



Trisura Group Ltd.

Condensed Interim Consolidated Financial Statements (unaudited)
For the three and nine months ended September 30, 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	<i>Note</i>	September 30, 2020	December 31, 2019
Assets			
Cash and cash equivalents, and short-term securities		124,875	85,905
Investments	<i>4, 6</i>	484,700	392,617
Premiums and accounts receivable, and other assets	<i>8</i>	154,581	86,669
Recoverable from reinsurers	<i>10</i>	567,361	293,068
Deferred acquisition costs		163,719	104,197
Capital assets and intangible assets		13,933	14,477
Deferred tax assets	<i>19</i>	8,347	1,460
Total assets		1,517,516	978,393
Liabilities			
Accounts payable, accrued and other liabilities	<i>9</i>	48,924	40,916
Reinsurance premiums payable	<i>8</i>	144,691	80,186
Unearned premiums		510,200	328,091
Unearned reinsurance commissions		91,859	51,291
Unpaid claims and loss adjustment expenses	<i>7</i>	417,107	257,880
Loan payable	<i>12</i>	28,869	29,700
		1,241,650	788,064
Shareholders' equity			
Common shares	<i>13</i>	285,731	219,251
Contributed surplus		1,083	815
Accumulated deficit		(6,816)	(28,309)
Accumulated other comprehensive loss		(4,132)	(1,428)
		275,866	190,329
Total liabilities and shareholders' equity		1,517,516	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 periods ended September 30,	Note	Three months		Nine months	
		2020	2019	2020	2019
Gross premiums written		239,607	114,354	612,242	305,050
Reinsurance premiums ceded		(175,026)	(76,885)	(459,221)	(201,962)
Retrospective premiums refund		(38)	(40)	(97)	(116)
Net premiums written		64,543	37,429	152,924	102,972
Change in unearned premiums		(22,293)	(7,710)	(43,331)	(25,178)
Net premiums earned		42,250	29,719	109,593	77,794
Fee income		6,652	2,530	20,060	8,631
Total underwriting revenue		48,902	32,249	129,653	86,425
Net claims and loss adjustment expenses	7	(19,319)	(18,092)	(49,466)	(49,249)
Net commissions	10	(15,060)	(10,265)	(38,431)	(27,839)
Operating expenses and premium taxes		(16,685)	(10,511)	(43,523)	(33,126)
Total claims and expenses		(51,064)	(38,868)	(131,420)	(110,214)
Net underwriting loss		(2,162)	(6,619)	(1,767)	(23,789)
Net investment income	15	7,015	10,027	21,857	20,111
Net gains	16	4,178	476	5,628	1,664
Settlement from structured insurance assets	4.4	-	-	-	8,077
Interest expense	12	(224)	(333)	(891)	(1,020)
Income before income taxes		8,807	3,551	24,827	5,043
Income tax expense	19	(2,272)	(1,008)	(3,334)	(4,121)
Net income attributable to shareholders		6,535	2,543	21,493	922
Weighted average number of common shares outstanding during the period (in thousands) – basic		10,269	6,767	9,552	6,670
Earnings per common share (in dollars) – basic		0.64	0.37	2.25	0.13
Earnings per common share (in dollars) – diluted		0.62	0.37	2.22	0.13

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)

For the periods ended September 30,	Note	Three months		Nine months	
		2020	2019	2020	2019
Net income attributable to shareholders		6,535	2,543	21,493	922
Net unrealized gains (losses) on available-for-sale investments		5,273	(20)	(6,197)	6,120
Income tax (expense) benefit		(2,006)	194	934	(825)
Items that may be reclassified subsequently to net income		3,267	174	(5,263)	5,295
Net realized (gains) losses		(904)	36	(5,773)	(568)
Impairment adjustment	4.2	305	-	4,144	-
Income tax benefit (expense)		789	(163)	981	54
Items reclassified to net income		190	(127)	(648)	(514)
Items other than cumulative translation (loss) gain		3,457	47	(5,911)	4,781
Items that will not be reclassified subsequently to net income					
– Cumulative translation (loss) gain		(3,619)	1,001	3,207	(2,785)
Other comprehensive (loss) income		(162)	1,048	(2,704)	1,996
Total comprehensive income		6,373	3,591	18,789	2,918

