CROSSWINDS
HOLDINGS INC

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") for Crosswinds Holdings Inc. ("Crosswinds" or the "Company") includes information designed to help you understand management's perspective of our audited consolidated financial statements and notes thereto for the year ended December 31, 2017 ("Financial Statements"). This commentary in this MD&A is presented as at December 31, 2017 and updated based on information available up to March 29, 2018.

We encourage you to read our audited consolidated financial statements and the related notes as you review this MD&A. You can find more information about Crosswinds, including our financial statements and our most recent annual information form dated as at March 29, 2018, on our website at www.crosswindsinc.com or on The System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

The Company's common shares ("Shares") are listed and traded on the Toronto Stock Exchange ("TSX") under the symbol "CWI". Unless we have specified otherwise, all dollar amounts in this MD&A are in Canadian dollars. Certain amounts are shown in U.S. dollars ("USD"). The USD to Canadian dollar closing exchange rate on December 31, 2017 was USD $1.00 = CDN $1.2545 and averaged USD $1.00 = CDN $1.2986 for the year ended December 31, 2017 based in each case on the Bank of Canada closing exchange rates for the applicable period. The Company reports its Financial Statements using accounting policies consistent with International Financial Reporting Standards ("IFRS").

During the fourth quarter of 2017, the Company announced that it had entered into a purchase and sale agreement dated November 27, 2017 with Federated National Holding Company, to sell its interests in Monarch, subject to certain closing conditions and regulatory approval. The sale was completed after year end in February 2018. As a result, the Company has classified its investment in Monarch as held for sale as of November 27, 2017 and Monarch is presented as a discontinued operation in these Financial Statements. Previously, Monarch was accounted for under the equity method.

FINANCIAL HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2017

- Revenues of $495,819 compared to $434,570 for the same period in 2016;
- Net loss from results of investments of $(227,802) compared to income of $558,822 for the same period in 2016; and
- Net loss of $(4,691,850) or $(0.54) per Share attributable to Crosswinds' shareholders compared to net loss of $(824,822) or $(0.14) per Share attributable to Crosswinds' shareholders for the same period in 2016.

FINANCIAL POSITION AS AT DECEMBER 31, 2017

- Cash and marketable securities of $7,508,112 or $0.82 per Share;
- Investment in Monarch (reclassified as held for sale) of $13,986,211 or $1.52 per Share;

- Net book value of $21,440,287 or $2.34 per Share[2] of which $19,442,378 or $2.12 per Share[2] is attributable to the shareholders of Crosswinds.

  [2]Net book value per share is a non-IFRS financial measure and is calculated as total shareholders' equity under IFRS divided by the number of Shares outstanding at period-end. The Company has reported two net book value measures: one reflecting net book value on a consolidated basis including non-controlling interests with respect to the Company's investment in Monarch and the other reflecting the net book value attributable solely to the Company's shareholders without non-controlling interests. See the cautionary statement regarding use of non-IFRS financial measures on page 2 of this MD&A.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains information that is forward-looking and is subject to risks and uncertainties. Forward-looking information includes information concerning the Company's possible or assumed future operations, financial performance, achievements, results, business strategy, plans, goals, and objectives. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as "will", "expect", "intend", "plan", "estimate", "anticipate", "believe", "potential" or "continue", similar words or words with similar connotation or the negative thereof. These statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements are not guarantees and there can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur.

Factors which could cause actual results to differ materially from those set forth in the forward-looking statements include (but are not limited to): risks associated with general economic conditions; the Company's dependence on management of portfolio companies and joint venture partners; the limited number and concentration of the Company's investments; equity prices and credit spreads that could negatively impact the investment portfolio of our entities or investees; heavy regulation of the insurance business and risk of changes in regulation which could reduce the profitability of investments and limit growth; concentration of credit risk; ability to maintain minimum capital and surplus requirements for insurance investments; performance of investments being impacted by business cycles in the property and casualty insurance industry; ratings received by investees by insurance rating agencies and the ability of Monarch to maintain financial or claims paying ability ratings; cycles of insurance market and general economic conditions which can substantially influence Monarch and Monarch's competitors premium rates and capacity to write new business; claims activity; stage of development of business and risks of adverse selection; exposure to credit risk in the event reinsurers fail to make payments under reinsurance agreements or the insured or Monarch's general managing agent failing to remit to Monarch premiums owed; timing of claims payments being sooner, or receipt of reinsurance payments being later than anticipated; occurrence of catastrophic events with frequency or severity exceeding our estimates; the Company's dependence on key personnel and contractors; leverage of the businesses in which the Company invests; the market for the Company's Shares, limited liquidity and volatility of the Company's trading price; the trading price of the Company's Shares relative to the net book value (net asset value); risks affecting the Company's investments; the need for the Company to make follow-on investments in portfolio companies; use of investment proceeds; investments by the Company in illiquid securities including private issuers; joint investments with third parties; conflicts of interest; no guaranteed returns; risks associated with the implementation of our business, growth and investment strategies; availability and available terms of any required capital to implement corporate objectives and those of portfolio companies; availability and terms of any required financing; availability and timing for receipt of any required regulatory, shareholder or other approvals; the potential loss of investment in Shares; management of the future prospects of the Company; the availability of suitable acquisition opportunities; competition for investments; the Company's limited operating history in certain segments where it invests or seeks to invest; shifts in target exit dates and investment rates of return for investments; tax treatment; fluctuation of currency exchange; remaining eligibility and continued qualification for exchange listing on *the stock exchange on which the Company's Shares trade; changes in market variables including foreign exchange rates, and other risks detailed from time to time in the Company's continuous disclosure documents.*

The reader should not place undue reliance on forward-looking statements and information because they involve significant and diverse risks and uncertainties. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Unless otherwise stated, all forward-looking statements speak only as of the date of this MD&A. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking information whether as a result of new information, future events or other such factors which affect this information, except as required by law. These cautionary statements expressly qualify all forward-looking information in this MD&A.

CAUTIONARY STATEMENT REGARDING THE VALUATION OF INVESTMENT IN SALBRO

For the periods prior to the sale of its investment in Salbro, fair values for this investment were determined by management using the appropriate valuation methodologies after considering the history and nature of the business, operating results and financial conditions, outlook and prospects, general economic, industry and market conditions, capital market and transaction market conditions, contractual rights relating to the investment, public market comparables, private market transaction multiples and, where applicable, other pertinent considerations. The process of valuing investments for which no active market exists is inevitably based on inherent uncertainties and the resulting values may differ from values that would have been used had an active market existed. The amounts at which the Company's investments in private entities could or are ultimately disposed of may differ from the fair value assigned and the differences could be material.

CAUTIONARY STATEMENT REGARDING USE OF NON-IFRS FINANCIAL MEASURES

This MD&A makes reference to the net book value per Share, both on a consolidated basis including non-controlling interests with respect to the Company's investment in Monarch and on a non-consolidated basis attributable solely to the Company's shareholders without non-controlling interests. These measures are non-IFRS financial measures. The Company calculates the net book values per Share as it believes these to be important metrics that shareholders use and frequently request and refer to because shareholders often view the Company as a holding company of investments. These non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and therefore are unlikely to be comparable to a similar measure presented by other issuers. This classification is not an IFRS measure and should not be considered either in isolation of, or as a substitute for, a measure prepared in accordance with IFRS.

The Company

The following provides a brief overview of the Company and its operations.

Crosswinds is a publicly traded private equity firm and asset manager targeting strategic and opportunistic investments in the financial services sector with a particular focus on the insurance industry.

Crosswinds has been exploring a hybrid structure of traditional private equity and a holding company with a view to future flexibility to attract cost effective capital with which to execute its investment strategies, as further described herein.

The Company has three key segments to its business which have been designed to work together to capture various components of the value chain of the insurance business: primary insurance, reinsurance and asset management.

Following the completion of the sale of the Company's major investment in Monarch (defined below) in February 2018, the Company holds the majority of its assets in cash and is exploring next steps which include assessing available investment opportunities against other strategic alternatives including, without limitation, a return of capital or other monetization event.

1. Primary Insurance:

The Company's investment in Monarch National Insurance Company ("Monarch Insurance"), a Florida-based property and casualty insurance carrier, represented its platform investment in the insurance sector until the Company entered into an agreement in Q4 2017 to sell its interests in Monarch Insurance to its joint venture partner, Federated National Holding Company (the "Monarch Sale"). The Monarch Sale was completed subsequent to year end. See "Material and Significant Events in 2017" below. In the Company's view, the insurance market in Florida continues to be a candidate for consolidation and greater capital efficiency and may present future opportunities for the Company although there can be no assurance that will be the case. The Company's ability to re-enter this market or others will depend on market conditions and investment prospects from time to time. The Company may seek a different platform investment and/or partner with which to pursue any consolidation opportunities and may look at other insurance markets both inside and outside of Florida where similar trends of dislocation and fragmentation may be observed.

The Monarch Joint Venture included the following entities: Monarch Delaware LLC ("Monarch Parent"), Monarch National Holding Company ("Monarch Holding") and Monarch Insurance. Monarch Parent, Monarch Holding and Monarch Insurance are referred to collectively as the "Monarch Entities" or "Monarch". The Monarch Entities were a significant investee of the Company. Monarch Parent had an initial equity capitalization of USD $33million. Crosswinds' economic interest in Monarch Parent attributable to Crosswinds shareholders was approximately 36.4% and Crosswinds controlled 50% of the voting rights of Monarch Parent during the time it held this investment.

Following the Monarch Sale, Crosswinds is exploring prospective investment opportunities in the primary insurance space which could be affected by way of new investment and/or acquisition. Unless and until Crosswinds makes any new investment in a primary insurance business, it has no primary insurance interests.

2. Reinsurance:

Crosswinds Re, a wholly-owned subsidiary of the Company is a specialty reinsurer established in the Cayman Islands.

Reinsurance is the highest cost of goods for the insurance industry. Crosswinds Re has been designed with the intention that it could profitably enhance the risk management of primary insurance interests held by the Company from time to time (during 2017, Monarch, and in the future, any other primary carriers acquired or invested in) and forms an integral part of the Company's future growth and acquisition strategies. The Company formed Crosswinds Re to provide servicing capabilities to the Company's investees as it grew its business on the primary side, and to be a capital efficient and risk sensitive vehicle with portions of risk retention being redistributed through various channels such as insurance linked securities and retrocessional markets**.**

In June 2017, the Company and Crosswinds Re entered into a reinsurance underwriting advisory agent services agreement ("the Underwriting Agreement") with Trans Re pursuant to which Trans Re has agreed to act as strategic advisor to Crosswinds Re providing information on structuring, pricing, risk assessment and market conditions for reinsurance business being assessed by Crosswinds Re.

In 2017, Crosswinds Re sought to provide reinsurance to its primary insurance investee, Monarch. Crosswinds received the required regulatory approval to provide reinsurance to Monarch however market conditions were such that Crosswinds Re chose not to write any business.

For the 2018 year, Crosswinds Re has a right of first refusal agreement with Federated National Insurance Company (an affiliate of its former Joint Venture partner). Crosswinds Re will assess writing business on Federated's program once it sees and evaluates market terms and conditions. Crosswinds Re will also look for other reinsurance opportunities as part of any evaluation of prospective new primary insurance investments. See "Operational Review - Reinsurance" below.

3. Asset Management:

The Company's wholly-owned subsidiary, Crosswinds AUM LLC ("Crosswinds AUM") conducts its asset management activities. Crosswinds AUM is a registered investment advisor with the United States Securities and Exchange Commission and during 2017 managed the assets of the Monarch Entities. During Q3 2017, Crosswinds AUM also began managing the assets of its affiliate, Crosswinds Re.

The Monarch Entities were party to an Investment Management Agreement (the "Investment Agreement") with Crosswinds AUM until its termination in February 2018 in connection with the Monarch Sale. Under the terms of the Investment Agreement, Crosswinds AUM managed the Monarch Entities' investment portfolio for an annual management fee calculated as 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.

Crosswinds AUM has entered into a consulting agreement with its former joint venture partner, Federated National Holding Company ('Federated National"), for Crosswinds AUM to provide consulting services with respect to insurance market and general operational matters to Federated National (the "Consulting Agreement"). The Consulting Agreement has a term ending on December 31, 2018. Crosswinds AUM is entitled to receive compensation equal to USD $300,000, less any amounts already paid to Crosswinds AUM in 2018 under the Investment Agreement.

4. Legacy:

The Company monetized its legacy private equity investment in Salbro Bottle Inc. and related companies (collectively referred to as "Salbro") at the end of Q2 2017 allowing the Company to focus on its core business segments described above.

For a more comprehensive review of the Company and its operations, please refer to other sections of this MD&A including the "Outlook" section and the Company's most recent annual information form as updated by periodic news releases, all available under the Company's profile on SEDAR at www.sedar.com.

Operational Review

Consolidated Performance Crosswinds had a loss of $(4,691,850) attributable to Crosswinds' shareholders for the 2017 year. This loss was made up of two components: (1) net operating losses and (2) losses on the Company's investment in Monarch. $(2,738,271) of the loss was attributable to negative performance on the Company's investment in Monarch as described in further detail in this MD&A. Crosswinds made the decision to crystallize that loss in 2017 through the Monarch Sale rather than continuing in an investment which it determined did not have prospects of improvement in a foreseeable timeframe. The remaining $(1,953,579) of the loss was attributable to operating losses for Crosswinds net of asset management and interest revenue for the year. See "Factors that May Affect Future Results" and "Outlook" below.

