HORSEMEN'S INSURANCE ALLIANCE SPC

FINANCIAL STATEMENTS

DECEMBER 31, 2012

P&N Postlethwaite & Netterville

A Professional Accounting Corporation

www.pncpa.com

HORSEMEN'S INSURANCE ALLIANCE SPC

DECEMBER 31, 2012

CAYMAN ISLANDS

CONTENTS

P&N Postlethwaite & Netterville

A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Horsemen's Insurance Alliance SPC
Cayman Islands

We have audited the accompanying financial statements of Horsemen's Insurance Alliance SPC (the "Company"), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, changes in shareholder's equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Horsemen's Insurance Alliance SPC as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

8550 United Plaza Blvd, Suite 1001 • Baton Rouge, LA 70809 • Tel: 225.922.4600 • Fax: 225.922.4611

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 24, 2013, on our consideration of the Company's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Postlethwaite + Netterville

Metairie, Louisiana
June 24, 2013

HORSEMEN'S INSURANCE ALLIANCE SPC
BALANCE SHEETS

DECEMBER 31, 2012 AND 2011
(stated in United States dollars)

	2012		2011	
	GP	SP	GP	SP
ASSETS				
Cash and cash equivalents	$ 110,411	$ 72,342	$ 128,478	$ 115,959
Cash held in trust	-	333,749	-	153,725
Claims escrow funds	-	161,000	-	161,000
Premiums receivable	-	51,200	-	51,200
Provision for recoverable under rating plan	-	618,642	-	2,318,976
Prepayments and accrued interest	-	17,744	-	-
Due from affiliates	18,150	-	-	-
TOTAL ASSETS	$ 128,561	$ 1,254,677	$ 128,478	$ 2,800,860
LIABILITIES AND SHAREHOLDER'S EQUITY				
LIABILITIES				
Accounts payable and accrued expenses	$ -	$ 19,000	$ -	$ 47,100
Losses payable	-	56,412	-	115,984
Reserve for losses and loss-adjustment expenses	-	1,300,896	-	2,809,054
Due to affiliates	-	18,150	-	-
TOTAL LIABILITIES	-	1,394,458	-	2,972,138
SHAREHOLDER'S EQUITY				
Share capital	1,000	1,000	1,000	1,000
Additional paid-in capital	119,000	1,651,434	119,000	1,511,434
Retained earnings / (accumulated deficit)	8,561	(1,792,215)	8,478	(1,683,712)
TOTAL SHAREHOLDER'S EQUITY	128,561	(139,781)	128,478	(171,278)
TOTAL LIABILTIES AND SHAREHOLDER'S EQUITY	$ 128,561	$ 1,254,677	$ 128,478	$ 2,800,860

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

HORSEMEN'S INSURANCE ALLIANCE SPC

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(stated in United States Dollars)

	2012		2011	
	GP	SP	GP	SP
UNDERWRITING INCOME				
Movement in unearned premium	$ -	$ -	$ -	$ 966,101
Rating plan adjustment	-	(453,767)	-	564,488
TOTAL UNDERWRITING INCOME	-	(453,767)	-	1,530,589
UNDERWRITING EXPENSES				
Losses paid	-	1,006,992	-	1,863,444
Movement in reserve for losses and loss-adjustment expenses	-	(1,508,158)	-	(434,233)
Ceding commission	-	-	-	220,733
TOTAL UNDERWRITING EXPENSES	-	(501,166)	-	1,649,944
NET UNDERWRITING GAIN (LOSS)	-	47,399	-	(119,355)
INTEREST INCOME	155	73	39	804
ADMINISTRATIVE EXPENSES	(72)	(155,975)	(144)	(246,703)
NET INCOME (LOSS)	$ 83	$ (108,503)	$ (105)	$ (365,254)

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

HORSEMEN'S INSURANCE ALLIANCE SPC

STATEMENTS OF CHANGES IN SHAREHOLDER'S EQUITY
YEARS ENDED DECEMBER 31, 2012 AND 2011
(stated in United States Dollars)

	Share Capital		Additional Paid in Capital		Retained Earnings / (Accumulated Deficit)	
	GP	SP	GP	SP	GP	SP
Balance at December 31, 2010	$ 1,000	$ 1,000	$ 119,000	$ 1,511,434	$ 8,583	$ (1,318,458)
Net loss	-	-	-	-	(105)	(365,254)
Balance at December 31, 2011	1,000	1,000	119,000	1,511,434	8,478	(1,683,712)
Additional paid in capital	-	-	-	140,000	-	-
Net income (loss)	-	-	-	-	83	(108,503)
Balance at December 31, 2012	$ 1,000	$ 1,000	$ 119,000	$ 1,651,434	$ 8,561	$ (1,792,215)

