Trisura Group Ltd.

Condensed Interim Consolidated Financial Statements (unaudited)

For the three and nine months ended September 30, 2019

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*	**September 30, 2019**	December 31, 2018
Assets			
Cash and cash equivalents		**131,913**	95,212
Investments	*4*	**340,130**	282,874
Premiums and accounts receivable, and other assets	*9*	**72,504**	46,276
Deferred acquisition costs		**91,912**	63,715
Recoverable from reinsurers	*11*	**238,872**	109,567
Capital assets and intangible assets	*8*	**10,201**	2,512
Deferred tax assets		**1,361**	826
Total assets		**886,893**	600,982
Liabilities			
Accounts payable, accrued and other liabilities	*10*	**33,719**	24,167
Reinsurance premiums payable	*7*	**62,750**	41,406
Unearned premiums		**285,268**	182,623
Unearned reinsurance commissions		**40,932**	19,137
Unpaid claims and loss adjustment expenses	*7*	**245,693**	173,997
Loan payable	*13*	**29,700**	29,700
		698,062	471,030
Shareholders' equity			
Common shares	*14*	**219,251**	163,582
Preferred shares	*14*	**1,600**	1,600
Contributed surplus		**677**	313
Accumulated deficit		**(32,457)**	(33,307)
Accumulated other comprehensive loss		**(240)**	(2,236)
		188,831	129,952
Total liabilities and shareholders' equity		**886,893**	600,982

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)

		Three months		Nine months	
For the periods ended September 30,	*Note*	**2019**	2018	**2019**	2018
Gross premiums written		**114,354**	57,282	**305,050**	150,767
Reinsurance premiums ceded		**(76,885)**	(27,163)	**(201,962)**	(66,285)
Retrospective premiums refund		**(40)**	(47)	**(116)**	(121)
Net premiums written		**37,429**	30,072	**102,972**	84,361
Change in unearned premiums		**(7,710)**	(4,791)	**(25,178)**	(18,535)
Net premiums earned		**29,719**	25,281	**77,794**	65,826
Fee income		**2,530**	370	**8,631**	4,049
Total underwriting revenue		**32,249**	25,651	**86,425**	69,875
Claims and expenses					
Claims and loss adjustment expenses		**(49,557)**	(15,185)	**(154,618)**	(47,186)
Reinsurers' share of claims and loss adjustment expenses		**31,465**	10,602	**105,369**	33,704
Commissions		**(22,903)**	(12,858)	**(57,074)**	(32,353)
Reinsurance commissions		**12,638**	4,545	**29,235**	8,995
Premium taxes		**(1,491)**	(1,418)	**(3,889)**	(3,480)
Operating expenses		**(9,020)**	(9,245)	**(29,237)**	(26,250)
Total claims and expenses		**(38,868)**	(23,559)	**(110,214)**	(66,570)
Net underwriting (loss) income		**(6,619)**	2,092	**(23,789)**	3,305
Net investment income	*16*	**9,991**	3,639	**20,679**	7,628
Settlement from structured insurance assets	*4.4*	**-**	-	**8,077**	-
Foreign exchange gains (losses)		**512**	171	**1,096**	(153)
Interest expense	*13*	**(333)**	(243)	**(1,020)**	(709)
Income before income taxes		**3,551**	5,659	**5,043**	10,071
Income tax expense	*19*	**(1,008)**	(1,499)	**(4,121)**	(3,064)
Net income		**2,543**	4,160	**922**	7,007
Net income attributable to shareholders		**2,543**	4,160	**922**	7,007
Weighted average number of common shares outstanding during the period (in thousands) – basic		**6,767**	6,622	**6,670**	6,622
Earnings per common share (in dollars) – basic	*15*	**0.37**	0.62	**0.13**	1.05
Earnings per common share (in dollars) – diluted	*15*	**0.37**	0.62	**0.13**	1.03

See accompanying notes to the Condensed Interim Consolidated Financial Statements

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

	Three months		Nine months	
For the periods ended September 30,	**2019**	2018	**2019**	2018
Net income	**2,543**	4,160	**922**	7,007
Net unrealized (losses) gains on available-for-sale investments	**(20)**	(466)	**6,120**	(2,850)
Income tax benefit (expense)	**194**	873	**(825)**	1,253
Items that may be reclassified subsequently to net income	**174**	407	**5,295**	(1,597)
Net realized gains (losses)	**36**	(1,048)	**(568)**	(1,301)
Impairment adjustment	**-**	-	**-**	325
Income tax (expense) benefit	**(163)**	(509)	**54**	(550)
Items reclassified to net income	**(127)**	(1,557)	**(514)**	(1,526)
Items other than cumulative translation gain (loss)	**47**	(1,150)	**4,781**	(3,123)
Items that will not be reclassified subsequently to net income – Cumulative translation gain (loss)	**1,001**	(1,562)	**(2,785)**	2,655
Other comprehensive income (loss)	**1,048**	(2,712)	**1,996**	(468)
Total comprehensive income	**3,591**	1,448	**2,918**	6,539