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)

	<i>Note</i>	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		-	-	21,493	-	21,493
Other comprehensive loss		-	-	-	(2,704)	(2,704)
Comprehensive income		-	-	21,493	(2,704)	18,789
Issuances, net of taxes		66,480	-	-	-	66,480
Share based payments	20	-	268	-	-	268
Balance at September 30, 2020		285,731	1,083	(6,816)	(4,132)	275,866

	<i>Note</i>	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	13	55,669	-	-	-	-	55,669
Share based payments	20	-	-	364	-	-	364
Dividends paid	13	-	-	-	(72)	-	(72)
Balance at September 30, 2019		219,251	1,600	677	(32,457)	(240)	188,831

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,	2020	2019
Operating activities		
Net income	21,493	922
Items not involving cash:		
Depreciation and amortization	2,388	1,829
Unrealized gains	(1,089)	(2,965)
Impairment loss	4,992	-
Payment in kind	(285)	(372)
Stock options granted	540	364
Change in working capital	57,454	39,982
Realized gains on investments	(21,443)	(2,800)
Income taxes paid	(7,948)	(2,459)
Interest paid	(921)	(1,056)
Net cash flows from operating activities	55,181	33,445
Investing activities		
Proceeds on disposal of investments	201,051	41,647
Purchases of investments	(281,781)	(91,076)
Purchases of capital assets	(444)	(292)
Purchases of intangible assets	(179)	(116)
Net cash flows used in investing activities	(81,353)	(49,837)
Financing activities		
Dividends paid	-	(72)
Shares issued	65,143	55,669
Loans received	32,700	-
Repayment of loans payable	(32,700)	-
Principal portion of lease payments	(1,197)	(760)
Net cash flows from financing activities	63,946	54,837
Net increase in cash and cash equivalents, and short-term securities during the period	37,774	38,445
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	1,196	(1,744)
Cash, end of period	110,706	112,560
Cash equivalents and short-term securities, end of period	14,169	19,353
Cash and cash equivalents, and short-term securities, end of period	124,875	131,913

TRISURA GROUP LTD.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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

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 was wholly-owned through the intermediary holding company Trisura International Holdings Ltd. (“TIHL”). TIHL was wound up on May 21, 2020 (see Note 18), and Trisura International is now owned directly by the Company.

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 November 4, 2020.

Note 3 – Summary of significant accounting policies

The accounting policies applied during the three and nine months ended September 30, 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.

TRISURA GROUP LTD.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(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 September 30, 2020	AFS	Designated FVTPL	Cash, loans and receivables	Total
Cash and cash equivalents, and short-term securities	-	-	124,875	124,875
Investments				
Fixed income	295,927	81,231	693	377,851
Common shares	36,732	-	-	36,732
Preferred shares	59,355	-	-	59,355
Structured insurance assets	-	10,762	-	10,762
Total cash and investments	392,014	91,993	125,568	609,575

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

On May 13, 2020, the Company derecognized financial assets with a face value of \$4,575 as the contractual rights to receive cash flows have expired. The carrying value of the asset was measured at \$3,450, resulting in a realized loss of \$1,125. For the three and nine months ended September 30, 2020, impairments of \$nil and \$848 respectively had been recorded on the asset, prior to the derecognition (September 30, 2019 – \$nil and \$nil, respectively). Although rights to receive cash flows have expired, the Company received classes of equity units as part of the asset's restructuring transaction. These equity units are Level 3 investments measured at fair value. As at September 30, 2020, the carrying value of the investment was \$3,105 (December 31, 2019 – \$nil). As an equity unit holder, the Company has made commitments to fund \$1,177 USD to the asset, \$392 USD and \$883 USD of which had been funded during the three and nine months ended September 30, 2020.

