Trisura Group Ltd.

Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2020

TRISURA GROUP LTD.
Condensed Interim Consolidated Financial Statements (unaudited)

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TRISURA GROUP LTD.

Condensed Interim Consolidated Statements of Financial Position (unaudited)

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

As at	*Note*	March 31, 2020	December 31, 2019
Assets			
Cash and cash equivalents, and short-term securities		**84,352**	85,905
Investments	*4, 6*	**394,484**	392,617
Premiums and accounts receivable, and other assets	*8*	**124,661**	86,669
Recoverable from reinsurers	*10*	**394,224**	293,068
Deferred acquisition costs		**124,861**	104,197
Capital assets and intangible assets		**14,507**	14,477
Deferred tax assets	*18*	**5,975**	1,460
Total assets		**1,143,064**	978,393
Liabilities			
Accounts payable, accrued and other liabilities	*9*	**37,035**	40,916
Reinsurance premiums payable	*7*	**103,517**	80,186
Unearned premiums		**401,642**	328,091
Unearned reinsurance commissions		**68,463**	51,291
Unpaid claims and loss adjustment expenses	*7*	**311,483**	257,880
Loan payable	*12*	**33,704**	29,700
		955,844	788,064
Shareholders' equity			
Common shares	*13*	**219,251**	219,251
Contributed surplus		**705**	815
Accumulated deficit		**(19,938)**	(28,309)
Accumulated other comprehensive loss		**(12,798)**	(1,428)
		187,220	190,329
Total liabilities and shareholders' equity		**1,143,064**	978,393

See accompanying notes to the Condensed Interim Consolidated Financial Statements

TRISURA GROUP LTD.
Condensed Interim Consolidated Statements of Income (unaudited)
(in thousands of Canadian dollars, except as otherwise noted)

For the three months ended March 31,	*Note*	**2020**	2019
Gross premiums written		**169,952**	81,383
Reinsurance premiums ceded		**(128,419)**	(52,937)
Retrospective premiums refund		**(33)**	(36)
Net premiums written		**41,500**	28,410
Change in unearned premiums		**(10,933)**	(6,317)
Net premiums earned		**30,567**	22,093
Fee income		**7,541**	4,349
Total underwriting revenue		**38,108**	26,442
Net claims and loss adjustment expenses		**(14,186)**	(14,894)
Net commissions	*10*	**(11,233)**	(8,518)
Operating expenses and premium taxes		**(12,085)**	(11,290)
Total claims and expenses		**(37,504)**	(34,702)
Net underwriting income (loss)		**604**	(8,260)
Net investment income	*15*	**8,534**	4,313
Net (losses) gains	*16*	**(2,054)**	655
Settlement from structured insurance assets	*4.4*	**-**	8,077
Interest expense	*12*	**(400)**	(345)
Income before income taxes		**6,684**	4,440
Income tax benefit (expense)	*18*	**1,687**	(1,923)
Net income attributable to shareholders		**8,371**	2,517
Weighted average number of common shares outstanding during the period (in thousands) – basic		**8,820**	6,622
Earnings per common share (in dollars) – basic		**0.95**	0.38
Earnings per common share (in dollars) – diluted		**0.94**	0.37

See accompanying notes to the Condensed Interim Consolidated Financial Statements

TRISURA GROUP LTD.

Condensed Interim Consolidated Statements of Comprehensive (Loss) Income (unaudited)

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

For the three months ended March 31,	***Note***	**2020**	2019
Net income attributable to shareholders		**8,371**	2,517
Net unrealized (losses) gains on available-for-sale investments		**(29,094)**	5,942
Income tax benefit (expense)		**5,274**	(1,238)
Items that may be reclassified subsequently to net income		**(23,820)**	4,704
Net realized gains		**(2,821)**	(284)
Impairment adjustment	*4.2*	**3,036**	-
Income tax benefit		**781**	181
Items reclassified to net income		**996**	(103)
Items other than cumulative translation gain (loss)		**(22,824)**	4,601
Items that will not be reclassified subsequently to net income – Cumulative translation gain (loss)		**11,454**	(1,943)
Other comprehensive (loss) income		**(11,370)**	2,658
Total comprehensive (loss) income		**(2,999)**	5,175