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**	**Preferred shares**	**Contributed surplus**	**Accumulated deficit**	**Accumulated other comprehensive loss (net of income taxes)**	**Total**
Balance at January 1, 2019		163,582	1,600	313	(33,307)	(2,236)	**129,952**
Net income		-	-	-	922	-	**922**
Other comprehensive income		-	-	-	-	1,996	**1,996**
Comprehensive income		-	-	-	922	1,996	**2,918**
Share issuance	*14*	55,669	-	-	-	-	**55,669**
Share-based payments		-	-	364	-	-	**364**
Dividends paid	*14*	-	-	-	(72)	-	**(72)**
Balance at September 30, 2019		**219,251**	**1,600**	**677**	**(32,457)**	**(240)**	**188,831**

	Note	Common shares	Preferred shares	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss (net of income taxes)	Total
Balance at January 1, 2018		163,582	1,600	89	(41,849)	(1,920)	121,502
Net income		-	-	-	7,007	-	7,007
Other comprehensive loss		-	-	-	-	(468)	(468)
Comprehensive income		-	-	-	7,007	(468)	6,539
Share-based payments		-	-	171	-	-	171
Dividends paid	*14*	-	-	-	(72)	-	(72)
Balance at September 30, 2018		163,582	1,600	260	(34,914)	(2,388)	128,140

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 nine months ended September 30,	2019	2018
Operating activities		
Net income	**922**	7,007
Items not involving cash:		
Depreciation and amortization	**1,829**	1,141
Unrealized (losses) gains	**(2,965)**	1,452
Impairment loss on available-for-sale investments	**-**	325
Payment in kind	**(372)**	-
Stock options granted	**364**	171
Change in working capital	**39,982**	7,010
Realized (gains) losses on investments	**(2,800)**	(782)
Income taxes paid	**(2,459)**	(2,367)
Interest paid	**(1,056)**	(725)
Net cash flows from operating activities	**33,445**	13,232
Investing activities		
Proceeds on disposal of investments	**41,647**	81,725
Purchases of investments	**(91,076)**	(160,731)
Purchases of capital assets	**(292)**	(338)
Purchases of intangible assets	**(116)**	(246)
Net cash flows used in investing activities	**(49,837)**	(79,590)
Financing activities		
Dividends paid	**(72)**	(72)
Shares issued	**55,669**	-
Loans received	**-**	29,700
Repayment of loans payable	**-**	(29,700)
Principal portion of lease payments	**(760)**	-
Net cash flows from (used in) financing activities	**54,837**	(72)
Net increase (decrease) in cash and cash equivalents during the period	**38,445**	(66,430)
Cash, beginning of period	**93,153**	83,146
Cash equivalents, beginning of period	**2,059**	82,529
Cash and cash equivalents, beginning of period	**95,212**	165,675
Impact of foreign exchange on cash and cash equivalents	**(1,744)**	3,443
Cash, end of period	**112,560**	102,007
Cash equivalents, end of period	**19,353**	681
Cash and cash equivalents, end of period	**131,913**	102,688

See accompanying notes to the Condensed Interim 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, in some instances through wholly-owned intermediary holding companies, through which it conducts insurance operations. These subsidiaries are Trisura Guarantee Insurance Company ("Trisura Guarantee"), Trisura International Insurance Ltd. ("Trisura International"), which is wholly-owned through the intermediary holding company Trisura International Holdings Ltd. ("TIHL"), and Trisura Specialty Insurance Company ("Trisura Specialty"). Trisura Guarantee was previously held through an intermediary holding company, 6436978 Canada Limited ("643 Can Ltd"), which was wound up in June 2018 (see Note 17).

Trisura Guarantee operates as a Canadian property and casualty insurance company. Trisura International is currently managing its in-force portfolio of specialty reinsurance contracts. 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.

In June 2019, the Company applied for approval from the Pennsylvania Insurance Department to acquire control of a shell entity, with 13 admitted state licenses that will enhance the offering of Trisura Specialty. Regulatory approval was provided on October 22, and the transaction closed November 1 (see Note 20).

In 2018, the Company incorporated Trisura Warranty Services Inc. ("Trisura Warranty"), and on January 22, 2019 purchased an existing book of warranty contracts from a third party, which Trisura Warranty will continue to administer. Trisura Warranty has begun to sell warranty products, which will serve as a complimentary business to the insurance products sold through Trisura Guarantee.

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, 2018, 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 November 7, 2019.

Note 3 – Summary of significant accounting policies

The accounting policies applied during the three and nine months ended September 30, 2019 are the same as those described and disclosed in Note 2 – *Summary of significant accounting policies* of the December 31, 2018 Consolidated Financial Statements.

3.1 Leases

Effective January 1, 2019, the Company adopted the new leases standard IFRS 16 *Leases* and applied the modified retrospective method upon adoption. The Company has determined that the impact of adoption resulted in the addition of a right-of-use ("ROU") asset of $8,358 and a corresponding lease liability of $8,358 (see Note 8). At the commencement date, the Company measured the ROU assets at cost and the lease liability at the present value of future lease payments. The Company used the incremental borrowing rate at the date of initial application as the discount rate.

