



GLOBAL INDEMNITY RE

Financial Condition Report

Global Indemnity Reinsurance Company, Ltd (“GIRe”) is a wholly owned subsidiary of Global Indemnity Limited (“GBLI” or “the Company”), a publically traded company (NASDAQ: GBLI). The board of directors of GBLI has the duty of oversight of all companies in the group as it manages at a group level. Therefore, most of the functions of GIRe are being performed as part of the group and accordingly a lot of the components of this Financial Condition Report refer to group-wide processes and activities. Below is the organizational chart of the group:

Here is the key contact information and organizational chart of the group:

Insurance Supervisor:

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Group Supervisor:

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Auditor:

Name	Ernst & Young Ltd.	Ernst & Young, LLP
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Partner	Phillip Burrill	Mike Nichols
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Business and Performance

The Company writes insurance and reinsurance through their US Subsidiaries and Bermuda operations. The business written in 2016 can be divided as follows:

<u>Line of Business</u>	<u>GWP</u>	<u>NWP</u>
(1) Property Catastrophe	22,316	22,263
(2) Property	383,704	297,424
(8) Credit / Surety	22,526	22,447
(10) Energy Offshore / Marine	1,929	1,893
(12) US Casualty	118,740	110,283
(20) International Casualty Non – Motor	4,610	4,610
(22) Retro Property	12,020	12,020
(25) Total	<u>565,845</u>	<u>470,940</u>

<u>Geographical Location (*)</u>	<u>GWP</u>
(1) Bermuda	45,853
(11) United Kingdom	9,609
(12) United States of America	510,383
(18) Total	<u>565,845</u>

* based on where the premium is written

The Company investment portfolio performance as at December 31, 2016 can be describe as follows:

	<u>Market Value</u>	<u>Performance</u>
(1) U.S. Government		
(a) U.S. Government Federal	70,013	1.15%
(b) U.S. Government Agency - mortgage-backed securities	67,771	1.54%
(c) U.S. Government Agency - other	-	
(2) Non-U.S. Government	-	
(3) States, Municipalities, and Political Subdivision	156,446	2.17%
(4) Corporate Securities		
(a) U.S. Government-backed Corporate	-	
(b) Non-U.S. Government-backed Corporate	-	
(c) FDIC Guaranteed Corporate	-	
(d) Other Corporate	526,585	2.96%
(5) Asset-backed Securities	233,131	2.88%
(6) Mortgage-backed Securities		
(a) Residential Subprime	-	
(b) Residential Non-subprime	-	
(c) Commercial	182,315	2.21%
(7) Mutual Funds	-	
(8) Bank Loans	-	
(9) Catastrophe Bonds and Insurance-Linked Securities	-	
(10) Others (Cash)	74,850	0.22%
TOTAL PORTFOLIO	<u>1,311,111</u>	

Net Investment Income	2016
Fixed maturities	30,275
Equity securities	3,302
Cash and cash equivalents	194
Other invested assets*	5,295
Notes from affiliates*	2,433
<hr/> Total investment income	<hr/> 41,499
Investment expense**	(5,158)
Net investment income	36,341

*The Other invested assets are investments in limited partnerships. The income derived is included as part of the net investment income. The notes from affiliates are interest income on debt between affiliates.

**The investment expenses are predominantly the expenses incurred in regards to the investment managers and investment accounting firms.

Governance Structure

Board of directors & Officers

GIRe's Board of Directors is comprised of the following directors:

- ❖ Steve Green – Director, President, CEO
- ❖ Cynthia Valko – Director
- ❖ Terence Power – Director
- ❖ Marie-Joelle Chapleau – COO, Alternate Director to Steve Green
- ❖ Grainne Richmond – Alternate Director to Terence Power

GIRe's officers are:

- ❖ Steve Green, as president and CEO of Global Indemnity Re, is responsible for the oversight of all of the company's operations in Bermuda. He has a mandate to grow the company in a slow but profitable manner whilst maintaining the PML's within limits set by the GBLI Board.
- ❖ Marie-Joelle Chapleau, as COO, is responsible for the day to day oversight of the company in regards to underwriting, claims, accounting, actuarial and administrative duties.

GBLI's Board of Directors is comprised of the following directors:

- ❖ Saul Fox – Director, Chairman
- ❖ Cynthia Valko – Director, CEO
- ❖ Joseph "Jay" Brown – Director
- ❖ Raphael L. de Balmann – Director
- ❖ Seth J. Gersch – Director
- ❖ John H. Howes – Director
- ❖ Bruce R. Lederman – Director

GBLI's officers are:

- ❖ Cynthia Valko – CEO
- ❖ Thomas McGeehan – CFO, Executive Vice President
- ❖ Michael Loftus – Vice President and General Auditor
- ❖ Stephen W. Ries - Secretary

Compensation Philosophy

Directors

The form and amount of non-employee director compensation is determined by the GBLI Board of Directors ("the Board") based on recommendations by our Nominating Committee. Our directors that are also employees of the Company are not separately compensated for their service as directors. We believe that director compensation should not only be competitive within the insurance industry, but also fair and reasonable in light of our directors' background and experiences, as well as the overall time, effort, and complexity involved in carrying out their responsibilities as directors.

To align the objectives of our directors and our shareholders, as well as to retain directors for an extended period, our non-employee directors receive annual retainers for serving on the Board of Directors and each committee payable in cash and in restricted A ordinary shares. The annual retainers are apportioned between Global Indemnity Group, Inc. and Global Indemnity Limited based upon the services rendered to our US insurance operations and our non-US corporate operations, respectively.

For further information on our director compensation philosophy, please refer to the GBLI Proxy 2017 page 19 "Director Compensation".

Officers

Our primary goals in structuring compensation opportunities for our named executive officers are: (1) fostering achievement of corporate performance objectives; (2) recognizing executives' contributions to corporate success; and (3) attracting and retaining quality professionals. We apply a consistent compensation philosophy for all named executive officers. This philosophy is based on the premise that our achievements result from the coordinated efforts of all employees, including our named executive officers, working toward our business objectives. The Compensation Committee designed and refines the executive compensation program to support the overall objective of maximizing long-term shareholder value by aligning the interests of executives with the interests of shareholders and by rewarding executives for achieving corporate and individual objectives.