Primary Insurance

During the fourth quarter of 2017, Crosswinds entered into an agreement to sell its interests in Monarch.

The Monarch Sale agreement was entered into after a year of poor performance where Monarch had experienced flat premium growth, having stopped writing new business as of the beginning of 2017 in the tri-county area of Florida (Palm Beach, Broward, Dade) ("Tri-County"), where it determined it had an over concentration of policies. Monarch experienced challenges writing premium outside of Tri-County as a newly established player in a competitive environment trying to set appropriate premium rates. During 2017, the primary market in Florida also continued to suffer from sustained activity around assignment of benefits ("AOB"). In addition, the primary market in Florida experienced an active hurricane season with Hurricane Irma making landfall in Florida in September 2017. These challenges contributed to the Company's decision to exit the investment.

Reinsurance

In 2016, the Company formed Crosswinds Re, a specialty Cayman-domiciled reinsurance company. Crosswinds Re was issued a license in September 2016 from the Cayman Islands Monetary Authority ("CIMA") to operate as a class B(iii) reinsurer. During the first half of 2017, Crosswinds Re continued to establish its infrastructure to be prepared to write business during the 2017 wind season.

Crosswinds Re was formed to act as a specialty reinsurer as part of Crosswinds' integrated reinsurance, insurance and asset management structure with an initial focus on the Florida property and casualty market.

Crosswinds Re was formed with an initial USD$200,000 regulatory capital contribution made by Crosswinds through a newly established fund structure, Crosswinds Private Equity Partners (C.I.), L.P. (the "Fund"). The Company is the sole initial limited partner of the Fund and its general partner, Crosswinds Private Equity Partners (C.I.), G.P. is also wholly-owned by Crosswinds. The Fund is intended to be a vehicle for raising additional capital in the future. There can be no assurance the Company will utilize the Fund.

During the second quarter of 2017, the Company capitalized Crosswinds Re with an additional USD$2 million (CDN$2,656,600) with a view to writing reinsurance business and the Company and Crosswinds Re entered into a reinsurance underwriting advisory agreement with Trans Re (the "Underwriting Agreement") pursuant to which Trans Re agreed to act as strategic advisor to Crosswinds Re providing information on structuring, pricing, risk assessment and market conditions for reinsurance business being assessed by Crosswinds Re.

The Underwriting Agreement is for an initial term of 5 years with the option to renew for successive 2-year terms, subject to earlier termination. As compensation for its services, Trans Re receives a management fee calculated at a rate of 2% of the underwriting capital utilized by Crosswinds Re in an applicable year. The annual stand by fee is USD$50,000 for a year in which Crosswinds Re does not write any business. In 2017, Crosswinds Re did not write any business and the pro-rated annual stand by fee paid to Trans Re was USD$28,767.

Crosswinds Re reviewed business opportunities to provide coverage to a couple of primary Florida insurance carriers for the 2017-2018 treaty year and determined that the available opportunities did not meet its risk-return criteria. At the end of the Q3 2017, Crosswinds Re began, through Crosswinds AUM, investing the funds allocated for its reinsurance activities in bonds with a view to earning interest income to partially offset its operational expenses for the year. During Q4 2017, Crosswinds Re earned USD$19,200 in interest income against USD$176,582 of actual expenses. On an annualized basis, assuming the same interest was received throughout the period, this would amount to USD$76,800 which would have covered approximately 40% of the Crosswinds Re expenses for the 2017 year. Crosswinds Re being fully established in 2017 and not having profitable business to write has contributed to the increase in the Company's operating losses.

Subsequent to year end, in connection with the Monarch Sale, Crosswinds Re entered into the ROFR Agreement providing it with a right of first refusal with respect to any and all quota share and excess of loss reinsurance coverage purchased by Federated National Insurance Company during the term of the ROFR Agreement up to a maximum of USD$10 million of reinsurance coverage. The ROFR Agreement is in effect from the date of the closing of the Monarch Sale to December 31, 2018. The value to Crosswinds Re of this contract will depend on the amount of coverage, if any, it writes and whether it takes any losses on any business it does write. Crosswinds Re will evaluate the risk-reward of any opportunities available under the ROFR Agreement as they are presented during the 2018 wind season. See "Outlook".

Asset Management

Crosswinds AUM managed the assets for the Monarch Entities during 2017 under the Investment Agreement earning an aggregate of $382,463 in fees for the year. Crosswinds AUM also began to manage assets for Crosswinds Re in Q3 2017. After year end, the Investment Agreement terminated and Crosswinds AUM entered into the Consulting Agreement with Federated National which will be in effect until December 31, 2018 and will allow Crosswinds AUM to earn USD$300,000 for 2018, less any fees earned in 2018 under the Investment Agreement when it was in effect.

Material and Significant Events in 2017

The following is a summary of the Company's material and significant events in 2017, updated to the date hereof.

February 2017	***Completion of Rights Offering*** Crosswinds completed a rights offering (the “Offering”) on February 28, 2017 raising total aggregate gross proceeds of $4,880,115 and net proceeds of $4,815,707. Crosswinds issued 3,904,092 Shares pursuant to the Offering at a price of $1.25 per Share. Following the Offering, Crosswinds had 9,208,099 issued and outstanding Shares. See “Share Capital” below.
June 2017	***Monetization of Interests in Salbro*** The Shareholders of Crosswinds’ former investee, Salbro Bottle Inc. and related companies (“Salbro”) entered into a definitive agreement with TricorBraun, an international packaging solutions company for the acquisition of Salbro (the “Transaction”). Upon closing of the Transaction on June 30, 2017, Crosswinds fully monetized its remaining investment in Salbro which consisted of debentures and warrants exercisable into 7.5% of the Salbro enterprise. Crosswinds received total cash consideration on closing of the Transaction of $2,985,865 representing $1,556,215 in respect of its debentures and $1,429,650 in respect of its warrants.
June 2017	***Reinsurance Activities*** During the 2017-2018 reinsurance placement season the Company capitalized its reinsurance subsidiary, Crosswinds Re, with USD$2 million. Crosswinds Re reviewed business opportunities to provide coverage to primary Florida insurance carriers for the 2017-2018 treaty year and determined that the available opportunities did not meet its risk-return criteria. Crosswinds and Crosswinds Re entered into the Underwriting Agreement with Trans Re as described above. The Underwriting Agreement is for an initial term of 5 years with the option to renew for successive 2-year terms, subject to earlier termination. As compensation for its services, Trans Re receives a management fee calculated at a rate of 2% of the underwriting capital utilized by Crosswinds Re in an applicable year. Trans Re is entitled to a stand by fee of USD$50,000 in a year where Crosswinds Re does not write any business. Trans Re is also entitled to an incentive fee equal to 10% of the gross increase in enterprise value over a 7% compounded highwater mark on the occurrence of a liquidity event for Crosswinds Re or to a termination fee in certain circumstances. This summary is qualified in its entirety by the full terms of the Underwriting Agreement, a copy of which is available under the Company’s profile on SEDAR at www. sedar.com.

July 2017	***Monarch National Completes 2017-2018 Reinsurance Placement*** In July 2017, Crosswinds' Joint Venture investee, Monarch Insurance agreed upon the terms of its excess of loss catastrophe reinsurance treaties for the 2017-2018 hurricane season. Crosswinds has an indirect 36% interest (50% voting) in Monarch Insurance. These treaties were designed to reimburse Monarch Insurance for property losses under its homeowners' insurance policies resulting from covered events such as Hurricane Irma. Monarch Insurance utilized reinsurance to reduce exposure to catastrophic risk and to help manage capital, while lessening earnings volatility and improving shareholder return, and to support the required statutory surplus requirements. Monarch Insurance's catastrophe reinsurance program was designed to coordinate coverage provided under various treaties with various retentions and limits. Monarch Insurance's private market excess of loss treaties were effective July 1, 2017 and continued through June 30, 2018 and all private layers have prepaid automatic reinstatement protection, which affords Monarch Insurance additional coverage. These private market excess of loss treaties structure coverage into layers, with a cascading feature such that substantially all layers attach after USD$3.4 million for Monarch Insurance's exposure. If the aggregate limit of the preceding layer is exhausted the next layer drops down (cascades) in its place. Additionally, any unused layer protection drops down for subsequent events until exhausted. These treaties are with reinsurers that had an A.M. Best Company or Standard & Poors rating of A- or better, or fully collateralized their maximum potential obligations in dedicated trusts. The total estimated cost of USD$5.17 million to Monarch Insurance was comprised of approximately USD$3.23 million for the herein referenced private reinsurance products including prepaid automatic premium reinstatement protection on all layers with approximately USD$1.94 million payable to the Florida Hurricane Catastrophe Fund ("FHCF"). The combination of private and FHCF reinsurance treaties will afford Monarch Insurance with approximately USD$109.81 million of aggregate coverage with a maximum single event coverage totaling approximately USD $68.89 million, exclusive of retentions. Monarch Insurance's FHCF participation was 75% for the 2017 wind season.
September 2017	***Impact of Hurricane Activity on Monarch Investment*** On September 10, 2017, Hurricane Irma made its initial landfall as a Category 4 hurricane in Florida. Based on information provided by Federated National, the Company's Joint Venture partner and managing general agent for Monarch Insurance, together with post-landfall catastrophe model estimates, Monarch estimated that its losses from Hurricane Irma, net of reinsurance, should not exceed its first event pre-tax retention amount of USD$3.4 million. Monarch Insurance's reinsurance program affords Monarch Insurance approximately USD$109.8 million of aggregate coverage with a maximum single event coverage totaling approximately USD$68.9 million.

	Monarch Insurance's existing reinsurance program remained in force for future events through the end of its contract period, June 30, 2018. All private market layers of reinsurance protection for Monarch Insurance had prepaid automatic reinstatement protection, which afforded Monarch Insurance additional coverage for subsequent events without incurring incremental premium beyond the original cost of its program. The reinsurance program for Monarch Insurance also embodied a cascading structure such that substantially all layers attach above the per event retention.
September 2017	***Normal Course Issuer Bid*** The Toronto Stock Exchange ("TSX") approved Crosswinds' notice of intention to make a normal course issuer bid for up to 460,404 of its common shares ("Common Shares"), being 5% of its 9,208,099 issued and outstanding Common Shares as of September 13, 2017. Purchases were able to commence on September 18, 2017 and will terminate on September 17, 2018. The average daily trading volume of the Common Shares was 8,081 on the TSX over the last six completed calendar months prior to the notice of intention. Accordingly, under the policies of the TSX, the Company is entitled to purchase, during any one trading day, up to 2,020 Common Shares. The Company is entitled to purchase a larger number of Common Shares per calendar week, subject to the maximum number that may be acquired under the normal course issuer bid, if the transaction meets the block purchase exemption under the TSX rules. Purchases will be made at prevailing market prices. All Common Shares purchased by Crosswinds under the normal course issuer bid will be purchased through the TSX for cancellation. The Directors and management of the Company are of the opinion that from time to time the purchase of its Common Shares at the prevailing market price would be a worthwhile investment and in the best interests of the Company and its shareholders. Crosswinds intends to fund the purchases out of available cash. See "Share Capital" in this MD&A for further information on purchases made to date.
November 2017	***Agreement to Sell Monarch*** On November 27, 2017, Crosswinds' majority owned subsidiary, Crosswinds Investor Monarch LP ("CIML") entered into an agreement (the "Agreement") to sell all of its interests in Monarch Delaware Holdings LLC to its joint venture partner, Federated National Holding Company ("Federated National" or the Purchaser") for an aggregate purchase price of USD$12,282,000 payable to CIML, with Crosswinds, in its capacity as a limited partner of CIML receiving approximately USD$10,500,000 of those proceeds (the "Proposed Transaction"). The Proposed Transaction was subject to certain conditions including without limitation, the Purchaser obtaining the required financing to purchase Crosswinds' interests, receipt of regulatory approval from the Florida Office of Insurance Regulation, completion of certain transaction documents and other customary

	terms and conditions. Crosswinds granted exclusivity to the Purchaser subject to certain terms and conditions. Subject to satisfaction of the closing conditions, closing of the Proposed Transaction was expected early in 2018. See "Subsequent to Year End – Completion of Sale of Interests in Monarch" below.
Subsequent to Year End – February 2018	***Completion of Sale of Interests in Monarch*** Following the satisfaction of all closing conditions, including receipt of regulatory approval from the Florida Office of Insurance Regulation, Crosswinds completed the Proposed Transaction to sell its interests in Monarch (the "Monarch Sale"). Upon closing of the Monarch Sale, in addition to the approximately USD$10,500,000 of consideration received by Crosswinds, Crosswinds Re entered into the ROFR Agreement permitting it to write up to USD$10,000,000 of limit on reinsurance business with Federated National Insurance Company, at market terms and rates during 2018. The ROFR Agreement terminates on December 31, 2018 and its economic benefit will depend upon market conditions. In addition, Crosswinds AUM entered into a consulting agreement with Federated National Holding Company to consult on insurance market and general operational matters (the "Consulting Agreement"). The Consulting Agreement also terminates on December 31, 2018 and entitles Crosswinds AUM to earn USD$300,000 in fees, less those fees already earned in 2018 under the Investment Agreement in place until the completion of the Monarch Sale.

Summary of Investments

The following is a summary of the Company's investment in private entities including associates as at December 31, 2017 updated to the date hereof.

