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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholder of
Sirius International Insurance Group, Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Sirius International Insurance Group, Ltd. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of (loss) income, comprehensive (loss) income, shareholder's equity, and cash flows for each of the three years in the period ended December 31, 2017, including the related notes and financial statement schedules listed in the accompanying index (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
New York, New York
August 6, 2018

We have served as the Company's auditor since at least 2001. We have not determined the specific year we began serving as auditor of the Company.

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Sirius International Insurance Group, Ltd.

Consolidated Balance Sheets

As at December 31, 2017 and 2016

<u>(Expressed in millions of U.S. dollars, except share information)</u>	<u>2017</u>	<u>2016</u>
Assets		
Fixed maturity investments, trading, at fair value (<i>Amortized cost 2017: \$2,195.3; 2016: \$2,871.2</i>)	\$ 2,180.0	\$ 2,891.6
Short-term investments, at fair value (<i>Amortized cost 2017: \$625.3; 2016: \$539.7</i>)	625.0	538.0
Equity securities, trading, at fair value (<i>Cost 2017: \$275.1; 2016: \$125.7</i>)	299.2	123.0
Other long-term investments, at fair value (<i>Cost 2017: \$255.5; 2016: \$115.8</i>)	269.5	124.8
Cash	215.8	137.1
Restricted cash	14.8	—
Total investments and cash	3,604.3	3,814.5
Accrued investment income	14.1	19.0
Insurance and reinsurance premiums receivable	543.6	394.6
Reinsurance recoverable on unpaid losses	319.7	291.5
Reinsurance recoverable on paid losses	17.5	17.1
Funds held by ceding companies	153.2	100.0
Ceded unearned insurance and reinsurance premiums	106.6	101.1
Deferred acquisition costs	120.9	84.7
Deferred tax asset	244.1	279.1
Accounts receivable on unsettled investment sales	0.3	—
Goodwill	401.0	—
Intangible assets	216.3	5.0
Other assets	82.0	59.9
Total assets	\$ 5,823.6	\$ 5,166.5
Liabilities		
Loss and loss adjustment expense reserves	\$ 1,898.5	\$ 1,620.1
Unearned insurance and reinsurance premiums	506.8	398.0
Ceded reinsurance payable	139.1	99.6
Funds held under reinsurance treaties	73.4	63.4
Deferred tax liability	282.2	239.7
Debt	723.2	396.2
Accounts payable on unsettled investment purchases	0.3	7.6
Other liabilities	176.8	102.5
Total liabilities	3,800.3	2,927.1
Commitments and Contingencies (see Note 23)		
Mezzanine equity		
Series A redeemable preference shares	106.1	—
Common shareholder's equity		
Common shares (<i>shares issued and outstanding: 120,000,000</i>)	1.2	1.2
Additional paid-in surplus	1,197.9	1,184.6
Retained earnings	858.4	1,014.5
Accumulated other comprehensive (loss)	(140.5)	(212.2)
Total common shareholder's equity	1,917.0	1,988.1
Non-controlling interests	0.2	251.3
Total equity	1,917.2	2,239.4
Total liabilities, mezzanine equity, and equity	\$ 5,823.6	\$ 5,166.5

See Notes to Consolidated Financial Statements

Sirius International Insurance Group, Ltd.

Consolidated Statements of (Loss) Income

For the years ended December 31, 2017, 2016, and 2015

(Expressed in millions of U.S. dollars, except share and per share information)	2017	2016	2015
Revenues			
Net earned insurance and reinsurance premiums	\$ 1,035.3	\$ 890.1	\$ 847.0
Net investment income	56.8	56.2	39.9
Net realized investment (losses) gains	(27.2)	288.3	138.5
Net unrealized investment (losses) gains	(10.5)	(238.2)	102.5
Net foreign exchange gains (losses)	9.2	(11.0)	(18.2)
Gain on revaluation of contingent consideration	48.8	—	—
Other revenue	21.7	9.1	(2.4)
Total revenues	1,134.1	994.5	1,107.3
Expenses			
Loss and loss adjustment expenses	811.2	519.3	422.7
Insurance and reinsurance acquisition expenses	197.2	210.3	189.8
Other underwriting expenses	106.1	107.3	107.9
General and administrative expenses	91.9	85.1	27.1
Intangible asset amortization expenses	10.2	—	—
Impairment of intangible assets	5.0	—	—
Interest expense on debt	22.4	34.6	26.6
Total expenses	1,244.0	956.6	774.1
Pre-tax (loss) income	(109.9)	37.9	333.2
Income tax (expense) benefit	(26.4)	7.3	(47.1)
(Loss) income before equity in earnings of unconsolidated affiliates	(136.3)	45.2	286.1
Equity in earnings of unconsolidated affiliates, net of tax	—	6.6	23.9
Net (loss) income	(136.3)	51.8	310.0
Income attributable to non-controlling interests	(13.7)	(19.3)	(18.8)
(Loss) income before accrued dividends on Series A redeemable preference shares	(150.0)	32.5	291.2
Accrued dividends on Series A redeemable preference shares	(6.1)	—	—
Net (loss) income attributable to Sirius Group's common shareholder	\$ (156.1)	\$ 32.5	\$ 291.2
Net (Loss) income per common share and common share equivalent			
Basic earnings per common share and common share equivalent	\$ (1.30)	\$ 0.27	\$ 2.43
Diluted earnings per common share and common share equivalent	\$ (1.30)	\$ 0.27	\$ 2.43
Weighted average number of common shares and common share equivalents outstanding:			
Basic weighted average number of common shares and common share equivalents outstanding	120,000,000	120,000,000	120,000,000
Diluted weighted average number of common shares and common share equivalents outstanding	120,000,000	120,000,000	120,000,000

See Notes to Consolidated Financial Statements.

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Sirius International Insurance Group, Ltd.

Consolidated Statements of Comprehensive (Loss) Income

For the years ended December 31, 2017, 2016, and 2015

<u>(Expressed in millions of U.S. dollars)</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Comprehensive (Loss) Income			
Net (loss) income	\$ (136.3)	\$ 51.8	\$ 310.0
Other comprehensive income (loss)			
Change in equity in net unrealized (losses) gains from investments in unconsolidated affiliates, net of tax	—	—	(29.8)
Change in foreign currency translation, net of tax	71.7	(67.3)	(65.4)
Net change in other, net of tax	—	1.2	0.2
Total other comprehensive income (loss)	<u>71.7</u>	<u>(66.1)</u>	<u>(95.0)</u>
Comprehensive (loss) income	<u>(64.6)</u>	<u>(14.3)</u>	<u>215.0</u>
Net (income) attributable to non-controlling interests	(13.7)	(19.3)	(18.8)
Comprehensive (loss) income attributable to Sirius Group's common shareholder	<u>\$ (78.3)</u>	<u>\$ (33.6)</u>	<u>\$ 196.2</u>

See Notes to Consolidated Financial Statements.

Sirius International Insurance Group, Ltd.

Consolidated Statements of Shareholder's Equity

For the years ended December 31, 2017, 2016, and 2015

(Expressed in millions of U.S. dollars, except per share information)	2017	2016	2015
Common shares			
Balance at beginning of year	\$ 1.2	\$ 0.1	\$ 0.1
Stock split	—	1.1	—
Balance at end of year	1.2	1.2	0.1
Additional paid-in surplus			
Balance at beginning of year	1,184.6	1,096.1	1,095.9
Capital contribution from former parent	13.3	89.6	—
Stock split	—	(1.1)	—
Other, net	—	—	0.2
Balance at end of year	1,197.9	1,184.6	1,096.1
Retained earnings			
Balance at beginning of year	1,014.5	1,009.0	717.8
Net income	(136.3)	51.8	310.0
Income attributable to non-controlling interests	(13.7)	(19.3)	(18.8)
Accrued dividends on Series A redeemable preference shares	(6.1)	—	—
Dividends to former parent	—	(27.0)	—
Balance at end of year	858.4	1,014.5	1,009.0
Accumulated other comprehensive income (loss)			
Balance at beginning of year	(212.2)	(146.1)	(51.1)
Accumulated unrealized investment gains (losses) from investments in unconsolidated affiliates			
Balance at beginning of year	—	—	29.8
Net change in unrealized investment gains (losses) from investments in unconsolidated affiliates	—	—	(29.8)
Balance at end of year	—	—	—
Accumulated net foreign currency translation gains (losses)			
Balance at beginning of year	(212.2)	(144.9)	(79.5)
Net change in foreign currency translation	71.7	(67.3)	(65.4)
Balance at end of year	(140.5)	(212.2)	(144.9)
Accumulated other comprehensive income (loss), other			
Balance at beginning of year	—	(1.2)	(1.4)
Net change, other	—	1.2	0.2
Balance at end of year	—	—	(1.2)
Balance at the end of year	(140.5)	(212.2)	(146.1)
Total common shareholder's equity	\$ 1,917.0	\$ 1,988.1	\$ 1,959.1
Non-controlling interests	0.2	251.3	250.1
Total equity	\$ 1,917.2	\$ 2,239.4	\$ 2,209.2
Per share data			
Dividends declared per common share	\$ —	\$ 0.23	\$ —

See Notes to Consolidated Financial Statements.

Sirius International Insurance Group, Ltd.

Consolidated Statements of Cash Flows

For the years ended December 31, 2017, 2016, and 2015

<u>(Expressed in millions of U.S. dollars)</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash flows from operations:			
Net (loss) income attributable to common shareholder	\$ (156.1)	\$ 32.5	\$ 291.2
Adjustments to reconcile net (loss) income to net cash (used for) provided from operations:			
Net realized and unrealized investment (losses) gains	37.7	(50.1)	(241.0)
Amortization of premium on fixed maturity investments	16.6	21.1	22.4
Amortization of intangible assets	10.2	—	—
Depreciation and other amortization	8.9	6.7	5.5
Revaluation of contingent consideration	(48.8)	—	—
Accrued dividends on Series A redeemable preference shares	6.1	—	—
Impairment of intangible assets	5.0	—	—
Excess of fair value of acquired net assets over cost	—	(4.3)	—
Net gain on sale of consolidated affiliates	—	—	(1.0)
Undistributed equity in earnings of unconsolidated affiliates, after-tax	—	(6.6)	(23.8)
Other operating items:			
Net change in loss and loss adjustment expense reserves	188.3	18.1	(100.7)
Net change in reinsurance recoverable on paid and unpaid losses	(11.1)	(23.6)	24.6
Net change in funds held by ceding companies	(38.9)	(15.1)	(4.8)
Net change in unearned insurance and reinsurance premiums	55.7	60.8	27.4
Net change in ceded reinsurance payable	22.8	11.5	8.4
Net change in ceded unearned insurance and reinsurance premiums	14.4	(1.9)	(18.9)
Net change in insurance and reinsurance premiums receivable	(102.3)	(95.4)	(39.2)
Net change in deferred acquisition costs	(27.0)	(14.2)	(8.6)
Net change in funds held under reinsurance treaties	5.8	13.0	(0.9)
Net change in current and deferred income taxes, net	13.3	(12.0)	12.0
Net change in other assets and liabilities, net	(36.6)	12.7	56.9
Net cash (used for) provided from operations	(36.0)	(46.8)	9.5
Cash flows from investing activities:			
Net change in short-term investments	(1.0)	(202.7)	109.8
Sales of fixed maturities and convertible fixed maturity investments	1,422.4	2,454.7	2,176.5
Maturities, calls, and paydowns of fixed maturity and convertible fixed maturity investments	292.2	141.8	178.3
Sales of common equity securities	87.6	851.6	312.6
Distributions and redemptions of other long-term investments	40.6	27.9	13.2
Sales of consolidated subsidiaries and unconsolidated affiliates, net of cash sold	0.8	173.5	14.3
Contributions to other long-term investments	(167.5)	(73.5)	(10.7)
Purchases of common equity securities	(222.3)	(232.7)	(266.1)
Purchases of fixed maturities and convertible fixed maturity investments	(1,018.5)	(3,192.3)	(2,458.0)
Purchases of consolidated subsidiaries, net of cash acquired	(354.5)	27.5	—
Net change in unsettled investment purchases and sales	(7.9)	38.4	(12.2)
Other, net	(5.9)	4.3	(9.1)
Net cash provided from investing activities	66.0	18.5	48.6
Cash flows from financing activities:			
Capital contribution from former parent	13.3	89.6	—
Issuance of debt, net of issuance costs	340.8	392.4	—
Redemption of SIG Preference Shares	(250.0)	—	—
Repayment of debt	(3.8)	(405.6)	—
Payment of contingent consideration	(30.6)	—	—
Change in collateral held on Interest Rate Cap	(1.1)	(0.5)	(2.4)
Cash dividends paid to former parent	—	(27.0)	—
Cash dividends paid to non-controlling interests	(14.1)	(18.8)	(18.8)
Other, net	(0.9)	0.8	—
Net cash provided from (used for) financing activities	53.6	30.9	(21.2)
Effect of exchange rate changes on cash	9.9	(9.4)	(4.5)
Net increase (decrease) in cash during year	93.5	(6.8)	32.4
Cash and restricted cash balance at beginning of year	137.1	143.9	111.5
Cash and restricted cash balance at end of year	\$ 230.6	\$ 137.1	\$ 143.9
Supplemental disclosures of cash flow information:			
Income taxes paid	\$ 16.7	\$ 8.3	\$ 31.7
Interest paid	\$ 22.0	\$ 31.6	\$ 25.5

See Notes to Consolidated Financial Statements.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements

For the years ended December 31, 2017, 2016, and 2015

Note 1. General

Sirius International Insurance Group, Ltd. (the "Company") is a Bermuda exempted company whose principal businesses are conducted through its wholly and majority owned insurance subsidiaries (collectively with the Company, "Sirius Group"). The company provides insurance, reinsurance, and insurance services on a worldwide basis.

Note 2. Summary of significant accounting policies

Basis of presentation

The accompanying consolidated financial statements at December 31, 2017, have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). The accompanying consolidated financial statements present the consolidated results of operations, financial condition, and cash flows of the Company and its subsidiaries and those entities in which the Company has control and a majority economic interest as well as those variable interest entities ("VIEs") that meet the requirements for consolidation. All intercompany transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts in the prior period financial statements have been reclassified to conform to the current presentation. Tabular dollar amounts are in millions, with the exception of share and per share amounts. All amounts are reported in U.S. dollars, except where noted otherwise.

Significant Accounting Policies

Investment securities

Sirius Group's invested assets consist of securities and other investments held for general investment purposes. Sirius Group's portfolio of fixed maturity investments and equity securities held for general investment purposes are classified as trading and are reported at fair value as of the balance sheet date. Changes in unrealized gains and losses are reported pre-tax in revenues. Realized investment gains and losses are accounted for using the specific identification method and are reported pre-tax in revenues. Premiums and discounts on all fixed maturity investments are amortized and/or accreted to income over the anticipated life of the investment and are reported in Net investment income.

Sirius Group's invested assets that are measured at fair value include fixed maturity investments, common and preferred equity securities, and other long-term investments, such as interests in hedge funds and private equities. Fair value is defined as the price received to sell an asset in an orderly transaction between market participants at the measurement date reflecting the highest and best use valuation concepts. In determining its estimates of fair value, Sirius Group uses a variety of valuation approaches and inputs. Whenever possible, Sirius Group estimates fair value using valuation methods that maximize the use of quoted prices and other observable inputs.

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 2. Summary of significant accounting policies (Continued)

Short-term investments

Short-term investments consist of money market funds, certificates of deposit and other securities which, at the time of purchase, mature or become available for use within one year. Short-term investments are carried at fair value.

Other long-term investments

Other long-term investments consist primarily of hedge funds, private equity funds, other investments in limited partnerships and other private equity securities. The fair value of other long-term investments is generally based upon Sirius Group's proportionate interest in the underlying fund's net asset value, which is deemed to approximate fair value. In addition, due to a lag in reporting, some of the fund managers, fund administrators, or both, are unable to provide final fund valuations as of the Company's reporting date. In these circumstances, Sirius Group estimates the return of the current period and uses all credible information available. This includes utilizing preliminary estimates reported by its fund managers and using information that is available to Sirius Group with respect to the underlying investments, as necessary. The changes in fair value are reported in pre-tax revenues in Net unrealized investment (losses) gains. Actual final fund valuations may differ from Sirius Group's estimates and these differences are recorded in the period they become known as a change in estimate.

Other long-term investments also includes certain investments that are eligible for the equity method where Sirius Group has elected the fair value option under which the changes in fair value are reported in pre-tax revenues in Net unrealized investment (losses) gains. (See Note 20.)

Cash

Cash includes amounts on hand and demand deposits with banks and other financial institutions. Amounts presented in the statement of cash flows are shown net of balances acquired and sold in the purchase or sale of the Company's consolidated subsidiaries.

Restricted cash

Restricted cash represents cash and cash equivalents that Sirius Group is (a) holding for the benefit of a third party and is legally or contractually restricted as to withdrawal or usage for general corporate purposes; and (b) not replaceable by another type of asset other than cash or cash equivalents, under the terms of Sirius Group's contractual arrangements with such third parties.

Insurance and reinsurance operations

Premiums written are recognized as revenues and are earned ratably over the term of the related policy or reinsurance treaty. Premiums written include amounts reported by brokers, managing general agents, and ceding companies, supplemented by the Company's own estimates of premiums where reports have not been received. The determination of premium estimates requires a review of the Company's experience with the ceding companies, managing general agents, familiarity with each market, the timing of the reported information, an analysis and understanding of the characteristics of each class of business, and management's judgment of the impact of various factors, including premium

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 2. Summary of significant accounting policies (Continued)

or loss trends, on the volume of business written and ceded to the Company. On an ongoing basis, the Company's underwriters review the amounts reported by these third parties for reasonableness based on their experience and knowledge of the subject class of business, taking into account the Company's historical experience with the brokers or ceding companies. Unearned premiums represent the portion of premiums written that are applicable to future insurance or reinsurance coverage provided by policies or treaties in force.

Deferred acquisition costs represent commissions, premium taxes, brokerage expenses, and other costs which are directly attributable to the successful acquisition or renewal of contracts and vary with the production of business. These costs are deferred and amortized over the period during which the premiums are earned. Amortization of Deferred acquisition costs are shown net of contractual commissions earned on reinsurance ceded within Insurance and reinsurance acquisition expenses. Deferred acquisition costs are limited to the amount expected to be recovered from future earned premiums and anticipated investment income. This limitation is referred to as a premium deficiency. A premium deficiency is recognized if the sum of expected loss and loss adjustment expenses ("LAE"), expected dividends to policyholders, unamortized acquisition costs, and maintenance costs exceeds related unearned premiums and anticipated investment income. A premium deficiency is recognized by charging any unamortized acquisition costs to expense to the extent required in order to eliminate the deficiency. If the premium deficiency exceeds unamortized acquisition costs, then a liability is accrued for the excess deficiency.

Other underwriting expenses consist primarily of personnel related expenses (including salaries, benefits, and variable compensation expense) and other general operating expenses related to the underwriting operations.

Losses and LAE are charged against income as incurred. Unpaid insurance loss and LAE reserves are based on estimates (generally determined by claims adjusters, legal counsel, and actuarial staff) of the ultimate costs of settling claims, including the effects of inflation and other societal and economic factors. Unpaid reinsurance loss and LAE reserves are based primarily on reports received from ceding companies and actuarial projections. Unpaid loss and LAE reserves represent management's best estimate of ultimate losses and LAE, net of estimated salvage and subrogation recoveries, if applicable. Such estimates are regularly reviewed and updated and any resulting adjustments are reflected in current operations. The process of estimating loss and LAE reserves involves a considerable degree of judgment by management and the ultimate amount of expense to be incurred could be greater or less than the amounts currently reflected in the financial statements.

Sirius Group enters into ceded reinsurance contracts to protect its businesses from losses due to concentration of risk, to manage its operating leverage ratios and to limit losses arising from catastrophic events. Such reinsurance contracts are executed through excess of loss treaties and catastrophe contracts under which the reinsurer indemnifies for a specified part or all of certain types of losses over stipulated amounts arising from any one occurrence or event. Sirius Group has also entered into quota share treaties with reinsurers under which all risks meeting prescribed criteria are covered on a pro-rata basis. The amount of each risk ceded by Sirius Group is subject to maximum limits which vary by line of business and type of coverage. Although these contracts protect Sirius Group, these reinsurance arrangements do not relieve Sirius Group from its primary obligations to insureds.

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 2. Summary of significant accounting policies (Continued)

Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policies. The collectability of reinsurance recoverables is subject to the solvency of the reinsurers. Sirius Group is selective in regard to its reinsurers, principally placing reinsurance with those reinsurers with a strong financial condition, industry ratings, and underwriting ability. Management monitors the financial condition and ratings of its reinsurers on an ongoing basis.

Reinsurance premiums, commissions, expense reimbursements, and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Reinsurance premiums ceded are expensed over the period the reinsurance coverage is provided. Ceded unearned insurance and reinsurance premiums represent the portion of premiums ceded applicable to the unexpired term of policies in force. Funds held by ceding companies represent amounts due to Sirius Group in connection with certain assumed reinsurance agreements in which the ceding company retains a portion of the premium to provide security against future loss payments. The funds held by ceding companies are generally invested by the ceding company and a contractually agreed interest amount is credited to Sirius Group and recognized as investment income. Funds held under reinsurance treaties represent contractual payments due from Sirius Group that have been retained to secure such obligations.

Accruals for contingent commission liabilities are established for reinsurance contracts that provide for the stated commission percentage to increase or decrease based on the loss experience of the contract. Changes in the estimated liability for contingent commission arrangements are recorded as Insurance and reinsurance acquisition expenses. Accruals for contingent commission liabilities are determined through the review of the contracts that have these adjustable features and are estimated based on expected loss and LAE.

Derivative financial instruments

Sirius Group holds derivative financial instruments for both risk management and investment purposes. Sirius Group recognizes all derivatives as either assets or liabilities, measured at fair value, in the Consolidated Balance Sheets. Changes in the fair value of derivative instruments are recognized in current period pre-tax income.

Deferred software costs

Sirius Group capitalizes costs related to computer software developed for internal use during the application development stage of software development projects. These costs generally consist of certain external, payroll, and payroll-related costs. Sirius Group begins amortization of these costs once the project is completed and ready for its intended use. Amortization is on a straight-line basis and over a useful life of three to five years. As of December 31, 2017 and 2016, Sirius Group had unamortized deferred software costs of \$10.5 million and \$8.1 million, respectively. For the years ended December 31, 2017, 2016, and 2015, Sirius Group had amortization expenses of \$4.6 million, \$3.2 million, and \$3.0 million, respectively, related to software developed for internal use.

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 2. Summary of significant accounting policies (Continued)

Defined benefit plans

Certain Sirius Group employees in Europe participate in defined benefit plans. The liability for the defined benefit plans that is reported on the Consolidated Balance Sheets is the current value of the defined benefit obligation at the end of the period, reduced by the fair value of the plan's managed assets, with adjustments for actuarial gains and losses. The defined benefit pension plan obligation is calculated annually by independent actuaries. The current value of the defined benefit obligation is determined through discounting of expected future cash flows, using interest rates determined by current market interest rates. The service costs and actuarial gains and losses on the defined benefit obligation and the fair value on the plan assets are recognized in the Consolidated Statements of Income.

Commission and other revenue recognition

Sirius Group recognizes agent commissions and other revenues when it has fulfilled all of its obligations necessary to earn the revenue and when it can both reliably estimate the amount of revenue, net of any amounts expected to be uncollectible, and any amounts associated with expected cancellations.

Earnings per share

Earnings per share is reported in accordance with Accounting Standards Codification ("ASC") Topic 260 *Earnings per Share*. Basic earnings (loss) per share is computed by dividing net income (loss) available to Sirius Group common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income available to Sirius Group common shareholders by the weighted-average number of common shares outstanding adjusted to give effect to potentially dilutive securities. (See Note 16.)

Federal and foreign income taxes

Some of Sirius Group's subsidiaries file consolidated tax returns in the United States. Sirius Group has subsidiaries in various jurisdictions, including but not limited to Sweden, the United Kingdom, and Luxembourg, which are subject to applicable taxes in those jurisdictions.

Deferred tax assets and liabilities are recorded when a difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for tax purposes exists, and for other temporary differences. The deferred tax asset or liability is recorded based on tax rates expected to be in effect when the difference reverses. The deferred tax asset is recognized when it is more likely than not that it will be realized.

Foreign currency exchange

The U.S. dollar is the functional currency for Sirius Group's businesses except for Sirius International Insurance Corporation ("Sirius International"), Lloyd's Syndicate 1945 ("Syndicate 1945"), several subsidiaries of International Medical Group Acquisition, Inc. ("IMG"), and the Canadian reinsurance operations of Sirius America Insurance Company ("Sirius America"). Sirius Group also invests in securities denominated in foreign currencies. Assets and liabilities recorded in

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 2. Summary of significant accounting policies (Continued)

these foreign currencies are translated into U.S. dollars at exchange rates in effect at the balance sheet date, and revenues and expenses are converted using the average exchange rates for the period. Net foreign exchange gains and losses arising from the translation of functional currencies are reported in shareholder's equity, in Accumulated other comprehensive (loss). As of December 31, 2017 and 2016, Sirius Group had Net unrealized foreign currency translation losses of \$140.5 million and \$212.2 million, respectively, recorded in Accumulated other comprehensive (loss) on its Consolidated Balance Sheets.

Assets and liabilities relating to foreign operations are remeasured into the functional currency using current exchange rates; revenues and expenses are remeasured into the functional currency using the weighted average exchange rate for the period. The resulting exchange gains and losses are reported as a component of net income in the period in which they arise within Net realized investment (losses) gains, Net unrealized investment (losses) gains, and Net foreign exchange gains (losses).

The following rates of exchange for the U.S. dollar have been used for translation of assets and liabilities for subsidiaries whose functional currency is not the U.S. dollar at December 31, 2017 and 2016:

<u>Currency</u>	<u>Closing Rate 2017</u>	<u>Closing Rate 2016</u>
Swedish kronor	8.2051	9.0549
British pound	0.7398	0.8074
Euro	0.8339	0.9479
Canadian dollar	<u>1.2556</u>	<u>1.3432</u>

Goodwill and intangible assets

Goodwill represents the excess of the purchase price of an acquisition over the fair value of the identifiable net assets acquired and is assigned to the applicable reporting unit at acquisition. Goodwill is evaluated for impairment on an annual basis. Sirius Group initially evaluates goodwill using a qualitative approach to determine whether it is more likely than not that the fair value of goodwill is greater than its carrying value. If the results of the qualitative evaluation indicate that it is more likely than not that the carrying value of goodwill exceeds its fair value, Sirius Group performs the quantitative test for impairment.

Indefinite-lived intangible assets are evaluated for impairment similar to goodwill. Finite-lived intangible are amortized on a straight-line basis over their estimated useful lives. The amortization periods approximate the period over which Sirius Group expects to generate future net cash inflows from the use of these assets. All of these assets are subject to impairment testing for the impairment or disposal of long-lived assets when events or conditions indicate that the carrying value of an asset may not be fully recoverable from future cash flows.

If goodwill or intangible assets are impaired, such assets are written down to their fair values with the related expense recorded in Sirius Group's results of operations. (See Note 10.)

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 2. Summary of significant accounting policies (Continued)

Non-controlling interests

Non-controlling interests consist of the ownership interests of non-controlling shareholders in consolidated subsidiaries, and are presented separately on the balance sheet.

Mezzanine equity

In connection with the purchase of IMG, the Company issued Series A redeemable preference shares. (See Note 3.) The Series A redeemable preference shares are redeemable at the option of the holder with the passage of time. The Company classifies the Series A redeemable preference shares in accordance with GAAP guidance which requires conditionally redeemable securities to be classified outside of permanent shareholders' equity. Accordingly, the Company classifies these shares as mezzanine equity in the Consolidated Balance Sheets.

Variable interest entities

Sirius Group consolidates a VIE when it has both the power to direct the activities of the VIE that most significantly impact its economic performance and either the obligation to absorb losses or the right to receive returns from the VIE that could potentially be significant to the VIE.

An entity in which Sirius Group holds a variable interest is a VIE if any of the following conditions exist: (a) the total equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support, (b) as a group, the holders of equity investment at risk lack either the direct or indirect ability through voting rights or similar rights to make decisions about an entity's activities that most significantly impact the entity's economic performance or the obligation to absorb the expected losses or right to receive the expected residual returns, or (c) the voting rights of some investors are disproportionate to their obligation to absorb the expected losses of the entity, their rights to receive the expected residual returns of the entity, or both, and substantially all of the entity's activities either involve or are conducted on behalf of an investor with disproportionately few voting rights. The primary beneficiary is defined as the variable interest holder that is determined to have the controlling financial interest as a result of having both (a) the power to direct the activities of a VIE that most significantly impact the economic performance of the VIE and (b) the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE. At inception of the VIE, as well as following an event that requires reassessment, Sirius Group determines whether it is the primary beneficiary based on the facts and circumstances surrounding each entity. (See Note 21.)

Recently adopted changes in accounting principles

Presentation of net periodic cost and net periodic postretirement benefit cost

During 2017, Sirius Group elected early adoption of Accounting Standards Update ("ASU") 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (ASC 715), which provides guidance that increases transparency and usefulness of information about defined benefit costs for pension plans and other post-retirement plans presented in financial statements. Under the new guidance, the new standard requires separation of the service cost component from the other components of net benefit cost for presentation purposes. While the

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 2. Summary of significant accounting policies (Continued)

guidance provides for additional pension disclosures in Note 14, there was no impact on the Company's financial position, results of operations or cash flows.

Statement of cash flows

Effective January 1, 2018, Sirius Group adopted ASU 2016-18, *Statement of Cash Flows: Restricted Cash* (ASC 230), which requires that restricted cash and restricted cash equivalents be included with cash and cash equivalents in the reconciliation of beginning and ending cash on the statements of cash flows. As a result, transfers between cash and cash equivalents and restricted cash and restricted cash equivalents will no longer be presented on the statement of cash flows. The revised presentation required in this guidance is reflected in the Company's Consolidated Statements of Cash Flows for all periods presented. The adoption of this guidance did not have any effect on the Company's results of operations, financial position, or comprehensive income.

Effective January 1, 2017, Sirius Group elected early adoption of ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* (ASC 230), which addresses diversity in practice in how eight specific cash receipts and cash payments should be presented and classified on the statement of cash flows. The adoption of this guidance did not impact the Company's results of operations, financial condition, or liquidity.

Goodwill

Effective January 1, 2017, Sirius Group elected early adoption of ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The guidance simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the amendments in this guidance, an entity performs its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The guidance also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. Therefore, the same impairment assessment applies to all reporting units. An entity is required to disclose the amount of goodwill allocated to each reporting unit with a zero or negative carrying amount of net assets. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. While the guidance changes the Company's goodwill impairment testing procedures, there was no impact on the Company's financial position, results of operations or cash flows.

Short-duration contracts

Effective December 31, 2017, Sirius Group adopted ASU 2015-09, *Disclosures about Short Duration Contracts* (ASC 944), which requires expanded footnote disclosures about Loss and loss adjustment expense reserves. Upon adoption, Sirius Group modified its footnote disclosures to include loss

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 2. Summary of significant accounting policies (Continued)

development tables on a disaggregated basis by accident year and a reconciliation of loss development data to the Loss and loss adjustment expense reserves reflected on the balance sheet. The additional disclosures required by this guidance have been included in Note 5.

Recent accounting pronouncements

Premium amortization on callable debt securities

In March 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-08, *Premium Amortization on Purchased Callable Debt Securities* (ASC 310-20), which changes the amortization period for certain purchased callable debt securities. Under the new guidance, for investments in callable debt securities held at a premium, the premium will be amortized over the period to the earliest call date. The new guidance does not change the amortization period for callable debt securities held at a discount. The new guidance is effective for annual and interim periods beginning after December 15, 2018. Sirius Group does not expect adoption to have any effect on its financial statements.

Definition of a business

In January 2017, the FASB issued ASU 2017-01, *Business Combinations: Clarifying the Definition of a Business* (ASC 805), which clarifies the definition of a business and affects the determination of whether acquisitions or disposals are accounted for as assets or as a business. Under the new guidance, when substantially all of the fair value of the assets is concentrated in a single identifiable asset or a group of similar identifiable assets, it is not a business. The new guidance is effective for annual and interim periods beginning after December 15, 2017. Sirius Group does not expect adoption to have any effect on its financial statements.

Credit losses

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (ASC 326), which establishes new guidance for the recognition of credit losses for financial assets measured at amortized cost. The new guidance, which applies to financial assets that have the contractual right to receive cash, including reinsurance receivables, requires reporting entities to estimate the credit losses expected over the life of a credit exposure using historical information, current information and reasonable and supportable forecasts that affect the collectability of the financial asset. The new guidance is effective for annual and interim periods beginning after December 15, 2019. Sirius Group is evaluating the expected impact of this new guidance.

Leases

In February 2016, the FASB issued ASU 2016-02, *Leases* (ASC 842). The new guidance requires lessees to recognize lease assets and liabilities on the balance sheet for both operating and financing leases, with the exception of leases with an original term of 12 months or less. Under existing guidance, recognition of lease assets and liabilities is not required for operating leases. The lease assets and liabilities to be recognized are both measured initially based on the present value of the lease payments. The new guidance is effective for Sirius Group for annual and interim periods beginning

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 2. Summary of significant accounting policies (Continued)

after December 15, 2018. Sirius Group is evaluating the expected impact of this new guidance and available adoption methods.

Financial instruments—recognition and measurement

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASC 825-10). The new guidance modifies the guidance for financial instruments, including investments in equity securities. Under the new guidance, all equity securities with readily determinable fair values are required to be measured at fair value with changes therein recognized through current period earnings. In addition, the new guidance requires a qualitative assessment for equity securities without readily determinable fair values to identify impairment, and for impaired equity securities to be measured at fair value. The new guidance is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Sirius Group measures its portfolio of investment securities at fair value with changes therein recognized through current period earnings and, accordingly, adoption will not have any effect on its financial statements.

Revenue recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 606). ASU 2014-09 was updated through various ASUs, including ASU 2015-14 and ASU 2017-13 that delayed the effective date of ASU 2014-09. The guidance affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017. Accounting for insurance contracts is not within the scope of ASU 2014-09. Sirius Group generates service fee income, primarily from the operations of IMG and ArmadaCorp Capital, LLC ("Armada"), which is reported in Other revenues in the Consolidated Statements of (Loss) Income and is within the scope of ASU 2014-09. The guidance is effective January 1, 2018. Sirius Group intends to adopt the guidance on that date using the modified retrospective approach to transition. Adoption of the guidance will not have a significant effect on the Company's financial position, results of operations, or comprehensive income, as the accounting for insurance contracts is outside of the scope of the guidance.

Note 3. Significant transactions

The following are Sirius Group's significant transactions for the years ended December 31, 2017, 2016, and 2015:

- On September 14, 2017, Sirius Group entered into a definitive agreement to purchase 4.9% ("Initial Phoenix Shares") of The Phoenix Holdings, Ltd. ("The Phoenix") from Delek Group Ltd. ("Delek Group") for New Israeli Shekel ("NIS") 208 million in cash (or \$58.8 million on date of purchase). As part of the agreement, Sirius Group purchased the Initial Phoenix Shares on September 19, 2017, and submitted an application to the Israeli Commissioner of Capital Markets, Insurance and Savings (the "Israeli Commissioner of

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 3. Significant transactions (Continued)

Insurance") for a permit to control The Phoenix. Sirius Group had an exclusivity period expiring November 23, 2017 to conduct due diligence, during which time Sirius Group exercised the option to purchase all of Delek Group's remaining shares in The Phoenix (approximately 47.4%) for an additional sum of NIS 2.3 billion in cash (or \$663.1 million using the December 31, 2017 NIS to USD conversion rate), subject to certain adjustments for interest and earnings. In January 2018, The Phoenix issued an additional 5.249 million shares, which changed the Company's ownership percentage to 4.85% and the Delek Group ownership percentage to 46.24%. At December 31, 2017, Sirius Group was awaiting regulatory approval from the Israeli Commissioner of Insurance, the Israel Securities Authority, the Tel Aviv Stock Exchange, and the Israel Antitrust Commissioner in connection with the proposed change in control of The Phoenix. At December 31, 2017, the investment in The Phoenix was included in Equity securities, at fair value at \$67.3 million. The exercised call option to purchase the 46.24% of outstanding shares is valued at a cost of \$4.5 million and is included in Other assets. (See Note 25.)

- On May 26, 2017, Sirius Group acquired 100% ownership of IMG and its subsidiaries, a leading provider of global travel medical insurance products and assistance services. The purchase of IMG was undertaken to expand on Sirius Group's existing Global Accident and Health ("Global A&H") platform and to accelerate the growth strategy of the Global A&H international insurance business, to add service fee revenues to Sirius Group's existing risk-transfer based insurance revenues, and to gain access to IMG's distribution networks and client base. Total consideration consisted of \$250.8 million of cash, \$100.0 million of Series A redeemable preference shares that are convertible into common shares (as explained further below), and up to \$50.0 million of contingent consideration ("IMG Earnout"), payable in Series A redeemable preference shares, which was stated as \$43.1 million at fair value at acquisition date, resulting in a total enterprise value of \$393.9 million. Sirius Group assumed certain IMG debt of \$129.5 million ("Debt Assumption"), reducing its cash consideration by that amount and resulting in a total equity consideration of \$264.4 million. Concurrently with the transaction, IMG's subsidiary International Medical Group—Stop-Loss, Inc. ("IMG—Stop Loss") was sold to Certus Management Group, Inc. ("Certus"). (See Note 22.) As part of the sale of IMG—Stop Loss, Sirius Group issued a secured promissory note of \$9.0 million to Certus.

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Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 3. Significant transactions (Continued)

The following table summarizes the fair value of net assets acquired and allocation of purchase price of IMG, measured as of the acquisition date:

	<u>Total</u>	<u>Useful Life</u>
	(Millions)	
Purchase price		
Cash paid	\$ 250.8	
Series A redeemable preference shares	100.0	
Contingent consideration	43.1	
Total enterprise value	393.9	
Less: Debt assumed	(129.5)	
Total purchase price (a)	<u>\$ 264.4</u>	
Assets acquired	\$ 41.0	
Total investments	10.5	
Cash	0.2	
Accrued investment income	1.6	
Insurance and reinsurance premiums receivable	2.9	
Deferred acquisition costs	12.9	
Other assets	91.0	13.0 years
Intangible asset—distribution relationships	17.0	12.5 years
Intangible asset—customer relationships	27.0	
Intangible asset—trade names	10.0	5.0 years
Intangible asset—technology	214.1	
Total assets acquired		
Liabilities assumed	14.3	
Loss and loss adjustment expense reserves	9.8	
Unearned insurance and reinsurance premiums	55.9	
Deferred tax liability	129.5	
Debt	18.2	
Other liabilities	227.7	
Total liabilities assumed	<u>(13.6)</u>	
Net assets acquired (b)	<u>\$ 278.0</u>	
Goodwill (a)-(b)		

The goodwill balance is primarily attributed to IMG's assembled workforce and access to the supplemental healthcare and medical travel insurance market. None of the goodwill recognized is expected to be deductible for income tax purposes. The IMG Earnout is payable if earnings before interest expense, taxes, depreciation and amortization ("EBITDA") of IMG exceed amounts defined in the purchase agreement for each year during the three year period ending December 31, 2019. At December 31, 2017 the IMG Earnout liability was remeasured at a fair value of \$29.5 million and is reflected within Other liabilities. As a result of the remeasurement of the IMG Earnout, Sirius Group recorded a \$13.6 million gain in Gain on revaluation of contingent consideration in 2017.

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 3. Significant transactions (Continued)

During 2017, Sirius Group obtained \$152.2 million, or 11%, of its gross written premiums through IMG. During 2016 and 2015, Sirius Group received 14% and 15% of its gross written premiums through IMG, respectively.

During 2017, IMG's revenues and net income after acquisition, inclusive of intangible asset amortization expenses, were \$79.6 million and \$13.3 million, respectively.

Series A Redeemable Preference Shares

As a part of the IMG acquisition, Sirius Group issued Series A redeemable preference shares, with 150,000 shares authorized and 100,000 issued at issuance date, with liquidation preference of \$1,000 per preference share ("Liquidation Preference"). Up to 50,000 Series A redeemable preference shares are available pursuant to the IMG Earnout. The Series A redeemable preference shares participate in dividends on an as-converted basis with common shares and other shares junior to the Series A redeemable preference shares ("Special Dividends") and, provided that a sale or merger of Sirius Group where the surviving entity is a publicly traded entity or a qualified public offering of Sirius Group on certain named stock exchanges ("Liquidity Event"), has not occurred on the three-year anniversary of May 26, 2017 ("Initial Issue Date"), will receive cumulative dividends at 10% of the Liquidation Preference, compounded quarterly prospectively and in arrears (as if dividends were accruing and compounding as of the Initial Issue Date) ("Fixed Dividends"). The Series A redeemable preference shares will, per the automatic conversion feature, automatically convert into common shares, upon (i) the occurrence of a Liquidity Event, (ii) the five-year anniversary of the Initial Issue Date or (iii) a change of control (each a "Triggering Event"). Additionally, the holder has the option, per the optional redemption feature, to redeem for the Liquidation Preference plus accrued and unpaid dividends upon either (x) the occurrence of a change of control or (y) the five-year anniversary of the Initial Issue Date, provided a Liquidity Event or change of control has not occurred prior to such time. As a result of the automatic conversion feature and optional redemption feature of the Initial Issue Date, the Series A redeemable preference shares will either be converted into common shares or redeemed upon the fifth anniversary (or a change of control if earlier) and if a Liquidity Event has not occurred prior to such time. Beginning on the six-year anniversary of the Initial Issue Date, the Series A redeemable preference shares that do convert into common shares, pursuant to the conversion feature, ("Conversion Shares") are redeemable, at the option of the holder, at the fair market value of such Conversion Shares at such time.

The redemption value for the Series A redeemable preference shares is equal to the Liquidation Preference plus all accrued dividends. In substance, these dividends are payable to the holder from the Initial Issue Date unless a Liquidity Event occurs prior to the third-year anniversary of the Initial Issue Date. As the occurrence of a Liquidity Event is not considered probable, Sirius Group includes the 10% Fixed Dividends accrued in the redemption value at the reporting date. The Company will include Special Dividends in the redemption value to the extent they are declared and unpaid. Increases in the carrying amount of the Series A redeemable preference shares are charged against Net (loss) income attributable to Sirius Group's common shareholder.

The Liquidation Preference of the Series A redeemable preference shares are reflected as Mezzanine equity in the balance sheet. It is not subject to fair value or remeasurement, except for

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 3. Significant transactions (Continued)

accrued dividends. At December 31, 2017, the Series A redeemable preference shares are carried at \$106.1 million.

Supplemental Pro Forma Information

The following table presents unaudited pro forma consolidated information for the years ended December 31, 2017 and 2016 and assumes the IMG acquisition occurred on January 1, 2016. The pro forma financial information is presented for informational purposes only and does not necessarily reflect the results that would have occurred had the acquisition taken place on January 1, 2016, nor is it necessarily indicative of future results. It does not consider the impact of possible revenue enhancements, expense efficiencies, or synergies that may result from the acquisition of IMG.

	Unaudited Pro Forma for the Year Ended December 31,	
	2017	2016
	(Millions)	
Total revenues	\$ 1,176.8	\$ 1,096.0
Net income	\$ (173.2)	\$ (4.6)

- On April 3, 2017, Sirius Group purchased 100% of Armada and its subsidiaries from Armada Enterprises LLC ("Seller"). Armada is an insurance services and health care technology business that creates specialty employee benefit products and serves to strengthen health care coverage and access. The purchase of Armada was undertaken to expand and accelerate the growth of Sirius Group's Global A&H platform in the United States, to diversify Sirius Group's revenues to include fee based revenues, and to gain access to Armada's distribution networks. Total consideration for the acquisition consisted of (1) the purchase of 50% of Armada by Sirius Group for \$123.4 million, and (2) the redemption by Armada of the remaining 50% held by Seller for a redemption price based on a three year contingent earn-out mechanism that could result in an additional payment to Seller of up to \$125.0 million ("Armada Earnout"), with fair value of \$79.1 million at acquisition date, resulting in a total enterprise value of \$202.5 million.

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 3. Significant transactions (Continued)

The following table summarizes the fair value of net assets acquired and allocation of purchase price of Armada, measured as of the acquisition date:

	Total	Useful Life
	(Millions)	
Purchase price		
Cash paid	\$ 123.4	
Contingent consideration	79.1	
Total purchase price (a)	<u>\$ 202.5</u>	
Assets acquired		
Restricted cash	\$ 10.4	
Other assets	1.2	
Intangible asset—distribution relationships	60.0	22.5 years
Intangible asset—trade name	16.0	7.5 years
Intangible asset—technology	5.5	9.0 years
Total assets acquired	<u>93.1</u>	
Liabilities assumed		
Other liabilities	<u>13.3</u>	
Total liabilities assumed	<u>13.3</u>	
Net assets acquired (b)	<u>79.8</u>	
Goodwill (a)-(b)	<u>\$ 122.7</u>	

The goodwill balance is primarily attributed to Armada's assembled workforce and access to the supplemental healthcare insurance market, and additional synergies to be realized in the future. The goodwill recognized is expected to be deductible for income tax purposes in the future. The contingent consideration is payable if EBITDA of Armada exceeds amounts defined in the redemption agreement. The Armada Earnout can be settled in the Company's common shares, subject to certain criteria. The Armada Earnout is subject to fair value and quarterly measurement, which is a component of net income each period and reflected in Gain on revaluation of contingent consideration. In December 2017, the Company settled approximately 82% of the Armada Earnout with the Seller for \$30.6 million. The remaining Armada Earnout liability was remeasured at a fair value of \$13.3 million and is reflected in Other liabilities. As a result of the settlement and remeasurement of the Armada Earnout, Sirius Group recorded a \$35.2 million gain in Gain on revaluation of contingent consideration in 2017.

During 2017, Armada's revenues and net income after acquisitions, inclusive of intangible asset amortization expenses, were \$24.7 million and \$9.7 million, respectively.

Supplemental Pro Forma Information

The following table presents unaudited pro forma consolidated information for the years ended December 31, 2017 and 2016 and assumes the Armada acquisition occurred on January 1, 2016. The pro forma financial information is presented for informational purposes only and does not necessarily reflect the results that would have occurred had the acquisition taken place on January 1, 2016, nor is

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 3. Significant transactions (Continued)

it necessarily indicative of future results. It does not consider the impact of possible revenue enhancements, expense efficiencies, or synergies that may result from the acquisition of Armada.