We have entered into employment agreements or arrangements with our named executive officers. These agreements and arrangements are important to the future of our business because our success depends, in significant part, upon the individual employees who represent us in dealing with our producers and the investment community, execute our business strategy, and identify and pursue strategic opportunities and initiatives. We believe that such agreements and arrangements are helpful in providing our executives with some comfort regarding their duties and compensation. For some executives, our employment agreement and arrangements contain restrictive covenants with respect to competitive activity, non-solicitation, and confidentiality during and following the executives' employment with us. These covenants are particularly important in protecting our interests in what is an intensely competitive industry in which leveraging the personal relationships of our executives is critical to our success. The employment agreements and arrangements also dictate the level and extent to which the executives receive post-termination compensation.

Generally, we structure our total compensation packages for our named executive officers to be competitive with respect to compensation paid by our peer companies to their executives. We use two primary components of executive compensation to satisfy our compensation objectives: base salary, which is provided to recognize our executive officers' day-to-day contributions and performance-based incentive opportunities that include both a long-term equity incentive component payable in equity awards and annual bonus incentives payable in cash.

For further information on our officer's compensation philosophy, please refer to the GBLI Proxy 2017 page 23 "Executive Compensation".

Corporate Governance

The business and affairs of the Company are to be managed by the Board. The Company has adopted these Corporate Governance Guidelines to set forth the Board's policies and procedures for ensuring the proper corporate governance of GBLI. The Board shall establish Board committees composed of directors to assist the full Board in regard to certain matters, including an Audit Committee, Compensation & Benefits Committee, Enterprise Risk Management Committee, Executive Committee, Investment Committee, Nominating Committee and Governance Committee. Additional Committees may also be established by the Board.

Director Qualifications:

The Nominating Committee of the Board is responsible for reviewing with the Board the requisite skills, characteristics, and independence of all potential new directors as necessary, as well as the composition of the Board as a whole on an annual basis. This review shall include an assessment of each director's qualification as an independent director, as well as considerations of diversity (such as diversity of viewpoints, background and other demonstrated abilities) skills, and experience in the context of the needs of the Board. Nominees for director are recommended to the Board by the Nominating Committee in accordance with the policies and principles in its Charter.

For further information on specific qualification of the board members, please refer to the GBLI Proxy 2017 page 5 "Election of our Directors" & page 8 "Various matters concerning Global Indemnity Reinsurance Company, LTD. And authorization of Global Indemnity Limited to vote, as proxy, on such matters"

Independence:

GBLI is relying on the "Controlled Company" exemption under Rule 5615(c) of The Nasdaq Stock Market, LLC. ("Nasdaq"). Under Nasdaq Marketplace Rule 5615(c), a Controlled Company is exempt from certain Independent Director requirements set forth in the rule. If GBLI ceases to be a Controlled Company, the Independent Director requirements set forth in Nasdaq Marketplace Rule 5605(b) will be applicable to it. "Independent Director" is defined in accordance with the NASDAQ Rules.

Terms:

While the Board does not have a policy of term limits or a mandatory retirement age for its directors, the Board reviews (through the Nominating and Governance Committee) each director's contributions to, and continuation on, the Board every year when that director is to stand for reelection to the Board. The Board believes that, over a period of time, directors develop increasing insight into GBLI and its operations, and that their resultant contributions to the Board and GBLI add great value that could be lost through too-frequent turnover of the Board.

Service on Other Boards:

No director may sit on the board of directors of more than one public company board in addition to GBLI without the approval of the Board. In addition, no director serving on GBLI's Audit Committee of the Board may serve on the audit committee of more than one public company in addition to GBLI without a determination by the Board that such simultaneous service would not impair the ability of the director to effectively serve as a member of GBLI's Audit Committee.

Director Responsibilities

The most fundamental responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of GBLI. In discharging this obligation, the directors must act in good faith and with due care and loyalty to GBLI and the shareholders of GBLI. In discharging his or her responsibilities, the directors may rely on the honesty and integrity of GBLI's executive officers and its outside advisors and auditors.

Board Meetings:

It is the exclusive responsibility of the Chairman of the Board to call meetings of the Board and to set the agenda for such meetings. The Chairman may also call meetings of Committees. Committee Chairs may call Committee meetings between meetings of the Board. All directors shall be provided reasonable notice of all Board meetings and Committee meetings (whether or not serving on a particular Committee). A director need not be provided notice of and may be excluded from Board and Committee meetings or portions thereof if the Chairman determines that a director has an interest in the subject matter of the meeting that may conflict with the interest of GBLI or its shareholders. The Board is expected to meet four times per year, but the directors are required to spend the time needed, and meet as often as necessary, to properly discharge their responsibilities to GBLI. Each director is expected to attend in person, all meetings of the Board and Committees that the Chairman or Committee chair notices for an in-person meeting of the Board or Committee. Board and Committee meetings may also be held by phone if so called. Directors are expected to participate in Board and Committee meetings, review relevant meeting materials in advance, serve on Committees, and prepare for meetings and discussions with management. Directors are expected to maintain an attitude of constructive involvement and oversight, to ask probing questions and to require accurate and honest answers.

Executive Sessions:

Pursuant to Nasdaq Marketplace Rule 5605(b)(2), the independent directors shall meet in executive session at which only the independent directors are present and any representatives of management are excluded at least twice a year. The Chairman shall preside at each executive session unless he or she is not independent. If the Chairman of the Board is not independent, the director who presides at an executive session will be selected by the independent directors in attendance at such session, and his or her name will be disclosed in GBLI's annual proxy statement.

Conflicts of Interest:

Directors are expected to avoid any action, position or interest that conflicts with the interests of GBLI or gives the appearance of a conflict. If an actual or potential conflict of interest develops, the director should immediately report the matter to the Chairman. Any significant conflict must be resolved or the director should resign. If a director has a personal interest in a matter before the Board, the director will disclose the interest to the Board, excuse him or herself from discussion on the matter and not vote on the matter.

Code of Business Conduct and Ethics:

The Board expects all directors, as well as officers and employees, to act ethically at all times and to adhere to the Code of Business Conduct and Ethics.

