Trisura Group Ltd.

Consolidated Financial Statements

For the years ended December 31, 2021 and 2020

Deloitte.

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Independent Auditor's Report

To the Shareholders and the Board of Directors of
Trisura Group Ltd.

Opinion

We have audited the consolidated financial statements of Trisura Group Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021 . This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Unpaid claims and loss adjustment expenses for the property and casualty insurance business - Refer to Notes 2.4(d) and 15 to the financial statements

Key Audit Matter Description

The Company conducts insurance operations including a property and casualty insurance business through Trisura Guarantee Insurance Company and Trisura Specialty Insurance Company. In the property and casualty business, the liability for unpaid claims and loss adjustment expenses represents an estimate of the ultimate cost of all claims incurred but not paid by the statement of financial position date. This estimation process includes consideration of individual case estimates of claims and loss adjustment expenses on reported claims, provision for future development of case estimates on reported claims, and provision for claims and loss adjustment expenses related to incurred but not reported ("IBNR") claims.

In estimating the IBNR claims liabilities, the Company uses a range of actuarial methodologies which consider assumptions related to historical loss development factors and payment patterns. While there are several assumptions that go into determining the IBNR claims liabilities, significant management judgment is applied regarding the use of assumptions relating to future development of claims and loss adjustment expenses that have not yet been reported, future rates of claim frequency and severity, payment patterns and reinsurance recoveries ("significant assumptions"). Auditing the selection of the actuarial methodologies and the significant assumptions involves a high degree of subjectivity in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort, including the involvement of actuarial specialists

How the Key Audit Matter Was Addressed in the Audit
Our audit procedures related to the selection of the actuarial methodologies and the significant assumptions used to value the IBNR claims liabilities for the property and casualty insurance business included the following audit procedures, among others:

- Tested the underlying data that served as the basis for the actuarial analysis, including historical claims and loss adjustment expenses data used to develop future expectations, to evaluate the reasonableness of key inputs to the actuarial estimate.
- With the assistance of actuarial specialists:
  - Evaluated management's actuarial methodologies and the significant assumptions in accordance with actuarial principles and practices under generally accepted actuarial standards of practice.
  - Independently estimated the claim liabilities for selected lines of business, focusing on the largest IBNR claims liabilities, and compared the recalculated results to those recorded by the Company.
  - Performed a retrospective assessment to determine whether management judgments and assumptions relating to the significant estimates indicated a possible bias on the part of management.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report
- Financial Supplement

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis and Financial Supplement prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Ratan Ralliaram.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
February 10, 2022

TRISURA GROUP LTD.
Consolidated Financial Statements

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

As at	*Note*	**December 31, 2021**	December 31, 2020
Assets			
Cash and cash equivalents		**341,319**	136,519
Investments	*4*	**641,140**	503,684
Premiums and accounts receivable, and other assets	*7*	**311,629**	178,883
Recoverable from reinsurers	*8*	**1,375,354**	676,972
Deferred acquisition costs	*9*	**304,580**	188,190
Capital assets and intangible assets	*10, 11, 12*	**17,109**	13,907
Deferred tax assets	*20*	**9,223**	8,577
Total assets		**3,000,354**	1,706,732
Liabilities			
Accounts payable, accrued and other liabilities	*13*	**216,633**	57,343
Reinsurance premiums payable	*8*	**335,673**	151,707
Unearned premiums	*14*	**965,245**	592,711
Unearned reinsurance commissions	*9*	**152,003**	100,281
Unpaid claims and loss adjustment expenses	*15*	**897,011**	487,271
Debt outstanding	*16*	**75,000**	27,555
		2,641,565	1,416,868
Shareholders' equity			
Common shares	*17*	**285,035**	285,731
Contributed surplus		**3,497**	1,332
Retained earnings		**66,692**	4,133
Accumulated other comprehensive income (loss)		**3,565**	(1,332)
		358,789	289,864
Total liabilities and shareholders' equity		**3,000,354**	1,706,732

See accompanying notes to the Consolidated Financial Statements

On behalf of the Board

George Myhal

Director

David Clare

Director

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

For the years ended December 31,	*Note*	**2021**	2020
Gross premiums written		**1,563,206**	926,442
Reinsurance premiums ceded		**(1,165,069)**	(685,118)
Net premiums written		**398,137**	241,324
Change in unearned premiums		**(120,228)**	(80,640)
Net premiums earned		**277,909**	160,684
Fee income		**49,879**	29,719
Net investment income	*18*	**7,605**	27,779
Net gains	*19*	**14,484**	8,450
Total revenues		**349,877**	226,632
Net claims and loss adjustment expenses	*15*	**(82,330)**	(72,562)
Net commissions	*9*	**(107,757)**	(55,915)
Operating expenses		**(77,709)**	(57,560)
Interest expenses	*16.2*	**(1,638)**	(1,113)
Total claims and expenses		**(269,434)**	(187,150)
Income before income taxes		**80,443**	39,482
Income tax expense	*20*	**(17,884)**	(7,040)
Net income attributable to shareholders		**62,559**	32,442
Weighted average number of common shares outstanding during the year (in thousands) – basic	*21*	**41,156**	38,931
Earnings per common share (in dollars) – basic	*21*	**1.52**	0.83
Earnings per common share (in dollars) – diluted	*21*	**1.49**	0.82