The ROU assets are carried at cost less accumulated depreciation. The ROU assets are depreciated over the earlier of the end of the useful life of the underlying asset or the end of the term of the underlying lease contracts. The carrying value of the lease liability is remeasured at each reporting period as the present value of future lease payments and is reduced by lease payments as they are made.

Short-term leases or leases of low-value assets are accounted for by recognizing the lease payments associated with those leases as an expense on a straight-line basis over the term of the leases, as permitted by IFRS 16.

3.2 Transaction costs

The Company accounts for transaction costs that are incremental and directly attributable to an equity transaction as a deduction from equity, in accordance with *IAS 32 Financial Instruments: Presentation*.

(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 investments:

As at September 30, 2019	**AFS**	**Designated FVTPL**	**Cash, loans and receivables**	**Total**
Cash and cash equivalents	**-**	**-**	**131,913**	**131,913**
Investments				
Fixed income	**191,422**	**76,012**	**4,217**	**271,651**
Income and investment trust units	**2,845**	**-**	**-**	**2,845**
Common shares	**24,683**	**-**	**-**	**24,683**
Preferred shares	**29,768**	**-**	**-**	**29,768**
Structured insurance assets	**-**	**11,183**	**-**	**11,183**
Total cash and investments	**248,718**	**87,195**	**136,130**	**472,043**

As at December 31, 2018	AFS	Designated FVTPL	Cash, loans and receivables	Total
Cash and cash equivalents	-	-	95,212	95,212
Investments				
Fixed income	195,966	18,302	3,959	218,227
Income and investment trust units	2,338	-	-	2,338
Common shares	24,702	-	-	24,702
Preferred shares	25,307	-	-	25,307
Structured insurance assets	-	12,300	-	12,300
Total cash and investments	248,313	30,602	99,171	378,086

On November 20, 2018, the Company derecognized financial assets with a face value of $2,762 as the rights to receive cash flows and risks and rewards of ownership to the assets have been transferred. The carrying value of the asset was measured at $2,785, resulting in a realized loss of $21. As at September 30, 2019, the Company's continuing interest in the financial asset is measured at carrying value of $4,217 (December 31, 2018 – $3,959).

(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 September 30, 2019 and December 31, 2018 were as follows:

As at September 30, 2019	**FVTPL investments**	**Other investments**				**Total investments**
	At carrying value	**Amortized cost**	**Unrealized gains**	**Unrealized losses**	**Carrying value**	**At carrying value**
Government	**76,012**	**47,532**	**1,204**	**(127)**	**48,609**	**124,621**
Corporate	**-**	**141,442**	**2,122**	**(751)**	**142,813**	**142,813**
Total bonds	**76,012**	**188,974**	**3,326**	**(878)**	**191,422**	**267,434**
Other loans	**-**	**4,217**	**-**	**-**	**4,217**	**4,217**
Total fixed income	**76,012**	**193,191**	**3,326**	**(878)**	**195,639**	**271,651**
Income and investment trust units	**-**	**1,554**	**1,291**	**-**	**2,845**	**2,845**
Common shares	**-**	**20,118**	**4,937**	**(372)**	**24,683**	**24,683**
Preferred shares	**-**	**34,771**	**167**	**(5,170)**	**29,768**	**29,768**
Structured insurance assets	**11,183**	**-**	**-**	**-**	**-**	**11,183**
	87,195	**249,634**	**9,721**	**(6,420)**	**252,935**	**340,130**

As at December 31, 2018	FVTPL investments	Other investments				Total investments
	At carrying value	Amortized cost	Unrealized gains	Unrealized losses	Carrying value	At carrying value
Government	18,302	45,418	389	(90)	45,717	64,019
Corporate	-	152,757	113	(2,621)	150,249	150,249
Total bonds	18,302	198,175	502	(2,711)	195,966	214,268
Other loans	-	3,959	-	-	3,959	3,959
Total fixed income	18,302	202,134	502	(2,711)	199,925	218,227
Income and investment trust units	-	1,605	765	(32)	2,338	2,338
Common shares	-	22,702	4,505	(2,505)	24,702	24,702
Preferred shares	-	28,456	108	(3,257)	25,307	25,307
Structured insurance assets	12,300	-	-	-	-	12,300
	30,602	254,897	5,880	(8,505)	252,272	282,874

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 *Financial Instruments* is adopted along with IFRS 17, *Insurance Contracts*, effective for fiscal year commencing January 1, 2022.

Management has reviewed currently available information regarding those investments with a fair value less than carrying value. For the three and nine months ended September 30, 2019, management did not recognize any impairments (September 30, 2018 – $nil, $325, respectively). 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 September 30, 2019, the Company has pledged cash amounting to $248 USD and pledged fixed maturity investments amounting to $63,551 USD (December 31, 2018 – $32,088 USD and $20,090 USD, respectively), under insurance and reinsurance trust arrangements and are therefore not readily available for general use by the Company.