Directors' and Officers' Liability Insurance; Indemnification:

The directors are entitled to have GBLI purchase directors' and officers' liability insurance on their behalf, with benefits of: 1) indemnification to the fullest extent permitted by law and by GBLI's governing documents (as amended or restated from time to time), and 2) exculpation as provided by law

Board Committees

The Board must at all times have an Audit Committee of at least three (3) members. Except as otherwise permitted by the applicable rules of Nasdaq, each member of the Audit Committee shall be "independent," as such term is defined in the applicable rules of Nasdaq, Section 10A(m) of the Securities Exchange Act of 1934, as amended, and the rules thereunder. All directors, whether or not independent, are to be provided notice of and are expected to attend all meetings of the Audit Committee. The Board also has a Compensation Committee, a Section 162(m) Committee, a Nominating and Governance Committee, an Executive Committee, and an Investment Committee, and may have such other committees as it may determine from time to time. If GBLI ceases to be a Controlled Company, the independent director requirements set forth in Nasdaq Marketplace Rules 5605(d) and 5605(e) will be applicable to it with respect to the Compensation Committee and the Nominating and Governance Committee.

Advisors:

Each committee shall have the power to retain independent legal, accounting, financial and other advisors and consultants as it may deem necessary, at the expense of GBLI and without obtaining the approval of the full Board or any officer of GBLI in advance. Without limiting the generality of the foregoing, the Board must ensure that the Audit Committee has appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditor employed by the Audit Committee, on behalf of GBLI, for the purpose of performing audit services, including the rendering or issuing of an audit report, for any other advisors the Audit Committee employs in carrying out its duties and for ordinary administrative expenses of the Audit Committee.

Director Access to Management and Independent Advisors

Each director shall have reasonable access to officers and employees of GBLI as appropriate to fulfill legitimate director functions or responsibilities. However, directors shall not unreasonably distract officers or employees or disrupt the operations of GBLI or the morale of GBLI's employees. Directors shall also have access to GBLI's advisors as appropriate to fulfill legitimate director functions or responsibilities. Because directors must have accurate and complete information to fulfill their duties, they should be provided with, and review, information from a variety of sources, including management, Committees, outside experts and auditors. The Board should be provided with information before Board and Committee meetings with sufficient time to review and reflect on key issues and to request supplemental information as necessary.

Management Selection and Performance Evaluation

Management Selection:

The Board must select the Chief Executive Officer of GBLI in a manner that it reasonably believes to be in the best interests of GBLI at any given time. In selecting the Chief Executive Officer, the Board should consider any related report or recommendation of the Nominating Committee.

Management Performance:

The Compensation Committee must conduct an annual review of the performance of the Chief Executive Officer, Chief Financial Officer, Chief Claims Officer, and Chief Actuary and make a report thereon to the full Board. The Board will review these reports to ensure that the Chief Executive Officer, Chief Financial Officer, Chief Claims Officer, and Chief Actuary are each providing the best leadership for GBLI in the long and short-term and will meet with such officers to discuss any concerns that it has.

Annual Performance Evaluation of the Board of Directors

With the guidance of the Governance Committee, the Board should perform annually an evaluation of its own performance. To assist the Board in any such evaluation, the Board should solicit comments from the individual directors, as well as from management. Any such evaluation conducted by the Board should assess whether it and its committees are functioning properly, focusing on the Board's contributions to GBLI and on areas in which the Board or management believes that the Board could improve.

Related Party Transactions

Fox Paine & Company:

GIRe was a limited partner in Fox Paine Capital Fund, II, which was managed by Fox Paine, the Parent Company's controlling shareholder. This investment was originally made by United National Insurance Company in June 2000 and pre-dates the September 5, 2003 acquisition by Fox Paine of Wind River Investment Corporation, which was the predecessor holding company for United National Insurance Company. In connection with the Parent Company's share redemption in 2015, GIRe elected to redeem its shares in Fox Paine Capital Fund II, and as a result, the Company no longer held an interest in Fox Paine Capital Fund II as of November 10, 2015. All of GIRe allocable GBLI shares that were held by Fox Paine Capital Fund, II were transferred into a new unrelated liquidating partnership.

GIRe relies on Fox Paine to provide management services and other services related to the operations of the GIRe. Starting in 2014, this fee is adjusted annually to reflect the percentage change in the consumer price index published by the US Department of Labor Bureau of Labor Statistics. In addition, the payment of the annual management fee will be deferred until a change of control or September, 2018, whichever occurs first, and is subject to an annual adjustment equal to the percentage rate of return the Company earns on its investment portfolio.

In connection with the acquisition of American Reliable, GIRe agreed to pay to Fox Paine an investment banking fee of 3% of the amount paid plus the additional capital required to operate American Reliable on a standalone basis and a \$1.5 million investment advisory fee, which in the aggregate, totaled \$6.5 million. This amount was included in corporate and other operating expenses on the Company's Consolidated Statements of Operations during the year ended December 31, 2015. As payment for these fees, 267,702 A ordinary shares of Global Indemnity were issued under the Global Indemnity Share Incentive Plan in May, 2015. These shares cannot be sold until the earlier of five years after January 1, 2015 or a change of control.

Parent Company:

GIRe performs certain administrative services on behalf of the GBLI, and GBLI and its wholly-owned subsidiaries perform certain administrative services on behalf of GIRe. Services performed are charged on a cost-plus basis.

For further information on our related party, please refer to the GIRe 2016 Audited Statements final on page 45.

Risk Management

Description of the Risk Management process:

Risk management processes and procedures are managed at the GBLI group level. GBLI group includes personal lines, commercial lines, and reinsurance operations (GIRe). The GBLI board of directors includes an Enterprise Risk Management committee with a Director as the chairperson of the committee. Quarterly, enterprise risk dashboards are prepared for and reviewed by the board of directors. Included in the dashboards are stress tests, which incorporate investment risks, catastrophe risks, and other risks. In addition, a quarterly Capital & Liquidity report is provided to the board of directors.