Investments in Private Entities – Current Portfolio

At December 31, 2017, the Company held one investment in an associate. The investment details are as follows:

Company and Investment Overview

Monarch Joint Venture - Monarch National Insurance Company is a property and casualty insurer in the state of Florida. Monarch National Insurance Company, together with Monarch National Holding Company and Monarch Delaware Holdings LLC, "the Monarch Entities" were a significant equity investee of the Company. Unless otherwise specified, or as the context requires in this MD&A, references to "Monarch" mean any of the Monarch Entities. Monarch began active operations during the second quarter of 2015 following closing of the Monarch investment in March 2015.

Crosswinds' Investment: USD $12 million representing CDN $15.3 million at the date of investment. Crosswinds made its investment through Crosswinds Investor Monarch LP ("Crosswinds Investor LP"), its majority owned limited partnership into which it invested USD $12 million with a third-party investor funding the remaining USD $2 million for a proportionate minority position in Crosswinds Investor LP. Crosswinds Investor LP is controlled by its general partner, Crosswinds Monarch GP LLC, of which Crosswinds is the sole owner. Crosswinds Investor LP made its investment in Monarch through Monarch Delaware Holdings LLC.

Rationale: To form a property and casualty insurance platform in the state of Florida with strategic partners. Monarch was expected to experience organic growth and provide investment management fees to Crosswinds while providing a platform opportunity for further acquisitive growth in the property and casualty space which management believes is in need of consolidation in the Florida market.

Investment Risks Include: Cyclical nature of insurance and reinsurance businesses including hurricane events in Florida, adequacy of reserves and reinsurance, appropriate and adequate pricing and case reserves, government regulation and approvals including of analytic models and rate changes, adverse selection, claims volatility, distribution and concentration of books of business, natural disasters, climate change, foreign exchange and currency fluctuations, newly established player and brand in market requiring acceptance, competition from current and potential new entrants into the market, reliance on related party service providers and independent agents, joint venture management, conflicts of interest, market events such as assignment of benefits (AOB) and direct to consumer distribution displacing traditional distribution channels.

Original Investment Date: March 2015

Investment Update: As discussed under "Operational Review", Crosswinds entered into an agreement in November 2017 to sell its Joint Venture investment in Monarch to its Joint Venture partner. Crosswinds made the determination to exit this investment after it continued to have concerns with the underwriting quality of the Monarch business given trends on reserves and attritional losses. Management monitored performance and options for this investment closely and came to the determination that a sale was the best path. Monarch's underperformance impacted Crosswinds' earnings and cash flow as the investment management fees earned by Crosswinds AUM were calculated based upon Monarch's assets. A continued investment in Monarch was expected to continue to yield poor performance absent changes being implemented by the Joint Venture partner which did not appear to be forthcoming. Monarch was looking to shrink its book of business in Q1 and Q2 2018 and given that reinsurance payments are evenly distributed throughout the quarters, but earned premium will be less in the first quarters of the year, reinsurance costs as a percentage of premiums were expected to increase. It was also expected that post Hurricane Irma, reinsurance rates would rise industry wide which would have had a negative impact on Monarch. In addition, the Monarch Parent Board of Managers would have been constrained in its ability to declare a distribution to its members (which would have been permitted, subject to regulatory and Monarch Parent Board approval, commencing in March 2018) if Monarch's operating earnings did not improve which would, in turn, have negatively impact Crosswinds' future cash flow. Crosswinds ceased equity accounting for this investment and held it for sale effective as of November 27, 2017. Monarch's statement of financial position and results of operation is below:

Statements of Financial Position for Monarch

(in Cdn dollars) 100% basis, as at	**November 30, 2017**	December 31, 2016
Assets		
Cash and cash equivalents	**$17,243,949**	$ 21,037,605
Other current assets	**30,740,105**	7,977,843
Long-term investments available for sale	**27,155,959**	36,695,518
Total assets	**75,140,013**	65,710,966
Liabilities		
Unearned premiums	**10,146,755**	11,286,718
Loss reserves	**13,873,936**	2,228,101
Accounts payable and other current liabilities	**11,965,931**	2,536,206
Long-term debt	**6,182,594**	6,590,811
Total liabilities	**42,169,215**	22,641,836
Net assets	**$32,970,798**	$ 43,069,130
Carrying value of investment in an associate (42.42%)	**$13,986,211**	$ 18,269,925

Results of Operations for Monarch Delaware

(in Cdn dollars) 100% basis	**For the 11 months ended November 30, 2017**	For the year ended December 31, 2016
Revenue	**$12,550,937**	$ 7,998,046
Losses and loss adjustment expenses	**(15,186,724)**	(3,805,282)
Commission expense	**(3,964,882)**	(1,368,944)
Operating and underwriting expenses	**(966,530)**	(1,877,132)
Income before income taxes	**(7,567,198)**	946,688

Income tax provision	**36,952**		(4,179)
Net income	**(7,530,247)**		942,509
Other comprehensive income (loss)	**6,273**		330,914
Comprehensive income	**$(7,523,972)**	$	1,273,423
Share of income (loss) of an associate, net of tax (42.42%)	**$(3,194,650)**	$	399,853
Share of other comprehensive income (loss) of an associate, net of tax (42.42%)	**$2,661**	$	140,388

Investments in Private Entities – Dispositions

Salbro Bottle Inc. and Related Companies (Salbro) was an established designer, manufacturer and distributor of packaging components, specializing in glass and plastic bottles.

Investment Update: On June 30, 2017, Crosswinds monetized its investment in Salbro receiving total cash consideration of $2,985,865 representing $1,556,215 in respect of its Debentures and $1,429,650 in respect of its Warrants. At December 31, 2016, the carrying value of the Salbro investment was $3,052,140. During 2017, the Company received $50,000 in principal payments under its Debenture. The Company recorded a small realized loss of $32,350 upon completion of the monetization.

Investments in Private Entities – Dispositions Subsequent to Year End

Monarch Joint Venture - Monarch National Insurance Company was a property and casualty insurer in the state of Florida.

Investment Update: On February 28, 2018, Crosswinds monetized its investment in Monarch receiving cash consideration of approximately USD$10,500,000. Crosswinds initially invested USD$12,000,000 attributable to Crosswinds shareholders resulting in a realized loss of approximately USD$1,500,000 attributable to Crosswinds shareholders.

Financial Review

The following is a summary of (a) the Company's financial statements for the years ended December 31, 2017 and 2016 and (b) the Company's financial position as at December 31, 2017 compared to the year ended December 31, 2016.

Results from Operations for the Year Ended	December 31, 2017	December 31, 2016
Total revenues	$ 495,819	$ 434,570
Net results of investments	(227,802)	558,822
Expenses	(2,221,596)	(2,160,945)
Taxes	-	-
Loss from continuing operations	(1,953,579)	(1,167,553)
Income (loss) from discontinued operations, net of tax	(3,194,650)	399,853
Net Loss for the year	$ (5,148,229)	$ (767,700)

Comprehensive Loss for the Year Ended	December 31, 2017	December 31, 2016
Net loss	$ (5,148,229)	$ (767,700)
Other comprehensive income (loss)		
Change in unrealized foreign currency translation gains (losses) on foreign operations	(61,696)	31,554
Discontinued operations	(1,088,932)	(397,289)
Other comprehensive loss	(1,150,628)	(365,735)
Comprehensive loss	$ (6,298,857)	$ (1,133,435)

Earnings (loss) Per Share (EPS)		
Loss per share from continuing and discontinued operations	$ (0.54)	$ (0.19)
Loss per share from continuing operations	$ (0.22)	$ (0.14)

Financial Position as at	December 31, 2017	December 31, 2016
Cash and marketable securities	$ 7,508,112	$ 1,566,053
Total assets	23,038,381	23,089,935
Shareholders' equity attributable to shareholders of Crosswinds	19,442,378	20,202,732
Number of shares outstanding	9,176,299	5,304,007

Net Book Value Per Share[1]		
Net book value per Share[1]	$ 2.34	$ 4.30
Attributable to shareholders of Crosswinds	2.12	3.81
Non-controlling interests	0.22	0.49
Closing market price on TSX	$ 1.66	$2.20
Market price premium/(discount) to net book value[1] attributable to shareholders of Crosswinds	(21.7) %	(42.3) %

[1]Net book value per Share is a non-IFRS financial measure and is calculated as total shareholders' equity under IFRS divided by the number of Shares outstanding at period-end. The Company has reported two net book value measures: one reflecting net book value on a consolidated basis including non-controlling interests with respect to the Company's investment in Monarch and the other reflecting the net book value attributable solely to the Company's shareholders without non-controlling interests. See the cautionary statement regarding use of non-IFRS financial measures on page 3 of this MD&A.

Net book value per share declined following completion of the Offering (defined below) and issuance of additional Shares. The Company's Shares trade at a discount to net book value.

Results of Operations Highlights

The Company's operating results reflect (i) revenue recognized primarily from the income generated from the Company's investments in private entities and related asset management activities; (ii) changes in the value of the Company's assets; and (iii) the expenses required to deploy and manage the Company's invested capital.

For the Year Ended	
December 31, 2017	December 31, 2016
Revenue $495,819: $382,463 from Crosswinds AUM investment management fees; $47,079 interest income from Salbro; $41,344 from domestic bank interest; and $24,933 from dividends earned by Crosswinds Re.	Revenue $434,570: $323,861 from Crosswinds AUM investment management fees; $96,599 from Salbro interest income; and $14,110 from domestic bank interest.
Changes year over year: The Company did not earn any interest income from Salbro during Q3 and Q4 of 2017 as the investment was fully monetized in Q2 2017. The domestic bank interest earned in 2017 is greater than 2016 due to higher bank balances as a result of the rights Offering in Q1 2017 and the monetization of the Salbro investment in Q2 2017. The increase in investment management fees in 2017 compared to 2016 is attributable to increased assets under management at Monarch. Crosswinds Re began investing its funds in Q4 2017 resulting in dividend income that didn't exist in 2016.	
Net results of investments of $(227,802) consist of: $(32,350) of loss from monetization of the Salbro investment; $(144,287) net foreign exchange loss on the translation of USD denominated assets into CDN dollars; and an unrealized loss in marketable securities of $(51,165) for Crosswinds Re.	Net results of investments of $558,822 consist of: unrealized gain on investment in Salbro of $608,000 offset by $(49,178) net foreign exchange loss on the translation of USD denominated assets into CDN dollars due to currency fluctuations.
Expenses of $2,221,596: consisting primarily of $769,470 salaries and benefits; $154,871 share-based payments expense related to DSUs; $171,654 in consulting fees; $627,154 in general and administration consisting primarily of rent, investor relations and marketing expenses; $238,893 in directors' fees; $171,791 in audit and tax fees; and $87,763 of legal fees.	Expenses of $2,160,945: consisting primarily of a $343,552 share-based payments expense related to DSUs; $784,526 in salaries and benefits; $97,922 in consulting fees; $499,335 in general and administration consisting primarily of rent; $185,348 in directors' fees; $204,434 in audit and tax fees; and $45,828 of legal fees.
Net loss from continuing operations of $(1,953,579) or $(0.22) per Share on a basic and fully diluted basis. Net loss from discontinued operations of $(3,194,650) or $(0.37) per Share on a basic and fully diluted basis.	Net loss from continuing operations of $(1,167,553) or $(0.14) per Share on a basic and fully diluted basis. Net income from discontinued operations of $399,583 or $0.07 per Share on a basic and fully diluted basis.
Changes year-over-year: The increase in net loss from continuing operations in 2017 compared to 2016 is due primarily to the unrealized gain on Salbro of $608,000 reported in 2016 with no such corresponding amount reported in 2017 with the monetization of the Salbro investment in Q2; and the increase in the unrealized foreign exchange loss on the revaluation of USD denominated assets as a result of the strengthening of the CAD over the USD. The total expenses in 2017 increased marginally from 2016 due to expenses incurred at Crosswinds Re as a result of Crosswinds Re's infrastructure being fully built out.	

Balance Sheet Highlights

As at December 31, 2017, the Company's assets consisted primarily of cash and marketable securities and its investment in Monarch which was reclassified as held for sale effective November 27, 2017 and is no longer equity accounted for but rather is shown as a discontinued operation as part of that change in accounting treatment.

In March 2015, the Company, through Crosswinds Investor LP, invested USD $14,000,000 (USD $2,000,000 of which was funded by a third-party investor) in Monarch. In this MD&A, references to equity attributable to Crosswinds refers to the portion of the Monarch investment attributable to Crosswinds, which excludes the third-party investor's minority interest. At the date of funding of the Monarch investment, the total commitment in CDN dollars was $17,876,600, $15,322,800 of which was funded by and attributable to the Company. The Company is subject to the risk of currency fluctuations. See "Risk Factors" below.

The Company, following the completion of the rights offering in February 2017 pursuant to which the Company issued 3,904,092 Common Shares at $1.25 per Common Share (the "Offering") and the monetization of its investment in Salbro in June 2017, as at December 31, 2017 had working capital of $7.4 million for commitments and general working capital purposes.