See accompanying notes to the Consolidated Financial Statements

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

For the years ended December 31,	*Note*	**2021**	2020
Net income attributable to shareholders		**62,559**	32,442
Net unrealized gains on available-for-sale investments		**10,513**	7,629
Income tax expense		**(3,226)**	(1,597)
Items that may be reclassified subsequently to net income		**7,287**	6,032
Net realized gains		**(3,769)**	(6,258)
Impairment loss	*19*	**529**	4,144
Income tax benefit		**416**	1,024
Items reclassified to net income		**(2,824)**	(1,090)
Items other than cumulative translation gain (loss)		**4,463**	4,942
Items that will not be reclassified subsequently to net income – cumulative translation gain (loss)		**434**	(4,846)
Other comprehensive income		**4,897**	96
Total comprehensive income		**67,456**	32,538

See accompanying notes to the Consolidated Financial Statements

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

	Note	**Common shares**	**Contributed surplus**	**Retained earnings**	**Accumulated other comprehensive (loss) income (net of income taxes)**	**Total**
Balance at January 1, 2021		285,731	1,332	4,133	(1,332)	**289,864**
Net income		-	-	62,559	-	**62,559**
Other comprehensive income		-	-	-	4,897	**4,897**
Comprehensive income		-	-	62,559	4,897	**67,456**
Share issuance	*17*	1,315	-	-	-	**1,315**
Shares purchased under Restricted Share Units plan	*17*	(2,011)	-	-	-	**(2,011)**
Share based payments		-	2,165	-	-	**2,165**
Balance at December 31, 2021		**285,035**	**3,497**	**66,692**	**3,565**	**358,789**

	Note	Common shares	Contributed surplus	Retained earnings	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		-	-	32,442	-	32,442
Other comprehensive income		-	-	-	96	96
Comprehensive income		-	-	32,442	96	32,538
Issuances, net of taxes	*17*	66,480	-	-	-	66,480
Share based payments		-	517	-	-	517
Balance at December 31, 2020		285,731	1,332	4,133	(1,332)	289,864

See accompanying notes to the Consolidated Financial Statements

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

For the years ended December 31,	*Note*	**2021**	2020
Operating activities			
Net income		**62,559**	32,442
Items not involving cash:			
Depreciation and amortization		**3,928**	2,628
Unrealized loss (gain)		**15,813**	(4,957)
Impairment loss	*19*	**529**	4,992
Payment in kind		**-**	(285)
Stock options granted		**1,309**	729
Change in working capital	*28*	**244,047**	81,412
Realized gains		**(4,096)**	(22,666)
Income taxes paid		**(15,705)**	(9,808)
Interest paid		**(1,535)**	(1,144)
Net cash flows from operating activities		**306,849**	83,343
Investing activities			
Proceeds on disposal of investments		**135,730**	238,827
Purchases of investments		**(280,918)**	(331,933)
Purchases of capital assets		**(3,264)**	(1,086)
Purchases of intangible assets	*12*	**(196)**	(210)
Net cash flows used in investing activities		**(148,648)**	(94,402)
Financing activities			
Shares issued	*17*	**1,315**	65,143
Shares purchased under Restricted Share Units plan	*17*	**(2,011)**	-
Proceeds from issuance of debt	*16.2*	**75,000**	-
Loans received	*16.1*	**26,970**	44,159
Loans repaid		**(54,525)**	(44,159)
Principal portion of lease payments		**(1,596)**	(1,515)
Net cash flows from financing activities		**45,153**	63,628
Net increase in cash and cash equivalents during the year		**203,354**	52,569
Cash, beginning of year		**120,538**	68,208
Cash equivalents, beginning of year		**15,981**	17,697
Cash and cash equivalents, beginning of year		**136,519**	85,905
Impact of foreign exchange on cash and cash equivalents		**1,446**	(1,955)
Cash, end of year		**330,202**	120,538
Cash equivalents, end of year		**11,117**	15,981
Cash and cash equivalents, end of year		**341,319**	136,519

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 has investments in wholly owned subsidiaries through which it conducts insurance and reinsurance operations. Those operations are primarily in Canada ("Trisura Canada") and the United States ("Trisura US"), as well as Barbados ("Trisura International").