See accompanying notes to the Condensed Interim Consolidated Financial Statements

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

	Note	**Common shares**	**Contributed surplus**	**Accumulated deficit**	**Accumulated other comprehensive loss (net of income taxes)**	**Total**
Balance at January 1, 2020		219,251	815	(28,309)	(1,428)	**190,329**
Net income		-	-	8,371	-	**8,371**
Other comprehensive loss		-	-	-	(11,370)	**(11,370)**
Comprehensive loss		-	-	8,371	(11,370)	**(2,999)**
Share based payments	*19*	-	(110)	-	-	**(110)**
Balance at March 31, 2020		**291,251**	**705**	**(19,938)**	**(12,798)**	**187,220**

	Note	Common shares	Preferred shares	Contributed surplus	Accumulated deficit	Accumulated other comprehensive (loss) income (net of income taxes)	Total
Balance at January 1, 2019		163,582	1,600	313	(33,307)	(2,236)	129,952
Net income		-	-	-	2,517	-	2,517
Other comprehensive income		-	-	-	-	2,658	2,658
Comprehensive income		-	-	-	2,517	2,658	5,175
Share based payments	*19*	-	-	65	-	-	65
Dividends paid	*13*	-	-	-	(24)	-	(24)
Balance at March 31, 2019		163,582	1,600	378	(30,814)	422	135,168

See accompanying notes to the Condensed Interim Consolidated Financial Statements

TRISURA GROUP LTD.
Condensed Interim Consolidated Statements of Cash Flows (unaudited)
(in thousands of Canadian dollars, except as otherwise noted)

For the three months ended March 31,	2020	2019
Operating activities		
Net income	**8,371**	2,517
Items not involving cash:		
Depreciation and amortization	**938**	596
Unrealized (gains) losses	**(6,350)**	782
Impairment loss	**3,884**	-
Payment in kind	**(285)**	-
Stock options granted	**152**	65
Change in working capital	**(539)**	(2,435)
Realized gains on investments	**(2,821)**	(1,421)
Income taxes paid	**(3,279)**	(860)
Interest paid	**(436)**	(283)
Net cash flows used in operating activities	**(365)**	(1,039)
Investing activities		
Proceeds on disposal of investments	**27,062**	13,540
Purchases of investments	**(33,769)**	(23,793)
Purchases of capital assets	**(248)**	(143)
Purchases of intangible assets	**(123)**	(57)
Net cash flows used in investing activities	**(7,078)**	(10,453)
Financing activities		
Dividends paid	**-**	(24)
Loans received	**32,700**	-
Repayment of loans payable	**(29,700)**	-
Principal portion of lease payments	**(480)**	(313)
Net cash flows from (used in) financing activities	**2,520**	(337)
Net decrease in cash and cash equivalents, and short-term securities during the period	**(4,923)**	(11,829)
Cash, beginning of period	**68,208**	93,153
Cash equivalents, beginning of period	**17,697**	2,059
Cash and cash equivalents, beginning of period	**85,905**	95,212
Impact of foreign exchange on cash and cash equivalents, and short-term securities	**3,370**	(1,311)
Cash, end of period	**68,430**	80,145
Cash equivalents and short-term securities, end of period	**15,922**	1,927
Cash and cash equivalents, and short-term securities, end of period	**84,352**	82,072

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 Trisura Guarantee Insurance Company ("Trisura Guarantee"), Trisura Specialty Insurance Company ("Trisura Specialty") and Trisura International Insurance Ltd. ("Trisura International"), which is wholly-owned through the intermediary holding company Trisura International Holdings Ltd. ("TIHL").

Trisura Guarantee operates as a Canadian property and casualty insurance company. Trisura Specialty is 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 and through its subsidiary can also write admitted business in certain states. Trisura International is currently managing its in-force portfolio of specialty reinsurance contracts and assumes some premium from Trisura Specialty.

The common shares of the Company are publicly traded on the Toronto Stock Exchange under the symbol "TSU".

Note 2 – Basis of presentation

These Condensed Interim Consolidated Financial Statements ("Interim Consolidated Financial Statements") have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). The Interim Consolidated Financial Statements should be read in conjunction with the annual financial statements for the year ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Interim 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 Condensed Interim Consolidated Statements of Financial Position is in order of liquidity. The Company's functional and presentation currency is Canadian dollars.