Approximately $4.8 million of those funds were net proceeds of the Offering and have been allocated as described in the Offering circular, a copy of which is available on the Company's profile at www.sedar.com and as follows:

Use of Funds	**Amount Stated in Offering Circular**	**Deployed as at December 31, 2017**
General Working Capital	$600,000	Nil
Capitalizing Crosswinds Re	$4,065,707	$2,656,600
InsurTech	$150,000	Nil
Total	$4,815,707 (amount raised less fees and expenses of the Offering)	$2,656,600

December 31, 2017	December 31, 2016
Total assets of $ 21,695,924	Total assets of $ 23,089,935

Changes: *The assets have decreased from 2016 to 2017 as the increase in cash in 2017 resulting from the net proceeds of the Offering and the monetization of the Salbro investment was offset by a lower carrying value of its investment in Monarch which was reclassified as held for sale effective November 27, 2017.*

December 31, 2017	December 31, 2016
Equity attributable to shareholders of Crosswinds $19,442,378	Equity attributable to shareholders of Crosswinds $ 20,202,732
Changes: *The decrease in equity attributable to shareholders of Crosswinds from 2016 to 2017 of $760,354 is due to the increase in share capital of $4,771,692 resulting from the net proceeds of the Offering offset by the comprehensive loss attributable to the shareholders of Crosswinds (including the unrealized foreign currency translation loss on the Company's investment in Monarch held for sale) of $(5,686,917) offset by an increase in contributed surplus of $154,871 as a result of the share-based payments expense for 2017 related to the issuance of DSUs to directors and officers.*	
The Company had no debt during either of the periods noted in the table above.	

Carrying Value

Set out below is the carrying value including carrying value per Share of each of the Company's assets and liabilities as at December 31, 2017.

	December 31, 2017	
Asset/(Liability)	Total carrying value	Carrying value per Share
Liquid Net Assets (Working Capital)		
Cash	$ 5,807,637	$0.63
Marketable securities	1,700,475	0.19
Due from related parties	93,263	0.01
Interest receivable and prepaid expenses	87,845	0.01
Accounts payable and accrued liabilities	(255,637)	(0.03)
Working Capital	***$ 7,433,583***	***$0.81***

	December 31, 2017	
Asset/(Liability)	Total carrying value	Carrying value per Share
Asset classified as held for sale (Monarch)	13,986,211	1.52
Capital assets, net of accumulated depreciation	20,493	0.00
Shareholders Equity	*$ 21,440,287*	*$2.34*
Non-Controlling Interests	$1,997,909	$0.22
Total Equity Attributable to Shareholders of Crosswinds	**$19,442,378**	**$2.12**

Results of Operations for the Year Ended December 31, 2017

The following is an analysis of the Company's results of operations for the years ended December 31, 2017 and 2016. This analysis should be read in conjunction with the applicable financial statements and the accompanying notes thereto.

Revenues

	Years Ended December 31,		
	2017	2016	Inc / (Dec)
Legacy Salbro Investment - Interest	$ 47,079	$ 96,599	$ (49,520)
Bank Interest	41,344	14,110	27,234
Dividend Income	24,933	-	24,933
Crosswinds AUM - Investment management fees	382,463	323,861	58,602
Total	$ 495,819	$ 434,570	$ 61,249

The Company fully monetized its investment in Salbro in June 2017 and as a result there was no interest earned in Q3 and Q4 of 2017. The Company earned more bank interest in 2017 due to higher balances reflecting the proceeds from the Offering and balances from the monetization of the Salbro investment. The increase in investment management fees in 2017 compared to 2016 is attributable to increased assets under management relating to Monarch. Going forward, as the Investment Agreement was terminated in connection with the Monarch Sale, Crosswinds expects to receive a fixed revenue amount of USD$300,000 for 2018 under the new Consulting Agreement and factoring in investment management fees earned in 2018 up to the closing of the Monarch Sale. If the Company does not enter into new revenue generating agreements or investments, beyond 2018, its revenues could be expected to consist only of interest earned on undeployed cash resulting in a continued loss trend as its expenses exceed revenues.

Net Results of Investments

	Years Ended December 31,		
	2017	2016	Inc / (Dec)
Unrealized loss on change in value of marketable securities of Crosswinds Re	(51,165)	-	(51,165)
Change in unrealized gain on investment in private entity (Salbro)	-	608,000	(608,000)
Realized gain on sale of investment in private entity (Salbro)	849,650	-	849,650
Reversal of previously recognized unrealized gain on investment in private entity (Salbro)	(882,000)	-	(882,000)
Net foreign exchange loss (USD balances held by the Company)	(144,287)	(49,178)	(95,109)
Total	$ (227,802)	$ 558,822	$ (786,824)

Net results of investments worsened in 2017 compared to 2016 as with the monetization of the Salbro investment there was no change in unrealized gain on investment in private entity booked, in addition the net foreign exchange loss increased due to the strengthening of the Canadian dollar compared to the U.S. dollar.

Expenses and Income Taxes

	Years Ended December 31,		
	2017	2016	Inc / (Dec)
Salaries and benefits	$ 769,470	$ 784,526	$ (15,057)
General and administration	627,154	499,335	127,820
Directors' fees	238,893	185,347	53,546

	Years Ended December 31,		
	2017	2016	Inc / (Dec)
Audit and tax fees	171,791	204,434	(32,643)
Consulting fees	171,654	97,922	73,731
Share-based payments	154,871	343,552	(188,681)
Legal fees	87,763	45,829	41,933
	2,221,595	2,160,945	60,650
Provision for income taxes	-	-	-
Total	$2,221,596	$ 2,160,945	$ 60,650

The general and administration and director expenses for 2017 have increased slightly over 2016 due mainly to new expenses incurred at Crosswinds Re as it prepared to be able to write business in 2017. Consulting fees increased in 2017 because of a reversal of prior fees in 2016 and additional consulting services retained in 2017 related to the Company's insurance investments. Legal fees increased in 2017 as the Company completed a number of transactions. The Company has expenses in both 2016 and 2017 related to the issuance of DSUs. The Company has utilized DSUs as a compensation tool for its directors and as part of its executive incentive program to reduce its cash outlay.

Fourth Quarter Results

The Company's fourth quarter results were impacted by a change in accounting treatment for its investment in Monarch. The Company picked up two months of Monarch's results in Q4 and treated these as discontinued operations. As noted elsewhere in this MD&A, the Company closed the Monarch Sale in February 2018 with the Company receiving USD$10.5 million.

In Q4 2017, the Company recognized revenue of $134,856 consisting of $15,025 from bank deposit interest, $24,933 from dividends received by Crosswinds Re and investment management fees of $94,294 from Crosswinds AUM compared to total revenue of $115,337 earned in 2016 consisting of interest income of $24,008 from its Salbro investment, bank deposit interest of $2,255 and investment management fees of $89,074 from Crosswinds.

The Company's interest and dividend income increased during the fourth quarter of 2017 compared to the same period in 2016 as the Company had more cash available for investment following the rights offering and the monetization of the Salbro investment. The increase in investment management fees during the fourth quarter of 2017 compared to the same period in 2016 is due to an increase in assets under management at Monarch.

The Company had a loss on results of investments of $(40,263) for the fourth quarter 2017 compared to a gain of $634,285 in the corresponding period in 2016 which gain was primarily a result of the increase in the fair value of the warrants in Salbro in the amount of $608,000. The Company's operating expenses for the fourth quarter of 2017 were $595,138 or $40,192 lower than the same period in 2016 because of lower cash and non-cash compensation expense related to reduced short-term incentive payments for executives compared to 2016 and the declining scale of previous DSU grants.

The Company recorded a net loss of $(500,543) from continuing operations in the fourth quarter of 2017 compared to a net income of $114,291 for the corresponding period in 2016. The decrease in net income in Q4 2017 was due to the increase in the fair value of the Salbro warrants in the amount of $608,000 which was booked in Q4 2016.

Summary of Quarterly Results

The following is a summary of the Company's financial results for the last eight quarters prepared under IFRS and presented in Canadian dollars.

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	*134,856*	*105,468*	*130,859*	*124,636*	*115,337*	*110,021*	*102,634*	*106,578*
Net results of investments	*(40,263)*	*(80,144)*	*(91,900)*	*(15,495)*	*634,285*	*15,908*	*(2,320)*	*(89,051)*
Expenses	*(595,139)*	*(533,163)*	*(531,306)*	*(561,988)*	*(635,330)*	*(494,737)*	*(471,720)*	*(559,158)*
Tax provision	-	-	-	-	-	-	-	-
Net income (loss) from continuing operations	*(500,544)*	*(507,839)*	*(492,349)*	*(452,847)*	*114,291*	*(368,808)*	*(371,405)*	*(541,631)*
Income (loss) from discontinued operations	*(268,628)*	*(2,432,855)*	*(519,585)*	*26,418*	*64,621*	*101,008*	*123,623*	*110,601*
Net Income (loss) for the year	*(769,172)*	*(2,940,694)*	*(1,011,932)*	*(426,429)*	*178,912*	*(267,800)*	*(247,782)*	*(431,030)*
Weighted avg # of shares Basic and Diluted	*8,686,361*	*9,208,099*	*9,208,099*	*7,104,378*	*5,999,032*	*5,999,032*	*5,999,032*	*5,999,032*
Net income (loss) per share from continuing and discontinued operations	*(0.09)*	*(0.32)*	*(0.11)*	*(0.06)*	*0.03*	*(0.05)*	*(0.05)*	*(0.08)*
Net income (loss) per share from continuing operations	*(0.05)*	*(0.06)*	*(0.05)*	*(0.06)*	*0.02*	*(0.07)*	*(0.07)*	*(0.10)*
Net book value	*21,440,287*	*22,208,798*	*25,698,209*	*27,077,468*	*22,812,582*	*22,324,270*	*22,287,686*	*22,461,351*
Common shares o/s	*9,176,299*	*9,208,099*	*9,208,099*	*9,208,099*	*5,304,007*	*5,304,007*	*5,304,007*	*5,304,007*
Net book value per common share[1]	*2.34*	*2.41*	*2.79*	*2.94*	*4.30*	*4.21*	*4.20*	*4.23*
Total assets	*21,695,924*	*22,360,212*	*25,901,652*	*27,371,138*	*23,089,935*	*22,475,822*	*22,440,634*	*22,706,227*

[1]Net book value per common share is a non-IFRS financial measure calculated by dividing net book value (shareholders' equity under IFRS) by the number of Shares outstanding at the period-end. See cautionary statement regarding the use of Non-IFRS financial measures on page 3 of this MD&A

As noted above under Q4 2017 Results, Crosswinds entered into an agreement for the Monarch Sale in the quarter and accounted for Monarch as a discontinued operation effective November 27, 2017. The net losses in Q3 2017 and Q2 2017 were significantly higher than previous quarters due to an increase in the share of loss in Monarch. Monarch's losses for the quarters were a result of increased attritional losses combined with a significant increase in case reserves based on actuarial analysis and loss activity during the quarters. In Q3 2017, Monarch increased reserves by USD$10 million including USD$3.4 million reflecting its full retention amount which is not covered by reinsurance and for which Monarch is responsible as a result of claims from Hurricane Irma.

Revenues trended upward during 2016 as Monarch's assets grew and Crosswinds AUM earned asset management fees thereon. The Company's interest income declined during each of the quarters of 2016 and 2017 as, effective at the end of December 2015, the Company's Salbro investment paid cash interest at 6% per annum as the Company received principal and interest payments from Salbro on a monthly basis until the end of Q2 2017 when the Company exited the investment. During Q2 2017, the Company fully monetized its investment in Salbro for cash consideration of approximately $3.0 million and no longer received any interest or principal repayments related thereto in Q3 2017.

Total assets and number of Shares outstanding increased in Q1 of 2017 following completion of the Offering on February 28, 2017. The net book value per share decreased following the Offering reflecting the issuance of additional Shares in the Offering. During 2017, the Company repurchased 31,800 Shares under its normal course issuer bid slightly offsetting this effect.

The Company's first non-cash DSU grants have also had an impact on the Company's expenses on a declining scale basis throughout 2016. Subsequent DSU grants, being smaller in size, have had a lesser impact. Foreign exchange fluctuations have also caused significant variation in reported performance for the Company as described herein.

Three Year Trend Analysis

The following table presents select financial and operational results for the Company for the last three years:

	Years Ended December 31,		
	2017	2016	2015
Revenue	$495,819	$434,570	$595,075
Net loss for the year from continuing operations attributable to the shareholders of Crosswinds	(1,953,579)	(1,167,553)	-
Net loss for the year attributable to the shareholders of Crosswinds	(4,691,850)	(824,822)	(1,906,850)
Net loss per Share from continuing operations attributable to the shareholders of Crosswinds Basic and diluted	(0.22)	(0.19)	-
Net loss per share for the year attributable to the shareholders of Crosswinds	(0.54)	(0.14)	(0.36)

	Years Ended December 31,		
	2017	2016	2015
Basic and diluted			
Total assets	$21,695,924	$ 23,089,935	$23,970,024

In each year, the primary factor affecting the Company's operating results has been the performance of its investment in Monarch which was made in Q1 2015 and held for sale as a discontinued operation in Q4 2017. See "Operational Review" above for a further discussion of Monarch.

Liquidity, Capital Resources and Off-Balance Sheet Arrangements

The following is an analysis of the liquidity, capital resources and off-balance sheet arrangements of the Company and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2017 and 2016 and the corresponding notes thereto.

Liquidity

The Company had working capital of $7,433,586 at December 31, 2017 (2016 - $1,463,058). The Company's cash consists of deposits with chartered banks in Canada, the Cayman Islands, Channel Islands and the U.S.