TRISURA GROUP LTD.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(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, 2020 and December 31, 2019 were as follows:

As at September 30, 2020	FVTPL	Other investments				Total
	investments	Amortized cost	Unrealized gains	Unrealized losses	Carrying value	investments
	At carrying value					At carrying value
Government	61,669	36,038	1,223	(4)	37,257	98,926
Corporate	19,562	254,548	4,122	-	258,670	278,232
Total bonds	81,231	290,586	5,345	(4)	295,927	377,158
Other loans	-	693	-	-	693	693
Total fixed income	81,231	291,279	5,345	(4)	296,620	377,851
Common shares	-	42,419	939	(6,626)	36,732	36,732
Preferred shares	-	63,000	659	(4,304)	59,355	59,355
Structured insurance assets	10,762	-	-	-	-	10,762
	91,993	396,698	6,943	(10,934)	392,707	484,700

As at December 31, 2019	FVTPL	Other investments				Total
	investments	Amortized cost	Unrealized gains	Unrealized losses	Carrying value	investments
	At 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 and nine months ended September 30, 2020, management recognized impairments of \$305 and \$4,992, respectively (September 30, 2019 – \$nil and \$nil, 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.

TRISURA GROUP LTD.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(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, 2020, the Company has pledged cash amounting to \$1,941 USD and pledged fixed maturity investments amounting to \$64,869 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 September 30, 2020, the Company pledged \$5,514 USD (December 31, 2019 – \$311 USD) of fixed income investments as security deposits to various state insurance departments to be held in trust for and pledged to various states.

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 three and nine months ended September 30, 2020 amounted to \$331 and \$1,120, respectively (September 30, 2019 – \$422 and \$1,273, respectively), 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 September 30, 2020 and December 31, 2019:

As at	September 30, 2020			December 31, 2019		
	Notional amount	Fair value		Notional amount	Fair value	
Asset		Liability	Asset		Liability	
Foreign currency contracts						
Forwards	62,025	1,011	393	43,700	327	-
Equity contracts						
Swap agreements	5,484	6,447	-	494	745	-
Interest rate contracts						
Swap agreements	4,331	-	46	-	-	-
	71,840	7,458	439	44,194	1,072	-
Term to maturity						
less than one year	67,509	7,458	393	43,700	327	-
from one to five years	-	-	-	494	745	-
from five to ten years	4,331	-	46	-	-	-

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 September 30, 2020 are \$39,276 USD (December 31, 2019 – \$25,991 USD), €1,598 EUR (December 31, 2019 – €1,636 EUR) and £3,861 GBP (December 31, 2019 – £4,193). The Company also uses swap agreements to mitigate exposure to interest rate on its investment portfolio and equity market fluctuations associated with its share based compensation. These derivatives are recorded at fair value and gains and losses are recorded in Net gains (see Note 16).

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Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

(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, 2020 and December 31, 2019:

As at September 30, 2020	Total fair value	Level 1	Level 2	Level 3
Government	98,926	-	98,926	-
Corporate	278,232	-	278,232	-
Total bonds	377,158	-	377,158	-
Common shares	36,732	29,236	-	7,496
Preferred shares	59,355	59,355	-	-
Structured insurance assets	10,762	-	-	10,762
Total investments	484,007	88,591	377,158	18,258
Derivative financial assets	7,458	-	7,458	-
Derivative financial liabilities	(439)	-	(439)	-
	491,026	88,591	384,177	18,258

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 and nine months ended September 30, 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 nine months ended September 30, 2020 and the year ended December 31, 2019:

	September 30, 2020	December 31, 2019
Balance at beginning of period	11,568	13,105
Unrealized losses	(176)	(1,092)
Purchase of securities	6,576	119
Foreign exchange	290	(564)
Balance at end of period	18,258	11,568

TRISURA GROUP LTD.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

(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 and nine months ended:

