \$ (1,438,361)      | \$ (678,812)        |
| Add (deduct)   |                     |                     |
| Interest income  | (58,731)            | (51,194)            |
| Share of income (loss) of an associate, net of tax (note 7)                                | 493,167             | (234,223)           |
| Realized gain on sale of investment in private entity (note 6)                             | (849,650)           | -                   |
| Reversal of previously recognized unrealized gain on investment in private entity (note 6) | 882,000             | -                   |
| Depreciation   | 3,483               | 2,805               |
| Share-based payments (note 8(d))   | 56,519              | 208,117             |
| Net (increase) decrease in due from related parties (note 9)                               | (5,750)             | 2,742               |
| Net increase in interest receivable and prepaid expenses                                   | (21,327)            | (40,484)            |
| Net decrease in accounts payable and accrued liabilities                                   | (73,910)            | (214,611)           |
| Cash used by operating activities  | (1,012,560)         | (1,005,660)         |
| Interest received  | 58,731              | 62,799              |
| <b>Net cash used by operating activities</b>   | <b>(953,829)</b>    | <b>(942,861)</b>    |
| <b>Investing activities</b>  |                     |                     |
| Principal debt repayment from private entity (note 6)                                      | 1,590,140           | 12,500              |
| Proceeds of sale from private entity warrants (note 6)                                     | 1,429,650           | -                   |
| Purchase of furniture and equipment  | -                   | (10,332)            |
| <b>Cash provided by investing activities</b>   | <b>3,019,790</b>    | <b>2,168</b>        |
| <b>Financing activities</b>  |                     |                     |
| Net proceeds from rights offering  | 4,815,707           | -                   |
| <b>Cash provided by financing activities</b>   | <b>4,815,707</b>    | <b>-</b>            |
| <b>Effect of exchange rate changes on cash</b>   | <b>(21,025)</b>     | <b>57,539</b>       |
| <b>Increase (decrease) in cash</b>   | <b>6,860,643</b>    | <b>(883,154)</b>    |
| <b>Cash - beginning of period</b>  | <b>1,566,053</b>    | <b>3,013,848</b>    |
| <b>Cash - end of period</b>  | <b>\$ 8,426,696</b> | <b>\$ 2,130,694</b> |

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

# Crosswinds Holdings Inc.

Notes to the Condensed Interim Consolidated Financial Statements (*unaudited*)

For the three and six months ended June 30, 2017 and 2016

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

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## 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 and six months ended June 30, 2017 were approved and authorized for issue by the Board of Directors of the Company on August 11, 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 June 30, 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,

# Crosswinds Holdings Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2017 and 2016

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

with early adoption permitted. The Company is assessing the impact of this standard.

- (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

*Salbro Bottle Inc. and related companies (collectively “Salbro”)*

Salbro is a manufacturer and distributor of packaging components, specializing in glass and plastic bottles.

### *Monetization of Salbro*

On June 30, 2017, the Company monetized its investment in Salbro through the repayment of all outstanding principal and interest and the sale of warrants. The Company received total cash consideration of \$2,985,865 representing \$1,556,215 in respect of principal and interest for its debentures and \$1,429,650 in respect of its sale of warrants.

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

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

For the three and six months ended June 30, 2017, interest income in the amount of \$23,352 (2016 - \$24,198) and \$47,079 (2016 - \$48,488), respectively, has been recorded in the consolidated statements of loss.

# Crosswinds Holdings Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2017 and 2016

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

## 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.

An EBITDA multiple of 8.5 was used to value Salbro as at 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 December 31, 2016.

The carrying amount of the Salbro investment at June 30, 2017 was \$nil as a result of the above-mentioned repayment of principal and interest for its debentures and the sale of warrants (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.

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

There were no transfers between the levels during the year ended December 31, 2016.

## 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.

## Crosswinds Holdings Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2017 and 2016

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

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 June 30, 2017, the carrying value of the investment in Monarch Delaware was \$17,249,546 (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                           | June 30, 2017        | December 31, 2016    |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Cash and cash equivalents                                    | \$ 16,140,829        | \$ 21,037,605        |
| Other current assets   | 10,229,948           | 7,977,843            |
| Long-term investments available for sale                     | 36,371,205           | 36,695,518           |
| <b>Total assets</b>  | <b>62,741,982</b>    | <b>65,710,966</b>    |
| <b>Liabilities</b>   |                      |                      |
| Unearned premiums  | 7,922,556            | 11,286,718           |
| Loss reserves  | 3,532,058            | 2,228,101            |
| Accounts payable and other current liabilities               | 4,239,783            | 2,536,206            |
| Long-term debt   | 6,383,873            | 6,590,811            |
| <b>Total liabilities</b>                                     | <b>22,078,270</b>    | <b>22,641,836</b>    |
| <b>Net assets</b>  | <b>\$ 40,663,712</b> | <b>\$ 43,069,130</b> |
| <b>Carrying value of investment in an associate (42.42%)</b> | <b>\$ 17,249,546</b> | <b>\$ 18,269,925</b> |