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

HORSEMEN'S INSURANCE ALLIANCE SPC

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011
(stated in United States dollars)

	2012		2011	
	GP	SP	GP	SP
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income (loss)	$ 83	$ (108,503)	$ (105)	$ (365,254)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Change in operating assets and liabilities:				
Provision for recoverable under rating plan	-	1,700,334	-	(564,488)
Deferred ceding commission	-	-	-	220,733
Prepayments and accrued interest	-	(17,744)	-	25,572
Accounts payable and accrued expenses	-	(28,100)	-	12,000
Unearned premiums	-	-	-	(966,101)
Losses payable	-	(59,572)	-	(19,693)
Reserve for losses and loss-adjustment expenses	-	(1,508,158)	-	(434,233)
Net cash provided by (used in) operating activities	83	(21,743)	(105)	(2,091,464)
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash held in trust	-	(180,024)	-	1,882,441
Net cash provided by (used in) investing activities	-	(180,024)	-	1,882,441
CASH FLOWS FROM FINANCING ACTIVITIES				
Change in due (from) to affiliates	(18,150)	18,150	-	-
Additional paid-in capital	-	140,000	-	-
Net cash provided by (used in) financing activities	(18,150)	158,150	-	-
NET CHANGE IN CASH AND CASH EQUIVALENTS	(18,067)	(43,617)	(105)	(209,023)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	128,478	115,959	128,583	324,982
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 110,411	$ 72,342	$ 128,478	$ 115,959

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

NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization and Summary of Significant Accounting Policies

Nature of Operations

The Horsemen's Insurance Alliance SPC (the "Company") was incorporated in the Cayman Islands on June 23, 2006 as a Segregated Portfolio Company with limited liability and holds an Unrestricted Class "B" Insurer's License, subject to the provisions of the Insurance Law (2004 Revision) of the Cayman Islands. The Insurance Law, 2010, became effective November 1, 2012 in the Cayman Islands. Management is currently working with the Cayman Islands Monetary Authority to assess for which class of insurance license the Company qualifies.

The Company is owned by Horsemen's Alliance Holdings, Inc., (the "Parent Company"), a company incorporated in the United States of America. The Parent Company is a wholly-owned subsidiary of Louisiana Horsemen's Benevolent and Protective Association 1993, Inc. ("LaHBPA").

The Company comprises a general portfolio ("GP"), which carries no risk, and one segregated portfolio ("SP"). Pursuant to SPC law, the assets, liabilities and equity of the segregated portfolio are kept separate and segregated from the general assets of the Company. Further, the assets and liabilities of each segregated portfolio are kept segregated and separately identified from any other segregated portfolio. In the case of insolvency with respect to the Company's general business activities, creditors are entitled to recourse only to the extent of the Company's general assets. In the case of insolvency with respect to or attributable to a particular segregated portfolio, the creditors have recourse only to the specific segregated portfolio assets attributable to such segregated portfolio. Such a claim does not extend to the assets attributable to any other segregated portfolio.

The Company obtained a waiver to file financial statements, audited in accordance with International Standards on Auditing, with the Cayman Islands Monetary Authority ("CIMA"). Additionally, the Louisiana State Legislative Auditor requires the financial statements to be audited in accordance with U.S. generally accepted governmental auditing standards and to be filed within six months following year end.

The principal business of the SP has been to provide reinsurance of 100% of the workers' compensation, occupational disease and employers' liability coverage issued by National Union Fire Insurance Company of Pittsburgh and other member companies of Chartis (the "Ceding Insurer") to LaHBPA. The limit of liability is $300,000 per occurrence and $3,040,000 in aggregate for the policy periods of July 1, 2008 to July 1, 2009, July 1, 2009 to July 1, 2010 and July 1, 2010 to July 1, 2011. See Note 12.

Effective July 16, 2011, the Directors resolved that the SP would no longer write any new business, and upon cancellation of the current policies in force, the SP commenced running off its existing book of business.