For the three months ended September 30, 2020	Direct	Ceded	Net
Unpaid claims, beginning of period	348,066	190,771	157,295
Claims occurring in current year (including paid)	110,761	96,569	14,192
Change in undiscounted estimates for losses of prior years	55	(414)	469
Change in discounting	4,596	430	4,166
Change in provision for adverse deviation	131	(361)	492
Total claims incurred	115,543	96,224	19,319
Claims paid	(44,562)	(32,753)	(11,809)
Foreign exchange	(1,940)	(3,587)	1,647
Unpaid claims, end of period	417,107	250,655	166,452
For the nine months ended September 30, 2020	Direct	Ceded	Net
Unpaid claims, beginning of period	257,880	114,657	143,223
Claims occurring in current year (including paid)	255,673	219,224	36,449
Change in undiscounted estimates for losses of prior years	(8,707)	(5,418)	(3,289)
Change in discounting	15,696	63	15,633
Change in provision for adverse deviation	615	(58)	673
Total claims incurred	263,277	213,811	49,466
Claims paid	(110,148)	(77,733)	(32,415)
Foreign exchange	6,098	(80)	6,178
Unpaid claims, end of period	417,107	250,655	166,452
For the three months ended September 30, 2019	Direct	Ceded	Net
Unpaid claims, beginning of period	221,499	75,772	145,727
Claims occurring in current year (including paid)	42,733	30,976	11,757
Change in undiscounted estimates for losses of prior years	(1,483)	644	(2,127)
Change in discount rate	8,126	(103)	8,229
Change in provision for adverse deviation	181	(52)	233
Total claims incurred	49,557	31,465	18,092
Claims paid	(23,086)	(13,973)	(9,113)
Foreign exchange	(2,277)	412	(2,689)
Unpaid claims, end of period	245,693	93,676	152,017

TRISURA GROUP LTD.**Notes to the Condensed Interim Consolidated Financial Statements (unaudited)**

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

Note 7 – Unpaid claims and loss adjustment expenses (continued)

For the nine months ended September 30, 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)	131,270	104,738	26,532
Change in undiscounted estimates for losses of prior years	(3,231)	2,192	(5,423)
Change in discount rate	25,605	(2,038)	27,643
Change in provision for adverse deviation	974	477	497
Total claims incurred	154,618	105,369	49,249
Claims paid	(76,835)	(53,318)	(23,517)
Foreign exchange	(7,074)	(423)	(6,651)
Unpaid claims, end of period	245,693	93,676	152,017

Note 8 – Premiums and accounts receivable, and other assets

As at September 30, 2020 and December 31, 2019, Premiums and accounts receivable, and other assets consists of:

As at	September 30, 2020	December 31, 2019
Premiums receivable	140,574	79,627
Derivative assets	7,458	1,072
Accrued investment income	2,808	2,537
Tax recoveries	2,507	417
Funds held by ceding companies	240	221
Prepaid expenses	221	388
Miscellaneous assets	773	2,407
	154,581	86,669

As at September 30, 2020, Premiums receivable of \$140,574 (December 31, 2019 – \$79,627) includes an amount of \$114,287 (December 31, 2019 – \$54,187) related to Trisura Specialty for which there is a reinsurance payable of \$133,190 (December 31, 2019 – \$60,345).

The Reinsurance premiums payable balance of \$144,691 (December 31, 2019 – \$80,186) on the Condensed Interim Consolidated Statements of Financial Position reflects \$159,377 of reinsurance payable (December 31, 2019 – \$84,572), netted against \$14,686 (December 31, 2019 – \$4,386) of reinsurance recoverable.

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Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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

Note 9 – Accounts payable, accrued and other liabilities

As at September 30, 2020 and December 31, 2019, Accounts payable, accrued and other liabilities consist of:

As at	September 30, 2020	December 31, 2019
Accrued liabilities	15,686	8,345
Deposits in trust	11,912	11,842
Lease liabilities	9,150	9,756
Share based payment plan	5,013	2,589
Unsettled investments payable	3,000	-
Taxes payable	2,021	3,913
Other liabilities	1,348	4,102
Derivatives liabilities	439	-
Investment contract liabilities	355	369
	48,924	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 September 30, 2020 and December 31, 2019.

The following table summarizes the components of Recoverable from reinsurers as at September 30, 2020 and December 31, 2019:

As at	September 30, 2020	December 31, 2019
Reinsurers' share of claims liabilities (see Note 7)	250,655	114,657
Reinsurers' share of unearned premiums	316,706	178,411
	567,361	293,068

For the three and nine months ended September 30, 2020, Net commissions of \$15,060 and \$38,431 (September 30, 2019 – \$10,265 and \$27,839) on the Condensed Interim Consolidated Statements of Income reflect \$46,555 and \$112,982 of gross commissions (September 30, 2019 – \$22,903 and \$57,074), net of \$31,495 and \$74,551 (September 30, 2019 – \$12,638 and \$29,235) of reinsurance commissions, respectively.