The Company calculates its working capital as follows:

Working Capital	December 31, 2017	December 31, 2016
Cash	$5,807,637	$ 1,566,053
Marketable securities	1,700,475	-
Due from related parties	93,263	89,982
Interest receivable and prepaid expenses	87,845	84,376
Accounts payable and accrued liabilities	(255,637)	(277,353)
Working capital	$7,433,583	$ 1,463,058
Total per Share	$0.81	$ 0.29

The Company worked on developing a strategy to generate liquidity in 2016 and as a part of that strategy completed the Offering in the first quarter of 2017, raising gross proceeds of $4,880,115 and net proceeds of $4,815,707. With the monetization of its interests in Salbro in Q2 2017, the Company generated another approximately $3.0 million. Following the Offering and the monetization of Salbro in 2017 and with the closing of the Monarch Sale subsequent to year end in February 2018, the Company believes it has sufficient working capital to support its medium-term needs.

The Company is expending cash in excess of its revenues following the Monarch Sale. The Company now holds the majority of its assets in cash and is exploring next steps which include assessing available investment opportunities against other strategic alternatives including, without limitation, a return of capital or other monetization event. See "Outlook".

The Company established Crosswinds Re during Q3 2016 and made a regulatory capital contribution through a newly established fund structure, Crosswinds Private Equity Partners (C.I.), L.P. (the "Fund"). Crosswinds is the sole initial limited partner of the Fund. The Fund's general partner, Crosswinds Private Equity Partners (C.I.). G.P. is wholly-owned by Crosswinds. Crosswinds intended to use the Fund as a vehicle to raise additional capital for Crosswinds Re to execute its business plan of acting as a specialty reinsurer as part of Crosswinds' integrated insurance, reinsurance and asset management structure with an initial focus on the Florida property and casualty insurance market. There can be no assurance that such funds will be sought, or available or if they are available that they will be available on commercially favorable terms. During Q2 2017, the Company capitalized Crosswinds Re with an additional USD$2 million (CDN $2,656,600). In Q3 2017, Crosswinds Re began investing these funds in bonds with a view to earning interest income to partially offset its expenses. Returns on invested capital have been modest to date and cannot be expected to cover all expenses as Crosswinds Re will need to actively write profitable business to achieve this objective.

Crosswinds Re, which is domiciled in Cayman Islands, is required by CIMA to maintain minimum capital levels. As of December 31, 2017, the capital maintained by Crosswinds Re was in excess of the regulatory capital requirement in Cayman Islands. USD $200,000 of the amount shown as cash in the table above is required to meet Crosswinds Re's minimum capital requirements and as such is not accessible cash to Crosswinds for such time as Crosswinds desires to maintain its licensed reinsurance entity.

Capital Resources

At December 31, 2017, the Company had no long-term debt or capital lease obligations. The Company entered into a premises lease agreement in Q3 of 2015 for approximately 3,000 square feet of office space located at 14 Wall Street, New York, New York. The Company's payment commitments under the premises lease are set out below:

	Payments due by period				
At December 31, 2017	**TOTAL**	**< 1 year**	**1-2 years**	**3-5 years**	**after 5 years**
Operating lease	$ 549,863	$ 141,357	$ 193,271	$ 215,235	$ -

Share Capital

As at December 31, 2017, there were 9,176,299 Shares outstanding. As at the date hereof, following some additional repurchases under the Company's normal course issuer bid, there are 9,156,799 Shares outstanding. The Company reported a net book value at December 31, 2017 of $21,440,287 (2016 – $22,812,582) or $2.34 per Share (2016 - $4.30) of which $19,442,378 (2016 – $20,202,732) or $2.12 per

Share (2016 - $3.81) is attributable to shareholders of the Company[1]. See the cautionary statement regarding the use of non-IFRS financial measures on page 2 of this MD&A.

[1] Net book value per share is a non-IFRS financial measure and is calculated as total shareholders' equity under IFRS divided by the number of Shares outstanding at period-end. The Company has reported two net book value measures: one reflecting net book value on a consolidated basis including non-controlling interests with respect to the Company's investment in the Monarch Joint Venture and the other reflecting the net book value attributable solely to the Company's shareholders without non-controlling interests.

In Q3 2017, the Company implemented a normal course issuer bid (the "Bid"). See "Material and Significant Events in 2017" above for the terms of the Bid. To date, the Company has repurchased a total of 51,300 Common Shares under the Bid at an average price of $1.47.

The Company has adopted an Option Plan which was approved by the Company's shareholders on June 24, 2016. No options have been issued and none are outstanding under the Stock Option Plan as at the date hereof.

The Company also has a deferred share unit plan ("DSU Plan"). As at December 31, 2017, the Company had granted an aggregate of 401,439 DSUs to its directors and officers of which 355,083 had vested. As at the date hereof, the Company has granted an aggregate of 444,362 DSUs to its directors and officers of which 398,009 had vested. Each DSU is convertible into one Share subject to the terms of the DSU Plan and each grant.

The maximum number of Shares that can be issued on exercise of options granted under the Option Plan may not exceed 10% of the issued and outstanding Shares of the Company from time to time, less the number of Shares issued under all other security based compensation arrangements of the Company including the DSU Plan. The maximum number of DSUs to be issued under the DSU Plan shall not exceed 10% of the issued and outstanding Shares from time to time less the number of Shares issuable under all outstanding incentives under the Company's other security-based compensation arrangements.

Off-Balance Sheet Arrangements

Except as otherwise described herein, the Company currently has no off-balance sheet arrangements.

Proposed Transactions

Other than as described herein or in the ordinary course of business, the Company has no proposed asset or business acquisitions or dispositions at this time.

Transactions with Related Parties

Investment Management Services Agreement

In conjunction with the closing of the Monarch Joint Venture, Crosswinds AUM entered into an investment management services agreement with Monarch. Under the agreement, Crosswinds AUM agreed to act as investment advisor and to manage the assets of the Monarch entities for a management fee paid quarterly in arrears.

For the year ended December 31, 2017, Crosswinds AUM earned $382,463 (2016 - $323,861) in investment management fees. As at December 31, 2017, $93,263 (2016 - $89,982) was still owed to the Company and was included in due from related parties on the consolidated statements of financial position. The Investment Agreement was terminated subsequent to year end as part of the Monarch Sale.

Crosswinds AUM also manages the assets of Crosswinds Re pursuant to an investment management agreement.

Changes in Accounting Policies and Critical Accounting Estimates

The Company's financial statements have been prepared in accordance with IFRS.

Critical Accounting Estimates

In the application of the Company's accounting policies, 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 Company's accounting policies and that have the most significant effect on the amounts recognized in the Company's financial statements for the year ended December 31, 2017.

Asset held for sale and discontinued operation

The Company applies judgment to determine whether an asset or disposal group is available for immediate sale in its present condition and that its sale is highly probable and therefore should be classified as held for sale at the balance sheet date. Conditions that support a highly probable sale include the following: an appropriate level of management is committed to a plan to sell the asset or disposal group, an active program to locate a buyer and complete the plan has been initiated, the asset or disposal group has been actively marketed for sale at a price that is reasonable in relation to its current fair value, and the sale of the asset or disposal group is expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale. At December 31, 2017, the Company concluded that its investment in Monarch Delaware met the criteria for classification as held for sale. Accordingly, the investment was presented separately under current assets, and measured at the lower of its carrying amount and fair value less cost to sell, being its carrying amount.

The Company also applies judgment to determine whether a component of the Company that either has been disposed of or is classified as held for sale meets the criteria of a discontinued operation. The key area that involves management judgement in this determination is whether the component represents a separate major line of business or geographical area of operation. Given that this was the Company's primary remaining investment, it was determined that it would be accounted for as a discontinued operation.

Functional currency

The currency of the primary economic environment in which the Company operates is the Canadian dollar as this is the currency in which the Company measures its performance and also issues and purchases for cancellation its Shares.

Interests in other entities

As part of its process in determining the classification of its interests in other entities, the Company applies judgment in interpreting these interests such as (i) the determination of the level of control or significant influence held by the Company; (ii) the applicability of relevant IFRS standards to the operations; (iii) the legal structure and contractual terms of the arrangement; and (iv) when relevant, other facts and circumstances. The Company has concluded that its investment in Monarch Parent represents an investment in an associate as described in IAS 28, "Investments in Associates and Joint Ventures". All other interests in other entities have been determined to be subsidiaries as described in IFRS 10, "Consolidated Financial Statements".

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the Company's statements of financial position date reflected in the Company's financial statements as at December 31, 2017, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

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 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 Inc. and Related Companies ("Salbro")

The fair market value of Salbro was determined on a going concern basis under an income approach on the assumption that a hypothetical purchaser would acquire Salbro on the expectation of future earnings and cash flows. Specifically, the Company selected an EBITDA multiple method as the 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.

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 Salbro is 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 have increased or decreased the value of the investment by approximately $262,000 at December 31, 2016.

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

Recent accounting pronouncements

This section describes standards, amendments and interpretations that have been issued but are not yet effective for annual reporting periods ended December 31, 2017.

The International Accounting Standards Board ("IASB") has issued the following new accounting pronouncements that will be applicable to the Company:

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.

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.

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.

Factors that May Affect Future Results

Future results of the Company will depend on the strategies it implements from time to time.

The Company is currently focused on assessing opportunities to redeploy the proceeds from the sale of its primary investment in the Monarch Joint Venture that are value maximizing. Given the Company scale, it must assess the return profile of any prospective investments against its costs of operation, time for capital commitment and risks associated with a concentration of investments. The attractiveness of any prospective investment opportunity will be assessed against other strategic alternatives available to the Company.

The Company's Board of Directors is exploring next steps for the Company which include assessing available investment opportunities against other strategic alternatives including, without limitation, a return of capital or other monetization event.

As the Company is working to evaluate new investments and other strategic alternatives, its future results are dependent on the outcome of that evaluation and past performance should not generally be viewed as indicative of future results.

The Company continues to seek investment opportunities meeting the criteria set out elsewhere in this MD&A and its AIF. There can be no guarantee that any prospective initiatives or transactions described herein will meet the Company's return profile, be successfully executed and, if executed, yield satisfactory risk-adjusted returns. While seeking new investment opportunities and assessing strategic options, the Company's revenues will be constrained.

Controls and Procedures

Disclosure Controls and Procedures

The Company's controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its corporate filings is recorded, processed, summarized and reported within the time periods specified under securities laws and include controls and procedures that are designed to ensure that information is accumulated and communicated to management including the Chief Executive Officer and Interim Chief Financial Officer (collectively, the Certifying Officers) to allow timely decisions regarding disclosure. As at December 31, 2017, the Certifying Officers evaluated the effectiveness of the Company's disclosure controls and procedures as defined under National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings.* Based on that evaluation, the Certifying Officers have concluded that the Company's disclosure controls and procedures were effective and designed to ensure that material information known by others relating to the Company and its subsidiaries is provided to them.

Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. In addition, a control system, no matter how well conceived and operated can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. As such, the Company's disclosure controls and procedures can only provide reasonable, and not absolute, assurance that the objectives of such controls and procedures are met.

Internal Controls over Financial Reporting

The Company's internal controls over financial reporting are a process designed under the supervision of the Certifying Officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements on a timely basis. There have been no changes during the year ended December 31, 2017 in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

The Certifying Officers evaluated the effectiveness of the Company's internal controls over financial reporting as at December 31, 2017, based on the framework and criteria established in the Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013 Framework). Based on that evaluation, the Certifying Officers concluded that the Company's internal controls over financial reporting were effective as at December 31, 2017.

Consistent with the concept of reasonable assurance, the Company recognizes that the relative cost of maintaining these controls should not exceed their expected benefits. In addition, a control system, no matter how well conceived and operated can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. As such, the Company's internal controls over financial reporting can only provide reasonable, and not absolute, assurance that the objectives of such controls are met.

Outlook

With the Company having monetized Monarch, its major asset and platform investment, early in 2018, those cash proceeds were added to the proceeds from Salbro and the Offering which were received in the first half of 2017. The Company now holds the substantial majority of its assets in cash and cash equivalents at the same time that it has completed the full operational build out of its three lines of complementary businesses. The result of this is that the Company's operating costs are largely fixed and in place at the same time that its revenue streams to support those operations have been decreasing, in part because the Company made the disciplined decision to crystalize its loss on the Monarch investment.

The Company has been sourcing and evaluating new niche investment opportunities in the primary insurance space that have attractive return profiles and the potential of ancillary benefits for the asset management and/or reinsurance lines of business. However, the Company must consider these opportunities against other strategic alternatives available to it. The Company is exploring next steps which include assessing available investment opportunities against other strategic alternatives including, without limitation, a return of capital or other monetization event.

Given the Company's small scale and constrained public market liquidity, additional challenges exist related to deploying its capital in new investments, including the relative returns on a small size of investment, the time period during which capital will be tied up and the risk of investment concentration.

As seen with the Monarch exit, as an investor, the Company is bottom line oriented and will evaluate all investments and partnerships to ensure that they produce and have the prospect of continuing to produce sufficient returns, in particular having regard for the amount of risk being assumed.

Following completion of the Monarch Sale, the Company is holding most of its cash in USD, as the overall value of the Company is expressed in Canadian dollars it will fluctuate based on the relative value of the Canadian dollar to the USD pending reinvestment or conversion.

Results may vary substantially from year to year and quarter to quarter due to the stage of development of the Company's business and any new investment activities.

Financial Risk Management and Risk Factors

Financial Risk Management

The Company's business is affected by a number of economic factors, including changing economic environments, capital markets and interest rates. As a result, the Company faces various risk factors, inherent in its normal business activities. These risk factors and the management thereof are described below.

