2017

ANNUAL REPORT

TRISURA GROUP LTD.

TRISURA®

Letter to Shareholders

This past year was a transformational one for Trisura Group, our first year of operations as a public, global specialty insurance company. On June 22, 2017, our common shares were listed on the TSX following a spinoff from our former parent, Brookfield Asset Management Inc. We would like to acknowledge and thank Brookfield for the integral role they played in our formation and growth over the past decade. Throughout this period of change, what hasn't changed is our focus on the culture and values that have made us preferred partners for our specialty insurance distribution networks in Canada and abroad.

Business Operations

Our primary strategic objective following last June's public listing was to expand into the U.S. specialty insurance market. The U.S. is well-suited to our niche products and offers considerable opportunities for growth. During the year, we secured a U.S. insurance license and AM Best A- (Excellent) rating, which positions us to compete effectively in the U.S. specialty markets in 2018. We are pleased to announce that we have written our first policy in the US and expect to bind more program business under our fronting fee-based business model in this market shortly.

Our business has historically been focused on contractor surety and specialty P&C products, and we continue to be a leader in the Canadian specialty commercial insurance market. Our Canadian subsidiary is our most mature business line and run by an experienced and skilled management team. We have strong underwriting teams in the business lines that we write and believe we are well-positioned for future growth. In our specialty P&C business last year, we recorded a combined ratio of 89%, driving a solid 13.7% return on common equity. We're proud of the recognition of our Canadian team in once again being designated one of Canada's Top Small and Medium Employers, demonstrating the special culture of our organization.

Our international reinsurance business based in Barbados provides us with an important platform for future international growth. As we continue to build out our operations we expect to further integrate our businesses with Trisura International in creating a leading global specialty insurance company.

Financial Highlights

Our balance sheet is strong, with a $122 million capital base and a consolidated debt-to-capital ratio of less than 20%. Each of our regulated insurance subsidiaries are well-capitalized with ample regulatory capital positions.

Our specialty P&C insurance business delivered strong performance, with $147 million in gross premiums written, an increase of 17%. We continue to participate in the niche markets where we have built our business, demonstrating the value of a specialized focus. Our growth was broad-based, with increased premiums year over year in each of Surety, Risk Solutions and Corporate insurance. Our dedicated focus on specialty lines has enabled our Canadian business to grow at rates above that of the broader Canadian P&C industry.

Strategic Initiatives

Last fall, we simplified our corporate structure by acquiring the 40% management group interest in our Canadian subsidiary that we did not own. In exchange, we issued common shares at the Trisura Group level to the management team. We now own 100% of Trisura Guarantee, and importantly, we strengthened alignment of our Canadian management team with Trisura Group shareholders.

Following overwhelming approval at a special meeting of shareholders in December 2017, we rationalized our shareholder base through a share consolidation and subsequent share split. This initiative provided liquidity to Trisura Group shareholders with fewer than 10 shares and enabled all other shareholders to benefit from, materially reduced future administrative costs.

We have also bolstered our investment capabilities, recognizing the value of a global investment posture and access to a diversified set of securities. The investment environment remains challenging, with corporate spreads at historic lows and equity market valuations at historic highs. Despite these headwinds, we believe that we can have success applying principles of prudent investment management in seeking opportunities to enhance yield.

Closing

We are well-positioned to continue our trajectory of growth in 2018. Our team is focused on underwriting specialty commercial business alongside our distribution partners and we are actively searching for opportunities to expand in Canada and abroad. Our U.S. platform is in the early innings of its development and its potential is promising; we are excited to begin writing business. Our niche focus will serve our shareholders well and we expect that specialty commercial insurance will continue to outperform the boarder P&C market's underwriting results.

As we look forward towards 2018, I would like to thank our partners, shareholders and employees for their continued support.

Sincerely,

Gregory A. Morrison
Chief Executive Officer

February 16, 2018

Trisura Group Ltd.

Management's Discussion and Analysis

For the year ended December 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our Management's Discussion and Analysis ("MD&A") is provided to enable a reader to assess the results of operations and financial condition of Trisura Group Ltd. for the three and twelve-month periods ended December 31, 2017. This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2017, and all of the financial statements included in our Prospectus dated May 12, 2017.

Unless the context indicates otherwise, references in this MD&A to the "Company" refer to Trisura Group Ltd. and references to "us," "we" or "our" refer to the Company and its subsidiaries and consolidated entities.

The Company's consolidated financial statements are in Canadian dollars, and are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board. In this MD&A, unless otherwise specified or the context otherwise requires, all references to "$" are to Canadian dollars.

This MD&A is dated February 16, 2018. Additional information is available on SEDAR at www.sedar.com.

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SECTION 1 - OVERVIEW

OUR BUSINESS

Our Company is a leading international specialty insurance and reinsurance provider operating in the Surety, Risk Solutions, Corporate Insurance and Reinsurance niche segments of the market. Our operating subsidiaries include a Canadian specialty insurance company, an international reinsurance company and a new US specialty insurance company. Our Canadian specialty insurance subsidiary started writing business in 2006 and has a strong underwriting track record over its eleven years of operation. Our international reinsurance business has been in operation for more than sixteen years and although we ceased writing new reinsurance business in 2008, we continue to evaluate writing new business in the context of market conditions. Our US specialty insurance company participates in the excess and surplus non-admitted markets and is licensed in Oklahoma to write business in all states within the United States.

Our Company benefits from an experienced management team, strong distribution partners and a specialized business focus. We plan to grow by building our new business in the US, by growing our Canadian and international businesses organically and through strategic acquisitions. We believe our Company can capitalize on favourable market conditions through our multi-line and multi-jurisdictional platform. Further, we will continue to focus on our existing distribution network, and strive to increase the penetration of our products.

Significant company milestones in 2017 include:

- ✓ Incorporation of the Company in January 2017
- ✓ Spin-off from Brookfield Asset Management Inc. ("Brookfield") in June 2017
- ✓ Commenced trading on the Toronto Stock Exchange, under the symbol TSU, in June 2017
- ✓ Incorporation in May 2017 and authorisation in July 2017 of our US subsidiary, Trisura Specialty Insurance Company ("Trisura Specialty")
- ✓ Trisura Specialty obtained an A- (Excellent) rating from the A.M. Best Company Inc. ("A.M. Best"), in September 2017
- ✓ Completion of two significant corporate objectives in Q4 2017 which position us well for our future development plans
    - The acquisition of full ownership of Trisura Guarantee following the issuance of common shares at Trisura Group in exchange for Trisura Guarantee's management group's 40% ownership interest in the business ("the Buyout"). The Buyout is expected to be accretive to earnings and book value per share in 2018.
    - The rationalization of our shareholder base as a result of a 10 for 1 share consolidation of Trisura Group common shares followed immediately by a 1 for 10 share split. This transaction, which was approved by shareholders at a special meeting in December 2017, resulted in smaller shareholders receiving liquidity and lowered current and future administrative costs significantly while keeping the holdings of any holder of 10 or more common shares unchanged.
- ✓ Staffing of underwriting and infrastructure teams for Trisura Specialty and the binding of its first transaction in February 2018.

ORGANIZATIONAL STRUCTURE & REGULATORY FRAMEWORK

The Company was incorporated under the *Business Corporations Act* (Ontario) ("OBCA") in January 2017. We have three regulated wholly owned insurance subsidiaries:

(i) Trisura Guarantee is our Canadian specialty insurance company. Trisura Guarantee is federally incorporated in Canada, is licensed in all provinces and territories of Canada and is subject to both prudential regulation by the Office of the Superintendent of Financial Institutions ("OSFI") and market conduct regulation by each of the insurance regulatory authorities of the provinces and territories in which it conducts business.

(ii) Trisura Specialty is our US specialty insurance company. Trisura Specialty was incorporated on May 31, 2017 and is licensed by the Oklahoma Insurance Department as a domestic surplus line insurer and can write business as a non-admitted surplus line insurer in all states within the United States.

(iii) Trisura International Insurance Ltd. ("Trisura International"), is our international reinsurance company. Trisura International is incorporated in Barbados, is licensed to write international reinsurance business and is regulated by the Financial Services Commission ("FSC") in Barbados.

SECTION 2 – FINANCIAL HIGHLIGHTS

- ✓ Excellent premium growth in 2017 increasing gross premiums written by 15.8% in Q4 2017 and by 17.4% for the full year and net premiums written by 21.1% in Q4 2017 and by 14.4% for the full year driven by increased activity in the Risk Solutions and Surety business lines at Trisura Guarantee.
- ✓ Strong underwriting performance in 2017 at Trisura Guarantee with combined ratios of 93.7% and 88.9% in the fourth quarter and full year respectively. ROE for Trisura Guarantee 2017 was a solid 13.7%.
- ✓ Net income and earnings per share in Q4 2017 were slightly negative at ($0.1) million and ($0.01) per share driven by overhead expenses incurred from the establishment of the Trisura Specialty and the Group functions
- ✓ Strong capital position with a minimum capital test ("MCT") for Trisura Guarantee of 255% and with Trisura Specialty capitalized in line with its planned business development. Furthermore, we achieved our target debt-to-capital ratio of 20% maximum by reducing our debt-to-capital ratio to 19.6% from 32.5% during 2017.

(in thousands of dollars, except as otherwise noted)

SECTION 3 – FINANCIAL REVIEW

INCOME STATEMENT ANALYSIS

	Q4 2017	Q4 2016	$ variance	% variance	2017	2016	$ variance	% variance
Gross premiums written	38,689	33,406	5,283	15.8%	146,763	124,965	21,798	17.4%
Net premiums written	26,439	21,837	4,602	21.1%	99,615	87,064	12,551	14.4%
Net premiums earned	19,866	18,591	1,275	6.9%	79,433	72,255	7,178	9.9%
Fee income	127	214	(87)	(40.7%)	3,400	3,365	35	1.0%
Total underwriting revenue	19,993	18,805	1,188	6.3%	82,833	75,620	7,213	9.5%
Net claims	(5,187)	(5,636)	449	nm	(17,653)	(28,800)	11,147	nm
Net commissions	(5,195)	(5,106)	(89)	nm	(24,882)	(23,070)	(1,812)	nm
Premium taxes	(1,227)	(962)	(265)	nm	(4,463)	(3,591)	(872)	nm
Operating expenses	(8,913)	(8,862)	(51)	nm	(32,279)	(26,604)	(5,675)	nm
Net claims and expenses	(20,522)	(20,566)	44	nm	(79,277)	(82,065)	2,788	nm
Net underwriting (loss) income	(529)	(1,761)	1,232	nm	3,556	(6,445)	10,001	nm
Net investment income	1,007	2,575	(1,568)	(60.9%)	5,411	12,424	(7,013)	(56.4%)
Foreign exchange gains (losses)	103	(123)	226	nm	(35)	(528)	493	nm
Interest expense	(197)	(152)	(45)	nm	(1,009)	(481)	(528)	nm
Change in minority interests	-	2	(2)	(100.0%)	(5,156)	(155)	(5,001)	nm
Income before income taxes	384	541	(157)	(29.0%)	2,767	4,815	(2,048)	(42.5%)
Income tax expense	(461)	(455)	(6)	nm	(3,109)	(1,862)	(1,247)	nm
Net (loss) income	(77)	86	(163)	(189.5%)	(342)	2,953	(3,295)	(111.6%)
Other comprehensive income (loss)	1,141	999	142	14.2%	(4,495)	2,156	(6,651)	(308.5%)
Comprehensive income (loss)	1,064	1,085	(21)	(1.9%)	(4,837)	5,109	(9,946)	(194.7%)
Earnings per common share, basic and diluted, in dollars (for Q4 and the period June 22 to December 31, 2017)	(0.01)	n/a	n/a		0.37	n/a	n/a	
Earnings per common share, basic and diluted, in dollars (for Q4 and the period January 1 to December 31, 2017)	(0.01)	n/a	n/a		(0.06)	n/a	n/a	
Book value per share $	18.35	n/a	n/a		18.35	n/a	n/a	

Premium Revenue and Fee Income

The strong premium growth seen in previous quarters continued in Q4 2017 with a 15.8% increase in GPW and 21.1% increase in NPW arising mainly from Risk Solutions and Surety business. This contributed to a 6.3% increase in Q4 2017 total underwriting revenue.

For the full year 2017, GPW grew 17.4% and NPE grew 14.4%, driven mainly by growth in Risk Solutions and supported by growth in Surety. Fee income which is a significant driver of net underwriting income and net income remained steady. Total underwriting revenue rose 9.5%.

Net Claims

Net claims in Q4 2017 and Q4 2016 were comparable. In Q4 2016 a large claim in Risk Solutions (see Prospectus for full description) was partially offset by favourable prior years' reserve development in our Reinsurance, Surety and Corporate Insurance business. The comparable Q4 2017 claims experience was achieved despite lower favourable prior year's reserve developments.

On a full year basis Net claims in 2017 were lower than in 2016 driven by heightened Risk Solutions claims and reserve increases on Reinsurance annuity reserves resulting from falling European interest rates in 2016.

Operating Expenses

Operating expenses for the full year 2017 increased due to corporate expenses related to the formation and development of the Company and our new US subsidiary

Net Underwriting Income and Net Income

Net underwriting income in Q4 2017 and full year 2017 was largely driven by net claims experience over these time periods resulting in comparable net underwriting income being comparable in Q4 2017 and significantly greater than 2016 on a full year basis.

Minority Interests

Minority interests reflect the 40% of Trisura Guarantee which was owned by Trisura Guarantee management prior to the Buyout and were revalued as at January 1 of each year. The valuation of the minority interests increased by $5.2 million in January 2017 compared to an increase of $0.2 million in 2016. Following the Buyout, we do not expect future impact from minority interest.

Net Investment Income and Other Comprehensive Loss

See Section 5 – Investment Performance Review.

(in thousands of dollars, except as otherwise noted)

BALANCE SHEET ANALYSIS

As at	2017	2016	$ variance
Cash and cash equivalents	165,675	122,096	43,579
Investments	190,641	194,393	(3,752)
Premiums and accounts receivable, and other assets	23,172	22,069	1,103
Deferred acquisition costs	40,266	30,985	9,281
Recoverable from reinsurers	65,254	47,120	18,134
Capital assets and intangible assets	2,612	2,116	496
Deferred tax assets	740	622	118
Total assets	488,360	419,401	68,959
Accounts payable, accrued and other liabilities	19,795	25,434	(5,639)
Reinsurance premiums payable	17,555	13,461	4,094
Unearned premiums	115,357	90,612	24,745
Unearned reinsurance commissions	5,566	4,928	638
Unpaid claims and loss adjustment expenses	178,885	163,970	14,915
Loan payable	29,700	34,100	(4,400)
Minority interests	-	16,008	(16,008)
Total liabilities	366,858	348,513	18,345
Shareholders' equity	121,502	70,888	50,614
Total liabilities and shareholders' equity	488,360	419,401	68,959

The Company's total assets increased by $69.0 million during the year ended December 31, 2017 driven primarily by an increase in our cash and cash equivalents from the capital injection from Brookfield in connection with and prior to the spin-off. In addition, recoverables from reinsurers increased by $18.1 million due to the increase in ceded premiums and related reserves mainly on the Risk Solutions business.

Total liabilities increased by $18.3 million during the year ended December 31, 2017 primarily due to increases in unearned premiums and unpaid claims and loss adjustment expenses. Offsetting these increases were the elimination of the minority interests following the Buyout and reductions in accounts payable, accrued and other liabilities and the loan payable. See Note 17 to the consolidated financial statements for details on the Company's bank loan.

Shareholders' equity increased by $50.6 million primarily as a result of the capital injected by Brookfield in connection with and prior to the spin-off and the elimination of the minority interests in connection with the Buyout.

SHARE CAPITAL

Our authorized share capital consists of: (i) an unlimited number of common shares; (ii) an unlimited number of non-voting shares; and (iii) an unlimited number of preference shares (issuable in series).

As at December 31, 2017, 6,621,680 common shares and 64,000 preferred shares of the Company were issued and outstanding.

LIQUIDITY

Liquidity sources immediately available to the Company include: (i) existing cash and cash equivalents; (ii) our portfolio of highly rated, highly liquid investments (iii) cash flow from operating activities which include receipt of net premiums, fee income and investment income and; (iv) bank loan facilities. These funds are used primarily to pay claims and operating expenses, service the Company's bank loan and purchase investments to support claims reserves.

We expect to have sufficient liquidity to fund our operations and to meet our current business plans. However, should the need arise, additional liquidity sources include further bank loans and new issuances of debt or shares in the private or public markets.

CAPITAL

The MCT ratio of Trisura Guarantee was 255% as at December 31, 2017 (265% as at September 30, 2017 and 272% as at December 31, 2016), which comfortably exceeds the 150% regulatory requirements prescribed by OSFI.

Trisura International's capital of $26.6 million as at December 31, 2017 was well in excess of FSC's regulatory capital requirement of $0.2 million.

Trisura Specialty's capital and surplus of $56.5 million as at December 31, 2017 was in excess of the $18.8 million minimum capital requirements of the Oklahoma Insurance Department.

We had a debt-to-capital ratio of 19.6% as at December 31, 2017 compared to 22.2% in September 2017 and 32.5% as at December 31, 2016 with the reduction reflecting the continuing repayment of our bank loan and the Brookfield capital injection in connection with the spin-off, as well as the issuance of equity alongside the Buyout.

The Company is well-capitalized and we expect to have sufficient capital to meet our regulatory capital requirements, fund our operations and support our current business plans.

(in thousands of dollars, except as otherwise noted)

SECTION 4 – UNDERWRITING PERFORMANCE REVIEW

We operate through the following four business lines: Surety, Risk Solutions, Corporate Insurance and Reinsurance. Substantially all of our premiums in 2017 and 2016 have been written by Trisura Guarantee, in the Canadian specialty insurance market. Our new U.S. non-admitted insurer, Trisura Specialty, received an A- (Excellent) A.M. Best rating in Q3 2017. We are actively pursuing new business opportunities that are expected to generate U.S. premiums in the coming quarters.

SPECIALTY P&C

The table below presents financial highlights for our Specialty P&C business (which consists of our Surety, Risk Solutions and Corporate Insurance business lines).

	Q4 2017	Q4 2016	$ variance	% variance	2017	2016	$ variance	% variance
Gross premiums written	38,642	33,370	5,272	15.8%	146,598	124,801	21,797	17.5%
Net premiums earned	19,821	18,556	1,265	6.8%	79,270	72,092	7,178	10.0%
Fee income	127	201	(74)	(36.8%)	3,400	3,352	48	1.4%
Net underwriting revenue	19,948	18,757	1,191	6.3%	82,670	75,444	7,226	9.6%
Net underwriting income	1,246	(941)	2,187	nm	8,839	5,630	3,209	57.0%
Net investment income	833	1,783	(950)	(53.3%)	3,931	1,137	2,794	245.7%
Net income	1,619	686	933	135.9%	9,657	5,203	4,454	85.6%
Comprehensive income	2,588	771	1,817	235.5%	10,579	10,240	339	3.3%
Loss ratio: current accident year	35.1%	77.0%			29.0%	41.6%		
Loss ratio: Prior years' development	(7.0%)	(21.2%)*			(5.0%)	(10.5%)		
Loss ratio	28.1%	55.8%		(27.7%)	24.0%	31.1%		(7.1%)
Expense ratio	65.6%	49.3%		16.3%	64.9%	61.1%		3.8%
Combined ratio	93.7%	105.1%		(11.4%)	88.9%	92.2%		(3.3%)
Rolling ROE (annualized for quarters)	9.0%	4.1%			13.7%	8.4%		5.3%

** Covers period July 1 to December 31, 2016*

Our Specialty P&C business produced strong growth in GPW in Q4 2017, increasing by 15.8% over Q4 2016, driven mainly by our Risk Solutions and Surety businesses which contributed to a 6.3% increase in Q4 2017 net underwriting revenue. Net underwriting income in Q4 2017 was ahead of Q4 2016 by $2.2 million as Q4 2016 was impacted by a significant Risk Solutions claim which led to a 55.8% loss ratio. A significant reduction in the staff bonus provision because of this claim contributed to the low expense ratio of 49.3% in the Q4 2016 period leading to an overall combined ratio of 105.1%. Q4 2017 had a much improved combined ratio of 93.7% due primarily to the reduction in loss ratio to 28.1%

Full year 2017 GPW grew by 17.5%, driven by Risk Solutions and Surety leading to a 9.6% increase in net underwriting revenue. 2017 net underwriting income was ahead of 2016 results by $3.2 million. The 2017 loss ratio improved to 24.0% from 31.1% for 2016 due in part to the large Risk Solutions claims in 2016 albeit 2017 had lower favourable prior years' reserve development. The combined ratio in 2017 improved to 88.9% from 92.2% in 2016 driven by continued strong underwriting.