	Unaudited Pro Forma for the Year Ended December 31,	
	2017	2016
	(Millions)	
Total revenues	\$ 1,144.6	\$ 1,032.6
Net income	\$ (155.1)	\$ 45.9

- On May 17, 2016, Sirius Global Solutions Holding Company ("Sirius Global Solutions") and Florida Specialty Insurance Company partnered to form Florida Specialty Acquisition LLC ("FSA"). Sirius Global Solutions provided \$15.8 million to acquire 100% of FSA's common shares. FSA acquired Mount Beacon Holdings, LLC and its subsidiaries including Mount Beacon Insurance Company ("Mount Beacon").
- On April 18, 2016, Sirius Group sold its investment in OneBeacon Insurance Group, Ltd. ("OneBeacon") at fair value to White Mountains Insurance Company ("White Mountains" or "former parent") for proceeds of \$178.3 million in connection with the sale of Sirius Group to CMIG International Holding Pte. Ltd ("CMIG International") and recorded \$22.1 million of Additional paid-in surplus for the excess of fair value over the equity method carrying value of OneBeacon. (See **Note 20**.)
- On April 18, 2016, Sirius Global Solutions sold Ashmere Insurance Company to White Mountains for proceeds of \$18.5 million in connection of the sale of Sirius Group by White Mountains.
- On February 1, 2016, Sirius Group sold its investment in Symetra Financial Corporation ("Symetra") for proceeds of \$559.8 million, or \$32.00 per share. (See **Note 20**.)
- On September 24, 2015, Sirius Global Solutions completed the sale of Woodridge Insurance Company to Sojourner Holding Co., which resulted in a gain of \$1.0 million recorded in Other revenue.

Note 4. Segment information

Sirius Group classifies its business into four reportable segments—Global Property, Global Accident and Health ("Global A&H"), Specialty and Casualty ("Specialty & Casualty"), and Runoff and Other ("Runoff & Other"). The accounting policies of the reportable segments are the same as those used for the preparation of the Company's consolidated financial statements.

The Company's Global Property, Global A&H, Specialty & Casualty, and Runoff & Other reportable segments each have managers who are responsible for the overall profitability of their respective segments and who are directly accountable to the Company's chief operating decision maker, the Chief Executive Officer ("CEO") of the Company. The CEO assesses segment operating performance, allocates capital, and makes resource allocation decisions based on Technical profit (loss), Underwriting profit (loss), and Underwriting profit (loss), including net service fee revenue.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 4. Segment information (Continued)

Segment results are shown prior to corporate eliminations. Corporate eliminations are shown to reconcile to consolidated Technical profit (loss), consolidated Underwriting profit (loss) and consolidated Underwriting profit (loss), including net service fee revenue.

Sirius Group does not allocate its assets by segment, with the exception of goodwill and intangible assets, and, accordingly, investment income is not allocated to each segment.

Global Property

Global Property consists of Sirius Group's underwriting lines of business which offer other property insurance and reinsurance, property catastrophe excess reinsurance, and agriculture reinsurance on a worldwide basis:

Other Property—Sirius Group participates in the broker market for property reinsurance treaties written on a proportional and excess of loss basis. For Sirius Group's international business, the book consists of treaty, written on both a proportional and excess of loss basis, facultative, and primary business, primarily in Europe, Asia and Latin America. In the United States, the book predominantly centers on significant participations on proportional and excess of loss treaties mostly in the excess and surplus lines segment of the market.

Property Catastrophe Excess—Property catastrophe excess of loss reinsurance treaties cover losses from catastrophic events. Sirius Group writes a worldwide book with the largest concentration of exposure in Europe and the United States. The U.S. book written in Bermuda has a national account focus supporting principally the lower and/or middle layers of large capacity programs. Additionally, Stockholm writes a U.S. book mainly consisting of select small regional and standard lines carriers. The exposures written in the international book are diversified across many countries, regions, perils and layers.

Agriculture—Sirius Group provides stop-loss reinsurance coverage to companies writing U.S. government-sponsored multi-peril crop insurance ("MPCI"). Sirius Group's participation is net of the government's stop-loss reinsurance protection. Sirius Group also provides coverage for crop-hail and certain named perils when bundled with MPCI business. Sirius Group also writes agriculture business outside of the United States.

Global A&H

Global A&H consists of Sirius Group's Global A&H insurance and reinsurance underwriting unit along with two managing general underwriters ("MGU") (Armada and IMG):

Accident and Health insurance and reinsurance—Sirius Group is an insurer of accident and health insurance business in the United States, either on an admitted or surplus lines basis, as well as international business written through IMG. Sirius Group also writes proportional and excess treaties covering employer medical stop-loss for per person (specific) and per employer (aggregate) exposures. In addition, Sirius Group writes some medical, health, travel and personal accident coverages written on a treaty, facultative and primary basis.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 4. Segment information (Continued)

IMG is a full service provider of global health & travel insurance benefits and assistance service. *IMG* offers various international medical insurance products, trip cancellation programs, medical management service and 24/7 emergency medical and travel assistance.

Armada is a specialty health services business that strengthens health care coverage through *ArmadaGlobal* and *ArmadaHealth*. *ArmadaGlobal* is a supplemental medical insurance MGU that markets and underwrites supplemental health products. *ArmadaHealth* is a health care data science business that focuses on the physician referral process.

Specialty & Casualty

Specialty & Casualty consists of Sirius Group's insurance and reinsurance underwriting units which offer specialty & casualty product lines on a worldwide basis. Specialty lines represent unique risks where the more difficult and unusual risks are underwritten. Because specialty lines tend to be the more unusual or higher risks, much of the market is characterized by a high degree of specialization:

Aviation & Space provides aviation insurance that covers loss of or damage to an aircraft and the aircraft operations' liability to passengers, cargo and hull as well as to third parties. Additionally, liability arising out of non-aircraft operations such as hangars, airports and aircraft products can be covered. Space insurance primarily covers loss of or damage to a satellite during launch and in orbit. The book consists of treaty, written on both a proportional and excess of loss basis, facultative, and primary business.

Marine provides marine reinsurance, primarily written on an excess of loss and proportional basis. Coverage offered includes damage to ships and goods in transit, marine liability lines, and offshore energy industry insurance. Sirius Group also writes yacht business, both on reinsurance and a primary basis. The marine portfolio is diversified across many countries and regions.

Trade credit writes credit and bond reinsurance worldwide. The bulk of the business is traditional short-term commercial credit insurance, covering pre-agreed domestic and export sales of goods and services with typical coverage periods of 60 to 120 days. Losses under these policies are correlated to adverse changes in a respective country's gross national product.

Contingency—Sirius Group underwrites contingency insurance for event cancellation and non-appearance, primarily on a primary policy and facultative reinsurance basis. Additionally, coverage for liabilities arising from contractual bonus, prize redemption and over-redemption is also offered. The contingency portfolio is diversified across many countries and regions.

Casualty—Sirius Group underwrites a cross section of all casualty lines, including general liability, umbrella, auto, workers compensation, professional liability, and other specialty classes, written on a proportional and excess of loss basis.

Surety—Sirius Group underwrites commercial surety bonds, including non-construction contract bonds, in a broad range of business segments in the United States.

Environmental—Sirius Group underwrites a pure environmental insurance book in the United States consisting of four core products that revolve around pollution coverage, which are premises pollution liability, contractor's pollution liability, contractor's pollution and professional liability.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 4. Segment information (Continued)

Runoff & Other

Runoff & Other consists of asbestos risks, environmental risks and other latent liability exposures, and results from Sirius Global Solutions. Sirius Global Solutions is a Connecticut-based division of Sirius Group specializing in the acquisition and management of runoff liabilities for insurance and reinsurance companies, both in the United States and internationally.

Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 4. Segment information (Continued)

The following tables summarize the segment results for the years ended December 31, 2017, 2016, and 2015:

	For the year ended December 31, 2017					Total
	Global Property	Global A&H	Specialty & Casualty	Runoff & Other	Corporate Elimination	
	(Millions)					
Gross written premiums	\$ 732.1	\$ 494.6	\$ 218.1	\$ (5.5)	\$ —	\$ 1,439.3
Net written premiums	\$ 556.2	\$ 341.5	\$ 193.0	\$ (0.5)	\$ —	\$ 1,090.2
Net earned insurance and reinsurance premiums	\$ 564.4	\$ 306.8	\$ 163.2	\$ 0.9	\$ —	\$ 1,035.3
Loss and allocated LAE(1)	(499.5)	(175.0)	(99.6)	(11.0)	—	(785.1)
Insurance and reinsurance acquisition expenses	(112.9)	(89.6)	(41.1)	3.5	42.9	(197.2)
Technical profit (loss)	(48.0)	42.7	22.5	(6.6)	42.9	53.0
Unallocated LAE(2)	(12.9)	(4.8)	(5.3)	(3.1)	—	(26.1)
Other underwriting expenses	(63.3)	(23.4)	(16.5)	(2.9)	—	(106.1)
Underwriting (loss) income	(124.2)	14.0	0.7	(12.6)	42.9	(79.2)
Service fee revenue(3)	—	65.9	—	—	(42.9)	23.0
General and administrative expenses, MGU + Runoff & Other(4)	—	(44.8)	—	(4.0)	—	(48.8)
Underwriting (loss) income, including net service fee income	(124.2)	35.1	0.7	(16.6)	—	(105.0)
Net investment income						56.8
Net realized investment (losses) gains						(27.2)
Net unrealized investment (losses) gains						(10.5)
Net foreign exchange gains (losses)						9.2
Gain on revaluation of contingent consideration						48.8
Other revenue(5)						(1.3)
General and administrative expenses(6)						(43.1)
Intangible asset amortization expenses						(10.2)
Impairment of intangible assets						(5.0)
Interest expense on debt						(22.4)
Pre-tax (loss) income						\$ (109.9)
Underwriting Ratios						
Loss ratio	90.8%	58.6%	64.3%	NM	NM	78.4%
Acquisition expense ratio	20.0%	29.2%	25.2%	NM	NM	19.0%
Other underwriting expense ratio	11.2%	7.6%	10.1%	NM	NM	10.2%
Combined ratio(7)	122.0%	95.4%	99.6%	NM	NM	107.6%
Goodwill and intangible assets(8)	\$ —	\$ 612.3	\$ —	\$ 5.0	\$ —	\$ 617.3

(1) Loss and allocated LAE are part of Loss and loss adjustment expenses on the Consolidated Statements of (Loss) Income (the sum of Loss and allocated LAE and Unallocated LAE is equal to Loss and loss adjustment expenses on the Consolidated Statements of (Loss) Income).

(2) Unallocated LAE are part of Loss and loss adjustment expenses on the Consolidated Statements of (Loss) Income (the sum of Loss and allocated LAE and Unallocated LAE is equal to Loss and loss adjustment expenses on the Consolidated Statements of (Loss) Income).

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Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 4. Segment information (Continued)

- (3) Service fee revenue is part of Other revenue on the Consolidated Statements of (Loss) Income (the sum of Service fee revenue and Other revenue is equal to Other revenue on the Consolidated Statements of (Loss) Income).
- (4) General and administrative expenses, MGU + Runoff & Other is part of General and administrative expenses on the Consolidated Statements of (Loss) Income (the sum of General and administrative expenses, MGU + Runoff & Other and General and administrative expenses is equal to General and administrative expenses on the Consolidated Statements of (Loss) Income).
- (5) Other revenue is presented net of Service fee revenue (the sum of Service fee revenue and Other revenue is equal to Other revenue on the Consolidated Statements of (Loss) Income).
- (6) General and administrative expenses are presented net of General and administrative expenses, MGU + Runoff & Other (the sum of General and administrative expenses, MGU + Runoff & Other and General and administrative expenses is equal to General and administrative expenses on the Consolidated Statements of (Loss) Income).
- (7) Ratios considered not meaningful ("NM") to Runoff & Other and Corporate Elimination.
- (8) Sirius Group does not allocate its assets by segment, with the exception of goodwill and intangible assets.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 4. Segment information (Continued)

	For the year ended December 31, 2016					Total
	Global Property	Global A&H	Specialty & Casualty (Millions)	Runoff & Other	Corporate Elimination	
Gross written premiums	\$ 634.9	\$ 456.1	\$ 170.7	\$ 27.3	\$ —	\$ 1,269.0
Net written premiums	\$ 514.2	\$ 277.6	\$ 157.4	\$ 8.9	\$ —	\$ 958.1
Net earned insurance and reinsurance premiums	\$ 481.8	\$ 272.2	\$ 155.2	\$ 0.9	\$ —	\$ 890.1
Loss and allocated LAE(1)	(256.6)	(164.8)	(71.2)	(2.6)	—	(495.2)
Insurance and reinsurance acquisition expenses	(109.3)	(71.7)	(37.7)	(0.6)	—	(219.3)
Technical profit (loss)	124.9	35.7	26.3	(2.3)	—	184.6
Unallocated LAE(2)	(11.9)	(6.8)	(4.4)	(1.0)	—	(24.1)
Other underwriting expenses	(65.1)	(23.3)	(15.1)	(3.8)	—	(107.3)
Underwriting (loss) income	47.9	5.6	6.8	(7.1)	—	53.2
Service fee revenue(3)	—	—	—	4.3	—	4.3
General and administrative expenses, MGU + Runoff & Other(4)	—	—	—	(6.2)	—	(6.2)
Underwriting (loss) income, including net service fee income	47.9	5.6	6.8	(9.0)	—	51.3
Net investment income						56.2
Net realized investment (losses) gains						288.3
Net unrealized investment (losses) gains						(238.2)
Net foreign exchange gains (losses)						(11.0)
Gain on revaluation of contingent consideration						—
Other revenue(5)						4.8
General and administrative expenses(6)						(78.9)
Intangible asset amortization expenses						—
Impairment of intangible assets						—
Interest expense on debt						(54.6)
Pre-tax (loss) income						\$ 37.9
Underwriting Ratios						
Loss ratio	55.7%	63.0%	55.9%	NM	NM	58.3%
Acquisition expense ratio	20.8%	26.3%	27.9%	NM	NM	23.6%
Other underwriting expense ratio	13.5%	8.6%	11.2%	NM	NM	12.1%
Combined ratio(7)	90.0%	97.9%	95.0%	NM	NM	94.0%
Goodwill and intangible assets(8)	\$ —	\$ —	\$ —	\$ 5.0	\$ —	\$ 5.0

- (1) Loss and allocated LAE are part of Loss and loss adjustment expenses on the Consolidated Statements of (Loss) Income (the sum of Loss and allocated LAE and Unallocated LAE is equal to Loss and loss adjustment expenses on the Consolidated Statements of (Loss) Income).
- (2) Unallocated LAE are part of Loss and loss adjustment expenses on the Consolidated Statements of (Loss) Income (the sum of Loss and allocated LAE and Unallocated LAE is equal to Loss and loss adjustment expenses on the Consolidated Statements of (Loss) Income).

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 4. Segment information (Continued)

- (3) Service fee revenue is part of Other revenue on the Consolidated Statements of (Loss) Income (the sum of Service fee revenue and Other revenue is equal to Other revenue on the Consolidated Statements of (Loss) Income).
- (4) General and administrative expenses, MGU + Runoff & Other is part of General and administrative expenses on the Consolidated Statements of (Loss) Income (the sum of General and administrative expenses, MGU + Runoff & Other and General and administrative expenses is equal to General and administrative expenses on the Consolidated Statements of (Loss) Income).
- (5) Other revenue is presented net of Service fee revenue (the sum of Service fee revenue and Other revenue is equal to Other revenue on the Consolidated Statements of (Loss) Income).
- (6) General and administrative expenses are presented net of General and administrative expenses, MGU + Runoff & Other (the sum of General and administrative expenses, MGU + Runoff & Other and General and administrative expenses is equal to General and administrative expenses on the Consolidated Statements of (Loss) Income).
- (7) Ratios considered not meaningful ("NM") to Runoff & Other and Corporate Elimination.
- (8) Sirius Group does not allocate its assets by segment, with the exception of goodwill and intangible assets.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 4. Segment information (Continued)

	For the year ended December 31, 2015					Total
	Global Property	Global A&H	Specialty & Casualty (Millions)	Runoff & Other	Corporate Elimination	
Gross written premiums	\$ 574.7	\$ 385.9	\$ 182.4	\$ 17.5	\$ —	\$ 1,160.5
Net written premiums	\$ 440.7	\$ 262.3	\$ 147.5	\$ (2.9)	\$ —	\$ 847.6
Net earned insurance and reinsurance premiums	\$ 446.0	\$ 258.1	\$ 138.2	\$ 4.7	\$ —	\$ 847.0
Loss and allocated LAE(1)	(156.8)	(151.6)	(91.0)	4.6	—	(394.8)
Insurance and reinsurance acquisition expenses	(84.0)	(70.9)	(32.3)	(2.6)	—	(189.8)
Technical profit (loss)	205.2	35.6	14.9	6.7	—	262.4
Unallocated LAE(2)	(10.3)	(6.5)	(6.8)	(4.3)	—	(27.9)
Other underwriting expenses	(65.8)	(24.2)	(15.6)	(2.3)	—	(107.9)
Underwriting (loss) income	129.1	4.9	(7.5)	0.1	—	126.6
Service fee revenue(3)	—	—	—	1.0	—	1.0
General and administrative expenses, MGU + Runoff & Other(4)	—	—	—	(4.0)	—	(4.0)
Underwriting (loss) income, including net service fee income	129.1	4.9	(7.5)	(2.9)	—	123.6
Net investment income						39.9
Net realized investment (losses) gains						158.5
Net unrealized investment (losses) gains						102.5
Net foreign exchange gains (losses)						(18.2)
Gain on revaluation of contingent consideration						—
Other revenue(5)						(3.4)
General and administrative expenses(6)						(23.1)
Intangible asset amortization expenses						—
Impairment of intangible assets						—
Interest expense on debt						(26.6)
Pre-tax (loss) income						\$ 333.2
Underwriting Ratios						
Loss ratio	37.5%	61.3%	70.8%	NM	NM	49.9%
Acquisition expense ratio	18.8%	27.5%	23.4%	NM	NM	22.4%
Other underwriting expense ratio	14.8%	9.4%	11.3%	NM	NM	12.7%
Combined ratio(7)	71.1%	98.2%	105.5%	NM	NM	85.0%
Goodwill and intangible assets(8)	\$ —	\$ —	\$ —	\$ 10.2	\$ —	\$ 10.2

- (1) Loss and allocated LAE are part of Loss and loss adjustment expenses on the Consolidated Statements of (Loss) Income (the sum of Loss and allocated LAE and Unallocated LAE is equal to Loss and loss adjustment expenses on the Consolidated Statements of (Loss) Income).
- (2) Unallocated LAE are part of Loss and loss adjustment expenses on the Consolidated Statements of (Loss) Income (the sum of Loss and allocated LAE and Unallocated LAE is equal to Loss and loss adjustment expenses on the Consolidated Statements of (Loss) Income).

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 4. Segment information (Continued)

- (3) Service fee revenue is part of Other revenue on the Consolidated Statements of (Loss) Income (the sum of Service fee revenue and Other revenue is equal to Other revenue on the Consolidated Statements of (Loss) Income).
- (4) General and administrative expenses, MGU + Runoff & Other is part of General and administrative expenses on the Consolidated Statements of (Loss) Income (the sum of General and administrative expenses, MGU + Runoff & Other and General and administrative expenses is equal to General and administrative expenses on the Consolidated Statements of (Loss) Income).
- (5) Other revenue is presented net of Service fee revenue (the sum of Service fee revenue and Other revenue is equal to Other revenue on the Consolidated Statements of (Loss) Income).
- (6) General and administrative expenses are presented net of General and administrative expenses, MGU + Runoff & Other (the sum of General and administrative expenses, MGU + Runoff & Other and General and administrative expenses is equal to General and administrative expenses on the Consolidated Statements of (Loss) Income).
- (7) Ratios considered not meaningful ("NM") to Runoff & Other and Corporate Elimination.
- (8) Sirius Group does not allocate its assets by segment, with the exception of goodwill and intangible assets.

The following tables provide summary information regarding net premiums written by client location and underwriting location by reportable segment for the years ended December 31, 2017, 2016, and 2015:

	For the year ended December 31, 2017				
	Global Property	Global A&H	Specialty & Casualty (Millions)	Runoff & Other	Total
Net written premiums by client location:					
United States	\$ 220.8	\$ 284.5	\$ 59.0	\$ (1.2)	\$ 563.1
Europe	142.4	28.2	91.7	—	262.3
Canada, the Caribbean, Bermuda and Latin America	93.0	9.5	8.7	0.2	111.4
Asia and Other	100.0	19.3	33.6	0.5	153.4
Total net written premium by client location	\$ 556.2	\$ 341.5	\$ 193.0	\$ (0.5)	\$ 1,090.2
Net written premiums by underwriting location:					
United States	\$ 54.4	\$ 98.2	\$ (1.0)	\$ (1.1)	\$ 150.5
Europe	239.4	196.4	147.5	—	583.3
Canada, the Caribbean, Bermuda and Latin America	225.2	46.4	43.9	—	315.5
Asia and Other	37.2	0.5	2.6	0.6	40.9
Total written premiums by underwriting location	\$ 556.2	\$ 341.5	\$ 193.0	\$ (0.5)	\$ 1,090.2

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 4. Segment information (Continued)

	For the year ended December 31, 2016				
	Global Property	Global A&H	Specialty & Casualty	Runoff & Other	Total
	(Millions)				
Net written premiums by client location:					
United States	\$ 214.8	\$ 211.7	\$ 28.4	\$ 8.1	\$ 463.0
Europe	146.0	34.0	78.9	—	258.9
Canada, the Caribbean, Bermuda and Latin America	67.4	9.4	11.3	0.2	88.3
Asia and Other	86.0	22.5	18.8	0.6	127.9
Total net written premium by client location	\$ 514.2	\$ 277.6	\$ 137.4	\$ 8.9	\$ 938.1
Net written premiums by underwriting location:					
United States	\$ 192.9	\$ 111.6	\$ 6.5	\$ 8.3	\$ 319.3
Europe	238.3	164.2	128.8	—	531.3
Canada, the Caribbean, Bermuda and Latin America	50.1	1.4	—	—	51.5
Asia and Other	32.9	0.4	2.1	0.6	36.0
Total written premiums by underwriting location	\$ 514.2	\$ 277.6	\$ 137.4	\$ 8.9	\$ 938.1

	For the year ended December 31, 2015				
	Global Property	Global A&H	Specialty & Casualty	Runoff & Other	Total
	(Millions)				
Net written premiums by client location:					
United States	\$ 163.5	\$ 209.2	\$ 29.1	\$ (4.3)	\$ 397.5
Europe	134.6	22.6	81.5	3.2	241.9
Canada, the Caribbean, Bermuda and Latin America	74.9	12.0	14.1	0.2	101.2
Asia and Other	67.7	18.5	22.8	(2.0)	107.0
Total net written premium by client location	\$ 440.7	\$ 262.3	\$ 147.5	\$ (2.9)	\$ 847.6
Net written premiums by underwriting location:					
United States	\$ 156.9	\$ 104.2	\$ 8.2	\$ (4.1)	\$ 265.2
Europe	203.5	157.9	136.8	0.8	499.0
Canada, the Caribbean, Bermuda and Latin America	49.6	—	0.1	—	49.7
Asia and Other	30.7	0.2	2.4	0.4	33.7
Total written premiums by underwriting location	\$ 440.7	\$ 262.3	\$ 147.5	\$ (2.9)	\$ 847.6

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses

Sirius Group establishes loss and LAE reserves that are estimates of future amounts needed to pay claims and related expenses for events that have already occurred. Sirius Group also obtains reinsurance whereby another reinsurer contractually agrees to indemnify Sirius Group for all or a portion of the reinsurance risks underwritten by Sirius Group. Such arrangements, where one reinsurer provides reinsurance to another reinsurer, are usually referred to as "retrocessional reinsurance" arrangements. Sirius Group establishes estimates of amounts recoverable from retrocessional reinsurance in a manner consistent with the loss and LAE liability associated with reinsurance contracts offered to its customers (the "ceding companies"), net of an allowance for uncollectible amounts. Net reinsurance loss reserves represent loss and LAE reserves reduced by retrocessional reinsurance recoverable on unpaid losses.

In addition to those factors which give rise to inherent uncertainties in establishing loss and LAE reserves, the inherent uncertainties of estimating such reserves are even greater for the reinsurer, due primarily to: (1) the claim-tail for reinsurers and insurers working through MGUs being further extended because claims are first reported to either the original primary insurance company or the MGU and then through one or more intermediaries or reinsurers, (2) the diversity of loss development patterns among different types of reinsurance treaties, facultative contracts or direct insurance contracts, (3) the necessary reliance on the ceding companies, intermediaries, and MGUs for information regarding reported claims and (4) the differing reserving practices among ceding companies and MGUs.

As with insurance reserves, the process of estimating reinsurance reserves involves a considerable degree of judgment by management and, as of any given date, is inherently uncertain. Based on the above, such uncertainty may be larger relative to the reserves for a company that principally writes reinsurance compared to an insurance company, and certainty may take a longer time to emerge.

Upon notification of a loss from an insured (typically a ceding company), Sirius Group establishes case reserves, including LAE reserves, based upon Sirius Group's share of the amount of reserves reported by the insured and Sirius Group's independent evaluation of the loss. In cases where available information indicates that reserves reported by a ceding company are inadequate or excessive, Sirius Group establishes case reserves or incurred but not reported ("IBNR") in excess of or below its share of the reserves reported by the ceding company. Also, in certain instances, Sirius Group may decide not to establish case reserves or IBNR, when the information available indicates that reserves established by ceding companies are not adequately supported. In addition, specific claim information reported by insureds or obtained through claim audits can alert management to emerging trends such as changing legal interpretations of coverage and liability, claims from unexpected sources or classes of business, and significant changes in the frequency or severity of individual claims where customary. Generally, ceding company audits are not customary outside the United States. This information is often used to supplement estimates of IBNR.

Generally, initial actuarial estimates of IBNR reserves not related to a specific event are based on the loss ratio method applied to each class of business. Sirius Group regularly reviews the adequacy of its recorded reserves by using a variety of generally accepted actuarial methods, including historical incurred and paid loss development methods. Estimates of the initial expected ultimate losses involve management judgment and are based on historical information for that class of business, which includes loss ratios, market conditions, changes in pricing and conditions, underwriting changes, changes in

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

claims emergence, and other factors that may influence expected ultimate losses. If actual loss activity differs substantially from expectations, an adjustment to recorded reserves may be warranted. As time passes, loss reserve estimates for a given year will rely more on actual loss activity and historical patterns than on initial assumptions.

The actuarial methods are used to calculate a point estimate of loss and LAE reserves for each company within Sirius Group. These point estimates are then aggregated to produce an actuarial point estimate for Sirius Group. Once a point estimate is established, Sirius Group's actuaries estimate loss reserve ranges to measure the sensitivity of the actuarial assumptions used to set the point estimates. These ranges are calculated from historical variations in loss ratios, payment, and reporting patterns by class and type of business. Management then establishes an estimate for the carried loss and LAE reserves shown in the financial statement. The management selection is within the range of loss reserve estimates provided by Sirius Group's actuaries.

Loss and Loss Adjustment Expense Reserve Summary

The following table summarizes the loss and LAE reserve activities of Sirius Group for the years ended December 31, 2017, 2016, and 2015:

	<u>2017</u>	<u>2016</u> (Millions)	<u>2015</u>
Gross beginning balance	\$ 1,620.1	\$ 1,644.4	\$ 1,809.8
Less beginning reinsurance recoverable on unpaid losses	(291.5)	(283.1)	(322.2)
Net loss and LAE reserve balance	1,328.6	1,361.3	1,487.6
Loss and LAE reserves acquired(1)	14.3	9.8	—
Losses and LAE incurred relating to:			
Current year losses	811.8	583.0	473.9
Prior years losses	(0.6)	(63.7)	(51.2)
Total net incurred losses and LAE	811.2	519.3	422.7
Accretion of fair value adjustment to net loss and LAE reserves	0.1	0.5	0.7
Foreign currency translation adjustment to net loss and LAE reserves	36.8	(14.0)	(27.2)
Loss and LAE paid relating to:			
Current year losses	222.8	207.6	162.4
Prior years losses	389.5	340.7	360.1
Total loss and LAE payments	612.3	548.3	522.5
Net ending balance	1,578.8	1,328.6	1,361.3
Plus ending reinsurance recoverable on unpaid losses	319.7	291.5	283.1
Gross ending balance	\$ 1,898.5	\$ 1,620.1	\$ 1,644.4

(1) Loss and LAE reserves acquired in 2017 relate to Sirius Group's purchase of IMG; 2016 relates to Sirius Group's purchase of Mount Beacon.

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

Loss and LAE development—2017

During the year ended December 31, 2017, Sirius Group had net favorable prior year loss reserve development of \$0.6 million. During 2017, Sirius Group strengthened its asbestos loss reserves by \$59.0 million, which was offset by reductions of other runoff claims reserves of \$45.7 million, which is reflected in the Runoff & Other segment. The Specialty & Casualty segment had net favorable prior year loss development of \$12.1 million, which is comprised of the Marine (\$5.4 million), Trade credit (\$4.2 million), Aviation & Space (\$1.7 million), and Contingency (\$0.8 million) operating segments.

Loss and LAE development—2016

During the year ended December 31, 2016, Sirius Group had net favorable prior year loss reserve development of \$63.7 million. The major reductions in loss reserve estimates were recognized in the Global Property (\$26.8 million) and Specialty & Casualty (\$24.8 million) segments. The decrease in Global Property was driven by Other Property (\$23.4 million) due primarily to reductions in the ultimate loss estimates for natural catastrophes that occurred between 2010 and 2015 due to lower than expected claims activity. The decrease in Specialty & Casualty was mainly due to Aviation & Space and Marine with decreases of \$11.5 million and \$7.2 million, respectively. Asbestos losses of \$13.6 million in 2016 were offset by other long tail favorable loss reserve development in Runoff & Other.

Loss and LAE development—2015

During the year ended December 31, 2015, Sirius Group had net favorable prior year loss reserve development of \$51.2 million. The major reductions in loss reserve estimates were recognized in the Global Property (\$27.0 million) and Specialty & Casualty (\$7.9 million) segments. The decrease in Global Property was driven primarily by reductions in the ultimate loss estimates for natural catastrophes that occurred between 2010 and 2014 due to less than expected claims activity for Other Property (\$16.7 million) and Property Catastrophe Excess (\$8.9 million). The decrease in Specialty & Casualty was mainly due to Aviation & Space (\$5.9 million).

Fair value adjustment to loss and LAE reserves

In connection with purchase accounting for acquisitions, Sirius Group is required to adjust loss and LAE reserves and the related reinsurance recoverables to fair value on their respective acquired balance sheets. The net reduction to loss and LAE reserves is being recognized through an income statement charge ratably with and over the period the claims are settled and is recorded within General and administrative expenses. Sirius Group recognized \$0.1 million, \$0.5 million, and \$0.7 million of such charges during 2017, 2016, and 2015, respectively. As of December 31, 2017, the pre-tax un-accreted adjustment was \$2.8 million.

Asbestos and Environmental Loss and Loss Adjustment Expense Reserve Activity

In the Runoff & Other segment, Sirius Group's reserves include provisions made for claims that assert damages from asbestos and environmental ("A&E") related exposures primarily at Sirius America. Asbestos claims relate primarily to injuries asserted by those who came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

clean-up cost obligations, particularly as mandated by U.S. federal and state environmental protection agencies. In addition to the factors described above regarding the reserving process, Sirius Group estimates its A&E reserves based upon, among other factors, facts surrounding reported cases and exposures to claims, such as policy limits and deductibles, current law, past and projected claim activity, and past settlement values for similar claims, as well as analysis of industry studies and events, such as recent settlements and asbestos-related bankruptcies. The cost of administering A&E claims, which is an important factor in estimating loss reserves, tends to be higher than in the case of non-A&E claims due to the higher legal costs typically associated with A&E claims.

Sirius Group's A&E exposure is primarily from reinsurance contracts written between 1974 through 1985 by acquired companies, mainly MONY Reinsurance Company, which was acquired in 1991, and Christiania General Insurance Company, which was acquired in 1996. The exposures are mostly higher layer excess of loss treaty and facultative coverages with relatively low limits exposed for each claim.

The acquisition of companies having modest portfolios of A&E exposure has been typical of several prior Sirius Global Solutions transactions and is likely to be an element of at least some future acquisitions. However, the acquisition of new A&E liabilities is undertaken only after careful due diligence and utilizing conservative reserving assumptions in relation to industry benchmarks. In the case of portfolios acquired previously, the exposures arise almost entirely from old assumed reinsurance contracts having small limits of liability.

Sirius Group recorded an increase of \$59.0 million, an increase of \$13.6 million, and a decrease of \$0.5 million of asbestos-related incurred losses and LAE on its asbestos reserves in 2017, 2016, and 2015, respectively. The 2017 incurred losses were primarily a result of an in-depth analysis of Sirius Group's loss reserves undertaken in the second quarter. The 2016 incurred losses were primarily the result of management's monitoring of a variety of metrics including actual paid and reported claims activity.

Sirius Group recorded \$6.1 million, \$0.4 million, and \$3.0 million of environmental losses in 2017, 2016, and 2015, respectively, on its already existing reserves.

Sirius Group's net reserves for A&E losses were \$220.6 million and \$180.3 million as of December 31, 2017 and 2016, respectively. Sirius Group's asbestos three-year net paid survival ratio was approximately 10.2 years and 8.8 years as of December 31, 2017 and 2016, respectively. Sirius Group's environmental three-year net paid survival ratio was approximately 4.3 years and 4.8 years as of December 31, 2017 and 2016, respectively.

Sirius Group's reserves for A&E losses as of December 31, 2017 represent management's best estimate of its ultimate liability based on information currently available. However, as case law expands, medical and clean-up costs increase, and industry settlement practices change, Sirius Group may be subject to asbestos and environmental losses beyond currently estimated amounts. Sirius Group cannot reasonably estimate at the present time loss reserve additions arising from any such future adverse developments and cannot be sure that allocated loss reserves will be sufficient to cover additional liability arising from any such adverse developments.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

The following table summarizes reported A&E loss and LAE reserve activities (gross and net of reinsurance) for the years ended December 31, 2017, 2016, and 2015:

	2017		2016		2015	
	Gross	Net	Gross	Net	Gross	Net
(Millions)						
Asbestos:						
Beginning balance	\$ 187.0	\$ 166.4	\$ 193.5	\$ 172.9	\$ 215.8	\$ 192.8
Incurred losses and LAE	96.9	59.0	15.3	13.6	(0.3)	(0.5)
Paid losses and LAE	(24.7)	(20.8)	(21.8)	(20.1)	(22.0)	(19.4)
Ending balance	259.2	204.6	187.0	166.4	193.5	172.9
Environmental:						
Beginning balance	18.5	13.9	21.5	16.8	22.7	17.4
Incurred losses and LAE	2.9	6.1	0.4	0.4	3.0	3.0
Paid losses and LAE	(4.7)	(4.0)	(3.4)	(3.3)	(4.2)	(3.6)
Ending balance	16.7	16.0	18.5	13.9	21.5	16.8
Total asbestos and environmental:						
Beginning balance	205.5	180.3	215.0	189.7	238.5	210.2
Incurred losses and LAE	99.8	65.1	15.7	14.0	2.7	2.5
Paid losses and LAE	(29.4)	(24.8)	(25.2)	(23.4)	(26.2)	(23.0)
Ending balance	\$ 275.9	\$ 220.6	\$ 205.5	\$ 180.3	\$ 215.0	\$ 189.7

Net loss reserves by type

The following tables present Sirius Group's loss and LAE reserves, net of reinsurance, by type at December 31, 2017 and 2016:

	2017	2016
	(Millions)	
Case Reserve	\$ 833.9	\$ 738.3
IBNR Reserve	744.9	590.3
Loss and loss adjustment expense reserves, net of reinsurance	\$ 1,578.8	\$ 1,328.6

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

Reconciliation of liabilities for unpaid loss and LAE

The following table summarizes the ending liabilities for unpaid loss and LAE, net of reinsurance for each of Sirius Group's segments and start up lines of business as of December 31, 2017:

<u>Liabilities for unpaid loss and LAE, net of reinsurance</u>	<u>As of December 31, 2017 (Millions)</u>
Unpaid and allocated LAE reserves, net of reinsurance	
Other Property	\$ 432.6
Property Catastrophe Excess	161.4
Agriculture	45.6
Accident & Health	155.8
Aviation & Space	93.8
Trade credit	39.2
Marine	79.9
Contingency	11.6
Casualty	15.5
Runoff & Other	505.2
Total unpaid and allocated LAE reserves, net of reinsurance	<u>1,540.6</u>
Unallocated LAE	<u>38.2</u>
Total unpaid loss and LAE reserves, net of reinsurance	<u>1,578.8</u>
Reinsurance recoverable on unpaid losses	
Other Property	61.0
Property Catastrophe Excess	40.1
Agriculture	2.8
Accident & Health	45.6
Aviation & Space	22.9
Trade credit	14.0
Marine	17.5
Contingency	2.6
Casualty	—
Runoff & Other	113.2
Total reinsurance recoverable on unpaid losses	<u>319.7</u>
Total unpaid loss and LAE reserves	<u>\$ 1,898.5</u>

The following table groupings, reflecting the Other Property, Property Catastrophe Excess, Agriculture, Accident & Health, Aviation & Space, Trade credit, Marine, Contingency, Casualty, and Runoff & Other lines of business include three sections.

The first table (top section of grouping) presents, for each of the previous 10 accident years (1) cumulative total undiscounted incurred loss and allocated LAE, net of reinsurance, as of each of the previous 10 year-end evaluations, (2) total IBNR plus expected development on reported claims as

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

of December 31, 2017, and (3) the cumulative number of reported claims as of December 31, 2017. Sirius Group provides treaty reinsurance products for a significant portion and across all lines of its business. Sirius Group does not receive or maintain claims count information associated with its reserved claims. As such, Sirius Group has determined that it is impracticable to provide this information.

The second table (middle section grouping) presents cumulative paid loss and allocated LAE, net of reinsurance for each of the previous 10 accident years, as of each of the previous 10 year-end evaluations. Also included in this table is a calculation of the liability for loss and allocated LAE as of December 31, 2017 which is then included in the reconciliation to the consolidated balance sheet presented above. The liability as of December 31, 2017 is calculated as the cumulative incurred loss and allocated LAE from the first table less the cumulative paid loss and allocated from the second table, plus any outstanding liabilities from accident years prior to 2008.

The third table (bottom section of grouping) is supplementary information about the average historical claims duration as of December 31, 2017. It shows the weighted average annual percentage payout of incurred loss and allocated LAE by accident year as of each age. For example, the first column is calculated as the incremental paid loss and allocated LAE in the first calendar year for each given accident year (e.g. calendar year 2009 for accident year 2009, calendar year 2010 for accident year 2010) divided by the cumulative incurred loss and allocated LAE as of December 31, 2017 for that accident year. The resulting ratios are weighted together using cumulative incurred loss and allocated LAE as of December 31, 2017.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

Other Property

Incurring losses and allocated loss adjustment expenses, net of reinsurance											December 31, 2017	
Year ended December 31,											Total IBNR liabilities plus expected development on reported claims	Cumulative number of reported claims
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
	(Millions)											
2008	199.9	202.3	179.6	173.6	173.5	173.6	172.8	173.1	172.4	171.7	0.4	NA
2009		117.3	107.7	97.3	93.3	93.2	92.1	94.9	93.7	91.9	0.3	NA
2010			156.0	153.4	144.7	145.6	140.6	139.6	138.8	137.1	1.6	NA
2011				162.3	149.8	140.3	132.3	130.3	130.9	131.0	0.4	NA
2012					166.3	152.4	147.3	142.7	137.9	135.9	2.1	NA
2013						139.7	135.7	124.5	120.7	120.6	0.5	NA
2014							126.7	129.1	126.1	126.6	2.9	NA
2015								145.4	137.0	139.1	2.6	NA
2016									193.3	212.8	15.6	NA
2017										338.8	156.0	NA
									Total	1,605.5		

Other Property

Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance										
Year ended December 31,										
Accident Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	(Millions)									
2008	39.1	111.4	145.0	157.1	165.9	170.0	170.5	170.5	170.5	170.5
2009		22.6	59.9	79.1	85.8	90.0	91.1	90.9	91.6	91.6
2010			31.0	89.4	116.6	124.5	129.6	131.8	132.3	132.4
2011				27.4	81.0	105.2	118.3	124.4	126.9	129.6
2012					20.5	86.7	109.9	118.3	121.7	127.1
2013						28.0	73.7	99.0	105.7	109.4
2014							19.4	71.2	98.7	107.5
2015								31.5	95.3	117.5
2016									32.1	130.6
2017										59.3
									Total	1,175.5
									All outstanding liabilities before 2008, net of reinsurance	2.6
									Liabilities for loss and loss adjustment expenses, net of reinsurance	432.6

Other Property

Average annual percentage payout of incurred losses and allocated LAE by age, net of reinsurance										
Years	1	2	3	4	5	6	7	8	9	10
	19.4%	43.2%	19.0%	7.2%	4.0%	2.3%	0.7%	0.2%	0.0%	0.0%

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

Property Catastrophe Excess

Incurring losses and allocated loss adjustment expenses, net of reinsurance											December 31, 2017		
Year ended December 31,											Total IBNR liabilities plus expected development on reported claims	Cumulative number of reported claims	
Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016 Unaudited	2017			
	(Millions)												
2008	80.7	82.2	79.1	82.9	81.6	81.5	77.2	77.1	77.2	77.2	77.2	—	NA
2009		51.2	52.1	50.7	49.7	48.8	48.1	47.8	47.8	47.9	47.9	(0.1)	NA
2010			157.8	155.6	155.0	132.1	124.7	123.8	123.3	122.7	122.7	(0.2)	NA
2011				149.1	154.2	143.6	121.8	118.2	117.4	117.3	117.3	0.1	NA
2012					71.5	59.8	53.2	51.2	51.7	46.8	46.8	0.1	NA
2013						78.5	85.2	81.9	81.4	80.5	80.5	0.1	NA
2014							59.5	61.1	58.1	58.0	58.0	0.6	NA
2015								29.0	31.4	29.0	29.0	0.1	NA
2016									51.2	49.0	49.0	3.2	NA
2017										107.4	107.4	46.0	NA
									Total				

Property Catastrophe Excess

Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance												
Year ended December 31,												
Accident Year	2008 Unaudited	2009 Unaudited	2010 Unaudited	2011 Unaudited	2012 Unaudited	2013 Unaudited	2014 Unaudited	2015 Unaudited	2016 Unaudited	2017		
	(Millions)											
2008	25.1	54.9	65.7	73.4	76.7	76.8	77.0	77.1	77.1	77.2		
2009		7.4	32.4	41.1	44.1	45.2	45.5	45.6	45.8	45.8		
2010			50.1	91.4	104.2	109.4	112.9	115.4	119.3	119.2		
2011				15.9	54.6	96.3	115.5	115.9	116.4	117.5		
2012					2.8	26.7	36.4	41.1	42.0	43.9		
2013						11.7	51.6	65.0	70.2	71.6		
2014							9.9	38.0	44.5	50.4		
2015								1.8	9.9	17.9		
2016									10.4	26.0		
2017										13.3		
									Total		582.6	
											All outstanding liabilities before 2008, net of reinsurance	8.2
											Liabilities for loss and loss adjustment expenses, net of reinsurance	590.8

Property Catastrophe Excess

Average annual percentage payout of incurred losses and allocated LAE by age, net of reinsurance										
Years	1	2	3	4	5	6	7	8	9	10
	20.2%	39.8%	19.3%	9.3%	2.2%	1.3%	1.4%	0.1%	0.0%	0.1%

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

Agriculture

Accident Year	Incurred losses and allocated loss adjustment expenses, net of reinsurance										December 31, 2017	
	Year ended December 31,										Total IBNR liabilities plus expected development on reported claims	Cumulative number of reported claims
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited		
	(Millions)											
2008	21.4	26.0	25.8	25.8	25.8	26.3	26.3	26.2	26.2	26.2	—	NA
2009		11.9	9.9	8.7	8.7	8.5	8.5	8.5	8.5	8.5	—	NA
2010			12.9	10.9	11.0	10.8	10.8	10.8	10.8	10.8	(0.3)	NA
2011				21.6	21.6	21.8	21.8	21.7	21.7	21.7	—	NA
2012					41.0	45.8	45.8	45.7	47.0	47.0	(0.3)	NA
2013						9.2	11.0	13.1	13.2	13.0	(0.1)	NA
2014							9.7	8.2	8.4	8.9	0.2	NA
2015								7.1	9.2	9.6	0.1	NA
2016									34.1	31.5	2.2	NA
2017										51.3	33.4	NA
									Total	228.5		

Agriculture

Accident Year	Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance										Total	All outstanding liabilities before 2008, net of reinsurance	Liabilities for loss and loss adjustment expenses, net of reinsurance
	Year ended December 31,												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017			
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
	(Millions)												
2008	1.8	25.3	25.8	25.8	25.8	26.4	26.3	26.2	26.2	26.2	26.2	0.6	45.6
2009		2.2	9.0	8.6	8.6	8.4	8.5	8.5	8.5	8.5	8.5		
2010			0.5	10.7	10.9	10.7	10.7	10.7	10.8	10.7	10.8		
2011				1.1	21.4	21.7	21.7	21.7	21.7	21.7	21.7		
2012					19.0	45.4	45.7	45.6	47.0	47.0	47.0		
2013						7.1	10.8	12.9	13.2	13.0	13.0		
2014							6.5	8.1	8.8	8.8	8.8		
2015								1.5	8.1	9.2	9.2		
2016									10.2	28.8	28.8		
2017										9.6	9.6		
									Total	183.5	183.5	0.6	45.6

Agriculture

Years	Average annual percentage payout of incurred losses and allocated LAE by age, net of reinsurance									
	1	2	3	4	5	6	7	8	9	10
	26.1%	66.3%	3.2%	0.0%	0.7%	0.6%	0.0%	(0.2)%	(0.1)%	0.0%

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

Accident & Health

Incurred losses and allocated loss adjustment expenses, net of reinsurance											December 31, 2017	
Accident Year	Year ended December 31,										Total IBNR liabilities plus expected development on reported claims	Cumulative number of reported claims
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited		
	(Millions)											
2008	76.5	86.6	84.1	80.7	80.0	79.9	79.8	79.8	79.9	79.8	—	NA
2009		86.6	84.4	81.5	79.3	79.1	79.1	79.1	79.2	79.1	0.1	NA
2010			118.7	126.2	123.8	123.0	122.7	122.7	122.7	122.6	(0.2)	NA
2011				161.6	177.4	173.0	172.4	172.3	172.3	172.2	(0.6)	NA
2012					164.3	161.1	148.8	148.1	147.8	147.7	(0.7)	NA
2013						126.5	124.3	119.8	119.2	118.6	0.7	NA
2014							131.6	132.7	131.1	131.0	2.3	NA
2015								154.4	150.2	146.7	2.3	NA
2016									177.2	191.6	16.4	NA
2017										178.8	62.8	NA
										Total	1,368.1	