Catastrophe exposure is the largest risk to the company. Catastrophe management occurs at the Group level. CAT modeling software is utilized internally to assess the risk exposure for personal lines and commercial lines (US insurance operations) on a quarterly basis. GBLI's reinsurance broker provides an independent annual estimate of catastrophe risk exposure for the whole GBLI group. Catastrophe reinsurance is purchased to maintain risk thresholds of GBLI group net probable maximum loss as a ratio to capital. The ratios to capital are at the GBLI Group level. If a business opportunity is presented to GBLI group to acquire property business, a review is completed to determine concentration of exposure and estimated impact on probable maximum loss.

Implementation and Integration:

Risk is identified through multiple processes. Senior management identifies the largest risks to the organization. Management teams are surveyed quarterly to identify risks to the company that occurred in the previous quarter. Further, new and emerging risks are identified through subscription to numerous industry publications, attendance at conferences, and dialogue with business partners.

Operational risk is monitored internally through underwriting audits, internal audit, and external audits with independent consulting firms. Security firms are contracted to test and evaluate both physical and cyber security for GBLI offices. Results are reviewed by senior management, internal audit, external audit consultants, and the board of directors. Access controls are utilized for both building access and access to company systems and databases.

Results from catastrophe management are used to determine concentrations of high exposure and resulting estimates of risk. Mapping software and data analysis is also completed to determine geographic concentrations of exposure. Estimates of risk are integrated into the actuarial pricing indications to provide a risk adjusted return. The risk adjusted returns analysis is provided to senior management for review. As part of strategic planning, senior management reviews the analysis to determine where to revise pricing, reduce exposure, or increase exposure to manage risk and return.

Asset risk is managed externally by asset management teams operating within guidelines selected by senior management and approved by the Investment Committee of the board of directors. Investment strategy is presented to and reviewed by the board of directors quarterly. The Company also acquired interest in several limited partnerships. The investment were approved by GBLI's Investment committee. These investments are reviewed quarterly by the CFO.

Risk in the loss reserves is managed internally through a quarterly review of loss and loss adjustment expense reserves. Reserve estimates are made using multiple actuarially accepted methodologies. The reserves are externally reviewed by GBLI's independent auditor and an independent actuarial consulting firm.

Pricing reviews and independent reserve opinions are included in the strategic planning process to determine which business segments should grow, which should maintain the status quo, and which should plan to reduce exposure through underwriting.

Solvency Self-Assessment:

Risk exposures are identified in the self-assessment process, as described above. Capital and risk management models are used for stress tests and stochastic simulations. The impact of scenario outcomes on the company's capital position, including changes to AM Best BCAR scores, is reviewed in strategic planning. In addition, the quarterly Capital & Liquidity report discloses capital and liquidity at a Group level as well as for GIRE, non-US Holding companies and the US insurance companies. The board of directors reviews this report to ensure there is adequate capital and liquidity to address risks.

Solvency self-assessment is reviewed by the Chief Financial Officer, Chief Pricing Actuary and Chief Executive Officer. The Enterprise Risk Management committee of the Board of Directors reviews the enterprise risk management dashboard and Capital & Liquidity report quarterly.

Internal Controls

Description of the internal control system:

Internal control is broadly defined as a process, effected by an entity's board of trustees, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

Internal control consists of five interrelated components:

- Control environment - The control environment includes the integrity, ethical values, and competence of the entity's people and is the foundation for all other components of internal control.
- Risk assessment - Every entity faces risks that must be identified, analyzed, and managed to achieve its objectives.
- Control activities - Control activities are the measures used to help ensure that management directives are carried out and that risks are addressed. They take many forms including policies and procedures, approvals, verifications, reconciliations, performance reviews, security measures, and segregation of duties.
- Information and communication - Information systems must be in place to identify, capture, and communicate relevant information in a form and timeframe that enables people to carry out their responsibilities and maintain accountability for the entity's assets.
- Monitoring - The entire internal control process must be monitored and the quality of its performance assessed as a part of regular management and supervisory activities. Corrective actions must be taken whenever the system does not perform as intended.

GBLI has adopted the COSO 2013 Framework for its control framework. GBLI and its subsidiaries have identified key internal controls over financial reporting, and these are tested annually by Internal Audit as part of the Company's SOX compliance process. In addition, each quarter control owners certify that their controls are operating effectively and also identify any changes in the internal control environment. Business owners have also drafted narratives of all of their key business processes.

GBLI's US insurance subsidiaries have regulatory compliance units which monitor state insurance regulations and provide guidance to the Underwriting and Claims groups as to regulatory compliance. The Financial department of Global Indemnity Group, Inc. (the US parent) monitors and complies with all financial regulations for both STAT and GAAP reporting. The Legal department of Global

Indemnity Group, Inc. is responsible for all SEC reporting, as well as ensuring that all legal documents are properly filed with the various state insurance departments.

In addition to the COSO 2013 Framework and Regulatory Compliance functions, GBLI has guidelines governing underwriting, claims, information technology and other areas.

Internal Audit

The Internal Audit function is being overseen by the Audit Committee. The Committee shall be comprised of at least three members of the Board. Except as otherwise permitted by the applicable rules of The Nasdaq Stock Market, Inc. ("Nasdaq"), each member of the Committee shall be "independent," as such term is defined in the applicable rules of Nasdaq, Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, no member of the Committee shall have participated in the preparation of the financial statements of the Company or any of its current subsidiaries at any time during the past three years.

No director may serve as a member of the Committee if such director serves on the audit committee of more than one other public companies unless the Board of Directors determines that such simultaneous service would not impair the ability of such director to effectively serve on the Committee, and discloses this determination in the Company's annual proxy statement. Each member of the Committee shall be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, statement of shareholders' equity, cash flow statement and related notes. At least one member of the Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background that results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer, or other senior financial officer with financial oversight responsibilities. The Board shall determine whether any members of the Committee are "financial experts," as defined by the Securities and Exchange Commission (the "SEC"), and make appropriate disclosure of that determination as required by applicable law.

The Internal Audit Department's Mission is:

- To provide independent, objective assurance to the Company's Board of Directors, Chief Executive Officer, Chief Financial Officer, General Counsel and other members of management that there is compliance with internal and operating controls, policies, plans, procedures and governance practices.
- To provide an independent appraisal of operations and the adequacy and effectiveness of the design and operation of the Company's system of internal accounting and operating controls, and to recommend changes if needed.
- To provide audit services designed to add value, identify financial savings opportunities, improve the organization's operations and help the organization accomplish its strategic objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- To investigate or direct the investigation of all known or suspected employee fraud and misappropriation of funds or other property and any other known or suspected violations of the Company's Code of Business Conduct and Ethics or other corporate policies.