# Crosswinds Holdings Inc.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2017 and 2016

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

| <b>Results of Operations</b>                                       | <b>For the three months ended June 30, 2017</b> | <b>For the three months ended June 30, 2016</b> | <b>For the six months ended June 30, 2017</b> | <b>For the six months ended June 30, 2016</b> |
|--|---|---|---|---|
| (in Cdn dollars ) 100% basis                                       |   |   |   |   |
| Revenue  | \$ 4,073,321                                    | \$ 1,377,527                                    | \$ 7,977,114                                  | \$ 2,488,680                                  |
| Losses and loss adjusting expenses                                 | (3,907,070)                                     | (429,557)                                       | (6,301,693)                                   | (742,139)                                     |
| Commission expense   | (1,064,595)                                     | (206,005)                                       | (2,272,009)                                   | (354,148)                                     |
| Operating and underwriting expenses                                | (326,393)                                       | (450,567)                                       | (565,878)                                     | (840,295)                                     |
| Income (loss) before income taxes                                  | (1,224,737)                                     | 291,398   | (1,162,466)                                   | 552,098                                       |
| Income tax recovery  | -   | -   | -   | -   |
| Net income (loss)  | (1,224,737)                                     | 291,398   | (1,162,466)                                   | 552,098                                       |
| Other comprehensive income (loss)                                  | 217,997   | 176,934   | 173,456                                       | 784,567                                       |
| Comprehensive income (loss)  | \$ (1,006,740)                                  | \$ 468,333                                      | \$ (989,010)                                  | \$ 1,336,665                                  |
| <b>Share of income (loss) of an associate, net of tax (42.42%)</b> | \$ (519,585)                                    | \$ 123,623                                      | \$ (493,167)                                  | \$ 234,223                                    |
| <b>Share of OCI of an associate, net of tax (42.42%)</b>           | \$ 92,483                                       | \$ 75,042                                       | \$ 73,587                                     | \$ 332,847                                    |

## Change in Investment in an Associate

|  |                      |
|--|----------------------|
| Investment in an associate - December 31, 2016                             | \$ 18,269,925        |
| decrease in net assets of associate for the six months ended June 30, 2017 | (408,070)            |
| Unrealized foreign exchange loss on opening balance                        | (612,309)            |
| Investment in an associate - June 30, 2017                                 | <u>\$ 17,249,546</u> |

## 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

|   | <b>Number</b>    | <b>Amount</b>        |
|---|------------------|----------------------|
| <b>Common shares</b>                    |                  |                      |
| <b>Balance - December 31, 2016</b>      | <b>5,304,007</b> | <b>\$ 15,273,044</b> |
| Shares issued under rights offering (i) | 3,904,092        | 4,815,707            |
| <b>Balance - June 30, 2017</b>          | <b>9,208,099</b> | <b>\$20,088,751</b>  |

(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

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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.

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

|   | For the three months<br>ended June 30 |           | For the six months<br>ended June 30 |           |
|---|---------------------------------------|-----------|-------------------------------------|-----------|
|   | 2017                                  | 2016      | 2017                                | 2016      |
| Basic weighted average number of shares   | 9,208,099                             | 5,999,032 | 8,162,050                           | 5,999,032 |
| Effect of dilutive deferred share units   | -                                     | -         | -                                   | -         |
| Diluted weighted average number of shares | 9,208,099                             | 5,999,032 | 8,162,050                           | 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 and six months ended June 30, 2017 excludes 308,727 (2016 – 32,500) and 308,727 (2016 – 195,000), respectively, 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<br>in 2017 | Price per DSU | Remaining<br>number to vest |
|-------------------|--------------------------|---------------|-----------------------------|
| November 17, 2016 | 22,888                   | \$ 2.81       | -                           |
| March 30, 2017    | 14,395                   | \$ 1.32       | -                           |

For the three and six months ended June 30, 2017, the Company recorded a share-based payments expense of \$10,720 (2016 - \$84,591) and \$56,519 (2016 - \$208,117), respectively,

## 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 and six months ended June 30, 2017, AUM earned \$98,880 (2016 - \$74,430) and \$195,381 (2016 - \$152,070), respectively, in investment management fees. As at June 30, 2017, \$95,732 (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.

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## 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 has not used derivatives or other instruments for trading or risk management purposes.

### 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.

## Crosswinds Holdings Inc.

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### e) Interest Rate Sensitivity

As at and during the three and six months ended June 30, 2017, the Company did not have any significant exposure to interest rate risk as the interest earned from the Company's investment in Salbro was at a fixed rate, and therefore, would not have been 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 June 30, 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 \$8,426,695 as at June 30, 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 June 30, 2017, approximately \$12,524,535 (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 June 30, 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 \$626,227 (December 31, 2016 - \$ 639,065), respectively, on net assets.

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Based on U.S. dollar balances as at June 30, 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 \$39,762 (December 31, 2016 - \$ 20,899), respectively, on net loss.

Based on U.S. dollar balances as at June 30, 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 a unfavourable or favourable impact of approximately \$668,299 (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 \$664,532 (US \$512,000).

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

|                    |    |                |
|--------------------|----|----------------|
| Less than one year | \$ | 193,216        |
| 1-2 years          |    | 198,574        |
| 3-5 years          |    | 272,741        |
| over 5 years       |    | -              |
|                    | \$ | <u>664,531</u> |

## 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.