Accident & Health

Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance											
Accident Year	Year ended December 31,										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
	(Millions)										
2008	30.9	65.7	74.2	77.1	78.3	79.5	79.6	79.6	79.7	79.7	
2009		27.7	67.9	76.4	77.9	78.8	78.9	78.9	79.1	79.1	
2010			33.3	102.7	119.8	122.0	122.3	122.4	122.5	122.5	
2011				71.4	139.6	166.5	171.5	171.9	172.1	172.0	
2012					72.5	137.0	147.0	147.4	147.6	147.6	
2013						54.7	104.5	115.0	116.4	117.7	
2014							59.5	111.7	125.3	127.0	
2015								76.0	130.8	142.3	
2016									98.5	131.7	
2017										96.6	
									Total	1,216.2	
										All outstanding liabilities before 2008, net of reinsurance	3.9
										Liabilities for loss and loss adjustment expenses, net of reinsurance	155.8

Accident & Health

Average annual percentage payout of incurred losses and allocated LAE by age, net of reinsurance										
Years	1	2	3	4	5	6	7	8	9	10
	46.9%	37.6%	30.7%	1.8%	0.6%	0.3%	0.0%	0.1%	0.0%	0.0%

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Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

Aviation & Space

Accident Year	Incurred losses and allocated loss adjustment expenses, net of reinsurance											December 31, 2017	
	Year ended December 31,											Total IBNR liabilities plus expected development on reported claims	Cumulative number of reported claims
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017			
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited		
	(Millions)												
2008	19.0	30.4	33.4	34.1	35.0	34.7	34.1	33.6	33.5	33.4		(0.3)	NA
2009		30.9	34.1	35.4	37.3	35.6	35.5	34.6	32.2	32.3		(0.5)	NA
2010			42.7	47.9	47.6	45.1	43.6	42.7	42.5	42.0		(1.1)	NA
2011				47.0	42.5	38.1	36.1	34.8	34.7	35.9		(1.1)	NA
2012					35.7	34.4	30.3	28.4	28.6	29.7		(1.0)	NA
2013						40.7	36.6	33.6	32.3	33.2		0.1	NA
2014							36.0	38.6	35.4	34.6		4.0	NA
2015								39.8	36.2	40.3		2.7	NA
2016									32.4	32.9		4.5	NA
2017										34.2		14.9	NA
										Total		348.5	

Aviation & Space

Accident Year	Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance											Total
	Year ended December 31,											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
	(Millions)											
2008	5.7	10.7	18.4	25.3	27.8	30.1	31.3	31.5	33.1	33.4		33.4
2009		7.9	16.6	21.6	26.6	27.8	28.8	31.9	31.4	32.3		32.3
2010			12.0	22.3	31.9	36.6	38.2	39.3	40.2	40.4		40.4
2011				10.2	22.8	28.7	31.7	32.9	34.2	35.0		35.0
2012					7.6	18.5	22.7	24.7	27.4	28.4		28.4
2013						13.6	20.0	24.2	26.9	28.7		28.7
2014							8.1	18.1	23.9	26.5		26.5
2015								10.6	21.4	27.4		27.4
2016									7.9	19.9		19.9
2017										9.1		9.1
										Total		201.1
												26.4
												93.8

All outstanding liabilities before 2008, net of reinsurance

Aviation & Space

Years	Average annual percentage payout of incurred losses and allocated LAE by age, net of reinsurance									
	1	2	3	4	5	6	7	8	9	10
	26.6%	27.5%	17.2%	11.2%	5.4%	3.8%	4.2%	0.0%	3.6%	0.7%

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

Trade credit

Accident Year	Incurred losses and allocated loss adjustment expenses, net of reinsurance										December 31, 2017		
	Year ended December 31,										Total IBNR liabilities plus expected development on reported claims	Cumulative number of reported claims	
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017			
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	2017		
	(Millions)												
2008	9.5	14.3	15.4	15.4	15.3	14.8	15.0	14.8	14.8	14.9		(0.1)	NA
2009		9.4	10.0	9.8	9.6	9.4	9.4	9.3	9.2	9.3		(0.1)	NA
2010			14.7	12.8	9.9	10.1	10.2	10.0	10.0	10.1		(0.1)	NA
2011				30.3	30.1	28.4	28.1	28.1	27.5	27.4		(0.1)	NA
2012					35.8	35.0	33.1	33.3	32.9	32.9		(1.2)	NA
2013						30.7	29.2	28.2	28.0	28.6		0.1	NA
2014							23.6	23.5	24.3	22.2		1.8	NA
2015								20.9	20.4	19.8		0.5	NA
2016									16.0	13.6		2.1	NA
2017										19.7		10.0	NA
										Total			198.5

Trade credit

Accident Year	Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance										2017		
	Year ended December 31,												
	2008	2009	2010	2011	2012	2013	2014	2015	2016				
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
	(Millions)												
2008	2.6	7.5	13.3	14.1	14.5	14.5	14.7	14.8	14.8	14.9			
2009		3.4	7.8	8.7	9.0	9.1	9.2	9.3	9.3	9.3			
2010			1.8	5.4	8.0	8.9	9.3	9.4	9.7	9.7			
2011				6.7	18.0	24.3	25.5	26.5	26.8	26.6			
2012					15.3	27.6	31.9	32.7	33.1	32.9			
2013						12.0	20.5	23.6	24.8	25.2			
2014							8.1	34.1	18.3	19.7			
2015								4.7	12.6	16.2			
2016									4.7	9.2			
2017										3.1			
										Total		166.8	
												All outstanding liabilities before 2008, net of reinsurance	7.5
												Liabilities for loss and loss adjustment expenses, net of reinsurance	39.2

Trade credit

Years	Average annual percentage payout of incurred losses and allocated LAE by age, net of reinsurance									
	1	2	3	4	5	6	7	8	9	10
	91.4%	35.4%	18.6%	4.6%	2.1%	0.5%	0.3%	0.4%	0.2%	0.5%

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

Marine

Accident Year	Incurred losses and allocated loss adjustment expenses, net of reinsurance										December 31, 2017	
	Year ended December 31,										Total IBNR liabilities plus expected developments on reported claims	Cumulative number of reported claims
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited		
	(Millions)											
2008	46.2	52.5	56.0	50.9	49.9	48.2	47.8	47.8	47.1	46.9	—	NA
2009		27.9	25.7	24.6	24.3	23.9	23.9	24.0	23.6	23.9	—	NA
2010			32.7	35.5	33.0	32.7	32.8	32.4	31.1	30.8	0.4	NA
2011				37.3	33.3	38.9	31.5	32.5	31.8	32.0	(0.3)	NA
2012					27.7	33.8	36.4	37.8	38.2	37.1	0.9	NA
2013						23.8	20.9	19.7	18.6	18.4	0.2	NA
2014							23.7	21.9	19.9	18.6	0.9	NA
2015								30.2	32.5	30.2	0.9	NA
2016									28.7	29.7	5.0	NA
2017										38.1	20.2	NA
									Total	305.7		

Marine

Accident Year	Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance											
	Year ended December 31,											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited		
	(Millions)											
2008	11.5	26.0	37.8	41.4	43.3	45.1	45.4	45.8	45.9	46.2		
2009		3.6	12.6	17.7	20.1	22.0	22.9	23.1	23.3	23.3		
2010			5.1	12.4	17.4	19.8	21.6	27.0	27.8	28.8		
2011				4.4	14.6	21.9	25.4	28.2	29.0	29.5		
2012					5.3	14.9	24.4	27.3	29.4	31.3		
2013						2.9	9.5	12.8	14.3	14.7		
2014							4.2	10.4	14.0	15.3		
2015								4.4	12.0	22.4		
2016									6.9	17.7		
2017										7.4		
									Total	236.6		
											All outstanding liabilities before 2008, net of reinsurance	10.8
											Liabilities for loss and loss adjustment expenses, net of reinsurance	79.9

Marine

Years	Average annual percentage payout of incurred losses and allocated LAE by age, net of reinsurance									
	1	2	3	4	5	6	7	8	9	10
	18.2%	30.6%	23.5%	8.5%	5.8%	6.4%	1.3%	1.5%	0.3%	0.6%

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Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

Contingency

Accident Year	Incurred losses and allocated loss adjustment expenses, net of reinsurance										December 31, 2017	
	Year ended December 31,										Total IBNR liabilities plus expected development on reported claims	Cumulative number of reported claims
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited		
	(Millions)											
2008	3.6	4.3	3.7	3.8	3.8	3.8	3.8	3.7	3.7	3.7	3.7	NA
2009		6.9	6.4	6.3	6.3	6.3	6.3	6.3	6.3	6.3	6.4	NA
2010			5.7	6.1	4.7	4.6	4.4	4.2	4.2	4.2	4.2	NA
2011				8.0	7.3	6.8	6.7	6.8	6.8	6.8	6.8	0.1
2012					9.9	8.8	8.9	8.7	8.5	8.3	8.3	(0.1)
2013						5.5	4.3	3.6	3.6	3.6	3.6	0.2
2014							4.2	7.1	5.3	4.8	4.8	NA
2015								10.1	9.8	9.2	9.2	0.3
2016									18.6	19.0	19.0	1.1
2017										9.9	9.9	4.2
										Total	75.9	

Contingency

Accident Year	Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance											
	Year ended December 31,											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited		
	(Millions)											
2008	2.1	3.3	3.5	3.6	3.6	3.6	3.6	3.7	3.6	3.7		
2009		4.9	5.9	6.2	6.2	6.2	6.2	6.3	6.3	6.4		
2010			1.9	3.5	3.6	3.6	4.0	4.2	4.2	4.2		
2011				2.1	5.9	6.7	6.6	6.7	6.7	6.7		
2012					5.5	7.4	8.7	8.7	8.5	8.3		
2013						1.9	3.1	3.3	3.3	3.3		
2014							1.7	3.7	4.5	4.6		
2015								2.9	7.3	7.9		
2016									12.6	16.1		
2017										3.1		
									Total	84.3		
											All outstanding liabilities before 2008, net of reinsurance	—
											Liabilities for loss and loss adjustment expenses, net of reinsurance	11.6

Contingency

Years	Average annual percentage payout of incurred losses and allocated LAE by age, net of reinsurance									
	1	2	3	4	5	6	7	8	9	10
	50.8%	31.5%	8.9%	0.5%	0.9%	0.0%	0.6%	0.5%	0.6%	0.7%

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

Casualty

Accident Year	Incurred losses and allocated loss adjustment expenses, net of reinsurance										December 31, 2017	
	Year ended December 31,										Total IBNR liabilities plus expected development on reported claims	Cumulative number of reported claims
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited		
	(Millions)											
2008	24	2.6	2.4	2.3	2.6	2.6	2.4	2.4	2.3	2.3	—	NA
2009		0.9	0.8	0.7	0.6	0.5	0.4	0.3	0.2	0.2	—	NA
2010			1.7	1.5	1.6	1.4	1.1	0.9	0.6	0.6	0.1	NA
2011				0.5	0.4	0.4	0.3	0.3	0.2	0.2	—	NA
2012					0.2	0.2	0.4	0.5	0.5	0.5	0.1	NA
2013						0.4	0.4	0.4	0.4	0.5	—	NA
2014							0.4	0.4	0.5	0.5	—	NA
2015								0.5	0.8	0.6	0.1	NA
2016									0.2	0.3	0.2	NA
2017										9.7	9.5	NA
									Total	15.4		

Casualty

Accident Year	Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance										Total	All outstanding liabilities before 2008, net of reinsurance	Liabilities for loss and loss adjustment expenses, net of reinsurance
	Year ended December 31,												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017			
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited			
	(Millions)												
2008	1.2	1.4	1.5	1.5	1.8	1.9	2.1	2.3	2.3	2.3			
2009		0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.4	0.2			
2010			—	—	0.1	0.1	0.2	0.4	0.3	0.4			
2011				—	—	0.1	0.1	0.2	0.2	0.2			
2012					—	—	0.1	0.2	0.1	0.2			
2013						0.1	0.1	0.2	0.3	0.4			
2014							0.1	0.2	0.4	0.4			
2015								0.2	0.4	0.4			
2016									—	0.1			
2017										—			
									Total	4.6			
											4.7		
												15.5	

Casualty

Years	Average annual percentage payout of incurred losses and allocated LAE by age, net of reinsurance									
	1	2	3	4	5	6	7	8	9	10
	10.7%	13.9%	9.6%	7.4%	11.4%	9.0%	4.6%	6.9%	4.0%	0.0%

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 5. Reserves for unpaid losses and loss adjustment expenses (Continued)

Runoff & Other

Accident Year	Incurred losses and allocated loss adjustment expenses, net of reinsurance										December 31, 2017	
	Year ended December 31,										Total IBNR liabilities plus expected development on reported claims	Cumulative number of reported claims
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017		
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited		
	(Millions)											
2008	617.6	607.4	591.5	586.6	584.8	584.8	584.9	585.3	587.1	586.0	5.2	NA
2009		527.0	520.5	516.0	509.6	510.0	510.6	511.5	512.6	511.9	8.5	NA
2010			389.1	390.4	390.6	391.1	392.3	393.8	394.8	394.8	4.7	NA
2011				306.4	307.7	308.8	309.4	309.9	310.8	310.3	6.2	NA
2012					9.6	4.0	4.1	4.2	4.1	4.1	1.5	NA
2013						1.3	0.2	0.2	0.2	0.2	—	NA
2014							0.2	0.2	0.3	0.4	0.1	NA
2015								9.5	15.7	17.5	0.5	NA
2016									11.8	12.1	0.7	NA
2017										0.6	0.1	NA
										Total	1,837.9	

Runoff & Other

Accident Year	Cumulative paid losses and allocated loss adjustment expenses, net of reinsurance										
	Year ended December 31,										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	
	(Millions)										
2008	329.9	452.1	497.1	543.6	551.6	558.7	563.2	567.6	571.7	576.6	
2009		289.1	402.5	480.3	483.8	488.3	492.1	495.1	496.5	499.0	
2010			225.7	370.4	372.7	376.8	380.0	383.6	385.5	387.4	
2011				291.8	293.8	296.1	297.8	299.5	301.6	303.1	
2012					0.3	1.3	1.8	2.2	2.4	2.4	
2013						0.7	0.1	0.1	0.1	0.1	
2014							—	—	0.1	0.2	
2015								5.2	10.0	15.3	
2016									6.2	10.1	
2017										0.4	
									Total	1,794.6	
									All outstanding liabilities before 2008, net of reinsurance	461.9	
									Liabilities for loss and loss adjustment expenses, net of reinsurance	505.2	

Runoff & Other

Years	Average annual percentage payout of incurred losses and allocated LAE by age, net of reinsurance									
	1	2	3	4	5	6	7	8	9	10
	62.5%	21.3%	7.3%	3.1%	1.0%	0.9%	0.6%	0.5%	0.6%	0.6%

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 6. Third party reinsurance

In the normal course of business, Sirius Group seeks to protect its businesses from losses due to concentration of risk and losses arising from catastrophic events by reinsuring with third-party reinsurers. Sirius Group remains liable for risks reinsured in the event that the reinsurer does not honor its obligations under reinsurance contracts. The effects of reinsurance on Sirius Group's subsidiaries' written and earned premiums and on losses and LAE were as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(Millions)	
Written premiums:			
Direct	\$ 450.2	\$ 368.5	\$ 293.7
Assumed	989.1	900.5	866.8
Gross written premiums	1,439.3	1,269.0	1,160.5
Ceded	(349.1)	(330.9)	(312.9)
Net written premiums	\$ 1,090.2	\$ 938.1	\$ 847.6
Earned premiums:			
Direct	\$ 405.7	\$ 351.6	\$ 277.8
Assumed	942.2	877.7	868.3
Gross earned premiums	1,347.9	1,229.3	1,146.1
Ceded	(312.6)	(339.2)	(299.1)
Net earned premiums	\$ 1,035.3	\$ 890.1	\$ 847.0
Losses and LAE:			
Direct	\$ 294.9	\$ 216.9	\$ 151.3
Assumed	701.3	463.8	391.9
Gross losses and LAE	996.2	680.7	543.2
Ceded	(185.0)	(161.4)	(120.5)
Net losses and LAE	\$ 811.2	\$ 519.3	\$ 422.7

Sirius Group's reinsurance protection primarily consists of pro-rata and excess of loss protections that protect all of its reportable segments. Attachment points and coverage limits vary by region around the world.

For Global Property, Sirius Group's core proportional property reinsurance programs provide protection for parts of the non-proportional treaty accounts written in Europe, the Americas, Asia, the Middle East, and Australia. These reinsurance protections are designed to increase underwriting capacity where appropriate, and to reduce exposure both to large catastrophe losses and to a frequency of smaller loss events.

Sirius Group has in place excess of loss retrocessional coverage for its non-U.S. earthquake-related exposures. This cover was renewed for one year at April 1, 2017, providing \$40.0 million of reinsurance protection in excess of Sirius Group's retention of \$35.0 million and a further \$35.0 million of coverage in excess of \$75.0 million.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 6. Third party reinsurance (Continued)

Sirius Group periodically purchases industry loss warranty ("ILW") contracts to augment its overall retrocessional program. The following ILW contracts were in force as at December 31, 2017:

<u>Scope</u>	<u>Limit</u>	<u>Trigger</u>	<u>Expiration Date</u>
European wind & flood	\$ 7.5 million	\$ 7.5 billion	April 30, 2018
European all natural perils	\$ 15.0 million	\$ 15.0 billion	May 31, 2018 (1)
United States all natural peril, excluding North East	\$ 5.0 million	\$ 40.0 billion	June 30, 2018
United States, European, Japan wind & earthquake	\$ 18.0 million	\$ 5.0 - \$10.0 billion	December 31, 2018 (2)

- (1) Second event aggregate excess cover.
(2) Multiple layer covers.

In connection with the CMIG International acquisition, White Mountains required Sirius Group to purchase ILWs, referred to as the WTM Covers, to mitigate the potential impact of major natural catastrophe events on Sirius Group's balance sheet pending the close of the sale to CMIG International. The cost and potential economic benefit provided by the WTM Covers inure to White Mountains. All but one of these contracts expired in May or June 2016; the other was a United States second event cover for an industry loss at \$15 billion with a limit of \$5 million that expired on July 15, 2016. Under the Stock Purchase Agreement ("SPA") between CMIG International and White Mountains, shortly after the sale of the Company, White Mountains paid the Company \$16.5 million on an after-tax basis, which the Company recorded as paid-in surplus. (See **Note 15.**) The costs of these programs are part of the Runoff & Other reportable segment.

The following table summarizes the WTM Covers purchased in connection with the CMIG International acquisition that expired in 2016:

<u>Scope</u>	<u>Limit</u>	<u>Industry Loss Trigger</u>
United States first event	\$ 75.0 million	\$ 40.0 billion
United States first event	\$ 22.5 million	\$ 50.0 billion
United States second event	\$ 45.0 million	\$ 15.0 billion
Japan first event	\$ 25.0 million	\$ 12.5 billion

At December 31, 2017, Sirius Group had reinsurance recoverables on paid losses of \$17.5 million and reinsurance recoverables of \$319.7 million on unpaid losses. At December 31, 2016, Sirius Group had reinsurance recoverables on paid losses of \$17.1 million and reinsurance recoverables of \$291.5 million on paid unpaid losses. Because retrocessional reinsurance contracts do not relieve Sirius Group of its obligation to its insureds, the collectability of balances due from Sirius Group's reinsurers is important to its financial strength. Sirius Group monitors the financial strength and ratings of retrocessionaires on an ongoing basis. Uncollectible amounts historically have not been significant.

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 6. Third party reinsurance (Continued)

The following tables provide a listing of Sirius Group's gross and net recoverable amounts by the reinsurer's Standard & Poor's Financial Services LLC ("Standard & Poor's") rating and the percentage of total recoverables at December 31, 2017 and 2016:

<u>Rating(1)</u>	<u>December 31, 2017</u>			
	<u>Gross</u>	<u>Collateral</u>	<u>Net</u>	<u>% of Net Total</u>
AA	\$ 116.9	\$ 1.0	\$ 115.9	43%
A	153.9	27.9	126.0	46%
BBB+	—	—	—	0%
BBB or lower	13.4	12.5	0.9	1%
Not rated	53.0	23.9	29.1	10%
Total	\$ 337.2	\$ 65.3	\$ 271.9	100%

(1) Standard & Poor's ratings as detailed above are: "AA" (Very strong), "A" (Strong), and "BBB+" and "BBB" (Adequate).

<u>Rating(1)</u>	<u>December 31, 2016</u>			
	<u>Gross</u>	<u>Collateral</u>	<u>Net</u>	<u>% of Net Total</u>
AA	\$ 97.4	\$ 1.1	\$ 96.3	40%
A	139.7	20.3	119.4	49%
BBB+	3.5	3.2	0.3	0%
BBB or lower	7.3	5.4	1.9	1%
Not rated	60.7	37.1	23.6	10%
Total	\$ 308.6	\$ 67.1	\$ 241.5	100%

(1) Standard & Poor's ratings as detailed above are: "AA" (Very strong), "A" (Strong), and "BBB+" and "BBB" (Adequate).

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 6. Third party reinsurance (Continued)

The following tables provide a listing of the five highest gross recoverable amounts by reinsurer, along with percentage of total recoverable amount, the reinsurer's Standard & Poor's reinsurer rating, and the percentage that the recoverable is collateralized at December 31, 2017 and 2016:

	December 31, 2017			
	Balance	% of Total	S&P Rating (Millions)	% Collateralized
Reinsurer:				
Swiss Reinsurance Company Ltd.	\$ 45.5	13%	AA-	0%
Berkshire Hathaway, Inc.	41.1	12%	AA+	0%
Lloyd's of London	19.4	6%	A+	16%
Argo Capital Group Ltd.	18.2	5%	A-	78%
General Insurance Corporation of India	17.3	5%	AA	11%

	December 31, 2016			
	Balance	% of Total	S&P Rating (Millions)	% Collateralized
Reinsurer:				
Berkshire Hathaway, Inc.	\$ 54.1	18%	AA+	0%
Swiss Reinsurance Company Ltd.	21.1	7%	AA-	0%
Lloyd's of London	18.2	6%	A+	9%
Argo Capital Group Ltd.	14.4	5%	A-	108%
International Medical Insurance Company(1)	13.0	4%	Not Rated	31%

(1) International Medical Insurance Company was acquired in 2017 as part of the acquisition of IMG. (See Note 3.)

Note 7. Deferred acquisition costs

The following table presents a rollforward of Deferred acquisition costs for the years ended December 31, 2017, 2016, and 2015:

	2017	2016	2015
	(Millions)		
Deferred acquisition costs—balance, beginning of the year	\$ 84.7	\$ 74.6	\$ 69.9
Acquisition costs deferred(1)	220.7	137.7	122.8
Amortization expense	(186.7)	(126.7)	(116.2)
Other, including foreign exchange	2.2	(0.9)	(1.9)
Deferred acquisition costs—balance, end of the year	\$ 120.9	\$ 84.7	\$ 74.6

(1) Includes \$2.9 from Acquisition of IMG. (See Note 3.)

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 8. Investment securities

Net Investment Income

Sirius Group's net investment income is comprised primarily of interest income along with associated amortization of premium and accretion of discount on Sirius Group's fixed maturity investments, dividend income from its equity investments, and interest income from its short-term investments.

Net investment income for the years ended December 31, 2017, 2016, and 2015 consisted of the following:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(Millions)	
Fixed maturity investments	\$ 51.5	\$ 58.0	\$ 45.1
Short-term investments	1.5	0.9	2.2
Equity securities	5.1	4.1	5.9
Convertible fixed maturity investments	—	—	0.1
Other long-term investments	8.5	4.9	(0.3)
Interest on funds held under reinsurance treaties	—	(0.5)	(0.5)
Total investment income	<u>66.6</u>	<u>67.4</u>	<u>52.5</u>
Investment expenses	(9.8)	(11.2)	(12.6)
Net investment income	<u>\$ 56.8</u>	<u>\$ 56.2</u>	<u>\$ 39.9</u>

Net Realized and Unrealized Investment (Losses) Gains

Net realized and unrealized investment gains (losses) for the years ended December 31, 2017, 2016, and 2015 consisted of the following:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(Millions)	
Gross realized gains	\$ 24.4	\$ 310.8	\$ 154.3
Gross realized (losses)	(51.6)	(22.5)	(15.8)
Net realized (losses) gains on investments(1)(2)	<u>(27.2)</u>	<u>288.3</u>	<u>138.5</u>
Net unrealized (losses) gains on investments(3)(4)	(10.5)	(238.2)	102.5
Net realized and unrealized investment (losses) gains on investments	<u>\$ (37.7)</u>	<u>\$ 50.1</u>	<u>\$ 241.0</u>

(1) Includes \$(19.1), \$50.0, and \$70.6 of realized (losses) gains due to foreign currency during 2017, 2016, and 2015, respectively.

(2) Includes net realized gains of \$222.5 related to Symetra in 2016. (See Note 20.)

(3) Includes \$(51.7), \$(7.7), and \$(15.4) of unrealized (losses) due to foreign currency during 2017, 2016, and 2015, respectively.

(4) Includes net unrealized gains of \$218.5 related to Symetra in 2015. (See Note 20.)

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 8. Investment securities (Continued)

Net realized investment (losses) gains

Net realized investment gains for the years ended December 31, 2017, 2016, and 2015 consisted of the following:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(Millions)	
Fixed maturity investments	\$ (19.1)	\$ 57.4	\$ 75.1
Equity securities	0.1	231.9	60.9
Other long-term investments	(8.2)	(1.0)	2.5
Net realized investment (losses) gains	<u>\$ (27.2)</u>	<u>\$ 288.3</u>	<u>\$ 138.5</u>

Net unrealized investment (losses) gains

The following table summarizes the net unrealized investment (losses) gains and changes in fair value for the years ended December 31, 2017, 2016, and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(Millions)	
Fixed maturity investments	\$ (41.3)	\$ (25.0)	\$ (46.1)
Equity securities	25.2	(214.5)	162.9
Other long-term investments	5.6	1.3	(14.3)
Net unrealized investment (losses) gains	<u>\$ (10.5)</u>	<u>\$ (238.2)</u>	<u>\$ 102.5</u>

The following table summarizes the amount of total gains (losses) included in earnings attributable to unrealized investment gains (losses) for Level 3 investments for the years ended December 31, 2017, 2016, and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(Millions)	
Fixed maturity investments	\$ (0.2)	\$ (0.1)	\$ —
Equity securities	0.1	—	6.6
Other long-term investments	(0.6)	1.2	(0.4)
Total unrealized investment (losses) gains—Level 3 investments	<u>\$ (0.7)</u>	<u>\$ 1.1</u>	<u>\$ 6.2</u>

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 8. Investment securities (Continued)

The components of Sirius Group's net realized and unrealized investment gains (losses), after-tax, as recorded on the Consolidated Statements of (Loss) Income and the Consolidated Statements of Comprehensive (Loss) Income for the years ended December 31, 2017, 2016, and 2015 were as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(Millions)		
Change in equity in net unrealized (losses) gains from investments in unconsolidated affiliates, pre-tax	\$ —	\$ —	\$ (35.4)
Income tax benefit (expense)	—	—	2.9
Change in equity in net unrealized (losses) gains from investments in unconsolidated affiliates, after-tax	—	—	(32.5)
Change in net unrealized foreign currency gains (losses) on investments through accumulated other comprehensive income, after-tax	83.9	(83.1)	(110.7)
Total investments gains (losses) through accumulated other comprehensive income, after tax	83.9	(83.1)	(143.2)
Net realized and unrealized investment gains (losses), after-tax	(24.8)	37.4	191.9
Total investment gains (losses) recorded during the period, after-tax	\$ 59.1	\$ (45.7)	\$ 48.7

Investment Holdings

Fixed maturity investments

The cost or amortized cost, gross unrealized investment gains (losses), net foreign currency gains (losses), and fair value of Sirius Group's fixed maturity investments as of December 31, 2017 and 2016, were as follows:

	<u>2017</u>				
	<u>Cost or amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Net foreign currency gains (losses)</u>	<u>Fair value</u>
	(Millions)				
Corporate debt securities	\$ 1,017.0	\$ 3.1	\$ (4.8)	\$ (0.8)	\$ 1,014.5
Asset-backed securities	478.1	0.4	(0.6)	(2.5)	475.4
Residential mortgage-backed securities	259.3	0.1	(5.3)	(2.0)	252.1
Commercial mortgage-backed securities	235.2	0.8	(3.9)	0.3	232.4
Non-U.S. government and government agency	106.8	0.1	(0.9)	1.2	107.2
U.S. government and government agency	85.8	—	(0.8)	(0.2)	84.8
Preferred stocks	9.3	0.3	—	0.2	9.8
U.S. States, municipalities and political subdivision	3.8	—	—	—	3.8
Total fixed maturity investments	\$ 2,195.3	\$ 4.8	\$ (16.3)	\$ (3.8)	\$ 2,180.0

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 8. Investment securities (Continued)

	2016				Fair value
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses (Millions)	Net foreign currency gains (losses)	
Corporate debt securities	\$ 1,462.1	\$ 8.7	\$ (12.9)	\$ 20.1	\$ 1,478.0
Asset-backed securities	462.6	0.8	(0.7)	5.1	467.8
Residential mortgage-backed securities	471.6	0.3	(9.5)	7.1	469.5
Commercial mortgage-backed securities	230.2	0.5	(3.7)	1.6	228.6
Non-U.S. government and government agency	148.7	0.3	(1.7)	(0.8)	146.5
U.S. government and government agency	84.8	—	(0.6)	5.2	89.4
Preferred stocks	10.2	0.3	—	0.3	10.8
U.S. States, municipalities and political subdivision	1.0	—	—	—	1.0
Total fixed maturity investments	\$ 2,871.2	\$ 10.9	\$ (29.1)	\$ 38.6	\$ 2,891.6

The weighted average duration of Sirius Group's fixed income portfolio as of December 31, 2017 was approximately 2.0 years, including short-term investments, and approximately 2.4 years excluding short-term investments.

The cost or amortized cost and fair value of Sirius Group's fixed maturity investments as of December 31, 2017 and 2016 are presented below by contractual maturity. Actual maturities could differ from contractual maturities because borrowers may have the right to call or prepay certain obligations with or without call or prepayment penalties.

	2017		2016	
	Cost or amortized cost	Fair value	Cost or amortized cost	Fair value
	(Millions)			
Due in one year or less	\$ 106.3	\$ 106.5	\$ 116.3	\$ 122.5
Due after one year through five years	1,009.0	1,006.4	1,155.0	1,171.2
Due after five years through ten years	71.2	70.8	398.4	394.8
Due after ten years	26.9	26.6	26.9	26.4
Mortgage-backed and asset-backed securities	972.6	959.9	1,164.4	1,165.9
Preferred stocks	9.3	9.8	10.2	10.8
Total	\$ 2,195.3	\$ 2,180.0	\$ 2,871.2	\$ 2,891.6

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 8. Investment securities (Continued)

The following table summarizes the ratings and fair value of fixed maturity investments held in Sirius Group's investment portfolio as of December 31, 2017 and 2016:

	2017	2016
	(Millions)	
AAA	\$ 689.4	\$ 636.5
AA	635.2	964.9
A	416.4	543.3
BBB	333.8	640.5
Other	105.2	106.4
Total fixed maturity investments(1)	\$ 2,180.0	\$ 2,891.6

(1) Credit ratings are assigned based on the following hierarchy: 1) Standard & Poor's and 2) Moody's Investor Service.

Mortgage-backed, Asset-backed Securities

Sirius Group purchases commercial mortgage-backed securities ("CMBS") and residential mortgage-backed securities ("RMBS") with the goal of maximizing risk adjusted returns in the context of a diversified portfolio. Sirius Group considers sub-prime mortgage-backed securities as those that have underlying loan pools that exhibit weak credit characteristics, or those that are issued from dedicated sub-prime shelves or dedicated second-lien shelf registrations (i.e., Sirius Group considers investments backed primarily by second-liens to be sub-prime risks regardless of credit scores or other metrics).

Sirius Group categorizes mortgage-backed securities as "non-prime" (also called "Alt A" or "A-") if they are backed by collateral that has overall credit quality between prime and sub-prime based on Sirius Group's review of the characteristics of their underlying mortgage loan pools, such as credit scores and financial ratios. Sirius Group's non-agency residential mortgage-backed portfolio is generally moderate-term and structurally senior. Sirius Group does not own any collateralized loan obligations or any collateralized debt obligations.

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Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 8. Investment securities (Continued)

The following table summarizes the total mortgage and asset-backed securities held at fair value in Sirius Group's investment portfolio as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(Millions)	
Mortgage-backed securities:		
Agency:		
Government National Mortgage Association	\$ 0.1	\$ 77.3
Federal National Mortgage Association	96.6	287.2
Federal Home Loan Mortgage Corporation	142.6	88.2
Total Agency(1)	<u>239.3</u>	<u>452.7</u>
Non-agency:		
Residential	12.8	16.8
Commercial	232.4	228.6
Total Non-agency	<u>245.2</u>	<u>245.4</u>
Total Mortgage-backed Securities	<u>484.5</u>	<u>698.1</u>
Asset-backed Securities:		
Credit Card Receivables	53.0	99.1
Vehicle Receivables	314.6	260.6
Other	107.8	108.1
Total Asset-Backed Securities	<u>475.4</u>	<u>467.8</u>
Total Mortgage and Asset-backed Securities(2)	<u>\$ 959.9</u>	<u>\$ 1,165.9</u>

(1) Represents publicly traded mortgage-backed securities which carry the full faith and credit guaranty of the U.S. government (i.e., GNMA) or are guaranteed by a government sponsored entity (i.e., FNMA, FHLMC).

(2) At December 31, 2017, all mortgage-backed and asset-backed securities held by Sirius Group were classified as Level 2 investments. At December 31, 2016, \$1,147.5 and \$18.4 of mortgage-backed securities and asset backed securities held by Sirius Group were classified as Level 2 investments and Level 3 investments, respectively. (See Note 9).

Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 8. Investment securities (Continued)

Equity securities and Other long-term investments

The cost or amortized cost, gross unrealized investment gains and losses, net foreign currency gains and losses, and fair values of Sirius Group's equity securities and other long-term investments as of December 31, 2017 and 2016, were as follows:

	2017				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses (Millions)	Net foreign currency gains (losses)	Fair value
Equity securities	\$ 275.1	\$ 29.3	\$ (5.1)	\$ (0.1)	\$ 299.2
Other long-term investments	\$ 255.5	\$ 14.2	\$ (4.1)	\$ 3.9	\$ 269.5

	2016				
	Cost or amortized cost	Gross unrealized gains	Gross unrealized losses (Millions)	Net foreign currency gains (losses)	Fair value
Equity securities	\$ 125.7	\$ 0.1	\$ (2.7)	\$ (0.1)	\$ 123.0
Other long-term investments	\$ 115.8	\$ 4.2	\$ (2.1)	\$ 6.9	\$ 124.8

Other long-term investments at fair value consist of the following as of December 31, 2017 and 2016:

	2017	2016
	(Millions)	
Hedge funds and private equity funds	\$ 205.3	\$ 85.4
Limited liability companies and private equity securities	64.2	39.4
Total other long-term investments	\$ 269.5	\$ 124.8

Hedge Funds and Private Equity Funds

Sirius Group holds investments in hedge funds and private equity funds, which are included in other long-term investments. The fair value of these investments has been estimated using the net asset value of the funds. As of December 31, 2017, Sirius Group held investments in 7 hedge funds and 28 private equity funds. The largest investment in a single fund was \$31.4 million as of December 31, 2017 and \$24.2 million as of December 31, 2016.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 8. Investment securities (Continued)

The following table summarizes investments in hedge funds and private equity interests by investment objective and sector as of December 31, 2017 and 2016:

	2017		2016	
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
	(Millions)			
Hedge funds:				
Long/short multi-sector	\$ 31.5	\$ —	\$ —	\$ —
Distressed mortgage credit	25.5	—	—	—
Other	3.2	—	3.7	—
Total hedge funds	60.2	—	3.7	—
Private equity funds:				
Energy infrastructure & services	73.5	56.4	50.7	60.0
Multi-sector	9.5	1.0	8.9	1.5
Healthcare	23.4	28.6	19.4	24.4
Life settlement	21.5	—	—	—
Manufacturing/Industrial	15.9	5.1	0.4	19.6
Private equity secondaries	1.1	1.0	1.8	1.1
Real estate	0.2	—	0.3	—
Venture capital	—	—	0.2	—
Total private equity funds	145.1	92.1	81.7	106.6
Total hedge and private equity funds included in other long-term investments	\$ 205.3	\$ 92.1	\$ 85.4	\$ 106.6

Redemption of investments in certain hedge funds is subject to restrictions including lock-up periods where no redemptions or withdrawals are allowed, restrictions on redemption frequency, and advance notice periods for redemptions. Amounts requested for redemptions remain subject to market fluctuations until the redemption effective date, which generally falls at the end of the defined redemption period.

The following summarizes the December 31, 2017 fair value of hedge funds subject to restrictions on redemption frequency and advance notice period requirements for investments in active hedge funds:

Redemption Frequency	Notice Period				Total
	30 - 59 days notice	60 - 89 days notice	90 - 119 days notice	120+ days notice	
	(Millions)				
Monthly	\$ —	\$ 31.5	\$ —	\$ —	\$ 31.5
Quarterly	1.0	—	—	—	1.0
Semi-annual	—	1.0	—	—	1.0
Annual	—	—	26.6	0.1	26.7
Total	\$ 1.0	\$ 32.5	\$ 26.6	\$ 0.1	\$ 60.2

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 8. Investment securities (Continued)

Certain of the hedge fund and private equity fund investments in which Sirius Group is invested are no longer active and are in the process of disposing of their underlying investments. Distributions from such funds are remitted to investors as the fund's underlying investments are liquidated. As of December 31, 2017, no distributions were outstanding from these investments.

Investments in private equity funds are generally subject to a "lock-up" period during which investors may not request a redemption. Distributions prior to the expected termination date of the fund may be limited to dividends or proceeds arising from the liquidation of the fund's underlying investments. In addition, certain private equity funds provide an option to extend the lock-up period at either the sole discretion of the fund manager or upon agreement between the fund and the investors.

As of December 31, 2017, investments in private equity funds were subject to lock-up periods as follows:

	<u>1 - 3 years</u>	<u>3 - 5 years</u>	<u>5 - 10 years</u>	<u>Total</u>
		(Millions)		
Private Equity Funds—expected lock up period remaining	<u>\$ 7.1</u>	<u>\$ 6.1</u>	<u>\$ 131.9</u>	<u>\$ 145.1</u>

Investments Held on Deposit or as Collateral

As of December 31, 2017 and 2016, investments of \$548.2 million and \$406.0 million, respectively, were held in trusts required to be maintained in relation to various reinsurance agreements. Sirius Group's consolidated reinsurance operations are required to maintain deposits with certain insurance regulatory agencies in order to maintain their insurance licenses. The fair value of such deposits which are included within total investments totaled \$548.4 million and \$413.0 million as of December 31, 2017 and 2016, respectively.

As of December 31, 2017, Sirius Group held \$0.3 million of collateral in the form short-term investments associated with Interest Rate Cap agreements. (See Note 13.)

Unsettled investment purchases and sales

As of December 31, 2017 and 2016, Sirius Group reported \$0.3 million and \$7.6 million, respectively, in Accounts payable on unsettled investment purchases.

As of December 31, 2017, Sirius Group reported \$0.3 million in Accounts receivable on unsettled investment sales. No amount was reported for December 31, 2016.

Note 9. Fair value measurements

Fair value measurements

Fair value measurements are categorized into a hierarchy that distinguishes between inputs based on market data from independent sources ("observable inputs") and a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable ("unobservable inputs"). Quoted prices in active markets for identical assets or liabilities have the highest priority ("Level 1"), followed by observable inputs other than quoted prices, including

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Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 9. Fair value measurements (Continued)

prices for similar but not identical assets or liabilities ("Level 2"), and unobservable inputs, including the reporting entity's estimates of the assumptions that market participants would use, having the lowest priority ("Level 3").

The availability of observable inputs can vary from financial instrument to financial instrument and is affected by a wide variety of factors including, for example, the type of financial instrument, whether the financial instrument is new and not yet established in the marketplace, and other characteristics particular to the instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment.

Accordingly, the degree of judgment exercised by management in determining fair value is greatest for instruments categorized in Level 3. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This may lead the Company to change the selection of the valuation technique (for example, from market to cash flow approach) or to use multiple valuation techniques to estimate the fair value of a financial instrument. These circumstances could cause an instrument to be reclassified between levels within fair value hierarchy. Investments valued using Level 1 inputs include fixed maturity investments, primarily investments in U.S. Treasuries Bills and Notes, equity securities, and short-term investments. Investments valued using Level 2 inputs are primarily comprised of fixed maturity investments, which have been disaggregated into classes, including U.S. government and government agency, corporate debt securities, mortgage-backed and asset-backed securities, non-U.S. government and government agency, U.S. state and municipalities and political sub division and preferred stocks. Investments valued using Level 2 inputs also include certain ETFs that track U.S. stock indices such as the S&P 500 but are traded on foreign exchanges. Fair value estimates for investments that trade infrequently and have few or no observable market prices are classified as Level 3 measurements. Sirius Group determines when transfers between levels have occurred as of the beginning of the period.

Valuation techniques

Sirius Group uses outside pricing services to assist in determining fair values for its investments. For investments in active markets, Sirius Group uses the quoted market prices provided by outside pricing services to determine fair value. The outside pricing services Sirius Group uses have indicated that they will only provide prices where observable inputs are available. In circumstances where quoted market prices are unavailable or are not considered reasonable, Sirius Group estimates the fair value using industry standard pricing models and observable inputs such as benchmark yields, reported trades, broker-dealer quotes, issuer spreads, benchmark securities, bids, offers, prepayment speeds, reference data including research publications, and other relevant inputs. Given that many fixed maturity investments do not trade on a daily basis, the outside pricing services evaluate a wide range of fixed maturity investments by regularly drawing parallels from recent trades and quotes of comparable securities with similar features. The characteristics used to identify comparable fixed maturity investments vary by asset type and take into account market convention.

Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 9. Fair value measurements (Continued)

The valuation process above is generally applicable to all of Sirius Group's fixed maturity investments. The techniques and inputs specific to asset classes within Sirius Group's fixed maturity investments for Level 2 securities that use observable inputs are as follows:

U.S. government and government agency

U.S. government and government agency securities consist primarily of debt securities issued by the U.S. Treasury and mortgage pass-through agencies such as the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation and the Government National Mortgage Association. Fixed maturity investments included in U.S. government and government agency securities are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources and integrate other observations from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The fair value of each security is individually computed using analytical models which incorporate option adjusted spreads and other daily interest rate data.

Non-U.S. government and government agency

Non-U.S. government and government agency securities consist of debt securities issued by non-U.S. governments and their agencies along with supranational organizations (also known as sovereign debt securities). Securities held in these sectors are primarily priced by pricing services who employ proprietary discounted cash flow models to value the securities. Key quantitative inputs for these models are daily observed benchmark curves for treasury, swap, and high issuance credits. The pricing services then apply a credit spread for each security which is developed by in-depth and real time market analysis. For securities in which trade volume is low, the pricing services utilize data from more frequently traded securities with similar attributes. These models may also be supplemented by daily market and credit research for international markets.

Corporate debt securities

Corporate debt securities consist primarily of investment-grade debt of a wide variety of U.S. and non-U.S. corporate issuers and industries. The corporate fixed maturity investments are primarily priced by pricing services. When evaluating these securities, the pricing services gather information from market sources regarding the issuer of the security and obtain credit data, as well as other observations, from markets and sector news. Evaluations are updated by obtaining broker dealer quotes and other market information including actual trade volumes, when available. The pricing services also consider the specific terms and conditions of the securities, including any specific features which may influence risk.

Mortgage-backed and asset-backed securities

The fair value of mortgage and asset-backed securities is primarily priced by pricing services using a pricing model that uses information from market sources and leveraging similar securities. Key inputs include benchmark yields, reported trades, underlying tranche cash flow data, collateral performance, plus new issue data, as well as broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including issuer, vintage, loan type, collateral attributes,

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 9. Fair value measurements (Continued)

prepayment speeds, default rates, recovery rates, cash flow stress testing, credit quality ratings, and market research publications.

U.S. states, municipalities, and political subdivisions

The U.S. states, municipalities, and political subdivisions portfolio contains debt securities issued by U.S. domiciled state and municipal entities. These securities are generally priced by independent pricing services using the techniques for U.S. government and government agency securities described above.

Preferred stocks

The fair value of preferred stocks is generally priced by independent pricing services using an evaluated pricing model that calculates the appropriate spread over a comparable security for each issue. Key inputs include exchange prices (underlying and common stock of same issuer), benchmark yields, reported trades, broker-dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including sector, coupon, credit quality ratings, duration, credit enhancements, early redemption features, and market research publications.

Level 3 Investments

Level 3 valuations are generated from techniques that use assumptions not observable in the market. These unobservable assumptions reflect Sirius Group's assumptions, that market participants would use in valuing the investment. Generally, certain securities may start out as Level 3 when they are originally issued but as observable inputs become available in the market, they may be reclassified to Level 2.

Sirius Group employs a number of procedures to assess the reasonableness of the fair value measurements for its other long-term investments, including obtaining and reviewing the audited annual financial statements of hedge funds and private equity funds and periodically discussing each fund's pricing with the fund manager. However, since the fund managers do not provide sufficient information to evaluate the pricing inputs and methods for each underlying investment, the inputs are considered to be unobservable.

The fair values of Sirius Group's investments in private equity securities and private debt instruments have been classified as Level 3 measurements. They are carried at fair value and are initially valued based on transaction price and their valuation is subsequently estimated based on available evidence such as a market transaction in similar instruments and other financial information for the issuer.

Investments measured using Net Asset Value

The fair value of Sirius Group's investments in hedge funds and private equity funds has been determined using net asset value. The hedge fund's administrator provides quarterly updates of fair value in the form of Sirius Group's proportional interest in the underlying fund's net asset value (collectively "NAV"), which is deemed to approximate fair value, generally with a three month delay in valuation. The fair value of investment in hedge funds is measured using the NAV practical expedient

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 9. Fair value measurements (Continued)

and therefore has been not categorized within the fair value hierarchy. The private equity funds provide quarterly or semi-annual partnership capital statements with a three or six month delay which are used as a basis for valuation. These private equity investments vary in investment strategies and are not actively traded in any open markets. The fair value of these investments are measured using NAV practical expedient and therefore have not been categorized with the fair value hierarchy. Due to a lag in reporting, some of the fund managers, fund administrators, or both, are unable to provide final fund valuations as of the Company's reporting date. In these circumstances, Sirius Group estimates the return of the current period and uses all credible information available. This includes utilizing preliminary estimates reported by its fund managers and using other information that is available to Sirius Group with respect to the underlying investments, as necessary.