The Company attempts to manage the risks associated with its business and investment portfolio through planning, significant due diligence of investment opportunities, and active involvement in and monitoring of its investments.

Investments in private entities are less liquid than public securities as there is no readily available market in which to sell an investment. There is a possibility that when an investment is to be sold, the price received may not be equal to its intrinsic value or its fair value for financial reporting purposes.

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 objective in managing these risks is the protection and enhancement of shareholder value.

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.

i. Risk management structure

The Board of Directors is ultimately responsible for the overall risk management within the Company. The Company uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

ii. Risk mitigation

The Company's AIF details its investment policy and guidelines that encompasses its overall investment strategy, its tolerance for risk and its general risk management philosophy; however the Company does hold investments in warrants which are considered a derivative instrument.

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

iii. 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 in which 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 reviews its investment policies and risk management procedures in order to manage excessive concentration of risk. For a discussion of additional risk factors including liquidity risk, interest rate sensitivity, credit risk and foreign exchange risk, see “Risk Factors” below.

Risk Factors

Joint Venture Risks

There was no assurance that the Monarch Joint Venture would be successful. The Monarch Joint Venture involved substantial risk and was dependent, among other things, on the management and operational expertise of the Monarch Joint Venture partners that were not under the Company’s direct control.

The risks associated with the Monarch Joint Venture were mitigated in November 2017 when the Company entered into a purchase and sale agreement for its interests in the Monarch Joint Venture. The risks related to the Joint Venture at December 31, 2017 were those related to the conditions to closing being satisfied which they were and the sale of those interests was completed subsequent to year end.

Liquidity Risk

Liquidity risk is the risk from time to time 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 and may make 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. 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 sought to obtain regular cash flow from these investments through interest payments and/or management fees however these have in some circumstances been deferred.

Interest rate sensitivity

As at and during the year ended December 31, 2017, 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. Crosswinds AUM invested the assets of the Monarch Entities and invests the assets of Crosswinds Re and those underlying investments may be subject to interest rate sensitivity. Indirectly, through its investment in Monarch, the Company had exposure to primary fixed income assets for the Monarch Joint Venture, its premiums and reserves. The level of interest rates affects the financial performance of the Monarch Joint Venture. While the Monarch assets are held to maturity, Crosswinds will benefit or be negatively impacted by changes in interest rates.

Credit risk

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

As at December 31, 2017, financial assets exposed to credit risk include debt instruments and derivatives as noted in the Company's 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 among 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.

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

As at December 31, 2017 and 2016, none of these financial assets was either impaired or past due but not impaired.

The Company's maximum exposure to credit risk arising from private equity investments is equal to the fair value of those investments. The Company also has credit exposure related to deposits placed with Canadian, Cayman Islands and U.S. chartered banks in the amount of $7,508,112 as at December 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.

The Monarch Joint Venture has indirect exposure to counterparty risk via reinsurance arrangements. The Board of Monarch oversees this risk structure. The Monarch Entities deal with A- or better rated A.M. Best Company reinsurers or counterparties who fully collateralize their exposures.

Foreign Exchange Risk

The Company has significant exposure to foreign exchange risk as it has a substantial amount of its capital in USD in the Monarch Joint Venture. Its investee companies may also have exposure to sudden changes in foreign exchange rates.

Regulatory Risk

Crosswinds and its subsidiaries, affiliates and operating companies may be subject to extensive governmental regulations and oversight with respect to their business activities. The failure to comply with applicable regulations, maintain minimum thresholds, obtain applicable regulatory approval or maintain those approvals so obtained may subject the applicable operating company to civil penalties, suspensions or withdrawal of any regulatory approval or consent obtained, injunctions, operating restrictions and criminal prosecutions and penalties, which could, individually or in the aggregate, have a material adverse effect on Crosswinds' consolidated financial position. There can be no assurance that the Company will continue to meet the minimum and continued listing requirements of the TSX. Following the termination of the Investment Agreement, if Crosswinds AUM does not increase its assets under management to a minimum of USD$25,000,000 by the end of 2018 it would not continue to qualify for U.S. federal registration as an investment advisor and would be required to withdraw. At present, Crosswinds AUM manages approximately USD$2,000,000 for Crosswinds Re. While the Company could use its available cash to fund additional amounts into Crosswinds Re to be managed by Crosswinds AUM, these amounts alone would not be sufficient to allow Crosswinds AUM to continue to qualify. As such, Crosswinds AUM will need to find additional business opportunities if it desires to maintain this status.

Concentration Risk

From time to time, 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 had committed a substantial portion of its available resources to a single investment in the Monarch Joint Venture.

Shareholder Control

Some of the Company's existing shareholders can exert control over and may not make decisions that are in the best interests of all shareholders. If certain shareholders act together, they may be able to exert a significant degree of influence over the Company's management and affairs and over matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions.

In addition, this concentration of ownership may facilitate or delay or prevent a change in control of the Company and might affect the market price of the Common Shares even when a change may or may not be in the best interests of all shareholders. The interests of this concentration of ownership may not always coincide with the Company's interests of interests of other shareholders and accordingly they could cause the Company to enter into transactions or agreements that it would not otherwise consider.

Foreign Jurisdictions

The Company has made and is looking at commitments to do business in foreign jurisdictions which have different currencies and regulatory environments than the jurisdiction in which the Company currently operates. There may be currency and other risks associated with these activities.

Market Risk - Direct

Market risk includes exposure to fluctuations in the market value of the Company's investments, currency rates and interest rates.

The Company currently has direct exposure to market risk as its Crosswinds Re subsidiary owns bonds and equity funds from time to time that trade on public exchanges. The Company has exposure to foreign exchange risk. See "Foreign Exchange Risk" above.

Market Risk - Indirect

The Company's remaining private investment as at December 31, 2017, does not trade in an active marketplace and therefore values are not directly observable by market prices. Investments classified as "held-for-trading" are carried at fair values. Fair values are estimated based on financial figures (actual or forecast) obtained directly from the investee companies and market multiples (e.g. Revenues or EBITDA multiples) which are not directly observable but which can be estimated by considering public company multiples for companies in the same or similar businesses and, where information is known and believed to be reliable, multiples at which recent transactions in the industry occurred; and multiples at which the Company invested in the private entity, or for follow-on investments or financings. The resulting multiple is adjusted, if necessary, to take into account differences between the investee company and those the Company selected for comparisons and factors include public versus private company, company size, same versus similar business, as well as with respect to the sustainability of the investee company's financial performance and current economic environment. Therefore, to the extent that fluctuations occur in stock markets (market risk), those fluctuations could indirectly influence multiples used by the Company in valuing its investments in private entities.

The Company had no investments in private entities as at December 31, 2017.

The Company's investment in an associate, which operates in the property and casualty insurance business in Florida, at December 31, 2017 was $13,986,211 representing 64.5% of the Company's assets. The insurance industry is inherently risky due to its cyclical nature. Monarch also owns an investment portfolio consisting primarily of bonds and as a result has market risks. See "interest rate sensitivity" above. The Company believes it has mitigated its risk in this business by partnering with an existing experienced insurance carrier. For general factors affecting the Company see the section entitled "Risk Factors" found in the Company's AIF filed under the Company's SEDAR profile at www.sedar.

Other Risks

For general factors affecting the Company see the section entitled "Risk Factors" found in the Company's AIF filed under the Company's SEDAR profile at www.sedar.

As the Company seeks to invest its capital in Crosswinds Re, the Company may be exposed to public market security risks, leverage and hedging.

CORPORATE DIRECTORY

Board of Directors:

J. Roy Pottle[,2,] Chairman
Thomas Cholnoky[2,6]
J. Mark Gardhouse[4,6]
Bradd Gold[3,4,6]
Colin King
Gaetano Muzio[,4,5,6]
Robert Wolf[1,2,]

Officers:

Colin King, Chief Executive Officer
Susan McCormick, Interim Chief Financial Officer
Helen Martin, Chief Operating Officer and Corporate Secretary

[1]Audit Committee Chairman
[2]Audit Committee Member
[3]Corporate Governance, Compensation and Nominating Committee Chairman
[4] Corporate Governance, Compensation and Nominating Committee Member
[5]Risk Policy Committee Chairman
[6]Risk Policy Committee Member

Auditor:

Deloitte LLP
Toronto, Ontario

Transfer Agent:

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Toronto, Ontario

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CROSSWINDS HOLDINGS INC.

Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

CROSSWINDS HOLDINGS INC.

Deloitte LLP
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8 Adelaide Street West
Suite 200
Toronto ON M5H 0A9
Canada

Tel: 416-601-6150
Fax: 416-601-6610
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Independent Auditor's Report

To the Shareholders of
Crosswinds Holdings Inc.

We have audited the accompanying consolidated financial statements of Crosswinds Holdings Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Crosswinds Holdings Inc. as at December 31, 2017 and December 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
March 29, 2018

Crosswinds Holdings Inc.

Consolidated Statements of Financial Position

(expressed in Canadian Dollars)

As at		**December 31, 2017**		December 31, 2016
Assets				
Current assets				
Cash	**$**	**5,807,637**	$	1,566,053
Marketable securities (note 6)		**1,700,475**		-
Due from related parties (note 11)		**93,263**		89,982
Interest receivable and prepaid expenses		**87,845**		84,376
Asset classified as held for sale (note 8)		**13,986,211**		-
		21,675,431		1,740,411
Non-current assets				
Investment in an associate (note 8)		**-**		18,269,925
Investment in private entity (note 7)		**-**		3,052,140
Capital assets, net of accumulated depreciation		**20,493**		27,459
		20,493		21,349,524
	$	**21,695,924**	$	23,089,935
Liabilities				
Accounts payable and accrued liabilities	**$**	**255,637**	$	277,353
		255,637		277,353
Shareholders' equity				
Share capital (note 9)		**20,044,736**		15,273,044
Contributed surplus		**13,560,226**		13,405,355
Deficit		**(13,837,798)**		(9,145,948)
Accumulated other comprehensive income		**(324,786)**		670,281
Total equity attributable to shareholders of Crosswinds		**19,442,378**		20,202,732
Non-controlling interests		**1,997,909**		2,609,850
		21,440,287		22,812,582
	$	**21,695,924**	$	23,089,935

Commitment (note 13)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS

Robert Wolf ……………………..……. Director

J. Roy Pottle ……………………..……. Director

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

Crosswinds Holdings Inc.

Consolidated Statements of Loss

For the years ended December 31

(expressed in Canadian Dollars, except per share amounts)		**2017**		2016
Revenue				
Interest and dividend income (note 7)	**$**	**113,356**	$	110,709
Investment management fees (note 11)		**382,463**		323,861
		495,819		434,570
Net results of investments				
Unealized loss on change in value of marketable securities		**(51,165)**		-
Change in unrealized gain on investment in private entity		**-**		608,000
Realized gain on sale of investment in private entity (note 7)		**849,650**		-
Reversal of previously recognized unrealized gain on investment in private entity (note 7)		**(882,000)**		-
Net foreign exchange loss		**(144,287)**		(49,178)
		(227,802)		558,822
Expenses				
Salaries and benefits		**769,470**		784,526
General and administration		**627,154**		499,335
Directors' fees		**238,893**		185,347
Consulting fees		**171,654**		97,922
Share-based payments (note 9(d))		**154,871**		343,552
Audit and tax fees		**171,791**		204,434
Legal fees		**87,763**		45,829
		2,221,596		2,160,945
Loss before income taxes		**(1,953,579)**		(1,167,553)
Current income tax provision (note 10)		**-**		-
Net loss for the year from continuing operations		**(1,953,579)**		(1,167,553)
(Loss) income for the year from discontinued operations, net of tax (note 8)		**(3,194,650)**		399,853
Net loss for the year	**$**	**(5,148,229)**	$	(767,700)
Attributable to:				
Shareholders of Crosswinds		**(4,691,850)**		(824,822)
Non-controlling interests		**(456,379)**		57,122
	$	**(5,148,229)**	$	(767,700)
Net loss per share from continuing and discontinued operations				
Basic and diluted	**$**	**(0.54)**	$	(0.14)
Net loss per share from continuing operations				
Basic and diluted	**$**	**(0.22)**	$	(0.19)
Weighted average number of common shares outstanding				
Basic and diluted (note 9(c))		**8,686,361**		5,999,032

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

Crosswinds Holdings Inc.

Consolidated Statements of Comprehensive Loss
For the years ended December 31
(expressed in Canadian Dollars)

		2017		2016
Net loss	**$**	**(5,148,229)**	$	(767,700)
Other comprehensive income (loss)				
Change in unrealized foreign currency translation gains (losses) on foreign operations		**(61,696)**		31,554
Discontinued operations (note 8)		**(1,088,932)**		(397,289)
Other comprehensive loss		**(1,150,628)**		(365,735)
Comprehensive loss	**$**	**(6,298,857)**	$	(1,133,435)
Attributable to:				
Shareholders of Crosswinds		**(5,686,917)**		(1,133,801)
Non-contolling interests		**(611,940)**		366
	$	**(6,298,857)**	$	(1,133,435)

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

Crosswinds Holdings Inc.