In Canada, the Company operates as a Canadian property and casualty insurance company. In the US, it is a domestic surplus lines insurer that can write business as a non-admitted surplus line insurer in all states and admitted business in most states. In the US, the Company primarily operates as a hybrid fronting carrier where a large portion of its gross premiums written are ceded to reinsurers. Trisura US earns fee income from the reinsurers to whom it cedes premiums. Trisura International is managing its in-force portfolio of specialty reinsurance contracts and assumes premiums from Trisura US.

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

Note 2 – Summary of significant accounting policies

2.1 Basis of presentation

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

The Consolidated Financial Statements comprise the financial results of the Company and all entities controlled by the Company, on a consolidated basis of presentation. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

In accordance with IFRS, presentation of assets and liabilities on the Consolidated Statements of Financial Position is in order of liquidity. The Company's functional and presentation currency is Canadian dollars.

These Consolidated Financial Statements were authorized for issuance by the Company's Board of Directors on February 10, 2022.

2.2 Cash and cash equivalents

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

2.3 Financial instruments

a) Categories of financial instruments

i) Fair Value Through Profit or Loss ("FVTPL")

FVTPL financial instruments are carried at fair value and recognized on the trade date, with the changes in fair value recognized in net income. Certain investments, including the structured insurance assets, are designated as FVTPL to reduce the volatility within net income associated with the movement of the underlying claims which are supported by these investments. Transaction costs related to FVTPL financial instruments are expensed in investment income.

ii) Available-for-sale ("AFS")

AFS financial instruments are carried at fair value and recognized on the trade date, with changes in fair value recorded as unrealized gains or losses in other comprehensive income. Fixed income securities and equities are classified as AFS, unless they have been classified or designated otherwise. Transaction costs related to financial instruments classified as AFS are capitalized on initial recognition and, where applicable, amortized to interest income using the effective interest method.

2.3 Financial instruments (continued)

a) Categories of financial instruments (continued)

iii) Loans and receivables

Financial instruments are categorized as Loans and receivables when they have fixed or determinable payments and are not quoted in an active market. Loans and receivables are carried at amortized cost. Transaction costs are capitalized on initial recognition and are recognized in investment income using the effective interest rate method. The Company has classified Premiums and accounts receivable, and other assets as Loans and receivables. Derivative assets which are grouped with Premiums and accounts receivable, and other assets are carried at fair value as described in Note 2.3(c). The Company has also classified certain investments as Loans and receivables, which meet the criteria to do so.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in realized gains or losses on investments.

iv) Other financial liabilities

Other financial liabilities are measured at amortized cost. Loan payable, Reinsurance premiums payable, and Accounts payable, accrued and other liabilities are classified as Other financial liabilities. Derivative liabilities and cash-settled Share based payments, which are grouped with Accounts payable, accrued and other liabilities are carried at fair value as described in Note 2.3(c) and Note 2.9.

b) Measurement of fair values

The Company has an established control framework with respect to the measurement of fair values by management, which includes input from the Company’s investment manager.

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

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

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

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

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

c) Derivative financial instruments

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

Derivative financial instruments held for trading are typically entered into with the intention to settle in the near future. These instruments are recorded at fair value. Based on market prices, fair value adjustments and realized gains or losses are recognized in Net gains or losses in the Consolidated Statements of Income (see Note 5 and Note 19).

2.3 Financial instruments (continued)

d) Impairment of financial assets

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

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

e) Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statements of Financial Position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously.

2.4 Insurance contracts

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

a) Premiums, premiums receivable, and unearned premiums

Premiums are earned over the terms of the related policies or surety bonds, generally on a pro rata basis. There are some instances where premiums are earned over the term of the policy in accordance with the risk profile of those policies with more premiums being earned when the risk exposure from the policy is greatest. Unearned premiums represent the unexpired portion of premiums written.

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

Premiums receivable consist of premiums due to the Company for insurance contracts sold.

b) Fees

Fees charged by Trisura Canada to insureds are recognized in the period in which they are charged provided that no significant obligations to insureds exist and reasonable assurance exists regarding collectability, in accordance with IFRS 15 *Revenue from contracts with customers*. Fees charged by Trisura US to reinsurers are recognized over the same period as the related insurance contract.

2.4 Insurance contracts (continued)

c) Deferred acquisition costs

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

d) Unpaid claims and loss adjustment expenses ("LAE")

The liability for unpaid claims and LAE represents an estimate of the ultimate cost of all claims incurred but not paid by the statement of financial position date. The estimation process employed in determining future claims and LAE payments includes consideration of individual case estimates of claims and LAE payments on reported claims, provision for future development of case estimates on reported claims, and provision for claims and LAE related to incurred but not reported ("IBNR") claims. In some instances, further provisions are made for the time value of money by applying discount rates based on projected investment income from the assets supporting this liability. Unpaid claims and LAE of Trisura US and Trisura International are not discounted. The unpaid claims and LAE of Trisura Canada are discounted. The life reserves of Trisura International were discounted prior to the novation transaction described in Note 15. The Company uses qualified actuaries in its reserving processes.