Currently, the Internal Audit department consists of the Vice President and General Auditor (GA), who directs and supervises audit activities, an Assistant Vice President, one IT Audit Manager, one Senior Financial/Operational Auditor, one Staff Financial/Operational Auditor, and two Drexel University co-ops. The GA is responsible for establishing the strategic plan, managing and setting the audit scope and approach, and reviewing and communicating audit results with management and the Audit Committee. The AVP, IT Audit Manager and Senior Financial Auditor are responsible for the planning, performance and reporting of internal audits. The Staff auditor and co-ops are responsible for executing audit plans and reporting to their supervisors on the various audit projects. These positions are filled either by CPAs, MBAs or CISAs with major accounting firm, internal audit and insurance company experience.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. Internal Audit reports to the Audit Committee of the Board of Directors and is established within the Company to examine and evaluate its business activities. The objective of the Internal Audit Department is to assist members of the organization in the effective discharge of their responsibilities by promoting effective control at reasonable cost. To this end, the Department furnishes members of the organization with analyses, appraisals, recommendations, counsel and information concerning the activities reviewed.

The scope of internal auditing encompasses the examination and evaluation of the adequacy and effectiveness of the design and operation of the organization's internal control system, operating procedures and the quality of performance in carrying out assigned responsibilities. A list of detailed activities can be found in the Internal Audit Department Charter under Scope of Work.

Developing and executing a comprehensive program of financial and operational audits covering GBLI's operations requires a continuous planning process. During this process, planned audits must be linked with existing business risks to ensure that Internal Audit's resources are efficiently and effectively managed.

An inventory of auditable areas is developed and updated at least once a year. Each auditable area is assigned a priority rating by utilizing a risk assessment process. These ratings are periodically updated and reviewed. Some of the elements considered in establishing the auditable area's risk priority are:

- Identified high-risk exposures;
- Evaluation of existing internal accounting and operating controls;
- Results of SOX walkthroughs and testing and any SOX deficiencies noted;
- Complexity of the business or operation;
- Revenues, expenses, assets, employees;
- Volume of transactions;
- Number of customers;
- Performance (ROI, P&L, etc.);
- Changes in systems, procedures or management.

The priority rating of the auditable area, the audit cycle, and available resources are key factors in determining those audits that will be included in the Audit Plan. In addition, a key element is the input received from management during the formal planning process, indicating those areas that they recommend for inclusion.

The Audit Plan for the following year, which is developed from the process mentioned above, is submitted to the Audit Committee for approval. During the year, the approved Audit Plan may be revised to reflect management requests or changed conditions, which could result in substituted audits having a higher priority.

The Audit Plan documents the specific audit approach to each risk area and specifies the audit frequency. The audit plan will be co-developed by the Audit Committee, Senior Management, the External Auditors and Internal Audit, reflecting the following scope:

Authority	Scope
Audit Committee	The plan should address any concerns that the Audit Committee may have regarding Corporate finances and operations.
Senior Management	The audit plan should include those audit areas that will assist the Senior Management in achieving the goals and objectives of the Company and its subsidiaries.
External Auditors	The plan should be coordinated with the external audit team to maximize audit efficiency and risk coverage.
Internal Audit	The plan should include any financial or operational areas where exposure is identified from previous audits, organization changes, technology, etc.

Annually, in the third or fourth quarter, Internal Audit will contact each of the parties listed above to discuss and develop the risk assessment and audit plan of the following year. This will be the prime opportunity for the parties to indicate those areas of special concern that will require operational or financial review. Additionally, if at any time during the year a significant concern arises, Internal Audit should be contacted to discuss additional audit oversight or review.

A written report will be prepared and issued by Internal Audit following the conclusion of each audit and will be distributed and reviewed with appropriate management. Recommendations on standards or controls to apply to a specific activity and enhancements or improvements to those activities are discussed with management, but management ultimately must determine how to remediate their deficiencies. The written report includes the audit findings and management's responses. It is the responsibility of management to address unsatisfactory conditions and ensure that progress is made toward correcting such conditions. Quarterly, a report is submitted to the Audit Committee on the activities of the Internal Audit Department including copies of all audit reports issued, status of audit plan progress, report of outstanding audit recommendations and a summary of ethics investigations.

Actuarial Function

GBLI has an internal actuarial team of 11 actuaries. The internal actuarial reserve reviews are completed quarterly based on data through the current quarter. Actuarial methodologies, such as the Loss Development and Bornhuetter-Ferguson methods, are employed to develop estimates of ultimate Loss & ALAE for most reserve categories. Additional actuarial methodologies are utilized to develop estimates of ultimate Loss & ALAE for mass tort and constructions defect reserve categories due to the unique characteristics of the exposures involved. Expected loss ratios are reviewed for the commercial casualty reserve segments which incorporate the impacts from renewal rate changes and exposure trend that is received from Actuarial Pricing.

The year-end reserve reviews are completed with data through December, and management's ultimate selections at year-end are based on the internal actuarial reviews and a third party actuarial review based on data through September. A roll-forward, performed by the aforementioned third party, is completed through December to determine if there were any significant changes in development during the fourth quarter.

In addition to the quarterly reserve appraisals, a Reserve Sub-Committee meeting is held early in the quarterly close cycle with members of Finance, Claims, and Underwriting/Product Management. An agenda is provided and minutes are recorded to document any changes within the departments that may impact current or future loss development patterns. Also, after the reserve

reviews are completed, a Reserve Committee meeting is held with members of senior management to review the results from the internal actuarial reserve reviews. Accident year indications and management's selections are reviewed by segment along with accident year frequency & severity trends and other data metrics.

Outsourcing

GIRe outsources some of their functions to third party providers. The oversight of these providers remains at all time with GIRe. Annual reviews of the outsourced firms are performed at the board level.