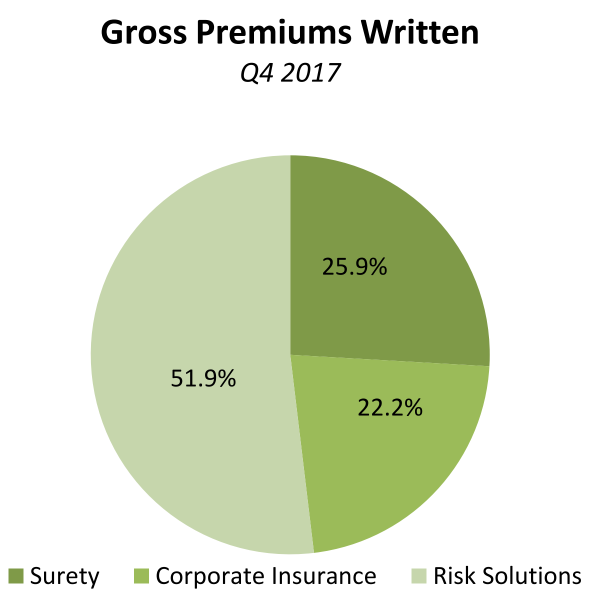
ROE improved in 2017 on a quarterly (annualized) and full year basis to 9.0% and 13.7% respectively.

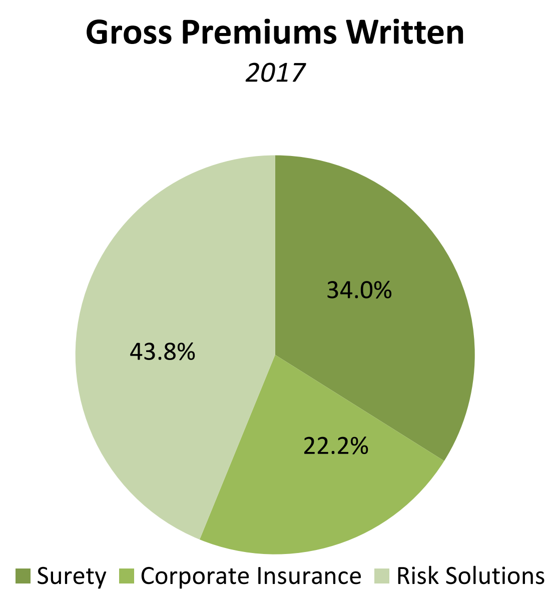
(in thousands of dollars, except as otherwise noted)

The table and charts below provide a segmentation of our GPW for the three and twelve month periods ended December 31, 2017 and 2016, respectively.

	Q4 2017		Q4 2016		2017		2016	
Surety	10,014	25.9%	8,514	25.5%	49,690	33.9%	43,751	35.1%
Corporate Insurance	8,573	22.2%	8,005	24.0%	32,718	22.3%	31,760	25.4%
Risk Solutions	20,055	51.9%	16,851	50.5%	64,190	43.8%	49,290	39.5%
Total GPW	38,642	100.0%	33,370	100.0%	146,598	100.0%	124,801	100.0%
GPW growth %[(1)]	15.8%		23.7%		17.5%		19.8%	

(1) % growth relative to prior year period





(in thousands of dollars, except as otherwise noted)

Surety

The main products offered by our Surety business line are:

- ✓ Contract surety bonds, such as performance and labour and material payment bonds, primarily for the construction industry;
- ✓ Commercial surety bonds, such as license and permit, tax and excise, and fiduciary bonds, which are issued on behalf of commercial enterprises and professionals to governments, regulatory bodies or courts to guarantee compliance with legal or fiduciary obligations; and
- ✓ Developer surety bonds, comprising mainly bonds to secure real estate developers' legislated deposit and warranty obligations on residential projects.

Surety accounted for 25.9% of our overall GPW in Q4 2017 and 34.0% for full year Q4 2017.

	Q4 2017	Q4 2016	$ variance	% variance	2017	2016	$ variance	% variance
Gross premiums written	10,014	8,514	1,500	17.6%	49,690	43,751	5,939	13.6%
Net premiums earned	8,403	7,120	1,283	18.0%	32,784	29,685	3,099	10.4%
Fee income	127	201	(74)	(36.8%)	3,385	3,337	48	1.4%
Net underwriting revenue	8,530	7,321	1,209	16.5%	36,169	33,022	3,147	9.5%
Net underwriting income	1,417	4,810	(3,393)	(70.5%)	6,301	8,375	(2,074)	(24.8%)
Loss ratio: current accident year	30.0%	15.9%			21.4%	23.1%		
Loss ratio: Prior years' development	(9.5%)	(25.3%)*			(6.3%)	(10.7%)		
Loss ratio	20.5%	(9.4%)		29.9%	15.1%	12.4%		2.7%
Expense ratio	62.6%	41.8%		20.8%	65.7%	59.4%		6.3%
Combined ratio	83.1%	32.4%		50.7%	80.8%	71.8%		9.0%

** Covers period July 1 to December 31, 2016*

Q4 2017 GPW grew by 17.6% relative to Q4 2016 and NPE increased by 18.0% over the same period. Q4 2016 combined ratio of 32.4% benefited from significant favourable prior years' reserve development coupled with a low expense ratio due to lower staff bonus. The Q4 2017 combined ratio was 83.1% resulting in net underwriting income of $1.4 million compared to $4.8 million in Q4 2016.

2017 GPW grew by 13.6% relative to 2016 and NPE increased by 10.4% over the same period. Fee income which is a significant driver of profitability of the Surety business remained steady in 2017 at $3.4 million. Net underwriting income of $6.3 million and a combined ratio of 80.8% for 2017 were strong but below the $8.4 million net underwriting income and 71.8% combined ratio in 2016 which benefited from more favourable prior years' reserve development and lower expenses particularly in Q4.

(in thousands of dollars, except as otherwise noted)

Risk Solutions

Risk Solutions includes specialty insurance contracts which are structured to meet the specific requirements of program administrators, managing general agencies, captive insurance companies, affinity groups and reinsurers. Our Risk Solutions business line consists primarily of warranty programs.

Risk Solutions accounted for 51.9% of our overall GPW in Q4 2017 and 43.8% for full year 2017. On a full year basis this is up significantly from 39.5% for 2016 and reflects the strong growth of a number of newer programs.

	Q4 2017	Q4 2016	$ variance	% variance	2017	2016	$ variance	% variance
Gross premiums written	20,055	16,851	3,204	19.0%	64,190	49,290	14,900	30.2%
Net premiums earned	4,953	5,334	(381)	(7.1%)	21,498	19,121	2,377	12.4%
Fee income	-	-	-	nm	15	15	-	0.0%
Net underwriting revenue	4,953	5,334	(381)	(7.1%)	21,513	19,136	2,377	12.4%
Net underwriting (loss) income	(441)	(9,078)	8,637	nm	1,547	(7,518)	9,065	nm
Loss ratio: current accident year	39.6%	215.9%			29.6%	77.3%		
Loss ratio: Prior years' development	(3.5%)	(5.8%)*			(1.7%)	(2.6%)		
Loss ratio	36.1%	210.1%		(174.0%)	27.9%	74.7%		(46.8%)
Expense ratio	72.9%	60.0%		12.9%	64.9%	64.6%		0.3%
Combined ratio	109.0%	270.1%		(161.1%)	92.8%	139.3%		(46.5%)

** Covers period July 1 to December 31, 2016*

In Q4 2017 GPW grew by 19.0% while NPE fell by 7.1% compared to the previous year. The lower growth rate of net premiums earned reflects the slower earning pattern of the multi-year warranties of many of the newer programs in Risk Solutions. Q4 2016 and the full year 2016 were heavily influenced by one large claim which resulted in a net underwriting loss of $9.1 million and a combined ratio of 270.1% in Q4 2016. Q4 2017 had a net underwriting loss of $0.4 million and an operating ratio of 109.0%.

2017 GPW grew by 30.2% relative to 2016, while 2017 NPE were 12.4% higher. Again, the lower growth rate of net premiums earned reflects the slower earning pattern of the multi-year warranties of many newer of the programs in Risk Solutions. The full year 2017 produced positive net underwriting income of $1.5 million and a combined ratio of 92.8% compared to the large 2016 underwriting loss of $7.5 million and combined ratio of 139.3%.

(in thousands of dollars, except as otherwise noted)

Corporate Insurance

The main products offered by our Corporate Insurance business line are D&O insurance for public, private and non-profit enterprises, E&O liability insurance for both enterprises and professionals, business office package insurance for both enterprises and professionals and fidelity insurance for both commercial and financial institutions.

Corporate Insurance accounted for 22.2% of our overall GPW in Q4 2017 and for the full 2017 year. This compares to 24.0% and 25.4% in Q4 2016 and full year 2016, respectively. The decrease reflects the stronger growth of the Risk Solutions and Surety business lines.

	Q4 2017	Q4 2016	$ variance	% variance	2017	2016	$ variance	% variance
Gross premiums written	8,573	8,005	568	7.1%	32,718	31,760	958	3.0%
Net premiums earned	6,465	6,102	363	5.9%	24,988	23,286	1,702	7.3%
Net underwriting revenue	6,465	6,102	363	5.9%	24,988	23,286	1,702	7.3%
Net underwriting income	278	3,345	(3,067)	(91.7%)	1,022	5,103	(4,081)	(80.0%)
Loss ratio: current accident year	38.0%	27.0%			38.5%	35.7%		
Loss ratio: Prior years' development	(6.3%)	(30.0%)*			(6.1%)	(16.7%)		
Loss ratio	31.7%	(3.0%)		34.7%	32.4%	19.0%		13.4%
Expense ratio	63.9%	48.2%		15.7%	63.6%	59.1%		4.5%
Combined ratio	95.6%	45.2%		50.4%	96.0%	78.1%		17.9%

** Covers period July 1 to December 31, 2016*

Corporate Insurance includes a number of three-year policies. We recognize the premiums for the full three-year term at the time these policies are written but earn them over the three-year term. This can cause differences in written and earned growth rates as was the case in 2017 when GPW grew by 3.0% compared to 2016, but by 7.3% on a NPE basis

Corporate Insurance produced growth in net underwriting revenue of 5.9% in Q4 2017 and 7.3% for the full year 2017 and produced positive net income with combined ratios of 95.6% for Q4 2017 and 96.0 for the full year 2017. By contrast, Q4 2016, in particular, and full year 2016 produced stronger net underwriting income and combined ratios helped by favourable prior years' reserve development and lower expense ratios.

(in thousands of dollars, except as otherwise noted)

REINSURANCE

Our international reinsurance business ceased writing new business in 2008 but previously wrote quota share reinsurance (prospective), loss portfolio transfers (retrospective) and niche, specialty contracts covering international risks across multiple commercial lines. Currently our international reinsurance business is managing its remaining portfolio of in-force reinsurance contracts and will shortly recommence writing new business, initially in support of our Canadian and US specialty insurance businesses and thereafter in the international reinsurance markets as attractive opportunities arise.

The remaining in-force portfolio of reinsurance contracts is dominated by one large life annuity reinsurance contract denominated in euros, on which annuity reserves and supporting assets change in response to interest rate changes. As a result, we measure the performance of our reinsurance business by reference to net income in order to capture (i) the change in annuity reserves, which is included in net underwriting income; and (ii) the offsetting change in the value of the supporting assets, which is included in net investment income as these supporting assets are designated FVTPL.

	Q4 2017	Q4 2016	$ variance	2017	2016	$ variance
Net underwriting (loss) income	361	(820)	1,181	(659)	(12,075)	11,416
Net investment income	29	792	(763)	1,205	11,287	(10,082)
Net income (loss)	451	(450)	901	545	(1,614)	2,159

In Q4 2017 net income was $0.5 million compared to a net loss of $0.5 million in Q4 2016, driven mainly by some favourable annuity reserve development and reduced operating expenses. These factors were also the main contributors to the net income improvement in the full year 2017 compared to 2016.

The offsetting effect of movements in annuity reserves and supporting assets was evident in 2016 when the fall in European interest rates led to increases in annuity reserves and a large net underwriting loss but also drove a significant increase in the value of the assets supporting the annuity reserves which contributed to the strong net investment income.

Q4 2017 saw a continuation in the reduction in operating expenses as the scale and complexity of the in-force portfolio continues to diminish. Operating expenses have reduced by 53% in Q4 2017 and by 39% on a full year basis compared to the same periods in 2016.

	Q4 2017	Q4 2016	$ variance	2017	2016	$ variance
Operating expenses (1)	550	1,164	(614)	2,636	4,302	(1,666)

(1) *Note that the Q4 YTD 2016 operating expenses in the above table have been adjusted to reflect a $2.9 million legal expense reimbursement which arose from the successful conclusion of a legal dispute in Q2 2016 and a payment of $3.7 million on a long-term incentive plan for senior executives of the reinsurance business. See the Prospectus and Management Discussion and Analysis for Q2 2017 for further detail.*

(in thousands of dollars, except as otherwise noted)

CORPORATE

Our corporate results represent operating expenses that do not relate specifically to any one business line of the Company as well as any changes in the valuation of the minority interests.

During Q4 2017 and full year 2017, we incurred corporate costs of $2.1 million and $4.6 million respectively. These expenses comprised costs related to the formation and development of the Company and our new US subsidiary, Trisura Specialty including compensation costs of group management and start-up team at Trisura Specialty and various consulting fees. No such costs were incurred in the corresponding periods of 2016.

The minority interests reflect the 40% of Trisura Guarantee which was owned by Trisura Guarantee management prior to the Buyout and were revalued as at January 1 of each year. The valuation of the minority interests increased by $5.2 million in January 2017 compared to an increase of $0.2 million in 2016, impacting the full year 2017 and the full year 2016 accordingly. Following the Buyout, we do not expect future impact from minority interest.

	Q4 2017	Q4 2016	$ variance	2017	2016	$ variance
Corporate expenses	2,137	-	2,137	4,625	-	4,625
Increase in minority interests	-	(2)	2	5,156	155	5,001
Corporate	2,137	(2)	2,139	9,781	155	9,626

(in thousands of dollars, except as otherwise noted)

SECTION 5 – INVESTMENT PERFORMANCE REVIEW

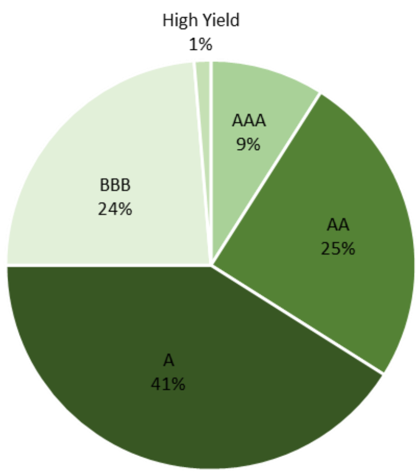
OVERVIEW

The Company's investment policy seeks to achieve attractive total returns without incurring an undue level of investment risk while supporting our liabilities and maintaining strong regulatory capital levels. Currently, we have outsourced a portion of our investment management to third-party managers. As we grow, we intend to develop internal investment management capabilities.

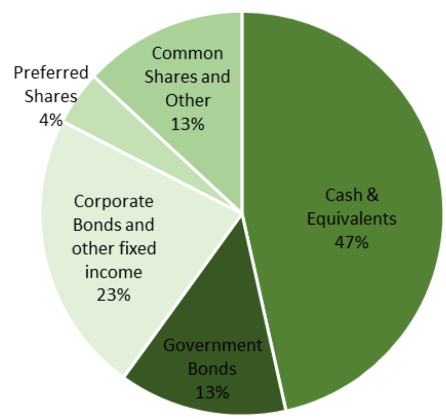
SUMMARY OF INVESTMENT PORTFOLIO

Our $356 million investment portfolio consists of cash and cash equivalents, government and corporate bonds, preferred shares, common shares and a small amount of other asset types. Ninety-nine percent of our fixed income holdings are highly liquid, investment grade bonds. A significant portion of the consolidated investment portfolio remains invested in cash and cash equivalents, reflective of the capital in our US entity, expected to be deployed alongside the onboarding of new business in the US.

Fixed Income Securities by Rating



Investment Portfolio by Asset Class



INVESTMENT PERFORMANCE

Net Investment Income

	Q4 2017	Q4 2016	$ variance	2017	2016	$ variance
Specialty P&C	833	1,783	(950)	3,931	1,137	2,794
Reinsurance	29	792	(763)	1,205	11,287	(10,082)
Corporate	145	-	145	275	-	275
Net investment income	1,007	2,575	(1,568)	5,411	12,424	(7,013)

(in thousands of dollars, except as otherwise noted)

The Company's operations currently include specialty property and casualty insurance (Surety, Risk Solutions, and Corporate Insurance business lines), underwritten predominantly in Canada by Trisura Guarantee, and international reinsurance business at Trisura International. These businesses focus on different market segments, geographic regions and risks, and accordingly, hold different assets and currencies to support their liabilities. Consequently, investment returns are most appropriately viewed at a business unit level.

Trisura Guarantee's net investment income was driven by interest and dividend income on portfolio assets. 2016 net investment income included a significant impairment on preferred shares, which resulted in negative investment income in the full year period. The market based yield of the Specialty P&C portfolio as at December 31, 2017 was 2.8%.

In the Reinsurance business unit, net investment income in the 2016 period was attributable to realized gains on the disposal of certain mortgage backed securities and net of unrealized losses on investments held at FVTPL driven by increasing interest rates. The strong performance in 2016 was attributable to an increase in the valuation of certain Euro-denominated assets designated FVTPL which support the reserves on a Euro-denominated annuity reinsurance contract. Importantly, there was a largely offsetting increase in the reserves held on the same annuity reinsurance contract. The market based yield of the Reinsurance portfolio as at December 31, 2017 was 2.3%.

Other Comprehensive Income ("OCI")

	Q4 2017	Q4 2016	$ variance	2017	2016	$ variance
Unrealized gains in OCI	719	(216)	935	949	3,795	(2,846)
Cumulative translation	422	1,215	(793)	(5,444)	(1,639)	(3,805)
OCI	1,141	999	142	(4,495)	2,156	(6,651)

The Company records changes in the value of its AFS assets through OCI. The mark to market effect of these assets on OCI was a gain of $0.7 million in Q4 2017 driven by mark to market movements in the fixed income portfolio, compared to a $(0.2) million loss in Q4 2016, from market value decreases on Canadian and US securities. Unrealized market movements on AFS assets were $0.9 million for the full year 2017 compared to a $3.8 million in the same period of 2016, mainly due to market value increases on certain US bonds in 2016.

Foreign exchange differences arising from the translation of the financial statements of Trisura International and Trisura Specialty to Canadian dollars are recognized as cumulative translation gains or losses, which are a constituent part of overall OCI. There were cumulative translation gains in Q4 2017 and Q4 2016 of $0.4 million and $1.2 million respectively. Cumulative translation losses for the full year 2017 and the full year 2016 were $5.4 million and $1.6 million respectively. The cumulative translation losses were due to the strengthening of the Canadian dollar against the US dollar, driving lower C$ valuations of capital and securities held outside of Canada.