As at September 30, 2019, the Company pledged $316 USD (December 31, 2018 – $294 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 expenses of the trusts, are paid. The commission income for the three and nine months ended September 30, 2019 amounted to $422 and $1,273, respectively (September 30, 2018 – $444 and $1,429, respectively), which has been recorded within net investment income (see Note 16).

In March 2019, there was a one-time settlement gain of $6,075 USD on the structured insurance assets. In 2016, Trisura International, along with two other parties, commenced legal action against the third party, from whom Trisura International purchased the structured insurance assets in 2004. The lawsuit was fully settled in March 2019, and the amount was fully received in April 2019.

Note 5 – Fair value and notional amount of derivatives

The following sets out the fair value and notional amount of derivatives as at September 30, 2019 and December 31, 2018:

As at	**September 30, 2019**			December 31, 2018		
		Fair value			Fair value	
	Notional amount	**Asset**	**Liability**	Notional amount	Asset	Liability
Foreign currency contracts						
Forwards	**32,024**	**147**	-	24,101	-	380
Equity contracts						
Swap agreement	**478**	**541**	-	-	-	-
	32,502	**688**	-	24,101	-	380
Term to maturity						
less than one year	**32,024**	**147**	-	24,101	-	380
from one to five years	**478**	**541**	-	-	-	-

The Company entered into foreign currency forward contracts to reduce its exposure to fluctuations in the USD, EUR and GBP exchange rates that could arise from its foreign denominated investments. The notional amounts of the derivatives as at September 30, 2019 are $17,001 USD (December 31, 2018 – $16,819 USD), €3,808 EUR (December 31, 2018 – €1,000 EUR) and £2,367 GBP (December 31, 2018 – £nil). The Company also entered into a swap agreement to mitigate exposure to equity market fluctuations. These derivatives are recorded at fair value and gains and losses are recorded in foreign exchange gains (losses).

(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 September 30, 2019 and December 31, 2018:

As at September 30, 2019	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Government	**124,621**	**-**	**124,621**	**-**
Corporate	**142,813**	**-**	**142,813**	**-**
Total bonds	**267,434**	**-**	**267,434**	**-**
Income and investment trust units	**2,845**	**2,845**	**-**	**-**
Common shares	**24,683**	**23,769**	**-**	**914**
Preferred shares	**29,768**	**29,768**	**-**	**-**
Structured insurance assets	**11,183**	**-**	**-**	**11,183**
Total investments	**335,913**	**56,382**	**267,434**	**12,097**
Derivative financial assets	**688**	**-**	**688**	**-**
	336,601	**56,382**	**268,122**	**12,097**

As at December 31, 2018	Total fair value	Level 1	Level 2	Level 3
Government	64,019	-	64,019	-
Corporate	150,249	-	150,249	-
Total bonds	214,268	-	214,268	-
Income and investment trust units	2,338	2,338	-	-
Common shares	24,702	23,897	-	805
Preferred shares	25,307	25,307	-	-
Structured insurance assets	12,300	-	-	12,300
Total investments	278,915	51,542	214,268	13,105
Derivative financial liabilities	(380)	-	(380)	-
	278,535	51,542	213,888	13,105

For the three and nine months ended September 30, 2019 and the year ended December 31, 2018, 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 as at September 30, 2019 and December 31, 2018:

	September 30, 2019	December 31, 2018
Balance at beginning of period	**13,105**	13,223
Unrealized losses	**(773)**	(982)
Amortization of premium	**-**	(63)
Purchase of securities	**119**	205
Sale of securities	**-**	(363)
Foreign exchange	**(354)**	1,085
Balance at end of period	**12,097**	13,105

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

Note 6 – Fair value measurement (continued)

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 made 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. Mortality rates used in the valuation of the Structured insurance assets are derived from the 2012 Individual Annuity Mortality table developed by the Society of Actuaries in the United States. The assumptions used are reviewed on a regular basis.

Note 7 – Unpaid claims and loss adjustment expenses

As at September 30, 2019, the Company changed its estimation methodology for determining the long-term interest rates used in discounting the claims reserves of the life reinsurance business of Trisura International. Prior to September 30, 2019, Trisura International used the Euro swap rate curve to represent market-consistent risk-free interest rates.

Effective September 30, 2019, Trisura International began to determine the interest rates used in discounting its life reinsurance claims reserves by using the interest rate curve provided by the European Insurance and Occupational Pensions Authority ("EIOPA"). This curve is based on the Euro swap rate curve and also incorporates a credit risk adjustment, a volatility adjustment and the extrapolation of interest rates at longer durations. The EIOPA curve is used in Solvency II, a risk-based insurance regulatory and capital regime applied in Europe, and is an accepted practice for valuation of claims reserves under IFRS 4, Insurance Contracts.

The aggregate impact of these estimation changes reduced Trisura International's life Unpaid claims and loss adjustment expenses by $5,773 as at September 30, 2019, with a corresponding decrease of $5,773 in Claims and loss adjustment expenses for the three and nine months ended September 30, 2019.