As described in Note 12, LaHBPA implemented changes to its insurance program which are intended to eliminate the amount of premium and loss exposures insured by the Company as described in the preceding paragraph. As described in Note 3, the Company maintains significant balances which are recoverable from the Ceding Insurer which are dependent on payment from LaHBPA. Additionally, under the Company's business model, the Company is dependent on continued capital contributions from LaHBPA and its parent to maintain minimum capitalization requirements and solvency. Changes in LaHBPA financial ability or intention to these financial obligations could adversely impact the Company and its ability to honor its claims obligations.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation

The accompanying financial statements are presented in accordance with U.S. generally accepted accounting principles ("GAAP") and prevailing practices within the insurance industry. The Company utilizes the accrual method of accounting for financial reporting purposes. All transactions and balances are reported in United States dollars.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the reserve for losses and loss adjustment expenses, related assessments, and the provision for recoverable under rating plan. In connection with the determination of the reserve for losses and loss adjustment expenses, management estimates the reserves using the method discussed in Note 4 to these financial statements.

Cash Equivalents

For purposes of the statement of cash flows, the Company considers cash and cash equivalents to be short-term, highly liquid assets that are readily convertible to known amounts of cash.

Reinsurance premiums assumed and ceding commission

Reinsurance premiums assumed are recognized pro-rata over the term of the policies and the unearned portions at the balance sheet dates are recorded as unearned premiums.

Ceding commission is similarly recognized on a pro-rata basis over the terms of the policies issued and the unexpensed portion, if any, is deferred and recorded as deferred ceding commission in the balance sheets.

All policies assumed by the SP are subject to a Large Risk Rating Plan ("LRRP"), under which retrospective premiums are recomputed annually in order that total premium equals ultimate losses of the SP for the policy period, subject to the maximum stop-loss limit of $2,600,000 for each policy period. Rating plan adjustments are included in income in the period that they are determined. See Note 3.

Consistent with this policy, all available underwriting income of the SP is transferred to the provision for recoverable under rating plan, subject to the maximum stop-loss limit for each policy period. For periods where premiums exceed the maximum stop-loss limit, underwriting losses are included in income in the period that they are determined.

Interest income

Interest income is recorded on the accrual basis.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Reserve for losses and loss-adjustment expenses

The SP determines its reserves for losses and loss-adjustment expenses on the basis of the losses reported by loss managers. Losses incurred but not reported are provided for on the basis of the advice of an independent actuary.

The reserve for losses and loss-adjustment expenses represents management's best estimate of the ultimate settlement costs of all losses and loss-adjustment expenses and are subject to the impact of further changes in loss severity, frequency and other factors. Management believes that amounts are adequate and recognizes the variability inherent in the data used in determining the liability, however, the absence of sufficient historical loss experience to support the assumptions inherent in establishing the estimate results in uncertainty as to the amount which will ultimately be required for the settlement of losses and loss expenses, and the differences could be material. The estimate is continuously reviewed, and as adjustments to the liability become necessary, they are reflected in current operations.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements in order to conform to current reporting practices.

Note 2 – Cash Held in Trust and Claims Escrow Funds

At December 31, 2012 and 2011, the claims escrow funds held by Chartis, which are held to pay claims, were $161,000.

The Company has entered into a trust agreement on behalf of the SP with the Ceding Insurer and Wells Fargo, N.A. (the "Bank") to secure the SP's obligations to the Ceding Insurer. Pursuant to the trust agreement, the SP's collateral was transferred into a trust account at the Bank for the sole benefit of the Ceding Insurer who has a first and prior lien on and security interest in all the assets held by the trust account. At December 31, 2012 and 2011, the trust account consisted of cash and cash equivalents amounting to $333,749 and $153,725, respectively.

Note 3 – Provision for Recoverable Under Rating Plan and Rating Plan Adjustment

The underlying policies reinsured by the Company were endorsed to include a LRRP. Under the terms of the LRRP, the ceding insurer can subject the underlying insured to further premium up to a maximum limit of $2,600,000. The reinsurance agreement follows the fortunes of the underlying policy, and the Company recognizes a rating plan adjustment as additional premium, where losses exceed initial premium in each underwriting year.

Each year, the forecast of subject losses is determined based on the loss experience of the policies and continues until all claims are closed or earlier if mutually agreed. For the years ended December 31, 2012 and 2011, the SP had reported a net underwriting gain (loss) of $501,166 and ($683,843), respectively, prior to the application of the rating plan adjustment. As a result, an adjustment of ($453,767) and $564,488 was recognized in the statements of operations for the years ended December 31, 2012 and 2011, respectively, and the total recoverable accumulated to $618,642 and $2,318,976 in the balance sheets at December 31, 2012 and 2011, respectively.