Consolidated Statements of Changes in Equity

For the years ended December 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 year	**-**	**-**	**-**	**(824,822)**	**-**	**(824,822)**	**57,122**	**(767,700)**
Change in unrealized foreign currency translation losses on foreign operations	**-**	**-**	**-**	**-**	**31,554**	**31,554**	**-**	**31,554**
Discontinued operations (note 8)	**-**	**-**	**-**	**-**	**(340,533)**	**(340,533)**	**(56,756)**	**(397,289)**
Share-based payments	**-**	**-**	**343,552**	**-**	**-**	**343,552**	**-**	**343,552**
Balance - December 31, 2016	**5,304,007**	**$ 15,273,044**	**$ 13,405,355**	**$ (9,145,948)**	**$ 670,281**	**$ 20,202,732**	**$ 2,609,850**	**$ 22,812,582**
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 loss for the year	**-**	**-**	**-**	**(4,691,850)**	**-**	**(4,691,850)**	**(456,379)**	**(5,148,229)**
Net proceeds from rights offering	**-**	**4,815,707**	**-**	**-**	**-**	**4,815,707**	**-**	**4,815,707**
Shares repurchased	**(31,800)**	**(44,015)**	**-**	**-**	**-**	**(44,015)**	**-**	**(44,015)**
Change in unrealized foreign currency translation losses on foreign operations	**-**	**-**	**-**	**-**	**(61,696)**	**(61,696)**	**-**	**(61,696)**
Discontinued operations (note 8)	**-**	**-**	**-**	**-**	**(933,370)**	**(933,370)**	**(155,562)**	**(1,088,932)**
Share-based payments	**-**	**-**	**154,871**	**-**	**-**	**154,871**	**-**	**154,871**
Balance - December 31, 2017	**9,176,299**	**$ 20,044,736**	**$ 13,560,226**	**$ (13,837,798)**	**$ (324,786)**	**$ 19,442,378**	**$ 1,997,909**	**$ 21,440,287**

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

Crosswinds Holdings Inc.

Consolidated Statements of Cash Flows

For the years ended December 31,

(expressed in Canadian dollars)	**2017**	2016
Operating activities		
Net loss	**$ (5,148,229)**	$ (767,700)
Add (deduct)		
Interest income	**(83,445)**	(110,709)
Realized gain on sale of investment in private entity (note 7)	**(849,650)**	-
Reversal of previously recognized unrealized gain on investment in private entity (note 7)	**882,000**	-
Depreciation	**6,964**	6,625
Unealized loss on change in value of marketable securities	**51,165**	-
Change in unrealized gain on investment in private entity	**-**	(608,000)
Share-based payments (note 9(d))	**154,871**	343,552
Net (increase) in due from related parties	**(3,281)**	(12,404)
Net (increase) decrease in interest receivable and prepaid expenses	**(3,469)**	29,169
Net decrease in accounts payable and accrued liabilities	**(21,716)**	(90,206)
Cash used by continuing operations	**(5,014,790)**	(1,209,673)
Share of loss (income) from discontinued operations (note 8)	**3,194,650**	(399,853)
Interest received	**83,445**	113,882
Net cash used by operating activities	**(1,736,695)**	(1,495,644)
Investing activities		
Proceeds from investment in private entity (note 7)	**3,019,790**	31,250
Purchase of marketable securities	**(1,773,336)**	-
Purchase of furniture and equipment	**-**	(14,970)
Cash provided by investing activities	**1,246,454**	16,280
Financing activities		
Net proceeds from rights offering (note 9(b)(i))	**4,815,707**	-
Common shares repurchased (note 9(b)(ii))	**(44,015)**	-
Cash provided by financing activities	**4,771,692**	-
Effect of exchange rate changes on cash	**(39,867)**	31,569
Increase (decrease) in cash	**4,241,584**	(1,447,795)
Cash - beginning of year	**1,566,053**	3,013,848
Cash - end of year	**$ 5,807,637**	$ 1,566,053

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

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

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 consolidated financial statements of the Company for the year ended December 31, 2017 were approved and authorized for issue by the Board of Directors of the Company on March 29, 2018.

2. Basis of presentation

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, except for marketable securities and the investment in private entity which are presented at fair value. The Company has consistently applied the accounting policies used in preparation of these consolidated financial statements throughout all the periods presented. Critical accounting judgments and estimates used by management in the preparation of these consolidated financial statements are presented in note 4.

3. Summary of significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

(a) Principles of consolidation

These consolidated financial statements include the financial position, results of operations and cash flows of the Company, its subsidiaries and its interest in an associate, now accounted for as an asset held for sale. All intercompany balances, transactions, income and expenses, and profits or losses have been eliminated on consolidation.

The Company's subsidiaries and interest in an associate are as follows:

Entity	Relationship	Geographic location	Equity interest	Basis of accounting
Crosswinds AUM LLC	Subsidiary	USA	100%	Full consolidation
Crosswinds Monarch GP LLC	Subsidiary	USA	100%	Full consolidation
Crosswinds Re	Subsidiary	Cayman	100%	Full consolidation
Crosswinds Private Equity Partners (C.I.), GP	Subsidiary	Cayman	100%	Full consolidation
Crosswinds Private Equity Partners (C.I.), LP	Subsidiary	Cayman	100%	Full consolidation
Crosswinds Investor Monarch LP	Subsidiary	USA	85.7%	Full consolidation
Monarch Delaware Holdings LLC	Associate	USA	42.4%	Equity method until November 27, 2017; subsequently accounted for as asset held for sale and presented as a discontinued operation

Subsidiaries

Subsidiaries are entities over which the Company has control. Control is defined as when the Company is exposed or has rights to the variable returns from the subsidiary and has the ability to affect those returns through its power over the subsidiary. Power is defined as existing rights that give the Company the ability to direct the relevant activities of the subsidiary. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases.

Non-controlling interests

A non-controlling interest is initially recognized as the proportionate share of the identifiable net assets of the subsidiary on the date of its acquisition and is subsequently adjusted for the non-controlling interest's share in changes of the acquired subsidiary's earnings and capital. Effects of transactions with non-controlling interests are recorded in equity if there is no change in control.

Investments in associates

Investments in associates are accounted for using the equity method of accounting except for when the investment is classified as held for sale in which case it is accounted for in accordance with IFRS 5. Investments in associates are comprised of investments in corporations and limited partnerships where the Company has the ability to exercise significant influence but not control. Significant influence is generally presumed to exist when the Company owns, directly or indirectly, between 20% and 50% of the outstanding voting rights of the investee. Assessment of significant influence is based on the substance of the relationship between the Company and the investee and includes consideration of existing voting rights, potential voting rights that are currently exercisable and convertible (if applicable), voting power of other shareholders, corporate governance arrangements and participation in policy-making processes. These investments are reported in investments in associates on the consolidated statements of financial position, with the Company's share of income (loss) and other comprehensive income (loss) of the associate reported in the corresponding line in the consolidated statements of loss and comprehensive loss. Foreign associates are translated in the same manner as foreign subsidiaries. When the Company's share of losses in an associate equals or exceeds its investment in the associate, the Company does not record further losses unless it has incurred obligations on behalf of the associate.

Under the equity method of accounting, an investment in associate is initially recognized at cost and adjusted thereafter for the post-acquisition change in the Company's share of net assets of the associate. Any excess of the cost of acquisition over the net fair value of the Company's share of the identifiable assets, liabilities and contingent liabilities at the date of acquisition is recognized as goodwill, and is included in the carrying value of the associate. To the extent that the cost of acquisition is less than the fair value of the Company's share of the associate's identifiable net assets, the excess is recognized in the consolidated statements of loss and comprehensive loss. Any pre-existing interest in an associate is re-measured to fair value at the date significant influence is obtained and any resulting gain or loss is recognized in the consolidated statements of loss. In such instances the cost of the associate is measured as the sum of the fair value of the pre-existing interest and any additional consideration transferred at that date.

In determining the fair value of the Company's share of an associate's identifiable net assets at the acquisition date, considerable judgment may be required in interpreting market data used to develop such estimates. The Company makes assumptions primarily based on market conditions and applies valuation techniques such as discounted cash flow analysis, market capitalization and comparable company multiples and other methods commonly used by market participants to determine fair value. Where the Company is only able to identify the principal factors resulting in divergence between the fair value and reported carrying value of an associate's net assets, the use of different assumptions and/or valuation methodologies by the Company may have a significant effect on the estimated fair value.

At each balance sheet date, and more frequently when conditions warrant, management assesses investments in associates for potential impairment. If management's assessment indicates that there is objective evidence of impairment, the associate is written down to its recoverable amount, which is determined as the higher of its fair value less costs of disposal and its value in use. Previously recognized impairment losses are reversed when there is evidence that there has been a change in the estimates used to determine the associate's recoverable amount since the recognition of the last impairment loss. The reversal is recognized in the consolidated statements of loss to the extent that the carrying value of the associate after reversal does not exceed the carrying value that would have been determined had no impairment loss been recognized in previous periods. Gains and losses realized on dispositions, impairment losses and reversal of impairments are recognized in net gains (losses) on investments in the consolidated statements of loss.

The most recent available financial statement of the associate is used in applying the equity method.

Held for sale and discontinued operations

Individual non-current assets or disposal groups (i.e. groups of assets and liabilities to be disposed of, by sale or otherwise) are classified as held for sale, if the following criteria are met:

- The assets (or disposal groups) must be available for immediate sale, in their present condition, subject to terms that are usual and customary of such assets (or disposal groups); and
- The sale is highly probable.

Individual non-current assets or disposal groups are classified, and presented, as discontinued operations if the assets or disposal groups are disposed of or classified as held for sale and if the first and second or third of the following criteria are met:

- The assets or disposal groups represent a separate major line of business or geographical area of operations;
- The assets or disposal groups are part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- The assets or disposal groups are a subsidiary acquired solely for the purpose of resale.

Assets or disposal groups that meet these criteria are measured at the lower of carrying amount and fair value less costs to sell. The assets and liabilities of the disposal group are presented separately on the face of the consolidated statements of financial position as a single asset and a single liability, respectively. The comparative period consolidated statements of financial position are not restated. When the fair value less costs to sell of a disposal group is lower than the carrying amount at the time of classification as held for sale, the resulting impairment is recognized in the consolidated statements of comprehensive income (loss) in that period. A gain for any subsequent increase in fair value less costs to sell of a disposal group is recognized, but not in excess of the cumulative impairment loss. Non-current assets held for sale are not depreciated or amortized. Interest and other expenses attributable to the liabilities of a disposal group are recognized. The results of discontinued operations are shown separately in the consolidated statements of comprehensive income (loss) and cash flow, and comparative figures are restated. When the sale is expected to occur beyond one year, the costs to sell are measured at their present value. Any increase in the present value of the costs to sell arising from the passage of time is presented as a financing expense.

(b) Foreign currency

(i) Functional and presentation currency

Items included in the consolidated financial statements of the Company are measured in the currency of the primary economic environment in which the Company operates (the "functional currency"). The consolidated 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 consolidated financial 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 consolidated statements of loss and comprehensive loss.

(iii) Translation of foreign subsidiaries

The functional currencies of the Company's subsidiaries in the United States differ from the consolidated group CAD dollar presentation currency. As a result, the assets and liabilities of these subsidiaries are translated on consolidation at the rates of exchange prevailing at the balance sheet date. Revenue and expenses are translated at the average rate of exchange for the period. The net unrealized gain or loss resulting from this translation is recognized in accumulated other comprehensive income.

(c) Revenue recognition

(i) Interest income

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) Dividend income

Dividend income from investments is recognized on an accrual basis when the right to receive payment has been established.

(iii) Investment management fee income

The Company acts as investment advisor and manages the investment assets owned by the Monarch group of companies. The Company earns fees for providing such investment services to these companies. Investment management fees are calculated based on the net asset values of the assets managed for each entity and are recognized on an accrual basis.

(d) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Company offsets financials assets and financial liabilities at fair value through profit or loss only 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 liabilities simultaneously.

i) Financial assets

Financial assets are classified as financial assets at fair value through profit or loss ("FVTPL") or loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by the regulation or convention in the marketplace.

Financial assets that are classified as FVTPL are either financial assets that are held for trading or are designated by the Board of Directors at FVTPL at inception. Financial assets 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 designated at FVTPL at inception are those that are managed and their performance valuated on a fair value basis in accordance with the company's investment strategy and information about these financial assets are evaluated by management on a fair value basis together with other relevant financial information.

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.

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.

The Company classifies its financial assets as follows:

- Marketable securities are classified as FVTPL and are measured at fair value with changes in fair value recognized in net income.
- Investment in private entity was designated as FVTPL. Gains and losses arising from the change in fair value were recognized in net income.
- Cash, due from related parties and interest receivable are classified as loans and receivables and are measured at amortized cost less any allowance for impairment. As at December 31, 2017 and 2016, the recorded amounts approximated fair value due to their short-term nature.

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.

ii) Financial liabilities

Financial liabilities are classified as other financial liabilities. Other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Financial liabilities are derecognized when, and only when, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liabilities derecognized and the consideration paid and payable is recognized in profit or loss.

The Company classifies its accounts payable and accrued liabilities as other financial liabilities and measures these financial liabilities at amortized cost. As at December 31, 2017 and 2016 the recorded amounts approximated fair value due to their short-term nature.

(e) Cash

Cash includes cash in hand and deposits held at call with banks.

(f) 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. Deferred 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 deferred income tax assets to the amount that is more likely than not to be realized.

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.

(g) Income per share

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

(h) Comprehensive loss

Comprehensive loss consists of net loss and other comprehensive loss and includes all changes in total equity during a period, except for those resulting from investments by owners and distributions to owners. Unrealized foreign currency translation amounts arising from foreign subsidiaries and associates that do not have Canadian dollar functional currencies are recognized in other comprehensive loss and included in accumulated other comprehensive income until recycled to the consolidated statements of loss in the future. Upon disposal of the related associate or subsidiary those amounts are reclassified directly to deficit. Accumulated other comprehensive income (net of income taxes) is included on the consolidated statements of financial position as a component of common shareholders' equity.