Risk Profile

The Company has identified multiple risk factors. The risk and uncertainties described below are those the Company believes to be material. If any of the following actually occur, the Company's business, prospects, financial condition, results of operations and cash flows could be materially and adversely affected.

- If actual claims payments exceed the Company's reserves for losses and loss adjustment expenses, the Company's financial condition and results of operations could be adversely affected.
- Catastrophic events can have a significant impact on the Company's financial and operational condition.
- The benefits of acquiring American Reliable may not be realized which could have a material adverse effect on the Company's business operations and financial results.
- A failure in the Company's operational systems or infrastructure or those of third parties, including security breaches or cyber-attacks, could disrupt the Company's business, its reputation, and / or cause losses which would have a material effect on the Company's business operations and financial results.
- The Company's failure to adequately protect personal information could have a material adverse effect on its business.
- A decline in rating for any of the Company's insurance or reinsurance subsidiaries could adversely affect its position in the insurance market; making it more difficult to market its insurance products and cause premiums and earnings to decrease.
- The Company cannot guarantee that its reinsurers will pay in a timely fashion, if at all, and as a result, the Company could experience losses.
- The Company's investment performance may suffer as a result of adverse capital market developments or other factors, which would in turn adversely affect its financial condition and results of operations.
- Deterioration in the debt and equity markets could result in a margin call which could have a material adverse effect on the Company's financial condition and/or results of operations.
- Borrowings under the Company's margin borrowing facilities are based upon a variable rate of interest, which could result in higher expense in the event of increases in interest rates.
- The Company's outstanding indebtedness could adversely affect its financial flexibility and a failure to make periodic payments related to the Subordinated Notes could adversely affect the Company.
- The Company is dependent on its senior executives and the loss of any of these executives or the Company's inability to attract and retain other key personnel could adversely affect its business.
- Employee error and misconduct may be difficult to detect and prevent and could adversely affect the Company's business, results of operations, financial condition and reputation.
- Since the Company depends on professional general agencies, brokers, other insurance companies and other reinsurance companies for a significant portion of its revenue, a loss of any one of them could adversely affect the Company.
- If market conditions cause reinsurance to be more costly or unavailable, the Company may be required to bear increased risks or reduce the level of its underwriting commitments.
- The Company's financial and business results may fluctuate as a result of many factors, including cyclical changes in the insurance industry.
- The Company faces significant competitive pressures in its business that could cause demand for its products to fall and adversely affect the Company's profitability.
- The Company's general agencies typically pay the insurance premiums on business they have bound to the Company on a monthly basis. This accumulation of balances due to the Company exposes it to credit risk.
- Brokers, insurance companies and reinsurance companies typically pay premiums on reinsurance treaties written with the Company on a quarterly basis. This accumulation of balances due to the Company exposes it to credit risk.
- Because the Company provides its general agencies with specific quoting and binding authority, if any of them fail to comply with pre-established guidelines, the Company's results of operations could be adversely affected.
- The Company's holding company structure and regulatory constraints limit its ability to receive dividends from subsidiaries in order to meet its cash requirements.
- The Company's businesses are heavily regulated and changes in regulation may limit the way it operates.
- The interests of holders of A ordinary shares may conflict with the interests of the Company's controlling shareholder.
- The Company's controlling shareholder has the contractual right to nominate a certain number of the members of the Board of Directors and also otherwise controls the election of Directors due to its ownership.
- Because the Company relies on certain services provided by Fox Paine & Company, the loss of such services could adversely affect its business.
- The U.S. and global economic and financial industry downturns could harm the Company's business, its liquidity and financial condition, and its stock price.

- If the Company is unable to maintain effective internal control over financial reporting, the Company's business may be adversely affected, investors may lose confidence in the accuracy and completeness of the Company's financial reports and the market price of the Company's common stock could be adversely affected.
- The Company's operating results and shareholders' equity may be adversely affected by currency fluctuations..
- Legislative and regulatory action by the U.S. Congress could materially and adversely affect the Company.
- The Organization for Economic Cooperation and Development ("OECD") and the European Union ("EU") are considering measures that might encourage countries to change their tax laws which could have a negative impact on the Company.
- The Company may become subject to taxes in the Cayman Islands or Bermuda in the future, which may have a material adverse effect on its results of operations.
- Global Indemnity or Global Indemnity Reinsurance may be subject to U.S. tax that may have a material adverse effect on Global Indemnity's or Global Indemnity Reinsurance's results of operations.
- The impact of the Letters of Commitment by the Cayman Islands and Bermuda or other concessions to the Organization for Economic Co-operation and Development to eliminate harmful tax practices is uncertain and could adversely affect the tax status of the Company's subsidiaries in the Cayman Islands or Bermuda.
- There is a risk that interest paid by the Company's U.S. subsidiary to a Luxembourg affiliate may be subject to 30% U.S. withholding tax.
- There is a risk that interest income imputed to the Company's Irish affiliates may be subject to 25% Irish income tax.

For further information, please refer to GlobalIndemntiypIc_10K, Item 1A. RISK FACTORS

Risk Concentrations

GBLI's material risk concentrations are insured risk and investment risk:

Insured Risk:

GBLI manages its concentration of insured risk by carefully and continuously monitoring the exposures of the Group. GBLI uses cat modeling software to enable the analysis of the exposure. GBLI manage the catastrophe exposure so that 1 in 100 year event on the aggregate expected probability curve wouldn't be above 20% of the policyholder surplus and 1 in 250 year event wouldn't be above 25% of the policyholder surplus of the Group.

Investment Risk:

Assets are being invested as per the investment guidelines provided to our investment managers. Invested assets are continually monitored by management on a daily basis and formally reviewed with the board of directors quarterly. The review includes asset allocation, total return, credit quality valuation, income risk metrics, etc. The investment guidelines provide specific limits of concentration. GBLI manages its investment portfolio in 2 basic buckets:

- Policyholder liabilities – this represents the majority of our invested assets. In this portfolio we closely match our liabilities with high quality assets with similar duration. Characteristics of this portfolio include highly liquid, high credit quality to assure preservation of principal, and a duration that is closely matched to our liabilities. This portfolio is investment grade fixed income securities and is considered low risk.
- Shareholder/Surplus: Recognizing that we need sufficient capital to support our rating, our growth, and regulatory requirements, this portfolio has an objective of achieving long-term book value growth within identified risk parameters. This portfolio represents a smaller asset base and consists of assets above and beyond our policyholder obligations identified above. We never want to do anything within our investment portfolio that prohibits our ability to write insurance. Therefore, we monitor our investments in relation to our insurance risk to make sure we have sufficient capital to support insurance operations. As a result, only a portion of our assets identified as shareholder/surplus funds are invested in assets such as equities. We look for diversification benefits, downside risk, long-term appreciation, income, and correlation when reviewing asset classes in this category. These assets are reviewed and recommended by management and approved by the board of directors.