In estimating the IBNR claims, the Company uses a range of actuarial methodologies which consider assumptions related to historical loss development factors and payment patterns. While there are several assumptions that go into determining the IBNR claims, significant management judgment is applied regarding the use of assumptions relating to future development of claims and LAE that have not yet been reported, future rates of claims frequency and severity, claims inflation, payment patterns and reinsurance recoveries, taking into consideration the circumstances of the Company and the nature of the insurance policies. Typically, the delay to ultimate settlement of claims increases the uncertainty of the estimate of the ultimate cost of those claims and LAE. In certain circumstances, explicit actuarial margins are included in the liability in recognition of the inherent uncertainty of the estimates and the possibility of deterioration in experience relative to expectation in relation to claims development, investment return rates and recoverability of reinsurance balances.

For the life reinsurance business that was novated (see Note 15), the liability for unpaid claims and LAE represented a closed block of deferred annuities with guaranteed annuity conversion options which was denominated in Euros and had been in run-off since 2008. Prior to its novation, the Company used an actuarial model to determine the claims liability. While there were several assumptions that went into determining the liability on the life reinsurance business, significant management judgment was applied regarding the use of assumptions relating to the guaranteed annuity option future take-up rates, changes in the European Insurance and Occupational Pensions Authority published interest rates for use in discounting claims liability, and a volatility adjustment.

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

e) Recoverable from reinsurers and Unearned reinsurance commissions

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

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

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

2.4 Insurance contracts (continued)

f) Investment contracts

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

Investment contract liabilities are carried at amortized cost and are measured at the date of initial recognition as the fair value of consideration received, less payments for transaction related costs. At end of each reporting period, the liability is measured based on the estimated future cash flows relating to all claims expected to be settled on the contracts. Gains or losses associated with the measurement are recorded in Net claims and LAE. Investment contract liabilities are included in Accounts payable, accrued and other liabilities in the Consolidated Statements of Financial Position.

2.5 Capital assets

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

Office equipment	30% – 40%, declining balance
Furniture and fixtures	20% – 25%, declining balance
Leasehold improvements	2 to 16 years, straight-line over the term of the lease

Right-of-use (“ROU”) assets are measured at cost less accumulated depreciation and impairment losses.

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 lease liability is measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments 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 *Leases*.

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

2.6 Intangible assets

Intangible assets are carried at cost less accumulated amortization. Amortization is provided over the estimated useful lives of those assets. A 40% amortization rate and the declining balance method of amortization are applied to computer software. A 20% amortization rate and the declining balance method of amortization are applied to the customer lists recorded as intangible assets. Licenses have indefinite useful lives and are not amortized.

2.7 Income taxes

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

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

2.8 Foreign currency

a) Functional and presentation currency

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

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

For financial instruments with fixed maturities classified as AFS, foreign exchange differences resulting from changes in amortized cost are recognized in net income, while foreign exchange differences arising from unrealized fair value gains and losses are included as unrealized gains within other comprehensive income. For other financial instruments classified as AFS, foreign exchange differences are included as unrealized gains within other comprehensive income.

b) Financial statements of foreign operations

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

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

2.9 Share based compensation

The Company's accounting policies with respect to share based compensation are in accordance with IFRS 2, *Share based payment*.

a) Equity-settled stock option plan

The Company maintains an equity-settled stock option plan, which is described in Note 27.1. The value of equity-settled stock options is measured at the grant date, and the cost is recognized in Operating expenses as an expense over the vesting period. Obligations related to equity-settled stock option plans are recorded in shareholders' equity as contributed surplus. Any consideration paid by stock option holders to exercise the options increases share capital. The Company uses the Black-Scholes model to measure the fair value of stock options. Inputs to the model include a volatility measure, a risk-free rate and expected life of the options.

b) Cash-settled share based plan

The Company maintains a cash-settled share based plan, which is described in Note 27.2. The cost of cash-settled share based options is recognized in Operating expenses as an expense over the vesting period. Obligations related to cash-settled share based plans are recorded as liabilities at fair value in Accounts payable, accrued and other liabilities. At each reporting date, obligations related to the plan are re-measured at fair value with reference to the fair value of the Company's stock price and the number of units that have vested. The corresponding share based compensation expense or recovery is recognized over the vesting period. The Company uses the Black-Scholes model to measure the fair value of cash-settled share based options. Inputs to the model include a volatility measure, a risk-free rate and expected life of the options.

c) Deferred share units plan ("DSU")

The Company has adopted a non-employee director DSU plan, which is described in Note 27.3. This entitles the participants to receive, following the end of the director's tenure as a member of the Board, an amount equivalent to the value of a common share at settlement, for each DSU unit that the participant holds. Obligations related to the plan are recorded as liabilities at fair value in Accounts payable, accrued and other liabilities, and re-measured at each reporting date at fair value with reference to the fair value of the Company's stock price and the number of units that have vested. The cost of the DSUs is recognized in Operating expenses in the period they are awarded.