Refer to Note 20 Investment income and the Other Comprehensive Income section in the Consolidated financial statements for more detail on the components of investment returns.

SECTION 6 – OUTLOOK & STRATEGY

INDUSTRY

The specialty insurance market offers products and services that are not written by most insurance companies. The risks covered by specialty insurance policies generally require focused, specialist underwriting knowledge and technical financial and actuarial expertise. Consequently, these risks are difficult to place in the standard insurance market where many carriers are unable or unwilling to underwrite them. As a result, specialty insurers usually have more pricing and policy form flexibility than traditional market insurers. For this reason, specialty insurers have historically and are expected to continue to outperform the standard market by having lower claims and operating ratios than traditional insurance companies.

In contrast to the standard P&C insurance market, which is divided almost evenly between personal and commercial lines, specialty insurers are focused almost exclusively on commercial lines. Even within the commercial sector, the business mix of the specialty insurers can vary significantly from that of the overall P&C industry. Although no standard definition for the specialty insurance market exists, some common examples of business written in specialty include: non-standard insurance, niche market segments (such as Surety, D&O and E&O) and products that require tailored underwriting. Many insurance groups with a specialty focus have several different carriers and licenses and allocate business between these carriers depending on market conditions and regulatory requirements.

OUTLOOK AND STRATEGY

Our Company has a highly experienced and capable management team with strong industry relationships, and long experience and excellent reputations with rating agencies, insurance regulators and business partners. We have operated in the Canadian specialty P&C insurance market for more than eleven years and in the international specialty reinsurance market for over fifteen years establishing a conservative underwriting and investing track record.

In Canada, we have built our brand through Trisura Guarantee to serve our clients, brokers and institutional partners as a leading provider of niche specialty insurance products. Trisura Guarantee will continue to build out its product offerings in existing and new niche segments of the market with suitably qualified underwriters. Trisura Guarantee remains committed to its broker distribution channel to promote and sell its insurance products. Trisura Guarantee is selective in partnering with a limited brokerage force, focusing its efforts on leading brokerage firms in the industry with expertise in specialty lines. This distribution network currently comprises over 150 major international, national and regional brokerage firms operating across Canada in all provinces and territories as well as boutique niche brokers with a focus on specialty lines.

Our US specialty insurance business, Trisura Specialty, is fully operational and bound its first transaction in February 2018. It is licensed as a domestic surplus line insurer in Oklahoma and can operate as a non-admitted surplus line insurer in all states within the US and is rated A- (Excellent) by A.M. Best. It is our belief that the conditions are favourable for the continued growth of Trisura Specialty, which operates primarily as a fronting carrier using a fee based business model. Its focus will be to source high quality business opportunities by partnering with a core base of established and well-managed program administrators that are already known to our management. From our business activity to date these program administrators welcome our new capacity as there is currently a lack of fronting carriers and the products and arrangements currently offered to them by the existing market do not always meet the needs of their business and clients.

Furthermore, we believe there is a strong supply of highly rated international reinsurance capacity keen to gain exposure to this business, allowing Trisura Specialty to cede most of the risk on its policies to these reinsurers on commercially favourable terms. Again, our management team has strong, established relationships with these reinsurers. We are confident that this fee-based business model will generate attractive, stable fee income while maintaining a small risk position, limiting underwriting risk and aligning our interests with our program distribution partners and reinsurers. As Trisura Specialty grows, we expect that our US operations will become a more significant component of our Company.

We will continue to develop our distribution network, building on our existing partner network in Canada and our core base of program administrators in the US. Our Company will strive to increase the penetration of our products in our partner network by providing the support they require to enhance the effectiveness of their sales and marketing efforts.

We also intend to consider acquisitions on an opportunistic basis and pursue those that fit with our strategic plan. We expect the consolidation in the Canadian, US and international specialty insurance and reinsurance markets will continue and in which we may participate. Building on the knowledge and expertise of our existing operations, we intend to initially target businesses in the US that operate in similar niches of the specialty insurance market. Additionally, we expect our reinsurance business to commence writing new reinsurance business as an international multi-line reinsurer, initially in support of our Canadian and US specialty insurance businesses and thereafter where other attractive opportunities arise.

(in thousands of dollars, except as otherwise noted)

SECTION 7 – OTHER INFORMATION

RATINGS

Trisura Guarantee has been rated A- (Excellent) by A.M. Best since 2012. Trisura Specialty obtained an A- (Excellent) rating from A.M. Best in September 2017.

CASH FLOW SUMMARY

	Q4 2017	Q4 2016	$ variance	2017	2016	$ variance
Net (loss) income from operating activities	(77)	86	(163)	(342)	2,953	(3,295)
Non-cash items to be deducted	1,145	(3,817)	4,962	2,354	(387)	2,741
Stock options granted	143	-	143	143	-	143
Change in working capital operating items	3,000	(1,381)	4,381	23,722	9,673	14,049
Realized losses on AFS investments	(228)	(93)	(135)	(932)	(1,936)	1,004
Income taxes paid	(967)	-	(967)	(7,090)	(1,797)	(5,293)
Interest paid	(232)	(292)	60	(1,042)	(625)	(417)
Net cash from (used in) operating activities	2,784	(5,497)	8,281	16,813	7,881	8,932
Proceeds on disposal of investments	18,664	26,470	(7,806)	39,050	61,140	(22,090)
Purchases of investments	(7,539)	(2,019)	(5,520)	(139,403)	(33,934)	(105,469)
Net purchases of capital and intangible assets	(925)	40	(965)	(1,070)	(803)	(267)
Net cash from (used in) investing activities	10,200	24,491	(14,291)	(101,423)	26,403	(127,826)
Change in minority interests	-	(2)	2	5,156	155	5,001
Dividends paid	(8)	4	(12)	(8)	(17,699)	17,691
Common shares issued	-	-	-	140,270	-	140,270
Shares redeemed	(4,031)	-	(4,031)	(4,031)	(21,000)	16,969
Repayment of notes payable	-	(38)	38	(355)	(346)	(9)
Loans received	-	-	-	-	35,000	(35,000)
Repayment of loans payable	(200)	(918)	718	(4,400)	(7,518)	3,118
Net cash (used in) from financing activities	(4,239)	(954)	(3,285)	136,632	(11,408)	148,040
Net increase in cash	8,745	18,040	(9,295)	52,022	22,876	29,146
Cash at beginning of the period	156,321	101,988	54,333	122,096	101,387	20,709
Currency translation	609	2,068	(1,459)	(8,443)	(2,167)	(6,276)
Cash at the end of the period	165,675	122,096	43,579	165,675	122,096	43,579

(in thousands of dollars, except as otherwise noted)

The main cash flow activity in Q4 2017 centered on purchases and disposals of investments primarily related to activity in our bond portfolios as bonds were sold or matured and new investments were purchased. $4.0 million of these proceeds were used to redeem shares held by small shareholders as part of the 10 for 1 share consolidation and 1 for 10 share split.

On June 15, 2017, the Company issued approximately 5.8 million common shares to Brookfield for $140 million, as indicated in the full year 2017 financing activities section above. These funds were used to acquire the Company's interest in Trisura Guarantee and Trisura International from Brookfield for approximately $100 million, as indicated in the full year 2017 investment activities section above. Additional purchases and disposals of investments, as indicated in the full year 2017 and Q4 2017 investment activities section, were primarily related to activity in the bond portfolio of Trisura Guarantee as bonds matured and new investments were purchased.

The increase in working capital in the full year 2017 and Q4 2017 is primarily attributable to increases in unearned premiums and unpaid claims at Trisura Guarantee.

In 2016, Trisura Guarantee obtained a loan from a Canadian Schedule I bank, and used the proceeds of that loan to redeem $19 million of Class A common shares, and paid the outstanding value gain associated with those shares of $16.1 million, as indicated in the 2017 financing activities section above (see also Note 17 in the Consolidated financial statements).

SEGMENTED REPORTING

As at	2017				
	Trisura Guarantee	Trisura International	Trisura Specialty	Corporate	Total(2)
Assets(1)	317,124	119,208	56,888	(4,860)	488,360
Liabilities(1)	243,979	92,658	426	29,795	366,858
Shareholder's Equity	73,145	26,550	56,462	(34,655)	121,502
Book Value Per Share, $(3)	11.05	4.01	8.53	(5.24)	18.35

(1) Operating companies include the assets and liabilities of their holding companies, except for the loans payable of $29,700 currently held in 6436978 Canada Limited which is included in Corporate.

(2) Total reflects the Group's Assets, Liabilities, and Book Value Per Share after consolidation adjustments.

(3) Number of common shares used in the calculation of book value per share equals to the Group's total number of common shares outstanding as at December 31, 2017.

CONTRACTUAL OBLIGATIONS

	Payments due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	Thereafter
Loans payable	29,700	-	-	29,700	-
Interest payments on debt(1)	3,679	1,025	2,050	604	-
Lease commitments	4,877	1,258	2,161	841	617
Total contractual obligations	38,256	2,283	4,211	31,145	617

(1) Based on estimated interest rate on outstanding loan payable.

FINANCIAL INSTRUMENTS

See Note 4 to the Company's consolidated financial statements.

RELATED PARTY TRANSACTIONS

See Note 24 to the Company's consolidated financial statements.

OPERATING METRICS

We use operating metrics to assess our operating performance. The combined ratio is the sum of the loss ratio and the expense ratio. The difference between 100% and the combined ratio represents underwriting income as a percentage of net premiums earned, or underwriting margin. A combined ratio under 100% indicates a profitable underwriting result. A combined ratio over 100% indicates an unprofitable underwriting result. The loss ratio is claims and loss adjustment expenses incurred as a percentage of net premiums earned. The expense ratio is all expenses incurred net of fee income as a percentage of net premiums earned. In our MD&A for Q1 through Q3 2017, the expense ratio was all expenses incurred net of commissions on fee income as a percentage of net premiums earned.

We use return on shareholders' equity ("ROE") as a measure of operating performance. ROE is calculated based on net income, divided by the average amount of shareholders' equity of the Company for a given time period.

We report the results of our MCT as prescribed by OSFI's *Guideline A — Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies*, as amended, restated or supplemented from time to time. MCT determines the supervisory regulatory capital levels required by Trisura Guarantee.

These operating metrics are operating performance measures that highlight trends in our core business or are required ratios used to measure compliance with OSFI standards. Our Company also believes that securities analysts, investors and other interested parties will use these operating metrics to compare our Company's performance against others in the specialty insurance industry. Our Company's management also uses these operating metrics in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and to determine components of management compensation. Such operating metrics should not be considered as the sole indicators of our performance and should not be considered in isolation from, or as a substitute for, analysis of our financial statements prepared in accordance with IFRS.

SECTION 8 – RISK MANAGEMENT

Our Company has developed and embraces a comprehensive and effective enterprise risk management framework and internal controls processes to identify, measure, monitor and mitigate risk. This is central to our decision making in regard to the business we choose to write and the business we choose to decline. Furthermore, for the business we write the risk management framework informs our determination of whether to retain the risk fully or to apply risk mitigation features including reinsurance.

The Board of Directors is responsible for oversight of risk management and internal control systems and policies. The Board has delegated authority to the Audit Committee to act on its behalf in respect of risk management matters. Our Risk Committee, chaired by the Chief Risk Officer, assists the Audit Committee in this work through regular reporting and dialogue.

KEY RISKS

The following represent key risks, which the Company has identified, which broadly fall into the categories of Insurance risk and Financial risk (See also Note 11 to our Consolidated financial statements):

Insurance Risks:

Insurance risk is the risk that the ultimate cost of claims and LAE, as well as acquisition expenses, related to insurance contracts will exceed premiums received in respect of those contracts. This could occur because either the frequency or severity of claims is greater than expected. The following list sets out some of the key insurance risks, which the Company has identified:

1 - Product and Pricing

We price our products considering numerous factors, including claims frequency and severity trends, product line expense ratios, special risk factors, the capital required to support the product line, reinsurance costs, and the investment income earned on that capital. Our Company's pricing process is designed to ensure an appropriate return on capital and long-term rate stability, avoiding wide fluctuations in such rate unless necessary. These factors are reviewed and adjusted periodically to ensure they reflect the current environment.

2 - Exposure to Losses Resulting from Underwriting and Claims

Our Company is exposed to losses resulting from the underwriting of risks being insured and the exposure to financial loss resulting from greater than anticipated adjudication, settlement and claims costs. Our success depends upon our ability to accurately assess the risks associated with the insurance policies that we write. Our underwriting objectives are to develop business within our target markets on a prudent and diversified basis and to achieve profitable underwriting results.

3 - Estimates of Loss Reserves and Claims Management

The amounts established and to be established by our Company for loss and loss adjustment expense reserves are estimates of future costs based on various assumptions, including actuarial projections of the cost of settlement and the administration of claims, estimates of future trends in claims severity and frequency, and the level of insurance fraud. Most or all of these factors are not directly quantifiable, particularly on a prospective basis, and the effects of these and unforeseen factors could negatively impact our Company's ability to accurately assess the risks of the policies that we write. In addition, future adjustments to loss reserves and loss adjustment expenses that are unanticipated by management could have an adverse impact upon the financial condition and results of operations of our Company.

Although our Company's management believes our overall reserve levels as at the date of this prospectus are adequate to meet our obligations under existing policies, actual losses may deviate, perhaps substantially, from the reserves reflected in our Company's financial statements. To the extent reserves prove to be inadequate, our Company would have to increase such reserves and incur a charge to earnings.

Financial Risks:

The significant financial risks are credit risk, liquidity risk and market risk (comprising currency risk, interest rate risk and other price risks such as equity risk). The following describes how the Company manages these risks.

1 - Credit Risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss. Credit risk arises mainly from investments in bonds and short-term securities. Our investment policies mitigate credit risk through requirements relating to, inter alia, type, credit quality, size and duration of permitted investments. Management monitors credit quality on an ongoing basis and reviews the investment portfolio regularly with the Board.

2 – Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk may arise from a number of potential areas including, for example, duration mismatch between assets and liabilities.

To manage its liquidity requirements, the Company maintains a minimum balance of cash and cash equivalents and a highly rated, highly liquid investment portfolio. The Company's investment policy sets out minimum criteria for the credit quality of each class of investment held. In addition, the investment policy stipulates average duration of bonds and maximum maturity limits. For common shares, preferred shares and income and investment trusts limitations are placed on exposure to any one issuer.

The Company also manages the liquidity risk associated with its assumed reinsurance liabilities through its asset liability matching processes. The long-tailed nature of much of the Company's reinsurance business also reduces the likelihood of sudden or unexpected spikes in claim payment requirements.

3 - Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk, interest rate risk and other price risks such as equity risk.

i) Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company has operations in the United States and Canada, as well as European exposure through its reinsurance operations and therefore has exposure to currency risk arising from fluctuations in exchange rates of the Canadian and Euro against the United States dollar. The foreign currency positions of the Company are monitored quarterly and the Company uses derivatives to manage foreign exchange risks where a material unmatched foreign exchange position exists.

ii) Interest Rate Risk

Interest rate risk is the potential for financial loss resulting from changes in interest rates. Bonds, structured insurance assets and preferred shares are subject to interest rate risk although, in the case of bonds, to the extent they are held to maturity, the risk is limited to the reinvestment yield being different from the original yield to maturity. The fair value of bonds, change inversely with changes in market rates of interest, with greater impact to bonds with longer durations. The Company's unpaid claims balance is also subject to interest rate risk, in particular the Company's life reserves which have longer durations.

The Company manages its interest rate risk through its investment policy which considers average duration of bonds held and maximum maturity limit as well as asset liability matching.

iii) Equity Price Risk

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

The Company's exposure to equity price risk is managed and mitigated through its investment policy which sets out maximum exposures to equities at aggregate and per issuer levels as well as requiring diversification across different industry sectors.

The Prospectus contains descriptions of the following additional risk factors relating to our Company and our activities.

Holding Company

Fluctuations in Results of Operations

Highly Competitive Specialty Insurance Business

Cyclical Nature of Specialty Insurance Industry

Negative Publicity in the Specialty Insurance Industry

A.M. Best Ratings

Reliance on Distribution Partners

Product and Pricing

Exposure to Losses Resulting from Underwriting and Claims

Errors and Omissions Claims

Adverse Effects of Regulatory Changes

Change of Control Restrictions of U.S. Insurance Laws

Availability of Reinsurance

Ability to Recover Amounts Due from Capacity Providers

Regulatory Challenges to Use of Fronting Arrangements

Dependence on Capacity Providers and MGAs

Failure of Capacity Providers or MGAs to Properly Market, Underwrite or Administer Policies

U.S. Expansion

Reinsurance Arrangements with a Limited Number of Reinsurers

Future Acquisitions

Reliance on Key Personnel

Inability to Generate Necessary Amount of Cash to Service Existing Debt

Risks Associated with Investment Portfolio

Future Capital Requirements

Payment of Dividends

Future Sales of Substantial Amount of Share Capital

Small Company Liquidity Risk

Impact of Securities Analysts' Research or Reports

Unpredictable Catastrophic Events

Dependence on Technology

Cyber Security

(in thousands of dollars, except as otherwise noted)

SECTION 9 – SUMMARY OF RESULTS

SELECTED QUARTERLY RESULTS

	2017			
	Q4	Q3	Q2	Q1
Gross premiums written	38,689	36,123	43,336	28,615
Net premiums written and other revenue	26,566	26,958	27,096	22,395
Total underwriting revenue	19,993	22,206	20,076	20,558
Net (loss) income attributable to shareholders (1)	(77)	2,010	285	n/a
EPS, basic and diluted (in dollars)(1)	(0.01)	0.35	0.05	n/a

(1) Net (loss) income attributable to shareholders represents the amount allocated to the shareholders post-spin-off for the period on and after June 22, 2017. EPS is calculated based on the post-spin-off Net (loss) income attributable to the Group's shareholders.

SECTION 10 – ACCOUNTING AND DISCLOSURE MATTERS

DISCLOSURE CONTROLS AND PROCEDURES

We maintain appropriate information systems, procedures and controls to ensure that new information disclosed externally is complete, reliable and timely. Management of the Company, at the direction and under the supervision of the Chief Executive Officer and the Chief Financial Officer of the Company evaluated the effectiveness of the Company's "disclosure controls and procedures" (as defined in "National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings"* ("NI 52-109")) as at December 31, 2017, and have concluded that the disclosure controls and procedures are operating effectively.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

We maintain appropriate "internal control over financial reporting" (as defined in NI 52-109) and the Chief Executive Officer and the Chief Financial Officer of the Company have concluded that the internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management has evaluated whether there were changes in our internal control over financial reporting during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting and has determined that there have been no such changes.

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This MD&A contains "forward-looking information" within the meaning of Canadian provincial securities laws and "forward-looking statements" within the meaning of applicable Canadian securities regulations. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, include statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of Trisura Group Ltd. and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods, and include words such as "expects," "anticipates," "plans," "believes," "estimates," "seeks," "intends," "targets," "projects," "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may," "will," "should," "would" and "could".

Although we believe that our anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, which may cause the actual results, performance or achievements of Trisura Group Ltd. to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information.

Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in the countries in which we do business; the behaviour of financial markets, including fluctuations in interest and foreign exchange rates; global equity and capital markets and the availability of equity and debt financing and refinancing within these markets; strategic actions including dispositions; the ability to complete and effectively integrate acquisitions into existing operations and the ability to attain expected benefits; changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates); the ability to appropriately manage human capital; the effect of applying future accounting changes; business competition; operational and reputational risks; technological change; changes in government regulation and legislation within the countries in which we operate; governmental investigations; litigation; changes in tax laws; ability to collect amounts owed; catastrophic events, such as earthquakes and hurricanes; the possible impact of international conflicts and other developments including terrorist acts and cyberterrorism; and other risks and factors detailed from time to time in our documents filed with securities regulators in Canada.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Except as required by law, Trisura Group Ltd. undertakes no obligation to publicly update or revise any forward-looking statements or information, whether written or oral, that may be as a result of new information, future events or otherwise.