GBLI periodically analyses the financial impact of 2 separate stress events over a 5 year period on the financial position of the company as well as performing the BMA mandated stress tests. Here are the scenarios applied.

- Stress Event 1:
 - A major catastrophic loss totaling \$132 million in year 1
 - \$50 million impact from "other economic events" in year 1
 - Equity markets decline by 15% in year 1 and recover 25% per year for the next 4 years
 - 300 basis point rise in the Treasury curve in year 1
 - No yield changes in years 2 through 5
 - Spreads are held constant
 - Tax benefits from these events cannot be realized
- Stress Event 2:

- A major catastrophic loss totaling \$132 million in year 1
- \$50 million impact from "other economic events" in year 1
- Equity markets decline by 15% in year 1 and recover 25% per year for the next 4 years
- Depressed global economic growth (recession)
- UST progression - Long rates fall over next year, then slowly start to rise as economy improves post-recession
- Spread progression - spreads widen to 2/3rds crisis (2008/2009) levels over first year then slowly start to grind lower as economy improves post-recession
- Tax benefits from these events cannot be realized

The company would be able to overcome the events without any major problems

Solvency Valuation

Valuation of Assets & Liabilities

Investments:

The Company's investments in fixed maturities and equity securities are classified as available for sale and are carried at their fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of the Company's available for sale portfolio, excluding interests in limited liability companies and limited partnerships, are determined on the basis of quoted market prices where available. If quoted market prices are not available, the Company uses third party pricing services to assist in determining fair value. In many instances, these services examine the pricing of similar instruments to estimate fair value.

For investments in limited liability companies and limited partnerships where the ownership interest is less than 3%, the Company carries these investments at fair value. The Company uses the equity method to account for investments in limited liability companies and limited partnerships where its ownership interest exceeds 3%. The equity method of accounting for an investment in a limited liability company or limited partnership requires that its cost basis be updated to account for the income or loss earned on the investment.

Cash and Cash Equivalents:

For the purpose of the statements of cash flows, the Company considers all liquid instruments with an original maturity of three months or less to be cash equivalents. The Company has a cash management program that provides for the investment of excess cash balances primarily in short-term money market instruments. Generally, bank balances exceed federally insured limits. The carrying amount of cash and cash equivalents approximates fair value.

At December 31, 2016, the Company had approximately \$52.0 million of cash and cash equivalents that was invested in a diversified portfolio of high quality short-term debt securities.

Variable Interest Entities:

The Company has variable interests in two VIEs for which it is not the primary beneficiary. These investments are accounted for under the equity method of accounting as the ownership interest exceeds 3% of the respective investments

Premium Receivable:

The Company evaluates the collectability of premium receivable based on a combination of factors. In instances in which the Company is aware of a specific circumstance where a party may be unable to meet its financial obligations to the Company, a specific allowance for bad debts against amounts due is recorded to reduce the net receivable to the amount reasonably believed by management to be collectible.

Goodwill and Intangible Assets:

The Company tests for impairment of goodwill at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. Accounting guidance allows for the testing of goodwill for impairment using both qualitative and quantitative factors. Impairment of goodwill is recognized only if the carrying amount of the reporting unit, including goodwill, exceeds the fair value of the reporting unit. The amount of the impairment loss would be equal to the excess carrying value of the goodwill over the implied fair value of the reporting unit.

Impairment of intangible assets with an indefinite useful life is tested at least annually and more frequently as circumstances warrant in accordance with applicable accounting guidance. Accounting guidance allows for the testing of indefinite lived intangible assets for impairment using both qualitative and quantitative factors. Impairment of indefinite lived intangible assets is recognized only if the carrying amount of the intangible assets exceeds the fair value of said assets. The amount of the impairment loss would be equal to the excess carrying value of the assets over the fair value of said assets.

Intangible assets that are not deemed to have an indefinite useful life are amortized over their estimated useful lives. The carrying amounts of definite lived intangible assets are regularly reviewed for indicators of impairment in accordance with applicable

accounting guidance. Impairment is recognized only if the carrying amount of the intangible asset is in excess of its undiscounted projected cash flows. The impairment is measured as the difference between the carrying amount and the estimated fair value of the asset.

Reinsurance:

Amounts receivable from reinsurers are estimated in a manner consistent with the reinsured policy and the reinsurance contract. The Company regularly reviews the collectability of reinsurance receivables.

Income Taxes:

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred Acquisition Costs:

The costs of acquiring new and renewal insurance and reinsurance contracts include commissions, premium taxes and certain other costs that are directly related to the successful acquisition of new and renewal insurance and reinsurance contracts. The excess of the Company's costs of acquiring new and renewal insurance and reinsurance contracts over the related ceding commissions earned from reinsurers is capitalized as deferred acquisition costs and amortized over the period in which the related premiums are earned.

Derivative Instruments:

The Company uses derivative instruments to manage its exposure to cash flow variability from interest rate risk. The derivative instruments are carried on the balance sheet at fair value and included in other assets and other liabilities.

Premium Deficiency:

A premium deficiency is recognized if the sum of expected loss and loss adjustment expenses and unamortized acquisition costs exceeds related unearned premium after consideration of investment income. This evaluation is done at a product line level in Insurance Operations and at a treaty level in Reinsurance Operations. Any future expected loss on the related unearned premium is recorded first by impairing the unamortized acquisition costs on the related unearned premium followed by an increase to loss and loss adjustment expense reserves on additional expected loss in excess of unamortized acquisition costs.