2.9 Share based compensation (continued)

d) Equity-settled restricted share units plan ("RSU")

The Company has adopted an RSU plan, which is described in Note 27.4. This entitles certain employees to receive RSUs based on the market value of the Company's common shares at the grant date. These RSUs typically vest over the course of three years, however in some instances the vesting period may differ. Obligations related to the equity-settled RSU plan are recorded in shareholders' equity as contributed surplus. The cost of the RSUs is recognized in Operating expenses over the course of the vesting period.

2.10 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*.

2.11 Future accounting policy changes

a) IFRS 9 Financial instruments ("IFRS 9")

IFRS 9, which replaces IAS 39, *Financial Instruments: Recognition and Measurement*, requires financial assets to be classified and measured at fair value, with changes in fair value recognized in profit and loss as they arise, unless certain criteria are met for classifying and measuring the asset at either amortized cost or fair value through other comprehensive income. IFRS 9 also established new criteria for hedge accounting and an expected credit loss model for the impairment assessment of loans and receivables. IFRS 9 generally was effective January 1, 2018, however, the IASB agreed to provide entities whose predominant activities are insurance to defer implementation of IFRS 9 to January 1, 2023 to coincide with the implementation of IFRS 17 *Insurance Contracts* ("IFRS 17").

Deferral of IFRS 9

The Company has adopted the amendments of IFRS 4, which addresses the deferral of the implementation of IFRS 9 for insurance companies. The Company is applying the temporary exemption from IFRS 9 as its activities are predominantly connected with insurance. The Company's percentage of liabilities connected with insurance contracts over total liabilities is greater than the 80% threshold as described in IFRS 4 and the Company does not engage in any significant activity not connected with insurance. Based on this analysis, the Company meets the criteria to defer implementation of IFRS 9.

The Company must also disclose certain elements related to the classification and fair value (see Note 4.2), as well as credit rating (see Note 22.2(c)) of financial assets. The Company is assessing the impact that IFRS 9 will have on its Consolidated Financial Statements.

b) IFRS 17

On May 18, 2017, the IASB issued the new standard IFRS 17 which requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. IFRS 17 supersedes IFRS 4 and related interpretations and is effective for fiscal years beginning on or after January 1, 2023, as pronounced by the IASB in September 2020. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. The Company is assessing the impact that IFRS 17 will have on its Consolidated Financial Statements.

2.12 Impact of the Initial Application of Interest Rate Benchmark Reform Amendments

The IASB issued amendments to IAS 39, IFRS 4, IFRS 7, IFRS 9 and IFRS 16 that are titled Interest Rate Benchmark Reform – Phase 2, which are effective for annual periods beginning on or after January 1, 2021. The amendments enable entities to reflect the effects of transitioning from benchmark interest rates, such as interbank offered rates ("IBORs") to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements. The Company adopted the IBOR amendments effective January 1, 2021, and management has determined that the adoption of these amendments did not have a significant impact on the Company's Consolidated Financial Statements.

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

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

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

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

a) Insurance contracts

Judgments are used to determine whether contracts should be classified as insurance or investment contracts (see Note 2.4).

b) Financial assets

Judgments are used in determining the classification of financial assets as AFS, FVTPL or Loans and receivables (see Note 2.3(a)).

c) Unpaid claims and LAE

Judgments are used in establishing provisions for unpaid claims and LAE (see Note 2.4(d)).

3.2 Assumptions and estimation uncertainty

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

a) Valuation of claims liabilities

Assumptions and estimation uncertainties exist related to the valuation of unpaid claims and LAE (see Note 2.4(d)), as well as significant risk factors associated with insurance and reinsurance (see Note 8 and Note 22).

b) Valuation of level 3 assets

Assumptions and estimation uncertainties exist related to the valuation of Level 3 assets (see Note 6).

c) Measurement of Recoverable from reinsurers

Assumptions and estimates are used in measuring the reinsurers' share of unearned premiums and their estimated share of unpaid claims and LAE (see Note 2.4(e) and Note 8).

d) Measurement of income taxes

Assumptions and estimates are used in measuring the provision for incomes taxes (see Note 2.7 and Note 20).