GLOSSARY OF ABBREVIATIONS

Abbreviation	Description
AFS	Available for Sale Financial Asset
CTA	Cumulative Translation Adjustment
D&O	Directors' and Officers' insurance
E&O	Errors and Omissions Insurance
EPS	Earnings Per Share
FVTPL	Fair Value Through Profit & Loss
GPW	Gross Premium Written
Minority interests	The liability to participating shareholders
n/a	not available
NII	Net Investment Income
nm	not meaningful
NPE	Net Premium Earned
NPW	Net Premium Written
NUI	Net Underwriting Income
OCI	Other Comprehensive Income
Q1, Q2, Q3, Q4	The three months ended March 31, June 30, September 30 and December 31 respectively
Q2 YTD	The six months ended June 30
Q3 YTD	The nine months ended September 30
Q4 YTD	The twelve months ended December 31
ROE	Return on Shareholders' Equity
YTD	Year To Date

Trisura Group Ltd.

Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

Deloitte LLP
Bay Adelaide East
8 Adelaide Street West
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Toronto ON M5H 0A9

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Independent Auditor's Report

To the Shareholders of
Trisura Group Ltd.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
February 16, 2018

TRISURA GROUP LTD.
Consolidated Financial Statements

Table of Contents for the consolidated financial statements of Trisura Group Ltd. as at and for the years ended December 31, 2017 and 2016

TRISURA GROUP LTD.
Consolidated Statements of Financial Position
(in thousands of Canadian dollars, except as otherwise noted)

As at December 31,	Note	2017	2016
Assets			
Cash and cash equivalents		**165,675**	122,096
Investments	*4*	**190,641**	194,393
Premiums and accounts receivable, and other assets	*9*	**23,172**	22,069
Deferred acquisition costs	*6*	**40,266**	30,985
Recoverable from reinsurers	*12*	**65,254**	47,120
Capital assets and intangible assets	*13,14*	**2,612**	2,116
Deferred tax assets	*28*	**740**	622
Total assets		**488,360**	419,401
Liabilities			
Accounts payable, accrued and other liabilities	*10*	**19,795**	25,434
Reinsurance premiums payable		**17,555**	13,461
Unearned premiums	*7*	**115,357**	90,612
Unearned reinsurance commissions	*6*	**5,566**	4,928
Unpaid claims and loss adjustment expenses	*8*	**178,885**	163,970
Loan payable	*17*	**29,700**	34,100
Minority interests	*26*	-	16,008
		366,858	348,513
Shareholders' equity			
Common shares	*18*	**163,582**	9,618
Preferred shares	*18*	**1,600**	-
Contributed surplus		**89**	-
Accumulated (deficit) retained earnings		**(41,849)**	58,695
Accumulated other comprehensive (loss) income		**(1,920)**	2,575
		121,502	70,888
Total liabilities and shareholders' equity		**488,360**	419,401

See accompanying notes to the consolidated financial statements

On behalf of the Board:

David Nowak
Director

Gregory A. Morrison
Director

TRISURA GROUP LTD.

Consolidated Statements of Comprehensive (Loss) Income

(in thousands of Canadian dollars, except as otherwise noted)

For the years ended December 31,	*Note*	**2017**	2016
Gross premiums written		**146,763**	124,965
Reinsurance premiums ceded		**(46,980)**	(37,617)
Retrospective premiums refund		**(168)**	(284)
Net premiums written		**99,615**	87,064
Change in unearned premiums		**(20,182)**	(14,809)
Net premiums earned		**79,433**	72,255
Fee income		**3,400**	3,365
Total underwriting revenue		**82,833**	75,620
Claims and expenses			
Claims and loss adjustment expenses		**(42,215)**	(41,742)
Reinsurers' share of claims and loss adjustment expenses		**24,562**	12,942
Commissions		**(34,969)**	(31,384)
Reinsurance commissions		**10,087**	8,314
Premium taxes		**(4,463)**	(3,591)
Operating expenses		**(32,279)**	(26,604)
Total claims and expenses		**(79,277)**	(82,065)
Net underwriting income (loss)		**3,556**	(6,445)
Net investment income	*20*	**5,411**	12,424
Foreign exchange loss		**(35)**	(528)
Interest expense	*17*	**(1,009)**	(481)
Change in minority interests		**(5,156)**	(155)
Income before income taxes		**2,767**	4,815
Income tax expense	*28*	**(3,109)**	(1,862)
Net (loss) income		**(342)**	2,953
Net income attributable to common shareholders – for the period from June 22, 2017 to December 31, 2017 (see Note 1 and Note 2.2)		2,218	n/a
Weighted average number of common shares outstanding during the year (in thousands) – basic		5,959	n/a
Earnings per common share (in dollars) – basic and diluted (see Note 19)		0.37	n/a
Net (loss) income		**(342)**	2,953
Unrealized gains on available-for-sale investments		**3,769**	7,796
Unrealized losses on available-for-sale investments		**(2,634)**	(5,220)
Income tax expense		**(297)**	(2,204)
Items that may be reclassified subsequently to net (loss) income		**838**	372
Realized gains		**(216)**	(1,302)
Realized losses		**31**	1,451
Impairment adjustment		**321**	2,888
Income tax (benefit) expense		**(25)**	386
Items reclassified to net (loss) income		**111**	3,423
Items other than cumulative translation loss		**949**	3,795
Items that will not be reclassified subsequently to net (loss) income – Cumulative translation loss		**(5,444)**	(1,639)
Other comprehensive (loss) income		**(4,495)**	2,156
Total comprehensive (loss) income		**(4,837)**	5,109

See accompanying notes to the consolidated financial statements

TRISURA GROUP LTD.
Consolidated Statements of Changes in Equity
(in thousands of Canadian dollars, except as otherwise noted)

	Note	**Common shares**	**Preferred shares**	**Contributed surplus**	**Retained earnings (deficit)**	**Accumulated other comprehensive loss (net of income taxes)**	**Total**
Balance at January 1, 2017		9,618	-	-	58,695	2,575	**70,888**
Net loss		-	-	-	(342)	-	**(342)**
Other comprehensive loss		-	-	-	-	(4,495)	**(4,495)**
Comprehensive loss		-	-	-	(342)	(4,495)	**(4,837)**
Share issuance	*1, 18*	167,613	1,600	-	(9,303)	-	**159,910**
Share redemptions	*18*	(4,031)	-	-	-	-	**(4,031)**
Share-based payments	*29*	-	-	89	-	-	**89**
Dividends paid		-	-	-	(8)	-	**(8)**
Adjustment on reorganization (1)		(9,618)	-	-	(90,891)	-	**(100,509)**
Balance at December 31, 2017		**163,582**	**1,600**	**89**	**(41,849)**	**(1,920)**	**121,502**

	Note	Common shares	Retained earnings	Accumulated other comprehensive income (net of income taxes)	Total
Balance at January 1, 2016		9,618	94,441	419	104,478
Net income		-	2,953	-	2,953
Other comprehensive income		-	-	2,156	2,156
Comprehensive income		-	2,953	2,156	5,109
Redemption (2)		-	(21,000)	-	(21,000)
Dividends paid		-	(17,699)	-	(17,699)
Balance at December 31, 2016		9,618	58,695	2,575	70,888

(1) See Note 18 for details regarding the share adjustment on reorganization.

(2) Reflects redemption of Class A non-voting common shares, redeemed by 6436978 Canada Limited (“643 Can Ltd”) in Q2 2016, prior to reorganization.

See accompanying notes to the consolidated financial statements

TRISURA GROUP LTD.
Consolidated Statements of Cash Flow
(in thousands of Canadian dollars, except as otherwise noted)

For the years ended December 31,	2017	2016
Operating activities		
Net (loss) income	**(342)**	2,953
Items not involving cash:		
Depreciation and amortization	**839**	556
Unrealized gains (losses)	**1,194**	(3,831)
Impairment loss on available-for-sale investments	**321**	2,888
Stock options granted	**143**	-
Change in working capital and other	**23,722**	9,673
Realized loss on available-for-sale investments	**(932)**	(1,936)
Income taxes paid	**(7,090)**	(1,797)
Interest paid	**(1,042)**	(625)
Net cash flows from operating activities	**16,813**	7,881
Investing activities		
Proceeds on disposal of investments	**39,050**	61,140
Purchases of investments	**(139,403)**	(33,934)
Purchases of capital assets	**(115)**	(576)
Disposal of capital assets	**23**	-
Purchases of intangible assets	**(978)**	(227)
Net cash flows (used in) from investing activities	**(101,423)**	26,403
Financing activities		
Change in minority interests	**5,156**	155
Dividends paid	**(8)**	(17,699)
Common shares issued	**140,270**	-
Shares redeemed	**(4,031)**	(21,000)
Repayment of notes payable	**(355)**	(346)
Loans received	**-**	35,000
Repayment of loans payable	**(4,400)**	(7,518)
Net cash flows from (used in) financing activities	**136,632**	(11,408)
Net increase in cash and cash equivalents during the year	**52,022**	22,876
Cash, beginning of year	**113,409**	96,912
Cash equivalents, beginning of year	**8,687**	4,475
Cash and cash equivalents, beginning of year	**122,096**	101,387
Impact of foreign exchange on cash and cash equivalents	**(8,443)**	(2,167)
Cash, end of year	**83,137**	113,409
Cash equivalents, end of year	**82,538**	8,687
Cash and cash equivalents, end of year	**165,675**	122,096

See accompanying notes to the consolidated financial statements

Note 1 – The Company

Trisura Group Ltd. (the "Company") was incorporated under the *Business Corporations Act* (Ontario) (the "Act") on January 27, 2017. The Company's head office is located at 333 Bay Street, Suite 1610, Box 22, Toronto Ontario, M5H 2R2.

The Company owns three principal subsidiaries through which it conducts insurance operations. These subsidiaries are 643 Can Ltd, Trisura International Holdings Ltd. ("TIHL") and Trisura Specialty Insurance Company ("Trisura Specialty"). 643 Can Ltd, through its wholly-owned subsidiary Trisura Guarantee Insurance Company ("Trisura Guarantee"), operates as a Canadian property and casualty insurance company. TIHL, through its wholly-owned subsidiary Trisura International Insurance Ltd. ("Trisura International"), provides specialty insurance and reinsurance products to the global insurance market place, and is currently managing its in-force portfolio of reinsurance contracts. A third wholly-owned subsidiary, Trisura Specialty was incorporated on May 31, 2017 and was licensed by the Oklahoma Insurance Department as a domestic surplus lines insurer and can write business as a non-admitted surplus line insurer in all states within the United States.

1.1 Reorganization Transaction

On June 15, 2017, Brookfield Asset Management Inc. ("Brookfield") subscribed for 5,813,312 common shares of the Company in exchange for approximately $140,270. On June 15, 2017, the Company used the $140,270 to acquire: (i) Brookfield's 100% interest in TIHL for approximately $50,132; (ii) Brookfield's 60% interest in 643 Can Ltd for approximately $50,329; and (iii) Brookfield's interest in a note payable from 643 Can Ltd to Brookfield for approximately $185, leaving the Company with approximately $39,624 in additional cash (collectively, the "Reorganization Transaction"). See Note 18 for the impact of the Reorganization Transaction on share capital.

1.2 Spin-off

On June 22, 2017, Brookfield completed the spin-off of the Company (the "Spin-off"), which was effected by way of a special dividend of all of the common shares of the Company to holders of Brookfield's Class A and B limited voting shares as of June 1, 2017. Each holder of Brookfield's Class A and B limited voting shares received one common share of the Company for every 170 Class A or Class B shares of Brookfield. The common shares of the Company are publicly traded on the Toronto Stock Exchange under the symbol "TSU".

Note 2 – Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were authorized for issuance by the Company's Board of Directors on February 15, 2018.

2.1 Basis of presentation

As at and for the year ended December 31, 2016 and for the period from January 1 to June 14, 2017, the combined financial statements are comprised of the financial results of the Company, 643 Can Ltd and its subsidiary, as well as the financial results of TIHL and its subsidiary, and Trisura Specialty on a combined basis of presentation. All intra-group transactions, balances, income and expenses were eliminated in full on combination.

For the period beginning June 15, 2017, the consolidated financial statements comprise the financial results of the Company and all entities controlled by the Company, on a consolidated basis of presentation. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

In accordance with IFRS, presentation of assets and liabilities on the consolidated statements of financial position is in order of liquidity.

2.2 Continuity of interests

To reflect the continuity of interests, these consolidated financial statements provide comparative information of the Company for the periods prior to the Spin-off. Accordingly, the financial information for the periods prior to June 22, 2017 is presented based on the historical financial information for the Company. For the period after completion of the Spin-off, the results are based on the actual results of the Company, including the adjustments associated with the Spin-off. Therefore, net (loss) income and comprehensive (loss) income have been allocated to Brookfield for the period prior to June 22, 2017 and allocated to the post-Spin-off shareholders for the period on and after June 22, 2017. The earnings per share ("EPS") calculations have been presented for the period from June 22 to December 31, 2017.

2.3 Cash and cash equivalents

Cash and cash equivalents include short-term investments with original maturities of 90 days or less. The Company has classified cash and cash equivalents along with loans and receivables, which are recorded at amortized cost, which approximates fair value.

2.4 Investments

Bonds, trust units and equities are classified as available-for-sale ("AFS") or designated as Fair Value Through Profit or Loss ("FVTPL"). The classification is dependent on the purpose for which the financial instruments were acquired.

AFS investments are carried at fair value, with changes in fair value recorded as unrealized gains (or losses) in other comprehensive (loss) income. FVTPL investments are carried at fair value, with changes in fair value recognized in net (loss) income. Certain investments are designated as FVTPL to reduce the volatility within net (loss) income associated with the movement of the underlying claims which are supported by these investments.

If an investment incorporates an embedded derivative that is otherwise required to be accounted for separately, the Company designates that investment as FVTPL and does not separately account for the embedded derivative.

Structured insurance assets consisting of purchased commission arrangements are designated on inception as FVTPL.

Purchases and sales of investments are recognized and derecognized in the financial statements on their trade dates. Transaction costs related to investments classified as AFS are capitalized on initial recognition and, where applicable, amortized to interest income using the effective interest method. Transaction costs related to FVTPL instruments are expensed in investment income.

2.5 Measurement of fair values

The Company has an established control framework with respect to the measurement of fair values which includes input from the Company's investment managers who report directly to management.

When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques.

Investments carried at fair value are classified in accordance with a valuation hierarchy that reflects the significance of the inputs used in determining their fair value. Under Level 1 of this hierarchy, fair value is derived from unadjusted quoted prices in active markets for identical investments. Under Level 2, fair value is derived from market inputs that are directly or indirectly observable, other than unadjusted quoted prices for identical investments. Under Level 3, fair value is derived from inputs, some of which are not based on observable market data.

Significant unobservable inputs and valuation adjustments are regularly reviewed. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the evidence obtained from the third parties is assessed in light of the requirements of IFRS, including the level in the fair value hierarchy in which such investments should be classified.

2.5 Measurement of fair values (continued)

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

2.6 Derivative financial instruments

Derivative financial instruments are classified as held for trading or are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Derivative financial instruments held for trading are typically entered into with the intention to settle in the near future. These instruments are recorded at fair value. Based on market prices, fair value adjustments and realized gains and losses are recognized in investment income in the consolidated statements of comprehensive (loss) income.

Derivative financial instruments designated as hedging instruments are entered into by the Company to hedge its risks associated with foreign currency fluctuations. These are considered to be cash flow hedges which are initially recognized at fair value on the date on which the derivative contract is entered into. The effective portion of the gain or loss on the hedging instrument is recognized in other comprehensive (loss) income, while the ineffective portion is recognized within net investment income.

2.7 Other financial assets and liabilities

The Company has classified the following financial assets as loans and receivables that continue to be carried at their amortized cost, which approximates their fair value due to their short-term nature, with the exception of derivative assets which are grouped with Premiums and accounts receivable, and other assets but are carried at fair value:

i. Premiums and accounts receivable, and other assets.

The Company has classified the following financial liabilities as other liabilities that continue to be carried at their amortized cost, which approximates their fair value, with the exception of derivative liabilities, cash-settled share based payments and deferred share units, which are grouped with Accounts payable, accrued and other liabilities but are carried at fair value:

i. Accounts payable, accrued and other liabilities;
ii. Reinsurance premiums payable;
iii. Loan payable; and
iv. Minority interests.

2.8 Insurance contracts

When significant insurance risk exists, the Company's products are classified at contract inception as insurance contracts, in accordance with IFRS 4, *Insurance Contracts* ("IFRS 4"). Significant insurance risk exists when the Company agrees to compensate policyholders of the contract or ceding companies for specified uncertain future events that adversely affect the policyholder and whose amount and timing is unknown. The level of insurance risk is assessed by considering whether there are any scenarios with commercial substance in which the Company is required to pay significant additional benefits. These benefits are those which exceed the amounts payable if no insured or reinsured event were to occur. In the absence of significant insurance risk, the contract is classified as an investment contract.

2.9 Investment contracts

Contracts issued to policyholders that transfer financial risk, but do not transfer significant insurance risk to the Company are classified as investment contract liabilities. The contributions received from policyholders on these contracts are recorded as investment contract liabilities, and not as premiums written, and claim payments made are recorded as adjustments to the investment contract liabilities.

Investment contract liabilities are carried at amortized cost and are measured at the date of initial recognition as the fair value of consideration received, less payments for transaction related costs. At each reporting period, the liability is measured as the present value of estimated future cash flows relating to all claims expected to be settled on the contracts, using the effective interest method. Gains or losses associated with the measurement are recorded in Claims and loss adjustment expenses (“LAE”). Investment contract liabilities are included in Accounts payable, accrued and other liabilities in the consolidated statements of financial position.

2.10 Premiums

Premiums are earned over the terms of the related policies or surety bonds, generally on a pro rata basis. There are some instances where premiums are earned over the term of the policy in accordance with the risk profile of those policies with more premiums being earned when the risk exposure from the policy is greatest. Unearned premiums represent the unexpired portion of premiums written. Gross premiums written are presented gross of retrospective premium refunds to insureds. Retrospective premium refunds are accounted for on an accrual basis.

In the normal course of business, the Company enters into fronting arrangements with third parties, whereby the Company assumes the insurance risk but then cedes all of it to other insurers and reinsurers, and security arrangements are established to offset the Company’s risk exposure. Premiums related to those fronting arrangements are recognized over the term of the related policies on a pro rata basis.

2.11 Fees

Fees charged to insureds are recorded as revenue and separately disclosed on the consolidated statements of comprehensive (loss) income. Fees are recognized in the period in which they are charged provided that no significant obligations to insureds exist and reasonable assurance exists regarding collectability.

2.12 Acquisition costs

Acquisition costs comprise commissions paid to insurance brokers and premium taxes. These costs are deferred to the extent they are recoverable from unearned premiums and are amortized on the same basis as the related premiums are earned. If unearned premiums are not sufficient to pay expected claims and expenses, including the deferred acquisition costs, after taking into consideration anticipated investment income, the resulting premium deficiency is recognized in the current period by first reducing, to a corresponding extent, the deferred amount of the acquisition costs. Any residual amount is recorded in Deferred acquisition costs in the statements of financial position as a provision for premium deficiency.

2.13 Funds held by ceding companies

Funds held by ceding companies are carried at amortized cost using the effective interest rate method. These amounts are reported on a net basis, as a deduction from claims and LAE, where the effective right of offset exists.