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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 September 30, 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 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 exceed certain minimum thresholds as well as Company Action Levels ("CALs"), below which the Company would have to notify the regulators. As at September 30, 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 September 30, 2020 and December 31, 2019, Trisura International 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. On April 1, 2020, the Company's five-year revolving credit facility was amended to increase the Company's borrowing capacity from \$35,000 to \$50,000. 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 credit facility, which was repaid on June 19, 2020.

As part of the covenants of the loan arrangement, the Company is required to maintain certain financial ratios, which were fully met as at September 30, 2020 and December 31, 2019.

For the three and nine months ended September 30, 2020, the Company incurred \$224 and \$891 of interest expense, respectively (September 30, 2019 – \$333 and \$1,020, respectively), of which \$127 and \$543 (September 30, 2019 – \$256 and \$782) are related to the loan payable. As at September 30, 2020, the loan balance was \$28,869 (December 31, 2019 – \$29,700).

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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 September 30, 2020 and December 31, 2019, no non-voting shares were issued and no preferred shares are outstanding.

In May 2020, the Company completed a public offering of 1,289,150 common shares for gross proceeds of \$60,397. Concurrent with the public offering, the Company issued 160,100 common shares to investors on a private placement basis for gross proceeds of \$7,501. The Company incurred costs of \$2,416 in commission paid to underwriters as well as \$339 of costs directly attributable to the share issuance, which have been deducted from equity. At September 30, 2020, the net impact of the share issuance is an increase in common shares of \$66,480, net of tax impact of \$1,337 related to the share issuance costs.

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 and nine months ended September 30, 2020, no dividend payments have been made (September 30, 2019 – \$24 and \$72, respectively, 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	September 30, 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, net of taxes	1,449,250	66,480	2,197,939	55,669
Balance, end period	10,268,869	285,731	8,819,619	219,251

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.

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Net income attributable to shareholders	6,535	2,543	21,493	922
Less: Dividends declared on preferred shares	-	(24)	-	(72)
Net income attributable to common shareholders	6,535	2,519	21,493	850
Weighted-average number of common shares outstanding (in shares)	10,268,869	6,766,599	9,552,207	6,670,164
EPS – basic (in dollars)	0.64	0.37	2.25	0.13
Dilutive effect of the conversion of options on common shares (in shares)	196,839	20,806	139,971	19,834
Diluted weighted-average number of common shares outstanding (in shares)	10,465,708	6,787,405	9,692,178	6,689,998
EPS – diluted (in dollars)	0.62	0.37	2.22	0.13

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Note 15 – Net investment income

The components of net investment income for the three and nine months ended September 30, 2020 and September 30, 2019 were as follows:

	Three months ended September 30		Nine months ended September 30	
	2020	2019 ⁽¹⁾	2020	2019 ⁽¹⁾
Cash and cash equivalents, and short-term securities	141	221	580	434
Bonds classified as loans and receivables	5	216	171	588
FVTPL bonds	292	157	644	247
AFS bonds	2,231	2,059	5,995	5,340
Interest income	2,669	2,653	7,390	6,609
AFS common shares and income and investment trust units	460	292	1,469	952
AFS preferred shares	775	438	1,973	1,210
Dividend income	1,235	730	3,442	2,162
Gains on investments held at FVTPL	3,127	6,349	10,824	10,463
Commission income on structured insurance assets	331	422	1,120	1,273
Investment expenses	(347)	(127)	(919)	(396)
Other investment income	3,111	6,644	11,025	11,340
Net investment income	7,015	10,027	21,857	20,111

(1) Certain Net investment income balances from September 30, 2019 have been reclassified to Net gains (see Note 16) to conform with the December 31, 2019 annual financial statements presentation.

Note 16 – Net gains

The components of net gains for the three and nine months ended September 30, 2020 and 2019 were as follows:

	Three months ended September 30		Nine months ended September 30	
	2020	2019 ⁽¹⁾	2020	2019 ⁽¹⁾
Net gains (losses) from:				
financial instruments:				
AFS common shares and income and investment trust units	122	(47)	3,247	1,058
AFS preferred shares	127	-	143	98
AFS bonds	1,433	11	2,192	(588)
	1,682	(36)	5,582	568
derivatives:				
swap agreements ⁽²⁾	1,007	-	1,696	-
Embedded derivatives	(80)	-	(952)	-
Net foreign currency gains	1,874	512	4,294	1,096
Impairment on investments	(305)	-	(4,992)	-
Net gains	4,178	476	5,628	1,664

(1) Certain Net investment income balances from September 30, 2019 have been reclassified from Net investment income (see Note 15) 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 gains.