(i) Consolidated statements of cash flows

The Company's consolidated statements of cash flows are prepared in accordance with the indirect method, classifying cash flows as cash flows from operating, investing and financing activities.

(j) Share-based awards

The Company has a deferred share unit plan for the Board of Directors and management of the Company and its subsidiaries with vesting periods as determined by the Board of Directors at the time of grant. The fair value of the deferred share awards is estimated on the date of grant based on the market price of the Company's stock and is amortized to share-based payments expense over the related vesting period, with a corresponding increase to contributed surplus. When a deferred share award vests in instalments over the vesting period (graded vesting), each instalment is accounted for as a separate award and amortized to compensation expense accordingly.

4. Significant accounting judgments and estimates

The preparation of these 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.

(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 Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

(i) Asset held for sale and discontinued operation

The Company applies judgment to determine whether an asset or disposal group is available for immediate sale in its present condition and that its sale is highly probable and therefore should be classified as held for sale at the balance sheet date. Conditions that support a highly probable sale include the following: an appropriate level of management is committed to a plan to sell the asset or disposal group, an active program to locate a buyer and complete the plan has been initiated, the asset or disposal group has been actively marketed for sale at a price that is reasonable in relation to its current fair value, and the sale of the asset or disposal group is expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale. At November 27, 2017, the Company concluded that its investment in Monarch Delaware met the criteria for classification as held for sale. Accordingly, the investment was presented separately under current assets, and measured at the lower of its carrying amount and fair value less cost to sell, being its carrying amount.

The Company also applies judgment to determine whether a component of the Company that either has been disposed of or is classified as held for sale meets the criteria of a discontinued operation. The key area that involves management judgement in this determination is whether the component represents a separate major line of business or geographical area of operation. Given that this was the Company's primary remaining investment, it was determined that it would be accounted for as a discontinued operation.

(ii) Functional currency

The currency of the primary economic environment in which the Company operates is the CAD as this is the currency in which the Company measures its performance and also issues and purchases its common shares for cancellation.

(iii) Interests in other entities

As part of its process in determining the classification of its interests in other entities, the Company applies judgment in interpreting these interests such as (i) the determination of the level of control or significant influence held by the Company (ii) the applicability of relevant IFRS standards to the operations, (iii) the legal structure and contractual terms of the arrangement, and (iv) when relevant, other facts and circumstances. The Company has concluded that its investment in Monarch Delaware Holdings LLC represents an investment in an associate as described in IAS 28, "Investments in Associates and Joint Ventures". All other interests in other entities have been determined to be subsidiaries as described in IFRS 10, "Consolidated Financial Statements".

(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

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

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 by applying an EBITDA multiple to a net enterprise value based on assumptions supported, where possible, by observable market prices or rates. The 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 investment. The valuation methods and the techniques it employs in valuing its investment and the assumptions used are described in note 7.

5. Recent accounting pronouncements

The following are future changes in accounting policies not yet effective as at December 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.

(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. Marketable securities

As at December 31		2017	2016
Credit allocation income trust fund	$	**835,497**	$ nil
Bond fund		**864,978**	nil
	$	**1,700,475**	$ nil

These marketable securities are grouped as Level 1 in the fair value hierarchy. (see note 7 for details of financial instrument groupings).

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

7. 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 fully monetized its investment in Salbro through the repayment of all outstanding principal and interest on its debentures and the sale of its 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. Principal repayments of $33,925 were made during the year prior to the sale.

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:

		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

For the year ended December 31, 2017, interest income in the amount of $47,079 (2016 - $96,599) 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.

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 December 31, 2017 was $nil. (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:

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

- 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.

	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 years ended December 31, 2017 and 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.

Year ended December 31, 2017						
Asset	**Fair value December 31, 2016**	**Total realized loss included in income**	**Investment in private entity**	**Settlement of investment in private entity**	**Fair value December 31, 2017**	**Change in unrealized gain included in income for the year ended December 31, 2017 for assets still held**
Investment in private entity	**$ 3,052,140**	**$ (32,350)**	**$ -**	**$ (3,019,790)**	**$ -**	**$ -**

Year ended December 31, 2016						
Asset	Fair value December 31, 2015	Total unrealized gain included in income	Investment in private entity	Settlement of investment in private entity	Fair value December 31, 2016	Change in unrealized gain included in income for the year ended December 31, 2016 for assets still held
Investment in private entity	$ 2,478,096	$ 608,000	$ -	$ (33,956)	$ 3,052,140	$ 608,000

Unrealized gains recognized for Level 3 investments are reported as change in unrealized gain on investment in private entity.

8. Asset classified as held for sale / Discontinued operations

During the fourth quarter of 2017, the Company began formalizing the process of effecting a sale of its interest in Monarch Delaware Holdings LLC (“Monarch”), which held its interest in Monarch National Insurance Company (“MNIC”). In November 2017, the Company announced that it was in discussions regarding a sale of its investment in Monarch to Federated National Insurance Company (“Federated”), and on November 27, 2017, the Company announced it had entered into a purchase and sale agreement with Federated subject to certain closing conditions and regulatory approval. The Company reclassified its investment in Monarch as held for sale as of November 27, 2017. As the carrying value (net of minority interests) was not more than the fair value less costs both on the date of reclassification as well as at December 31, 2017, no impairment loss was recognized. The fair value of the investment is equal to the purchase price of USD $12,282,000, of which USD $10,500,000 is the Company's share. The (loss) income related to Monarch has been reclassified on the Consolidated Statements of Loss, and represents the Company's share of the investment's net loss or income.

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

The sale of Monarch closed subsequent to December 31, 2017 (see note 15).

The net loss for the year from continuing operations on the Consolidated Statements of Loss is attributable to the shareholders of the Company. The loss for the year from discontinued operations attributable to the shareholders of the Company is $2,738,271

Included within discontinued operations in the Consolidated Statements of Comprehensive Loss and the Consolidated Statements of Changes in Equity are the change in unrealized foreign currency translation loss on the Company's consolidation of Crosswinds Investor Monarch LP (the entity which holds the Company's investment in Monarch) and the Company's share of other comprehensive income relating to the investment in Monarch as highlighted in the table below.

	2017	2016
Change in unrealized foreign currency translation loss	**$ (1,091,593)**	$ (537,676)
Share of other comprehensive income	**2,661**	140,388
	$ (1,088,932)	$ (397,288)
Attributable to:		
Shareholders of Crosswinds	**$ (933,370)**	$ (340,533)
Non-contolling interests	**(155,562)**	(56,755)
	$ (1,088,932)	$ (397,288)

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

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
Shares cancelled under normal course issuer bid (ii)	(31,800)	(44,015)
Balance – December 31, 2017	**9,176,299**	**$ 20,044,736**

(i) Rights Offering - 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

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

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 ("TSX") 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.

(ii) Normal Course Issuer Bid – The Company announced on September 14, 2017 that the TSX had approved its notice of intention to make a normal course issuer bid for up to 460,404 of its common shares, being 5% of its 9,208,099 issued and outstanding common shares as of September 13, 2017. The Company may purchase common shares at prevailing market prices during the period from September 18, 2017 to September 17, 2018. Purchases will be made at market prices in accordance with the rules and policies of the TSX. Daily purchases will be limited to 2,020 common shares, other than block purchase exemptions and will be made through the facilities of the TSX. All common shares purchased by the Company under the normal course issuer bid will be cancelled.

During the year ended December 31, 2017, 31,800 shares were purchased and cancelled at an average purchase price of $1.38.

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

	For the years ended December 31	
	2017	2016
Basic weighted average number of common shares	**8,686,361**	5,999,032
Effect of dilutive deferred share units	**-**	-
Diluted weighted average number of common shares	**8,686,361**	5,999,032

In conjunction with the rights offering described in note 9(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.

The determination of the diluted weighted average number of common shares excludes 355,083 deferred share units that were anti-dilutive for the year ended December 31, 2017, (2016 – 271,444).

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	22,888	$ 2.81	-
March 30, 2017	14,395	$ 1.32	-
July 5, 2017	46,356	$ 1.34	46,356

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

For the year ended December 31, 2017 the Company recorded a share-based payments expense of $154,871 (2016 - $343,552).

10. Income taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's consolidated deferred income tax assets are as follows:

As at December 31		2017		2016
Deferred income tax assets				
Non-capital loss carryforwards	**$**	**4,818,857**	$	4,811,092
Net unrealized gain on investments		**-**		186,673
Fixed assets		**44,034**		33,786
Other		**(778)**		11,184
		4,862,113		5,042,735
Deferred income tax assets not recognized		**(4,862,113)**		(5,042,735)
Net deferred income tax asset	**$**	**-**	$	-

As of December 31, 2017, the Company had non-capital losses available to be carried forward to offset income in future years of $18,215,243 (2016 – $17,533,645). The benefit of these losses has not been recognized in these consolidated financial statements. These losses are available to offset future taxable income up to the date of expiry. The losses expire as follows:

Year		Amount
2029	$	6,181,853
2030		5,915,878
2031		2,965,510
2035		1,140,980
2036		1,335,653
2037		675,369
	$	**18,215,243**

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

The recovery of income taxes differs from the result that would be obtained by applying the combined Canadian Federal and Provincial statutory income tax rates to losses before income taxes as follows:

	For the years ended December 31			
		2017		2016
Net loss before income taxes from continuing operations	**$**	**(1,953,579)**	$	(1,167,553)
Combined federal and provincial income tax rate		**26.5%**		26.5%
Expected recovery for income taxes		**(517,698)**		(309,402)
Permanent differences		**460,744**		23,287
True-up		**(4,097)**		54,858
Impact of foreign tax rate differences		**18,456**		(51,804)
Impact of changes in tax rates		**224,075**		-
Effect of changes in unrecognized deductible temporary differences		**(180,621)**		283,012
Other		**(859)**		49
Provision for income tax	**$**	**-**	$	-

11. Related party transactions

a) Compensation of key management personnel

Key management personnel are composed of the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer. The following is a summary of key management personnel compensation:

	For the years ended December 31			
		2017		2016
Salaries	**$**	**636,314**	$	649,005
CFO contract service fees		**96,000**		93,000
Short-term incentive bonuses		**56,847**		75,814
Deferred share units		**19,001**		175,136
	$	**808,162**	$	992,955

b) Investment Management Services Agreement

Crosswinds AUM LLC ("AUM"), a 100% owned subsidiary of the Company, has 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.

The existing agreement between AUM and MNHC was terminated subsequent to year end and a new agreement was signed between AUM and Federated National. See note 15.

For the year ended December 31, 2017, AUM earned $382,463 (2016 - $323,861) in investment management fees. As at December 31, 2017, $93,263 (2016 - $89,982) was still owed to the Company and was included in due from related parties on the consolidated statements of financial position.

12. 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 12(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 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 year ended December 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 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 7 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 December 31, 2017 and 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 7). The Company also has credit exposure related to deposits placed with Canadian, Cayman Islands, Channel Islands and U.S. chartered banks in the amount of $7,508,112 as at December 31, 2017 (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 December 31, 2017, approximately $9,907,516 (2016 - $12,781,305) of the Company's net assets were denominated in U.S. dollars.

Based on U.S. dollar balances as at December 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 $495,376 (2016 - $ 639,065), respectively, on net assets.

Based on U.S. dollar balances as at December 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 $161,386 (2016 - $ 20,899), respectively, on net loss.

Based on U.S. dollar balances as at December 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 a unfavourable or favourable impact of approximately $557,544 (2016 - $ 685,642), respectively, on other comprehensive loss.

13. 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 $549,863 (US $438,000).

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

Less than one year	$	141,357
1-2 years		193,271
3-5 years		215,235
over 5 years		-
	$	549,863

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 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.

15. Subsequent event

The Company announced on February 22, 2018 that following the satisfaction of all closing conditions, including receipt of regulatory approval from the Florida Office of Insurance Regulation, it completed the previously announced sale of all of its interests in Monarch Delaware to an affiliate of its joint venture partner, Federated National Holding Company.

The interests in Monarch were sold by Crosswinds' majority owned subsidiary, Crosswinds Investor Monarch LP ("CIML"), for an aggregate purchase price of USD$12,282,000 paid to CIML. Crosswinds, in its capacity as a majority limited partner of CIML, received approximately USD$10,500,000 of those proceeds.

On February 21, 2018, the Company's wholly-owned subsidiary, Crosswinds Re, entered into a right of first refusal agreement permitting it to write up to USD$10,000,000 of limit on reinsurance business with Federated National, at market terms and rates, during 2018. The agreement terminates on December 31, 2018 and its economic benefit to Crosswinds Re will depend upon market conditions.

In addition, on February 21, 2018, Crosswinds AUM LLC ("Crosswinds AUM"), another of the Company's wholly-owned subsidiaries, entered into an agreement with Federated National for Crosswinds AUM to consult on insurance market and general operational matters (the "Consulting Agreement"). The Consulting Agreement will be in effect until it terminates on December 31, 2018. Crosswinds AUM is entitled under the terms thereof to earn USD$300,000 in fees (less any fees already earned by it during 2018 under the existing investment advisory agreement in place between Crosswinds AUM LLC, Monarch and certain affiliates of Monarch, which agreement was terminated effective on Closing).