2.14 Claims and loss adjustment expenses

The liability for unpaid claims and LAE represents an estimate of the ultimate cost of all claims incurred but not paid by the statement of financial position date. The reserving process employed in determining future claims and LAE payments includes consideration of individual case estimates of future claims and LAE payments on reported claims as well as provisions for future development of case estimates, and claims and LAE related to incurred but not reported claims ("IBNR"). In some instances further provisions are made for the time value of money by applying discount rates based on projected investment income from the assets supporting this liability. The Company uses qualified actuaries in its reserving processes.

In estimating unpaid claims and LAE, a range of actuarial techniques are used. Typically these techniques consider historical loss development factors and payment patterns. They require the use of assumptions relating to future development of claims and LAE, future rates of claims frequency and severity, claims inflation, payment patterns and reinsurance recoveries, taking into consideration the circumstances of the Company and the nature of the insurance policies. Typically the delay to ultimate settlement of claims increases the uncertainty of the estimate of the ultimate cost of those claims and LAE. The uncertainty in estimation tends to be higher for long-tail lines where information typically emerges over time. For the reinsurance business, the time lag in obtaining information from ceding insurers as well as the differing reserve practices employed by ceding insurers can further increase the uncertainty of the estimate. In certain circumstances, explicit actuarial margins are included in the liability in recognition of the inherent uncertainty of the estimates and the possibility of deterioration in experience relative to expectation in relation to claims development, investment return rates and recoverability of reinsurance balances.

As a result of the uncertainly in estimation, actual future claims and LAE payments may deviate in quantum and timing, perhaps materially, from the liability recorded in the Company's current provision for unpaid claims and LAE and investment contract liabilities as recorded on the consolidated statements of financial position. The liability for unpaid claims and LAE is reviewed regularly and evaluated in light of emerging claims experience and changing circumstances. Any resulting adjustments to the estimates of the ultimate liability are recorded as claims and LAE in the period in which such changes are made.

2.15 Reinsurance

The reinsurers' share of unearned premiums and their estimated share of unpaid claims and LAE are presented as Recoverable from reinsurers on a basis consistent with the methods used to determine the unearned premium liability and the unpaid claims liability, respectively.

Unearned reinsurance commissions are deferred and earned using principles consistent with the method used for deferring and amortizing acquisition costs.

2.16 Capital assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of these assets using the following rates and methods:

Office equipment	40%, declining balance
Furniture and fixtures	25%, declining balance
Leasehold improvements	5 to 10 years, straight-line over the term of the lease

2.17 Intangible assets

Intangible assets are carried at cost less accumulated amortization. Amortization is provided over the estimated useful lives of those assets. A 40% amortization rate and the declining balance method of amortization are applied to computer software. A 20% amortization rate and the declining balance method of amortization are applied to the customer lists recorded as intangible assets.

2.18 Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method of tax allocation, deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax basis of assets and liabilities, and are measured using the tax rates and laws that are expected to be in effect in the periods in which the deferred income tax assets or liabilities are expected to be settled or realized, where those tax rates and laws have been substantively enacted.

The following temporary differences are not provided for: the initial recognition of goodwill or the initial recognition of an asset or a liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting or taxable income as well as differences relating to investments in subsidiaries to the extent that they are unlikely to reverse in the foreseeable future.

Deferred tax assets are only recognized to the extent that it is probable that they will be realized. Estimates are used to determine the value of the deferred tax asset balance based on the assumption that the Company will generate taxable income in future years. Estimates are used to determine the taxes payable balance based on applicable tax legislation. For items in other comprehensive (loss) income, the related tax is also presented in other comprehensive (loss) income.

2.19 Impairment

The Company's financial assets are assessed at each reporting date to determine whether there is any objective evidence that they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

When an unrealized loss on an available-for-sale investment results from objective evidence of impairment, the difference between the acquisition cost (net of any principal repayment and amortization) of the investment and its fair value is recognized as a realized loss in net (loss) income and a corresponding adjustment is made to other comprehensive (loss) income. For debt securities, impairment could occur if there is objective evidence of impairment as a result of a loss event and that loss event has an impact on future cash flows, and for equity securities, impairment could occur as a result of a significant or prolonged decline in the fair value below its cost. In determining whether there is objective evidence of impairment, the factors considered are, primarily, the term of the unrealized loss and the amount of the unrealized loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in net (loss) income, the impairment loss is reversed, with the amount of the reversal recognized in net (loss) income.

The carrying amounts of the Company's non-financial assets are assessed at each statement of financial position date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and the carrying value is reduced to the estimated recoverable amount by means of an impairment charge to net (loss) income. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use.

2.20 Foreign currency

a) Functional and presentation currency

The Company's functional and presentation currency is Canadian dollars. Foreign currency transactions are translated into Canadian dollars at the foreign exchange rate in effect on the date of the transaction.

Foreign denominated monetary assets and liabilities are translated into the functional currency at the exchange rate in effect at the statement of financial position date. Foreign exchange differences arising on translation are recognized in net (loss) income. Foreign currency non-monetary assets and liabilities which are measured at historical cost are recorded at the exchange rate in effect at the date of transaction. Foreign currency non-monetary assets and liabilities which are measured at fair value are recorded at the exchange rate in effect at the date that fair value was determined.

For fixed maturities classified as available-for-sale, foreign exchange differences resulting from changes in amortized cost are recognized in net (loss) income, while foreign exchange differences arising from unrealized fair value gains and losses are included as unrealized (losses) gains within other comprehensive (loss) income.

2.20 Foreign currency (continued)

b) Financial statements of foreign operations

For foreign operations that have a functional currency other than Canadian dollars, the results and financial position of such operations are translated into Canadian dollars. Assets and liabilities of the foreign operations are translated at the foreign exchange rates in effect at the statement of financial position date, and income and expenses are translated at average rates approximating the foreign exchange rates in effect at the dates of the transactions.

Foreign exchange differences arising from the translation to Canadian dollars are recognized as cumulative translation adjustment ("CTA") in other comprehensive (loss) income.

2.21 Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Under certain reinsurance contracts, the Company offsets amounts carried as funds held by ceding companies against the corresponding liability for claims and LAE or investment contract liability where the intention is to settle on a net basis, or to realize the assets and settle the liability simultaneously.

2.22 Share-based compensation

The Company's accounting policies with respect to share-based compensation are in accordance with IFRS 2, *Share based payment*, for which the Company has adopted the amendments early.

a) Equity-settled stock option plan

The Company maintains an equity-settled stock option plan, which is described in Note 29.1. The value of equity-settled stock options is measured at the grant date, and the cost is recognized in Operating expenses as an expense over the period from the issue date to the vesting date. Obligations related to equity-settled stock options plans are recorded in shareholders' equity as contributed surplus. Any consideration paid by stock option holders to exercise the options increases share capital. The Company uses the Black-Scholes model to measure the fair value of stock options. Inputs to the model include a volatility measure, a risk free rate, and expected life of the options.

b) Cash-settled share based plan

The Company maintains a cash-settled share based plan, which is described in Note 29.2. The cost of cash-settled share based options is recognized in Operating expenses as an expense over the period from the issue date to the vesting date. Obligations related to cash-settled share based plans are recorded as liabilities at fair value in Accounts payable, accrued and other liabilities. At each reporting date, obligations related to the plan are re-measured at fair value with reference to the fair value of the Company's stock price and the number of units that have vested. The corresponding share-based compensation expense or recovery is recognized over the vesting period. The Company uses the Black-Scholes model to measure the fair value of cash-settled share based options. Inputs to the model include a volatility measure, a risk free rate, and expected life of the options.

c) Deferred share units plan

The Company has adopted a non-employee director Deferred Share Units ("DSU") plan, which is described in Note 29.3. This entitles the participants to receive, following the end of the director's tenure as a member of the Board, an amount equivalent to the value of a common share at settlement, for each DSU unit that the participant holds. Obligations related to the plan are recorded as liabilities at fair value in Accounts payable, accrued and other liabilities, and re-measured at each reporting date at fair value with reference to the fair value of the Company's stock price and the number of units that have vested. The cost of the DSUs is recognized in Operating expenses in the period they are awarded.

2.23 Future accounting policy changes

a) IFRS 9 Financial Instruments ("IFRS 9")

In November 2009, the IASB issued IFRS 9 as part of its plan to replace IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 requires financial assets, including hybrid contracts, to be measured at either fair value or amortized cost. In October 2010, the IASB added to IFRS 9 the requirements for classification and measurement of financial liabilities previously included in IAS 39. Another revised version of IFRS 9 was issued in July 2014 to include impairment requirements for financial assets and limited amendments by introducing a "fair value through other comprehensive income" measurement category. It also removed the mandatory effective date of January 1, 2015 and replaced it with a new effective date of January 1, 2018. This notwithstanding, the Company has elected to defer implementation of IFRS 9 to coincide with the implementation of IFRS 17 *Insurance Contracts* ("IFRS 17") as it is permitted to do (see IFRS 17 below).

b) IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

On May 28, 2014, the IASB published IFRS 15, which replaces IAS 11 *Construction Contracts* and IAS 18 *Revenues*. This new standard specifies how and when to recognize revenues according to a single five-step model, and the additional disclosure requirements. The provisions of this new standard were to apply to financial statements beginning on or after January 1, 2017. On September 11, 2015, the IASB published an amendment to the standard which deferred the effective date to financial statements beginning on or after January 1, 2018. Early adoption was permitted. The Company has assessed the impact of IFRS 15 and has determined that it will not have an impact on its consolidated financial statements.

c) IFRS 16 Leases ("IFRS 16")

In January 2016, the IASB published IFRS 16. The new standard brings most leases on to the statements of financial position, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 supersedes IAS 17 *Leases* and related interpretations and is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 has also been applied. The Company is assessing the impact that IFRS 16 will have on its consolidated financial statements.

d) IFRS 17

On May 18, 2017, the IASB issued the new standard IFRS 17 which allows insurance entities to elect one of the following two approaches with respect to financial instruments: (a) the deferral approach, which provides entities whose predominant activities are to issue insurance contracts within the scope of IFRS 4 a temporary exemption to continue using IAS 39, instead of IFRS 9, until January 1, 2021; and (b) the overlay approach, which can be applied to eligible financial assets and provides an option for all issuers of insurance contracts to reclassify from profit or loss to other comprehensive income any additional accounting volatility that may arise from applying IFRS 9 before IFRS 17 is applied. IFRS 17 requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. IFRS 17 supersedes IFRS 4 and related interpretations and is effective for fiscal years beginning on or after January 1, 2021. The Company is assessing the impact that IFRS 17 will have on its consolidated financial statements.

Note 3 – Critical accounting judgments and estimates in applying accounting policies

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses for the periods presented.

3.1 Critical accounting judgments in applying the Company's accounting policies

Judgments are used in applying the accounting policies used to prepare financial statements. Those judgments affect the carrying amount of certain assets and liabilities and the reported amounts of revenues and expenses recorded during the period.

a) Insurance Contracts

Judgments are used to determine whether contracts should be classified as insurance or investment contracts (see Note 2.9).

b) Investments

Judgments are used in determining the classification of investments as AFS or FVTPL (see Note 4.1).

c) Unpaid claims and LAE

Judgments are used in establishing provisions for unpaid claims and LAE (see Note 2.14).

3.2 Assumption and estimation uncertainty

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended December 31, 2017 is included below. Any changes in estimates are recorded in the period in which they are determined. Accordingly, actual results may differ from these and other estimates thereby impacting future financial statements:

a) Valuation of claims liabilities

Assumptions and estimation uncertainties exist related to the valuation of unpaid claims and LAE (see Note 2.14), as well as significant risk factors associated with insurance and reinsurance (see Note 11 and Note 12).

b) Valuation of structured insurance assets

Assumptions and estimation uncertainties exist related to the valuation of the structured insurance assets (see Note 4.4 and Note 5).

c) Measurement of income taxes

Assumptions and estimates are used in measuring the provision for incomes taxes (see Note 2.18 and Note 28).

(in thousands of Canadian dollars, except as otherwise noted)

Note 4 – Investments

4.1 Classification of financial instruments

The following table presents the classification of the investments.

As at December 31, 2017	**AFS**	**Designated FVTPL**	**Cash, loans and receivables**	**Total**
Cash and cash equivalents	**-**	**-**	**165,675**	**165,675**
Investments				
Fixed income	**106,453**	**22,014**	**-**	**128,467**
Income and investment trust units	**2,928**	**-**	**-**	**2,928**
Common shares	**31,249**	**-**	**-**	**31,249**
Preferred shares	**15,431**	**-**	**-**	**15,431**
Structured insurance assets	**-**	**12,566**	**-**	**12,566**
Total financial assets	**156,061**	**34,580**	**165,675**	**356,316**

As at December 31, 2016	AFS	Designated FVTPL	Cash, loans and receivables	Total
Cash and cash equivalents	-	-	122,096	122,096
Investments				
Fixed income	105,482	28,986	-	134,468
Income and investment trust units	2,802	-	-	2,802
Common shares	26,933	-	-	26,933
Preferred shares	14,865	-	-	14,865
Convertible debenture	-	196	-	196
Structured insurance assets	-	15,129	-	15,129
Total financial assets	150,082	44,311	122,096	316,489

(in thousands of Canadian dollars, except as otherwise noted)

4.2 Unrealized gains and losses

The amortized cost and fair values of investments as at December 31, 2017 and December 31, 2016 were as follows:

As at December 31, 2017	FVTPL investments	AFS investments				Total investments
	At carrying value	Amortized cost	Unrealized gains	Unrealized losses	Carrying value	At carrying value
Government	22,014	25,436	634	(30)	26,040	48,054
Corporate	-	80,121	407	(465)	80,063	80,063
Total bonds	22,014	105,557	1,041	(495)	106,103	128,117
Mortgage backed securities	-	332	-	(18)	314	314
Asset backed securities	-	55	36	(55)	36	36
Total fixed income	22,014	105,944	1,077	(568)	106,453	128,467
Income and investment trust units	-	2,115	935	(122)	2,928	2,928
Common shares	-	25,668	6,780	(1,199)	31,249	31,249
Preferred shares	-	14,441	1,165	(175)	15,431	15,431
Structured insurance assets	12,566	-	-	-	-	12,566
	34,580	148,168	9,957	(2,064)	156,061	190,641

As at December 31, 2016	FVTPL investments	AFS investments				Total investments
	At carrying value	Amortized cost	Unrealized gains	Unrealized losses	Carrying value	At carrying value
Government	28,986	27,702	1,236	(8)	28,930	57,916
Corporate	-	75,663	724	(352)	76,035	76,035
Total bonds	28,986	103,365	1,960	(360)	104,965	133,951
Mortgage backed securities	-	512	8	(44)	476	476
Asset backed securities	-	59	41	(59)	41	41
Total fixed income	28,986	103,936	2,009	(463)	105,482	134,468
Income and investment trust units	-	2,126	744	(68)	2,802	2,802
Common shares	-	22,162	5,372	(601)	26,933	26,933
Preferred shares	-	15,227	261	(623)	14,865	14,865
Convertible debenture	196	-	-	-	-	196
Structured insurance assets	15,129	-	-	-	-	15,129
	44,311	143,451	8,386	(1,755)	150,082	194,393

(in thousands of Canadian dollars, except as otherwise noted)

4.2 Unrealized gains and losses (continued)

Management has reviewed currently available information regarding those investments with a fair value less than carrying value. During the year ended December 31, 2017, management recognized an impairment of $321 (2016 – $2,888). Assumptions are used when estimating the value of impairment based on the Company's impairment policy, which involves comparing fair value to carrying value.

4.3 Pledged assets

In the normal course of insurance and reinsurance operations, the Company must secure its obligations under certain insurance and reinsurance contracts by collateralizing them with letters of credit or trust arrangements. These trusts and letters of credit may, in turn, be secured by the Company's fixed income investments. As at December 31, 2017, the Company has pledged cash and cash equivalents and short term deposits amounting to $52,767, and pledged fixed maturity investments amounting to $30,646 (December 31, 2016 – $64,710 and $42,228, respectively), under insurance and reinsurance trust arrangements and are therefore not readily available for general use by the Company.

As at December 31, 2017, the Company pledged $375 (December 31, 2016 – $nil) of fixed income investments as security deposit to the Oklahoma Insurance Department to be held in trust for and pledged to the State of Oklahoma.

4.4 Structured insurance assets

The structured insurance assets represent the Company's purchase of the rights to collect commission income on portfolios of long-term care insurance policies issued by investment grade insurance companies. The commissions are paid into trusts, from which the amounts due to the Company, being the commissions net of expenses of the trusts, are paid. The commission income for the year ended December 31, 2017 amounted to $2,379 (December 31, 2016 – $4,940), which has been recorded within net investment income (see Note 20).

Note 5 – Fair value measurement

During the years 2017 and 2016 there were no transfers between levels.

The following sets out the financial instruments classified in accordance with the fair value hierarchy as at December 31, 2017 and December 31, 2016:

As at December 31, 2017	Total fair value	Level 1	Level 2	Level 3
Government	48,054	-	48,054	-
Corporate	80,063	-	80,063	-
Total bonds	128,117	-	128,117	-
Mortgage backed securities	314	-	-	314
Asset backed securities	36	-	-	36
Total fixed income	128,467	-	128,117	350
Income and investment trust units	2,928	2,928	-	-
Common shares	31,249	30,942	-	307
Preferred shares	15,431	15,431	-	-
Structured insurance assets	12,566	-	-	12,566
Total investments	190,641	49,301	128,117	13,223
Derivative financial assets	152	-	152	-
	190,793	49,301	128,269	13,223

(in thousands of Canadian dollars, except as otherwise noted)

Note 5 – Fair value measurement (continued)

As at December 31, 2016	Total fair value	Level 1	Level 2	Level 3
Government	57,916	-	57,916	-
Corporate	76,035	-	76,035	-
Total bonds	133,951	-	133,951	-
Mortgage backed securities	476	-	-	476
Asset backed securities	41	-	-	41
Total fixed income	134,468	-	133,951	517
Income and investment trust units	2,802	2,802	-	-
Common shares	26,933	26,933	-	-
Preferred shares	14,865	14,865	-	-
Structured insurance assets	15,129	-	-	15,129
Convertible debenture	196	196	-	-
Total investments	194,393	44,796	133,951	15,646
Derivative financial liabilities	(278)	-	(278)	-
	194,115	44,796	133,673	15,646

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the hierarchy for the years ended December 31, 2017 and December 31, 2016:

	2017	2016
Balance at beginning of year	**15,646**	16,119
Unrealized losses	**(1,705)**	(2,950)
Amortization of (premium) discount	**(38)**	2,936
Purchase of securities	**318**	-
Foreign exchange	**(998)**	(459)
Balance at end of year	**13,223**	15,646

Included within the Level 3 assets are the structured insurance assets. The structured insurance assets are valued using a proprietary discounted cash flow valuation model. The fair value of this investment is based on discounting the expected future commission using a U.S. Treasury yield curve adjusted for credit risk associated with the receipt of future commission payments from the insurance companies. The credit risk adjustment is done since the Company takes on the credit risk of the insurance companies who have the ultimate commission obligations. The majority of commissions are received from insurance companies with an A.M. Best Company, Inc. ("A.M. Best") long-term issuer credit ratings of A or better.

Expected future cash flows are projected taking into account the probability of the policy being cancelled by the insured (referred to as lapse), the insured becoming sick and making a claim under the insurance policy (referred to as morbidity) and having future premium payments waived, or the insured dying (referred to as mortality). These actuarial risks are modeled using data drawn from the insurance companies and the Society of Actuaries Long Term Care Studies, as well as data from other public and non-public sources supplemented, as appropriate, by assistance from external actuarial consultants. The assumptions used are reviewed on a regular basis.