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Note 17 – Segmented information

The Company has three reportable segments. The operations of Trisura Guarantee comprises Surety, Risk Solutions and Corporate Insurance products underwritten in Canada as well as the operations of Trisura Warranty. The operations of Trisura Specialty provides specialty insurance solutions underwritten in the United States. The operations of Trisura International comprises the Company's international reinsurance operations.

The following tables show the results for the three and nine months ended September 30, 2020 and 2019:

Three months ended September 30, 2020	Trisura Guarantee	Trisura Specialty	Trisura International	Corporate and consolidation adjustments	Total
Net premiums earned:					
from external customers	35,261	5,246	-	-	40,507
inter-segment premiums ⁽¹⁾	-	-	1,743	-	1,743
Fee income	238	6,414	-	-	6,652
Total underwriting revenue	35,499	11,660	1,743	-	48,902
Net claims	(10,018)	(4,455)	(4,846)	-	(19,319)
Net expenses	(22,494)	(4,100)	(1,235)	(3,916)	(31,745)
Total claims and expenses	(32,512)	(8,555)	(6,081)	(3,916)	(51,064)
Net underwriting income (loss)	2,987	3,105	(4,338)	(3,916)	(2,162)
Net investment income	1,886	1,152	3,802	175	7,015
Net gains (losses)	763	622	(376)	3,169	4,178
Interest expense	(81)	(10)	(6)	(127)	(224)
Net income (loss) before tax	5,555	4,869	(918)	(699)	8,807

Nine months ended September 30, 2020	Trisura Guarantee	Trisura Specialty	Trisura International	Corporate and consolidation adjustments	Total
Net premiums earned:					
from external customers	92,358	14,177	-	-	106,535
inter-segment premiums ⁽¹⁾	-	-	3,058	-	3,058
Fee income	3,981	16,079	-	-	20,060
Total underwriting revenue	96,339	30,256	3,058	-	129,653
Net claims	(21,407)	(10,634)	(17,425)	-	(49,466)
Net expenses	(60,714)	(10,621)	(3,026)	(7,593)	(81,954)
Total claims and expenses	(82,121)	(21,255)	(20,451)	(7,593)	(131,420)
Net underwriting income (loss)	14,218	9,001	(17,393)	(7,593)	(1,767)
Net investment income	5,979	2,722	12,905	251	21,857
Net (losses) gains	(1,858)	1,305	(536)	6,717	5,628
Interest expense	(300)	(28)	(20)	(543)	(891)
Net income (loss) before tax	18,039	13,000	(5,044)	(1,168)	24,827

(1) For the three and nine months ended September 30, 2020, Trisura International earned inter-segment premiums of \$1,743 and \$3,058, respectively (September 30, 2019 – \$nil and \$nil, respectively), from Trisura Specialty. The inter-segment ceding arrangement was entered into at prevailing market rates.

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Note 17 – Segmented information (continued)

Three months ended September 30, 2019	Trisura Guarantee	Trisura Specialty	Trisura International	Corporate and consolidation adjustments	Total
Net premiums earned	27,690	2,005	24	-	29,719
Fee income	178	2,352	-	-	2,530
Total underwriting revenue	27,868	4,357	24	-	32,249
Net claims	(8,385)	(1,348)	(8,359)	-	(18,092)
Net expenses	(17,418)	(2,003)	(667)	(688)	(20,776)
Total claims and expenses	(25,803)	(3,351)	(9,026)	(688)	(38,868)
Net underwriting income (loss)	2,065	1,006	(9,002)	(688)	(6,619)
Net investment income ⁽¹⁾	1,949	472	7,603	3	10,027
Net (losses) gains	(44)	73	492	(45)	476
Interest expense	(66)	(4)	(7)	(256)	(333)
Net income (loss) before tax	3,904	1,547	(914)	(986)	3,551