7.1 Unpaid claims and loss adjustment expenses by line of business

As at September 30, 2019	Gross	Ceded	Net
Trisura Guarantee			
Surety	18,385	5,995	12,390
Corporate Insurance	34,822	2,799	32,023
Risk Solutions (1)	44,689	32,460	12,229
	97,896	41,254	56,642
Trisura International			
Life	85,727	-	85,727
Property and casualty	7,245	-	7,245
	92,972	-	92,972
Trisura Specialty			
Property and casualty	54,825	52,422	2,403
	245,693	93,676	152,017

(1) As at September 30, 2019, Risk Solutions include the unpaid claims and loss adjustment expenses of Trisura Warranty.

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

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

As at December 31, 2018	Gross	Ceded	Net
Trisura Guarantee			
Surety	13,324	3,820	9,504
Corporate Insurance	31,182	2,013	29,169
Risk Solutions	40,925	27,251	13,674
	85,431	33,084	52,347
Trisura International			
Life	69,758	-	69,758
Property and casualty	9,330	-	9,330
	79,088	-	79,088
Trisura Specialty			
Property and casualty	9,478	8,964	514
	173,997	42,048	131,949

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 Interim Consolidated Statements of Financial Position.

The following changes have occurred to the provision for unpaid claims for the three and nine months ended September 30:

	Three months ended September 30		**Nine months ended September 30**	
Gross claim reserves	**2019**	2018	**2019**	2018
Unpaid claims, beginning of period	**221,499**	172,074	**173,997**	178,885
Purchase of Trisura Warranty outstanding warranty contracts	-	-	**987**	-
Gross unpaid claims	**221,499**	172,074	**174,984**	178,885
Change in undiscounted estimates for losses of prior years	**(1,483)**	1,869	**(3,231)**	(349)
Change in discount rate	**8,126**	(615)	**25,605**	(965)
Change in provision for adverse deviation	**181**	621	**974**	648
Claims occurring in current year (including paid)	**42,733**	13,310	**131,270**	47,852
Paid on claims occurring during:				
Current year	**(12,822)**	(3,037)	**(48,316)**	(21,997)
Prior years	**(10,264)**	(8,911)	**(28,519)**	(31,143)
Foreign exchange	**(2,277)**	(1,892)	**(7,074)**	488
Unpaid claims, end of period	**245,693**	173,419	**245,693**	173,419

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

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

	Three months ended September 30		Nine months ended September 30	
Reinsurers' share of claim reserves	**2019**	2018	**2019**	2018
Unpaid claims, beginning of period	**75,772**	35,426	**42,048**	38,246
Change in undiscounted estimates for losses of prior years	**644**	2,193	**2,192**	3,300
Change in discount rate	**(103)**	(270)	**(2,038)**	(582)
Change in provision for adverse deviation	**(52)**	373	**477**	271
Claims occurring in current year (including paid)	**30,976**	8,306	**104,738**	30,715
Paid on claims occurring during:				
Current year	**(8,040)**	(1,386)	**(40,258)**	(16,613)
Prior years	**(5,933)**	(1,786)	**(13,060)**	(12,502)
Foreign exchange	**412**	(6)	**(423)**	15
Unpaid claims, end of period	**93,676**	42,850	**93,676**	42,850

The Reinsurance premiums payable balance of $62,750 (December 31, 2018 – $41,406) on the Interim Consolidated Statements of Financial Position, reflects $69,270 of reinsurance payable (December 31, 2018 – $45,694), netted against $6,520 (December 31, 2018 – $4,288) of reinsurance recoverable.

Note 8 – Leases

The Company leases office premises for its own use. These leases have terms that range from 5 years to 12 years, most with an option to extend the lease at the end of the lease term. The Company also leases office equipment. These leases generally have a lease term of five years, with no renewal option or variable lease payments.

As at September 30, 2019, ROU assets of $7,838 (December 31, 2018 – Nil) are recorded in Capital assets and intangible assets, along with $2,363 (December 31, 2018 - $2,512) of other Capital assets and intangible assets.

Information about leases for which the Company is a lessee is presented below:

As at September 30, 2019	**Premises**	**Office equipment**	**Total**
Right-of-use assets			
Balance as at December 31, 2018	-	-	-
Impact of IFRS 16 adoption	**8,333**	**25**	**8,358**
Balance as at January 1, 2019	**8,333**	**25**	**8,358**
Additions	**355**	**-**	**355**
Depreciation	**(867)**	**(8)**	**(875)**
Balance at end of period	**7,821**	**17**	**7,838**

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

Note 8 – Leases (continued)

As at	September 30, 2019
Lease liabilities maturity analysis	
Less than one year	**350**
One to five years	**5,308**
More than five years	**3,597**
Total undiscounted lease liabilities	**9,255**
Lease liabilities included in the Statements of Financial Position	**7,921**
Total cash outflow for leases recognized in the Statements of Cash Flows	**997**