(in thousands of Canadian dollars, except as otherwise noted)

Note 5 – Fair value measurement (continued)

The following table shows the sensitivity of the valuation to a 1% change in the lapse rate.

	December 31, 2017	December 31, 2016
Sensitivity factor	Impact on comprehensive (loss) income from change in average reserve	
100 basis point increase in lapse rate	**(587)**	(712)
100 basis point decrease in lapse rate	**631**	766

The following tables present quantitative information about the significant fair value inputs utilized by the Company for Level 3 assets:

	Fair value as at December 31, 2017	**Valuation technique**	**Unobservable inputs**	**Range**
Structured insurance assets	**12,566**	**Discounted cash flow**	**Discount rate load (1)**	**0.5% - 6%**
			Mortality rates (2)	**n/a**
			Morbidity rates (3)	**0.3% - 28.6%**
			Lapse rates (4)	**1.25%**
Fixed income	**350**	**Dealer quotes**	**n/a (5)**	**n/a**
Private equity fund investments	**307**	**Net asset value (6)**	**n/a**	**n/a**

	Fair value as at December 31, 2016	Valuation technique	Unobservable inputs	Range
Structured insurance assets	15,129	Discounted cash flow	Discount rate load (1)	0.5% - 6%
			Mortality rates (2)	n/a
			Morbidity rates (3)	0.3% - 28.6%
			Lapse rates (4)	3%
Fixed income	517	Dealer quotes	n/a (5)	n/a

(1) The discount rate used by the Company consists of three components:
- Risk free rate: based on U.S. Treasury strip rates that are quoted observable fair value inputs.
- Credit risk: based on counterparty credit default swap rates that are quoted observable fair value inputs.
- Discount rate load: the risk premium applied to projected cash flows which increases over time. A decrease in discount rate load, increases estimated fair value.

(2) Mortality rates are derived from Annuity 2000 mortality tables developed by the Society of Actuaries in the United States.

(3) Morbidity rates refer to the percentage of policyholders in receipt of benefit during which time premiums are waived. These rates vary by age and gender and are based on long term care industry data.

(4) Lapse rates are the percentage of policyholders electing to cancel their policy and are based on long term care industry data.

(5) The fair value of fixed maturities is determined using International Data Corporation's valuation methodology and obtained by Asset Managers responsible for managing these assets. Consequently, quantitative unobservable inputs are not developed by the Company when measuring fair value.

(6) The reported net asset value from the Asset Manager approximates the fair value of the investment.

(in thousands of Canadian dollars, except as otherwise noted)

Note 6 – Deferred acquisition costs

The following changes have occurred to the deferred acquisition costs for the years ended December 31, 2017 and December 31, 2016:

Deferred acquisition costs	December 31, 2017	December 31, 2016
Opening costs, beginning of year	**30,985**	25,862
Acquisition costs deferred	**45,245**	36,201
Amortization of deferred costs	**(35,964)**	(31,078)
Closing balance, end of year	**40,266**	30,985

Reinsurers' share of deferred acquisition costs	December 31, 2017	December 31, 2016
Opening costs, beginning of year	**4,928**	5,277
Acquisition costs deferred	**9,112**	8,478
Amortization of deferred costs	**(8,474)**	(8,827)
Closing balance, end of year	**5,566**	4,928

The reinsurers' share of deferred acquisition costs is referred to as Unearned reinsurance commissions in the consolidated statements of financial position.

Note 7 – Unearned premiums

7.1 Nature of unearned premiums

Unearned premiums are calculated on a pro rata basis from the unexpired portion of the premiums written. The unearned premiums estimate is validated through standard actuarial techniques to ensure that after deducting any deferred policy acquisition costs, these premiums are sufficient to cover the estimated future costs of servicing the associated policies, expected claims, LAE, and taxes to be incurred. In estimating these costs, the Company uses discounting techniques to take into account the time value of money and a provision for adverse deviation is added to the discounted amount. There was no premium deficiency at December 31, 2017 or December 31, 2016.

The carrying value of unearned premiums approximates their fair value.

7.2 Unearned premiums by line of business

December 31, 2017	Gross	Ceded	Net
Surety	**21,645**	**7,174**	**14,471**
Corporate insurance	**28,216**	**9,763**	**18,453**
Risk solutions	**65,496**	**10,071**	**55,425**
	115,357	**27,008**	**88,349**

December 31, 2016	Gross	Ceded	Net
Surety	19,212	6,208	13,004
Corporate insurance	20,989	4,348	16,641
Risk solutions	50,411	11,888	38,523
	90,612	22,444	68,168

Reinsurers' share of unearned premiums referred to as Ceded in the table above forms part of the balance of Recoverable from reinsurers in the consolidated statements of financial position.

(in thousands of Canadian dollars, except as otherwise noted)

7.2 Unearned premiums by line of business (continued)

The following changes have occurred in the provision for unearned premiums during the years ended December 31, 2017 and December 31, 2016:

Unearned premiums

	December 31, 2017	December 31, 2016
Unearned premiums, beginning of year	**90,612**	71,480
Gross premiums written	**146,598**	124,802
Gross premiums earned	**(121,853)**	(105,670)
Unearned premiums, end of year	**115,357**	90,612

Reinsurers' share of unearned premium

	December 31, 2017	December 31, 2016
Reinsurers' share of unearned premiums, beginning of year	**22,444**	18,121
Ceded premiums written	**46,977**	37,617
Ceded premiums earned	**(42,413)**	(33,294)
Reinsurers' share of unearned premiums, end of year	**27,008**	22,444

Note 8 – Unpaid claims and loss adjustment expenses

8.1 Unpaid claims and loss adjustment expenses by line of business

As at December 31, 2017	**Gross**	**Ceded**	**Net**
Trisura Guarantee			
Surety	**15,814**	**4,952**	**10,862**
Corporate insurance	**52,105**	**26,656**	**25,449**
Risk solutions	**22,593**	**6,638**	**15,955**
	90,512	**38,246**	**52,266**
Trisura International			
Life	**68,896**	**-**	**68,896**
Property and casualty	**19,477**	**-**	**19,477**
	88,373	**-**	**88,373**
	178,885	**38,246**	**140,639**

As at December 31, 2016	Gross	Ceded	Net
Trisura Guarantee			
Surety	15,305	4,333	10,972
Corporate insurance	23,007	2,554	20,453
Risk solutions	29,153	17,789	11,364
	67,465	24,676	42,789
Trisura International			
Life	72,881	-	72,881
Property and casualty	23,624	-	23,624
	96,505	-	96,505
	163,970	24,676	139,294

Unpaid claims and loss adjustment balances due from reinsurers, referred to above as Ceded balances, are grouped with unearned reinsurance assets in Recoverable from reinsurers on the consolidated statements of financial position.

(in thousands of Canadian dollars, except as otherwise noted)

8.1 Unpaid claims and loss adjustment expenses by line of business (continued)

The following changes have occurred to the provision for unpaid claims for the year ended December 31:

Gross claim reserves

	December 31, 2017	December 31, 2016
Unpaid claims, beginning of year	**163,970**	168,772
Add: Provisions offset against funds held by ceding companies[1]	**-**	32,013
Gross unpaid claims, beginning of year	**163,970**	200,785
Change in undiscounted estimates for losses of prior years	**(2,101)**	(2,074)
Change in discount rate	**(727)**	(745)
Change in provision for adverse deviation	**1,627**	1,826
Claims occurring in current year (including paid)	**43,386**	40,249
Amounts transferred on novation [1]	**-**	(30,976)
Paid on claims occurring during:		
Current year	**(10,130)**	(8,896)
Prior years	**(19,822)**	(31,280)
Foreign exchange	**2,682**	(4,919)
Unpaid claims, end of year	**178,885**	163,970

Reinsurers' share of claim reserves

	December 31, 2017	December 31, 2016
Unpaid claims, beginning of year	**24,676**	18,958
Change in undiscounted estimates for losses of prior years	**2,483**	(800)
Change in discount rate	**(348)**	(194)
Change in provision for adverse deviation	**782**	434
Claims occurring in current year (including paid)	**21,645**	11,871
Paid on claims occurring during:		
Current year	**(3,933)**	(2,560)
Prior years	**(7,059)**	(3,033)
Unpaid claims, end of year	**38,246**	24,676

(1) In 2016, the provisions offset against funds held by ceding companies were transferred on novation and no longer offset unpaid claims.

(in thousands of Canadian dollars, except as otherwise noted)

8.2 Prior year claims development

The following tables present the gross and net cumulative claim payments to date and estimate of gross and net ultimate claims incurred, including IBNR claims and provisions for adverse deviation (“PfAD”), at the end of the year:

Gross claims loss development

Accident year	All prior years	2008	2009	2010	2011	2012	2013	2014	2015	2016	**2017**	Total
Estimate of gross ultimate claims incurred		287,250	57,059	18,104	11,741	12,187	20,896	22,377	29,316	40,249	**43,386**	
One year later		283,461	52,621	16,169	12,935	9,615	17,155	21,878	24,413	38,564		
Two years later		279,914	51,188	16,669	12,322	8,078	13,608	20,660	24,425			
Three years later		281,760	52,522	16,125	12,006	7,178	13,062	20,648				
Four years later		288,683	54,563	14,289	9,638	6,801	12,725					
Five years later		293,413	54,863	13,312	8,979	8,101						
Six years later		293,985	53,469	13,316	8,852							
Seven years later		286,522	53,496	13,459								
Eight years later		285,179	53,493									
Nine years later		285,568										
Estimate of gross ultimate claims incurred	2,432,806	285,568	53,493	13,459	8,852	8,101	12,725	20,648	24,425	38,564	**43,386**	2,942,027
Cumulative claim payments to date	(2,418,944)	(282,030)	(51,369)	(13,272)	(7,624)	(5,121)	(7,979)	(14,665)	(13,805)	(12,133)	**(10,129)**	(2,837,071)
Unpaid claims	13,862	3,538	2,124	187	1,228	2,980	4,746	5,983	10,620	26,431	**33,257**	104,956
Impact of discounting	-	-	-	(5)	(25)	(60)	(138)	(204)	(372)	(1,126)	**(1,277)**	(3,207)
Impact of PfAD	-	1	5	23	116	381	459	601	1,026	2,421	**3,207**	8,240
Present value of unpaid claims with PfAD	13,862	3,539	2,129	205	1,319	3,301	5,067	6,380	11,274	27,726	**35,187**	109,989
Add: Discounted reserves on life contracts												68,896
Total unpaid claims and LAE												178,885

(in thousands of Canadian dollars, except as otherwise noted)

8.2 Prior year claims development (continued)

Net claims loss development

Accident year	All prior years	2008	2009	2010	2011	2012	2013	2014	2015	2016	**2017**	Total
Estimate of net ultimate claims incurred		282,863	54,545	14,613	10,003	10,463	12,349	14,002	18,997	28,378	**21,741**	
One year later		280,151	51,532	12,831	10,211	8,872	9,953	12,363	15,878	26,772		
Two years later		278,950	50,415	13,397	9,683	7,402	6,651	10,310	14,365			
Three years later		280,835	51,707	12,913	9,253	6,845	5,648	9,224				
Four years later		287,602	53,787	11,179	7,564	6,568	5,324					
Five years later		292,363	54,130	10,287	7,053	7,861						
Six years later		292,929	52,740	10,349	6,958							
Seven years later		285,455	52,767	10,492								
Eight years later		284,115	52,765									
Nine years later		284,504										
Estimate of net ultimate claim incurred	2,366,525	284,504	52,765	10,492	6,958	7,861	5,324	9,224	14,365	26,772	**21,741**	2,806,531
Cumulative claim payments to date	(2,352,667)	(280,967)	(50,641)	(10,321)	(6,096)	(4,884)	(3,836)	(6,810)	(9,427)	(6,625)	**(6,198)**	(2,738,472)
Net unpaid claims	13,858	3,537	2,124	171	862	2,977	1,488	2,414	4,938	20,147	**15,543**	68,059
Impact of discounting	-	1	-	(5)	(21)	(60)	(43)	(87)	(181)	(882)	**(684)**	(1,962)
Impact of PfAD	-	1	4	22	91	382	249	361	650	1,996	**1,890**	5,646
Present value of net unpaid claims with PfAD	13,858	3,539	2,128	188	932	3,299	1,694	2,688	5,407	21,261	**16,749**	71,743
Add: Net discounted reserves on life contracts												68,896
Total unpaid claims and LAE												140,639

Note 9 – Premiums and accounts receivable, and other assets

As at December 31, 2017 and December 31, 2016, premiums and accounts receivable, and other assets consists of:

As at December 31,	**2017**	2016
Premiums receivable	**20,552**	17,887
Accrued investment income	**909**	865
Tax recoveries	**477**	432
Funds held by ceding companies	**374**	406
Prepaid expenses	**224**	175
Derivative assets	**152**	-
Executive share purchase plan receivable (see Note 25)	**-**	1,542
Interest receivable	**-**	356
Miscellaneous assets	**484**	406
	23,172	22,069

(in thousands of Canadian dollars, except as otherwise noted)

Note 10 – Accounts payable, accrued and other liabilities

As at December 31, 2017 and December 31, 2016, accounts payable, accrued and other liabilities consist of:

As at December 31,	2017	2016
Deposits in trust	**6,592**	4,179
Accrued liabilities	**6,576**	4,238
Other liabilities	**3,586**	5,786
Investment contract liabilities	**2,856**	2,750
Share based payment plan	**185**	4,262
Severance	**-**	440
Taxes payable	**-**	3,501
Derivative liabilities	**-**	278
	19,795	25,434

Note 11 – Risk management

As a provider of insurance products, effective risk management is critical to the Company's ability to protect the interests of its stakeholders. The most significant risks include those associated with insurance contracts and holding financial instruments. The Company has policies and procedures governing the identification, measurement, monitoring, mitigating and controlling of risks associated with insurance contracts and holding financial instruments. The most significant risk associate with insurance contracts is insurance risk, which includes pricing risk, concentration risk and reserving risk. The significant risks associated with financial instruments are credit risk, liquidity risk and market risk (comprising currency risk, interest rate risk and other price risks such as equity risk).

The following sections describe how the Company manages both its insurance risk as well as risks associated with financial instruments.

11.1 Insurance risk

Insurance risk is the risk that the ultimate cost of claims and LAE, as well as acquisition expenses, related to insurance contracts will exceed premiums received in respect of those contracts. This could occur because either the frequency or severity of claims is greater than expected.

The Company's objective for managing insurance risk is to minimize the risk through effective use of underwriting guidelines, claims and expense management, and reinsurance, while continuing to grow and to achieve profitable underwriting results within its identified product lines. To achieve that objective, senior management has developed underwriting and pricing guidelines to be followed when issuing bonds and policies or assuming reinsurance risk. In addition to that, careful oversight is applied to all aspects of the underwriting process to ensure that guidelines are followed. Furthermore, the Company regularly reviews its underwriting and pricing guidelines to ensure that they reflect emerging trends in its existing business and in the marketplace.

The insurance risks associated with insurance contracts underwritten by the Company are subject to a number of variables such as estimated loss ratios and estimated claims settlement costs, which are sensitive to various assumptions which can impact the estimation of claims liabilities (see Note 2.14).

(in thousands of Canadian dollars, except as otherwise noted)

11.1 Insurance risk (continued)

Some additional factors that impact insurance risk include pricing risk, concentration risk and reserving risk, which are described below:

a) Pricing risk

Pricing risk is the risk that an insurance product has been priced with assumptions about claims and LAE activity that are different from the actual experience of that product line. The Company's pricing guideline are designed such that premium rates take into account claims frequency and severity, expense levels, investment returns and profit margins required to support a particular product line. The Company reviews pricing assumptions regularly to ensure that they reflect the latest claims experience and current market conditions. The Company mitigates the impact of pricing risk through the application of pricing guidelines in the underwriting process, and through the employment of experienced underwriting staff.

b) Reserving risk

Reserving risk is the risk that future claims and LAE arising on past exposure periods exceed the liability recorded in respect of unpaid claims and LAE. The Company's management of reserving risk is discussed in Note 2.14.

c) Concentration of insurance risk

Concentration risk is the risk that the Company's insurance products are concentrated within a particular geographic area, particular class of business, or a particular insured, thereby increasing the exposure of the Company to a single event or a series of related events. Concentration of risk could arise as a result of a single bondholder having multiple bonds outstanding, or as a result of a large number of insurance or reinsurance contracts issued for a similar class of business or geographic area. Concentrations of risk can arise from either high-severity or low-frequency events, such as natural disasters and from situations where the underwriting of risk is biased towards a particular area of risk, such as a particular type of business or a particular geographic region.

To mitigate the impact of concentration of risk, the Company applies risk management practices in its underwriting guidelines, and regularly reviews its portfolio of insurance risks for high concentrations and aggregations of risk and makes adjustments as needed in order to ensure that a diversified portfolio is maintained across geographic regions and different product lines. The Company also uses a number of modeling tools to monitor the diversification across the portfolio and actively manages its reinsurance programs and collateral requirements in order to maintain net claims within its risk tolerance.

The following table shows the mix of the Company's policies by product line and geography, which reflects the Company's diversification of insurance risk:

	December 31, 2017			December 31, 2016		
	Canada	**U.S.**	**Other**	Canada	U.S.	Other
Surety	**48,815**	**875**	**-**	43,247	504	-
Corporate insurance	**32,718**	**-**	**-**	31,761	-	-
Risk solutions	**64,190**	**-**	**-**	49,290	-	-
Direct premiums written	**145,723**	**875**	**-**	124,298	504	-
Life	**-**	**-**	**-**	-	-	-
Property & casualty	**-**	**-**	**165**	-	-	163
Assumed reinsurance	**-**	**-**	**165**	-	-	163
Gross premiums written	**145,723**	**875**	**165**	124,298	504	163

(in thousands of Canadian dollars, except as otherwise noted)

11.1 Insurance risk (continued)

d) Sensitivity to insurance risk

i) Property and casualty business of Trisura Guarantee and Trisura International

The insurance risks associated with the lines of business underwritten by the Company are sensitive to various assumptions which can impact the estimation of claims liabilities. The relevant risk variables for the Company's Property and Casualty lines of business associated with the estimation of claims liabilities are subject to assumptions that include the estimated loss ratio as well as the estimated claims settlement costs. The loss ratio is used to calculate losses of the Company with respect to its ongoing property and casualty insurance operations as a percentage of net premiums earned. Below is an analysis showing the impact of a 5% increase in the loss ratio, as a percentage of net earned premium, and a 5% increase in claims settlement costs of the property and casualty claims reserves, based on an increase in the current net unpaid claims balance. Such variances in the estimation were considered reasonably possible during the years ended December 31, 2017 and 2016. The impacts described in the table below are independent of one another. A 5% decrease to the loss ratio and a 5% decrease in claims settlement costs would have the opposite effect on comprehensive (loss) income and shareholders' equity.

	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Sensitivity factor	Impact on comprehensive (loss) income		Impact on shareholders' equity	
5% increase to loss ratio	**(3,964)**	(3,605)	**(2,905)**	(2,649)
5% increase to claims settlement costs	**(3,484)**	(3,093)	**(2,786)**	(2,526)

ii) Life business of Trisura International

The Company's life reserves are held in respect of a book of deferred annuities with guaranteed annuity conversion options ("GAO"). A significant risk factor in relation to these reserves is the proportion of policyholders who take up the GAO upon retirement. The following table shows the impact on reserves of a 100 basis point change in the GAO take-up rate.

	December 31, 2017	December 31, 2016
Sensitivity factor	Impact on comprehensive (loss) income from change in average reserve	
100 basis point increase in GAO take-up rate	1,117	1,065
100 basis point decrease in GAO take-up rate	(1,135)	(1,065)

Unpaid claims and LAE are also sensitive to interest rates due to the time value of money. The impact of the interest rate sensitivity on unpaid claims is shown in Note 11.4(b). The structured insurance assets are sensitive to changes in lapse rates. The impact of lapse rate sensitivity on the structured insurance assets is shown in Note 5.