e) Impairment of financial instruments

Management assesses financial instruments for objective evidence of impairment at each reporting date and there are inherent risks and uncertainties in performing this assessment of impairment loss, including factors such as general economic conditions and issuers' financial conditions (see Note 2.3(d) and Note 19)

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

Note 4 – Investments

4.1 Classification of cash and cash equivalents and investments

The following table presents the classification of cash and cash equivalents, and investments:

As at December 31, 2021	AFS	Designated FVTPL	Cash, loans and receivables	Total
Cash and cash equivalents[1]	**-**	**-**	**341,319**	**341,319**
Investments				
Short-term securities	**-**	**-**	**5,000**	**5,000**
Fixed income[1]	**375,341**	**60,261**	**8,042**	**443,644**
Common shares	**89,274**	**-**	**-**	**89,274**
Preferred shares	**103,222**	**-**	**-**	**103,222**
Total Investments	**567,837**	**60,261**	**13,042**	**641,140**
Total cash and cash equivalents and investments	**567,837**	**60,261**	**354,361**	**982,459**

(1) Cash and cash equivalents include cash of $8,436 and Fixed income include FVTPL investments of $60,261 which will be transferred to the assuming reinsurer on closing of the novation (see Note 15).

As at December 31, 2020	AFS	Designated FVTPL	Cash, loans and receivables	Total
Cash and cash equivalents	-	-	136,519	136,519
Investments				
Short-term securities	-	-	5,000	5,000
Fixed income	299,452	80,371	1,287	381,110
Common shares	48,523	-	-	48,523
Preferred shares	59,361	-	-	59,361
Structured insurance assets	-	9,690	-	9,690
Total Investments	407,336	90,061	6,287	503,684
Total cash and cash equivalents and investments	407,336	90,061	142,806	640,203

(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 December 31, 2021 and December 31, 2020 were as follows:

As at December 31, 2021	**FVTPL investments**	**Other investments**				**Total investments**
	At carrying value	**Amortized cost**	**Unrealized gains**	**Unrealized losses**	**Carrying value**	**At carrying value**
Short-term securities	**-**	**5,000**	**-**	**-**	**5,000**	**5,000**
Government	**44,761**	**62,385**	**427**	**(620)**	**62,192**	**106,953**
Corporate	**15,500**	**315,208**	**1,584**	**(3,643)**	**313,149**	**328,649**
Total bonds[(1)]	**60,261**	**377,593**	**2,011**	**(4,263)**	**375,341**	**435,602**
Other loans	**-**	**8,042**	**-**	**-**	**8,042**	**8,042**
Total fixed income	**60,261**	**385,635**	**2,011**	**(4,263)**	**383,383**	**443,644**
Common shares	**-**	**79,370**	**12,965**	**(3,061)**	**89,274**	**89,274**
Preferred shares	**-**	**94,758**	**8,494**	**(30)**	**103,222**	**103,222**
	60,261	**564,763**	**23,470**	**(7,354)**	**580,879**	**641,140**

(1) Total bonds include FVTPL investments of $60,261 which will be transferred to the assuming reinsurer on closing of the novation (see Note 15).

As at December 31, 2020	FVTPL investments	Other investments				Total investments
	At carrying value	Amortized cost	Unrealized gains	Unrealized losses	Carrying value	At carrying value
Short-term securities	-	5,000	-	-	5,000	5,000
Government	59,320	36,649	1,273	(3)	37,919	97,239
Corporate	21,051	255,180	7,229	(876)	261,533	282,584
Total bonds	80,371	291,829	8,502	(879)	299,452	379,823
Other loans	-	1,287	-	-	1,287	1,287
Total fixed income	80,371	293,116	8,502	(879)	300,739	381,110
Common shares	-	47,232	5,682	(4,391)	48,523	48,523
Preferred shares	-	58,848	3,185	(2,672)	59,361	59,361
Structured insurance assets	9,690	-	-	-	-	9,690
	90,061	404,196	17,369	(7,942)	413,623	503,684

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 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. For the year ended December 31, 2021, management recognized total impairments of $529 (see Note 19) on AFS investments (December 31, 2020 – $4,144 on AFS investments, and $848 on loans and receivables). 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 December 31, 2021, the Company has pledged cash amounting to $8,601 and pledged fixed maturity investments amounting to $63,646 (December 31, 2020 – $2,014 and $86,809, respectively), under insurance and reinsurance trust arrangements and are therefore not readily available for general use by the Company.

As at December 31, 2021, the Company pledged $7,687 (December 31, 2020 – $7,120) of fixed income investments as security deposits to various US state insurance departments to be held in trust for various states and are therefore not readily available for general use by the Company.