Amounts recognized in Statements of Comprehensive Income	Three months ended September 30, 2019	Nine months ended September 30, 2019
Interest on lease liabilities	**83**	**238**
Expense relating to short-term leases	**13**	**40**
Expenses relating to leases of low-value assets	**2**	**3**
Income from subleasing right-of-use assets	**130**	**389**

Note 9 – Premiums and accounts receivable, and other assets

As at September 30, 2019 and December 31, 2018, Premiums and accounts receivable, and other assets consists of:

As at	September 30, 2019	December 31, 2018
Premiums receivable	**67,536**	41,251
Accrued investment income	**2,238**	1,991
Derivative assets	**688**	-
Tax recoveries	**518**	1,939
Prepaid expenses	**351**	316
Funds held by ceding companies	**266**	236
Miscellaneous assets	**907**	543
	72,504	46,276

As at September 30, 2019, Premiums receivable of $67,536 (December 31, 2018 – $41,251) includes an amount of $45,503 (December 31, 2018 – $20,504) related to Trisura Specialty for which there is a reinsurance payable of $48,687 (December 31, 2018 – $21,355).

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

Note 10 – Accounts payable, accrued and other liabilities

As at September 30, 2019 and December 31, 2018, Accounts payable, accrued and other liabilities consist of:

As at	**September 30, 2019**	December 31, 2018
Deposits in trust	**11,306**	9,565
Lease liabilities	**7,921**	-
Accrued liabilities	**7,744**	8,700
Other liabilities	**3,416**	3,891
Taxes payable	**1,653**	-
Share based payment plan	**1,303**	715
Investment contract liabilities	**376**	916
Derivatives liabilities	**-**	380
	33,719	24,167

Note 11 – 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.

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 September 30, 2019 and December 31, 2018.

The following table summarizes the components of Recoverable from reinsurers as at September 30, 2019 and December 31, 2018:

As at September 30,	**2019**	2018
Reinsurers’ share of claims liabilities (see Note 7.1)	**93,676**	42,048
Reinsurers’ share of unearned premiums	**145,196**	67,519
	238,872	109,567

Note 12 – Capital management

The Company's capital is its shareholders' equity, which consists of common shares, preferred 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.

12.1 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 September 30, 2019 and December 31, 2018.

b) Trisura International

Trisura International is subject to externally imposed regulatory capital requirements in Barbados. As at September 30, 2019 and December 31, 2018, Trisura International, including its subsidiaries, maintained sufficient capital to meet these requirements.

c) Trisura Specialty

Trisura Specialty is subject to externally imposed regulatory capital requirements by the Oklahoma Insurance Department as a Domestic Surplus Line Insurer. A requirement of the regulator is that Trisura Specialty's Risk Based Capital ratio ("RBC") exceed 150%. As at September 30, 2019 and December 31, 2018, Trisura Specialty exceeded this requirement.

Note 13 – Loan payable

On March 14, 2018, the Company entered a five-year revolving credit facility with a Canadian Schedule I bank (the "Bank") which allows for drawings of up to $35,000. Under this arrangement, the Company can 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 is 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 14, 2018, $29,700 was drawn under the loan, which was used to repay the outstanding loan payable of $29,700 which had been borrowed by a subsidiary of the Company under a previous lending facility.

The previous credit arrangement, which was in place throughout 2017 and until March 14, 2018 was arranged by way of a five-year lending facility funded through short term banker's acceptance or Canadian prime rate advances. The interest rate was based on the current period's bankers' acceptance rate or Canadian prime rate, plus a margin. The loan balance was accounted for at amortized cost, which is equal to the carrying value. The minimum required annual payment consisted only of interest, with no mandatory principal payments required.

As part of the covenants of the current and previous loan arrangements, the Company is required to maintain certain financial ratios, which were fully met as at September 30, 2019 and December 31, 2018.

For the three and nine months ended September 30, 2019, the Company incurred $333 and $1,020 of interest expense, of which $256 and $782 (September 30, 2018 – $243 and $709, respectively) are related to the loan payable, respectively. As at September 30, 2019, the loan balance was $29,700 (December 31, 2018 – $29,700).

Note 14 – 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 September 30, 2019 and December 31, 2018, no non-voting shares were issued.

Holders of the preferred shares are entitled to a cumulative dividend, 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.

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. The net impact of the share issuance is an increase in common shares of $55,669.

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

As at	**September 30, 2019**		December 31, 2018	
	Number of shares	**Amount (in thousands)**	Number of shares	Amount (in thousands)
Balance, beginning of period	**6,621,680**	**163,582**	6,621,680	163,582
Common shares issued	**2,197,939**	**55,669**	-	-
Balance, end period	**8,819,619**	**219,251**	6,621,680	163,582

The following table shows the preferred shares issued and outstanding:

As at	**September 30, 2019**		December 31, 2018	
	Number of shares	**Amount (in thousands)**	Number of shares	Amount (in thousands)
Balance, beginning of period	**64,000**	**1,600**	64,000	1,600
Balance, end of period	**64,000**	**1,600**	64,000	1,600

As at September 30, 2019, the Company declared and paid three quarterly dividends, each of $0.375 (in dollars) (December 31, 2018 – $0.375 (in dollars)) per share for each Class A, Series 1, preferred share.