11.2 Credit risk

Credit risk is the risk that a party to a financial instrument will fail to discharge an obligation and cause the Company to incur a financial loss. Credit risk arises mainly from investments in bonds and short-term securities, the structured insurance assets, and balances receivable from insurance brokers and reinsurers.

For debt securities, the Company manages its credit risk by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty or, where a rating is not available by assigning an internal rating equivalent based on market comparables for the counterparty or based on the collateral supporting the counterparty risk. Management monitors credit quality on an on-going basis and reviews the investment portfolio.

For the structured insurance assets, the Company minimizes its credit exposure through transacting with investment grade counterparties.

11.2 Credit risk (continued)

For Premiums receivable, the Company uses insurance brokers as intermediaries for the distribution of its product offerings and is therefore subject to the risk that these brokers fail to remit the premiums they have collected on its behalf. The Company only deals with licensed brokers with which it has entered into a contract that details, among other things, the broker's responsibilities and payment obligations. Further, the Company monitors accounts receivable from each broker and follows-up all past due amounts to ensure satisfactory collection arrangements are in place. As at December 31, 2017, $1,735 of premiums receivable was past due but not considered to be impaired (December 31, 2016 – $1,429).

As at December 31, 2017, the Company has Miscellaneous assets that include amounts that are past due and are recorded net of an allowance for impairment of $955 (2016 – $1,023) based on management's estimate given the age and circumstances surrounding the past due amounts. As at December 31, 2017, $125 of Miscellaneous assets was past due but not considered impaired (December 31, 2016 – $134).

For recoverables from reinsurers, the Company applies its reinsurance risk management policy to manage the credit risk associated with these balances. The Company is ultimately at risk on the limits of coverage provided under its product offerings, regardless of whether it has ceded a portion of this exposure to reinsurers. If a reinsurer is unwilling or unable to satisfy its obligations, the Company does not have the right to correspondingly reduce its claims payment obligations. The Company's general practice is to use only licensed reinsurers that have a minimum A.M. Best credit rating of A-, and management monitors these ratings on a regular basis. Furthermore, the Company's reinsurance risk management policy places limits on the participation of individual reinsurers in the Company's reinsurance arrangements. These participations and limits are reviewed regularly.

When the Company uses an unlicensed reinsurer in Canada, it is required to establish a custodial account secured under a reinsurance security agreement, post a letter of credit or provide other forms of security in an amount equal to at least 115% of the unearned premium, unpaid claims and LAE on business ceded to it.

For funds withheld by ceding companies, credit risk is monitored regularly by experienced staff. Funds withheld by ceding companies relate to the Company's reinsurance business and credit risk is mitigated by contractual rights to offset amounts receivable against claims and other amounts payable. The Company periodically obtains letters of credit from counterparties to collateralize some of these and potential future receivables.

Derivative assets and other assets are carefully monitored with reference to the credit quality of the counter-party, and an impairment allowance is made if deemed appropriate.

There is considered to be no credit risk associated with the Executive share purchase plan as payments are deducted from participants' monthly payroll and in the event of a departure, participants are required to sell their shares and use proceeds to settle amounts owing to the Company.

(in thousands of Canadian dollars, except as otherwise noted)

11.2 Credit risk (continued)

a) Maximum exposure to credit risk of the Company

The following table sets out the Company's maximum exposure to credit risk related to financial instruments. The maximum credit exposure is the carrying value of the asset net of any allowances for losses.

As at	December 31, 2017	December 31, 2016
Cash and cash equivalents	**165,675**	122,096
Bonds		
Government	**48,054**	57,916
Corporate	**80,063**	76,035
Mortgage backed securities	**314**	476
Asset backed securities	**36**	41
Structured settlements	**12,566**	15,129
Premiums receivable	**20,552**	17,887
Accrued investment income	**909**	864
Funds held by ceding companies	**374**	406
Derivative assets	**152**	-
Other assets	**961**	1,184
	329,656	292,034

b) Concentration of credit risk of the Company

Concentrations of credit risk can arise from exposures to a single debtor, a group of related debtors or groups of debtors that have similar risk characteristics, for example the may operate in the same or similar industries. The following table provides details of the fair value of fixed income securities by industry sector:

As at	December 31, 2017	December 31, 2016
Government	**48,054**	57,916
Financial	**40,959**	38,448
Real estate	**10,514**	5,654
Industrials	**9,947**	12,327
Infrastructure	**5,816**	5,942
Automotive	**5,624**	2,026
Power and pipelines	**4,482**	8,026
Consumer discretionary	**3,071**	3,117
Retail	**-**	1,012
	128,467	134,468

(in thousands of Canadian dollars, except as otherwise noted)

11.2 Credit risk (continued)

c) Asset quality

The following table summarizes the credit ratings for fixed income securities and cash equivalents:

As at	December 31, 2017	December 31, 2016
Fixed income securities		
AAA	**11,569**	20,022
AA	**32,062**	30,140
A	**52,727**	45,137
BBB	**30,425**	37,316
Below BBB	**1,684**	1,853
	128,467	134,468
Cash equivalents		
R-1 (medium)	**56,680**	-
R-1 (low)	**25,858**	8,687
	82,538	8,687
	211,005	143,155

11.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk may arise from a number of potential areas including, for example, duration mismatch between assets and liabilities.

Generally, the Company's financial liabilities are settled by delivering cash and it is able to rely on the cash flow generated from its operations to satisfy its liquidity requirements, which are primarily operating expenses and claims and loss adjustment payments.

By their nature, the timing and quantum of claims and loss adjustment payments are subject to significant uncertainty and are estimated actuarially as set out in Note 2.14. Although the Company has reinsurance treaties in place under which a portion of the claims payments may be recovered, including by way of set off against premiums payable to the reinsurers, such recoveries usually follow the making of payments and often with delays of a number of months. Hence the Company must have access to sufficient liquid resources to fund gross amounts payable when required.

To manage its liquidity requirements, the Company maintains a minimum balance of cash and cash equivalents and a highly rated, highly liquid investment portfolio. The Company's investment policy sets out minimum criteria for the credit quality of each class of investment held. In addition, the investment policy stipulates average duration of bonds and maximum maturity limits. For common shares, preferred shares and income and investment trusts limitations are placed on exposure to any one issuer.

The Company also manages the liquidity risk associated with its assumed reinsurance liabilities through its asset liability matching processes. The long-tailed nature of much of the Company's reinsurance business also reduces the likelihood of sudden or unexpected spikes in claim payment requirements.

The Company periodically pledges assets under insurance and reinsurance trust arrangements which are therefore not readily available for general use by the Company (see Note 4.3).

(in thousands of Canadian dollars, except as otherwise noted)

11.3 Liquidity risk (continued)

The following tables set out the Company's financial assets and liabilities by contractual maturity.

As at December 31, 2017	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**No specific maturity**	**Total**
Cash	-	-	-	165,675	165,675
Total investments	13,631	89,508	24,977	49,960	178,076
Structured insurance assets	1,992	5,772	4,801	-	12,565
Premiums receivable	18,841	1,711	-	-	20,552
Other financial assets	2,567	53	-	-	2,620
Reinsurers' share of claims reserves	14,385	20,128	3,733	-	38,246
Financial and insurance assets (1)	51,416	117,172	33,511	215,635	417,734

As at December 31, 2016	Up to 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
Cash	-	-	-	122,096	122,096
Total investments	15,629	73,626	45,213	44,796	179,264
Structured insurance assets	2,356	6,943	5,830	-	15,129
Premiums receivable	15,988	1,899	-	-	17,887
Other financial assets	2,222	62	-	1,898	4,182
Reinsurers' share of claims reserves	9,204	13,264	2,208	-	24,676
Financial and insurance assets (1)	45,399	95,794	53,251	168,790	363,234

(1) Deferred acquisition costs and reinsurers' share of unearned premiums have been excluded as they are not subject to any liquidity risk.

As at December 31, 2017	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**No specific maturity**	**Total**
Unpaid claims and LAE (2)	48,205	92,886	31,470	3,558	176,119
Reinsurance premiums payable	17,555	-	-	-	17,555
Loans payable	-	29,700	-	-	29,700
Other financial liabilities	12,240	883	-	6,672	19,795
Financial and insurance liabilities (3)	78,000	123,469	31,470	10,230	243,169

As at December 31, 2016	Up to 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
Unpaid claims and LAE (2)	37,288	89,309	31,520	-	158,117
Reinsurance premiums payable	13,461	-	-	-	13,461
Other financial liabilities	18,984	1,637	-	4,813	25,434
Loans payable	-	34,100	-	-	34,100
Liabilities to participating shareholders	-		-	16,008	16,008
Financial and insurance liabilities (3)	69,733	125,046	31,520	20,821	247,120

(2) Undiscounted and excluding PfADs.
(3) Unearned premiums have been excluded as they are not subject to any liquidity risk.

(in thousands of Canadian dollars, except as otherwise noted)

11.4 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes currency risk, interest rate risk and other price risks such as equity price risk.

a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has operations in the United States and Canada, as well as European exposure through its reinsurance operations and therefore has exposure to currency risk arising from fluctuations in exchange rates of the Canadian and Euro against the United States dollar. The foreign currency positions of the Company are monitored quarterly and the Company uses derivatives to manage foreign exchange risks where a material unmatched foreign exchange position exists. As at December 31, 2017 and December 31, 2016, the short position in Euro was hedged by a forward currency exchange contract.

The following tables summarize the carrying value of total assets and total liabilities of the Company categorized by major currency. All amounts below are converted to Canadian dollar equivalents:

As at December 31, 2017	**CDN**	**USD**	**EUR**	**Other**	**Total**
Total assets	**314,107**	**109,796**	**63,925**	**532**	**488,360**
Total liabilities	**273,999**	**21,972**	**71,223**	**(336)**	**366,858**
Net assets	**40,108**	**87,824**	**(7,298)**	**868**	**121,502**

As at December 31, 2016	CDN	USD	EUR	Other	Total
Total assets	257,865	91,299	68,604	1,633	419,401
Total liabilities	240,471	30,013	77,941	88	348,513
Net assets	17,394	61,286	(9,337)	1,545	70,888

The assets and liabilities above were translated at exchange rates at the reporting date and are stated before taking into account the effect of forward currency exchange contracts.

b) Interest rate risk

Interest rate risk is the potential for financial loss resulting from changes in interest rates. Bonds, structured insurance assets and preferred shares are subject to interest rate risk although, in the case of bonds, to the extent they are held to maturity, the risk is limited to the reinvestment yield being different from the original yield to maturity. The fair value of bonds, change inversely with changes in market rates of interest, with greater impact to bonds with longer durations.

The Company's unpaid claims balance is also subject to interest rate risk, in particular the Company's life reserves which have longer durations.

The Company manages its interest rate risk through its investment policy which considers average duration of bonds held and maximum maturity limit as well as asset liability matching.

(in thousands of Canadian dollars, except as otherwise noted)

11.4 Market risk (continued)

b) Interest rate risk (continued)

As at December 31, 2017 Sensitivity factor	**Fixed income (including preferred shares)**	**Structured insurance asset**	**Net unpaid claims**	**Impact on comprehensive (loss) income**
100 basis point increase parallel shift in the yield curve, assuming all other variables remain constant	**(7,704)**	**(544)**	**(22,243)**	**14,826**
100 basis point decrease parallel shift in the yield curve, assuming all other variables remain constant	**8,804**	**592**	**29,175**	**(20,668)**

As at December 31, 2016 Sensitivity factor	Fixed income (including preferred shares)	Structured insurance asset	Net unpaid claims	Impact on comprehensive (loss) income
100 basis point increase parallel shift in the yield curve, assuming all other variables remain constant	(9,649)	(661)	(22,675)	13,490
100 basis point decrease parallel shift in the yield curve, assuming all other variables remain constant	10,575	719	24,335	(14,122)

c) Equity price risk

Equity price risk is the uncertainty associated with the valuation of assets arising from changes in equity markets.

The Company's exposure to equity price risk is managed and mitigated through its investment policy which sets out maximum exposures to equities at aggregate and per issuer levels as well as requiring diversification across different industry sectors.

As at	**December 31, 2017**	December 31, 2016	**December 31, 2017**	December 31, 2016
Sensitivity factor	Impact on comprehensive (loss) income (1)		Impact on fair value of investment portfolio	
10% increase in equity prices (excluding preferred shares)	**2,544**	2,216	**3,410**	2,974
10% decrease in equity prices (excluding preferred shares)	**(2,544)**	(2,216)	**(3,410)**	(2,974)

(1) The methodology used to calculate the latter change is based on 10% of the fair value of the equities (excluding preferred shares), net of tax, at the balance sheet dates.

Note 12 – Reinsurance

The Company uses reinsurance in the ordinary course of business to reduce its exposure to any one claim or event under the policies it issues. A large portion of this reinsurance is affected under reinsurance agreements known as treaty reinsurance. In some instances, it is negotiated on a facultative (one-off) basis for individual policies, generally when the exposures under these policies are not sufficiently mitigated by the treaty reinsurance.

Reinsurance does not relieve the Company of its obligations to policyholders. A contingent liability exists with respect to reinsurance ceded which would become a liability of the Company in the event that any reinsurer fails to honour its obligations. For this reason, the Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimize its exposure to losses from reinsurer insolvencies. All licensed reinsurers providing treaty or facultative reinsurance policies are required to have a minimum A.M. Best credit rating of A- at the inception of each policy. Provisions are incorporated in the treaties to protect the Company in the event a reinsurer's credit rating deteriorates during the term of the reinsurance treaty. Unlicensed reinsurers must post an agreed upon level of collateral.

(in thousands of Canadian dollars, except as otherwise noted)

Note 12 – Reinsurance (continued)

The Company has determined that a provision is not required for potentially uncollectible reinsurance as at December 31, 2017 and December 31, 2016.

The following table summarizes the components of reinsurance assets as at December 31, 2017 and December 31, 2016:

As at December 31,	**2017**	2016
Reinsurers' share of claims liabilities (see Note 8.1)	**38,246**	24,676
Reinsurers' share of unearned premiums (see Note 7.2)	**27,008**	22,444
	65,254	47,120

Note 13 – Capital assets

The Company's capital assets consist of the following as at December 31, 2017 and December 31, 2016:

As at December 31, 2017	**Cost**	**Accumulated depreciation**	**Carrying value**
Leasehold improvements	**1,196**	**(502)**	**694**
Office equipment	**1,125**	**(938)**	**187**
Furniture and fixtures	**929**	**(725)**	**204**
	3,250	**(2,165)**	**1,085**

As at December 31, 2016	Cost	Accumulated depreciation	Carrying value
Leasehold improvements	1,196	(413)	783
Office equipment	1,163	(963)	200
Furniture and fixtures	1,105	(842)	263
	3,464	(2,218)	1,246

Note 14 – Intangible assets

Intangible assets consist of the computer software components of the Company's policy management system, document management system and online portal. They are being amortized at a rate of 40%, using the declining balance method.

Intangible assets also include the acquisition of two customer lists which were each acquired for $800. One was purchased in 2014 and another in 2017 each from other insurance companies. Both lists are being amortized at a rate of 20% using the declining balance method.

The final purchase price of the customer list purchased in 2017 is contingent on revenue generated from the list over the following two years, subject to a fixed price of $500. The $800 of consideration paid included the $500 fixed price plus $300 of contingent consideration. As at December 31, 2017 management's estimate of the contingent consideration that will ultimately be required to be paid is $300.

The price of the customer list purchased in 2014 was contingent on revenue generated from the list over the two years ending October 2016, subject to a fixed price of $600. The $800 of consideration paid included the $600 fixed price plus $200 of contingent consideration. In October 2016 the final price of the customer list was calculated and determined to be $765. As a result, a portion of the contingent consideration was refunded to Trisura in November 2016. This amount of $35 was booked to income in November 2016. The original consideration paid of $800 will continue to be amortized using the 20% declining balance rate.

(in thousands of Canadian dollars, except as otherwise noted)

Note 14 – Intangible assets (continued)

	December 31, 2017			December 31, 2016		
	Computer software	**Customer list**	**Total**	Computer software	Customer list	Total
Opening, carrying value	**389**	**481**	**870**	342	602	944
Additions	**178**	**800**	**978**	227	-	227
Amortization	**(192)**	**(129)**	**(321)**	(180)	(121)	(301)
Closing, carrying value	**375**	**1,152**	**1,527**	389	481	870

Note 15 – Restructuring costs

In 2008, TIHL announced that it had ceased writing new business. As a result, provisions were made for severance costs related to employees whose positions may become redundant and were recorded in Accounts payable, accrued and other liabilities. The provision was established based on TIHL's business plans. The movement in the severance provision for the years ended December 31, 2017 and December 31, 2016 is as follows:

	2017	2016
Balance at beginning of the year	**440**	551
Additional accrual	**-**	85
Adjustments for over accruals	-	(165)
Amounts paid	**(405)**	(19)
Adjustment for foreign exchange movements	**(35)**	(12)
Balance at end of year	**-**	440

Note 16 – Capital management

The Company's capital is its shareholders' equity, which consists of common shares, preferred shares, accumulated (deficit) retained earnings and accumulated other comprehensive (loss) income. The Company reviews its capital structure on a regular basis to ensure an appropriate capital structure in keeping with all regulatory, business and shareholder obligations.

Oversight of the capital of the Company rests with management and the board of directors. Their objectives are twofold: (i) to ensure the Company is prudently capitalized relative to the amount and type of risks assumed and the requirements established by the laws and regulations applicable to the Company's regulated subsidiaries; and (ii) to ensure shareholders receive an appropriate return on their investment.

16.1 Regulatory capital

a) Trisura Guarantee

Under guidelines established by the Office of the Superintendent of Financial Institutions which apply to Trisura Guarantee, Canadian property and casualty insurance companies must maintain minimum levels of capital as determined in accordance with a prescribed test, the minimum capital test ("MCT"), which expresses available capital (actual capital plus or minus specified adjustments) as a percentage of required capital. Companies are expected to maintain MCT level of at least 150% and are further required to establish their own unique target MCT levels based on the nature of their operations and the business they write. Management, with the board of directors' approval, has established Trisura Guarantee's target MCT level in accordance with these requirements. Trisura Guarantee has exceeded this measure as at December 31, 2017 and December 31, 2016.

16.1 Regulatory capital (continued)

b) Trisura International

Trisura International is subject to externally imposed regulatory capital requirements in Barbados. As at December 31, 2017, Trisura International was required to maintain minimum capital totaling $157, including its subsidiary (see Note 16.1(c)), and it has exceeded this requirement (December 31, 2016 – Excluding Trisura International's capital requirements through its subsidiary, Trisura International was required to maintain capital of $162, and it exceeded this requirement, Trisura International and its subsidiary were required to maintain aggregate minimum capital $5,270, and they exceeded this requirement). This amount is restricted from potential dividend payments.

c) Imagine Asset Services dac

Imagine Asset Services dac ("IASD"), a subsidiary of Trisura International, was regulated by the Central Bank of Ireland until June 7, 2017. On that date, the Central Bank of Ireland approved the application by IASD to cancel its reinsurance authorization following the termination of all its reinsurance contracts. Consequently, from that date forward, IASD was no longer required to maintain any regulatory capital requirements. As at December 31, 2016, IASD was required to maintain minimum capital of $5,108 and it exceeded this requirement.

d) Trisura Specialty

Trisura Specialty is subject to externally imposed regulatory capital requirements by the Oklahoma Insurance Department as a Domestic Surplus Line Insurer. As at December 31, 2017, Trisura Specialty was required to maintain minimum capital and surplus totaling $18,818, and it has exceeded this requirement.