Fair Value Measurements by Level

The following tables summarize Sirius Group's financial assets and liabilities measured at fair value as of December 31, 2017 and 2016 by level:

	2017			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
	(Millions)			
Assets measured at fair value				
Fixed maturity investments:				
U.S. Government and government agency	\$ 84.8	\$ 83.2	\$ 1.6	\$ —
Corporate debt securities	1,014.5	—	1,014.5	—
Asset-backed securities	475.4	—	475.4	—
Residential mortgage-backed securities	252.1	—	252.1	—
Commercial mortgage-backed securities	232.4	—	232.4	—
Non-U.S. government and government agency	107.2	94.8	12.4	—
Preferred stocks	9.8	—	1.8	8.0
U.S. States, municipalities, and political subdivision	3.8	—	3.8	—
Total fixed maturity investments	2,180.0	178.0	1,994.0	8.0
Short-term investments	625.0	566.2	58.8	—
Equity securities	299.2	298.6	0.6	—
Other long-term investments(1)	64.2	—	—	64.2
Total investments	\$ 3,168.4	\$ 1,042.8	\$ 2,053.4	\$ 72.2
Derivative instruments	4.5	—	—	4.5
Total assets measured at fair value	\$ 3,172.9	\$ 1,042.8	\$ 2,053.4	\$ 76.7
Liabilities measured at fair value				
Contingent consideration liabilities	\$ 42.8	\$ —	\$ —	\$ 42.8
Derivative instruments	10.6	—	—	10.6
Total liabilities measured at fair value	\$ 53.4	\$ —	\$ —	\$ 53.4

(1) Excludes fair value of \$205.3 associated with hedge funds and private equity funds which fair value is measured at net asset value using the practical expedient.

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 9. Fair value measurements (Continued)

	2016			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
	(Millions)			
Assets measured at fair value				
Fixed maturity investments:				
U.S. Government and government agency	\$ 89.4	\$ 86.2	\$ 3.2	\$ —
Corporate debt securities	1,478.0	—	1,478.0	—
Asset-backed securities	467.8	—	455.8	12.0
Residential mortgage-backed securities	469.5	—	463.1	6.4
Commercial mortgage-backed securities	228.6	—	228.6	—
Non-U.S. government and government agency	146.5	18.1	128.4	—
Preferred stocks	10.8	—	1.8	9.0
U.S. States, municipalities, and political subdivision	1.0	—	1.0	—
Total fixed maturity investments	2,891.6	104.3	2,759.9	27.4
Short-term investments	538.0	498.7	39.3	—
Equity securities	123.0	123.0	—	—
Other long-term investments(1)	29.1	—	—	29.1
Total investments	\$ 3,581.7	\$ 726.0	\$ 2,799.2	\$ 56.5
Derivative instruments	12.7	—	—	12.7
Total assets measured at fair value	\$ 3,594.4	\$ 726.0	\$ 2,799.2	\$ 69.2
Liabilities measured at fair value				
Contingent consideration liabilities	\$ —	\$ —	\$ —	\$ —
Derivative instruments	—	—	—	—
Total liabilities measured at fair value	\$ —	\$ —	\$ —	\$ —

(1) Excludes fair value of \$95.7 associated with hedge funds and private equity funds which fair value is measured at net asset value using the practical expedient.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 9. Fair value measurements (Continued)

Rollforward of Level 3 Fair Value Measurements

The following tables present changes in Level 3 for financial instruments measured at fair value for the years ended December 31, 2017 and 2016:

	2017			
	Fixed Maturities	Other long-term investments(1)	Derivative instruments assets & (liabilities)	Contingent consideration (liabilities)
	(Millions)			
Balance at January 1, 2017	\$ 27.7	\$ 29.1	\$ 12.7	\$ —
Fair value of contingent consideration liabilities at date of purchase (See Note 3)	—	—	—	(122.2)
Total realized and unrealized gains	(4.9)	(0.5)	(14.6)	48.8
Foreign currency losses through Other Comprehensive Income	(0.1)	1.0	—	—
Purchases	4.7	36.0	—	—
Sales/Settlements	(1.0)	(1.4)	(4.2)	30.6
Transfers out(2)	(18.4)	—	—	—
Balance at December 31, 2017	\$ 8.0	\$ 64.2	\$ (6.1)	\$ (42.8)

(1) Excludes fair value of \$205.3 associated with hedge funds and private equity funds which fair value is measured at net asset value using the practical expedient.

(2) Transfer from Level 3 to Level 2.

	2016			
	Fixed Maturities	Other long-term investments(1)	Derivative instruments assets & (liabilities)	Contingent consideration (liabilities)
	(Millions)			
Balance at January 1, 2016	\$ 3.0	\$ 19.7	\$ (0.1)	\$ —
Fair value of contingent consideration liabilities at date of purchase (See Note 3)	—	—	—	—
Total realized and unrealized gains	(0.1)	1.1	10.7	—
Foreign currency losses through Other Comprehensive Income	—	(0.2)	—	—
Purchases	26.7	9.1	—	—
Sales/Settlements	—	(0.6)	2.1	—
Transfers out(2)	(2.2)	—	—	—
Balance at December 31, 2016	\$ 27.4	\$ 29.1	\$ 12.7	\$ —

(1) Excludes fair value of \$95.7 associated with hedge funds and private equity funds which fair value is measured at net asset value using the practical expedient.

(2) Transfer from Level 3 to Level 2.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 9. Fair value measurements (Continued)

Fair Value Measurements—transfers between levels

During 2017, two fixed maturity securities classified as Level 3 measurements in the prior period were recategorized as a Level 2 measurement because quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available as of December 31, 2017. These measurements comprise "Transfers out" of Level 3 and "Transfers in" to Level 2 of \$18.4 million for the period ended December 31, 2017.

During 2016, one fixed maturity security classified as Level 3 measurements in the prior period was recategorized as a Level 2 measurement because quoted market prices for similar securities that were considered reliable and could be validated against an alternative source were available as of December 31, 2016. These measurements comprise "Transfers out" of Level 3 and "Transfers in" to Level 2 of \$2.2 million for the period ended December 31, 2016.

Significant Unobservable Inputs

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level 3 instruments as of December 31, 2017 and December 31, 2016, and includes only those instruments for which information about the inputs is reasonably available to Sirius Group, such as data from independent third-party valuation service providers and from internal valuation models.

Description	Valuation Technique(s)	2017	
		Fair Value	Unobservable Input
		(Millions)	
Private equity securities(1)	Share price of recent transaction	\$ 25.0	Purchase share price \$ 31.25
Private equity securities(1)	Multiple of GAAP book value	\$ 17.2	Book value multiple 1.0X
Private debt instrument(1)	Purchase price of recent transaction	\$ 9.0	Purchase price \$ 9.0
Private debt instrument(1)	Purchase price of recent transaction	\$ 9.0	Purchase price \$ 9.0
Preferred stock(1)	Purchase price of recent transaction	\$ 6.0	Average share price \$ 0.6
Weather derivatives(2)	External pricing model	\$ 4.2	Broker quote \$ 4.2
Private debt instrument(1)	Internal valuation model	\$ 2.5	Purchase price less pay down \$ 2.5
Preferred stock(1)	Share price of recent transaction	\$ 2.0	Average share price \$ 11.79
Private debt instrument(1)	Purchase price of recent transaction	\$ 1.5	Purchase price \$ 1.5
Interest rate cap(2)	External pricing model	\$ 0.3	Broker quote \$ 0.3
Currency swaps(2)	External pricing model	\$ (10.6)	Broker quote \$ (10.6)
Contingent consideration	External valuation model	\$ (42.8)	Discounted future payments \$ (42.8)

(1) As of December 31, 2017 each asset type consists of one security.

(2) See Note 13 for discussion of derivative instruments.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 9. Fair value measurements (Continued)

Description	2016		Unobservable Input	
	Valuation Technique(s)	Fair Value (Millions)		
Private equity securities(1)	Multiple of GAAP book value	\$ 16.1	Book value multiple	1.0X
Asset-backed securities(1)	Broker pricing	\$ 12.0	Purchase price	\$12.0
Private debt instrument(1)	Purchase price of recent transaction	\$ 9.0	Purchase price	\$9.0
Residential mortgage-backed securities(1)	Broker pricing	\$ 6.4	Purchase price	\$6.4
Preferred stock(1)	Purchase price of recent transaction	\$ 6.0	Average share price	\$0.6
Weather derivatives(2)	External pricing model	\$ 5.8	Broker quote	\$5.8
Currency swaps(2)	External pricing model	\$ 5.2	Broker quote	\$5.2
Private debt instrument(1)	Purchase price of recent transaction	\$ 3.3	Purchase price less pay down	\$3.3
Preferred stock(1)	Average fair value	\$ 3.0	Average share price	\$86.3
Interest rate cap(2)	External pricing model	\$ 1.7	Broker quote	\$1.7
Common stock warrant(1)	Average fair value	\$ 0.5	Discount rate range	14 - 17%

(1) As of December 31, 2016 each asset type consists of one security.

(2) See Note 13 for discussion of derivative instruments.

Financial instruments disclosed, but not carried at fair value

Sirius Group uses various financial instruments in the normal course of its business. The carrying values of Cash, Accrued investment income, certain other assets, Accounts payable on unsettled investment purchases, certain other liabilities, and other financial instruments not included in the table below approximated their fair values at December 31, 2017 and 2016, due to their respective short maturities. As these financial instruments are not actively traded, their respective fair values are classified within Level 3. The following table includes financial instruments for which the carrying value differs from the estimated fair values at December 31, 2017 and 2016:

	2017		2016	
	Fair Value(1)	Carrying Value	Fair Value(1)	Carrying Value
	(Millions)			
Liabilities, Mezzanine equity, and Non-controlling interest:				
2017 SEK Subordinated Notes	\$ 341.4	\$ 330.7	\$ —	\$ —
2016 SIG Senior Notes	\$ 392.3	\$ 392.5	\$ 382.4	\$ 392.5
Old Lyme Note	\$ —	\$ —	\$ 3.7	\$ 3.7
Series A redeemable preference shares	\$ 90.0	\$ 106.1	\$ —	\$ —
SIG Preference Shares	\$ —	\$ —	\$ 252.8	\$ 250.0

(1) Fair value estimated by internal pricing and considered a Level 3 measurement.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 9. Fair value measurements (Continued)

Fair Value Measurements on a Non-Recurring Basis

Sirius Group measures the fair value of certain assets on a non-recurring basis, generally quarterly, annually, or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These include goodwill, indefinite-lived intangible assets, and long-lived assets. Sirius Group uses a variety of techniques to measure the fair value of these assets when appropriate, as described below:

Goodwill and Indefinite-Lived Intangible Assets: The preliminary fair value of the goodwill and indefinite-lived intangible asset acquired as part of the acquisitions of both IMG and Armada (see Note 3) was determined using the income valuation and market valuation methodologies. The income approach determines value for an asset based on the present value of cash flows projected to be generated over the remaining economic life of the asset being measured. The net cash flows are discounted to present value using a discount rate that reflects the relative risk of achieving the cash flow and the time value of money. The market approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or group of assets.

Determining the fair value goodwill and indefinite-lived intangible assets acquired requires the exercise of significant judgment, including the amount and timing of expected future cash flows, long-term growth rates and discount rates. The cash flows employed in the valuation are based on Sirius Group's best estimates of future sales, earnings, and cash flows after considering factors such as general market conditions, changes in working capital, long term business plans, and recent operating performance. Use of different estimates and judgments could yield different results.

Sirius Group tests goodwill and indefinite-lived intangible assets for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. When Sirius Group determines goodwill and indefinite-lived intangible assets may be impaired, Sirius Group uses techniques, including discounted expected future cash flows, to measure fair value. Sirius Group used Level 3 inputs to measure and record a \$5.0 million impairment of Trade Names indefinite-lived intangible asset during 2017 that was recorded in Impairment of Intangible Assets in the Consolidated Statements of (Loss) Income. (See Note 10).

Long-Lived Assets: Sirius Group tests its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of a long-lived asset may not be recoverable.

Note 10. Goodwill and intangible assets

Goodwill represents the excess of the amount paid to acquire subsidiaries over the fair value of identifiable net assets at the date of acquisition. Intangible assets consist primarily of distribution relationships, trade names, customer relationships, technology, and insurance licenses. Finite-life intangible assets are measured at their acquisition date fair values, are amortized over their economic lives, and presented net of accumulated amortization on the balance sheet.

Goodwill is not amortized, but rather is evaluated for impairment on an annual basis, or whenever indications of potential impairment exist. In the absence of any indications of potential impairment, the evaluation of goodwill is performed during the fourth quarter of each year. Sirius Group uses widely

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 10. Goodwill and intangible assets (Continued)

accepted valuation techniques to determine the fair value of its reporting units used in its annual goodwill impairment analysis. Sirius Group's valuation is primarily based on qualitative and quantitative assessments regarding the fair value of the reporting unit relative to its carrying value. Sirius Group models the fair value of the reporting unit based on projected earnings and cash flows of the reporting unit.

Intangible assets with indefinite lives are evaluated for impairment at least annually and when events or changes in circumstances indicate that it is more likely than not that the asset is impaired.

The following table shows the change in goodwill, intangible assets with an indefinite life, and intangible assets with a finite life during the years ended December 31, 2017 and 2016:

	<u>Goodwill</u>	<u>Intangible assets with an indefinite life</u>	<u>Intangible assets with a finite life</u>	<u>Total</u>
		(Millions)		
Net balance at December 31, 2015(1)	\$ —	\$ 10.2	\$ —	\$ 10.2
Additions	—	—	—	—
Sales(2)	—	(5.2)	—	(5.2)
Foreign currency translation	—	—	—	—
Impairments	—	—	—	—
Amortization	—	—	—	—
Net balance at December 31, 2016(1)	<u>—</u>	<u>5.0</u>	<u>—</u>	<u>5.0</u>
Additions(3)	400.7	27.0	199.5	627.2
Sales	—	—	—	—
Foreign currency translation(3)	0.3	—	—	0.3
Impairments(3)	—	(5.0)	—	(5.0)
Amortization(3)	—	—	(10.2)	(10.2)
Net balance at December 31, 2017	<u>\$ 401.0</u>	<u>\$ 27.0</u>	<u>\$ 189.3</u>	<u>\$ 617.3</u>

(1) Net balance at December 31, 2016 and 2015 for Intangible assets with an indefinite life relate to insurance licenses allocated to the Runoff & Other segment.

(2) Intangible assets related to insurance licenses sold with Ashmere during 2016. (See Note 3.)

(3) Additions, foreign currency translation, impairments, and amortization in 2017 relate Armada and IMG and are allocated to the Global A&H segment.

For the year ended December 31, 2017, Sirius Group recognized an impairment of Intangible assets with an indefinite life that relate to a trade name intangible asset acquired as part of the acquisition of IMG. The impairment resulted from lower than anticipated growth when comparing the forecasted results at the time of acquisition against a reforecast of results at year end. A quantitative impairment review of the IMG trade name intangible asset was performed by applying the royalty replacement method to determine the asset's fair value as of December 31, 2017. Under the royalty replacement method, the fair value of IMG's trade names intangible asset was determined based on a market participant's view of the royalty that would be paid to license the right to use the trade name. This quantitative analysis incorporated several assumptions including forecasted future revenues and cash flows, estimated royalty rate, based on similar licensing transactions and market royalty rates, and

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 10. Goodwill and intangible assets (Continued)

discount rate, which incorporates assumptions such as weighted-average cost of capital and risk premium. As a result of this impairment test, the carrying value of IMG's trade names intangible asset exceeded its estimated fair value and an impairment of \$5.0 million was recorded as Impairment of intangible assets on the Consolidated Statements of (Loss) Income for the year ended December 31, 2017. For the years ended December 31, 2016 and 2015, Sirius Group did not recognize any impairments on Intangible assets with an indefinite life.

The following tables presents components of goodwill and intangible assets at December 31, 2017 and 2016:

	2017				
	Gross Balance	Accumulated Amortization	Impairments (Millions)	Foreign Currency Translation	Net Balance
Customer relationships—finite life(1)	\$ 17.0	\$ (0.8)	\$ —	\$ —	\$ 16.2
Distribution relationships—finite life(1)	151.0	(6.2)	—	—	144.8
Goodwill—finite life(1)	400.7	—	—	0.3	401.0
Insurance licenses—finite life(2)	5.0	—	—	—	5.0
Technology—finite life(1)	15.5	(1.6)	—	—	13.9
Trade names—finite life(1)	16.0	(1.6)	—	—	14.4
Trade names—finite life(1)	27.0	—	(5.0)	—	22.0
Net balance at December 31, 2017	\$ 632.2	\$ (10.2)	\$ (5.0)	\$ 0.3	\$ 617.3

(1) Allocated to the Global A&H segment.

(2) Allocated to the Runoff & Other segment.

	2016				
	Gross Balance	Accumulated Amortization	Impairments (Millions)	Foreign Currency Translation	Net Balance
Customer relationships—finite life	\$ —	\$ —	\$ —	\$ —	\$ —
Distribution relationships—finite life	—	—	—	—	—
Goodwill—finite life	—	—	—	—	—
Insurance licenses—finite life(1)	5.0	—	—	—	5.0
Technology—finite life	—	—	—	—	—
Trade names—finite life	—	—	—	—	—
Trade names—finite life	—	—	—	—	—
Net balance at December 31, 2016	\$ 5.0	\$ —	\$ —	\$ —	\$ 5.0

(1) Allocated to the Runoff & Other segment.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 10. Goodwill and intangible assets (Continued)

The amortization of intangibles assets for the year ended December 31, 2017 was \$10.2 million. There was no amortization of intangible assets during the years ended December 31, 2016 or 2015.

The estimated remaining amortization expense for Sirius Group's intangible assets with finite lives is as follows:

	<u>(Millions)</u>
2018	\$ 15.8
2019	15.8
2020	15.8
2021	15.8
2022	14.6
2023 and thereafter	111.5
Total remaining amortization expense	\$ 189.3

The estimated remaining useful lives of these intangible assets range from 5.0 to 22.5 years.

Note 11. Debt and standby letters of credit facilities

Sirius Group's debt outstanding as of December 31, 2017 and 2016 consisted of the following:

	<u>December 31, 2017</u>	<u>Effective Rate(1)</u>	<u>December 31, 2016</u>	<u>Effective Rate(1)</u>
		(Millions)		
2017 SEK Subordinated Notes, at face value	\$ 335.2	3.5%	\$ —	
Unamortized issuance costs	(4.5)		—	
2017 SEK Subordinated Notes, carrying value	<u>330.7</u>		<u>—</u>	
2016 SIG Senior Notes, at face value	400.0	4.7%	400.0	4.7%
Unamortized discount	(2.9)		(3.1)	
Unamortized issuance costs	(4.6)		(4.4)	
2016 SIG Senior Notes, carrying value	<u>392.5</u>		<u>392.5</u>	
Old Lyme Note	—		3.7	3.6%
Total debt	\$ 723.2		\$ 396.2	

(1) Effective rate considers the effect of the debt issuance costs.

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Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 11. Debt and standby letters of credit facilities (Continued)

A schedule of contractual repayments of Sirius Group's debt as of December 31, 2017 follows:

	<u>December 31,</u> <u>2017</u> <u>(Millions)</u>
Due in one year or less	\$ ---
Due in one to three years	---
Due in three to five years	---
Due after five years	735.2
Total	\$ 735.2

2017 SEK Subordinated Notes

On September 22, 2017, Sirius Group issued floating rate callable subordinated notes denominated in Swedish kronor ("SEK") in the amount of SEK 2,750.0 million (or \$346.1 million on date of issuance) at a 100% issue price ("2017 SEK Subordinated Notes"). The 2017 SEK Subordinated Notes were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933. The 2017 SEK Subordinated Notes bear interest on their principal amount at a floating rate equal to the applicable Stockholm Interbank Offered Rate ("STIBOR") for the relevant interest period plus an applicable margin, payable quarterly in arrears on March 22, June 22, September 22, and December 22 in each year commencing on December 22, 2017, until maturity in September 2047.

Sirius Group incurred \$4.6 million in expenses related to the issuance of the 2017 SEK Subordinated Notes (including SEK 27.5 million, or \$3.5 million, in underwriting fees), which have been deferred and are being recognized into interest expense over the life of the 2017 SEK Subordinated Notes.

A portion of the proceeds were used to fully redeem the outstanding \$250.0 million Sirius International Group, Ltd. Preference Shares ("SIG Preference Shares"). (See Note 15).

Taking into effect the amortization of all underwriting and issuance expenses, and applicable STIBOR, the 2017 SEK Subordinated Notes yield an effective rate of approximately 3.5% per annum. Sirius Group recorded \$3.3 million of interest expense, inclusive of amortization of issuance costs, on the 2017 SEK Subordinated Notes for the year ended December 31, 2017.

2016 SIG Senior Notes

On November 1, 2016, Sirius Group issued \$400.0 million face value of senior unsecured notes ("2016 SIG Senior Notes") at an issue price of 99.209% for net proceeds of \$392.4 million after taking into effect both deferrable and non-deferrable issuance costs. The SIG Senior Notes were issued in an offering that was exempt from the registration requirements of the Securities Act of 1933. The 2016 SIG Senior Notes bear an annual interest rate of 4.6%, payable semi-annually in arrears on May 1 and November 1, in each year commencing on May 1, 2017, until maturity in November 2026.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 11. Debt and standby letters of credit facilities (Continued)

Sirius Group incurred \$5.1 million in expenses related to the issuance of the 2016 SIG Senior Notes (including \$3.4 million in underwriting fees), which have been deferred and are being recognized into interest expense over the life of the 2016 SIG Senior Notes.

Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the 2016 SIG Senior Notes yield an effective rate of approximately 4.7% per annum. Sirius Group recorded \$19.1 and \$3.2 million of interest expense, inclusive of amortization of issuance costs, on the 2016 SIG Senior Notes for the years ended December 31, 2017 and 2016, respectively.

2007 SIG Senior Notes

During 2016, using the funds received from the issuance of the 2016 SIG Senior Notes, Sirius Group retired the \$400.0 million face value of senior unsecured notes that were issued in 2007 ("2007 SIG Senior Notes"). The retirement of the 2007 SIG Senior Notes resulted in a \$5.7 million loss recorded in interest expense, which includes the write-off of the remaining \$0.1 million in unamortized deferred costs and original issue discount at the time of retirement.

In anticipation of the issuance of the 2007 SIG Senior Notes, Sirius Group entered into an interest rate lock agreement to hedge its interest rate exposure from the date of the agreement until the pricing of the 2007 SIG Senior Notes. The agreement was terminated on March 15, 2007 with a loss of \$2.4 million, which was recorded in other comprehensive income. The loss was reclassified from accumulated other comprehensive income over the life of the 2007 SIG Senior Notes using the interest method and was included in interest expense until it was retired in 2016. When the 2007 SIG Senior Notes were retired, the \$0.1 million loss remaining in accumulated other comprehensive income was reclassified to interest expense.

Prior to retirement, taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, including the interest rate lock agreement, the 2007 SIG Senior Notes yielded an effective rate of approximately 6.5% per annum. Sirius Group recorded \$31.2 million and \$26.3 million of interest expense, inclusive of loss on repurchase, amortization of issuance costs and the interest rate lock agreement, on the 2007 SIG Senior Notes for each of the years ended December 31, 2016, and 2015, respectively.

Old Lyme Note

On April 25, 2017, Sirius Group made a payment of \$3.8 million to retire the Old Lyme Note that was originally issued as part of the acquisition of the runoff loss reserve portfolio of Old Lyme Insurance Company Ltd. As part of the acquisition in 2011, Sirius Group entered into a five-year \$2.1 million note that was subject to upward adjustments for favorable loss reserve development (up to 50% of \$6.0 million) and downward adjustments for any adverse loss reserve development. From inception, Sirius Group had favorable loss reserve development of \$3.4 million on the Old Lyme loss reserve position that resulted in an increase of \$1.7 million on the Old Lyme Note.

Standby Letter of Credit Facilities

On November 8, 2017, Sirius International entered into four standby letter of credit facility agreements totaling \$215 million to provide capital support for Syndicate 1945. The first letter of credit

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 11. Debt and standby letters of credit facilities (Continued)

is a renewal of a \$125 million facility with Nordea Bank Finland plc, \$100 million of which is issued on an unsecured basis. The second letter of credit is a \$25 million secured facility with Lloyds Bank plc. Lloyds Bank plc had previously participated on this program but at a different capacity. The third letter of credit agreement is a \$30 million unsecured facility with Barclays Bank plc. The fourth letter of credit agreement is a \$35 million facility with DNB Bank ASA London Branch, \$25 million of which is issued on an unsecured basis. Each facility is renewable annually. The above referenced facilities are subject to various affirmative, negative and financial covenants that the Company considers to be customary for such borrowings, including certain minimum net worth and maximum debt to capitalization standards.

Sirius International has other secured letter of credit and trust arrangements with various financial institutions to support its insurance operations. As of December 31, 2017 and 2016, respectively, these secured letter of credit and trust arrangements were collateralized by pledged assets and assets in trust of SEK 2.1 billion and SEK 1.8 billion, or \$261.2 million and \$203.0 million (based on the December 31, 2017 and December 31, 2016 SEK to USD exchange rates). As of December 31, 2017 and 2016, respectively, Sirius America's trust arrangements were collateralized by pledged assets and assets in trust of \$55.8 million and \$18.8 million. As of December 31, 2017, Sirius Bermuda Insurance Company's ("Sirius Bermuda") trust arrangements were collateralized by pledged assets and assets in trust of \$123.3 million. At December 31, 2016, Sirius Bermuda did not have any trust arrangements that were collateralized by pledged assets and assets in trust.

Debt and Standby Letter of Credit Facility Covenants

As of December 31, 2017, Sirius Group was in compliance with all of the covenants under the 2016 SIG Senior Notes, 2017 SEK Subordinated Notes, the Nordea facility, the Lloyd's Bank facility, Barclays Bank facility, and the DNB Bank ASA London Branch facility.

Interest

Total interest expense incurred by Sirius Group for its indebtedness was \$22.4 million, \$34.6 million, and \$26.6 million in 2017, 2016, and 2015. Total interest paid by Sirius Group for its indebtedness was \$22.0 million, \$31.6 million, and \$25.5 million in 2017, 2016, and 2015, respectively.

Note 12. Income taxes

The Company and its Bermuda domiciled subsidiaries are not subject to Bermuda income tax under current Bermuda law. In the event there is a change in the current law such that taxes are imposed, the Company and its Bermuda domiciled subsidiaries would be exempt from such tax until March 31, 2035, pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966. The Company has subsidiaries and branches that operate in various other jurisdictions around the world that are subject to tax in the jurisdictions in which they operate. The jurisdictions in which the Company's subsidiaries and branches are subject to tax are Australia, Belgium, Canada, Germany, Gibraltar, Luxembourg, Malaysia, the Netherlands, Singapore, Sweden, Switzerland, the United Kingdom, and the United States.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 12. Income taxes (Continued)

Sirius Group's net (loss) income before income taxes for the years ended December 31, 2017, 2016, and 2015 was generated in the following domestic and foreign jurisdictions:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(Millions)		
Domestic:			
Bermuda	\$ (95.0)	\$ (4.9)	\$ 1.2
Foreign:			
U.S.	(22.4)	(25.3)	68.9
U.K.	(27.0)	(7.0)	(3.5)
Sweden	(26.1)	(29.5)	15.6
Luxembourg	43.4	105.3	250.9
Netherlands	18.2	(0.1)	(0.1)
Other	(1.0)	(0.6)	0.2
Total (loss) income before income taxes	<u>\$ (109.9)</u>	<u>\$ 37.9</u>	<u>\$ 333.2</u>

The total income tax benefit (expense) for the years ended December 31, 2017, 2016, and 2015 consisted of the following:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(Millions)		
Current tax (expense):			
U.S. Federal	\$ (0.9)	\$ 2.1	\$ (0.1)
State	(2.0)	(1.7)	(1.5)
Non-U.S.	(3.6)	(11.4)	(9.6)
Total current tax (expense)	<u>(6.5)</u>	<u>(11.0)</u>	<u>(11.2)</u>
Deferred tax (expense) benefit:			
U.S. Federal	(10.7)	16.0	(21.4)
State	—	—	—
Non-U.S.	(9.2)	2.3	(14.5)
Total deferred tax (expense) benefit	<u>(19.9)</u>	<u>18.3</u>	<u>(35.9)</u>
Total income tax (expense) benefit	<u>\$ (26.4)</u>	<u>\$ 7.3</u>	<u>\$ (47.1)</u>

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 12. Income taxes (Continued)

Effective Rate Reconciliation

A reconciliation of taxes calculated using the 22% Swedish statutory rate (the rate at which the majority of Sirius Group's worldwide operations are taxed) to the income tax (expense) benefit on pre-tax income follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(Millions)	
Tax benefit (expense) at the statutory rate	\$ 24.2	\$ (8.3)	\$ (73.3)
Differences in taxes resulting from:			
Tax rate change enacted in the United States	(29.7)	—	—
Non-Sweden Earnings	(19.1)	(8.0)	17.1
Foreign tax credits	2.2	6.9	6.5
Change in valuation allowance including benefit from intercompany debt restructuring	1.4	55.0	11.3
Tax reserve adjustments	(0.7)	(6.0)	(5.7)
Withholding taxes	(0.8)	(1.4)	(1.9)
Tax rate change enacted in Luxembourg	0.4	(30.6)	—
Other, net	(4.3)	(0.3)	(1.1)
Total income tax (expense) benefit on pre-tax earnings	<u>\$ (26.4)</u>	<u>\$ 7.3</u>	<u>\$ (47.1)</u>

The non-Sweden component of Pre-tax (loss) income was \$(83.8) million, \$67.3 million, and \$317.6 million for the years ended December 31, 2017, 2016, and 2015, respectively.

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA") was enacted into law. Substantially all of the provisions of the TCJA are effective for taxable years beginning after December 31, 2017. The TCJA includes significant changes to the Internal Revenue Code of 1986, including amendments which significantly change the taxation of individuals and business entities. Among numerous other changes, the corporate federal income tax rate was reduced from 35% to 21%, effective January 1, 2018. The tax effects of changes in tax laws must be recognized in the period in which the law is enacted, and deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. Thus, the Company's deferred taxes were remeasured on December 31, 2017, based upon the 21% federal income tax rate, which resulted in a \$29.7 million reduction in the net deferred tax assets. Of this amount, \$12.1 million was primarily related to net operating loss carryforwards and book-tax timing differences in its U.S. subsidiaries and \$17.6 million was related to net operating loss carryforwards in one of the Luxembourg subsidiaries, which is re-measured in part by reference to the U.S. tax rate. The \$29.7 million reduction in net deferred tax assets was recorded through income from operations.

Additionally, the SEC staff issued Staff Accounting Bulletin 118 ("SAB 118"), which provides guidance on accounting for the tax effects of the TCJA. SAB 118 addresses situations where accounting for certain income tax effects of the TCJA under ASC 740, *Income Taxes* ("ASC 740") may be incomplete upon issuance of an entity's financial statements and provides a one-year measurement period from the enactment date to complete the accounting under ASC 740. In accordance with SAB 118, a company must reflect the following: (1) income tax effects of those aspects of the TCJA for

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 12. Income taxes (Continued)

which accounting under ASC 740 is complete, (2) provisional estimate of income tax effects of the TCJA to the extent accounting is incomplete but a reasonable estimate is determinable, and (3) if a provisional estimate cannot be determined, ASC 740, should still be applied on the basis of tax law provisions that were in effect immediately before the enactment of the TCJA. Sirius Group's provision for income taxes for the year ended December 31, 2017 is based on the application of SAB 118 taking into account existing deferred tax balances and certain provisions of the TCJA. The income tax effects of the TCJA for which accounting is complete (category (1) above) are set forth in the paragraph above. To the extent Sirius Group's accounting was incomplete and a reasonable estimate of the impact of certain provisions was determinable (category (2) above), the provisional estimates prescribed by SAB 118 were insignificant. To the extent a reasonable estimate of the impact of certain provisions was not determinable (category (3) above), Sirius Group has not recorded any adjustments and has continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect before enactment of the TCJA. These items include Sirius Group's tax accounting for loss reserves based on a new discounting methodology prescribed by the TCJA.

The TCJA includes provisions for Global Intangible Low-Taxed Income ("GILTI") under which taxes on foreign income are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries and for Base Erosion and Anti-Abuse Tax ("BEAT") under which taxes are imposed on certain base eroding payment to affiliated foreign companies. Consistent with accounting guidance, Sirius Group will treat BEAT as an in period tax charge when incurred in future periods for which no deferred taxes need to be provided and has made an accounting policy election to treat GILTI taxes in a similar manner. Accordingly, no provision for income taxes related to BEAT or GILTI was recorded as of December 31, 2017.

Sirius Group has capital and liquidity in many of its subsidiaries, some of which may reflect undistributed earnings. If such capital or liquidity were to be paid or distributed to the Company or Sirius Group's subsidiaries, as dividends or otherwise, they may be subject to income or withholding taxes. Sirius Group generally intends to operate, and manage its capital and liquidity, in a tax-efficient manner. However, the applicable tax laws in relevant countries are still evolving, including in response to guidance from the Organisation for Economic Cooperation and Development. Accordingly, such payments or earnings may be subject to income or withholding tax in jurisdictions where they are not currently taxed or at higher rates of tax than currently taxed, and the applicable tax authorities could attempt to apply income or withholding tax to past earnings or payments.

Tax Payments and Receipts

Net income tax payments to national, state, and local governments totaled \$16.7 million, \$8.3 million, and \$31.7 million for the years ended December 31, 2017, 2016, and 2015, respectively.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 12. Income taxes (Continued)

Deferred Tax Inventory

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 for tax purposes. An outline of the significant components of Sirius Group's deferred tax assets and liabilities follows:

	<u>2017</u>	<u>2016</u>
	(Millions)	
Deferred income tax assets related to:		
Non-U.S. net operating loss carry forwards	\$ 305.1	\$ 270.8
U.S. federal net operating loss and capital carry forwards	34.7	40.0
Tax credit carry forwards	18.3	15.2
Loss reserve discount	8.9	22.0
Incentive compensation and benefits accruals	2.0	6.3
Net unrealized investment losses	1.8	3.4
Unearned Premiums	1.5	2.0
Allowance for doubtful accounts	1.4	2.3
Deferred interest	0.2	0.3
Additional DTA as result of intercompany debt restructuring	—	7.4
Foreign currency translations on investments and other assets	—	2.0
Other items	3.6	2.6
Total gross deferred income tax assets	<u>377.5</u>	<u>374.3</u>
Valuation allowance	(71.8)	(58.1)
Total adjusted deferred tax asset	<u>305.7</u>	<u>316.2</u>
Deferred income tax liabilities related to:		
Safety Reserve (See Note 19)	286.6	259.7
Intangible assets	42.0	—
Foreign currency translations on investments and other assets	7.3	—
Purchase accounting	2.4	3.5
Deferred acquisition costs	1.2	3.4
Investment basis differences	1.1	8.7
Other items	3.2	1.5
Total deferred income tax liabilities	<u>343.8</u>	<u>276.8</u>
Net deferred tax (liability) asset	<u>\$ (38.1)</u>	<u>\$ 39.4</u>

Sirius Group's deferred tax assets are net of U.S. federal and non-U.S. valuation allowances and, to the extent they relate to non-U.S. jurisdictions, they are shown at year-end exchange rates.

Of the \$38.2 million net deferred tax liability as of December 31, 2017, \$17.9 million relates to net deferred tax assets in U.S. subsidiaries, \$189.8 million relates to net deferred tax assets in Luxembourg subsidiaries, \$11.3 million relates to net deferred tax assets in United Kingdom subsidiaries and \$257.2 million relates to net deferred tax liabilities in Sweden subsidiaries.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 12. Income taxes (Continued)

As a result of the acquisitions of IMG and Armada, a net deferred tax liability of \$42.0 million related to intangible assets was recorded as of December 31, 2017. Of the \$42.0 million, \$33.3 million relates to a deferred tax liability for IMG and its subsidiaries' policyholder relationships, customer relationships, technology, and trade names, \$9.8 million relates to a deferred tax liability related to the remeasurement at fair value of the Armada Earnout post-acquisition, and \$1.1 million relates to a deferred tax asset for Armada's distribution relationships, trade name, and technology.

Net Operating Loss and Capital Loss Carryforwards

Net operating loss and capital loss carryforwards as of December 31, 2017, the expiration dates, and the deferred tax assets thereon are as follows:

	2017					TOTAL
	United States	Luxembourg	Sweden	Netherlands	UK	
			(Millions)			
2018 - 2022	\$ 0.6	\$ —	\$ —	\$ 1.0	\$ —	\$ 1.6
2022 - 2037	166.7	—	—	0.4	—	167.1
No expiration date	—	1,043.3	220.3	—	56.3	1,319.9
Total	167.3	1,043.3	220.3	1.4	56.3	1,488.6
Gross Deferred Tax Asset	35.1	271.4	22.5	0.3	10.8	340.1
Valuation Allowance	—	(71.9)	—	(0.3)	—	(72.2)
Net Deferred Tax Asset	\$ 35.1	\$ 199.5	\$ 22.5	\$ —	\$ 10.8	\$ 267.9

Sirius Group expects to utilize net operating loss carryforwards in Luxembourg of \$821.8 million but does not expect to utilize the remainder as they belong to companies that are not expected to have sufficient taxable income in the future. Included in the U.S. net operating loss carryforwards are losses of \$120.1 million subject to an annual limitation on utilization under Internal Revenue Code Section 382. Of these loss carryforwards, \$14.0 million will expire between 2022 and 2025, \$104.5 million will expire between 2030 and 2032, and \$48.8 million will begin to expire in 2036. Sirius Group expects to utilize all of the U.S. net operating loss carryforwards.

As of December 31, 2017, there are U.S. foreign tax credits carryforwards available of \$13.7 million, of which an insignificant amount expires between 2018 and 2019, and the remaining, which Sirius Group expects to use, will begin to expire in 2022. As of December 31, 2017, there are alternative minimum tax credit carryforwards of \$0.1 million which do not expire and are expected to become fully refundable beginning in the 2021 tax year under the TCJA.

Valuation Allowance

Sirius Group records a valuation allowance against deferred tax assets if it becomes more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances from period to period are included in income tax expense in the period of change. In determining whether or not a valuation allowance, or change therein, is warranted, Sirius Group considers factors such as prior earnings history, expected future earnings, carryback and carryforward periods, and strategies that if executed would result in the realization of a deferred tax asset. It is

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 12. Income taxes (Continued)

possible that certain planning strategies or projected earnings in certain subsidiaries may not be feasible to utilize the entire deferred tax asset, which could result in material changes to Sirius Group's deferred tax assets and tax expense.

Of the \$71.8 million valuation allowance as of December 31, 2017, \$72.2 million relates to net operating loss carryforwards in Luxembourg and Netherlands subsidiaries and \$(0.4) million relates to other deferred tax assets in Luxembourg, Swedish, and United States subsidiaries.

United States

Sirius Re Holdings, Inc. ("SReHi") has an insignificant valuation allowance on foreign tax credits, which will expire in 2018 and 2019. SReHi has an additional \$13.7 million of foreign tax credits that will expire between the years 2020 and 2027, which are expected to be fully utilized.

Uncertain Tax Positions

Recognition of the benefit of a given tax position is based upon whether a company determines that it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. In evaluating the more likely than not recognition threshold, Sirius Group must presume that the tax position will be subject to examination by a taxing authority with full knowledge of all relevant information. If the recognition threshold is met, then the tax position is measured at the largest amount of benefit that is more than 50% likely of being realized upon ultimate settlement.

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 12. Income taxes (Continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Permanent Differences(1)	Temporary Differences(2) (Millions)	Interest and Penalties(3)	Total
Balance at January 1, 2015	\$ 15.0	\$ 6.7	\$ 0.1	\$ 21.8
Changes in prior year tax positions	—	—	—	—
Tax positions taken during the current year	5.0	(0.1)	—	4.9
Lapse in statute of limitations	(0.2)	—	(0.1)	(0.3)
Settlements with tax authorities	—	—	—	—
Balance at December 31, 2015	\$ 19.8	\$ 6.6	\$ —	\$ 26.4
Changes in prior year tax positions	—	—	—	—
Tax positions taken during the current year	4.4	(2.5)	0.2	2.1
Lapse in statute of limitations	—	—	—	—
Settlements with tax authorities	—	—	—	—
Balance at December 31, 2016	\$ 24.2	\$ 4.1	\$ 0.2	\$ 28.5
Changes in prior year tax positions	0.2	(0.1)	0.1	0.2
Tax positions taken during the current year	3.8	(2.2)	—	1.6
Lapse in statute of limitations	(0.5)	—	—	(0.5)
Settlements with tax authorities	(0.3)	—	(0.2)	(0.5)
Balance at December 31, 2017	\$ 27.4	\$ 1.8	\$ 0.1	\$ 29.3

- (1) Represents the amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate.
- (2) Represents the amount of unrecognized tax benefits that, if recognized, would create a temporary difference between the reported amount of an item in the Consolidated Balance Sheets and its tax basis.
- (3) Net of tax benefit.

If Sirius Group determines in the future that its reserves for unrecognized tax benefits on permanent differences and interest and penalties are not needed, the reversal of \$27.4 million of such reserves as of December 31, 2017 would be recorded as an income tax benefit and would impact the effective tax rate. If Sirius Group determines in the future that its reserves for unrecognized tax benefits on temporary differences are not needed, the reversal of \$1.8 million of such reserves as of December 31, 2017 would not impact the effective tax rate due to deferred tax accounting but would accelerate the payment of cash to the taxing authority. The vast majority of Sirius Group's reserves for unrecognized tax benefits on temporary differences relate to deductions for loss reserves where the timing of the deductions is uncertain.

Sirius Group classifies all interest and penalties on unrecognized tax benefits as part of income tax expense. During the years ended December 31, 2017, 2016, and 2015, Sirius Group recognized \$(0.1) million, \$0.2 million, and \$(0.1) million in interest income (expense), respectively, net of any tax benefit. The balance of accrued interest as of December 31, 2017 and 2016 is \$0.1 million and \$0.2 million, respectively, net of any tax benefit.

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Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 12. Income taxes (Continued)

Tax Examinations

The Swedish Tax Authority ("STA") has denied deductions claimed by two of the Company's Swedish subsidiaries in certain tax years for interest paid on intra-group debt instruments. Sirius Group is currently challenging the STA's denial in court based on the technical merits. Sirius Group's reserve for uncertain tax positions has taken into account relevant developments in these tax disputes and in applicable Swedish tax law including recent case law. Sirius Group has also taken into account the SPA by which Sirius Group was sold to CMIG International in 2016. Pursuant to the SPA, the seller agreed to indemnify the buyer and Sirius Group for, among other things, (1) any additional tax liability in excess of Sirius Group's accounting for uncertain tax positions for tax periods prior to the sale of Sirius Group to CMIG International, and (2) an impairment in Sirius Group's net deferred tax assets resulting from a final determination by a tax authority.

With few exceptions, Sirius Group is no longer subject to U.S. federal, state or non-U.S. income tax examinations by tax authorities for years before 2013.

Note 13. Derivatives

Interest Rate Cap

Sirius Group entered into an interest rate swap ("Interest Rate Cap") with two financial institutions where it paid an upfront premium and in return receives a series of quarterly payments based on the 3-month London Interbank Offered Rate ("LIBOR") at the time of payment. The Interest Rate Cap does not qualify for hedge accounting. Changes in fair value are recognized as unrealized gains or losses and are presented within Other revenue. The fair value of the interest rate cap has been estimated using a single broker quote and, accordingly, has been classified as a Level 3 measurement as of December 31, 2017 and 2016. Collateral held is recorded within short-term investments with an equal amount recognized as a liability to return collateral. Sirius Group's liability to return that collateral is based on the amounts provided by the counterparties and investment earnings thereon. The following table summarizes the Interest Rate Cap collateral balances held by Sirius Group and ratings by counterparty:

	2017	
	Collateral Balances Held	S & P Rating(1)
	(Millions)	
Barclays Bank Plc	\$ 0.2	A-
Nordea Bank Finland Plc	0.1	AA-
Total	\$ 0.3	

- (1) Standard & Poor's ratings as detailed above are: "AA-" (Very Strong, which is the fourth highest of twenty-three creditworthiness ratings) and "A-" (Strong, which is the seventh highest of twenty-three credit worthiness ratings).

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 13. Derivatives (Continued)

Foreign Currency Swaps

Sirius Group executes foreign currency swaps to manage foreign currency exposure. The foreign currency swaps have not been designated or accounted for under hedge accounting. Changes in fair value are recognized as unrealized gains or losses and are presented within Net foreign exchange gains (losses). The fair value of the foreign currency swaps has been estimated using a single broker quote and accordingly, has been classified as a Level 3 measurement as of December 31, 2017 and 2016. Sirius Group does not provide or hold any collateral associated with the swaps.

Foreign Currency Forward

During 2016, Sirius Group executed a foreign currency forward to manage currency exposure against a foreign currency investment. During 2017, the foreign currency forward expired and was not renewed. The foreign currency forward was not designated or accounted for under hedge accounting. Changes in fair value are recognized as unrealized gains or losses and are presented within Net foreign exchange gains (losses). The fair value of the foreign currency forward was estimated using a single broker quote and, accordingly, was classified as a Level 3 measurement as at December 31, 2016. Sirius Group did not provide or hold any collateral associated with the forwards.

Weather Derivatives

Sirius Group holds assets and assumes liabilities related to weather and weather contingent risk management products. Weather and weather contingent derivative contracts are entered into with the objective of generating profits in normal climatic conditions. Accordingly, Sirius Group's weather and weather contingent derivatives are not designed to meet the criteria for hedge accounting under GAAP. Sirius Group receives payment of premium at the contract inception in exchange for bearing the risk of variations in a quantifiable weather index. Changes in fair value are recognized as unrealized gains or losses and are presented within Other revenue. Management uses available market data and internal pricing models based upon consistent statistical methodologies to estimate the fair value. Because of the significance of the unobservable inputs used to estimate the fair value of Sirius Group's weather risk contracts, the fair value measurements of the contracts are deemed to be Level 3 measurements in the fair value hierarchy as at December 31, 2017 and 2016. Sirius Group does not provide or hold any collateral associated with the weather derivatives.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 13. Derivatives (Continued)

The following tables summarize information on the classification and amount of the fair value of derivatives not designated as hedging instruments within the Company's Consolidated Balance Sheets as at December 31, 2017 and 2016:

Derivatives not designated as hedging instruments	2017			2016		
	Notional Value	Asset derivative at fair value(1)	Liability derivative at fair value(2)	Notional Value	Asset derivative at fair value(1)	Liability derivative at fair value(2)
	(Millions)					
Interest rate cap	\$ 250.0	\$ 0.3	\$ —	\$ 250.0	\$ 1.7	\$ —
Foreign currency swaps	\$ 45.0	\$ —	\$ 10.6	\$ 100.0	\$ 5.2	\$ —
Weather derivatives	\$ 113.3	\$ 4.2	\$ —	\$ 97.8	\$ 5.8	\$ —

- (1) Asset derivatives are classified within Other assets within the Company's Consolidated Balance Sheets at December 31, 2017 and 2016.
- (2) Liability derivatives are classified within Other liabilities within the Company's Consolidated Balance Sheets at December 31, 2017 and 2016.