These Interim Consolidated Financial Statements were authorized for issuance by the Company's Board of Directors on May 6, 2020.

Note 3 – Summary of significant accounting policies

The accounting policies applied during the three months ended March 31, 2020 are the same as those described and disclosed in Note 2 – *Summary of significant accounting policies* of the December 31, 2019 Consolidated Financial Statements.

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

Note 4 – Investments

4.1 Classification of cash and investments

The following table presents the classification of cash and cash equivalents, and short-term securities and investments:

As at March 31, 2020	**AFS**	**Designated FVTPL**	**Cash, loans and receivables**	**Total**
Cash and cash equivalents, and short-term securities			**84,352**	**84,352**
Investments				
Fixed income	**235,388**	**81,816**	**4,878**	**322,082**
Common shares	**26,510**	**-**	**-**	**26,510**
Preferred shares	**33,844**	**-**	**-**	**33,844**
Structured insurance assets	**-**	**12,048**	**-**	**12,048**
Total cash and investments	**295,742**	**93,864**	**89,230**	**478,836**

As at December 31, 2019	AFS	Designated FVTPL	Cash, loans and receivables	Total
Cash and cash equivalents, and short-term securities	-	-	85,905	85,905
Investments				
Fixed income	226,122	71,838	4,294	302,254
Common shares	40,621	-	-	40,621
Preferred shares	39,084	-	-	39,084
Structured insurance assets	-	10,658	-	10,658
Total cash and investments	305,827	82,496	90,199	478,522

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

4.2 Unrealized gains and losses and carrying value of investments

The amortized cost and carrying value of investments as at March 31, 2020 and December 31, 2019 were as follows:

As at March 31, 2020	**FVTPL investments**	**Other investments**				**Total investments**
	At carrying value	**Amortized cost**	**Unrealized gains**	**Unrealized losses**	**Carrying value**	**At carrying value**
Government	**81,816**	**43,187**	**1,025**	**(249)**	**43,963**	**125,779**
Corporate	**-**	**197,558**	**350**	**(6,483)**	**191,425**	**191,425**
Total bonds	**81,816**	**240,745**	**1,375**	**(6,732)**	**235,388**	**317,204**
Other loans	**-**	**4,878**	**-**	**-**	**4,878**	**4,878**
Total fixed income	**81,816**	**245,623**	**1,375**	**(6,732)**	**240,266**	**322,082**
Common shares	**-**	**36,046**	**846**	**(10,382)**	**26,510**	**26,510**
Preferred shares	**-**	**45,236**	**17**	**(11,409)**	**33,844**	**33,844**
Structured insurance assets	**12,048**	**-**	**-**	**-**	**-**	**12,048**
	93,864	**326,905**	**2,238**	**(28,523)**	**300,620**	**394,484**

As at December 31, 2019	FVTPL investments	Other investments				Total investments
	At carrying value	Amortized cost	Unrealized gains	Unrealized losses	Carrying value	At carrying value
Government	71,838	49,046	796	(49)	49,793	121,631
Corporate	-	174,957	2,121	(749)	176,329	176,329
Total bonds	71,838	224,003	2,917	(798)	226,122	297,960
Other loans	-	4,294	-	-	4,294	4,294
Total fixed income	71,838	228,297	2,917	(798)	230,416	302,254
Common shares	-	34,543	6,335	(257)	40,621	40,621
Preferred shares	-	42,832	518	(4,266)	39,084	39,084
Structured insurance assets	10,658	-	-	-	-	10,658
	82,496	305,672	9,770	(5,321)	310,121	392,617

The Company is currently assessing the cash flow characteristics test, to determine if the securities the Company holds would pass the solely payments of principal and interest ("SPPI") test. Based on a preliminary assessment, most of the debt securities would pass the test, however the composition of debt securities may change significantly by the time IFRS 9 is adopted along with IFRS 17, effective for fiscal year commencing January 1, 2023.

Management has reviewed currently available information regarding those investments with a fair value less than carrying value. During the three months ended March 31, 2020, management recognized impairments of $3,884 (March 31, 2019 – $nil). Assumptions are used when estimating the value of impairment based on the Company's impairment policy, which involves comparing fair value to carrying value.