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

Note 15 – 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.

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Net income attributable to shareholders	**2,543**	4,160	**922**	7,007
Less: Dividends declared on preferred shares, net of tax	**(24)**	(24)	**(72)**	(72)
Net income attributable to common shareholders	**2,519**	4,136	**850**	6,935
Weighted-average number of common shares outstanding (in shares)	**6,766,599**	6,621,680	**6,670,164**	6,621,680
EPS – basic (in dollars)	**0.37**	0.62	**0.13**	1.05
Dilutive effect of the conversion of options on common shares (in shares)	**20,806**	87,000	**19,834**	87,000
Diluted weighted-average number of common shares outstanding (in shares)	**6,787,405**	6,708,680	**6,689,998**	6,708,680
EPS – diluted (in dollars)	**0.37**	0.62	**0.13**	1.03

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

Note 16 – Net Investment Income

The components of net investment income for the three and nine months ended September 30, 2019 and 2018 were as follows:

	Three months ended September 30		Nine months ended September 30	
	2019	2018	**2019**	2018
Cash and cash equivalents	**221**	18	**434**	373
Bonds classified as loans and receivables	**216**	-	**588**	-
Available-for-sale bonds	**2,059**	1,428	**5,340**	3,605
Interest income	**2,496**	1,446	**6,362**	3,978
Available-for-sale income and investment trust units	**14**	20	**43**	6
Available-for-sale common shares	**278**	368	**909**	937
Available-for-sale preferred shares	**438**	243	**1,210**	612
Business and dividend income	**730**	631	**2,162**	1,555
Gains (losses) on investments held at FVTPL	**6,506**	(1,360)	**10,711**	(3,454)
Commission income structured insurance assets	**422**	444	**1,273**	1,429
Investment expenses	**(127)**	(149)	**(397)**	(490)
Other investment income (loss)	**6,801**	(1,065)	**11,587**	(2,515)
Available-for-sale income and investment trust units	**-**	(45)	**-**	(45)
Available-for-sale bonds	**11**	1,547	**(588)**	3,589
Available-for-sale common shares	**(47)**	1,140	**1,058**	779
Available-for-sale preferred shares	**-**	(15)	**98**	612
Gain on disposition of investments	**(36)**	2,627	**568**	4,935
Impairment on investments	**-**	-	**-**	(325)
Net investment income	**9,991**	3,639	**20,679**	7,628

Note 17 – Investment in subsidiary

On June 19, 2018, 643 Can Ltd, an intermediary holding company and wholly-owned subsidiary of the Company, completed a voluntary dissolution. The assets and liabilities of the subsidiary were transferred to the Company, including the shares of its wholly-owned subsidiary Trisura Guarantee. This dissolution had no impact on the Consolidated Financial Position and results of operations of the Company.

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

Note 18 – 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 operations of Trisura Guarantee included the operations of its intermediary holding company, 643 Can Ltd, until June 19, 2018.

The following tables show the results for the three and nine months ended September 30, 2019 and 2018:

Three months ended September 30, 2019	Trisura Guarantee	Trisura International	Trisura Specialty	Corporate and consolidation adjustments	Total
Net premiums earned	27,690	24	2,005	-	**29,719**
Fee income	178	-	2,352	-	**2,530**
Total underwriting revenue	27,868	24	4,357	-	**32,249**
Net claims	(8,385)	(8,359)	(1,348)	-	**(18,092)**
Net expenses	(17,418)	(667)	(2,003)	(688)	**(20,776)**
Total claims and expenses	(25,803)	(9,026)	(3,351)	(688)	**(38,868)**
Net underwriting income (loss)	2,065	(9,002)	1,006	(688)	**(6,619)**
Investment income	1,898	7,545	545	3	**9,991**
Foreign exchange gains (losses)	7	550	-	(45)	**512**
Interest expense	(66)	(7)	(4)	(256)	**(333)**
Net income (loss) before tax	**3,904**	**(914)**	**1,547**	**(986)**	**3,551**

Nine months ended September 30, 2019	Trisura Guarantee	Trisura International	Trisura Specialty	Corporate and consolidation adjustments	Total
Net premiums earned	73,756	75	3,963	-	**77,794**
Fee income	3,774	-	4,857	-	**8,631**
Total underwriting revenue	77,530	75	8,820	-	**86,425**
Net claims	(18,741)	(27,938)	(2,570)	-	**(49,249)**
Net expenses	(51,086)	(1,920)	(5,252)	(2,707)	**(60,965)**
Total claims and expenses	(69,827)	(29,858)	(7,822)	(2,707)	**(110,214)**
Net underwriting income (loss)	7,703	(29,783)	998	(2,707)	**(23,789)**
Investment income	6,643	12,812	1,216	8	**20,679**
Settlement from structured insurance assets	-	8,077	-	-	**8,077**
Foreign exchange gains	247	770	-	79	**1,096**
Interest expense	(198)	(9)	(31)	(782)	**(1,020)**
Net income (loss) before tax	**14,395**	**(8,133)**	**2,183**	**(3,402)**	**5,043**