The following table summarizes information on the classification and net impact on earnings, recognized in the Company's Consolidated Statements of (Loss) Income relating to derivatives during the years ended December 31, 2017, 2016 and 2015:

Derivatives not designated as hedging instruments	Classification of gains (losses) recognized in earnings	2017	2016	2015
		(Millions)		
Interest rate cap	Other revenues	\$ (1.5)	\$ (0.2)	\$ (2.2)
Foreign currency swaps	Net foreign exchange gains (losses)	\$ (11.3)	\$ 6.6	\$ (0.1)
Foreign currency forwards(1)	Net foreign exchange gains (losses)	\$ (0.3)	\$ —	\$ —
Weather derivatives	Other revenues	\$ (1.5)	\$ 5.2	\$ 1.9

- (1) There were no Foreign currency forwards at December 31, 2017 and an insignificant amount at December 31, 2016 on the Consolidated Balance Sheets.

Note 14. Employee benefit plans and compensation plans

Employee Benefit Plans

Sirius Group operates several retirement plans in accordance with the local regulations and practices. These plans cover substantially all Sirius Group employees and provide benefits to employees in event of death, disability, or retirement.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 14. Employee benefit plans and compensation plans (Continued)

Defined benefit plans

Swedish and German employees of Sirius International can participate in defined benefit plans which are based on the employees' pension entitlements and length of employment. In Sweden, where a defined benefit pension plan is mandated by the government, Sirius International's employees participate in collective agreements funded by Sirius International. These collective agreements are managed by third party trustees who calculate the pension obligation, invoice Sirius International for additional funding, and invest the funds. All employees in Germany are covered by defined benefit pension plans sponsored by Sirius International called Sirius Rückversicherungs Service GmbH Pension Plan. Paid pension premiums are invested with Skandia Liv for employees in Sweden and with Allianz for employees in Germany. Skandia Liv held 94% and 93% of total plan assets in 2017 and 2016, respectively. Allianz held 6% and 7% of total plan assets in 2017 and 2016, respectively. Skandia manages the portfolio to be able to pay a guaranteed amount and a favorable return over time with the goal of getting the highest possible return along with well-balanced risk. The average return for the period 2015 through 2017 was 8.5%. The investment directive is decided by the Skandia Liv board of directors. To achieve the goals the portfolio is diversified with the asset allocation shown below.

The breakdown of the investment of plan assets for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
International equities	18.1%	19.5%
Swedish equities	9.8%	8.6%
Swedish nominal bonds	32.7%	32.8%
Real estate	11.3%	10.7%
Private equity	9.7%	9.7%
Other	<u>18.4%</u>	<u>18.7%</u>

The assumptions used to determine Swedish benefit obligations for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	2.5%	2.5%
Increase in compensation levels rate	3.2%	3.0%
Turnover rate	<u>3.0%</u>	<u>3.0%</u>

The Swedish actuaries follow the Swedish industry DUS14 mortality rate. The discount rate used to calculate the Swedish benefit obligation was derived from the expected return of an investment in Swedish covered mortgage bonds with a duration in accordance with the duration of the pension obligation. The duration of the Swedish pension liability is approximately 19 years.

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Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 14. Employee benefit plans and compensation plans (Continued)

The assumptions used to determine German benefit obligations for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Discount rate	1.7%	1.6%
Increase in compensation levels rate	<u>2.0%</u>	<u>2.0%</u>

The German actuaries follow the Germany industry Richttafeln 2005 G mortality rates and standard turnover values for the years ended December 31, 2017 and 2016. The discount rate used to calculate the German benefit obligation was derived from markets yields on high quality corporate bonds with durations consistent with plan obligations.

The following tables present a reconciliation of the beginning and ending funded status and the net amounts recognized for the defined benefit plans for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(Millions)	
Change in benefit obligation		
Projected benefit obligation, beginning of year	\$ 14.9	\$ 15.0
Service cost	0.8	0.9
Interest cost	0.3	0.4
Actuarial (gains) losses	0.4	(0.8)
Benefit payments	(0.5)	(0.6)
Tax payments	(0.2)	(0.2)
Currency revaluation effect	1.7	0.2
Projected benefit obligation, end of year	<u>17.4</u>	<u>14.9</u>
Change in plan assets		
Fair value of plan assets, beginning of year	11.6	11.6
Employer contributions	0.9	1.0
Benefit payments	(0.3)	(0.2)
Interest income	2.5	0.5
Currency revaluation effect	1.4	(1.3)
Fair value of plan assets, end of year	<u>16.1</u>	<u>11.6</u>
Funded status at end of year(1)	<u>\$ (1.3)</u>	<u>\$ (3.3)</u>

(1) At December 31, 2017 both plans had a negative funding status. At December 31, 2016, the Swedish plan had a funding status of \$0.9 and the German plan had a funding status of \$(4.2).

Under the Swedish plan, a 100 basis point discount rate decrease would increase the 2018 defined benefit obligation by \$2.1 million, with all other items remaining the same. Under the German plan, a 50 basis point decrease in the discount rate would increase the benefit obligation by \$0.5 million, with all other items remaining the same. Conversely, a 50 basis point increase in the discount rate would decrease the benefit obligation by \$0.4 million.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 14. Employee benefit plans and compensation plans (Continued)

The accumulated benefit obligation for the years ended December 31, 2017 and 2016 was \$17.4 million and \$14.9 million, respectively.

The components of net periodic pension expense for the years ended December 31, 2017, 2016, and 2015 are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(Millions)	
Service cost	\$ (0.8)	\$ (0.9)	\$ 1.0
Interest cost	2.2	—	(0.1)
Actuarial gain/(loss)	(0.3)	(0.9)	(1.1)
Net periodic pension expense	\$ 1.1	\$ (1.8)	\$ (0.2)

The employer benefit payments/settlements for the years ended December 31, 2017 and 2016 were \$0.2 million and \$0.3 million, respectively. As at December 31, 2017, the projected benefit payments required for the defined pension benefits plans are as follows:

	<u>December 31, 2017</u>
	(Millions)
2018	\$ 0.4
2019	0.4
2020	0.4
2021	0.4
2022	0.5
2023 - 2027	2.8
Total benefit payments required	\$ 4.9

Defined contributions plans

Non-U.S.

In the United Kingdom, Sirius International contributes 12% of the employee's salary. Contributed funds are invested into an annuity of the employee's choice. In Belgium, Sirius International contributes 6.5%-8.5% of the employee's salary. Employees in Switzerland are eligible to participate in the industry-sponsored Swissscanto pension plan ("Swissscanto plan"). The Swissscanto plan is a combination of a defined contribution and a defined benefit plan. For the Swissscanto plan, Sirius International incurs 60%-70% of the total premium charges and the employees incur the remaining 30-40%. As of December 31, 2017 and 2016, the projected benefit obligation of Sirius International's various benefit plans was \$17.4 million and \$15.0 million, and the funded status was \$(1.3) million and \$(3.3) million, respectively. Sirius International recognized expenses related to these various plans of \$4.9 million, \$7.3 million, and \$7.0 million in 2017, 2016, and 2015, respectively.

Sirius Bermuda sponsors defined contribution plans which cover substantially all of the employees of Sirius Bermuda. Under these plans, Sirius Bermuda is required to contribute 10% of each participant's salary into an individual account maintained by an independent pension administrator.

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Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 14. Employee benefit plans and compensation plans (Continued)

Employees become vested in the Sirius Bermuda contributions after two years of service. Sirius Bermuda recognized expenses of \$0.4 million in 2017. In previous years, employees of Sirius Bermuda were covered by Sirius International sponsored plans and Sirius International incurred expenses of \$0.5 million and \$0.5 million in 2016 and 2015, respectively.

U.S.

Sirius International Holding Company, Inc. ("SIHC") sponsors a defined contribution plan (the "SIHC 401(k) Plan") which offers participants the ability to invest their balances in several different investment options. The SIHC 401(k) Plan provides qualifying employees with matching contributions of 100% up to the first 2% and 50% of the next 4% of salary (subject to U.S. federal limits on allowable contributions in a given year). Total expense for matching contributions to the plan was \$1.3 million, \$0.7 million, and \$0.5 million in 2017, 2016, and 2015, respectively. Additionally, all participants in the SIHC 401(k) Plan can earn a variable contribution of up to 7% of their salary, subject to the applicable IRS annual covered compensation limits (\$0.3 million for 2017) and contingent upon Sirius Group's performance. Total expense for variable contributions to the SIHC 401(k) Plan was \$0.3 million, \$0.4 million, and \$0.5 million in 2017, 2016, and 2015, respectively.

IMG sponsors a 401(k) retirement savings plan (the "IMG 401(k) Plan"). IMG 401(k) Plan participants may elect to have a percentage of their salaries contributed to the IMG 401(k) Plan on a pre-tax basis subject to annual limits prescribed under the Internal Revenue Code. IMG makes safe harbor matching contributions to the IMG 401(k) Plan equal to 100% of participants' deferrals up to the first 1% of eligible compensation and 50% of participants' deferrals between 1% and 6% of eligible compensation. IMG may also elect to make discretionary contributions to the IMG 401(k) Plan which are allocated based on compensation. IMG made matching contributions to the IMG 401(k) Plan of \$0.3 million from the date of acquisition to December 31, 2017.

Armada maintains a qualified 401(k) plan (the "Armada 401(k) Plan"). Under provisions of the Armada 401(k) Plan, Armada may make discretionary, matching contributions. Matching contributions into the Armada 401(k) Plan totaled \$0.1 million from the date of acquisition to December 31, 2017.

Long-Term Incentive Compensation Plans

Sirius Group grants incentive awards to certain key employees. This includes awards that primarily consist of performance units. Awards earned are subject to the attainment of pre-specified performance goals at the end of a three-year period or as otherwise determined. The awards earned are typically paid in cash. For the years ended December 31, 2017, 2016, and 2015, Sirius Group expensed \$3.9 million, \$16.6 million, and \$18.9 million, respectively, for certain incentive awards. Accrued incentive compensation for these plans was \$16.0 million and \$30.2 million at December 31, 2017 and 2016, respectively. During 2016, under the SPA, White Mountains paid Sirius Group for certain incentive awards that the Company paid to its employees, with \$5.4 million recorded as Additional paid-in surplus.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 14. Employee benefit plans and compensation plans (Continued)

Transaction and Retention Bonuses

Under the SPA, bonus arrangements for certain employees of Sirius Group were granted. Certain of these bonus arrangements were paid to bonus recipients as compensation for services performed before the sale date ("transaction bonuses"). In addition, certain employees received additional bonus payments under the bonus arrangements after the 12th month and 20th month anniversary of the sale date ("retention bonuses"). Under the SPA, White Mountains agreed to pay the Company an amount equal to the transaction bonuses plus the employer-paid portion of employment or similar taxes less tax benefits attributable to the payment. In addition, White Mountains also agreed to pay the Company for the retention bonuses under the same terms as the transaction bonuses shortly after Sirius Group paid those amounts to the employees. During 2016, Sirius Group recorded \$36.9 million in general and administrative expenses in connection with the transaction bonuses. The Company was paid \$25.3 million and \$30.5 million in 2017 and 2016, respectively, from its former parent for the transaction and retention bonuses after employment costs and taxes, which was recorded as Additional paid-in surplus. During 2017 and 2016, Sirius Group recorded \$13.3 million and \$17.6 million, respectively, in general and administrative expenses in connection with the retention bonuses.

Note 15. Common shareholder's equity, mezzanine equity, and non-controlling interests

Common shareholder

The Company is a Bermuda exempted company and is an indirect wholly-owned subsidiary of CMIG International, a Singapore holding company, through CM Bermuda Ltd., a Bermuda exempted company. The Company was acquired from White Mountains.

On April 27, 2016, the Company split its common shares by a multiple of 10,000 resulting in 120,000,000 common shares issued and outstanding and changed the par value of the common shares from \$1.00 per share to \$0.01 per share. On November 16, 2016, the Company approved to increase its authorized share capital from \$1.2 million to \$6.0 million by the creation of an additional 480,000,000 common shares with a par value of \$0.01 per share. The increase was effective as of December 12, 2016. On May 22, 2017, the Company divided its authorized share capital into two classes: (i) 500,000,000 common shares, with a par value of \$0.01 per share and (ii) 100,000,000 preference shares with a par value of \$0.01 per share.

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Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
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Note 15. Common shareholder's equity, mezzanine equity, and non-controlling interests (Continued)

Additional paid-in surplus

During 2017 and 2016, White Mountains made contributions totaling \$13.3 million and \$89.6 million, respectively, to Sirius Group which was reflected as Additional paid-in surplus. The following table summarizes the contributions made to Sirius Group:

	<u>2017</u>	<u>2016</u>
	(Millions)	
Reimbursement for retention bonuses(1)	\$ 10.8	\$ 14.5
Reimbursement for performance shares(1)	2.5	5.4
Reimbursement for transaction bonuses(1)	—	30.5
Excess of fair value received over equity method carrying value of OneBeacon(2)	—	22.1
Reimbursement for ILW parent covers(3)	—	16.5
Other	—	0.6
Total Additional paid-in surplus	\$ 13.3	\$ 89.6

(1) See Note 14.

(2) See Note 20.

(3) See Note 6.

Dividends

The Company did not pay any dividends during 2017. The Company paid common dividends of \$27.0 million in cash and investments to its former parent on April 18, 2016. The Company did not pay any dividends to its former parent during 2015.

Mezzanine equity

In connection with the acquisition of IMG, the Company issued mandatorily convertible stock in the form of Series A redeemable preference shares as a portion of the consideration paid. (See Note 3.) The Company issued 100,000 of the 150,000 authorized Series A redeemable preference shares to the seller of IMG. Each Series A redeemable preference share has a liquidation preference per share of \$1,000. In addition to the initial issuance, the Company will issue the seller up to an additional 50,000 shares if IMG meets certain mutually agreed upon growth targets. The Series A redeemable preference shares accrue dividends at a per annum rate equal to 10%.

The Series A redeemable preference shares rank senior to common shares with respect to dividend rights, rights of liquidation, winding-up, or dissolution of the Company and junior to all of the Company's existing and future policyholder obligations and debt obligations. Any class or series of shares of the Company issued in the future must rank junior to the Series A redeemable preference shares, as to the payment of dividends or as to distribution of assets upon any voluntary or involuntary return of assets on liquidation, winding-up, or dissolution of the Company for as long as they are issued and outstanding.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 15. Common shareholder's equity, mezzanine equity, and non-controlling interests (Continued)

At December 31, 2017, the balance of the Series A redeemable preference shares with accrued dividends was \$106.1 million.

Non-controlling interests

Non-controlling interests consist of the ownership interests of non-controlling shareholders in consolidated entities and are presented separately on the balance sheet. At December 31, 2017 and 2016, Sirius Group's balance sheet included \$0.2 million and \$251.3 million, respectively, in non-controlling interests.

The following table shows the change in non-controlling interest for the years ended December 31, 2017, 2016, and 2015:

	<u>Total</u> <u>(Millions)</u>
Non-controlling interests as of December 31, 2014	\$ 250.0
Net income attributable to non-controlling interests	18.8
Dividends to non-controlling interests	(18.8)
Other, net	0.1
Non-controlling interests as of December 31, 2015	\$ 250.1
Net income attributable to non-controlling interests	19.3
Dividends to non-controlling interests	(18.8)
Other, net	0.7
Non-controlling interests as of December 31, 2016	\$ 251.3
Net income attributable to non-controlling interests	13.7
Dividends to non-controlling interests	(14.1)
Redemption of SIG Preference Shares	(250.7)
Non-controlling interests as of December 31, 2017	\$ 0.2

SIG Preference Shares

On October 25, 2017, the Company's indirect wholly-owned subsidiary, Sirius International Group, Ltd., redeemed all of its outstanding 250,000 Fixed/Floating Perpetual Non-Cumulative Preference Shares ("SIG Preference Shares"). The redemption price equaled the \$1,000 liquidation preference per preference share. Sirius Group accounted for the SIG Preference Shares as a conditionally redeemable instrument within Non-controlling interests.

Alstead Re

As of December 31, 2017 and 2016, Sirius Group recorded non-controlling interest of \$0.2 million and \$0.5 million, respectively, in Alstead Re Insurance Company ("Alstead Re"). (See Note 21.)

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 16. Earnings per share

Basic earnings (loss) per share is computed by dividing net income (loss) available to Sirius Group common shareholders by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income available to Sirius Group common shareholders by the weighted-average number of common shares outstanding adjusted to give effect to potentially dilutive securities.

The Series A redeemable preference shares qualify as participating securities which requires the application of the two-class method to compute both basic and diluted earnings per share. The two-class method is an earnings allocation formula that treats participating securities as having rights to earnings that would otherwise have been available to common shareholders. The Series A redeemable preference shares have no obligation to absorb losses of the Company in periods of net loss.

For the periods presented, there are no potentially dilutive securities or instruments that would have an effect on the calculation of dilutive earnings per share.

The following table sets forth the computation of basic and diluted earnings per common share for the years ended December 31, 2017, 2016, and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	<small>(Millions, except share and per share information)</small>		
Numerator:			
Net (loss) income	\$ (136.3)	\$ 51.8	\$ 310.0
Less: Income attributable to non-controlling interests	(13.7)	(19.3)	(18.8)
Less: Accrued dividends on Series A redeemable preference shares	(6.1)	—	—
Net (loss) income attributable to Sirius Group common shareholders	<u>\$ (156.1)</u>	<u>\$ 32.5</u>	<u>\$ 291.2</u>
Denominator:			
Weighted average shares outstanding for basic and diluted earnings per share(1)	<u>120,000,000</u>	<u>120,000,000</u>	<u>120,000,000</u>
Earnings (loss) per share			
Basic earnings per share	<u>\$ (1.30)</u>	<u>\$ 0.27</u>	<u>\$ 2.43</u>
Diluted earnings per share	<u>\$ (1.30)</u>	<u>\$ 0.27</u>	<u>\$ 2.43</u>

(1) On April 27, 2016, the Company split its common shares by a multiple of 10,000 resulting in 120,000,000 common shares. The stock split has been applied retroactively to 2015.

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 17. Accumulated other comprehensive (loss)

The changes in accumulated other comprehensive (loss), by component, for the years ended December 31, 2017, 2016, and 2015 are as follows:

	<u>For the year ended December 31, 2017</u>			
	<u>Foreign currency translation adjustment(1)</u>	<u>Equity in unrealized gains from investments in affiliates(2)</u> (Millions)	<u>Other, net(3)</u>	<u>Total</u>
Balance, beginning of year	\$ (212.2)	\$ —	\$ —	\$ (212.2)
Other comprehensive income (loss)	71.7	—	—	71.7
Balance, end of year	\$ (140.5)	\$ —	\$ —	\$ (140.5)

- (1) Foreign currency translation adjustment consisted of \$83.9 and \$(12.2) of gains (losses) related to investments and non-investment net liabilities, respectively. (See Note 18.)
- (2) Equity in unrealized gains from investments in affiliates related to the AFS portfolio of investments held by Symetra which was accounted for under the equity method prior to November 5, 2015. (See Note 20.)
- (3) Other, net consists of accumulated other comprehensive income related to balances arising from Sirius Group's share in OneBeacon's Pension Liability (See Note 20) and from amortization of hedge related to the 2007 SIG Senior Notes.

	<u>For the year ended December 31, 2016</u>			
	<u>Foreign currency translation adjustment(1)</u>	<u>Equity in unrealized gains from investments in affiliates(2)</u> (Millions)	<u>Other, net(3)</u>	<u>Total</u>
Balance, beginning of year	\$ (144.9)	\$ —	\$ (1.2)	\$ (146.1)
Other comprehensive income (loss)	(67.3)	—	1.2	(66.1)
Balance, end of year	\$ (212.2)	\$ —	\$ —	\$ (212.2)

- (1) Foreign currency translation adjustment consisted of \$(83.1) and \$15.8 of gains (losses) related to investments and non-investment net liabilities, respectively. (See Note 18.)
- (2) Equity in unrealized gains from investments in affiliates related to the AFS portfolio of investments held by Symetra which was accounted for under the equity method prior to November 5, 2015. (See Note 20.)

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 17. Accumulated other comprehensive (loss) (Continued)

- (3) Other, net consists of accumulated other comprehensive income related to balances arising from Sirius Group's share in OneBeacon's Pension Liability (See Note 20) and from amortization of hedge related to the 2007 SIG Senior Notes.

	For the year ended December 31, 2015			
	Foreign currency translation adjustment(1)	Equity in unrealized gains from investments in affiliates(2)	Other, net(3)	Total
		(Millions)		
Balance, beginning of year	\$ (79.5)	\$ 29.8	\$ (1.4)	\$ (51.1)
Other comprehensive income (loss)	(65.4)	(29.8)	0.2	(95.0)
Balance, end of year	\$ (144.9)	\$ —	\$ (1.2)	\$ (146.1)

- (1) Foreign currency translation adjustment consisted of \$(110.7) and \$45.3 of gains (losses) related to investments and non-investment net liabilities, respectively. (See Note 18.)
- (2) Equity in unrealized gains from investments in affiliates related to the AFS portfolio of investments held by Symetra which was accounted for under the equity method prior to November 5, 2015. (See Note 20.)
- (3) Other, net consists of accumulated other comprehensive income related to balances arising from Sirius Group's share in OneBeacon's Pension Liability (See Note 20) and from amortization of hedge related to the 2007 SIG Senior Notes.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 18. Foreign Currency

A summary of the impact of foreign currency translation on Sirius Group's consolidated financial results for the years ended December 31, 2017, 2016, and 2015 follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(Millions)		
Net realized investment (losses) gains—foreign currency(1)	\$ (19.1)	\$ 50.0	\$ 70.6
Net unrealized investment (losses) gains—foreign currency(2)	(51.7)	(7.7)	(15.4)
Net realized and unrealized investment gains—foreign currency	(70.8)	42.3	55.2
Net foreign exchange gains (losses)—foreign currency translation (losses) gains(3)	20.7	(17.5)	(18.1)
Net foreign exchange gains (losses)—currency swaps(3)	(11.3)	6.5	(0.1)
Net foreign exchange gains (losses)—other(3)	(0.2)	—	—
Income tax expense	3.3	2.4	(0.2)
Total foreign currency remeasurement gains (losses) recognized through net income, after tax	(58.3)	33.7	36.8
Change in foreign currency translation on investments recognized through other comprehensive income, after tax	83.9	(83.1)	(110.7)
Change in foreign currency translation on non-investment net liabilities recognized through other comprehensive income, after tax	(12.2)	15.8	45.3
Total foreign currency translation (losses) gains recognized through other comprehensive income, after tax	71.7	(67.3)	(65.4)
Total foreign currency gains (losses) recognized in comprehensive (loss) income, after tax	\$ 13.4	\$ (33.6)	\$ (28.6)

- (1) Component of Net realized investment (losses) gains on the Consolidated Statements of (Loss) Income
- (2) Component of Net unrealized investment (losses) gains on the Consolidated Statements of (Loss) Income
- (3) Component of Net foreign exchange gains (losses) on the Consolidated Statements of (Loss) Income

Note 19. Statutory capital and surplus

Sirius Group's insurance and reinsurance operations are subject to regulation and supervision in each of the jurisdictions where they are domiciled and licensed to conduct business. Generally, regulatory authorities have broad supervisory and administrative powers over such matters as licenses, standards of solvency, premium rates, policy forms, investments, security deposits, methods of accounting, form and content of financial statements, reserves for unpaid loss and LAE, reinsurance, minimum capital and surplus requirements, dividends and other distributions to shareholders, periodic examinations, and annual and other report filings. In general, such regulation is for the protection of policyholders rather than shareholders.

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 19. Statutory capital and surplus (Continued)

Non-U.S.

The Insurance Act 1978 of Bermuda and related regulations, as amended ("Insurance Act"), regulates the insurance business of Bermuda-domiciled insurers and reinsurers. The Insurance Act imposes solvency and liquidity standards on Bermuda insurance companies, as well as auditing and reporting requirements. The Bermuda Monetary Authority ("BMA"), a Solvency II-equivalent regulatory regime, has confirmed that it will act as the primary group supervisor effective July 1, 2016 and has designated Sirius Bermuda as the designated insurer. Therefore, Sirius Group is subject to the BMA's group supervision and solvency rules. Under the Insurance Act, insurers and reinsurers are required to maintain minimum statutory capital and surplus at a level equal to the greater of a minimum solvency margin ("MSM") and the Enhanced Capital Requirement ("ECR") which is established by reference to either a Bermuda Solvency Capital Requirement ("BSCR") model or an approved internal capital model. The BSCR model is a risk-based capital model that provides a method for determining an insurer's minimum required capital taking into account the risk characteristics of different aspects of the company's business. As of December 31, 2017, the eligible capital for Sirius Group exceeded the required capital as measured by the BSCR model.

Management has also evaluated the group and principal operating subsidiaries' ability to maintain adequate levels of statutory capital, liquidity, and rating agency capital and believes they will be able to do so. In performing this analysis, management has considered the most recent statutory capital position of each of the principal operating subsidiaries as well as the group overall, through its holding companies as a result of BMA group regulation. In addition, management has evaluated the ability of the holding companies to allocate capital and liquidity around the group as and when needed.

Sirius Group has two Bermuda based insurance subsidiaries: Sirius Bermuda, a Class 4 insurer, and Alstead Reinsurance Ltd. ("Alstead Re"), a Class 3A insurer. Each of these Bermuda insurance subsidiaries are registered under the Insurance Act and are subject to regulation and supervision of the BMA. The BSCR for Sirius Bermuda and Alstead Re as at December 31, 2017 was \$902 million and \$3 million, respectively. Actual statutory capital and surplus of the Bermuda based insurance subsidiaries as at December 31, 2017 was \$2.2 billion. In addition, the Bermuda based insurance subsidiaries are required to maintain a minimum liquidity ratio. As of December 31, 2017, all liquidity ratio requirements were met.

Sirius International is subject to regulation and supervision in Sweden by the Financial Supervisory Authority ("FSA"). Sirius International's total regulatory capital as of December 31, 2017 was \$1.9 billion. In accordance with FSA regulations, Sirius International holds restricted equity of \$1.3 billion as a component of Swedish regulatory capital. This restricted equity cannot be paid as dividends. Under Solvency II, the FSA also acts as the European Economic Area group supervisor, with Sirius International UK Holding Ltd. ("SIUK") serving as the highest European entity subject to the FSA's group supervision. Solvency II regulation in Europe gives the FSA the option to waive European-level group supervision if certain legal requirements are met. As of December 31, 2017, the FSA has not exercised this option.

The financial services industry in the United Kingdom is dual-regulated by the Financial Conduct Authority and the Prudential Regulation Authority (collectively, the "U.K. Regulators"). The U.K. Regulators regulate insurers, insurance intermediaries and Lloyd's. The U.K. Regulators and Lloyd's

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 19. Statutory capital and surplus (Continued)

have common objectives in ensuring that the Lloyd's market is appropriately regulated. Lloyd's is required to implement certain rules prescribed by the U.K. Regulators by the powers it has under the Lloyd's Act of 1982 relating to the operation of the Lloyd's market. In addition, each year the U.K. Regulators require Lloyd's to satisfy an annual solvency test that measures whether Lloyd's has sufficient assets in the aggregate to meet all the outstanding liabilities of its members.

Lloyd's permits its corporate and individual members ("Members") to underwrite insurance risks through Lloyd's syndicates. Members of Lloyd's may participate in a syndicate for one or more underwriting years by providing capital to support the syndicate's underwriting. All syndicates are managed by Lloyd's approved managing agents. Managing agents receive fees and profit commissions in respect of the underwriting and administrative services they provide to the syndicates. Lloyd's prescribes, in respect of its managing agents and Members, certain minimum standards relating to their management and control, solvency and various other requirements.

Sirius Group participates in the Lloyd's market through the 100% ownership of Sirius International Corporate Member Ltd., a Lloyd's corporate member, which in turn provides underwriting capacity to Syndicate 1945. Sirius Group has its own Lloyd's managing agent, Sirius International Managing Agency, which manages Syndicate 1945. Lloyd's approved net capacity for 2018 is £101.9 million, or approximately \$137.7 million (based on the December 31, 2017 GBP to USD exchange rate). Stamp capacity is a measure of the amount of net premium (premiums written less acquisition costs) that a syndicate is authorized by Lloyd's to write.

U.S.

Sirius America and the insurance subsidiaries of Sirius Global Solutions are subject to regulation and supervision by the National Association of Insurance Commissioners ("NAIC") and the department of insurance in the state of domicile. The NAIC uses risk-based capital ("RBC") standards for U.S. property and casualty insurers as a means of monitoring certain aspects affecting the overall financial condition of insurance companies. As of December 31, 2017, the available capital of Sirius Group's U.S. insurance and reinsurance operating subsidiaries exceeded their respective RBC requirements.

Sirius America's policyholders' surplus, as reported to regulatory authorities as of December 31, 2017 and 2016, was \$521.8 million and \$544.3 million. Sirius America's statutory net (loss) income for the years ended December 31, 2017, 2016, and 2015 was \$(6.4) million, \$82.7 million, and \$74.7 million, respectively. The principal differences between Sirius America's statutory amounts and the amounts reported in accordance with GAAP include deferred acquisition costs, deferred taxes, gains recognized under retroactive reinsurance contracts, and market value adjustments for debt securities. The minimum policyholders' surplus necessary to satisfy Sirius America's regulatory requirements was \$94.1 million as of December 31, 2017, which equals the authorized control level of the NAIC risk-based capital based on Sirius America's policyholders' surplus.

Oakwood Insurance Company ("Oakwood") policyholders' surplus, as reported to regulatory authorities as of December 31, 2017 and 2016 was \$41.4 million and \$41.6 million, respectively. Oakwood's statutory net income (loss) for the years ended December 31, 2017, 2016, and 2015 was \$0.5 million, \$(12.0) million and \$0.7 million, respectively. The minimum policyholders' surplus

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 19. Statutory capital and surplus (Continued)

necessary to satisfy Oakwood's regulatory requirements was \$5.8 million as of December 31, 2017, which equals the authorized control level of the NAIC risk-based capital based on Oakwood's policyholders' surplus. During 2017, Mount Beacon was merged into Oakwood.

Empire Insurance Company ("Empire") policyholders' surplus, as reported to regulatory authorities as of December 31, 2017 and 2016 was \$10.5 million and \$10.7 million, respectively. Empire's statutory net (loss) income for the years ended December 31, 2017, 2016, and 2015 was \$(0.3) million, \$0.0 million and \$0.1 million, respectively. The minimum policyholders' surplus necessary to satisfy Empire's regulatory requirements was \$8.8 million as of December 31, 2017, and the NAIC risk-based capital authorized control level was \$1.0 million.

Dividend Capacity

Sirius Bermuda has the ability to declare or pay dividends or make capital distributions during any 12-month period without the prior approval of Bermuda regulatory authorities on the condition that any such declaration or payment of dividends or capital distributions does not cause a breach of any of its regulatory solvency and liquidity requirements. During 2018, Sirius Bermuda has the ability to pay dividends or make capital distributions without the prior approval of regulatory authorities, subject to meeting all appropriate liquidity and solvency requirements, of \$636.7 million, which is equal to 25% of its December 31, 2017 regulatory capital available for distribution. The amount of dividends available to be paid by Sirius Bermuda in any given year is also subject to cash flow and earnings generated by Sirius Bermuda's business, as well as to dividends received from its subsidiaries, including Sirius International. During 2017, Sirius Bermuda paid \$120.0 million of dividends to its immediate parent.

Sirius International has the ability to pay dividends up to Sirius Bermuda subject to the availability of unrestricted equity, calculated in accordance with the Swedish Act on Annual Accounts in Insurance Companies and the FSA. Unrestricted equity is calculated on a consolidated group account basis and on a parent account basis. Differences between the two include but are not limited to accounting for goodwill, subsidiaries (with parent accounts stated at original foreign exchange rates), taxes and pensions. Sirius International's ability to pay dividends is limited to the "lower of" unrestricted equity as calculated within the group and parent accounts. As of December 31, 2017, Sirius International had \$391.6 million (based on the December 31, 2017 SEK to USD exchange rate) of unrestricted equity on a parent account basis (the lower of the two approaches) available to pay dividends in 2018. The amount of dividends available to be paid by Sirius International in any given year is also subject to cash flow and earnings generated by Sirius International's business, the maintenance of adequate solvency capital ratios for Sirius International and the consolidated SIUK group, as well as to dividends received from its subsidiaries, including Sirius America. Earnings generated by Sirius International's business that are allocated to the Safety Reserve are not available to pay dividends (see "Safety Reserve" below). During 2017, Sirius International declared \$102.5 million and paid \$20.0 million of dividends.

Under normal course of business, Sirius America has the ability to pay dividends up to its immediate parent during any twelve-month period without the prior approval of regulatory authorities in an amount set by formula based on the lesser of net investment income, as defined by statute, or 10% of statutory surplus, in both cases as most recently reported to regulatory authorities, subject to the availability of earned surplus and subject to dividends paid in prior periods. Based upon an agreement with its regulators during 2016, Sirius America has committed to refrain from taking steps to

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 19. Statutory capital and surplus (Continued)

pay any dividends for a period of two years from the date of the sale of the Company from its former parent to CMIG International. As of December 31, 2017, Sirius America had \$521.8 million of statutory surplus and \$121.0 million of earned surplus. During 2017, Sirius America did not pay any dividends to its immediate parent.

During 2017, the Company did not pay any dividends to its parent. The Company paid \$27.0 million in dividends to its former parent on April 18, 2016. As of December 31, 2017, Sirius Group had \$68.0 million of net unrestricted cash, short-term investments, and fixed maturity investments outside of its regulated and unregulated insurance and reinsurance operating subsidiaries.

Capital Maintenance

There is a capital maintenance agreement between Sirius International and Sirius America which obligates Sirius International to make contributions to Sirius America's surplus in order for Sirius America to maintain surplus equal to at least 125% of the company action level risk based capital as defined in the NAIC Property/Casualty Risk-Based Capital Report. The agreement provides for a maximum contribution to Sirius America of \$200.0 million. During 2017, Sirius International did not make any contributions to the surplus of Sirius America. In 2017, Sirius International provided Sirius America with an accident year stop loss cover, with an attachment point in excess of 83% and a limit of \$27.0 million. This accident year loss reinsurance was not renewed in 2018. In addition, at November 1, 2016, Sirius America and Sirius International entered into a quota share agreement where Sirius America ceded Sirius International 75% of its reinsurance business on an accident year basis. This quota share agreement was in force through March 31, 2018. During 2017 and 2016, Sirius America ceded \$115.0 million and \$33.4 million, respectively, of premiums earned to Sirius International under this quota share agreement.

Safety Reserve

Subject to certain limitations under Swedish law, Sirius International is permitted to transfer pre-tax income amounts into an untaxed reserve referred to as a Safety Reserve. As of December 31, 2017, Sirius International's Safety Reserve amounted to SEK 10.7 billion, or \$1.3 billion (based on the December 31, 2017 SEK to USD exchange rate). Under GAAP, an amount equal to the Safety Reserve, net of a related deferred tax liability established at the Swedish tax rate of 22%, is classified as shareholder's equity. Generally, this deferred tax liability is only required to be paid by Sirius International if it fails to maintain prescribed levels of premium writings and loss reserves in future years. As a result of the indefinite deferral of these taxes, Swedish regulatory authorities apply no taxes to the Safety Reserve when calculating solvency capital under Swedish insurance regulations. Accordingly, under local statutory requirements, an amount equal to the deferred tax liability on Sirius International's Safety Reserve (\$286.6 million as of December 31, 2017) is included in solvency capital. Access to the Safety Reserve is restricted to coverage of insurance and reinsurance losses. Access for any other purpose requires the approval of Swedish regulatory authorities. Similar to the approach taken by Swedish regulatory authorities, most major rating agencies generally include the \$1.3 billion balance of the Safety Reserve, without any provision for deferred taxes, in Sirius International's regulatory capital when assessing Sirius International and Sirius Group's financial strength. Subject to certain limitations under Swedish law, Sirius International is permitted to transfer certain portions of its

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 19. Statutory capital and surplus (Continued)

pre-tax income to its Swedish parent companies to minimize taxes (referred to as a group contribution). During 2017, Sirius International did not transfer any of its 2016 pre-tax income via group contributions to its Swedish parent companies.

Note 20. Investments in unconsolidated entities

Sirius Group's investments in unconsolidated entities are included within Other long-term investments and consist of investments in common equity securities or similar instruments, which give Sirius Group the ability to exert significant influence over the investee's operating and financial policies ("equity method eligible unconsolidated entities"). Such investments may be accounted for under either the equity method or, alternatively, Sirius Group may elect to account for them under the fair value option.

The following table presents the components of Other long-term investments as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(Millions)	
Equity method eligible unconsolidated entities, at fair value	\$ 121.2	\$ 77.1
Other unconsolidated investments, at fair value(1)	148.3	47.7
Total Other long-term investments(2)	\$ 269.5	\$ 124.8

(1) Includes Other long-term investments that are not equity method eligible.

(2) There were no investments accounted for using the equity method as of December 31, 2017 and 2016.

Equity method eligible unconsolidated entities, at fair value

Sirius Group has elected the Fair Value Option to account for its equity method eligible investments accounted for as part of Other long-term investments for consistency of presentation with rest of its investment portfolio. The following table presents Sirius Group's investments in equity

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 20. Investments in unconsolidated entities (Continued)

method eligible unconsolidated entities as of December 31, 2017 and 2016 with ownership interest greater than 20%:

<u>Investee</u>	<u>Ownership Interest at December 31,</u>		<u>Instrument Held</u>
	<u>2017</u>	<u>2016</u>	
BE Reinsurance Limited	25.0%	25.0%	Common shares
BioVentures Investors (Offshore) IV LP	73.0%	71.4%	Units
Camden Partners Strategic Fund V (Cayman), LP	36.5%	37.2%	Units
NEC Cypress Buyer LLC(1)	23.5%	N/A	Units
New Energy Capital Infrastructure Credit Fund LP	23.3%	35.2%	Units
New Energy Capital Infrastructure Offshore Credit Fund LP	56.2%	71.4%	Units
Tuckerman Capital V LP	48.3%	48.3%	Units
Tuckerman Capital V Co-Investment I LP(2)	49.5%	N/A	Units

- (1) Sirius Group did not hold an investment in NEC Cypress Buyer LLC in 2016
- (2) Sirius Group did not hold an investment in Tuckerman Capital V Co-Investment I L.P. in 2016.

The following tables present aggregated summarized financial information for Sirius Group's investments in equity method eligible unconsolidated entities:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
	(Millions)	
Balance sheet data:		
Total assets	\$ 336.7	\$ 206.6
Total liabilities	\$ 31.2	\$ 16.5

	<u>For the years ended December 31,</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(Millions)		
Income statement data:			
Revenues	\$ 38.1	\$ 21.6	\$ 2.7
Expenses	\$ (12.2)	\$ (14.1)	\$ (5.5)

Equity method eligible affiliates, accounted for using the equity method

Symetra

Sirius Group accounted for its investment in Symetra common shares under the equity method until November 5, 2015, when Sirius Group's former parent White Mountains, relinquished its representation on Symetra's board of directors, and it no longer had the ability to exert significant influence. On November 5, 2015, Sirius Group began accounting for its investment in Symetra at fair

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 20. Investments in unconsolidated entities (Continued)

value. During the fourth quarter of 2015, Sirius Group recognized \$218.5 million (\$200.8 million after-tax) of unrealized investment gains through net income, representing the difference between the carrying value of Symetra common shares under the equity method at November 5, 2015 and fair value at December 31, 2015. On February 1, 2016 Sirius sold its investment in Symetra. (See Note 3.)

The following table presents financial information for Symetra as of September 30, 2015:

	<u>September 30,</u> <u>2015</u> (Millions)
Symetra balance sheet data:	
Total investments	\$ 32,409.2
Separate account assets	885.9
Total assets	34,962.8
Policyholder liabilities	29,492.0
Long-term debt	697.5
Separate account liabilities	885.9
Total liabilities	31,836.7
Common shareholders' equity	<u>3,126.1</u>

The following table presents financial information for Symetra for the nine months ended September 30, 2015:

	<u>Nine months ended</u> <u>September 30, 2015</u> (Millions)
Symetra income statement data:	
Net premiums earned	\$ 539.3
Net investment income	994.3
Total revenues	1,605.9
Policy benefits	1,143.7
Total expenses	1,543.6
Net income	89.6
Comprehensive net loss	<u>(234.1)</u>

OneBeacon

On April 18, 2016, Sirius Group sold its investment in OneBeacon at fair value to its former parent for proceeds of \$178.3 million in connection with the sale of Sirius Group to CMIG International and recorded \$22.1 million of additional paid-in surplus for the excess of fair value over the equity method carrying value of OneBeacon. (See Note 3.)

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 20. Investments in unconsolidated entities (Continued)

The following table summarizes amounts recorded by Sirius Group under the equity method relating to its investment in OneBeacon for the period January 1, 2016 until April 18, 2016:

	<u>Total</u> (Millions)
Equity method carrying value of investment in OneBeacon as of December 31, 2015	\$ 151.9
Equity in earnings of OneBeacon	6.6
Dividends received	(3.0)
Other, net	0.7
Proceeds received for the sale of OneBeacon	(178.3)
Excess of fair value received over equity method carrying value of OneBeacon	22.1
Equity method carrying value of investment in OneBeacon as of April 18, 2016	<u>\$ —</u>

The following table presents financial information for OneBeacon as of March 31, 2016:

	<u>March 31,</u> <u>2016</u> (Millions)
OneBeacon balance sheet data:	
Total investments	\$ 2,562.1
Total assets	3,529.0
Unpaid loss and loss adjustment expense reserves	1,343.8
Long-term debt	272.9
Total liabilities	2,509.2
Total non-controlling interests	3.2
Common shareholders' equity	<u>1,016.6</u>

The following table presents financial information for OneBeacon for the three months ended March 31, 2016 and year ended December 31, 2015:

	<u>Three months</u> <u>ended</u> <u>March 31, 2016</u>	<u>For the year</u> <u>ended</u> <u>December 31, 2015</u>
	(Millions)	
OneBeacon income statement data:		
Net premiums earned	\$ 278.6	\$ 1,176.2
Net investment income	14.4	45.9
Total revenues	310.5	1,186.4
Loss and loss adjustment expenses	158.8	700.7
Total expenses	272.3	1,161.1
Net income	<u>46.4</u>	<u>36.8</u>

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 21. Variable interest entities

Sirius Group consolidates the results of operations and financial position of every voting interest entity ("VOE") in which it has a controlling financial interest and VIEs in which it is considered to be the primary beneficiary. The consolidation assessment, including the determination as to whether an entity qualifies as a VOE or VIE, depends on the facts and circumstances surrounding each entity.

Sirius Group has determined that Alstead Re is a VIE for which Sirius Group is the primary beneficiary and is required to consolidate it. The following table presents Alstead Re's assets and liabilities, as classified in the Consolidated Balance Sheets as at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
	(Millions)	
Assets:		
Cash	\$ 4.5	\$ 1.2
Total investments	4.5	1.2
Insurance and reinsurance premiums receivable	4.1	1.0
Funds held by ceding companies	2.7	—
Ceded unearned insurance and reinsurance premiums	—	0.1
Deferred acquisition costs	1.3	0.2
Total assets	\$ 12.6	\$ 2.5
Liabilities		
Loss and loss adjustment expense reserves	\$ 3.5	\$ 0.3
Unearned insurance and reinsurance premiums	4.3	0.4
Other liabilities	—	0.1
Total liabilities	\$ 7.8	\$ 0.8

Sirius Group is a passive investor in certain third-party-managed hedge and private equity funds, some of which are VIEs. Sirius Group is not involved in the design or establishment of these VIEs, nor does it actively participate in the management of the VIEs. The exposure to loss from these investments is limited to the carrying value of the investments at the balance sheet date.

Sirius Group calculates maximum exposure to loss to be (i) the amount invested in the debt or equity of the VIE, (ii) the notional amount of VIE assets or liabilities where Sirius Group has also provided credit protection to the VIE with the VIE as the referenced obligation, and (iii) other commitments and guarantees to the VIE. Sirius Group does not have any VIEs that it sponsors nor any VIEs where it has recourse to it or has provided a guarantee to the VIE interest holders.

Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 21. Variable interest entities (Continued)

The following table presents total assets of unconsolidated VIEs in which Sirius Group holds a variable interest, as well as the maximum exposure to loss associated with these VIEs:

Total VIE Assets	Maximum Exposure to Loss			Total
	On-Balance Sheet	Off-Balance Sheet		
(Millions)				
December 31, 2017				
Other long-term investments(1)	\$ 1,378.1	\$ 108.2	\$ 57.4	\$ 165.6
Total at December 31, 2017	\$ 1,378.1	\$ 108.2	\$ 57.4	\$ 165.6
December 31, 2016				
Other long-term investments(1)	\$ 42.3	\$ 32.5	\$ 67.5	\$ 100.0
Total at December 31, 2016	\$ 42.3	\$ 32.5	\$ 67.5	\$ 100.0

(1) Comprised primarily of hedge funds and private equity funds.

Note 22. Transactions with related parties

Certus

On May 26, 2017, as part of the acquisition of IMG, Sirius Group sold IMG—Stop Loss to Certus for \$10.0 million. (See Note 3.) Certus paid Sirius Group \$1.0 million in cash and obtained \$9.0 million in financing from Sirius Group in the form of a secured promissory note payable. The promissory note is secured by a pledge of the shares of IMG—Stop Loss by Certus. Sirius Group has determined that Certus and IMG—Stop Loss are VIEs that Sirius Group does not have to consolidate as it does not have the power to direct the activities of either company.

Sirius America and IMG—Stop Loss have continued the Program Management Agreement that was in place prior to the purchase of IMG under amended terms. The amended agreement gives Sirius America rights of first refusal to act as insurance carrier for IMG—Stop Loss but does not give Sirius Group controlling power or impede IMG—Stop Loss from functioning as an independent entity. For the year ended December 31, 2017, Sirius Group wrote \$11.0 million of Certus-managed gross written premium. At December 31, 2017, Sirius Group has total receivables due from Certus of \$8.0 million and total payables due to Certus of \$0.5 million.

Meyer "Sandy" Frucher

On August 16, 2016, the Company announced that Meyer "Sandy" Frucher was added as an independent director to its board of directors. Mr. Frucher is Vice Chairman of Nasdaq, Inc. On June 25, 2018, the Company announced a definitive agreement and plan of merger ("Merger Agreement") with Easterly Acquisition Corp. ("Easterly") that would result in the Company becoming publicly listed and traded on the Nasdaq stock exchange. (See Note 25.)

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Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 22. Transactions with related parties (Continued)

White Mountains Advisors

White Mountains Advisors ("WMA"), an indirect wholly-owned subsidiary of Sirius Group's former parent, provided investment advisory and management services to Sirius Group and its subsidiaries under an Investment Advisory Services Agreement. During 2016, Sirius Group terminated this agreement. Sirius Group incurred \$3.1 million and \$5.5 million of investment fees during 2016 and 2015, respectively, for services provided directly by WMA or through its sub-advisors. As of December 31, 2017 and 2016, Sirius Group did not owe any amount to WMA under this agreement.

Note 23. Commitments and contingencies

Concentrations of credit risk

Sirius Group underwrites a significant amount of its reinsurance business through reinsurance intermediaries that represent the ceding company. There is credit risk associated with payments of (re)insurance balances to Sirius Group in regards to these brokers' ability to fulfill their contractual obligations. These intermediaries are fairly large and well established, and there are no indications they are financially distressed.