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

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 March 31, 2020, the Company has pledged cash amounting to $1,045 USD and pledged fixed maturity investments amounting to $62,649 USD (December 31, 2019 – $2,576 USD and $58,981 USD, respectively), under insurance and reinsurance trust arrangements and are therefore not readily available for general use by the Company.

As at March 31, 2020, the Company pledged $338 USD (December 31, 2019 – $311 USD) 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 insurance companies. The commissions are paid into trusts, from which the amounts due to the Company, being the commissions net of amounts due to other parties and expenses of the trusts, are paid. The commission income for the period ended March 31, 2020 amounted to $401 (March 31, 2019 – $469), which has been recorded within Net investment income (see Note 15).

In March 2019, there was a settlement gain of $6,075 USD on the structured insurance assets that arose from a legal action against the third party, from whom Trisura International purchased the structured insurance assets in 2004.

Note 5 – Fair value and notional amount of derivatives

The following sets out the fair value and notional amount of derivatives as at March 31, 2020 and December 31, 2019:

As at	**March 31, 2020**			December 31, 2019		
		Fair value			Fair value	
	Notional amount	**Asset**	**Liability**	Notional amount	Asset	Liability
Foreign currency contracts						
Forwards	**89,300**	**665**	**2,648**	43,700	327	-
Equity contracts						
Swap agreements	**1,826**	**1,899**	**-**	494	745	-
	91,126	**2,564**	**2,648**	44,194	1,072	-
Term to maturity						
less than one year	**91,126**	**2,564**	**2,648**	43,700	327	-
from one to five years	-	-	-	494	745	-

The Company uses foreign currency forward contracts to reduce its exposure to fluctuations in the exchange rates that could arise from its USD, EUR and GBP denominated investments, including investments in subsidiaries. The notional amounts of the forwards as at March 31, 2020 are $59,484 USD (December 31, 2019 – $25,991 USD), €1,333 EUR (December 31, 2019 – €1,636 EUR) and £3,193 GBP (December 31, 2019 – £4,193). The Company also uses swap agreements to mitigate exposure to equity market fluctuations associated with its share based compensation. These derivatives are recorded at fair value and gains and losses are recorded in Net (losses) gains (see Note 16).

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

Note 6 – Fair value measurement

The following sets out the financial instruments classified in accordance with the fair value hierarchy as at March 31, 2020 and December 31, 2019:

As at March 31, 2020	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Government	**125,779**	**-**	**125,779**	**-**
Corporate	**191,425**	**-**	**191,425**	**-**
Total bonds	**317,204**	**-**	**317,204**	**-**
Common shares	**26,510**	**23,478**	**-**	**3,032**
Preferred shares	**33,844**	**33,844**	**-**	**-**
Structured insurance assets	**12,048**	**-**	**-**	**12,048**
Total investments	**389,606**	**57,322**	**317,204**	**15,080**
Derivative financial assets	**2,564**	**-**	**2,564**	**-**
Derivative financial liabilities	**(2,648)**	**-**	**(2,648)**	**-**
	389,522	**57,322**	**317,120**	**15,080**

As at December 31, 2019	Total fair value	Level 1	Level 2	Level 3
Government	121,631	-	121,631	-
Corporate	176,329	-	176,329	-
Total bonds	297,960	-	297,960	-
Common shares	40,621	39,711	-	910
Preferred shares	39,084	39,084	-	-
Structured insurance assets	10,658	-	-	10,658
Total investments	388,323	78,795	297,960	11,568
Derivative financial assets	1,072	-	1,072	-
	389,395	78,795	299,032	11,568

For the three months ended March 31, 2020 and the year ended December 31, 2019, there were no transfers between levels.