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

Note 18 – Segmented information (continued)

Three months ended September 30, 2018	Trisura Guarantee	Trisura International	Trisura Specialty	Corporate and consolidation adjustments	Total
Net premiums earned	25,009	25	247	-	25,281
Fee income	116	-	254	-	370
Total underwriting revenue	25,125	25	501	-	25,651
Net claims	(5,055)	619	(147)	-	(4,583)
Net expenses	(16,438)	(471)	(1,328)	(739)	(18,976)
Total claims and expenses	(21,493)	148	(1,475)	(739)	(23,559)
Net underwriting income (loss)	3,632	173	(974)	(739)	2,092
Investment income	2,405	798	431	5	3,639
Foreign exchange gains	48	55	-	68	171
Interest expense	-	-	-	(243)	(243)
Net income (loss) before tax	6,085	1,026	(543)	(909)	5,659

Nine months ended September 30, 2018	Trisura Guarantee	Trisura International	Trisura Specialty	Corporate and consolidation adjustments	Total
Net premiums earned	65,404	71	351	-	65,826
Fee income	3,732	-	317	-	4,049
Total underwriting revenue	69,136	71	668	-	69,875
Net claims	(14,537)	1,266	(211)	-	(13,482)
Net expenses	(46,235)	(1,809)	(2,889)	(2,155)	(53,088)
Total claims and expenses	(60,772)	(543)	(3,100)	(2,155)	(66,570)
Net underwriting income (loss)	8,364	(472)	(2,432)	(2,155)	3,305
Investment income	4,582	1,928	1,093	25	7,628
Foreign exchange gains (losses)	48	(139)	-	(62)	(153)
Interest expense	(185)	-	-	(524)	(709)
Net income (loss) before tax	12,809	1,317	(1,339)	(2,716)	10,071

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

Note 18 – Segmented information (continued)

The following table shows Loan payable of $29,700 included with the liabilities in Corporate and consolidation adjustments at September 30, 2019 and December 31, 2018.

As at September 30, 2019	**Trisura Guarantee**	**Trisura International**	**Trisura Specialty**	**Corporate and consolidation adjustments**	**Total**
Assets	**398,712**	**114,683**	**335,919**	**37,579**	**886,893**
Liabilities	**314,265**	**95,542**	**256,227**	**32,028**	**698,062**

As at December 31, 2018	Trisura Guarantee	Trisura International	Trisura Specialty	Corporate and consolidation adjustments	Total
Assets	349,356	110,423	150,966	(9,763)	600,982
Liabilities	274,770	81,703	84,421	30,136	471,030

Note 19 – Income taxes

The following shows the major components of income tax expense for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30		**Nine months ended September 30**	
	2019	2018	**2019**	2018
Current tax expense:				
Current year	**639**	956	**4,555**	2,426
Prior year true up	**(107)**	-	**6**	(83)
	532	956	**4,561**	2,343
Deferred tax expense:				
Origination and reversal of temporary differences	**476**	543	**(440)**	721
Income tax expense	**1,008**	1,499	**4,121**	3,064
Income taxes recorded in other comprehensive income:				
Net changes in unrealized gains on available-for-sale investments	**(314)**	(302)	**724**	(450)
Reclassification to net income of net losses on available-for-sale investments	**163**	509	**(54)**	529
Origination and reversal of temporary differences	**120**	(571)	**101**	(782)
Total income tax expense recorded in other comprehensive income	**(31)**	(364)	**771**	(703)

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

Note 19 – Income taxes (continued)

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 Income for the three and nine months ended September 30, 2019 and 2018:

	Three months ended September 30		**Nine months ended September 30**	
	2019	2018	**2019**	2018
Income before income taxes	**3,551**	5,659	**5,043**	10,071
Statutory income tax rate	**26.5%**	26.5%	**26.5%**	26.5%
	941	1,500	**1,336**	2,669
Variations due to:				
Permanent differences	**(53)**	(137)	**(471)**	(329)
International operations subject to different tax rates	**169**	(229)	**2,875**	(179)
Unrecognized tax loss	**58**	365	**370**	984
Rate differentials:				
Current rate vs. future rate	-	(1)	**3**	2
Change in future rate	-	1	**2**	-
True up	**(107)**	-	**6**	(83)
Income tax expense	**1,008**	1,499	**4,121**	3,064

Note 20 – Subsequent event

On October 22, 2019, the Company received regulatory approval from the Pennsylvania Insurance Department to acquire a shell entity which has licenses to write business as an admitted insurer in certain states within the United States. On November 1, 2019 the Company completed the acquisition for cash consideration of approximately $8,380 USD, representing capital of approximately $6,430 USD and intangible assets of $1,950 USD.