4.4 Structured insurance assets

Effective September 20, 2021, the Company sold the structured insurance assets for cash consideration of $7,996, resulting in a realized loss of $1,336 after transaction costs, which is included in Net investment income (see Note 18).

The structured insurance assets represented 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 were 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, were paid. The commission income for the year ended December 31, 2021 amounted to $90 (December 31, 2020 – $1,349), which has been recorded within Net investment income (see Note 18).

Note 5 – Fair value and notional amount of derivatives

The following sets out the fair value and notional amount of derivatives as at December 31, 2021 and December 31, 2020:

As at	**December 31, 2021**			December 31, 2020		
		Fair value			Fair value	
	Notional amount	**Asset**	**Liability**	Notional amount	Asset	Liability
Foreign currency contracts						
Forwards	**81,400**	**641**	**-**	51,000	-	152
Equity contracts						
Swap agreements	**14,300**	**14,620**	**-**	8,112	8,272	-
Interest rate contracts						
Swap agreements	**40,566**	**436**	**-**	4,134	57	-
	136,266	**15,697**	**-**	63,246	8,329	152
Term to maturity						
less than one year	**94,484**	**14,060**	**-**	59,086	7,940	152
from one to five years	**1,216**	**1,201**	**-**	26	332	-
over five years	**40,566**	**436**	**-**	4,134	57	-

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. The notional amounts of the forwards as at December 31, 2021 are $55,265 USD (December 31, 2020 – $32,392 USD), €1,777 EUR (December 31, 2020 – €1,669 EUR) and £4,701 GBP (December 31, 2020 – £4,226 GBP). 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 (see Note 6, Note 7 and Note 13) and gains and losses are recorded in Net gains (see Note 19).

(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 December 31, 2021 and December 31, 2020:

As at December 31, 2021	**Total fair value**	**Level 1**	**Level 2**	**Level 3**
Government	**106,953**	**-**	**106,953**	**-**
Corporate	**328,649**	**-**	**328,649**	**-**
Total bonds[(1)]	**435,602**	**-**	**435,602**	**-**
Common shares	**89,274**	**75,926**	**-**	**13,348**
Preferred shares	**103,222**	**102,930**	**-**	**292**
Total investments	**628,098**	**178,856**	**435,602**	**13,640**
Derivative financial assets	**15,697**	**-**	**15,697**	**-**
	643,795	**178,856**	**451,299**	**13,640**

(1) Total bonds include FVTPL investments of $60,261 which will be transferred to the assuming reinsurer on closing of the novation (see Note 15).

As at December 31, 2020	Total fair value	Level 1	Level 2	Level 3
Government	97,239	-	97,239	-
Corporate	282,584	-	282,584	-
Total bonds	379,823	-	379,823	-
Common shares	48,523	25,213	12,626	10,684
Preferred shares	59,361	48,008	11,060	293
Structured insurance assets	9,690	-	-	9,690
Total investments	497,397	73,221	403,509	20,667
Derivative financial assets	8,329	-	8,329	-
Derivative financial liabilities	(152)	-	(152)	-
	505,574	73,221	411,686	20,667

As at December 31, 2021, the structured insurance assets balance was nil (see Note 4.4).

As at December 31, 2020, the structured insurance assets were valued using a proprietary discounted cash flow valuation model. The fair value of this investment was based on discounting the expected future commission using a US Treasury yield curve adjusted for credit risk associated with the receipt of future commission payments from the insurance companies. The credit risk adjustment was made since the Company took on the credit risk of the insurance companies who had the ultimate commission obligations. The majority of commissions were 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 were projected considering 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 were 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 were derived from the 2012 Individual Annuity Mortality table developed by the Society of Actuaries in the United States. The assumptions used were reviewed on a regular basis.

Management uses sensitivity analyses to ensure risks assumed are within the Company's risk tolerance level. Sensitivity analyses are performed on factors that would impact the Company's results and financial condition. Results of the sensitivity analyses should only be viewed as directional estimates as they can differ materially from actual results. As at December 31, 2021, the sensitivity of the valuation to a 1% increase or decrease in the lapse rate on comprehensive income was nil (December 31, 2020 – (560) and 608, respectively).