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 three months ended March 31, 2020 and the year ended December 31, 2019:

	March 31, 2020	December 31, 2019
Balance at beginning of period	**11,568**	13,105
Unrealized gains (losses)	**384**	(1,092)
Purchase of securities	**2,116**	119
Foreign exchange	**1,012**	(564)
Balance at end of period	**15,080**	11,568

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

Note 7 – Unpaid claims and loss adjustment expenses

The following changes have occurred to the claim reserves for the three months ended:

March 31, 2020	**Direct**	**Ceded**	**Net**
Unpaid claims, beginning of period	**257,880**	**114,657**	**143,223**
Claims occurring in current year (including paid)	**66,770**	**55,463**	**11,307**
Change in undiscounted estimates for losses of prior years	**(6,862)**	**(4,498)**	**(2,364)**
Change in discounting	**4,811**	**(298)**	**5,109**
Change in provision for adverse deviation	**509**	**375**	**134**
Total claims incurred	**65,228**	**51,042**	**14,186**
Claims paid	**(27,217)**	**(19,580)**	**(7,637)**
Foreign exchange	**15,592**	**8,443**	**7,149**
Unpaid claims, end of period	**311,483**	**154,562**	**156,921**

March 31, 2019	Direct	Ceded	Net
Unpaid claims, beginning of period	173,997	42,048	131,949
Purchase of Trisura Warranty outstanding warranty contracts	987	-	987
Gross unpaid claims	174,984	42,048	132,936
Claims occurring in current year (including paid)	37,529	30,311	7,218
Change in undiscounted estimates for losses of prior years	(52)	1,522	(1,574)
Change in discount rate	7,605	(1,619)	9,224
Change in provision for adverse deviation	(241)	(267)	26
Total claims incurred	44,841	29,947	14,894
Claims paid	(27,746)	(20,900)	(6,846)
Foreign exchange	(3,277)	(125)	(3,152)
Unpaid claims, end of period	188,802	50,970	137,832

The Reinsurance premiums payable balance of $103,517 (December 31, 2019 – $80,186) on the Condensed Interim Consolidated Statements of Financial Position reflects $121,177 of reinsurance payable (December 31, 2019 – $84,572), netted against $17,660 (December 31, 2019 – $4,386) of reinsurance recoverable.

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

Note 8 – Premiums and accounts receivable, and other assets

As at March 31, 2020 and December 31, 2019, Premiums and accounts receivable, and other assets consists of:

As at	March 31, 2020	December 31, 2019
Premiums receivable	**103,432**	79,627
Unsettled investments receivable	**8,321**	-
Tax recoveries	**5,604**	417
Accrued investment income	**3,094**	2,537
Derivative assets	**2,564**	1,072
Prepaid expenses	**535**	388
Funds held by ceding companies	**223**	221
Miscellaneous assets	**888**	2,407
	124,661	86,669

As at March 31, 2020, Premiums receivable of $103,432 (December 31, 2019 – $79,627) includes an amount of $80,142 (December 31, 2019 – $54,187) related to Trisura Specialty for which there is a reinsurance payable of $84,325 (December 31, 2019 – $60,345).

Note 9 – Accounts payable, accrued and other liabilities

As at March 31, 2020 and December 31, 2019, Accounts payable, accrued and other liabilities consist of:

As at	March 31, 2020	December 31, 2019
Deposits in trust	**11,787**	11,842
Lease liabilities	**9,338**	9,756
Accrued liabilities	**5,042**	8,345
Share based payment plan	**2,868**	2,589
Derivatives liabilities	**2,648**	-
Taxes payable	**2,635**	3,913
Other liabilities	**2,334**	4,102
Investment contract liabilities	**383**	369
	37,035	40,916

Note 10 – Reinsurance and commissions

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 contractual 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.

In some instances, 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. The Company has determined that a provision is not required for potentially uncollectible reinsurance as at March 31, 2020 and December 31, 2019.

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

Note 10 – Reinsurance and commissions (continued)

The following table summarizes the components of Recoverable from reinsurers as at March 31, 2020 and December 31, 2019:

As at	March 31, 2020	December 31, 2019
Reinsurers' share of claims liabilities (see Note 7)	**154,562**	114,657
Reinsurers' share of unearned premiums	**239,662**	178,411
	394,224	293,068

Net commissions of $11,233 (March 31, 2019 – $8,518) on the Condensed Interim Consolidated Statements of Income reflect $27,709 of gross commissions (March 31, 2019 – $15,809), net of $16,476 (March 31, 2019 – $7,291) of reinsurance commissions.

Note 11 – Capital management

The Company's capital is its shareholders' equity, which consists of common shares, contributed surplus, accumulated deficit and accumulated other comprehensive loss. 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.