Nine months ended September 30, 2019	Trisura Guarantee	Trisura Specialty	Trisura International	Corporate and consolidation adjustments	Total
Net premiums earned	73,756	3,963	75	-	77,794
Fee income	3,774	4,857	-	-	8,631
Total underwriting revenue	77,530	8,820	75	-	86,425
Net claims	(18,741)	(2,570)	(27,938)	-	(49,249)
Net expenses	(51,086)	(5,252)	(1,920)	(2,707)	(60,965)
Total claims and expenses	(69,827)	(7,822)	(29,858)	(2,707)	(110,214)
Net underwriting income (loss)	7,703	998	(29,783)	(2,707)	(23,789)
Net investment income ⁽¹⁾	5,786	1,447	12,870	8	20,111
Settlement from structured insurance assets	-	-	8,077	-	8,077
Net gains (losses)	1,104	(231)	712	79	1,664
Interest expense	(198)	(31)	(9)	(782)	(1,020)
Net income (loss) before tax	14,395	2,183	(8,133)	(3,402)	5,043

(1) Certain Net investment income balances from September 30, 2019 have been reclassified to Net gains (see Note 16) to conform with the December 31, 2019 annual financial statement presentation.

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Note 17 – Segmented information (continued)

The following table shows Loan payable of \$28,869 included with the liabilities in Corporate and consolidation adjustments at September 30, 2020 (December 31, 2019 – \$29,700):

As at September 30, 2020	Trisura Guarantee	Trisura Specialty	Trisura International	Corporate and consolidation adjustments	Total
Assets	469,886	896,690	119,882	31,058	1,517,516
Liabilities	372,275	742,621	105,129	21,625	1,241,650

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

Note 18 – Investment in subsidiary

On May 21, 2020, TIHL, 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 International. This dissolution had no impact on the Condensed Interim Consolidated Statements of Financial Position and results of operations of the Company.

Note 19 – Income taxes

The following shows the major components of income tax expense for the three and nine months ended September 30, 2020 and 2019:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Current tax expense:				
Current year	3,134	639	9,636	4,555
Prior year true up	8	(107)	8	6
	3,142	532	9,644	4,561
Deferred tax expense:				
Origination and reversal of temporary differences	(870)	476	(6,310)	(440)
Income tax expense	2,272	1,008	3,334	4,121
Income taxes recorded in other comprehensive income:				
Net changes in unrealized losses (gains) on AFS investments	1,927	(314)	(1,555)	724
Reclassification to net income of net (losses) gains on AFS investments	(789)	163	(981)	(54)
Origination and reversal of temporary differences	79	120	621	101
Total income tax expense (benefit) recorded in other comprehensive income	1,217	(31)	(1,915)	771

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Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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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 Condensed Interim Consolidated Statements of Income for the three and nine months ended September 30, 2020 and 2019:

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Income before income taxes	8,807	3,551	24,827	5,043
Statutory income tax rate	26.5%	26.5%	26.5%	26.5%
	2,334	941	6,579	1,336
Variations due to:				
Permanent differences	(183)	(53)	(584)	(471)
International operations subject to different tax rates	28	169	693	2,875
Unrecognized tax (gains) losses	(23)	58	(3,448)	370
Rate differentials:				
Current rate versus future rate	33	-	36	3
Change in future rate	(1)	-	1	2
True up	84	(107)	57	6
Income tax expense	2,272	1,008	3,334	4,121

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. The strategy was implemented on February 20, 2020. As at September 30, 2020, the Company has unused tax losses of \$8,739 (December 31, 2019 – \$11,669) which will expire in the following years:

	September 30, 2020
2037	2,034
2038	3,368
2039	3,337
	8,739

Note 20 – 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 nine months ended September 30, 2020:

For the nine months ended September 30,	2020 (in units)	2019 (in units)
Opening balance	-	-
Granted during the period	8,239	-
Ending balance	8,239	-

As at September 30, 2020, no units had vested. For the three and nine months ended September 30, 2020, \$117 and \$165, respectively (September 30, 2019 – \$nil and \$nil, respectively) had been recorded as expense related to the RSUs in Operating expenses. For the nine months ended September 30, 2020, a share reserve to contributed surplus of \$272 (September 30, 2019 – \$nil) was recorded which is offset by an adjustment to contributed surplus related to the vesting of stock options granted of \$540 (September 30, 2019 – \$364).