During the years ended December 31, 2017, 2016, and 2015, Sirius Group received a majority of its gross reinsurance premiums written from four major, third-party reinsurance intermediaries as detailed in the following table:

<u>Gross written premium by intermediary</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
AON Corporation and subsidiaries	22%	22%	24%
Guy Carpenter & Company and subsidiaries	18%	18%	18%
WT Butler and Co. Ltd.	10%	8%	7%
Willis Group and subsidiaries	9%	8%	9%
Total	59%	56%	58%

Geographic Concentration

The following table shows Sirius Group's net written premiums by geographic region based on the location of the ceding company for the years ended December 31, 2017, 2016, and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(Millions)	
United States	\$ 563.1	\$ 463.0	\$ 397.5
Europe	262.3	258.9	241.9
Canada, the Caribbean, Bermuda and Latin America	111.4	88.3	101.2
Asia and Other	153.4	127.9	107.0
Total	\$ 1,090.2	\$ 938.1	\$ 847.6

Sirius Group conducts a significant portion of its business outside of the United States. As a result, a significant portion of Sirius Group's assets, liabilities, revenues, and expenses are denominated in

Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 23. Commitments and contingencies (Continued)

currencies other than the U.S. dollar and are therefore subject to foreign currency risk. Sirius Group's foreign currency risk cannot be eliminated entirely and significant changes in foreign exchange rates may adversely affect Sirius Group's results of operations and financial condition.

Sirius Group's foreign operations are subject to legal, political, and operational risks that may be greater than those present in the United States. As a result, certain of Sirius Group's operations at these foreign locations could be temporarily or permanently disrupted.

Lloyd's Central Fund

The Lloyd's Central Fund is available to satisfy claims if a member of Lloyd's is unable to meet its obligations to policyholders. Sirius Group has an obligation to pay contributions to the Lloyd's Central Fund each year based on gross written premium. For 2018, Sirius Group estimates the Lloyd's Central Fund contributions to be \$0.6 million (based on the December 31, 2017 GBP to USD exchange rate) which is 0.35% of gross written premium. The Council of Lloyd's have the power to levy an additional contribution on members if it considered necessary, and the maximum additional contribution is currently 3% of capacity.

Leases

Sirius Group leases certain office space under non-cancellable operating leases that expire on various dates. The future annual minimum rental payments required under non-cancellable leases for office space are as follows:

	<u>Future Payments (Millions)</u>
2018	\$ 10.1
2019	9.0
2020	4.9
2021	3.7
2022 and after	8.3
Total	\$ 36.0

Total rental expense for the years ended December 31, 2017, 2016, and 2015 was \$10.2 million, \$6.2 million, and \$6.4 million, respectively. Sirius Group also has various other lease obligations, which are not significant in the aggregate.

The Phoenix

At December 31, 2017 Sirius Group had a commitment to purchase approximately 46.24% of shares in The Phoenix from Delek Group for an additional sum of NIS 2.3 billion in cash (or \$663.1 million using the December 31, 2017 NIS to USD conversion rate), subject to certain adjustments for interest and earnings. (See Note 25).

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Sirius International Insurance Group, Ltd.
Notes to Consolidated Financial Statements (Continued)
For the years ended December 31, 2017, 2016, and 2015

Note 23. Commitments and contingencies (Continued)

Legal Proceedings

Sirius Group, and the insurance and reinsurance industry in general, are routinely subject to claims related litigation and arbitration in the normal course of business, as well as litigation and arbitration that do not arise from, or are directly related to, claims activity. Sirius Group estimates of the costs of settling matters routinely encountered in claims activity are reflected in the reserves for unpaid loss and LAE. (See Note 5.)

Sirius Group considers the requirements of ASC 450, *Contingencies* ("ASC 450"), when evaluating its exposure to non-claims related litigation and arbitration. ASC 450 requires that accruals be established for litigation and arbitration if it is probable that a loss has been incurred and it can be reasonably estimated. ASC 450 also requires that litigation and arbitration be disclosed if it is probable that a loss has been incurred or if there is a reasonable possibility that a loss may have been incurred.

The following summarizes one, ongoing non-claims related litigation:

Tribune Company

In June 2011, Deutsche Bank Trust Company Americas, Law Debenture Company of New York and Wilmington Trust Company (collectively referred to as "Plaintiffs"), in their capacity as trustees for certain senior notes issued by the Tribune Company ("Tribune"), filed lawsuits in various jurisdictions (the "Noteholder Actions") against numerous defendants including Sirius Group in their capacity as former shareholders of Tribune seeking recovery of the proceeds from the sale of common stock of Tribune in connection with Tribune's leveraged buyout in 2007 (the "LBO"). Tribune filed for bankruptcy in 2008 in the Delaware bankruptcy court (the "Bankruptcy Court"). The Bankruptcy Court granted Plaintiffs permission to commence these LBO-related actions, and in 2011, the Judicial Panel on Multidistrict Litigation granted a motion to consolidate the actions for pretrial matters and transferred all such proceedings to the United States District Court for the Southern District of New York (the "SDNY"). Plaintiffs seek recovery of the proceeds received by the former Tribune shareholders on a theory of constructive fraudulent transfer asserting that Tribune purchased or repurchased its common shares without receiving fair consideration at a time when it was, or as a result of the purchases of shares, was rendered, insolvent. Certain subsidiaries of Sirius Group received approximately \$6.1 million for Tribune common stock tendered in connection with the LBO.

The Court granted an omnibus motion to dismiss the Noteholder Actions in September 2013 and Plaintiffs appealed. On March 29, 2016, a three judge panel of the U.S. Second Circuit Court of Appeals affirmed the dismissal of the Noteholder Actions. The Plaintiffs filed a petition for reconsideration or a rehearing en banc of the Second Circuit's decision affirming the dismissal of the state law fraudulent conveyance cases. By order dated July 22, 2016, the Second Circuit denied the petition in full. On September 9, 2016, Plaintiffs filed a petition for a writ of certiorari, seeking U.S. Supreme Court review.

In addition, Sirius Group in its capacity as a former shareholder of Tribune, along with thousands of former Tribune shareholders, have been named as defendants in an adversary proceeding brought by the Official Committee of Unsecured Creditors of the Tribune Company (the "Committee"), on behalf of the Tribune Company, which seeks to avoid the repurchase of shares by Tribune in the LBO on a theory of intentional fraudulent transfer (the "Committee Action"). Tribune emerged from bankruptcy

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 23. Commitments and contingencies (Continued)

in 2012, and a litigation trustee replaced the Committee as plaintiff in the Committee Action. This matter was consolidated for pretrial matters with the Noteholder Actions in the SDNY and was stayed pending the motion to dismiss in the Noteholder Actions.

An omnibus motion to dismiss the shareholder defendants in the Committee Action was filed in May 2014, and was granted on January 6, 2017. The plaintiff moved to amend its fifth amended complaint to add a constructive fraudulent conveyance claim against the shareholder defendants. On August 24, 2017, the SDNY denied the plaintiff's motion without prejudice. However, on March 8, 2018, the plaintiff moved to renew its request to amend the complaint based on the Supreme Court's decision in Merit Mgmt Grp. LP. v. FTI Consulting, Inc., holding that the safe harbor protections of Section 546(e) (which prevent the bankruptcy trustee from unwinding certain transactions) did not apply where a transfer is conducted through a financial institution that is neither the debtor, nor the transferee, but serves only as a conduit. On May 16, 2018, the SDNY recalled its mandate in connection with the dismissal of the constructive fraudulent conveyance claim. Accordingly, the SDNY is expected to reconsider the case.

No amount has been accrued in connection with this matter as of December 31, 2017 and December 31, 2016.

Note 24. Unaudited condensed quarterly financial data

(Expressed in millions of U.S. dollars, except per share amounts)	December 31,	September 30,	June 30,	March 31,
	2017	2017	2017	2017
	Unaudited	Unaudited	Unaudited	Unaudited
Total revenues	\$ 362.6	\$ 293.0	\$ 252.6	\$ 225.9
Total expenses	\$ 305.8	\$ 478.1	\$ 240.2	\$ 219.9
Net (loss) income attributable to Sirius Group's common shareholder	\$ 16.0	\$ (179.0)	\$ (0.8)	\$ 7.7
Basic earnings per common share and common share equivalent	\$ 0.13	\$ (1.49)	\$ (0.01)	\$ 0.06
Diluted earnings per common share and common share equivalent	\$ 0.13	\$ (1.49)	\$ (0.01)	\$ 0.06

(Expressed in millions of U.S. dollars, except per share amounts)	December 31,	September 30,	June 30,	March 31,
	2016	2016	2016	2016
	Unaudited	Unaudited	Unaudited	Unaudited
Total revenues	\$ 243.6	\$ 251.4	\$ 293.1	\$ 206.4
Total expenses	\$ 240.8	\$ 219.5	\$ 292.8	\$ 203.5
Net (loss) income attributable to Sirius Group's common shareholder	\$ 6.9	\$ 27.8	\$ (12.0)	\$ 9.8
Basic earnings per common share and common share equivalent	\$ 0.06	\$ 0.23	\$ (0.10)	\$ 0.08
Diluted earnings per common share and common share equivalent	\$ 0.06	\$ 0.23	\$ (0.10)	\$ 0.08

Sirius International Insurance Group, Ltd.

Notes to Consolidated Financial Statements (Continued)

For the years ended December 31, 2017, 2016, and 2015

Note 25. Subsequent events

On June 25, 2018, the Company announced it has executed a Merger Agreement for a proposed merger that would result in the Company becoming a publicly listed company. Under the terms of the Merger Agreement, Easterly Acquisition Corp. ("Easterly") would merge with a subsidiary of the Company and become a wholly owned subsidiary (the "Merger"). Upon the closing of the Merger, Easterly's common stock would be exchanged for the Company's common shares at a price of 1.05x Sirius Group's pro forma diluted GAAP book value per share as of June 30, 2018. Following the Merger, the Company's common shares would be traded on the Nasdaq.

Easterly held a special meeting of its stockholders on June 28, 2018 and approved an extension of time to complete the Merger through November 30, 2018. Sirius Group agreed to lend to Easterly \$0.03 per month through the extension period for each public share that was not redeemed at Easterly's special meeting. Easterly will deposit such loan proceeds into its trust account upon receipt. The loan will be forgiven if the Merger does not close by November 30, 2018.

The proposed all-stock transaction is expected to yield a combined entity with a pro forma market capitalization of approximately \$2.2 billion at closing, with current Easterly stockholders owning approximately 7% of the combined company immediately following the Merger. Pursuant to the Merger Agreement, Sirius Group intends to execute a private placement of common shares. Private placement investors are expected to own approximately 9% of the combined company.

The Merger has been approved by the boards of directors of each of Sirius Group and Easterly, and is expected to close in the second half of 2018. Completion of the Merger is subject to the satisfaction of certain conditions including, but not limited to, approval of the transaction by Easterly's stockholders, but is not subject to any insurance regulatory approvals or a minimum cash condition. In connection with the Merger, the Compensation Committee has approved grants of performance share unit awards to certain members of management, including the Named Executive Officers.

Also on June 25, 2018, Sirius Group announced it would allow its share purchase agreement to acquire a controlling interest in The Phoenix Holdings Ltd. to terminate, which was completed on July 2, 2018. As a result of the termination, Sirius Group recognized an income statement charge for the \$4.5 million call option (See Note 3) during the second quarter of 2018.

On July 14, 2018, the Company, IMG Acquisition Holdings, LLC ("IMGAH"), and Sirius Acquisitions Holding Company II entered into a Redemption Agreement pursuant to which, effective as of and subject to the closing of the Merger, the Company has agreed to redeem all of the outstanding Series A redeemable preference shares, which are held by IMGAH, for \$95 million in cash. Effective as of the completion of such redemption, the parties have agreed to terminate the registration rights agreement and the shareholder's agreement between the Company and IMGAH. In addition, the parties agreed that the IMG Earnout liability will be paid in cash, not in Series A redeemable preference shares.

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Sirius International Insurance Group, Ltd.

Schedule I

Summary of Investments—Other Than Investments in Related Parties

As at December 31, 2017

(Expressed in millions of U.S. dollars)	Cost or Amortized Cost	Fair Value	Amount shown on the balance sheet
Corporate debt securities	\$ 1,017.0	\$ 1,014.5	\$ 1,014.5
Asset-backed securities	478.1	475.4	475.4
Residential mortgage-backed securities	259.3	252.1	252.1
Commercial mortgage-backed securities	235.2	232.4	232.4
Non-U.S. government and government agency	106.8	107.2	107.2
U.S. government and government agency	85.8	84.8	84.8
Preferred stocks	9.3	9.8	9.8
U.S. States, municipalities and political subdivision	3.8	3.8	3.8
Total fixed maturities	\$ 2,195.3	\$ 2,180.0	\$ 2,180.0
Total short-term investments	625.3	625.0	625.0
Total equity securities	275.1	299.2	299.2
Total other long-term investments	255.5	269.5	269.5
Total	\$ 3,351.2	\$ 3,373.7	\$ 3,373.7

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Sirius International Insurance Group, Ltd.

Schedule II

Condensed Financial Information of Registrant

Balance Sheets

As at December 31, 2017 and 2016

(Expressed in millions of U.S. dollars, except share and per share information)	2017	2016
Assets		
Fixed maturity investments, at fair value	\$ 3.9	\$ 5.0
Short-term investments, at fair value (<i>Amortized cost 2017: \$625.3; 2016: \$539.7</i>)	30.8	33.4
Equity securities, at fair value (<i>Cost 2017: \$275.1; 2016: \$125.7</i>)	—	4.9
Total investments	34.7	43.3
Cash	0.1	—
Investments in unconsolidated affiliates	2,030.4	1,957.8
Other assets	1.1	14.7
Total assets	\$ 2,066.3	\$ 2,015.8
Liabilities		
Other liabilities	\$ 43.2	\$ 27.7
Total liabilities	43.2	27.7
Commitments and Contingencies		
Mezzanine equity		
Series A redeemable preference shares	106.1	—
Common shareholder's equity		
Common shares (<i>shares issued and outstanding: 120,000,000</i>)	1.2	1.2
Additional paid-in surplus	1,197.9	1,184.6
Retained earnings	858.4	1,014.5
Accumulated other comprehensive (loss)	(140.5)	(212.2)
Total common shareholder's equity	1,917.0	1,988.1
Total liabilities, mezzanine equity, and common shareholder's equity	\$ 2,066.3	\$ 2,015.8

See Notes to Condensed Financial Information of Registrant

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Sirius International Insurance Group, Ltd.

Schedule II

Condensed Financial Information of Registrant

Statements of (Loss) Income

For the years ended December 31, 2017, 2016, and 2015

<u>(Expressed in millions of U.S. dollars)</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues			
Net investment income	\$ 0.3	\$ (0.2)	\$ 0.1
Net realized investment (losses) gains	0.2	0.3	—
Net unrealized investment (losses) gains	12.8	(0.1)	(0.1)
Net foreign exchange gains (losses)	(0.2)	—	—
Gain on revaluation of contingent consideration	13.6	—	—
Other revenue	0.9	—	—
Total revenues	27.6	—	—
Expenses			
Other underwriting expenses	(0.2)	—	—
General and administrative expenses	13.0	36.6	15.8
Total expenses	12.8	36.6	15.8
Income (Loss) before equity earnings of unconsolidated affiliates, net of tax	14.8	(36.6)	(15.8)
Equity in earnings of unconsolidated affiliates, net of tax	(164.8)	69.1	307.0
(Loss) income before accrued dividends on Series A redeemable preference shares	(150.0)	32.5	291.2
Accrued dividends on Series A redeemable preference shares	(6.1)	—	—
Net (loss) income attributable to Sirius Group's common shareholder	\$ (156.1)	\$ 32.5	\$ 291.2

See Notes to Condensed Financial Information of Registrant

Sirius International Insurance Group, Ltd.

Schedule II

Condensed Financial Information of Registrant

Statements of Cash Flows

For the years ended December 31, 2017, 2016, and 2015

<u>(Expressed in millions of U.S. dollars)</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash flows from operations:			
Net (loss) income attributable to common shareholder	\$ (156.1)	\$ 32.5	\$ 291.2
Adjustments to reconcile net income to net cash (used for) provided from operations:			
Equity in earnings of subsidiaries	164.8	(69.1)	(307.0)
Dividends received from subsidiaries	110.0	20.0	48.0
Net realized and unrealized investment gains	(13.0)	(0.2)	0.1
Amortization of premium on fixed maturity investments	(0.1)	—	0.1
Revaluation of contingent consideration	(13.6)	—	—
Accrued dividends on Series A redeemable preference shares	6.1	—	—
Other operating items:			
Net change in other assets and liabilities, net	12.6	(6.8)	1.0
Net cash (used for) provided from operations	110.7	(23.6)	33.4
Cash flows from investing activities:			
Net change in short-term investments	2.5	(4.5)	(25.1)
Sales of fixed maturities and convertible fixed maturity investments	1.1	16.3	17.5
Sales of common equity securities	59.6	3.2	—
Purchases of common equity securities	(54.4)	(8.0)	—
Purchases of fixed maturities and convertible fixed maturity investments	—	(6.3)	(23.9)
Contributions to subsidiaries	(132.7)	(42.1)	—
Net cash provided from investing activities	(123.9)	(41.4)	(31.5)
Cash flows from financing activities:			
Capital contribution from former parent	13.3	89.6	—
Cash dividends paid to former parent	—	(27.0)	—
Net cash provided from (used for) financing activities	13.3	62.6	—
Net increase (decrease) in cash during year	0.1	(2.4)	1.9
Cash balance at beginning of year	—	2.4	0.5
Cash balance at end of year	\$ 0.1	\$ —	\$ 2.4

See Notes to Condensed Financial Information of Registrant

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Sirius International Insurance Group, Ltd.

Schedule II

Condensed Financial Information of Registrant

Statements of Comprehensive (Loss) Income

For the years ended December 31, 2017, 2016, and 2015

<u>(Expressed in millions of U.S. dollars)</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Comprehensive Income			
Net (loss) income attributable to Sirius Group's common shareholder	\$ (156.1)	\$ 32.5	\$ 291.2
Other comprehensive income (loss)			
Change in equity in net unrealized (losses) gains from investments in unconsolidated affiliates, net of tax	—	—	(29.8)
Change in foreign currency translation	71.7	(67.3)	(65.4)
Net change in other	—	1.2	0.2
Comprehensive (loss) income attributable to Sirius Group's common shareholder	<u>\$ (84.4)</u>	<u>\$ (33.6)</u>	<u>\$ 196.2</u>

See Notes to Condensed Financial Information of Registrant

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Notes to Condensed Financial Information of Registrant

Sirius International Insurance Group, Ltd. (the Registrant) investments in consolidated subsidiaries are stated at cost plus equity in income of consolidated subsidiaries. The accompanying condensed financial statements of the Registrant should be read in conjunction with the Consolidated Financial Statements and Notes thereto of Sirius International Insurance Group, Ltd. included in the Registrant's Form S-4 filed with the Securities and Exchange Commission on August 6, 2018.

Sirius International Insurance Group, Ltd.

Schedule III

Supplementary Insurance Information

As at and for the years ended December 31, 2017, 2016, and 2015

	As at and for the year ended December 31, 2017							
	Deferred Acquisition Costs	Loss and Loss Adjustment Expense Reserves	Unearned Insurance and Reinsurance Premiums	Net Earned Insurance and Reinsurance Premiums	Loss and Loss Adjustment Expenses	Insurance and Reinsurance Acquisition Expenses	Other Underwriting Expenses	Net Written Insurance and Reinsurance Premiums
	(Millions)							
Global Property	\$ 43.5	\$ 759.6	\$ 195.7	\$ 564.4	\$ 512.4	\$ 112.9	\$ 63.3	\$ 556.2
Global A&H	49.1	206.2	195.8	306.8	179.8	89.6	23.4	341.5
Specialty & Casualty	28.2	304.5	115.0	163.2	104.9	41.1	16.5	193.0
Runoff & Other	0.1	628.2	0.3	0.9	14.1	(3.5)	2.9	(0.5)
Corporate Elimination	—	—	—	—	—	(42.9)	—	—
Total	\$ 120.9	\$ 1,898.5	\$ 506.8	\$ 1,035.3	\$ 811.2	\$ 197.2	\$ 106.1	\$ 1,090.2

	As at and for the year ended December 31, 2016							
	Deferred Acquisition Costs	Loss and Loss Adjustment Expense Reserves	Unearned Insurance and Reinsurance Premiums	Net Earned Insurance and Reinsurance Premiums	Loss and Loss Adjustment Expenses	Insurance and Reinsurance Acquisition Expenses	Other Underwriting Expenses	Net Written Insurance and Reinsurance Premiums
	(Millions)							
Global Property	\$ 43.5	\$ 506.6	\$ 171.3	\$ 481.8	\$ 268.5	\$ 100.3	\$ 65.1	\$ 514.2
Global A&H	24.4	158.3	122.5	272.2	171.6	71.7	23.3	277.6
Specialty & Casualty	18.3	314.0	85.3	135.2	75.6	37.7	15.1	137.4
Runoff & Other	(1.5)	641.2	18.9	0.9	3.6	0.6	3.8	8.9
Corporate Elimination	—	—	—	—	—	—	—	—
Total	\$ 84.7	\$ 1,620.1	\$ 398.0	\$ 890.1	\$ 519.3	\$ 210.3	\$ 107.3	\$ 938.1

	As at and for the year ended December 31, 2015							
	Deferred Acquisition Costs	Loss and Loss Adjustment Expense Reserves	Unearned Insurance and Reinsurance Premiums	Net Earned Insurance and Reinsurance Premiums	Loss and Loss Adjustment Expenses	Insurance and Reinsurance Acquisition Expenses	Other Underwriting Expenses	Net Written Insurance and Reinsurance Premiums
	(Millions)							
Global Property	\$ 33.4	\$ 454.9	\$ 142.8	\$ 446.0	\$ 167.1	\$ 84.0	\$ 65.8	\$ 440.7
Global A&H	22.4	147.4	111.5	258.1	158.1	70.9	24.2	262.3
Specialty & Casualty	18.2	351.4	85.2	138.2	97.8	32.3	15.6	147.5
Runoff & Other	0.6	690.7	2.7	4.7	(0.3)	2.6	2.3	(2.9)
Corporate Elimination	—	—	—	—	—	—	—	—
Total	\$ 74.6	\$ 1,644.4	\$ 342.2	\$ 847.0	\$ 422.7	\$ 189.8	\$ 107.9	\$ 847.6

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Sirius International Insurance Group, Ltd.

Schedule IV

Reinsurance

For the years ended December 31, 2017, 2016, and 2015

	<u>Direct gross</u>	<u>Ceded to other companies</u>	<u>Assumed from other companies</u> (Millions)	<u>Net amount</u>	<u>Percentage of amount assumed to net</u>
Year ended December 31, 2017	\$ 450.2	\$ 349.1	\$ 989.1	\$ 1,090.2	91%
Year ended December 31, 2016	368.5	330.9	900.5	938.1	96%
Year ended December 31, 2015	293.7	312.9	866.8	847.6	102%

Sirius International Insurance Group, Ltd.

Schedule V

Valuation and Qualifying Accounts

As at and for the years ended December 31, 2017, 2016, and 2015

	Balance at beginning of period	Additions (Subtractions)		Deductions described(1)	Balance at the end of period
		Charged to costs and expenses	Charged to other accounts (Millions)		
Years ended:					
December 31, 2017					
Reinsurance on recoverable paid losses:					
Allowance for reinsurance balances	\$ 5.8	—	—	—	\$ 5.8
Property and casualty insurance and reinsurance premiums receivable:					
Allowance for uncollectible accounts	\$ 5.3	(0.5)	(0.5)	0.3	\$ 4.6
December 31, 2016					
Reinsurance on recoverable paid losses:					
Allowance for reinsurance balances	\$ 5.4	—	—	0.4	\$ 5.8
Property and casualty insurance and reinsurance premiums receivable:					
Allowance for uncollectible accounts	\$ 4.0	1.1	—	0.2	\$ 5.3
December 31, 2015					
Reinsurance on recoverable paid losses:					
Allowance for reinsurance balances	\$ 4.3	—	—	1.1	\$ 5.4
Property and casualty insurance and reinsurance premiums receivable:					
Allowance for uncollectible accounts	\$ 5.9	(1.2)	—	(0.7)	\$ 4.0

(1) Represents net collections (charge-offs) of balances receivable and foreign currency translation.

Sirius International Insurance Group, Ltd.

Schedule VI

Insurance Operations

As at and for the years ended December 31, 2017, 2016, and 2015

Affiliation with registrant	Deferred Acquisition Costs	Less and Loss Adjustment Expense Reserves	Unearned Insurance and Reinsurance Premiums	Net Earned Insurance and Reinsurance Premiums	Net Investment Income	Losses and loss expenses incurred related to current year	Losses and loss expenses incurred related to prior year	Net paid and loss expenses	Insurance and reinsurance acquisition costs	Net premiums written	
											(Millions)
Consolidated Subsidiaries											
2017	\$ 120.9	\$ 1,898.5	\$ 506.8	\$ 1,035.3	\$ 56.8	\$ 811.8	\$ (0.6)	\$ 612.3	\$ 197.2	\$ 1,090.2	
2016	84.7	1,620.1	398.0	890.1	56.2	583.0	(63.7)	548.3	210.3	938.1	
2015	74.6	1,644.4	342.2	847.0	39.9	473.9	(51.2)	522.5	189.8	847.6	

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Easterly Acquisition Corp.

Condensed Consolidated Balance Sheets

	March 31, 2018 Unaudited	December 31, 2017
ASSETS		
Current assets		
Cash	\$ 8,376	\$ 13,874
Prepaid expenses	4,343	7,347
Total current assets	12,719	21,221
Cash and cash equivalents held in Trust Account—restricted	152,900,079	151,208,413
Total assets	\$ 152,912,798	\$ 151,229,634
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,800,915	\$ 1,704,738
Due to affiliate	710,331	575,405
Total current liabilities	2,511,246	2,280,143
Convertible note—due to Sponsor	722,831	614,371
Promissory note	1,352,035	—
Deferred underwriting fee	7,000,000	7,000,000
Total liabilities	11,586,112	9,894,514
Commitments		
Common stock, subject to possible redemption or tender, 13,387,984 and 13,544,944 shares at redemption value at March 31, 2018, and December 31, 2017, respectively	136,326,685	136,335,119
Stockholders' equity:		
Preferred stock, \$.0001 par value; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.0001 par value; 100,000,000 shares authorized; 6,627,593 and 6,477,668 shares issued and outstanding (excludes 13,387,984 and 13,544,944 shares subject to possible redemption) at March 31, 2018 and December 31, 2017, respectively	663	648
Additional paid-in capital	7,959,284	8,022,478
Accumulated deficit	(2,959,946)	(3,023,125)
Total stockholders' equity	5,000,001	5,000,001
Total liabilities and stockholders' equity	\$ 152,912,798	\$ 151,229,634

The Accompanying Notes are an Integral Part of these Condensed Consolidated Financial Statements.

Easterly Acquisition Corp.

Condensed Consolidated Statements of Operations

(Unaudited)

	<u>Three Months Ended</u> <u>March 31, 2018</u>	<u>Three Months Ended</u> <u>March 31, 2017</u>
Operating costs	\$ (335,359)	\$ (466,830)
State franchise taxes	(70,000)	(46,118)
Loss from operations	(405,359)	(512,948)
Other income—interest income	468,538	165,919
Income (loss) before taxes	63,179	(347,029)
Provision for income taxes	—	—
Net income (Loss)	\$ 63,179	\$ (347,029)
Weighted average number of common shares outstanding, basic and diluted	6,477,668	6,361,827
Basic and diluted net loss per share	\$ (0.05)	\$ (0.07)

The Accompanying Notes are an Integral Part of these Condensed Consolidated Financial Statements.

Easterly Acquisition Corp.

Condensed Consolidated Statement of Cash Flows

(Unaudited)

	<u>Three Months Ended</u> <u>March 31, 2018</u>	<u>Three Months Ended</u> <u>March 31, 2017</u>
Cash flows from operating activities:		
Net income (loss)	\$ 63,179	\$ (347,029)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Interest on cash and cash equivalents held in Trust Account	(468,538)	(165,919)
Provision for uncollectible other receivables	—	278,135
Changes in operating assets and liabilities:		
Prepaid expenses	3,004	(47,990)
Other receivables	—	1,484
Accounts payable and accrued expenses	96,177	(108,530)
Interest on convertible note to Sponsor	8,460	2,175
Net cash used in operating activities	(297,718)	(387,674)
Cash flows from investing activities:		
Cash released from Trust Account for redemption of common stock	71,614	—
Interest income released from Trust Account for franchise taxes	57,294	82,554
Contributions into Trust Account	(1,352,035)	—
Net cash used in (provided by) investing activities	(1,223,127)	82,554
Cash flows from financing activities:		
Proceeds of convertible note received from Sponsor	100,000	250,000
Redemption of common stock	(71,614)	—
Due to affiliate	134,926	57,019
Proceeds from promissory note	1,352,035	—
Net cash provided by financing activities	1,515,347	307,019
Increase (decrease) in cash	(5,498)	1,899
Cash at beginning of period	13,874	24,571
Cash at end of period	\$ 8,376	\$ 26,470
Supplemental disclosure of noncash financing activities:		
Change in value of common stock subject to possible redemption	\$ 63,179	\$ (347,029)

The Accompanying Notes are an Integral Part of these Condensed Consolidated Financial Statements.

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Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization and Business Operations

Incorporation

Easterly Acquisition Corp. (the "Company") was incorporated in Delaware on April 29, 2015.

Sponsor

The Company's sponsor is Easterly Acquisition Sponsor, LLC, a Delaware limited liability company (the "Sponsor").

Business Purpose

The Company was formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses that it had not yet identified ("Business Combination").

As of March 31, 2018, the Company has neither commenced operations nor generated any revenues to date. All activity through March 31, 2018 relates to the Company's formation, initial public offering (described below), identifying a target company and engaging in due diligence for and negotiation of a proposed Business Combination.

The Company's management has broad discretion with respect to the specific application of the remaining net proceeds of its initial public offering of Units (as defined in Note 3 below) (the "Public Offering"), although substantially all of the net proceeds of the Public Offering and the private placement of warrants (as described in Note 4 below, the "Private Placement" and such warrants issued in connection with the Private Placement, the "Private Placement Warrants") are intended to be generally applied toward completing a Business Combination. Furthermore, there is no assurance that the Company will be able to successfully effect a Business Combination.

As more fully described in Note 6 below, on June 28, 2017, the Company entered into an Investment Agreement (as amended, the "Investment Agreement") with JH Capital Group Holdings, LLC ("JH Capital"), Jacobsen Credit Holdings, LLC ("Jacobsen Holdings"), Kravetz Capital Funding LLC ("KCF" and, together with Jacobsen Holdings, the "Principal Members") and NJK Holding LLC ("NJK Holding" and, together with KCF and Jacobsen Holdings, the "Founding Members"), to effect a business combination with JH Capital, a leading specialty finance company in the debt recovery industry.

See Note 9 below for more information about subsequent events related to the Investment Agreement and the proposed business combination between the Company and JH Capital contemplated thereby.

The Company must complete a Business Combination prior to June 30, 2018 or cease all operations, redeem the public shares of its common stock and dissolve and liquidate its remaining assets to its creditors and remaining stockholders.

Financing

The registration statement for the Company's Public Offering was declared effective on July 29, 2015. On July 29, 2015, the Company filed a new registration statement to increase the size of the

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Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

1. Organization and Business Operations (Continued)

Public Offering by 20% pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the "Securities Act"). On August 4, 2015, the Company consummated the Public Offering and received proceeds of \$195,000,000 (net of the underwriter's discount of \$5,000,000) and simultaneously received \$6,750,000 from the issuance of 6,750,000 Private Placement Warrants.

See below regarding redemptions of common stock and the release of a portion of the funds from the Trust Account (defined below) in connection with stockholder approvals, in August 2017, December 2017 and March 2018, to amend the Company's amended and restated certificate of incorporation to extend the date by which the Company must complete its Business Combination.

Trust Account

\$200,000,000 of the proceeds from the Public Offering and Private Placement, which were deposited into a segregated trust account located in the United States with Continental Stock Transfer & Trust Company acting as trustee (the "Trust Account"), may be invested only in permitted United States "government securities" within the meaning of Section 2(a)(16) of the Investment Company Act of 1940, as amended (the "Investment Company Act"), having a maturity of 180 days or less or in money market funds that invest solely in United States Treasuries that are compliant with Rule 2a-7 under the Investment Company Act.

The Company amended and restated its certificate of incorporation on July 28, 2015 and further amended it on August 1, 2017, December 15, 2017 and March 29, 2018, to provide that, except for the withdrawal of interest to pay franchise and income taxes, if any, that none of the funds held in trust (including the interest on such funds) will be released from the Trust Account until the earlier of (i) the completion of the initial Business Combination, (ii) the redemption of the Public Shares (as defined in Note 3) if the Company is unable to complete a Business Combination by June 30, 2018 (subject to the requirements of applicable law) and (iii) the redemption of shares in connection with a vote seeking to amend Section 9.2(d) of the amended and restated certificate of incorporation in a manner that would affect the substance or timing of the Company's obligation to redeem 100% of the Public Shares if the Company does not complete an initial Business Combination by June 30, 2018. For the quarter ended March 31, 2018, the Company withdrew \$57,294 of interest earned to pay for franchise taxes in accordance with the amended and restated certificate of incorporation.

On December 8, 2017, the Company and JH Capital entered into a non-interest bearing promissory note ("JH Capital Promissory Note"), which would be drawn on January 15, 2018, February 15, 2018 and March 15, 2018 at individual amounts of \$0.03 for each share of the Company's common stock outstanding as of such date, excluding the 5,000,000 Sponsor shares. On February 14, 2018, the Company's board of directors approved the second amendment to the Investment Agreement and, on February 14, 2018, the parties executed the second amendment to the Investment Agreement. JH Capital agreed to continue to make the contributions of \$0.03 for each Public Share, for each calendar month or portion thereof, to the Company through the earlier of (A) June 30, 2018 or (B) the date by which the Company is required to dissolve and liquidate the Trust Account in accordance with the terms of the Company's charter, which will be added to the Trust Account (with partial period amounts to be pro-rated). The JH Capital Promissory Note does not bear interest and will be repayable by the Company to JH Capital upon consummation of the Company's initial Business Combination.

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Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

1. Organization and Business Operations (Continued)

The Company contributed \$1,352,035 of the principal drawn from the JH Capital Promissory Note during the quarter ended March 31, 2018 into the Trust Account.

In order to protect the amounts held in the Trust Account, Messrs. Cody, Crate and Kalichstein, the managing principals of an affiliate of the Sponsor, have agreed, jointly and severally, that they will be liable to the Company if and to the extent any claims by a vendor for services rendered or products sold to it, or a prospective target business with which the Company has discussed entering into a transaction agreement, reduce the amount of funds in the Trust Account to below (i) \$10.00 per Public Share or (ii) such lesser amount per Public Share held in the Trust Account as of the date of the liquidation of the Trust Account, due to reductions in value of the trust assets, except as to any claims by a third party who executed a waiver of any and all rights to seek access to the Trust Account and except as to any claims under the Company's indemnity of the underwriters of its IPO against certain liabilities, including liabilities under the Securities Act. In the event that an executed waiver is deemed to be unenforceable against a third party, then Messrs. Cody, Crate and Kalichstein will not be responsible to the extent of any liability for such third-party claims. The Company cannot assure you, however, that Messrs. Cody, Crate and Kalichstein would be able to satisfy those obligations. Messrs. Cody, Crate and Kalichstein will not be personally liable to pay the Company's debts and obligations except as provided above. None of the Company's other officers will indemnify it for claims by third parties including, without limitation, claims by vendors and prospective target businesses.

Stockholder Meetings

On August 1, 2017, the Company held its annual meeting of stockholders and 23,415,152 of the Company's 25,000,000 shares were voted in favor of the proposal to amend the Company's amended and restated certificate of incorporation to extend the date by which the Company had to consummate a Business Combination until December 15, 2017, to change the term of the Company's directors from two years to one year, and to change the provision with respect to removal of directors to permit removal with or without cause by the affirmative vote of a majority of the Company's stockholders and the proposal to amend the agreement with respect to the Trust Account to provide for the extension until December 15, 2017. In addition, the Company's board of directors was reelected. The holders of 4,289,791 Public Shares of the Company's common stock properly exercised their right to convert their shares into cash at a conversion price of approximately \$10.02 per share.

On December 14, 2017, the Company held a special meeting of stockholders and 19,325,891 of the Company's 20,710,209 shares were voted in favor of the proposal to amend the Company's amended and restated certificate of incorporation to extend the date by which the Company had to consummate a Business Combination until March 31, 2018, and the proposal to amend the agreement with respect to the Trust Account to provide for the extension until March 31, 2018. The holders of 687,597 Public Shares of the Company's common stock properly exercised their right to convert their shares into cash at a conversion price of approximately \$10.06 per share.

On March 29, 2018, the Company held a special meeting of stockholders and 19,081,332 of the Company's 20,022,612 shares were voted in favor of the proposal to amend the Company's amended and restated certificate of incorporation to extend the date by which the Company had to consummate a Business Combination until June 30, 2018, and the proposal to amend the agreement with respect to the Trust Account to provide for the extension until June 30, 2018. The holders of 7,035 Public Shares

Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

I. Organization and Business Operations (Continued)

of the Company's common stock properly exercised their right to convert their shares into cash at a conversion price of approximately \$10.18 per share.

Business Combination

The Company, prior to the consummation of a Business Combination, will either (i) seek stockholder approval of the Business Combination at a meeting called for such purpose in connection with which stockholders may seek to redeem their shares, regardless of whether they vote for or against the Business Combination, for cash equal to their pro rata share of the aggregate amount then on deposit in the Trust Account as of two business days prior to the consummation of an initial Business Combination, including interest earned on the funds and not previously released to the Company to pay franchise and income taxes, or (ii) provide public stockholders with the opportunity to tender their shares to the Company by means of a tender offer (and thereby avoid the need for a stockholder vote) for an amount equal to their pro rata share of the aggregate amount then on deposit in the Trust Account, including interest earned on the funds held in the Trust Account and not previously released to the Company to pay franchise and income taxes, less franchise and income taxes payable from such interest. The decision as to whether the Company will seek stockholder approval of the Business Combination or conduct a tender offer will be made by the Company, solely in its discretion, and will be based on a variety of factors such as the timing of the transaction and whether the terms of the transaction would otherwise require the Company to seek stockholder approval. If the Company seeks stockholder approval, it will complete its Business Combination only if a majority of the outstanding shares of common stock voted are voted in favor of the Business Combination. However, in no event will the Company redeem its Public Shares (as defined in Note 3) in an amount that would cause its net tangible assets to be less than \$5,000,001. In such case, the Company would not proceed with the redemption of its Public Shares and the related Business Combination, and instead may search for an alternate Business Combination.

Notwithstanding the foregoing redemption rights, if the Company seeks stockholder approval of its initial business combination and it does not conduct redemptions in connection with its business combination pursuant to the tender offer rules, the Company's amended and restated certificate of incorporation provides that a public stockholder, together with any affiliate of such stockholder or any other person with whom such stockholder is acting in concert or as a "group" (as defined under Section 13 of the Exchange Act), will be restricted from redeeming its shares with respect to more than an aggregate of 15% of the shares sold in the Company's IPO.

Shares of common stock subject to redemption or tender are recorded at redemption amount and classified as temporary equity, in accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 480, "Distinguishing Liabilities from Equity." At March 31, 2018, the amount in the Trust Account is approximately \$10.18 per share of common stock sold in the Public Offering (\$152,900,079 cash equivalents held in the Trust Account divided by 15,015,577 of Public Shares).

The Company has until June 30, 2018 to complete its initial Business Combination. If the Company does not complete a Business Combination within this period of time, it shall (i) cease all operations except for the purposes of winding up; (ii) as promptly as reasonably possible but not more than ten business days thereafter, redeem the Public Shares, at a per-share price, payable in cash, equal

Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

1. Organization and Business Operations (Continued)

to the aggregate amount then on deposit in the Trust Account, including interest (less up to \$100,000 of interest to pay dissolution expenses, which interest shall be net of taxes payable) divided by the number of then outstanding Public Shares, which redemption will completely extinguish public stockholders' rights as stockholders (including the right to receive further liquidation distributions, if any), subject to applicable law, and (iii) as promptly as possible following such redemption, subject to the approval of the remaining stockholders and the board of directors, dissolve and liquidate, subject in each case to the Company's obligations under Delaware law to provide for claims of creditors and the requirements of other applicable law.

The Company's Units, common stock and warrants are listed on the Nasdaq Capital Market ("Nasdaq"). The Nasdaq rules require that the initial Business Combination must be with one or more target businesses that together have a fair market value equal to at least 80% of the balance in the Trust Account (less any deferred underwriting commissions and taxes payable on interest earned) at the time of the Company signing a definitive agreement in connection with its initial Business Combination. The Company intends to fulfill the requirements of this Nasdaq rule even if the securities are not listed on Nasdaq at the relevant time.

Emerging Growth Company

The Company is an "emerging growth company," as defined in Section 2(a) of the Securities Act, as modified by the Jumpstart our Business Startups Act of 2012 (the "JOBS Act"), and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in the Company's periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Securities Exchange Act of 1934, as amended) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such an election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of the Company's financial statements with another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period difficult or impossible because of the potential differences in accountant standards used.

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Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

1. Organization and Business Operations (Continued)

Reimbursement of Expenses Related to Terminated Sungevity Business Combination

On June 28, 2016, the Company entered into an Agreement and Plan of Merger (as amended, the "Sungevity Merger Agreement"), by and among the Company, Solaris Merger Sub Inc., Sungevity, Inc. ("Sungevity"), and Shareholder Representative Services LLC, to effect a business combination with Sungevity. On December 31, 2016, the Company terminated the Sungevity Merger Agreement.

Pursuant to a letter of intent (the "LOI"), dated April 20, 2016, between Sungevity and the Company, Sungevity agreed to pay or reimburse the Company for all reasonable and documented out-of-pocket costs and expenses incurred between the date of the LOI and the date that definitive documents with respect to the proposed merger, including fees and expenses of third party advisors, due diligence-related expenses and such other necessary and related costs and expenses incurred in furtherance of the proposed business combination. For the year ended December 31, 2016, the Company incurred \$909,787 in qualified reimbursable costs, of which \$353,517 was reimbursed by Sungevity prior to December 31, 2016. The Company initiated legal action against Sungevity to recover the remaining amount of \$556,270 due to the Company under the LOI. On March 13, 2017, Sungevity filed for Chapter 11 Bankruptcy proceedings in U.S. Bankruptcy Court for the District of Delaware to pursue and consummate a sale of its business, which proceedings were dismissed in November 2017 without any recovery to the Company. The Company's legal action was stayed pending resolution of the bankruptcy proceedings, but has not proceeded since dismissal of the bankruptcy proceedings. A valuation allowance of \$278,135 was recorded in the quarter ended December 31, 2016 and the remaining amount of \$278,135 was recorded in the quarter ended March 31, 2017 and is presented within Operating expenses in the Condensed Consolidated Statement of Operations for the quarter ended March 31, 2017. As a result of the November 2017 dismissal, the entire receivable and corresponding allowance were written off.

Going Concern Considerations

The Company presently has no revenue, has had losses since inception and has no operations other than the active identification of a target business with which to complete its Business Combination. As of March 31, 2018, the Company had cash of \$8,376 held outside the Trust Account and \$152,900,079 cash equivalents held in trust, including interest.

The Company will have available the \$8,376 of proceeds held outside the Trust Account (as of March 31, 2018) and any additional Sponsor loans under the March 17, 2016 convertible promissory note (see Note 4) to fund its working capital needs and to continue to identify and evaluate target businesses, perform business due diligence on prospective target businesses, travel to and from the offices, plants or similar locations of prospective target businesses or their representatives or owners, review corporate documents and material agreements of prospective target businesses, structure, negotiate and complete a Business Combination. The Company will also have available any interest earned on the funds held in the Trust Account to pay franchise and income taxes.

At March 31, 2018, the Company has a working capital deficit of \$2,498,527 (total current assets minus total current liabilities). The Company expects to continue incurring expenses related to professional services including, but not limited to, engaging legal counsel, consultants, advisors and

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Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

1. Organization and Business Operations (Continued)

accountants, as well as other operating expenses such as insurance and fees under the Administrative Services Agreement.

If the proceeds held outside the Trust Account are insufficient for the Company's working capital needs and operations in connection with the completion of an initial Business Combination, the Company may need to raise additional capital through additional loans from the Sponsor under the March 17, 2016 convertible promissory note issued to the Sponsor or additional investments from its Sponsor, an affiliate of its Sponsor or certain of the Company's officers and directors. None of the Company's Sponsor, affiliate of the Sponsor, officers or directors are under any obligation to loan the Company funds.

The uncertainty regarding the lack of resources to pay the above noted expenses raises substantial doubt about the Company's ability to continue as a going concern. No adjustments have been made to the carrying amounts of assets or liabilities should the Company be unable to continue operations.

2. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements are prepared in U.S. dollars in conformity with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X of the SEC. Certain information or footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position, results of operations, or cash flows. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of a normal recurring nature, which are necessary for a fair presentation of the financial position, operating results and cash flows for the periods presented.

The interim results for the quarterly period ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or any other period. The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Company's financial statements and notes thereto included in the Company's annual report filed with the SEC on March 16, 2018.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Solaris Merger Sub Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Net Loss per Share of Common Stock

The Company complies with accounting and disclosure requirements of FASB ASC Topic 260, Earnings Per Share. Net loss per share is computed by dividing net loss by the weighted average

Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

2. Significant Accounting Policies (Continued)

number of common shares outstanding during the period. The Company applies the two-class method in calculating earnings per share. Shares of common stock subject to possible redemption at March 31, 2018 and 2017, which are not currently redeemable and are not redeemable at fair value, have been excluded from the calculation of basic loss per share since such shares, if redeemed, such shares only participate in their pro rata share of the Trust Account earnings.

At March 31, 2018 and 2017, the Company had outstanding warrants to purchase 16,750,000 shares of common stock. The effect of these potential shares was excluded from the calculation of diluted loss per share of common stock since the exercise of the warrants is contingent upon the occurrence of future events. As a result, diluted loss per common share is the same as basic loss per common share for the periods.

Reconciliation of net loss per common share

The Company's net income is adjusted for the portion of income that is attributable to common stock subject to redemption, as these shares only participate in the income of the Trust Account and not the losses of the Company. Accordingly, basic and diluted loss per common share is calculated as follows:

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net income (loss)	\$ 63,179	\$ (347,029)
Less: Income attributable to ordinary shares subject to redemption	(355,339)	(111,389)
Adjusted net loss	<u>\$ (292,160)</u>	<u>\$ (458,418)</u>
Weighted average shares outstanding, basic and diluted	6,477,668	6,361,827
Basic and diluted net loss per ordinary share	<u>\$ (0.05)</u>	<u>\$ (0.07)</u>

Fair Value of Financial Instruments

The Company follows the guidance in FASB ASC 820, Fair Value Measurements and Disclosures for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period.