11.1 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 level 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 March 31, 2020 and December 31, 2019.

b) Trisura Specialty

Trisura Specialty is subject to externally imposed regulatory capital requirements by the Oklahoma Insurance Department as a Domestic Surplus Line Insurer. As an admitted carrier, through its subsidiary Trisura Insurance Company, Trisura Specialty is subject to the various capital requirements of each state in which it is licensed. A requirement of the regulators is that Trisura Specialty's Risk Based Capital ratio exceed certain minimum thresholds as well as Company Action Levels ("CALs"). As at March 31, 2020 and December 31, 2019, Trisura Specialty was in excess of any CALs of the states in which it was licensed.

c) Trisura International

Trisura International is subject to externally imposed regulatory capital requirements in Barbados. As at March 31, 2020 and December 31, 2019, Trisura International, including its subsidiaries, maintained sufficient capital to meet these requirements.

Note 12 – Loan payable

As at December 31, 2019, the Company maintained a five-year revolving credit facility with a Canadian Schedule I bank (the "Bank") which allowed for drawings of up to $35,000. Under this arrangement, the Company could draw funds in the form of short term banker's acceptances, Canadian prime rate advances, base rate advances or LIBOR rate advances. The interest rate was based on the current periods' bankers' acceptance rate, Canadian prime rate, base rate, or LIBOR 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.

On March 16, 2020, the Company converted its Canadian dollar denominated loan balance of $29,700 to a loan balance denominated in US dollars, with the same bank. To do so, $21,642 USD was drawn under the loan to immediately repay the outstanding loan payable of $29,700. On March 20, 2020, an additional $3,000 was drawn under the loan.

As part of the covenants of the loan arrangement, the Company is required to maintain certain financial ratios, which were fully met as at March 31, 2020 and December 31, 2019.

For the three months ended March 31, 2020, the Company incurred $400 of interest expense (March 31, 2019 – $345), of which $242 (March 31, 2019 – $269) are related to the loan payable. As at March 31, 2020, the loan balance was $33,704 (December 31, 2019 – $29,700).

Note 13 – 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). As at March 31, 2020 and December 31, 2019, no non-voting shares were issued.

In December 2019, the Company exercised its right to redeem all 64,000 (in shares) of its issued and outstanding preferred shares, for $1,600. Holders of the preferred shares were entitled to a cumulative dividend, payable quarterly, at a fixed rate of 6%. During the three months ended March 31, 2020, the dividend payment was $nil (March 31, 2019 – $24 at $0.375 (in dollars) per share for each Class A, Series 1, preferred share).

In September 2019, the Company completed a public offering of 1,743,400 common shares for gross proceeds of $46,026. Concurrent with the public offering, the Company issued 454,539 common shares to investors on a private placement basis for gross proceeds of $12,000. The Company incurred costs of $1,841 in commission paid to underwriters as well as $516 of costs directly attributable to the share issuance, which have been deducted from equity. At December 31, 2019, the net impact of the share issuance is an increase in common shares of $55,669.

The following table shows the common shares issued and outstanding:

As at	**March 31, 2020**		December 31, 2019	
	Number of shares	**Amount (in thousands)**	Number of shares	Amount (in thousands)
Balance, beginning of period	**8,819,619**	**219,251**	6,621,680	163,582
Common shares issued	**-**	**-**	2,197,939	55,669
Balance, end period	**8,819,619**	**219,251**	8,819,619	219,251

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

Note 14 – Earnings per share

Basic earnings per common share are calculated by dividing the net income attributable to common shareholders for the reporting period by the weighted-average number of common shares.

Diluted earnings per share is calculated by dividing the net income attributable to common shareholders for the reporting period by the weighted-average number of common shares adjusted for the effects of all dilutive potential common shares, which consist of stock options.