Margin Borrowing Facilities:

The carrying amounts reported in the balance sheet represent the outstanding borrowings. The outstanding borrowings are due on demand; therefore, the cash receipts and cash payments related to the margin borrowing facilities are shown net in the consolidated statements of cash flows.

Subordinated Notes:

The carrying amounts reported in the balance sheet represent the outstanding balances, net of deferred issuance cost.

Unpaid Losses and Loss Adjustment Expenses:

The liability for unpaid losses and loss adjustment expenses represents the Company's best estimate of future amounts needed to pay losses and related settlement expenses with respect to events insured by the Company. This liability is based upon the accumulation of individual case estimates for losses reported prior to the close of the accounting period with respect to direct business, estimates received from ceding companies with respect to assumed reinsurance, and estimates of unreported losses.

The process of establishing the liability for unpaid losses and loss adjustment is complex, requiring the use of informed actuarially based estimates and management's judgment. In some cases, significant periods of time, up to several years or more, may elapse between the occurrence of an insured loss and the reporting of that loss to the Company. To establish this liability, the Company regularly reviews and updates the methods of making such estimates and establishing the resulting liabilities. Any resulting adjustments are recorded in consolidated statements of operations during the period in which the determination is made.

For further information on the valuation of assets and liabilities, please refer to the page 97 of the "GBLI 10K"

Economical Balance Sheet Technical Provisions

The technical provision can be separated into premium and losses:

The premium technical provision is derived from the unearned premium, the bound but not incepted premium, the future expectation of underwriting profit or loss on all unearned premium and the expected cash flow of premium and resulting claims. The premium technical provision is discounted to establish the present value of all assets and liabilities.

The loss technical provision is derived from the US GAAP reserves as best estimates. To the estimates, consideration is given for the payout of claims, events not in data, counterparty default risk on reinsurance and run off expenses. The loss technical provision is discounted to establish present value of all the assets and liabilities.

The risk margin was \$46.5M for the year ended December 31, 2016

Reinsurance

The Company cedes risk to unrelated reinsurers on a pro rata (“quota share”) and excess of loss basis in the ordinary course of business to limit its net loss exposure on insurance contracts. Reinsurance ceded arrangements do not discharge the Company of primary liability. Moreover, reinsurers may fail to pay the Company due to a lack of reinsurer liquidity, perceived improper underwriting, and losses for risks that are excluded from reinsurance coverage and other similar factors, all of which could adversely affect the Company’s financial results.

The Company had the following reinsurance balances as of December 31, 2016 and 2015:

(Dollars in thousands)	December 31, 2016
Reinsurance receivables, net	\$ 143,774
Collateral securing reinsurance receivables	(13,865)
Reinsurance receivables, net of collateral	\$ 129,909
Allowance for uncollectible reinsurance receivables	\$ 8,040
Prepaid reinsurance premiums	42,583

The reinsurance receivables above are net of a purchase accounting adjustment related to discounting acquired loss reserves to their present value and applying a risk margin to the discounted reserves. This adjustment was \$2.0 million and \$3.0 million at December 31, 2016 and 2015, respectively.

Capital Management

The Company internally maintains a capital model similar to A.M. Best’s model that measures required capital for its short and long term business plans. Key factors to determine capital levels include an assessment and quantification of key risks: investment risk, underwriting risk, loss reserve risk, catastrophe risk, credit risk and other business risks. Projected capital, returns and liquidity are presented to the Board of Directors on quarterly basis.

The Company targets capital levels to meet returns for its shareholders, rating agency and regulatory requirements:

- Returns – Required capital is determined at each of the Company’s segments - Personal Lines, Commercial Lines and Reinsurance. The Company’s Business Plan includes target return on capital for each segment. Return on capital is a key measure used by the Company when determining premium pricing on both its insurance and reinsurance products.
- Regulatory - Capital adequacy models are maintained and monitored on a recurring basis to ensure that capital requirements are met at both our U.S. Insurance Operations (Risk-Based Capital Regulations for its U.S. Insurance Companies) and its Bermuda Reinsurance Operation (Enhanced Capital Requirement (“ECR”) and Minimum Solvency Margin (“MSM”) for its Reinsurance Operations).
- Rating - Capital adequacy models are maintained and monitored on a recurring basis to ensure that capital requirements are met at consolidated group level to achieve a rating from A.M. Best of “A” or better.

The BMA eligible capital is as follows:

Eligible Capital

Tier 1	785,545
Tier 2	-
Tier 3	-
Total	<u>785,545</u>

All capital that is used to meet the ECR and the MSM is tier 1 which is subject to transitional arrangements. The assets that support our capital position are mainly high grade fixed income investments and investment in subsidiaries

The only factor that could affect the transferability of capital would be the regulatory approval required at the subsidiary level.

Amount of the ECR and MSM at the end of the reporting period:

	Amount	Ratio
Minimum Margin of Solvency	74,347	9%
Enhanced Capital Requirement	297,387	264%

There has not been any incident of noncompliance throughout the year.

The Company does not use any approved internal model for their capital modeling.

Significant Event

On February 17, 2017, the Company transferred the margin borrowing facility, described above in Note 11, to a new broker. As of the transfer date, the Company had borrowed \$74.8 million. The borrowing rate is tied to the Fed Funds Effective rate and is currently less than 1%. Approximately \$95.0 million in collateral was deposited to support the transfer. The borrowing is subject to a maintenance margin, which is a minimum account balance that must be maintained. A decline in market conditions could require an additional deposit of collateral. The margin borrowing facility contains events of default, including, without limitation, insolvency, breach of contract, assignment for the benefit of the Company's creditors, failure to comply with any representations or warranties, and proceedings to suspend the Company's business or license by any regulator or organization.

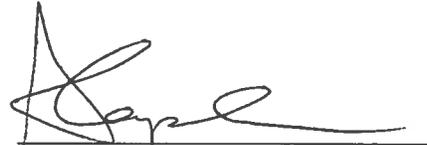
In March, 2017, a capital contribution in the amount of \$94.5 million to GIRE from its sole shareholder, Global Indemnity (Cayman) Ltd., was received.

Declaration

We declare that to the best of our knowledge and belief, the financial condition report on a significant event fairly represents the financial condition of the Company in all material respects.



Steve Green
CEO & President



Marie-Joelle Chapleau
COO