The fair value of the Company's financial assets and liabilities reflects management's estimate of amounts that the Company would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of its assets and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from independent sources) and to minimize the use of unobservable inputs (internal assumptions about how market participants would price assets and liabilities). The following fair value hierarchy is used to classify

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Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

2. Significant Accounting Policies (Continued)

assets and liabilities based on the observable inputs and unobservable inputs used in order to value the assets and liabilities:

- Level 1: Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Observable inputs other than Level 1 inputs. Examples of Level 2 inputs include quoted prices in active markets for similar assets or liabilities and quoted prices for identical assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs based on our assessment of the assumptions that market participants would use in pricing the asset or liability.

At March 31, 2018, the proceeds of the Trust Account were invested in the Western Asset Institutional U.S. Treasury Reserves money market fund that invests all of its assets in direct obligations of the U.S. Treasury and which is compliant with Rule 2a-7 under the Investment Company Act.

The following table presents information about the Trust Account assets that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value:

<u>Description</u>	<u>Level</u>	<u>March 31, 2018</u>	<u>December 31, 2017</u>
Assets:			
Cash and/or cash equivalents held in the Trust Account	1	\$ 152,900,079	\$ 151,208,413

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash accounts in a financial institution which exceeds the Federal depository insurance coverage of \$250,000. At March 31, 2018, the Company had not experienced losses on these accounts and management believes the Company is not exposed to significant risks on such accounts.

Cash and cash equivalents

The Company considers all short-term investments with an original maturity of three months or less when purchased to be cash equivalents. At March 31, 2018, the assets held in the Trust Account were held in the Western Asset Institutional U.S. Treasury Reserves money market fund that invests solely in United States Treasuries compliant with Rule 2a-7 under the Investment Company Act.

Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

2. Significant Accounting Policies (Continued)

Offering Costs

The Company complies with the requirements of ASC 340-10-S99-1. Offering costs of \$517,145 consisting of printing costs, professional fees and travel expenses incurred through the closing of the Public Offering were charged to capital at the time of closing of the Public Offering.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Company complies with the accounting and reporting requirements of FASB ASC 740, *Income Taxes*, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts and are based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. As of March 31, 2018, a full valuation allowance has been established against the deferred tax asset.

FASB ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. There were no uncertain tax benefits as of March 31, 2018. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at March 31, 2018. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position.

The Company may be subject to potential examination by U.S. federal, U.S. states or foreign jurisdiction authorities in the areas of income taxes. These potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with U.S. federal, U.S. state and foreign tax laws. The Company's management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months.

During the quarterly period ended March 31, 2018, the Company utilized net operating losses to offset its taxable net income earned during this period. The utilization of the net operating loss carry-forward resulted no tax provision for the quarterly period ended March 31, 2018.

Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

2. Significant Accounting Policies (Continued)

Franchise Taxes

The Company is incorporated in the State of Delaware and is required to pay franchise taxes to the State of Delaware on an annual basis.

Stock Based Compensation

As further discussed in Note 6, on December 28, 2017, the Company issued 888,000 warrants to Fortress Credit Corp. in connection with a loan provided by Fortress to JHPDE Finance I, LLC, a subsidiary of JH Capital. If the Business Combination closes, the warrant will be exercisable to purchase one share of the Company's Class A common stock at \$11.50 per share, have a term of 5 years from the date of the closing of the Business Combination and may only be exercised on or after the date which is 30 days after the first date on which the Company and JH Capital complete the Business Combination.

The Company measures nonemployee stock-based awards at grant date based on the fair value of the award. The compensation cost is recognized as expense over the vesting period of the award. The warrant issued to Fortress will be recognized as an expense as it vests but only after the date which is 30 days after the first date on which the Company and JH Capital complete the Business Combination.

Stock-based awards issued to nonemployees are remeasured until the award vests. The Company uses the probability-weighted Black-Scholes option pricing model to value its warrant awards. Estimating the fair value of warrants requires management to apply judgment and make estimates, including volatility, the expected term of the Company's warrants, the expected dividend yield and the fair value of the common stock on the measurement date.

Expected term — The expected term represents the contractual term of the award, which is 5 years.

Expected volatility — the volatility is derived from the historical volatility of the Company's common stock, which is approximately 10.57%.

Risk-free interest rate — The risk-free interest rate is based on the yield of a 5-year Treasury Bond in effect at the time of grant, which is approximately 2.56%.

Expected dividend — the Company has never paid dividends on the common stock and the Company assumed no dividends will be paid by the Company after business combination, therefore we used an expected dividend yield of zero.

The Company adjusted the warrants' fair value on measurement date, as estimated by the Black-Scholes model, by a liquidity discount of 10% as a result of lack of marketability of the Fortress Warrant.

Recent Accounting Pronouncements

Management does not believe that any recently issued, but not yet effective, accounting pronouncements, if currently adopted, would have a material effect on the Company's consolidated financial statements.

Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

3. Public Offering

Public Units

Pursuant to the Public Offering on August 4, 2015, the Company sold 20,000,000 units at a price of \$10.00 per unit (the "Units"), including 2,000,000 Units as a result of the underwriters' partial exercise of their over-allotment option, generating gross proceeds of \$200,000,000. The common stock and warrants comprising the Units began separate trading on September 22, 2015. The holders have the option to continue to hold Units or separate their Units into the component securities. Each Unit consists of one share of the Company's common stock ("Public Shares"), \$0.0001 par value, and one-half of one redeemable warrant ("Public Warrant"). Each whole Public Warrant entitles the holder to purchase one share of common stock at a price of \$11.50 per share. Each Public Warrant will become exercisable on the later of 30 days after the completion of an initial Business Combination or 12 months from the closing of the Public Offering, and will expire five years after the completion of the initial Business Combination or earlier upon redemption or liquidation. If the Company does not complete its initial Business Combination on or prior to June 30, 2018, the Public Warrants will expire worthless at the end of such period. Upon closing of the Public Offering, there were 16,750,000 warrants outstanding, which include 6,750,000 warrants purchased by the initial stockholders and 10,000,000 warrants purchased in connection with the sale of Units related to the Public Offering.

The Public Warrants are issued in registered form under a warrant agreement between Continental Stock Transfer & Trust Company, as warrant agent, and the Company. The Company did not register the shares of common stock issuable upon exercise of the Public Warrants under the Securities Act or any state securities law. The Company will use its best efforts to file a new registration statement for the shares of common stock issuable upon exercise of the Public Warrants under the Securities Act, following the completion of its initial Business Combination. If the shares issuable upon exercise of the Public Warrants are not registered under the Securities Act by the 60th business day following the closing of the initial Business Combination, the Company will be required to permit holders to exercise their Public Warrants on a cashless basis during the period beginning on the 61st business day after the closing of the initial Business Combination and ending upon such registration being declared effective by the SEC. However, no warrant will be exercisable for cash or on a cashless basis, and the Company will not be obligated to issue any shares to holders seeking to exercise their warrants, unless the issuance of the shares upon such exercise is registered or qualified under the securities laws of the state of the exercising holder, or an exemption is available. If such issuance is not so registered or qualified and no exemption is available under the securities laws of the state of the exercising holder, such holder would not be able to exercise its warrants and the Company could still redeem such holder's warrants. Notwithstanding the above, if the common stock is at the time of any exercise of a Public Warrant not listed on a national securities exchange such that it satisfies the definition of a "covered security" under Section 18(b)(1) of the Securities Act, the Company may, at its option, require holders of Public Warrants who exercise their warrants to do so on a "cashless basis" in accordance with Section 3(a)(9) of the Securities Act and, in the event the Company so elects, it will not be required to file or maintain in effect a registration statement or register or qualify the shares under applicable state securities laws.

Once the Public Warrants become exercisable, the Company may redeem the outstanding Public Warrants (except as described herein with respect to the Private Placement Warrants discussed in Note 4) (i) in whole and not in part, (ii) at a price of \$0.01 per warrant; (iii) upon a minimum of

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Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

3. Public Offering (Continued)

30 days' prior written notice of redemption; and (iv) if, and only if, the last sale price of the common stock equals or exceeds \$18.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date on which the Company send the notice of redemption to the Public Warrant holders.

The Company will not redeem the Public Warrants unless an effective registration statement under the Securities Act covering the shares of common stock issuable upon exercise of the Public Warrants is effective and a current prospectus relating to those shares of common stock is available throughout the 30-day redemption period, except if the Public Warrants may be exercised on a cashless basis and such cashless exercise is exempt from registration under the Securities Act. If and when the Public Warrants become redeemable by the Company, the Company may exercise its redemption right even if it is unable to register or qualify the underlying securities for sale under all applicable state securities law.

If the Company calls the Public Warrants for redemption, management will have the option to require all holders that wish to exercise the Public Warrants to do so on a "cashless basis." In such event, each holder would pay the exercise price by surrendering their Public Warrants for that number of shares of common stock equal to the quotient obtained by dividing (x) the product of the number of shares of common stock underlying the warrants, multiplied by the difference between the exercise price of the Public Warrants and the "fair market value" (defined below) by (y) the fair market value. The "fair market value" shall mean the average reported last sale price of the common stock for the 10 trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of Public Warrants.

In no event will the Company be required to net cash settle any Public Warrant, or issue securities or other compensation in exchange for the Public Warrants in the event that the Company is unable to register or qualify the shares underlying the Public Warrants under applicable state securities laws.

4. Related Party Transactions

Founder Shares

On May 4, 2015, the Sponsor purchased 4,312,500 shares of the Company's common stock (the "Founder Shares") for \$25,000, or approximately \$.006 per share. On July 29, 2015, the Company's Board of Directors effected a stock dividend of 0.2 shares for each outstanding share of common stock, resulting in 5,175,000 Founder Shares outstanding. On July 29, 2015, the underwriters exercised part of their over-allotment option resulting in 20,000,000 Units issued as a result of the Public Offering. As a result of the expiration of the underwriters' option to exercise the remaining portion of the over-allotment, the Sponsor forfeited an aggregate of 175,000 Founder Shares. As described in Note 1, on August 1, 2017, December 14, 2017 and March 29, 2018, stockholders representing 4,289,791, 687,597 and 7,035 shares, respectively elected to redeem their Public Shares. Prior to these redemptions, the Sponsor, the Company's independent directors and their permitted transferees, which are referred to as the initial stockholders, owned 20% of the Company's issued and outstanding shares and, after the redemptions, currently own approximately 25%.

The Founder Shares are identical to the common stock included in the Units sold in the Public Offering except that 1) the Founder Shares are subject to certain restrictions, as described in more detail below, and 2) the initial stockholders have agreed (i) to waive their redemption rights with

Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

4. Related Party Transactions (Continued)

respect to their Founder Shares in connection with the completion of the initial Business Combination and (ii) to waive their rights to liquidating distributions from the Trust Account with respect to their Founder Shares if the Company fails to complete its initial Business Combination by June 30, 2018, although they will be entitled to liquidating distributions from the Trust Account with respect to any Public Shares they hold if the Company fails to complete its initial Business Combination within the prescribed time frame. If the Company submits its initial Business Combination to the public stockholders for a vote, the initial stockholders have agreed to vote their Founder Shares and any Public Shares purchased during or after the Public Offering in favor of the initial Business Combination.

The initial stockholders have agreed not to transfer, assign or sell any of their Founder Shares until one year after the date of the consummation of the initial Business Combination or earlier if, subsequent to the initial Business Combination, (i) the last sale price of the common stock equals or exceeds \$12.00 per share (as adjusted for stock splits, stock dividends, reorganizations and recapitalizations) for any 20 trading days within any 30-trading day period commencing at least 150 days after the Business Combination or (ii) the Company consummates a subsequent liquidation, merger, stock exchange or other similar transaction which results in all of the stockholders having the right to exchange their shares of common stock for cash, securities or other property.

Private Placement Warrants

The Sponsor purchased from the Company an aggregate of 6,750,000 Private Placement Warrants, each exercisable to purchase one share of the Company's common stock at \$11.50 per share, at a price of \$1.00 per Private Placement Warrant (\$6,750,000 in the aggregate) in a private placement that occurred simultaneously with the closing of the Public Offering. The proceeds from the sale of the Private Placement Warrants were added to the proceeds from the Public Offering held in the Trust Account. If the Company does not complete an initial Business Combination by June 30, 2018, to the degree that any proceeds remain, the proceeds of the sale of the Private Placement Warrants will be used to fund the redemption of the Public Shares (subject to the requirements of applicable law) and the Private Placement Warrants will expire worthless. The Private Placement Warrants are identical to the Public Warrants sold as part of the Units in the Public Offering except that, so long as they are held by the Sponsor or its permitted transferees, (i) they will not be redeemable by the Company, (ii) they (including the common stock issuable upon exercise of these warrants) may not, subject to certain limited exceptions, be transferred, assigned or sold by the Sponsor until 30 days after the completion of the initial Business Combination and (iii) they may be exercised by the holders on a cashless basis.

The holders of the Founder Shares, Private Placement Warrants and Warrants that may be issued upon conversion of working capital loans, discussed below, will have registration rights to require the Company to register a sale of any of the securities held by them pursuant to a registration rights agreement executed on July 29, 2015. The holders of the majority of these securities are entitled to make up to three demands, excluding short form registration demands, that the Company register such securities for sale under the Securities Act. In addition, these holders will have "piggy-back" registration rights to include such securities in other registration statements filed by the Company and rights to require the Company to register for resale such securities pursuant to Rule 415 under the

Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

4. Related Party Transactions (Continued)

Securities Act. However, the registration rights agreement provides that the Company will not permit any registration statement filed under the Securities Act to become effective until termination of the applicable lock-up period.

Administrative Service Agreement

The Company entered into an agreement to pay an affiliate of our Sponsor, Easterly Capital, LLC, a total of \$10,000 per month starting on July 29, 2015 and continuing until the earlier of the Company's initial Business Combination or liquidation for office space, utilities, secretarial support and administrative services. This arrangement was agreed to for the Company's benefit and is not intended to provide the Sponsor compensation in lieu of salary or other remuneration. For the quarterly periods ended March 31, 2018 and 2017, the Company incurred \$30,000 and \$30,000, respectively under the Administrative Service Agreement. As of March 31, 2018 and 2017, \$220,000 and \$100,000, respectively, remains as a payable and is reflected in Due to affiliate in the Consolidated Balance Sheet.

Related Party Advances

For the quarterly period ended March 31, 2018, an affiliate of the Sponsor advanced an aggregate of \$104,926 directly to the Company's vendors related to operating expenses. For the quarterly period ended March 31, 2017, an affiliate of the Sponsor advanced an aggregate of \$27,020 directly to the Company's vendors related to operating expenses.

As of March 31, 2018, \$490,331 of such advances remain as payable and are reflected in Due to affiliate in the Consolidated Balance Sheet.

These advances are non-interest bearing, unsecured and due on demand.

Sponsor Loans

Prior to the Public Offering, the Sponsor had loaned the Company \$100,000 to be used for a portion of the expenses of the Public Offering. This loan was non-interest bearing, unsecured and due at the earlier of May 31, 2016 or the closing of the Public Offering. This loan was repaid in full on the closing of the Public Offering.

On March 17, 2016, the Company issued a convertible promissory note to the Sponsor that provides for the Sponsor to loan the Company up to \$1,000,000 for ongoing expenses. On March 17, 2016, February 2, 2017, June 29, 2017, July 12, 2017, October 1, 2017, December 4, 2017 and February 1, 2018, the Company borrowed \$15,000, \$250,000, \$75,000, \$150,000, \$30,000, \$75,000 and \$100,000, respectively, pursuant to the convertible promissory note. The Sponsor is not obligated to loan the Company additional amounts pursuant to the convertible promissory note. The convertible promissory note is interest bearing at 5% per annum and is due and payable on June 30, 2018. At the option of the Sponsor, any amounts outstanding under the convertible promissory note may be converted into warrants to purchase shares of common stock at any time on or prior to the maturity date at a conversion price of \$1.00 per warrant. Each warrant will entitle the Sponsor to purchase one share of common stock at an exercise price of \$11.50 per share. Each warrant will contain other terms identical to the terms contained in the Private Placement Warrants. As of March 31, 2018, the outstanding principal balance of this convertible promissory note is \$695,000 and accrued and unpaid

Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

4. Related Party Transactions (Continued)

interest of \$27,831 is reflected in Convertible note — due to Sponsor in the Consolidated Balance Sheet.

In addition, in order to finance transaction costs in connection with an intended initial Business Combination, the Sponsor, an affiliate of the Sponsor or certain of the officers and directors may, but are not obligated to, loan the Company additional funds as may be required. If the Company completes the initial Business Combination, the Company would repay such loaned amounts out of the proceeds of the Trust Account released. Otherwise, such loans would be repaid only out of funds held outside the Trust Account. In the event that the initial Business Combination does not close, the Company may use a portion of the working capital held outside the Trust Account to repay such loaned amounts but no proceeds from the Trust Account would be used to repay such loaned amounts. Up to \$1,000,000 of such loans, inclusive of any loans under the March 17, 2016 convertible promissory note, may be convertible into warrants of the post business combination entity at a price of \$1.00 per warrant at the option of the lender. The warrants would be identical to the Private Placement Warrants issued to the Sponsor. The Company does not expect to seek loans from parties other than the Sponsor, an affiliate of the Sponsor or certain of the officers and directors as the Company does not believe third parties will be willing to loan such funds and provide a waiver against any and all rights to seek access to funds in the Trust Account.

5. Commitments

The underwriters are entitled to underwriting commissions of 6.0%, of which 2.5% (\$5,000,000) was paid at the closing of the Public Offering, and 3.5% (\$7,000,000) is deferred. The deferred fee will become payable to the underwriters from the amounts held in the Trust Account solely in the event that the Company completes a Business Combination, subject to the terms of the underwriting agreement. The underwriters are not entitled to any interest accrued on the deferred underwriting discounts and commissions.

6. Proposed Business Combination with JH Capital

Investment Agreement with JH Capital

On June 28, 2017, the Company entered into an Investment Agreement with JH Capital and the Founding Members of JH Capital, which are Jacobsen Credit Holdings, LLC, Kravetz Capital Funding LLC and NJK Holding LLC, to effect a Business Combination (the "Transaction"). Based on the terms and subject to the conditions set forth in the Investment Agreement, if the closing of the Transaction (the "Closing") occurs, upon the Closing the Company will contribute cash to JH Capital in exchange for newly issued voting Class A Units of JH Capital ("Class A Units"); and the Company will receive a number of Class A Units equal to the aggregate number of shares of the Company's common stock outstanding at the Closing, after giving effect to the redemption of shares of the Company's common stock by the Company's public stockholders. If the Closing occurs, upon the Closing, the Company will file an amended and restated certificate of incorporation, which will, among other things, reclassify all of the outstanding Company's common stock as Class A common stock, par value \$0.0001 per share, create a new class of the Company's Class B common stock, par value \$0.0001 per share and change the Company's name to "JH Capital Group Holdings, Inc."

Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

6. Proposed Business Combination with JH Capital (Continued)

Prior to the Closing, JH Capital and the Founding Members will effect an internal reorganization after which (i) all of the following companies and their respective direct and indirect subsidiaries are expected to be principally owned directly or indirectly by JH Capital: Credit Control, LLC, Century DS, LLC, New Credit America, LLC, and CreditMax Holdings, LLC (the "JH Group Companies") and (ii) without duplication of the companies referenced in clause (i), the direct and indirect subsidiaries of Next Level Finance Partners, LLC are expected to be principally owned, directly or indirectly, by JH Capital.

Pursuant to the Investment Agreement, if the Closing occurs, the aggregate consideration to be paid to JH Capital for the Class A Units of JH Capital will consist of an amount in cash equal to the cash and cash equivalents held by the Company outside of the Company's Trust Account, plus the amount of funds contained in the Trust Account, after giving effect to redemptions by the Company's public stockholders, less deferred underwriting fees payable to Citigroup Global Markets Inc. and fees payable to Cantor Fitzgerald & Co. and Jefferies LLC, less any reasonable (with respect to expenses incurred since April 27, 2017) and documented out-of-pocket transaction expenses of the Company that are accrued and unpaid as of the closing, less any outstanding amount under the Convertible Promissory Note, dated as of March 17, 2016, issued by Easterly to Easterly Acquisition Sponsor, LLC that has not been converted into warrants to purchase Easterly Class A common stock. In addition, if the Closing occurs, 18,700,000 shares of newly-issued Class B common stock will be issued by the Company to the Principal Members and the other Class B members of JH Capital (the Principal Members, together with such other Class B members, the "JH Capital Class B Members"). Further, if the Closing occurs, the JH Capital Class B Members will also be issued 18,700,000 non-voting Class B Units of JH Capital, provided that such amount of JH Capital Class B Units is subject to reduction to the extent that certain of the JH Group Companies and certain subsidiaries of Next Level Finance Partners, LLC are not directly or indirectly wholly owned by JH Capital after the Reorganization. The Company's Class B common stock will have one vote per share but will not be entitled to any economic interest in the Company. The JH Capital Class B Units are entitled to distributions from JH Capital, but are not entitled to any voting or control rights over JH Capital, other than certain customary consent rights with respect to distributions, amendments to JH Capital's limited liability company agreement and certain other matters affecting the JH Capital Class B Members. In addition, if the Closing occurs, on the date of the Closing, JH Capital or one or more JH Group Companies will, or will cause a subsidiary of JH Capital or any JH Group Company to, make a cash distribution to Jacobsen Holdings and KCF in an aggregate amount equal to \$1,000,000.

If the Closing occurs, the Company is expected to hold approximately 48.4% of the outstanding equity in JH Capital and the JH Capital Class B Members are expected to hold the remaining 51.6%. These ownership interests assume that no shares of the Company's common stock are elected to be redeemed in connection with the Transaction and also assume that there are no reductions to the JH Capital Class B Units pursuant to the Investment Agreement. Further, the ownership percentage with respect to the post-combination company does not take into account (i) the issuance of any shares (or options to acquire shares) under the JH Capital Group Holdings, Inc. 2018 Omnibus Equity Incentive Plan, (ii) the issuance of any shares upon the exercise of warrants to purchase up to a total of 20,138,000 shares of Company common stock that will remain outstanding following the Transaction or any additional warrants that the Company may issue to the Sponsor to repay working capital loans

Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

6. Proposed Business Combination with JH Capital (Continued)

owed by the Company to the Sponsor or (iii) any shares of Company Class A common stock issued in exchange for JH Group Companies' and their respective subsidiaries' mezzanine loans.

If the Closing occurs, the JH Capital Class B Units may be exchanged for shares of the Company's Class A common stock on a one-for-one basis (subject to certain adjustments to the exchange ratio) or, at JH Capital's option, cash, pursuant to the Exchange Agreement that the Company will enter into with JH Capital and the JH Capital Class B Members. Upon any exchange of a JH Capital Class B Unit by a JH Capital Class B Member, one share of the Company's Class B common stock held by such JH Capital Class B Member will be cancelled by the Company.

If the Closing occurs, in connection with the Investment Agreement and the Exchange Agreement, the Company will also enter into the following agreements: (i) a Third Amended and Restated Limited Liability Company Agreement of JH Capital, (ii) a Tax Receivable Agreement relating to the payment to the JH Capital Class B Members of a portion of specified tax savings, and (iii) a Registration Rights Agreement providing registration rights for shares of the Company's Class A common stock issued upon the exchange of JH Capital Class B Units.

If the Closing occurs, pursuant to a letter agreement among the Company, Easterly Acquisition Sponsor, LLC (the "Sponsor"), JH Capital and the Founding Members, at the Closing, (i) the Founding Members will have the option to purchase at a price of \$0.005 per share up to 500,000 shares of the Company's Class A common stock owned by the Sponsor and (ii) the Sponsor will surrender to the Company 2,500,000 shares of the Company's Class A common stock issued to the Sponsor prior to the Company's initial public offering in exchange for a warrant (the "New Warrant") to purchase 2,500,000 shares of the Company's Class A common stock. The New Warrant will be exercisable at a price of \$0.01 per share, have a term of 5 years and may only be exercisable as follows: (x) 1,000,000 shares will be exercisable if the average of the volume weighted averages of the trading price of a share of the Company's Class A common stock for 10 consecutive trading days is higher than \$12.00, (y) an additional 1,000,000 shares will be exercisable if (A) the Company has raised gross proceeds of at least \$200,000,000 from the sale of its equity securities, including the gross proceeds released to the Company from the Trust Account and the amount of the Fortress Loan, and (B) the average of the volume weighted averages of the trading price of a share of the Company's Class A common stock for 10 consecutive trading days is higher than \$13.00 and (z) the final 500,000 shares will be exercisable if (A) the Company has raised gross proceeds of at least \$200,000,000 from the sale of its equity securities, including the gross proceeds released to the Company from the Trust Account and the amount of the Fortress Loan, and (B) the average of the volume weighted averages of the trading price of a share of the Company's Class A common stock for 10 consecutive trading days is higher than \$14.00.

See Note 9 for more information about subsequent events related to the proposed Transaction.

Letter Agreement

On December 28, 2017, the Company entered into a Letter Agreement (the "December 28 Letter Agreement") with JH Capital and the Founding Members. The December 28 Letter Agreement provided that the Company consented to (i) certain subsidiaries of Jacobsen Holdings entering into the Fortress Loan and the issuance of the Fortress Warrant (as defined below), (ii) the issuance by JHPDE

Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

6. Proposed Business Combination with JH Capital (Continued)

Finance I, LLC ("JHPDE Finance") of \$25 million of its Class A Membership Interests to a new member, and (iii) the Founding Members issuing to the Company the Founding Member Warrants (as defined below). The December 28 Letter Agreement also provided that JH Capital consented to the Company issuing the Fortress Warrant.

Pursuant to the December 28 Letter Agreement, Jacobsen Holdings issued to the Company a warrant, dated December 28, 2017 (the "Founding Member Warrants"), to acquire from Jacobsen Holdings 888,000 shares of the Company's Class A common stock or Class B Units of JH Capital. The Founding Member Warrants will be exercisable at a price of \$11.50 per share of the Company's Class A common stock or Class B Units of JH Capital, have a term of 5 years from the date of the closing of the Business Combination and may be exercised only to the extent that the Fortress Warrant has been exercised. The Founding Members Warrants will first be exercisable for an amount of the Company's Class A common stock equal to the number of shares of the Company's Class A common stock acquired by Jacobsen Holdings and NJK Holding from the Sponsor pursuant to the Letter Agreement and thereafter for Class B Units of JH Capital owned by them.

Fortress Warrant

Pursuant to the Credit Agreement, dated as of December 28, 2017 (the "Credit Agreement"), by and among, JHPDE Finance, JH Portfolio Debt Equities, LLC ("JHPDE"), and Fortress Credit Corp. ("Fortress"), Fortress is providing JHPDE Finance with a senior secured delayed draw credit facility to purchase distressed or defaulted consumer receivables, unsecured small business loans and unsecured receivables. In connection with the Credit Agreement, for no additional consideration, the Company issued to Fortress the Fortress Warrant to acquire 888,000 shares of the Company's Class A common stock (as described above). The Fortress Warrant will be exercisable at a price of \$11.50 per share of Easterly Class A common stock, have a term of 5 years from the date of the closing of the Business Combination and may only be exercisable as follows: 444,000 shares will be immediately exercisable, and the remaining 444,000 shares will become exercisable ratably with the funding of the first \$100,000,000 under the Credit Facility (e.g., 111,000 shares will become exercisable on the date on which the first \$25,000,000 has been funded under the Credit Facility). However, the Fortress Warrant may be exercised only on or after the date which is 30 days after the first date on which the Company and JH Capital complete the Business Combination. Upon the earliest to occur of (a) the termination of the Investment Agreement in accordance with its terms, (b) the date on which the Trust Fund containing the proceeds of the Company's IPO is liquidated due to the failure of the Company to complete an initial Business Combination, (c) at the sole option of Fortress, at any time after December 31, 2018, if at the time Fortress determines to exercise such option, the Business Combination has not been consummated, or (d) a change of control of Jacobsen Holdings, then Jacobsen Holdings will exchange the Fortress Warrant for a warrant to purchase membership interests in Jacobsen Holdings.

The December 28 Letter Agreement also provides that the parties agree that the aggregate amount of the Fortress Loan shall constitute "equity securities" for purposes of determining the amount of gross proceeds raised by the Company for purposes of the vesting triggers contained in the New Warrant.

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Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

7. Equity

The Company is authorized to issue up to 100,000,000 shares of common stock with a par value \$0.0001 per share. Holders of the Company's common stock are entitled to one vote for each share of common stock.

As discussed further in Note 1, on August 1, 2017, December 14, 2017 and March 29, 2018, stockholders representing 4,289,791, 687,597 and 7,035 shares, respectively elected to redeem their shares, resulting in redemption amounts of \$42,983,883, \$6,915,728 and \$71,614, respectively. At March 31, 2018, there were 6,627,593 shares of common stock issued and outstanding (excluding 13,387,984 shares of common stock subject to possible redemption).

The Company is authorized to issue up to 1,000,000 shares of preferred stock with a par value \$0.0001 per share. At March 31, 2018, there were no shares of preferred stock issued and outstanding.

8. Stock-Based Compensation

As described in Note 6, on December 28, 2017, the Company issued 888,000 warrants to Fortress Credit Corp. in connection with a loan provided by Fortress to JHPDE Finance. If the Business Combination closes, the Fortress Warrant will be exercisable to purchase one share of the Company's Class A common stock at \$11.50 per share, have a term of 5 years from the date of the closing of the JH Capital Business Combination and may only be exercised on or after the date which is 30 days after the first date on which the Company and JH Capital complete the Business Combination.

No compensation expense is recognized by the Company for the quarterly period ended March 31, 2018 as a result of the Fortress Warrant. The total unrecognized expense related to the Fortress Warrant as of March 31, 2018 is \$511,488.

9. Subsequent Events

Management of the Company evaluated events that have occurred after the balance sheet date of March 31, 2018, through the date the consolidated financial statements were issued.

NASDAQ Notification Letter

On April 2, 2018, the Company received a letter (the "Notification Letter") from the staff of the Listing Qualifications Department of The Nasdaq Stock Market ("NASDAQ") notifying the Company that the Company no longer complies with NASDAQ Listing Rule 5550(a)(3) for continued listing due to its failure to have a minimum of 300 public holders of the Company's common stock. As a result, as of April 2, 2018, the Company had 45 calendar days to submit a plan to regain compliance. If NASDAQ accepts the Company's plan, NASDAQ can grant an exception of up to 180 calendar days from April 2, 2018, to regain compliance. The Notification Letter does not impact the Company's listing on the NASDAQ Capital Market at this time and the Company's common stock, units and warrants currently continue to trade on the NASDAQ Capital Market under the symbols "EACQ", "EACQU" and "EACQW", respectively. The Company intends to submit to NASDAQ, within the requisite time, a plan to regain compliance. If NASDAQ does not accept the Company's plan, the Company will have the opportunity to appeal NASDAQ's decision to a NASDAQ Listing Qualifications Panel. If the Company timely appeals, the Company's securities would remain listed pending such

Easterly Acquisition Corp.

Notes to Condensed Consolidated Financial Statements (Continued)

(Unaudited)

9. Subsequent Events (Continued)

panel's decision. There can be no assurance that, if the Company does appeal, such appeal would be successful.

Additional Borrowing under Convertible Note

On April 5, 2018, the Company borrowed an additional \$200,000 pursuant to the March 17, 2016 convertible promissory note.

Receipt of Funds and Deposit into Trust Account

In accordance with the monthly draw arrangements under the JH Capital Promissory Note described in Note 1, on April 16, 2018 the Company received the monthly principal draw pursuant to the JH Capital Promissory Note in the amount of \$450,678. The \$450,678 draw was subsequently deposited into the Trust Account.

Announcement by the Company of Discussions to Mutually Terminate the Investment Agreement

On May 10, 2018, the Company and JH Capital issued a joint press release announcing that they were in discussions to terminate by mutual agreement the Investment Agreement. Also, on May 10, 2018, the Company filed with the SEC a notification of late filing on Form 12b-25 relating to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, similarly disclosing that the Company and JH Capital were in discussions to terminate by mutual agreement the Investment Agreement. As of May 15, 2018, the Company and JH Capital are continuing their discussions to terminate by mutual agreement the Investment Agreement. If the Investment Agreement is so terminated, the parties mutually will abandon the business combination contemplated by the Investment Agreement.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Easterly Acquisition Corp.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Easterly Acquisition Corp. (the "Company") as of December 31, 2017 and 2016, the related statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2017 and for the period from April 29, 2015 (inception) through December 31, 2015, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2017 and for the period from April 29, 2015 (inception) through December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

Explanatory Paragraph — Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 1, the Company has a significant working capital deficiency, has incurred significant losses and needs to raise additional funds to meet its obligations and sustain its operations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Marcum LLP

/s/ Marcum LLP

We have served as the Company's auditor since 2015.

New York, NY
March 16, 2018

EASTERLY ACQUISITION CORP.
CONSOLIDATED BALANCE SHEETS

	December 31, 2017	December 31, 2016
ASSETS		
Current assets		
Cash	\$ 13,874	\$ 24,571
Prepaid expenses	7,347	18,118
Other receivables, net	—	279,619
Total current assets	21,221	322,308
Cash and cash equivalents held in Trust Account—restricted	151,208,413	200,102,350
Total assets	\$ 151,229,634	\$ 200,424,658
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 1,704,738	\$ 1,709,260
Due to affiliate	575,405	222,670
Total current liabilities	2,280,143	1,931,930
Convertible note—due to Sponsor	614,371	15,607
Deferred underwriting fee	7,000,000	7,000,000
Total liabilities	9,894,514	8,947,537
Commitments		
Common stock, subject to possible redemption or tender, 13,544,944 and 18,638,173 shares at redemption value at December 31, 2017 and December 31, 2016, respectively	136,335,119	186,477,120
Stockholders' equity:		
Preferred stock, \$.0001 par value; 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$.0001 par value; 100,000,000 shares authorized; 6,477,668 and 6,361,827 shares issued and outstanding (excludes 13,544,944 and 18,638,173 shares subject to possible redemption) at December 31, 2017 and December 31, 2016, respectively	648	636
Additional paid-in capital	8,022,478	7,780,100
Accumulated deficit	(3,023,125)	(2,780,735)
Total stockholders' equity	5,000,001	5,000,001
Total liabilities and stockholders' equity	\$ 151,229,634	\$ 200,424,658

See accompanying notes to consolidated financial statements.

EASTERLY ACQUISITION CORP.

CONSOLIDATED STATEMENT OF OPERATIONS

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2016	For the period from April 29, 2015 (Inception) through December 31, 2015
Operating costs	\$ (1,293,499)	\$ (1,812,645)	\$ (982,344)
State franchise taxes	(181,118)	(182,685)	(121,858)
Loss from operations	(1,474,617)	(1,995,330)	(1,104,202)
Other income—interest income	1,232,227	308,879	9,918
Net loss	\$ (242,390)	\$ (1,686,451)	\$ (1,094,284)
Weighted average number of common shares outstanding, basic and diluted	6,412,873	6,221,263	5,469,153
Basic and diluted net loss per share	\$ (0.19)	\$ (0.29)	\$ (0.20)

See accompanying notes to consolidated financial statements.

EASTERLY ACQUISITION CORP.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

For the Period from April 29, 2015 (inception) to December 31, 2017

	Common Shares		Additional Paid-in	Accumulated Deficit	Stockholders' Equity
	Shares	Amount			
Balance, April 29, 2015 (Inception)	—	\$ —	\$ —	\$ —	\$ —
Sale of common stock to Sponsor	5,175,000	517	24,483	—	25,000
Sale of 20,000,000 Units, net of underwriters' commissions	20,000,000	2,000	187,998,000	—	188,000,000
Proceeds from issuance of Private Placement					
Warrants	—	—	6,750,000	—	6,750,000
Offering expenses	—	—	(517,145)	—	(517,145)
Forfeiture of initial stockholder's shares pursuant to partial exercise of underwriters' over-allotment	(175,000)	(18)	18	—	—
Common stock subject to possible redemption or tender	(18,816,357)	(1,881)	(188,161,689)	—	(188,163,570)
Net loss	—	—	—	(1,094,284)	(1,094,284)
Balance, December 31, 2015	6,183,643	618	6,093,667	(1,094,284)	5,000,001
Common stock subject to possible redemption or tender	178,184	18	1,686,433	—	1,686,451
Net loss	—	—	—	(1,686,451)	(1,686,451)
Balance, December 31, 2016	6,361,827	636	7,780,100	(2,780,735)	5,000,001
Redemption of 4,977,388 shares of common stock	(4,977,388)	(498)	(49,899,113)	—	(49,899,611)
Common stock subject to possible redemption or tender	5,093,229	510	50,141,491	—	50,142,001
Net loss	—	—	—	(242,390)	(242,390)
Balance, December 31, 2017	6,477,668	648	8,022,478	(3,023,125)	5,000,001

See accompanying notes to consolidated financial statements.

EASTERLY ACQUISITION CORP.

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2016	For the period from April 29, 2015 (inception) through December 31, 2015
Cash flows from operating activities:			
Net loss	\$ (242,390)	\$ (1,686,451)	\$ (1,094,284)
Adjustments to reconcile net loss to net cash used in operating activities:			
Interest on cash and cash equivalents held in Trust Account			
Account	(1,232,227)	(308,879)	(9,918)
Provision for uncollectible other receivables	278,135	278,135	—
Changes in operating assets and liabilities:			
Prepaid expenses	10,771	78,388	(96,506)
Other receivables	1,484	(488,290)	(69,464)
Accounts payable and accrued expenses	(4,522)	1,442,344	266,916
Due to affiliate	352,735	205,210	18,067
Interest on convertible note to Sponsor	18,764	—	—
Net cash used in operating activities	(817,250)	(479,543)	(985,189)
Cash flows from investing activities:			
Cash held in Trust Account—restricted			(200,000,000)
Cash released from Trust Account—redemption of shares of common stock	49,899,611	—	—
Interest income released from Trust Account for franchise taxes	226,553	216,448	—
Net cash provided by (used in) investing activities	50,126,164	216,448	(200,000,000)
Cash flows from financing activities:			
Proceeds from issuance of common stock to initial stockholder	—	—	25,000
Proceeds from sale of Units, net of underwriting commissions paid	—	—	175,500,000
Proceeds from sale of over-allotment Units, net of underwriting commissions paid	—	—	19,500,000
Proceeds from sale of Private Placement Warrants	—	—	6,750,000
Payment of offering expenses	—	—	(471,108)
Proceeds from promissory note—related parties	580,000	15,000	—
Proceeds of convertible note received from Sponsor	—	—	100,000
Repayment of advances from affiliate and promissory note—related parties	—	—	(146,037)
Redemption of Units	(49,899,611)	—	—
Net cash (used in) provided by financing activities	(49,319,611)	15,000	201,257,855
Increase (decrease) increase in cash	(10,697)	(248,095)	272,666
Cash at beginning of period	24,571	272,666	—
Cash at end of period	\$ 13,874	\$ 24,571	\$ 272,666
Supplemental disclosure of noncash financing activities:			
Deferred underwriting fees	\$ —	\$ —	\$ 7,000,000
Payment of offering costs through advance from related party	\$ —	\$ —	\$ 46,037
Change in value of common stock subject to possible redemption	\$ (242,390)	\$ (1,686,451)	\$ —

See accompanying notes to consolidated financial statements.

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EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business Operations

Incorporation

Easterly Acquisition Corp. (the "Company") was incorporated in Delaware on April 29, 2015.

Sponsor

The Company's sponsor is Easterly Acquisition Sponsor, LLC, a Delaware limited liability company (the "Sponsor").

Business Purpose

The Company was formed for the purpose of effecting a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination with one or more businesses that it had not yet identified ("Business Combination").

As of December 31, 2017, the Company has neither commenced operations nor generated any revenues to date. All activity through December 31, 2017 relates to the Company's formation, initial public offering (described below), identifying a target company and engaging in due diligence for a Business Combination.

The Company's management has broad discretion with respect to the specific application of the net proceeds of its initial public offering of Units (as defined in Note 3 below) (the "Public Offering"), although substantially all of the net proceeds of the Public Offering and the private placement of warrants (as described in Note 4 below, the "Private Placement" and such warrants issued in connection with the Private Placement, the "Private Placement Warrants") are intended to be generally applied toward completing a Business Combination. Furthermore, there is no assurance that the Company will be able to successfully effect a Business Combination.

As more fully described in Note 7 below, on June 28, 2017, the Company entered into an Investment Agreement (as amended, the "Investment Agreement") with JH Capital Group Holdings, LLC ("JH Capital"), Jacobsen Credit Holdings, LLC ("Jacobsen Holdings"), Kravetz Capital Funding LLC ("KCF" and, together with Jacobsen Holdings, the "Principal Members") and NJK Holding LLC ("NJK Holding" and, together with KCF and Jacobsen Holdings, the "Founding Members"), to effect a business combination with JH Capital, a leading specialty finance company in the debt recovery industry.

The Company must complete a Business Combination prior to March 31, 2018 (or June 30, 2018 if approved by our stockholders at a special meeting of stockholders) or cease all operations, redeem the public shares of its common stock and dissolve and liquidate its remaining assets to its creditors and remaining stockholders.

Financing

The registration statement for the Company's Public Offering was declared effective on July 29, 2015. On July 29, 2015, the Company filed a new registration statement to increase the size of the Public Offering by 20% pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the "Securities Act"). On August 4, 2015, the Company consummated the Public Offering and received proceeds of \$195,000,000 (net of the underwriter's discount of \$5,000,000) and simultaneously received \$6,750,000 from the issuance of 6,750,000 Private Placement Warrants.

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

I. Organization and Business Operations (Continued)

See below as well as Note 1 regarding redemptions of common stock and the release of a portion of the funds from the Trust Account in connection with stockholder approvals, in August 2017 and December 2017, to amend the Company's amended and restated certificate of incorporation to extend the date by which the Company must complete its Business Combination.

Trust Account

\$200,000,000 of the proceeds from the Public Offering and Private Placement, which were deposited into a segregated Trust Account located in the United States with Continental Stock Transfer & Trust Company acting as trustee (the "Trust Account"), may be invested only in permitted United States "government securities" within the meaning of Section 2(a)(16) of the Investment Company Act of 1940, as amended (the "Investment Company Act"), having a maturity of 180 days or less or in money market funds that invest solely in United States Treasuries that are compliant with of Rule 2a-7 under the Investment Company Act.

The Company amended and restated its certificate of incorporation on July 28, 2015 and further amended it on August 1, 2017 and December 15, 2017, to provide that, except for the withdrawal of interest to pay franchise and income taxes, if any, that none of the funds held in trust (including the interest on such funds) will be released from the Trust Account until the earlier of (i) the completion of the initial Business Combination, (ii) the redemption of the Public Shares (as defined in Note 3) if the Company is unable to complete a Business Combination by March 31, 2018 (subject to the requirements of applicable law) and (iii) the redemption of shares in connection with a vote seeking to amend Section 9.2(d) of the amended and restated certificate of incorporation in a manner that would affect the substance or timing of the Company's obligation to redeem 100% of the Public Shares if the Company does not complete an initial Business Combination by March 31, 2018. For the year ended December 31, 2017, the Company withdrew \$226,553 of interest earned to pay for franchise taxes in accordance with the amended and restated certificate of incorporation.

On December 8, 2017, the Company and JH Capital entered into a non-interest bearing promissory note ("JH Capital Promissory Note"), which would be drawn on January 15, 2018, February 15, 2018 and March 15, 2018 at individual amounts of \$0.03 for each share of the Company's common stock outstanding as of such date, excluding the 5,000,000 Sponsor shares. The Company will contribute this principal into the Trust Account. The contributions will not bear interest and will be repayable by the Company to JH Capital upon consummation of the Company's initial business combination.

On February 14, 2018, the Company's board of directors approved the second amendment to the Investment Agreement and, on February 14, 2018, the parties executed the second amendment to the Investment Agreement. JH Capital agreed to continue to make the contributions of \$0.03 for each public share, for each calendar month or portion thereof, to the Company through the earlier of (A) June 30, 2018 or (B) the date by which the Company is required to dissolve and liquidate the Trust Account in accordance with the terms of the Company's charter, which will be added to the Trust Account.

In order to protect the amounts held in the Trust Account, Messrs. Cody, Crate and Kalichstein, managing principals of an affiliate of the Sponsor have agreed, jointly and severally, that they will be liable to the Company if and to the extent any claims by a vendor for services rendered or products sold to it, or a prospective target business with which the Company has discussed entering into a

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Organization and Business Operations (Continued)

transaction agreement, reduce the amount of funds in the Trust Account to below (i) \$10.00 per public share or (ii) such lesser amount per public share held in the Trust Account as of the date of the liquidation of the Trust Account, due to reductions in value of the trust assets, except as to any claims by a third party who executed a waiver of any and all rights to seek access to the Trust Account and except as to any claims under the Company's indemnity of the underwriters of its IPO against certain liabilities, including liabilities under the Securities Act. In the event that an executed waiver is deemed to be unenforceable against a third party, then Messrs. Cody, Crate and Kalichstein will not be responsible to the extent of any liability for such third-party claims. The Company cannot assure you, however, that Messrs. Cody, Crate and Kalichstein would be able to satisfy those obligations. Messrs. Cody, Crate and Kalichstein will not be personally liable to pay the Company's debts and obligations except as provided above. None of the Company's other officers will indemnify it for claims by third parties including, without limitation, claims by vendors and prospective target businesses.

Stockholder Meetings

On August 1, 2017, the Company held its annual meeting of stockholders and 23,415,152 of the Company's 25,000,000 shares were voted in favor of the proposal to amend the Company's amended and restated certificate of incorporation to extend the date by which the Company had to consummate a Business Combination until December 15, 2017, to change the term of the Company's directors from two years to one year, and to change the provision with respect to removal of directors to permit removal with or without cause by the affirmative vote of a majority of the Company's stockholders and the proposal to amend the agreement with respect to the Trust Account to provide for the extension until December 15, 2017. In addition, the Company's board of directors was reelected. The holders of 4,289,791 public shares of the Company's common stock properly exercised their right to convert their shares into cash at a conversion price of approximately \$10.02 per share.

On December 14, 2017, the Company held a special meeting of stockholders and 19,325,891 of the Company's 20,710,209 shares were voted in favor of the proposal to amend the Company's amended and restated certificate of incorporation to extend the date by which the Company had to consummate a Business Combination until March 31, 2018, and the proposal to amend the agreement with respect to the Trust Account to provide for the extension until March 31, 2018. The holders of 687,597 public shares of Easterly common stock properly exercised their right to convert their shares into cash at a conversion price of approximately \$10.06 per share.