	For the three months ended March 31	
	2020	2019
Net income attributable to shareholders	**8,371**	2,517
Less: Dividends declared on preferred shares, net of tax	**-**	(24)
Net income attributable to common shareholders	**8,371**	2,493
Weighted-average number of common shares outstanding (in shares)	**8,819,619**	6,621,680
EPS – basic (in dollars)	**0.95**	0.38
Dilutive effect of the conversion of options on common shares (in shares)	**99,702**	232,235
Diluted weighted-average number of common shares outstanding (in shares)	**8,919,321**	6,771,522
EPS – diluted (in dollars)	**0.94**	0.37

Note 15 – Net investment income

The components of net investment income for the three months ended March 31, 2020 and March 31, 2019 were as follows:

	2020	2019 (1)
Cash and cash equivalents, and short-term securities	**266**	94
Bonds classified as loans and receivables	**202**	168
FVTPL bonds	**172**	-
AFS bonds	**1,821**	1,578
Interest income	**2,461**	1,840
AFS common shares and income and investment trust units	**490**	302
AFS preferred shares	**722**	345
Dividend income	**1,212**	647
Gains on investments held at FVTPL	**4,779**	1,492
Commission income structured insurance assets	**401**	469
Investment expenses	**(319)**	(135)
Other investment income	**4,861**	1,826
Net investment income	**8,534**	4,313

(1) Certain Net investment income balances from March 31, 2019 have been reclassified to Net (losses) gains to conform with the December 31, 2019 annual financial statement presentation.

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

Note 16 – Net (losses) gains

The components of net (losses) gains for the three months ended March 31, 2020 and 2019 were as follows:

	2020	2019 (1)
Net gains from:		
financial instruments:		
AFS common shares and income and investment trust units	**2,518**	705
AFS bonds	**303**	(422)
	2,821	283
derivatives:		
swap agreements (2):	**(177)**	-
Net foreign currency (losses) gains	**(814)**	372
Impairment on investments	**(3,884)**	-
Net (losses) gains	**(2,054)**	655

(1) Certain Net investment income balances from March 31, 2019 have been reclassified to Net (losses) gains to conform with the December 31, 2019 annual financial statements presentation.
(2) Excluding foreign currency contracts, which are reported in the line Net foreign currency (losses) gains.

Note 17 – Segmented information

The Company has three reportable segments. The operations of Trisura Guarantee are one reportable segment which comprises Surety, Risk Solutions and Corporate Insurance products underwritten in Canada as well as the operations of Trisura Warranty. The operations of TIHL, referred to below as Trisura International, is a second reportable segment which comprises the Company's international reinsurance operations. The operations of Trisura Specialty is a third operating segment, which provides specialty insurance solutions underwritten in the United States.

The following tables show the results for the three months ended March 31, 2020 and 2019:

March 31, 2020	**Trisura Guarantee**	**Trisura Specialty**	**Trisura International**	**Corporate and consolidation adjustments**	**Total**
Net premiums earned	26,500	3,878	189	-	**30,567**
Fee income	3,442	4,099	-	-	**7,541**
Total underwriting revenue	29,942	7,977	189	-	**38,108**
Net claims	(6,436)	(2,481)	(5,269)	-	**(14,186)**
Net expenses	(18,722)	(3,028)	(869)	(699)	**(23,318)**
Total claims and expenses	(25,158)	(5,509)	(6,138)	(699)	**(37,504)**
Net underwriting income (loss)	4,784	2,468	(5,949)	(699)	**604**
Investment income	2,313	685	5,512	24	**8,534**
Net (losses) gains	(1,566)	44	(65)	(467)	**(2,054)**
Interest expense	(142)	(9)	(7)	(242)	**(400)**
Net income (loss) before tax	**5,389**	**3,188**	**(509)**	**(1,384)**	**6,684**

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

Note 17 – Segmented information (continued)

March 31, 2019	Trisura Guarantee	Trisura Specialty	Trisura International	Corporate and consolidation adjustments	Total
Net premiums earned	21,343	722	28	-	22,093
Fee income	3,384	965	-	-	4,349
Total underwriting revenue	24,727	1,687	28	-	26,442
Net claims	(4,718)	(416)	(9,760)	-	(14,894)
Net expenses	(16,497)	(1,462)	(591)	(1,258)	(19,808)
Total claims and expenses	(21,215)	(1,878)	(10,351)	(1,258)	(34,702)
Net underwriting income (loss)	3,512	(191)	(10,323)	(1,258)	(8,260)
Investment income (1)	1,805	485	2,021	2	4,313
Settlement from structured insurance assets	-	-	8,077	-	8,077
Net gains (losses)	688	(388)	296	59	655
Interest expense	(66)	(9)	(1)	(269)	(345)
Net income (loss) before tax	5,939	(103)	70	(1,466)	4,440

(1) Certain Net investment income balances from March 31, 2019 have been reclassified to Net (losses) gains to conform with the December 31, 2019 annual financial statement presentation.