Note 3 – Provision for Recoverable Under Rating Plan and Rating Plan Adjustment (continued)

During the year ended December 31, 2011, the rating plan adjustment was recomputed for a prior policy period. The premiums for policy period 2009/2010 were $2,943,016, which exceeded the maximum stop-loss of $2,600,000 for the policy period. Therefore, an underwriting loss of $119,355 was recognized in the statement of operations for the year ended December 31, 2011.

Note 4 – Reserve for Losses and Loss Adjustment Expenses

The reserve for losses and loss-adjustment expenses comprised of the following:

	2012		2011	
	GP	SP	GP	SP
Losses reported	$ -	$ 675,531	$ -	$ 925,986
Losses incurred but not reported and adverse development	-	625,365	-	1,883,068
	$ -	$ 1,300,896	$ -	$2,809,054

Movement in the reserve for losses and loss-adjustment expenses for all policies is summarized as follows:

	2012		2011	
	GP	SP	GP	SP
Balance – beginning of year	$ -	$2,809,054	$ -	$3,243,287
Incurred related to:				
Current year	-	-	-	1,337,917
Prior years	-	(501,166)	-	91,294
	-	(501,166)	-	1,429,211
Paid related to:				
Current year	-	-	-	(482,236)
Prior years	-	(1,006,992)	-	(1,381,208)
	-	(1,006,992)	-	(1,863,444)
Balance – end of year	$ -	$ 1,300,896	$ -	$2,809,054

As described in Note 12, the Company ceased writing new business and insuring risks as of July 16, 2011. Incurred losses resulting from claims related to insured events for prior years were adjusted during the years ended December 31, 2012 and 2011 due to changes in estimates of the ultimate settlement costs of such losses.

The Company engaged independent consulting actuaries to advise on the necessary level of the reserve for losses and loss-adjustment expenses. At December 31, 2012 and 2011, the estimated outstanding losses for all policy years on an undiscounted basis was $1,300,896 and $2,809,504, respectively, at an expected confidence level. During 2012 the number of open claims reduced significantly to only 14 open claims at year end. The closure and development on these claims resulted in favorable overall reserve development indicating prior year reserves were redundant. As the number of open claims continues to reduce, there may continue to be more variability in the overall reserve setting process.

Note 4 – Reserve for Losses and Loss Adjustment Expenses (continued)

In the opinion of the Directors, these provisions are adequate to cover the estimated ultimate liability for the losses and loss-adjustment expenses at the balance sheet date. Consistent with most companies with similar insurance operations, the Company's reserve for losses and loss-adjustment expenses is ultimately based on management's reasonable expectations of the future events. It is reasonably possible that the expectations associated with these amounts could change in the near term (i.e., within one year) and that the effect of such changes could be material to the financial statements. The Company does not discount its reserves for losses and loss-adjustment expenses.

Note 5- Share Capital

The following is a summary of authorized and issued and fully paid shares:

	2012	2011
Authorized:		
50,000 shares of $1.00 each divided into:		
1,000 ordinary shares of $1.00 each	1,000	1,000
49,000 redeemable segregated portfolio Shares of $1.00 each	49,000	49,000
	50,000	50,000
Issued and fully paid:		
1,000 ordinary shares	1,000	1,000
1,000 redeemable segregated portfolio shares	1,000	1,000
	2,000	2,000

The Ordinary Shares carry voting rights while the Redeemable Segregated Portfolio Shares do not carry the right to vote. Ordinary Shares carry the right to participate in dividends or to participate in any surplus assets available for distribution to the Members in a liquidation, dissolution, or winding up of the Company. Redeemable Segregated Portfolio Shares are designated with respect to the SP. Redeemable Segregated Portfolio Shares carry the right to receive dividends or repayment of capital provided that dividends are paid only from Redeemable Segregated Portfolio Shares relating to the SP.

The assets and liabilities of the SP are kept segregated, separate and separately identifiable from the general assets and liabilities of the Company.

Note 6- Additional Paid-In Capital

Additional paid-in capital comprises a share premium of $119,000 on the initial issue of Ordinary Shares, $349,000 on the initial issue of Redeemable Segregated Portfolio Shares and $1,302,434 relating to contributed surplus from LaHBPA on behalf of the SP.

Note 7- Letters of Credit

Letters of credit of $4,949,076 as of December 31, 2012 and 2011 have been issued by the Company's banker in favor of the Ceding Insurer to secure the Company's liabilities under the reinsurance assumed. The letters of credit are secured by a guarantee from LaHBPA.