Note 17 – Loan payable

On August 4, 2016, a subsidiary of the Company entered into an arrangement with a Canadian Schedule I bank to borrow $35,000 for the purpose of redeeming the balance of its Class A common shares outstanding at that time, as well as issuing a dividend to pay the $16,100 of accumulated value accretion associated with those shares owing to Brookfield.

The credit arrangement was arranged by way of a five-year lending facility funded through short term banker's acceptance or Canadian prime rate advances. The rate is based on the current periods' bankers' acceptance rate or Canadian prime rate, plus a margin. The loan balance is accounted for at amortized cost, which is equal to the carrying value. The minimum required annual payment consists only of interest, with no mandatory principal payments required.

As part of the covenants of the loan, the Company is required to maintain certain financial ratios, which were fully met as at December 31, 2017 and December 31, 2016.

During the year ended December 31, 2017, the Company incurred $1,009 of interest expense (December 31, 2016 – $481). As at December 31, 2017, the loan balance was $29,700 (December 31, 2016 – $34,100).

Note 18 – Share capital

The Company's authorized share capital consists of: (i) an unlimited number of common shares; (ii) an unlimited number of non-voting shares; and (iii) an unlimited number of preference shares (issuable in series).

The impact of the Reorganization Transaction on share capital was to increase common shares to $140,270. The impact of this transaction on retained earnings was to reduce retained earnings by $31,631 being the difference between consideration paid for Brookfield's interest in 643 Can Ltd and the book value of 643 Can Ltd as at June 15, 2017. The impact of the reorganization on share capital was an adjustment to share capital of $(9,618) and an adjustment to retained earnings of $(90,891), which is inclusive of the reduction in retained earnings of $31,631 described above. These adjustments reflect the impact of moving from a presentation of financial statements on a combined basis, to a presentation of financial statements on a consolidated basis.

Note 18 – Share capital (continued)

On November 30, 2017, the Company exchanged the shares of 643 Can Ltd that were then owned by certain current and retired members of the management of Trisura Guarantee ("Management") for newly issued common shares, and Class A, Series 1, preferred shares of TGL. As a result of this transaction, the Company issued to management 963,143 common shares from treasury and 64,000 preferred shares. The impact of the transaction was an increase to share capital by $28,944 and a reduction to retained earnings by $9,303. The minority interests were reclassified from a liability to a reduction in retained earnings.

Consideration also included notes payable by the Company that were used by Management to repay shareholder loans owing to 643 Can Ltd which were outstanding at the time.

Holders of the preferred shares are entitled to a cumulative dividend of 6%, payable quarterly, at a fixed rate of 6%. The dividend rate will be reset on December 31, 2022 and every five years thereafter at a rate equal to the five-year government of Canada bond yield plus 7.5%. The Company has the right to redeem preferred shares at any time on 30 to 60 days notice.

On December 11, 2017, the Company held a special meeting of shareholders and approved a one-for-ten share consolidation of its common shares, followed immediately by a ten-to-one share split by way of a share distribution. The impact of this transaction on share capital was to reduce shares outstanding by 154,815 shares, and a reduction to share capital of $4,031.

The following tables show the common and preferred shares issued and outstanding:

December 31, 2017	**Common shares**	
	Number of shares	**Amount (in thousands)**
Balance, beginning of the year	-	-
Common shares issued	**6,776,495**	**167,613**
Common shares redeemed	**(154,815)**	**(4,031)**
Balance, end of year	**6,621,680**	**163,582**

December 31, 2017	**Preferred shares**	
	Number of shares	**Amount (in thousands)**
Balance, beginning of the year	-	-
Preferred shares issued	**64,000**	**1,600**
Preferred shares redeemed	-	-
Balance, end of year	**64,000**	**1,600**

At December 31, 2017, the Company had declared and paid a dividend of $0.13 (in dollars) per share for each Class A, Series 1, preferred share. The consolidated common share capital of the Company as at December 31, 2017 was $163,582 (combined common share capital as at December 31, 2016 – $9,618).

(in thousands of Canadian dollars, except as otherwise noted)

Note 19 – Earnings per share

Basic earnings per common share is calculated by dividing the net income attributable to commons shareholders for the period from June 22, 2017 to December 31, 2017 by the weighted-average number of common shares. As at December 31, 2017, basic EPS is equal to diluted EPS.

	December 31, 2017
Net income attributable to shareholders	**2,218**
Less: Dividends declared on preferred shares, net of tax	**(8)**
Net income attributable to common shareholders	**2,210**
Weighted-average number of common shares outstanding (in shares)	**5,959,229**
EPS – basic (in dollars)	**0.37**

Note 20 – Investment Income

The components of net investment income for the years ended December 31, 2017 and 2016 were as follows:

	2017	2016
Cash and cash equivalents	**689**	417
Available-for-sale bonds	**3,236**	4,371
Interest on executive share purchase plan	**56**	72
Interest expense on notes payable	**(9)**	(24)
Net interest income	**3,972**	4,836
Available-for-sale income and investment trust units	**165**	3
Available-for-sale common shares	**941**	739
Available-for-sale preferred shares	**707**	655
Business and dividend income	**1,813**	1,397
Unrealized (loss) on investments held at FVTPL	**(7,717)**	(2,900)
Investment income on funds held by ceding companies	**-**	418
Commission income on assets at FVTPL	**2,379**	4,940
Investment expenses	**(577)**	(531)
Other investments (expense) income	**(130)**	8,160
Available-for-sale income and investment trust units	**-**	313
Available-for-sale bonds	**5,758**	6,825
Available-for-sale common shares	**24**	14
Available-for-sale preferred shares	**80**	-
Gain on disposition of investments	**5,862**	7,152
Impairment on investments	**(321)**	(2,888)
	5,411	12,424

(in thousands of Canadian dollars, except as otherwise noted)

Note 21 – Letters of credit

Effective November 18, 2008, a subsidiary of the Company entered into a letter of credit facility with a Canadian Schedule I bank (the "Facility"). This Facility was terminated on June 9, 2017. In prior periods, the bank agreed to provide letters of credit on an unsecured basis (total capacity as at December 31, 2016 – $8,066). Letters of credit under the Facility matured 364 days from the date of issuance on an evergreen basis, meaning that they automatically renewed each year unless utilized by the letter of credit beneficiary. Under the Facility, TIHL and/or certain of its subsidiaries were required to maintain certain covenants, including a minimum tangible net worth covenant that applied to TIHL only. As at December 31, 2017, the Facility was terminated and no letters of credit had been issued (December 31, 2016 – four totaling $7,697). As at December 31, 2016, TIHL was in compliance with all of the covenants under the Facility.

Note 22 – Lease commitments

The Company occupies office facilities under leases that expire on or before May 31, 2026, inclusive of a five year renewal option. The minimum annual rental commitments under these operating leases, exclusive of taxes and other operating expenses, are as follows:

	December 31, 2017
2018	**1,258**
2019	**1,140**
2020	**1,021**
2021	**578**
2022	**263**
Thereafter	**617**
	4,877

Note 23 – Benefits

The Company has established and contributes to a number of group retirement savings plan arrangements under which the Company makes contributions. Contributions are charged to operating expense and are recognized as incurred. One of the Company's subsidiaries operated a long-term incentive plan which was terminated on December 31, 2016, and has been replaced with the cash-settled equity based plan described in Note 29.2.

Note 24 – Related party transactions

Prior to the Spin-off on June 22, 2017 the Company was a subsidiary of Brookfield, which was the ultimate controlling party of the Company as well as TIHL and 643 Can Ltd (see Note 1).

The Company and its subsidiaries have entered into outsourcing arrangements with Brookfield and its affiliated companies with respect to the provision of information technology, internal audit, and investment management services and the services of a Brookfield employee who was temporarily the Chief Financial Officer of the Company. The Company leases office space from, and subleases office space to, subsidiaries of Brookfield. The Company occasionally issues surety bonds and insurance policies to subsidiaries of Brookfield, and earns interest income from deposits with companies which are subsidiaries of Brookfield. These transactions are conducted in the normal course of business and are measured at the amount of consideration paid or established and agreed between the parties.

A subsidiary of the Company entered into a tax transfer arrangement with Brookfield in 2016 and 2017, as permitted under applicable income tax legislation and the Act and during 2017, it made a payment during the first quarter to Brookfield for taxes paid related to 2016 of $3,543 (second quarter of 2016 – $1,700 paid related to 2015). During the first quarter of 2017, a subsidiary was paid a fee of $580 plus HST from Brookfield for services incurred in 2017.

As at December 31, 2017, executive share purchase plan loans due from related parties amounted to $nil (December 31, 2016 – $1,542). Interest receivable of $nil related to this balance was due as at December 31, 2017 (December 31, 2016 – $356). During the year ended December 31, 2017, $6 of interest income was earned related to the shareholder loans (December 31, 2016 – $24). These balances were settled as part of the transaction with Management described in Note 18.

(in thousands of Canadian dollars, except as otherwise noted)

Note 24 – Related party transactions (continued)

The amount due to related parties at December 31, 2017 comprises $42 (December 31, 2016 – $37) for outsourced services provided.

The following table shows the impact of transactions with related parties:

	December 31, 2017	December 31, 2016
Income and expenses reported in:		
Total underwriting revenue	**2,023**	567
Operating expenses	**2,054**	2,051
Net investment income	**131**	202
Assets and liabilities reported in:		
Cash and cash equivalents	**-**	14,200
Premium, accounts receivable and other assets	**-**	1,897
Accounts payable, accrued and other liabilities	**42**	567
Other cash transactions	**3,543**	1,700

24.1 Key management personnel

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any executive officers or directors of the Company.

The following transactions were carried out with key management personnel during the years ended December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Salaries and other employee benefits	**2,420**	1,832
Share-based payments	**229**	-

Note 25 – Executive share purchase plan receivable

The Company administered two executive share purchase plans that were established in 2006 and 2012 (the "2006 Plan" and the "2012 Plan", respectively). Under the 2006 Plan, employees of Trisura Guarantee could purchase common shares of 643 Can Ltd in return for notes payable, which bore interest at the prime rate of 643 Can Ltd's primary lending institution plus 1%. The loans did not have to be repaid, nor did interest have to be paid, until such time as the shares are sold or redeemed. Under the 2012 Plan, employees could purchase shares in return for notes payable, which they were required to repay through semi-monthly payroll deductions, as well as 50% of their after-tax annual bonus, if any. The loans bore interest at a rate equal to the prime rate of 643 Can Ltd's primary lending institution plus 1%.

On November 30, 2017, these loans were settled by way of consideration paid by the Company in exchange for the shares of 643 Can Ltd owned by management (see Note 18).

Note 26 – Minority interests in subsidiary

Under the terms of a unanimous shareholder agreement between the shareholders of 643 Can Ltd, the common shares owned by Management had a puttable feature which resulted in their being classified as financial liabilities in accordance with IAS 32, *Financial Instrument: Presentation*. These liabilities were measured at fair value, being the put value ascribed to the shares under the unanimous shareholder agreement. Assumptions have been made by management regarding the put value, as the unanimous shareholder agreement had various clauses under which different values can be ascribed to the shares.

On November 30, 2017, the shares of 643 Can Ltd, owned by Management, were exchanged with the Company for newly issued shares of the Company (see Note 18), this liability ceased to exist at that time. As at December 31, 2017, the fair value of the liabilities was $nil (December 31, 2016 – $16,008).

(in thousands of Canadian dollars, except as otherwise noted)

Note 27 – Segmented information

The Company has three reportable segments. The operations of 643 Can Ltd, referred to below as Trisura Guarantee, is one reportable segment which comprises surety solutions, risk solutions and corporate insurance solutions products underwritten in Canada. The operations of TIHL, referred to below as Trisura International, is a second reportable segment which comprises the Company's international reinsurance operations. Trisura Specialty is a third operating segment, which will provide specialty insurance solutions underwritten in the United States. Trisura Specialty did not have active operations for the year ended December 31, 2017.

The following table shows the results for the years ended December 31, 2017 and 2016:

December 31, 2017	**Trisura Guarantee (inclusive of 643 Can Ltd)**	**Trisura International**	**Corporate and consolidation adjustments**	**Total**
Net premiums earned	**79,271**	**162**	**-**	**79,433**
Fee income	**3,400**	**-**	**-**	**3,400**
Total underwriting revenue	**82,671**	**162**	**-**	**82,833**
Net claims	**(19,013)**	**1,360**	**-**	**(17,653)**
Net expenses	**(54,818)**	**(2,181)**	**(4,625)**	**(61,624)**
Total claims and expenses	**(73,831)**	**(821)**	**(4,625)**	**(79,277)**
Net underwriting income (loss)	**8,840**	**(659)**	**(4,625)**	**3,556**
Investment income	**3,931**	**1,205**	**275**	**5,411**
Foreign exchange loss	**-**	**(6)**	**(29)**	**(35)**
Interest expense	**(1,009)**	**-**	**-**	**(1,009)**
Change in minority interests	**(5,156)**	**-**	**-**	**(5,156)**
Net income (loss) before tax	**6,606**	**540**	**(4,379)**	**2,767**

December 31, 2016	Trisura Guarantee (inclusive of 643 Can Ltd)	Trisura International	Total
Net premiums earned	72,092	163	72,255
Fee income	3,352	13	3,365
Total underwriting revenue	75,444	176	75,620
Net claims	(22,396)	(6,404)	(28,800)
Net expenses	(47,418)	(5,847)	(53,265)
Total claims and expenses	(69,814)	(12,251)	(82,065)
Net underwriting income (loss)	5,630	(12,075)	(6,445)
Investment income	1,137	11,287	12,424
Foreign exchange loss	-	(528)	(528)
Interest expense	(481)	-	(481)
Change in minority interests	(155)	-	(155)
Net income (loss) before tax	6,131	(1,316)	4,815

(in thousands of Canadian dollars, except as otherwise noted)

Note 27 – Segmented information (continued)

The following table shows Loan payable of $29,700 at December 31, 2017 ($34,100 at December 31, 2016) included with the liabilities of Trisura Guarantee (inclusive of 643 Can Ltd).

As at December 31, 2017	**Trisura Guarantee (inclusive of 643 Can Ltd)**	**Trisura International**	**Trisura Specialty**	**Corporate and consolidation adjustments**	**Total**
Assets	**317,124**	**119,208**	**56,888**	**(4,860)**	**488,360**
Liabilities	**273,679**	**92,658**	**426**	**95**	**366,858**

As at December 31, 2016	Trisura Guarantee (inclusive of 643 Can Ltd)	Trisura International	Total
Assets	259,857	159,544	419,401
Liabilities	240,472	108,041	348,513

Note 28 – Income taxes

The Company's deferred tax assets and liabilities consist of the following:

	Statement of financial position		**Statement of comprehensive (loss) income**	
	December 31, 2017	December 31, 2016	**December 31, 2017**	December 31, 2016
Deferred taxes related to:				
Loss carry-forwards and other	**164**	166	**(8)**	(286)
Unpaid claims and LAE	**703**	572	**(131)**	(164)
Investments – unrealized gains/losses	**1,186**	1,190	**4**	(765)
	2,053	1,928	**(135)**	(1,215)
Less deferred taxes related to:				
Investments – unrealized gains/losses	**(1,295)**	(1,281)	**14**	780
Property and equipment, intangible and other assets	**(18)**	(25)	**(7)**	(11)
	(1,313)	(1,306)	**7**	769
Deferred income taxes	**740**	622	**(128)**	(446)
Reported in:				
Deferred tax assets	**740**	622	**-**	-
Income tax recovery reported to net (loss) income	**-**	-	**(142)**	(1,226)
Income tax expense reported to other comprehensive (loss) income	**-**	-	**14**	780

A deferred income tax asset is recognized only to the extent that realization of the related income tax benefit through future taxable profits is probable. Management has assessed the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred income tax assets as at December 31, 2017 and December 31, 2016 are recoverable.

(in thousands of Canadian dollars, except as otherwise noted)

Note 28 – Income taxes (continued)

The following shows the major components of income tax expense for the year ended December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Current tax expense:		
Current year	**3,210**	2,517
Prior year true up	**42**	(10)
	3,252	2,507
Deferred tax expense:		
Origination and reversal of temporary differences	**(143)**	(645)
Income tax expense	**3,109**	1,862
Income taxes recorded in other comprehensive (loss) income:		
Net changes in unrealized gains on available-for-sale investments	**291**	826
Reclassification to net (loss) income of net losses on available-for-sale investments	**17**	210
Origination and reversal of temporary differences	**14**	782
Total income tax expense recorded in other comprehensive (loss) income	**322**	1,818

The following is a reconciliation of income taxes calculated at the statutory income tax rate to the income tax provision included in the consolidated statements of comprehensive (loss) income for the years ended December 31, 2017 and 2016:

	December 31, 2017	December 31, 2016
Income (loss) before income taxes	**2,749**	4,816
Statutory income tax rate	**26.5%**	26.5%
	728	1,276
Variations due to:		
Permanent differences	**1,051**	22
International operations subject to different tax rates	**74**	366
Unrecognized tax loss	**1,226**	212
Rate differentials:		
Current rate versus future rate	**(1)**	(2)
Change in future rate	**(11)**	(1)
True up	**42**	(10)
Income tax expense	**3,109**	1,862

(in thousands of Canadian dollars, except as otherwise noted)

Note 29 – Share-based compensation

29.1 Equity-settled stock options

The Company currently administers a stock option plan. Under the stock option plan, the exercise price of each stock option will be established at the time that the option is granted. It is expected that the vesting period will normally be 20% per year over five years and the expiry date of stock options granted will not exceed ten years.

The following is a continuity schedule of stock options outstanding as at December 31, 2017:

As at December 31, 2017	Number of options	Weighted average exercise price per share (in dollars)
Outstanding, beginning of year	-	-
Granted during the year	**87,000**	**24.36**
Outstanding, end of year	**87,000**	**24.36**

As at December 31, 2017, the outstanding stock options consist of the following:

December 31, 2017 Exercise price per share (in dollars)	Number of options outstanding	Average remaining contractual life (in years)	Number of options exercisable
24.36	**87,000**	**9.64**	**-**

As at December 31, 2017, no equity-based stock options were vested. The Company recorded $89 in share reserve related to the options in the contributed surplus balance of the consolidated statements of financial position. The fair value of the options issued in 2017 was determined using the Black-Scholes option pricing model. Volatility estimate was 20.64% and was based on the historical volatility of the Company. The Bank of Canada risk-free rate of 2.45% was used and the weighted average fair value per stock option at the measurement date was $6.20 (in dollars).

29.2 Cash-settled stock options

On July 1, 2017, 60,000 options were issued to an officer of the Company by the board of directors as part of a cash-settled share-based payment plan, with a vesting period of 20% per year over five years, and an expiration date of ten years. As at December 31, 2017, no options had been vested. For the year ended December 31, 2017, the Company recorded $130 of expense related to the options, in Operating expenses. The fair value of the options issued in 2017 was determined using the Black-Scholes option pricing model. Volatility was estimate based on the historical volatility of the Company. The weighted average fair value per share option at December 31, 2017 is $9.51 (in dollars).

(in thousands of Canadian dollars, except as otherwise noted)

29.3 Equity-settled DSUs

DSUs are awarded to certain directors of the Company at the market value of the Company's common shares at the grant date. These DSUs are awarded in lieu of directors fees at the option of the Directors. Each DSU entitles the holder to receive an amount equivalent to the value of a common share at settlement. As at December 31, 2017, 2,102 DSUs with immediate vesting were awarded to directors who are not employees of the Company or one of its affiliates.

The following table shows the movement in the number of DSUs issued during the year:

	Number of DSUs
Opening balance	-
Granted during the year	**2,102**
Exercised during the year	-
Ending balance	**2,102**

As at December 31, 2017, no units had been exercised and $55 had been recorded as liabilities (see Note 10). The liability was measured based on the fair value of the common shares of the Company at December 31, 2017. For the year ended December 31, 2017, the Company recorded $55 of expense related to the DSUs in Operating expenses.