The following table shows Loan payable of $33,704 included with the liabilities in Corporate and consolidation adjustments at March 31, 2020 (December 31, 2019 – $29,700):

As at March 31, 2020	**Trisura Guarantee**	**Trisura Specialty**	**Trisura International**	**Corporate and consolidation adjustments**	**Total**
Assets	**420,161**	**596,229**	**116,285**	**10,389**	**1,143,064**
Liabilities	**342,229**	**480,895**	**97,775**	**34,945**	**955,844**

As at December 31, 2019	Trisura Guarantee	Trisura Specialty	Trisura International	Corporate and consolidation adjustments	Total
Assets	424,009	444,763	104,169	5,452	978,393
Liabilities	333,681	336,608	85,766	32,009	788,064

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

Note 18 – Income taxes

The following shows the major components of income tax expense for the three months ended March 31, 2020 and 2019:

	March 31, 2020	March 31, 2019
Current tax expense:		
Current year	**3,306**	2,545
Prior year true up	**-**	106
	3,306	2,651
Deferred tax expense:		
Origination and reversal of temporary differences	**(4,993)**	(728)
Income tax (benefit) expense	**(1,687)**	1,923
Income taxes recorded in other comprehensive (loss) income:		
Net changes in unrealized gains on AFS investments	**(5,857)**	1,191
Reclassification to net income of net losses on AFS investments	**(780)**	(181)
Origination and reversal of temporary differences	**582**	47
Total income tax (benefit) expense recorded in other comprehensive (loss) income	**(6,055)**	1,057

The following is a reconciliation of income taxes calculated at the statutory income tax rate to the income tax provision included in the Condensed Interim Consolidated Statements of Income for the three months ended March 31, 2020 and 2019:

	March 31, 2020	March 31, 2019
Income before income taxes	**6,684**	4,440
Statutory income tax rate	**26.5%**	26.5%
	1,771	1,177
Variations due to:		
Permanent differences	**(213)**	(226)
International operations subject to different tax rates	**45**	797
Unrecognized tax loss	**(3,164)**	68
Rate differentials:		
Current rate versus future rate	**5**	-
Change in future rate	**(56)**	1
True up	**(75)**	106
Income tax (benefit) expense	**(1,687)**	1,923

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

Note 18 – Income taxes (continued)

On February 5, 2020, the Company obtained an Advance Income Tax Ruling from the Canada Revenue Agency on a strategy to utilize accumulated tax losses. On February 20, 2020, the Company implemented the strategy and for the three months ended March 31, 2020, the Company recorded the income tax benefit of these losses and a deferred income tax asset of $3,495 (December 31, 2019 – $nil). As at March 31, 2020, the Company has unused tax losses of $13,056 (December 31, 2019 – $11,669) which will expire in the following years:

	March 31, 2020
2033	**19**
2034	**3**
2036	**538**
2037	**2,496**
2038	**3,368**
2039	**5,245**
2040	**1,387**
	13,056

Note 19 – Equity-settled restricted share units ("RSUs")

On February 21, 2020, the Company awarded certain employees RSUs based on the market value of the Company's common shares at the grant date. These RSUs will typically vest in three years, however in some instances the vesting period may differ.

The following table shows the movement in the number of RSUs issued during the three months ended March 31, 2020:

For the three months ended March 31,	**2020 (in units)**	2019 (in units)
Opening balance	-	-
Granted during the period	**5,593**	-
Ending balance	**5,593**	-

As at March 31, 2020, no units had vested and $19 (March 31, 2019 – $nil) had been recorded as expense related to the RSUs in Operating expenses. For the period ended March 31, 2020, a share reserve to contributed surplus of $262 (March 31, 2019 – $nil) was recorded which is offset by an adjustment to contributed surplus related to the vesting of stock options granted of $152 (March 31, 2019 – $65).

Note 20 – Subsequent event

On April 1, 2020, the Company's five-year revolving credit facility (see Note 12) was amended to increase the Company's borrowing capacity from $35,000 to $50,000.