Note 8- Administrative Expenses

The Company's administrative expenses consist of the following:

	2012		2011	
	GP	SP	GP	SP
Claims	$ -	$ 36,325	$ -	$ 60,666
Management fees	-	35,000	-	45,000
Letter of credit fees	-	39,769	-	37,599
Meeting expenses	-	172	-	540
Audit fees	-	11,575	-	51,100
Actuarial fees	-	(4,000)	-	7,750
Government fees	-	9,177	-	16,043
Directors and officers insurance	-	15,637	-	15,637
Escrow service fees	-	10,344	-	10,941
Miscellaneous expenses	-	1,603	-	978
Bank charges	72	373	144	449
	$ 72	$ 155,975	$ 144	$ 246,703

The letter of credit fees of $39,769 and $37,599 for the years ended December 31, 2012 and 2011, respectively, were paid on behalf of LaHBPA and are, therefore, considered related party transactions.

Note 9- Income Taxes

The Company does not consider itself to be engaged in a United States trade or business and therefore not subject to United States income taxes. If the Company should be considered to be engaged in a United States trade or business, it could be subject to US Federal income tax, Federal alternative minimum tax and branch profits tax.

Under the Cayman Islands Tax Concessions Law, the Governor in Cabinet issued an undertaking to the Company on July 4, 2006, exempting it from all local income, profit or capital gains taxes. The undertaking has been issued for a period of twenty years and, at the present time, no such taxes are levied in the Cayman Islands. Accordingly, no provision for taxes is made in these financial statements.

The Company is required to determine whether a tax position of the Company is more likely than not to be sustained upon examination by the applicable taxing authority based on the technical merits of the position. The Company has evaluated its tax position and does not consider itself to be engaged in trade or business in any jurisdiction other than the Cayman Islands and therefore is not subject to income taxes. If the Company should be considered to be engaged in a trade or business in a jurisdiction outside of the Cayman Islands, it could be subject to income taxes.

Management does not believe there are any tax positions taken by the Company that are subject to uncertainty and as a result, no provisions have been made in these financial statements.

Note 10 – Credit Risk and Concentrations

Credit risk is the risk of a counterparty default. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for the non-exchange traded financial instrument is not backed by an exchange clearing house. Financial assets which potentially expose the Company to credit risk mainly consist of cash and cash equivalents, claims escrow funds, premiums receivable and provision for recoverable under rating plan.

However, since all cash balances and claims escrow accounts are held at reputable financial institutions, management does not anticipate any material losses from these exposures. The Company manages the exposure of premiums receivable and recoverable under rating plan credit risk by actively reviewing the financial strength of the Ceding Insurer and LaHBPA. Management does not anticipate any losses as a result of these concentrations.

Note 11- Net Worth for Regulatory Purposes

For Cayman Islands regulatory purposes, the Cayman Islands Monetary Authority recognizes letters of credit as funds available to meet the Company's insurance liabilities. Management considers that the Company's net worth for regulatory purposes, including letters of credit, is comprised as follows:

	2012		2011	
	GP	SP	GP	SP
Share capital	$ 1,000	$ 1,000	$ 1,000	$ 1,000
Additional paid-in capital	119,000	1,651,434	119,000	1,511,434
Retained earnings (accumulated deficit)	8,561	(1,792,215)	8,478	(1,683,712)
Incoming letters of credit	-	683,000	-	457,000
	$ 128,561	$ 543,219	$ 128,478	$ 285,722

Standby irrevocable letters of credit in the amount of $683,000 and $457,000 at December 31, 2012 and 2011, respectively, have been pledged by the Parent Company in favor of the Company to cover the SP's regulatory capital requirements. The letters of credit expire on December 23 and July 19 of each year. Management reviews the level of security required on a periodic basis and is of the view that there will be no material losses as a result of the foregoing. The incoming letters of credit may be drawn upon by the Company under the terms of the Letter of Credit Agreement between the Company's banker and the Company.

As described in Note 1, the Insurance Law, 2010, became effective November 1, 2012. Capital and solvency regulations associated with the law have been released and management is currently working with the Cayman Islands Monetary Authority to assess the impact of these regulations on the capital and solvency requirements of the Company.

Note 12- Going Concern and Uncertainty as to Future Operations

The going concern assumption is a fundamental principle in the preparation of financial statements. Under the going concern assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations. Accordingly, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

Note 12- Going Concern and Uncertainty as to Future Operations (continued)

Effective July 1, 2011, the Directors resolved that the SP would no longer write any new business, and upon cancellation of the current policies in force, the SP commenced running off its existing book of business which is expected to require an extended period of time due to the nature of the covered claims. Although the SP is no longer writing new business, the Directors may resume writing business at a future date. The Directors have no stated intention to wind-up operations or re-domicile the SP.