Business Combination

The Company, prior to the consummation of a Business Combination, will either (i) seek stockholder approval of the Business Combination at a meeting called for such purpose in connection with which stockholders may seek to redeem their shares, regardless of whether they vote for or against the Business Combination, for cash equal to their pro rata share of the aggregate amount then on deposit in the Trust Account as of two business days prior to the consummation of an initial Business Combination, including interest earned on the funds and not previously released to the Company to pay franchise and income taxes, or (ii) provide public stockholders with the opportunity to tender their shares to the Company by means of a tender offer (and thereby avoid the need for a stockholder vote) for an amount equal to their pro rata share of the aggregate amount then on deposit in the Trust Account, including interest earned on the funds held in the Trust Account and not previously released to the Company to pay franchise and income taxes, less franchise and income taxes payable from such

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Organization and Business Operations (Continued)

interest. The decision as to whether the Company will seek stockholder approval of the Business Combination or conduct a tender offer will be made by the Company, solely in its discretion, and will be based on a variety of factors such as the timing of the transaction and whether the terms of the transaction would otherwise require the Company to seek stockholder approval. If the Company seeks stockholder approval, it will complete its Business Combination only if a majority of the outstanding shares of common stock voted are voted in favor of the Business Combination. However, in no event will the Company redeem its Public Shares (as defined in Note 3) in an amount that would cause its net tangible assets to be less than \$5,000,001. In such case, the Company would not proceed with the redemption of its Public Shares and the related Business Combination, and instead may search for an alternate Business Combination.

Notwithstanding the foregoing redemption rights, if the Company seeks stockholder approval of its initial business combination and it does not conduct redemptions in connection with its business combination pursuant to the tender offer rules, the Company's amended and restated certificate of incorporation provides that a public stockholder, together with any affiliate of such stockholder or any other person with whom such stockholder is acting in concert or as a "group" (as defined under Section 13 of the Exchange Act), will be restricted from redeeming its shares with respect to more than an aggregate of 15% of the shares sold in the Company's IPO.

Shares of common stock subject to redemption or tender are recorded at redemption amount and classified as temporary equity, in accordance with Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 480, "Distinguishing Liabilities from Equity." At December 31, 2017, the amount in the Trust Account is approximately \$10.07 per share of common stock sold in the Public Offering (\$151,208,413 cash equivalents held in the Trust Account divided by 15,022,612 of Public Shares).

The Company has until March 31, 2018 (or June 30, 2018 if approved by our stockholders at a special meeting of stockholders) to complete its initial Business Combination. If the Company does not complete a Business Combination within this period of time, it shall (i) cease all operations except for the purposes of winding up; (ii) as promptly as reasonably possible but not more than ten business days thereafter, redeem the Public Shares, at a per-share price, payable in cash, equal to the aggregate amount then on deposit in the Trust Account, including interest (less up to \$100,000 of interest to pay dissolution expenses, which interest shall be net of taxes payable) divided by the number of then outstanding Public Shares, which redemption will completely extinguish public stockholders' rights as stockholders (including the right to receive further liquidation distributions, if any), subject to applicable law, and (iii) as promptly as possible following such redemption, subject to the approval of the remaining stockholders and the board of directors, dissolve and liquidate, subject in each case to the Company's obligations under Delaware law to provide for claims of creditors and the requirements of other applicable law.

On March 8, 2018, the Company filed a definitive proxy statement to hold a special meeting of the Company's stockholders on March 29, 2018 for the purposes of extending the date by which the Company has to consummate a Business Combination from March 31, 2018 to June 30, 2018, and amending the Company's Amended and Restated Investment Management Trust Agreement to extend the date on which to commence liquidating the Trust Account established in connection with the Company's IPO in the event the Company has not consummated a Business Combination from March 31, 2018 to June 30, 2018.

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Organization and Business Operations (Continued)

The Company's Units, common stock and warrants are listed on the Nasdaq Capital Market ("Nasdaq"). The Nasdaq rules require that the initial Business Combination must be with one or more target businesses that together have a fair market value equal to at least 80% of the balance in the Trust Account (less any deferred underwriting commissions and taxes payable on interest earned) at the time of the Company signing a definitive agreement in connection with its initial Business Combination. The Company intends to fulfill the requirements of this Nasdaq rule even if the securities are not listed on Nasdaq at the relevant time.

Emerging Growth Company

The Company is an "emerging growth company," as defined in Section 2(a) of the Securities Act, as modified by the Jumpstart our Business Startups Act of 2012 (the "JOBS Act"), and it may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in the Company's periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Securities Exchange Act of 1934, as amended) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard. This may make comparison of the Company's financial statements with another public company which is neither an emerging growth company nor an emerging growth company which has opted out of using the extended transition period difficult or impossible because of the potential differences in accountant standards used.

Reimbursement of Expenses Related to Terminated Sungevity Business Combination

On June 28, 2016, the Company entered into an Agreement and Plan of Merger (as amended, the "Sungevity Merger Agreement"), by and among the Company, Solaris Merger Sub Inc., Sungevity, Inc. ("Sungevity"), and Shareholder Representative Services LLC, to effect a business combination with Sungevity. On December 31, 2016, the Company terminated the Sungevity Merger Agreement.

Pursuant to a letter of intent (the "LOI"), dated April 20, 2016, between Sungevity and the Company, Sungevity agreed to pay or reimburse the Company for all reasonable and documented out-of-pocket costs and expenses incurred between the date of the LOI and the date that definitive documents with respect to the proposed merger, including fees and expenses of third party advisors, due diligence-related expenses and such other necessary and related costs and expenses incurred in

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Organization and Business Operations (Continued)

furtherance of the proposed business combination. For the year ended December 31, 2016, the Company incurred \$909,787 in qualified reimbursable costs, of which \$353,517 was reimbursed by Sungevity prior to December 31, 2016. The Company initiated legal action against Sungevity to recover the remaining amount of \$556,270 due to the Company under the LOI. On March 13, 2017, Sungevity filed for Chapter 11 Bankruptcy proceedings in U.S. Bankruptcy Court for the District of Delaware to pursue and consummate a sale of its business, which proceedings were dismissed in November 2017 without any recovery to the Company. The Company's legal action was stayed pending resolution of the bankruptcy proceedings, but has not proceeded since dismissal of the bankruptcy proceedings. A valuation allowance of \$278,135 was recorded in the quarter ended December 31, 2016 and the remaining amount of \$278,135 was recorded in the quarter ended March 31, 2017 and is presented within Operating expenses in the Consolidated Statement of Operations for the year ended December 31, 2017. As a result of the November 2017 dismissal, the entire receivable and corresponding allowance were written off.

The remainder of the allowance was first expensed during the year ended December 31, 2016. The Company's estimate for this loss requires a number of assumptions available to the Company as of the date the consolidated financial statements are issued, about matters that are uncertain and, accordingly, the actual realized amount paid to the Company from the bankruptcy proceedings may be more than \$0.

Going Concern Considerations

The Company presently has no revenue, has had losses since inception and has no operations other than the active identification of a target business with which to complete its Business Combination. As of December 31, 2017, the Company had cash of \$13,874 held outside the Trust Account and \$151,208,413 cash equivalents held in trust, including interest.

The Company will have available the \$13,874 of proceeds held outside the Trust Account (as of December 31, 2017) and any additional Sponsor loans under the March 17, 2016 convertible promissory note (see Note 4) to fund its working capital needs and to continue to identify and evaluate target businesses, perform business due diligence on prospective target businesses, travel to and from the offices, plants or similar locations of prospective target businesses or their representatives or owners, review corporate documents and material agreements of prospective target businesses, structure, negotiate and complete a Business Combination. The Company will also have available any interest earned on the funds held in the Trust Account to pay franchise and income taxes.

At December 31, 2017 the Company has a working capital deficit of \$2,258,922 (total current assets minus total current liabilities). The Company expects to continue incurring expenses related to professional services including, but not limited to, engaging legal counsel, consultants, advisors and accountants, as well as other operating expenses such as insurance and fees under the Administrative Services Agreement.

If the proceeds held outside the Trust Account are insufficient for the Company's working capital needs and operations in connection with the completion of an initial Business Combination, the Company may need to raise additional capital through additional loans from the Sponsor under the March 17, 2016 convertible promissory note issued to the Sponsor or additional investments from its Sponsor, an affiliate of its Sponsor or certain of the Company's officers and directors. None of the Company's Sponsor, affiliate of the Sponsor, officers or directors are under any obligation to loan the Company funds.

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Organization and Business Operations (Continued)

The uncertainty regarding the lack of resources to pay the above noted expenses raises substantial doubt about the Company's ability to continue as a going concern. No adjustments have been made to the carrying amounts of assets or liabilities should the Company be unable to continue operations.

2. Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC").

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Solaris Merger Sub Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Net Loss per Share of Common Stock

The Company complies with accounting and disclosure requirements of FASB ASC Topic 260, Earnings Per Share. Net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the period. The Company applies the two-class method in calculating earnings per share. Shares of common stock subject to possible redemption at December 31, 2017 and 2016, which are not currently redeemable and are not redeemable at fair value, have been excluded from the calculation of basic loss per share since such shares, if redeemed, such shares only participate in their pro rata share of the Trust Account earnings.

At December 31, 2016 and 2015 the Company had outstanding warrants to purchase 16,750,000 shares of common stock. The effect of these potential shares was excluded from the calculation of diluted loss per share of common stock since the exercise of the warrants is contingent upon the occurrence of future events. As a result, diluted loss per common share is the same as basic loss per common share for the periods.

Reconciliation of net loss per common share

The Company's net income is adjusted for the portion of income that is attributable to common stock subject to redemption, as these shares only participate in the income of the Trust Account and

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant Accounting Policies (Continued)

not the losses of the Company. Accordingly, basic and diluted loss per common share is calculated as follows:

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2016 (revised)	For the Period April 29, 2015 (Inception) Through December 31, 2015
Net loss	\$ (242,390)	\$ (1,686,451)	\$ (1,094,284)
Less: Income attributable to ordinary shares subject to redemption	(947,719)	(117,601)	—
Adjusted net loss	<u>\$ (1,190,109)</u>	<u>\$ (1,804,052)</u>	<u>\$ (1,094,284)</u>
Weighted average shares outstanding, basic and diluted	<u>6,412,873</u>	<u>6,221,263</u>	<u>5,469,153</u>
Basic and diluted net loss per ordinary share	<u>\$ (0.19)</u>	<u>\$ (0.29)</u>	<u>\$ (0.20)</u>

Fair Value of Financial Instruments

The Company follows the guidance in FASB ASC 820, Fair Value Measurements and Disclosures for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period.

The fair value of the Company's financial assets and liabilities reflects management's estimate of amounts that the Company would have received in connection with the sale of the assets or paid in connection with the transfer of the liabilities in an orderly transaction between market participants at the measurement date. In connection with measuring the fair value of its assets and liabilities, the Company seeks to maximize the use of observable inputs (market data obtained from independent sources) and to minimize the use of unobservable inputs (internal assumptions about how market participants would price assets and liabilities). The following fair value hierarchy is used to classify assets and liabilities based on the observable inputs and unobservable inputs used in order to value the assets and liabilities:

- Level 1: Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2: Observable inputs other than Level 1 inputs. Examples of Level 2 inputs include quoted prices in active markets for similar assets or liabilities and quoted prices for identical assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs based on our assessment of the assumptions that market participants would use in pricing the asset or liability.

At December 31, 2017, the proceeds of the Trust Account were invested in the Western Asset Institutional U.S. Treasury Reserves money market fund that invests all of its assets in direct obligations of the U.S. Treasury and which is compliant with Rule 2a-7 under the Investment Company Act.

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EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant Accounting Policies (Continued)

The following table presents information about the Trust Account assets that are measured at fair value on a recurring basis and indicates the fair value hierarchy of the valuation inputs the Company utilized to determine such fair value:

<u>Description</u>	<u>Level</u>	<u>December 31, 2017</u>
Assets:		
Cash and/or cash equivalents held in the Trust Account	1	\$ 151,208,413

The Trust Account assets were held in cash as of December 31, 2016.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash accounts in a financial institution which exceeds the Federal depository insurance coverage of \$250,000. At December 31, 2017, the Company had not experienced losses on these accounts and management believes the Company is not exposed to significant risks on such accounts.

Cash and cash equivalents

The Company considers all short-term investments with an original maturity of three months or less when purchased to be cash equivalents. At December 31, 2017, the assets held in the Trust Account were held in the Western Asset Institutional U.S. Treasury Reserves money market fund that invests solely in United States Treasuries compliant with Rule 2a-7 under the Investment Company Act.

Offering Costs

The Company complies with the requirements of ASC 340-10-S99-1. Offering costs of \$517,145 consisting of printing costs, professional fees and travel expenses incurred through the closing of the Public Offering were charged to capital at the time of closing of the Public Offering.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Company complies with the accounting and reporting requirements of FASB ASC 740, "Income Taxes," which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in future taxable or deductible amounts and are based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. As of December 31, 2017, a full valuation allowance has been established against the deferred tax asset.

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant Accounting Policies (Continued)

FASB ASC 740 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. There were no uncertain tax benefits as of December 31, 2017. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as income tax expense. No amounts were accrued for the payment of interest and penalties at December 31, 2017. The Company is currently not aware of any issues under review that could result in significant payments, accruals or material deviation from its position.

The Company may be subject to potential examination by U.S. federal, U.S. states or foreign jurisdiction authorities in the areas of income taxes. These potential examinations may include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with U.S. federal, U.S. state and foreign tax laws. The Company's management does not expect that the total amount of unrecognized tax benefits will materially change over the next twelve months. The income tax provision was deemed to be immaterial as of December 31, 2017.

On December 22, 2017, the United States government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act, or the Tax Act. The Tax Act significantly revises the existing tax law by, among other things, lowering the United States corporate income tax rate from 35% to 21% beginning in 2018. The Company reviewed and incorporated the impact of the Tax Act in its tax calculations and disclosures. The primary impact on the Company stems from the re-measurement of its deferred taxes at the new corporate tax rate of 21% for the year ending December 31, 2017, which reduced the Company's net deferred tax assets, before valuation allowance, by \$391,456. Due to the full valuation allowance, the change in deferred taxes was fully offset by the change in valuation allowance. As a result, the Tax Act did not have a significant impact on the Company's Consolidated Financial Statements for the year ended December 31, 2017.

Franchise Taxes

The Company is incorporated in the State of Delaware and is required to pay franchise taxes to the State of Delaware on an annual basis.

Stock Based Compensation

As further discussed in Note 7, on December 28, 2017, the Company issued 888,000 warrants to Fortress Credit Corp. in connection with a loan provided by Fortress to JHPDE Finance I, LLC, a subsidiary of JH Capital. If the JH Capital Business Combination closes, the warrant will be exercisable to purchase one share of the Company's Class A common stock at \$11.50 per share, have a term of 5 years from the date of the closing of the JH Capital Business Combination and may only be exercised on or after the date which is 30 days after the first date on which the Company and JH Capital complete the JH Capital Business Combination.

The Company measures nonemployee stock-based awards at grant date based on the fair value of the award. The compensation cost is recognized as expense over the vesting period of the award. The warrant issued to Fortress will be recognized as an expense as it vests but only after the date which is 30 days after the first date on which the Company and JH Capital complete the JH Capital Business Combination.

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant Accounting Policies (Continued)

Stock-based awards issued to nonemployees are remeasured until the award vests. The Company uses the probability-weighted Black-Scholes option pricing model to value its warrant awards. Estimating the fair value of warrants requires management to apply judgment and make estimates, including volatility, the expected term of the Company's warrants, the expected dividend yield and the fair value of the common stock on the measurement date.

Expected term — The expected term represents the contractual term of the award, which is 5 years.

Expected volatility — the volatility is derived from the historical volatility of the Company's common stock, which is approximately 10.4%.

Risk-free interest rate — The risk-free interest rate is based on the yield of a 5-year Treasury Bond in effect at the time of grant, which is approximately 2.2%.

Expected dividend — the Company has never paid dividends on the common stock and the Company assumed no dividends will be paid by the Company after business combination, therefore we used an expected dividend yield of zero.

The Company adjusted the warrants' fair value on measurement date, as estimated by the Black-Scholes model, by a liquidity discount of 10% as a result of lack of marketability of the Fortress Warrant.

Recent Accounting Pronouncements

Management does not believe that any recently issued, but not yet effective, accounting pronouncements, if currently adopted, would have a material effect on the Company's consolidated financial statements.

3. Public Offering

Public Units

Pursuant to the Public Offering on August 4, 2015, the Company sold 20,000,000 units at a price of \$10.00 per unit (the "Units"), including 2,000,000 Units as a result of the underwriters' partial exercise of their over-allotment option, generating gross proceeds of \$200,000,000. The common stock and warrants comprising the Units began separate trading on September 22, 2015. The holders have the option to continue to hold Units or separate their Units into the component securities. Each Unit consists of one share of the Company's common stock ("Public Shares"), \$0.0001 par value, and one-half of one redeemable warrant ("Public Warrant"). Each whole Public Warrant entitles the holder to purchase one share of common stock at a price of \$11.50 per share. Each Public Warrant will become exercisable on the later of 30 days after the completion of an initial Business Combination or 12 months from the closing of the Public Offering, and will expire five years after the completion of the initial Business Combination or earlier upon redemption or liquidation. If the Company does not complete its initial Business Combination on or prior to March 31, 2018 (or June 30, 2018 if approved by our stockholders at a special meeting of stockholders), the Public Warrants will expire worthless at the end of such period. Upon closing of the Public Offering, there were 16,750,000 warrants outstanding, which include 6,750,000 warrants purchased by the initial stockholders and 10,000,000 warrants purchased in connection with the sale of Units related to the Public Offering.

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Public Offering (Continued)

The Public Warrants are issued in registered form under a warrant agreement between Continental Stock Transfer & Trust Company, as warrant agent, and the Company. The Company did not register the shares of common stock issuable upon exercise of the Public Warrants under the Securities Act or any state securities law. The Company will use its best efforts to file a new registration statement for the shares of common stock issuable upon exercise of the Public Warrants under the Securities Act, following the completion of its initial Business Combination. If the shares issuable upon exercise of the Public Warrants are not registered under the Securities Act by the 60th business day following the closing of the initial Business Combination, the Company will be required to permit holders to exercise their Public Warrants on a cashless basis during the period beginning on the 61st business day after the closing of the initial Business Combination and ending upon such registration being declared effective by the SEC. However, no warrant will be exercisable for cash or on a cashless basis, and the Company will not be obligated to issue any shares to holders seeking to exercise their warrants, unless the issuance of the shares upon such exercise is registered or qualified under the securities laws of the state of the exercising holder, or an exemption is available. If such issuance is not so registered or qualified and no exemption is available under the securities laws of the state of the exercising holder, such holder would not be able to exercise its warrants and the Company could still redeem such holder's warrants. Notwithstanding the above, if the common stock is at the time of any exercise of a Public Warrant not listed on a national securities exchange such that it satisfies the definition of a "covered security" under Section 18(b)(1) of the Securities Act, the Company may, at its option, require holders of Public Warrants who exercise their warrants to do so on a "cashless basis" in accordance with Section 3(a)(9) of the Securities Act and, in the event the Company so elects, it will not be required to file or maintain in effect a registration statement or register or qualify the shares under applicable state securities laws.

Once the Public Warrants become exercisable, the Company may redeem the outstanding Public Warrants (except as described herein with respect to the Private Placement Warrants discussed in Note 4) (i) in whole and not in part, (ii) at a price of \$0.01 per warrant; (iii) upon a minimum of 30 days' prior written notice of redemption; and (iv) if, and only if, the last sale price of the common stock equals or exceeds \$18.00 per share for any 20 trading days within a 30-trading day period ending on the third trading day prior to the date on which the Company send the notice of redemption to the Public Warrant holders.

The Company will not redeem the Public Warrants unless an effective registration statement under the Securities Act covering the shares of common stock issuable upon exercise of the Public Warrants is effective and a current prospectus relating to those shares of common stock is available throughout the 30-day redemption period, except if the Public Warrants may be exercised on a cashless basis and such cashless exercise is exempt from registration under the Securities Act. If and when the Public Warrants become redeemable by the Company, the Company may exercise its redemption right even if it is unable to register or qualify the underlying securities for sale under all applicable state securities law.

If the Company calls the Public Warrants for redemption, management will have the option to require all holders that wish to exercise the Public Warrants to do so on a "cashless basis." In such event, each holder would pay the exercise price by surrendering their Public Warrants for that number of shares of common stock equal to the quotient obtained by dividing (x) the product of the number of shares of common stock underlying the warrants, multiplied by the difference between the exercise price of the Public Warrants and the "fair market value" (defined below) by (y) the fair market value. The "fair market value" shall mean the average reported last sale price of the common stock for the

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Public Offering (Continued)

10 trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of Public Warrants.

In no event will the Company be required to net cash settle any Public Warrant, or issue securities or other compensation in exchange for the Public Warrants in the event that the Company is unable to register or qualify the shares underlying the Public Warrants under applicable state securities laws.

4. Related Party Transactions

Founder Shares

On May 4, 2015, the Sponsor purchased 4,312,500 shares of the Company's common stock (the "Founder Shares") for \$25,000, or approximately \$.006 per share. On July 29, 2015, the Company's Board of Directors effected a stock dividend of 0.2 shares for each outstanding share of common stock, resulting in 5,175,000 Founder Shares outstanding. On July 29, 2015, the underwriters exercised part of their over-allotment option resulting in 20,000,000 Units issued as a result of the Public Offering. As a result of the expiration of the underwriters' option to exercise the remaining portion of the over-allotment, the Sponsor forfeited an aggregate of 175,000 Founder Shares. As described in Note 1, on August 1, 2017 and December 14, 2017, stockholders representing 4,289,791 and 687,597 shares, respectively elected to redeem their shares, resulting in redemption amounts of \$42,983,883 and \$6,915,728, respectively. Prior to this redemption, the Sponsor, the Company's independent directors and their permitted transferees, which are referred to as the initial stockholders, owned 20% of the Company's issued and outstanding shares and after the redemptions own approximately 25%.

The Founder Shares are identical to the common stock included in the Units sold in the Public Offering except that 1) the Founder Shares are subject to certain restrictions, as described in more detail below, and 2) the initial stockholders have agreed (i) to waive their redemption rights with respect to their Founder Shares in connection with the completion of the initial Business Combination and (ii) to waive their rights to liquidating distributions from the Trust Account with respect to their Founder Shares if the Company fails to complete its initial Business Combination by March 31, 2018 (or June 30, 2018 if approved by our stockholders at a special meeting of stockholders), although they will be entitled to liquidating distributions from the Trust Account with respect to any Public Shares they hold if the Company fails to complete its initial Business Combination within the prescribed time frame. If the Company submits its initial Business Combination to the public stockholders for a vote, the initial stockholders have agreed to vote their Founder Shares and any Public Shares purchased during or after the Public Offering in favor of the initial Business Combination.

The initial stockholders have agreed not to transfer, assign or sell any of their Founder Shares until one year after the date of the consummation of the initial Business Combination or earlier if, subsequent to the initial Business Combination, (i) the last sale price of the common stock equals or exceeds \$12.00 per share (as adjusted for stock splits, stock dividends, reorganizations and recapitalizations) for any 20 trading days within any 30-trading day period commencing at least 150 days after the Business Combination or (ii) the Company consummates a subsequent liquidation, merger, stock exchange or other similar transaction which results in all of the stockholders having the right to exchange their shares of common stock for cash, securities or other property.

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Related Party Transactions (Continued)

Private Placement Warrants

The Sponsor purchased from the Company an aggregate of 6,750,000 Private Placement Warrants, each exercisable to purchase one share of the Company's common stock at \$11.50 per share, at a price of \$1.00 per Private Placement Warrant (\$6,750,000 in the aggregate) in a private placement that occurred simultaneously with the closing of the Public Offering. The proceeds from the sale of the Private Placement Warrants were added to the proceeds from the Public Offering held in the Trust Account. If the Company does not complete an initial Business Combination by March 31, 2018 (or June 30, 2018 if approved by our stockholders at a special meeting of stockholders), to the degree that any proceeds remain, the proceeds of the sale of the Private Placement Warrants will be used to fund the redemption of the Public Shares (subject to the requirements of applicable law) and the Private Placement Warrants will expire worthless. The Private Placement Warrants are identical to the Public Warrants sold as part of the Units in the Public Offering except that, so long as they are held by the Sponsor or its permitted transferees, (i) they will not be redeemable by the Company, (ii) they (including the common stock issuable upon exercise of these warrants) may not, subject to certain limited exceptions, be transferred, assigned or sold by the Sponsor until 30 days after the completion of the initial Business Combination and (iii) they may be exercised by the holders on a cashless basis.

The holders of the Founder Shares, Private Placement Warrants and Warrants that may be issued upon conversion of working capital loans, discussed below, will have registration rights to require the Company to register a sale of any of the securities held by them pursuant to a registration rights agreement executed on July 29, 2015. The holders of the majority of these securities are entitled to make up to three demands, excluding short form registration demands, that the Company register such securities for sale under the Securities Act. In addition, these holders will have "piggy-back" registration rights to include such securities in other registration statements filed by the Company and rights to require the Company to register for resale such securities pursuant to Rule 415 under the Securities Act. However, the registration rights agreement provides that the Company will not permit any registration statement filed under the Securities Act to become effective until termination of the applicable lock-up period.

Administrative Service Agreement

The Company entered into an agreement to pay an affiliate of our Sponsor, Easterly Capital, LLC, a total of \$10,000 per month starting on July 29, 2015 and continuing until the earlier of the Company's initial Business Combination or liquidation for office space, utilities, secretarial support and administrative services. This arrangement was agreed to for the Company's benefit and is not intended to provide the Sponsor compensation in lieu of salary or other remuneration. For the years ended December 31, 2017 and 2016 and for the period from April 29, 2015 (Inception) through December 31, 2015, the Company incurred \$120,000, \$120,000 and \$50,000, respectively under the Administrative Service Agreement. As of December 31, 2017 and 2016, \$190,000 and \$70,000, respectively, remains as a payable and is reflected in Due to affiliate in the Consolidated Balance Sheet.

Related Party Advances

For the year ended December 31, 2017, an affiliate of the Sponsor advanced an aggregate of \$232,735 directly to the Company's vendors related to operating expenses. For the year ended

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EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Related Party Transactions (Continued)

December 31, 2016, an affiliate of the Sponsor advanced an aggregate of \$181,403 directly to the Company's vendors related to operating expenses.

As of December 31, 2017, \$385,405 of such advances remain as payable and are reflected in Due to affiliate in the Consolidated Balance Sheet.

These advances are non-interest bearing, unsecured and due on demand.

Sponsor Loans

Prior to Public Offering, the Sponsor had loaned the Company \$100,000 to be used for a portion of the expenses of the Public Offering. This loan was non-interest bearing, unsecured and due at the earlier of May 31, 2016 or the closing of the Public Offering. This loan was repaid in full on the closing of the Public Offering.

On March 17, 2016, the Company issued a convertible promissory note to the Sponsor that provides for the Sponsor to loan the Company up to \$1,000,000 for ongoing expenses. On March 17, 2016, February 2, 2017, June 29, 2017, July 12, 2017, October 1, 2017 and December 4, 2017, the Company borrowed \$15,000, \$250,000, \$75,000, \$150,000, \$30,000 and \$75,000, respectively, pursuant to the convertible promissory note. The Sponsor is not obligated to loan the Company additional amounts pursuant to the convertible promissory note. The convertible promissory note is interest bearing at 5% per annum and is due and payable on March 31, 2018, which date will be extended if our stockholders approve an extension of the deadline by which we have to complete our initial business combination from March 31, 2018 to June 30, 2018 at the special meeting of our stockholders that will be held on March 29, 2018. At the option of the Sponsor, any amounts outstanding under the convertible promissory note may be converted into warrants to purchase shares of common stock at any time on or prior to the maturity date at a conversion price of \$1.00 per warrant. Each warrant will entitle the Sponsor to purchase one share of common stock at an exercise price of \$11.50 per share. Each warrant will contain other terms identical to the terms contained in the Private Placement Warrants. As of December 31, 2017, the outstanding principal balance of this convertible promissory note is \$595,000 and accrued and unpaid interest of \$19,371 is reflected in Convertible note—due to Sponsor in the Consolidated Balance Sheet.

In addition, in order to finance transaction costs in connection with an intended initial Business Combination, the Sponsor, an affiliate of the Sponsor or certain of the officers and directors may, but are not obligated to, loan the Company additional funds as may be required. If the Company completes the initial Business Combination, the Company would repay such loaned amounts out of the proceeds of the Trust Account released. Otherwise, such loans would be repaid only out of funds held outside the Trust Account. In the event that the initial Business Combination does not close, the Company may use a portion of the working capital held outside the Trust Account to repay such loaned amounts but no proceeds from the Trust Account would be used to repay such loaned amounts. Up to \$1,000,000 of such loans, inclusive of any loans under the March 17, 2016 convertible promissory note, may be convertible into warrants of the post business combination entity at a price of \$1.00 per warrant at the option of the lender. The warrants would be identical to the Private Placement Warrants issued to the Sponsor. The Company does not expect to seek loans from parties other than the Sponsor, an affiliate of the Sponsor or certain of the officers and directors as the Company does not believe third parties will be willing to loan such funds and provide a waiver against any and all rights to seek access to funds in the Trust Account.

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Income Taxes

The Company's net deferred tax assets are as follows:

	December 31, 2017	December 31, 2016
Deferred tax asset		
Provision for uncollectible other receivables	\$ —	\$ 94,566
Net operating loss carryforward	632,352	848,392
Total deferred tax asset	632,352	942,958
Valuation allowance	(632,352)	(942,958)
Deferred tax asset, net of allowance	\$ —	\$ —

The income tax provision (benefit) consists of the following:

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2016
Federal		
Current	\$ —	\$ —
Deferred	310,606	(571,663)
State and local		
Current	—	—
Deferred	—	—
Change in valuation allowance	(310,606)	571,663
Income tax provision (benefit)	\$ —	\$ —

As of December 31, 2017, the Company had U.S. federal and state net operating loss carryovers ("NOLs") of \$3,011,199 available to offset future taxable income. These NOLs expire beginning in 2036. In accordance with Section 382 of the Internal Revenue Code, deductibility of the Company's NOLs may be subject to an annual limitation in the event of a change in control as defined under the regulations.

In assessing the realization of the deferred tax assets, management considers whether it is more likely than not that some portion of all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences representing net future deductible amounts become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. After consideration of all of the information available, management believes that significant uncertainty exists with respect to future realization of the deferred tax assets and has therefore established a full valuation allowance. For the year ended December 31, 2017, and December 31, 2016, the change in the valuation allowance was \$(310,606) and \$571,663, respectively.

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Income Taxes (Continued)

A reconciliation of the federal income tax rate to the Company's effective tax rate is as follows:

	For the Year Ended December 31, 2017	For the Year Ended December 31, 2016
Statutory federal income tax rate	34.0%	34.0%
State and local taxes, net of federal tax benefit	0%	0%
Other	(0.6)%	(0.1)%
Change in valuation allowance	(33.4)%	(33.9)%
Income tax provision (benefit)	<u>0.0%</u>	<u>0.0%</u>

On December 22, 2017, the United States government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act, or the Tax Act. The Tax Act significantly revises the existing tax law by, among other things, lowering the United States corporate income tax rate from 35% to 21% beginning in 2018. The Company reviewed and incorporated the impact of the Tax Act in its tax calculations and disclosures. The primary impact on the Company stems from the re-measurement of its deferred taxes at the new corporate tax rate of 21% for the year ending December 31, 2017, which reduced the Company's net deferred tax assets, before valuation allowance, by \$391,456. Due to the full valuation allowance, the change in deferred taxes was fully offset by the change in valuation allowance. As a result, the Tax Act did not have a significant impact on the Company's Consolidated Financial Statements for the year ended December 31, 2017.

6. Commitments

The underwriters are entitled to underwriting commissions of 6.0%, of which 2.5% (\$5,000,000) was paid at the closing of the Public Offering, and 3.5% (\$7,000,000) is deferred. The deferred fee will become payable to the underwriters from the amounts held in the Trust Account solely in the event that the Company completes a Business Combination, subject to the terms of the underwriting agreement. The underwriters are not entitled to any interest accrued on the deferred underwriting discounts and commissions.

7. Proposed Business Combination with JH Capital

Investment Agreement with JH Capital

On June 28, 2017, the Company entered into an Investment Agreement with JH Capital and the Founding Members of JH Capital, which are Jacobsen Credit Holdings, LLC, Kravetz Capital Funding LLC and NJK Holding LLC to effect the Business Combination. Based on the terms and subject to the conditions set forth in the Investment Agreement, at the closing (the "Closing") of the transactions contemplated by the Investment Agreement, the Company will contribute cash to JH Capital in exchange for newly issued voting Class A Units of JH Capital ("Class A Units"). The Company will receive a number of Class A Units equal to the aggregate number of shares of the Company's common stock outstanding at the Closing, after giving effect to the redemption of shares of the Company's common stock by the Company's public stockholders. At the Closing, the Company will file an amended and restated certificate of incorporation, which will, among other things, reclassify all of the outstanding Company's common stock as Class A common stock, par value \$0.0001 per share,

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Proposed Business Combination with JH Capital (Continued)

create a new class of the Company's Class B common stock, par value \$0.0001 per share and change the Company's name to "JH Capital Group Holdings, Inc."

Prior to the closing of the Business Combination, JH Capital and the Founding Members will effect an internal reorganization after which (i) all of the following companies and their respective direct and indirect subsidiaries are expected to be principally owned directly or indirectly by JH Capital: Credit Control, LLC, Century DS, LLC, New Credit America, LLC, and CreditMax Holdings, LLC (the "JH Group Companies") and (ii) without duplication of the companies referenced in clause (i), the direct and indirect subsidiaries of Next Level Finance Partners, LLC are expected to be principally owned, directly or indirectly, by JH Capital.

Pursuant to the Investment Agreement, the aggregate consideration to be paid to JH Capital for the Class A Units of JH Capital will consist of an amount in cash equal to the cash and cash equivalents held by the Company outside of the Company's Trust Account, plus the amount of funds contained in the Trust Account, after giving effect to redemptions by the Company's public stockholders, less deferred underwriting fees payable to Citigroup Global Markets Inc. and fees payable to Cantor Fitzgerald & Co. and Jefferies LLC, less any reasonable (with respect to expenses incurred since April 27, 2017) and documented out-of-pocket transaction expenses of the Company that are accrued and unpaid as of the closing, less any outstanding amount under the Convertible Promissory Note, dated as of March 17, 2016, issued by Easterly to Easterly Acquisition Sponsor, LLC that has not been converted into warrants to purchase Easterly Class A common stock. In addition, 18,700,000 shares of newly-issued Class B common stock will be issued by the Company to the Principal Members and the other Class B members of JH Capital (the Principal Members, together with such other Class B members, the "JH Capital Class B Members"). The JH Capital Class B Members will also be issued 18,700,000 non-voting Class B Units of JH Capital, provided that such amount of JH Capital Class B Units is subject to reduction to the extent that certain of the JH Group Companies and certain subsidiaries of Next Level Finance Partners, LLC are not directly or indirectly wholly owned by JH Capital after the Reorganization. The Company's Class B common stock will have one vote per share but will not be entitled to any economic interest in the Company. The JH Capital Class B Units are entitled to distributions from JH Capital, but are not entitled to any voting or control rights over JH Capital, other than certain customary consent rights with respect to distributions, amendments to JH Capital's limited liability company agreement and certain other matters affecting the JH Capital Class B Members. In addition, on the date of the closing of the Business Combination, JH Capital or one or more JH Group Companies will, or will cause a subsidiary of JH Capital or any JH Group Company to, make a cash distribution to Jacobsen Holdings and KCF in an aggregate amount equal to \$1,000,000.

The Company is expected to hold approximately 48.4% of the outstanding equity in JH Capital and the JH Capital Class B Members are expected to hold the remaining 51.6%. These ownership interests assume that no shares of the Company's common stock are elected to be redeemed in connection with the Business Combination Proposal and also assume that there are no reductions to the JH Capital Class B Units pursuant to the Investment Agreement. Further, the ownership percentage with respect to the post-combination company does not take into account (i) the issuance of any shares (or options to acquire shares) under the JH Capital Group Holdings, Inc. 2018 Omnibus Equity Incentive Plan, (ii) the issuance of any shares upon the exercise of warrants to purchase up to a total of 20,138,000 shares of Easterly common stock that will remain outstanding following the Business Combination or any additional warrants that the Company may issue to the Sponsor to repay working

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Proposed Business Combination with JH Capital (Continued)

capital loans owed by the Company to the Sponsor or (iii) any shares of Easterly Class A common stock issued in exchange for JH Group Companies' and their respective subsidiaries' mezzanine loans.

The JH Capital Class B Units may be exchanged for shares of the Company's Class A common stock on a one-for-one basis (subject to certain adjustments to the exchange ratio) or, at JH Capital's option, cash, pursuant to the Exchange Agreement that the Company will enter into with JH Capital and the JH Capital Class B Members. Upon any exchange of a JH Capital Class B Unit by a JH Capital Class B Member, one share of the Company's Class B common stock held by such JH Capital Class B Member will be cancelled by the Company.

In connection with the Investment Agreement and the Exchange Agreement, the Company will also enter into the following agreements: (i) a Third Amended and Restated Limited Liability Company Agreement of JH Capital, (ii) a Tax Receivable Agreement relating to the payment to the JH Capital Class B Members of a portion of specified tax savings, and (iii) a Registration Rights Agreement providing registration rights for shares of the Company's Class A common stock issued upon the exchange of JH Capital Class B Units.

Pursuant to a letter agreement among the Company, Easterly Acquisition Sponsor, LLC (the "Sponsor"), JH Capital and the Founding Members, at the closing of the Business Combination, (i) the Founding Members will have the option to purchase at a price of \$0.005 per share up to 500,000 shares of the Company's Class A common stock owned by the Sponsor and (ii) the Sponsor will surrender to the Company 2,500,000 shares of the Company's Class A common stock issued to the Sponsor prior to the Company's initial public offering in exchange for a warrant (the "New Warrant") to purchase 2,500,000 shares of the Company's Class A common stock. The New Warrant will be exercisable at a price of \$0.01 per share, have a term of 5 years and may only be exercisable as follows: (x) 1,000,000 shares will be exercisable if the average of the volume weighted averages of the trading price of a share of the Company's Class A common stock for 10 consecutive trading days is higher than \$12.00, (y) an additional 1,000,000 shares will be exercisable if (A) the Company has raised gross proceeds of at least \$200,000,000 from the sale of its equity securities, including the gross proceeds released to the Company from the Trust Account and the amount of the Fortress Loan, and (B) the average of the volume weighted averages of the trading price of a share of the Company's Class A common stock for 10 consecutive trading days is higher than \$13.00 and (z) the final 500,000 shares will be exercisable if (A) the Company has raised gross proceeds of at least \$200,000,000 from the sale of its equity securities, including the gross proceeds released to the Company from the Trust Account and the amount of the Fortress Loan, and (B) the average of the volume weighted averages of the trading price of a share of the Company's Class A common stock for 10 consecutive trading days is higher than \$14.00.

Letter Agreement

On December 28, 2017, the Company entered into a Letter Agreement (the "December 28 Letter Agreement") with JH Capital, Jacobsen Credit Holdings, LLC ("Jacobsen Holdings"), Kravetz Capital Funding LLC ("KCF" and, together with Jacobsen Holdings, the "Principal Members") and NJK Holding LLC ("NJK Holding" and, together with KCF and Jacobsen Holdings, the "Founding Members"). The December 28 Letter Agreement provided that the Company consented to (i) certain subsidiaries of Jacobsen Holdings entering into the Fortress Loan and the issuance of the Fortress Warrant (as defined below), (ii) the issuance by JHPDE Finance I, LLC ("JHPDE Finance") of

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Proposed Business Combination with JH Capital (Continued)

\$25 million of its Class A Membership Interests to a new member, and (iii) the Founding Members issuing to the Company the Founding Member Warrants (as defined below). The December 28 Letter Agreement also provided that JH Capital consented to the Company issuing the Fortress Warrant.

Pursuant to the December 28 Letter Agreement, Jacobsen Holdings issued to the Company a warrant, dated December 28, 2017 (the "Founding Member Warrants"), to acquire from Jacobsen Holdings 888,000 shares of the Company's Class A common stock or Class B Units of JH Capital. The Founding Member Warrants will be exercisable at a price of \$11.50 per share of the Company's Class A common stock or Class B Units of JH Capital, have a term of 5 years from the date of the closing of the JH Capital Business Combination and may be exercised only to the extent that the Fortress Warrant has been exercised. The Founding Members Warrants will first be exercisable for an amount of the Company's Class A common stock equal to the number of shares of the Company's Class A common stock acquired by Jacobsen Holdings and NJK Holding from the Sponsor pursuant to the Letter Agreement and thereafter for Class B Units of JH Capital owned by them.

Fortress Warrant

Pursuant to the Credit Agreement, dated as of December 28, 2017 (the "Credit Agreement"), by and among, JHPDE Finance, JH Portfolio Debt Equities, LLC ("JHPDE"), and Fortress Credit Corp. ("Fortress"), Fortress is providing JHPDE Finance with a senior secured delayed draw credit facility to purchase distressed or defaulted consumer receivables, unsecured small business loans and unsecured receivables. In connection with the Credit Agreement, for no additional consideration, the Company issued to Fortress the Fortress Warrant to acquire 888,000 shares of the Company's Class A common stock (as described above). The Fortress Warrant will be exercisable at a price of \$11.50 per share of Easterly Class A common stock, have a term of 5 years from the date of the closing of the Business Combination and may only be exercisable as follows: 444,000 shares will be immediately exercisable, and the remaining 444,000 shares will become exercisable ratably with the funding of the first \$100,000,000 under the Credit Facility (e.g., 111,000 shares will become exercisable on the date on which the first \$25,000,000 has been funded under the Credit Facility). However, the Fortress Warrant may be exercised only on or after the date which is 30 days after the first date on which the Company and JH Capital complete the Business Combination. Upon the earliest to occur of (a) the termination of the Investment Agreement in accordance with its terms, (b) the date on which the Trust Fund containing the proceeds of the Company's IPO is liquidated due to the failure of the Company to complete an initial Business Combination, (c) at the sole option of Fortress, at any time after December 31, 2018, if at the time Fortress determines to exercise such option, the Business Combination has not been consummated, or (d) a change of control of Jacobsen Holdings, then Jacobsen Holdings will exchange the Fortress Warrant for a warrant to purchase membership interests in Jacobsen Holdings.

The December 28 Letter Agreement also provides that the parties agree that the aggregate amount of the Fortress Loan shall constitute "equity securities" for purposes of determining the amount of gross proceeds raised by the Company for purposes of the vesting triggers contained in the New Warrant.

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Equity

The Company is authorized to issue up to 100,000,000 shares of common stock with a par value \$0.0001 per share. Holders of the Company's common stock are entitled to one vote for each share of common stock.

As discussed further in Note 1, on August 1, 2017 and December 14, 2017, stockholders representing 4,289,791 and 687,597 shares, respectively elected to redeem their shares, resulting in redemption amounts of \$42,983,883 and \$6,915,728, respectively. At December 31, 2017, there were 6,477,668 shares of common stock issued and outstanding (excluding 13,544,944 shares of common stock subject to possible redemption).

The Company is authorized to issue up to 1,000,000 shares of preferred stock with a par value \$0.0001 per share. At December 31, 2017 there were no shares of preferred stock issued and outstanding.

The Investment Agreement for the Business Combination described in Note 7 calls for a change to the capital structure of the Company upon the initial Business Combination.

9. Quarterly Financial Results (unaudited)

The following table sets forth certain unaudited quarterly results of operations of the Company for the period from April 29, 2015 (Inception) through December 31, 2015 and for the years ended December 31, 2016 and December 31, 2017. In the opinion of management, this information has been prepared on the same basis as the audited financial statements and all necessary adjustments, consisting only of normally recurring adjustments, have been included in the amounts stated below to present fairly the quarterly information when read in conjunction with the audited financial statements and related notes. The quarterly operating results are not necessarily indicative of future results of operations.

For the year ended December 31, 2017	First Quarter (Unaudited) (Revised)	Second Quarter (Unaudited) (Revised)	Third Quarter (Unaudited)	Fourth Quarter (Unaudited)
Loss from operations	\$ (512,948)	\$ (347,110)	\$ (304,431)	\$ (310,128)
Interest income	165,919	323,111	357,371	385,826
Total other income	165,919	323,111	357,371	385,826
Net income (loss)	\$ (347,029)	\$ (23,999)	\$ 52,940	\$ 75,698
Weighted average number of common shares outstanding, excluding shares subjected to possible conversions-basic and diluted	6,361,827	6,404,259	6,429,951	6,453,697
Basic and diluted net income (loss) per Share	\$ (0.07)	\$ (0.04)	\$ (0.04)	\$ (0.04)

EASTERLY ACQUISITION CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Quarterly Financial Results (unaudited) (Continued)

For the year ended December 31, 2016	First Quarter (Unaudited)	Second Quarter (Unaudited)	Third Quarter (Unaudited) (Revised)	Fourth Quarter (Unaudited)
Loss from operations	\$ (231,117)	\$ (181,181)	\$ (666,074)	\$ (916,958)
Interest income	69,443	87,245	102,959	49,232
Total other income	69,443	87,245	102,959	49,232
Net loss	\$ (161,674)	\$ (93,936)	\$ (563,115)	\$ (867,726)
Weighted average number of common shares outstanding, excluding shares subjected to possible conversions-basic and diluted	6,183,643	6,207,268	6,220,297	6,272,876
Basic and diluted net loss per Share	\$ (0.03)	\$ (0.02)	\$ (0.10)	\$ (0.14)

10. Stock-Based Compensation

As described in Note 7, on December 28, 2017, the Company issued 888,000 warrants to Fortress Credit Corp. in connection with a loan provided by Fortress to JHPDE Finance I, LLC, a subsidiary of JH Capital. If the JH Capital Business Combination closes, the Fortress Warrant will be exercisable to purchase one share of the Company's Class A common stock at \$11.50 per share, have a term of 5 years from the date of the closing of the JH Capital Business Combination and may only be exercised on or after the date which is 30 days after the first date on which the Company and JH Capital complete the JH Capital Business Combination.

No compensation expense is recognized by the Company for the year ended December 31, 2017 as a result of the Fortress Warrant. The total unrecognized expense related to the Fortress Warrant as of December 31, 2017 is \$472,327.

11. Subsequent Events

Management of the Company evaluated events that have occurred after the balance sheet date of December 31, 2017, through the date the consolidated financial statements were issued.

On February 1, 2018, the Company borrowed an additional \$100,000 pursuant to the March 17, 2016 convertible promissory note.

As described in Note 1, on January 16, 2018, February 15, 2018 and March 15, 2018 the Company received the three principal draws pursuant to the JH Capital Promissory Note in the amount of \$450,678 each. Each of the \$450,678 draws was subsequently deposited into the Trust Account.

On March 8, 2018, the Company filed a definitive proxy statement to hold a special meeting of the Company's stockholders on March 29, 2018 for the purposes of extending the date by which the Company has to consummate a business combination from March 31, 2018 to June 30, 2018. If the extension is approved at this special meeting, JH Capital has agreed to continue to contribute to the Company as a loan of \$0.03 for each public share that is not redeemed in connection with the special meeting, for each calendar month or portion thereof that is needed by the Company to complete a business combination from March 31, 2018 to June 30, 2018.