The policies assumed by the SP are subject to a LRRP under which retrospective premiums are recomputed annually. The retrospective premium assessments are due from the ceding insurer who will ultimately collect any related funds from LaHBPA. As outlined in Note 7, sufficient letters of credit have been issued to the Ceding Insurer to cover any related credit risk to cover losses and loss-adjustment expenses as they fall due.

The Directors believe that the assets of the Company, the incoming letters of credit amounting to $683,000 (Note 11), and commitments of LaHBPA to make future capital contributions are sufficient to cover any liabilities and administrative expenses as they become due. Additionally, as a result of the Directors' intention to continue operations of the SP, management believes the going concern assumption is appropriate based on all matters management considered.

Note 13- Federal Indictment

In November 2010, the United States indicted the President and Executive Director of LaHBPA in a 29-count indictment charging mail fraud, wire fraud, identification information fraud and health care fraud in connection with the rigging of an election by which the President and Board of Directors of LaHBPA were elected in March 2008 and financial irregularities related to a Medical Benefit Trust operated by LaHBPA. The positions of these individuals with the LaHBPA were terminated shortly after their indictments. In July 2011, the former Executive Director of the LaHBPA pleaded guilty to one count of conspiracy to commit mail fraud, wire fraud, and fraud in connection with identification documents, all in connection with the rigging of the March 2008 election. In September 2011, the former President of the LaHBPA pleaded guilty to one count of conspiracy to commit mail fraud, wire fraud, fraud in connection with identification documents and health care fraud, all in connection with the rigging of the March 2008 election and financial irregularities related to the Medical Benefit Trust. The former Executive Director and the former President were sentenced in 2012.

Effective November 22, 2010, pursuant to the bylaws, the Vice President assumed the position of President. The Vice President was replaced on the Board by the trainer candidate with the next highest number of votes in the March 2008 election. On March 31, 2011, as prescribed by the bylaws of LaHBPA, an election was held to elect a new President and new Board of Directors, all to serve for a three-year term. The new President and Board of Directors were sworn into office on April 8, 2011.

The Louisiana Legislative Auditor's office has performed procedures and on May 4, 2011 issued a compliance audit on the LAHBPA 1993, Inc. and its related entities.

NOTES TO FINANCIAL STATEMENTS

Note 14- Accumulated Deficit

The Company plans to fund operating losses each year at a minimum amount equal to the general and administrative expenses for each year end. The operating losses are funded through capital contributions from LaHBPA to Parent Company to the Company. At December 31, 2012 and 2011, the accumulated deficit of $1,792,215 and $1,683,712 is funded by additional paid in capital amounts of $1,651,434 and $1,511,434.

Note 15- Subsequent Events

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 24, 2013, and determined that the following event required disclosure. No other events occurring after this date have been evaluated for inclusion in these financial statements.

The Louisiana Legislative Auditor's office has performed procedures and on March 20, 2013 issued a compliance audit for LaHBPA and its related entities. Management is not aware of any impact on the financial statements of the Company as a result of the compliance report.

P&N Postlethwaite & Netterville
A Professional Accounting Corporation
Associated Offices in Principal Cities of the United States
www.pncpa.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Horsemen's Insurance Alliance SPC
Cayman Islands

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Horsemen's Insurance Alliance SPC (the Company), which comprise balance sheets as of and for the year ended December 31, 2012, and the related statements of operations, changes in shareholder's equity, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

8550 United Plaza Blvd, Suite 1001 • Baton Rouge, LA 70809 • Tel: 225.922.4600 • Fax: 225.922.4611

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite + Netterville

Metairie, Louisiana
June 24, 2013

HORSEMEN'S INSURANCE ALLIANCE SPC
CAYMAN ISLANDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2012

A. Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Unmodified

• Material weakness (es) identified?	________	Yes	X	No
• Significant deficiencies identified that are not considered to be material weaknesses	________	Yes	X	No
Material noncompliance to financial statements?	________	Yes	X	No

B. Basic Financial Statements, Findings, and Responses

None

HORSEMEN'S INSURANCE ALLIANCE SPC
CAYMAN ISLANDS

SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

DECEMBER 31, 2012

Findings – Financial Statement Audit

None