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

Note 6 – Fair value measurement (continued)

For the years ended December 31, 2021 and December 31, 2020, 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 years ended December 31, 2021 and December 31, 2020:

	December 31, 2021	December 31, 2020
Balance, beginning of year	**20,667**	11,568
Unrealized (losses) gains	**(1,662)**	1,891
Purchase of securities	**3,426**	7,403
Sale of securities	**(8,699)**	-
Foreign exchange loss	**(92)**	(195)
Balance, end of year	**13,640**	20,667

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

	Fair value as at December 31, 2021	**Valuation technique**	**Unobservable inputs**	**Range**
Private equity investments	**10,494**	**Net asset value(1)**	**n/a**	**n/a**
Private equity investment	**3,146**	**Discounted cash flow**	**Discount rate** **Exit multiple**	**11.8%** **10x**

	Fair value as at December 31, 2020	Valuation technique	Unobservable inputs	Range
Private equity investments	6,145	Net asset value(1)	n/a	n/a
Private equity investment	4,832	Discounted cash flow	Discount rate Exit multiple	9% 10x
Structured insurance assets	9,690	Discounted cash flow	Discount rate load(2) Morbidity rates(3) Lapse rates(4)	0.25% - 3.00% 0.00% - 29.00% 1.00% - 3.60%

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

(3) Morbidity rates refer to the percentage of policyholders in receipt of benefit during which time premiums are waived. These morbidity rates vary by age and gender (e.g. from 0.0% at age 50 to over 20% for ages in excess of 97) and are based on long term care industry data. At December 31, 2020, the average morbidity rate was 5.3% corresponding to an average policyholder age of 81.
(4) Lapse rates are the percentage of policyholders electing to cancel their policy and are based on long term care industry data and recent portfolio experience.

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

Note 7 – Premiums and accounts receivable, and other assets

As at December 31, 2021 and December 31, 2020, Premiums and accounts receivable, and other assets consist of:

As at	**December 31, 2021**	December 31, 2020
Premiums receivable	**271,311**	166,017
Derivative assets	**15,697**	8,329
Receivable from reinsurers	**14,084**	-
Accrued investment income	**2,846**	2,879
Unsettled investments sales	**2,126**	-
Prepaid expenses	**964**	317
Tax recoveries	**626**	409
Miscellaneous assets	**3,975**	932
	311,629	178,883

As at December 31, 2021, Premiums receivable of $271,311 (December 31, 2020 – $166,017) includes an amount of $184,485 (December 31, 2020 – $120,595) related to Trisura US fronting arrangements for which agreed upon levels of collateral are held and there is a reinsurance payable of $232,345 (December 31, 2020 – $129,740).

Note 8 – 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.

The Company's fronting operations cede the majority of the premium generated through it to reinsurers. As such, Reinsurers' share of claims liabilities and Reinsurers share of unearned premiums are significant to the Company's financial position, and the associated credit risk is monitored each reporting period (see Note 22.2(d)).

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. Reinsurers providing reinsurance policies are generally required to have a minimum A.M. Best credit rating of A- at the inception of each policy, or are otherwise required to post agreed upon levels of collateral. 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 December 31, 2021 and December 31, 2020.

The following table summarizes the components of Recoverable from reinsurers as at December 31, 2021 and 2020:

As at	**December 31, 2021**	December 31, 2020
Reinsurers' share of claims liabilities (see Note 15)	**773,258**	313,904
Reinsurers' share of unearned premiums (see Note 14)	**602,096**	363,068
	1,375,354	676,972

The following table summarizes the components of Reinsurance premiums payable as at December 31, 2021 and December 31, 2020:

As at	**December 31,2021**	December 31, 2020
Reinsurance payable	**357,226**	186,382
Reinsurance recoverable	**(21,553)**	(34,675)
	335,673	151,707

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

Note 9 – Deferred acquisition costs

The following changes have occurred to the deferred acquisition costs for the years ended December 31, 2021 and 2020:

Deferred acquisition costs

	December 31, 2021	December 31, 2020
Opening costs, beginning of year	**188,190**	104,197
Acquisition costs deferred	**419,874**	254,813
Amortization of deferred costs	**(303,630)**	(167,898)
Foreign exchange	**146**	(2,922)
Closing balance, end of year	**304,580**	188,190

Unearned reinsurance commissions

	December 31, 2021	December 31, 2020
Opening costs, beginning of year	**100,281**	51,291
Acquisition costs deferred	**248,579**	163,470
Amortization of deferred costs	**(190,924)**	(111,052)
Commutation(1)	**(6,034)**	-
Foreign exchange	**101**	(3,428)
Closing balance, end of year	**152,003**	100,281

Net commissions for the years ended	**December 31, 2021**	December 31, 2020
Commissions expense	**301,639**	169,626
Reinsurance commissions	**(193,882)**	(113,711)
Net commissions expense	**107,757**	55,915

(1) During the year ended December 31, 2021, the Company modified its reinsurance arrangements related to certain aspects of its surety quota share reinsurance for cash consideration to the Company of $8,550, and which resulted in a $6,034 decrease in Unearned reinsurance commissions and a $13,012 decrease in unearned premiums ceded (see Note 14).

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

Note 10 – Leases

The Company leases office premises for its own use. These leases generally have terms that range from 2 years to 16 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 December 31, 2021, ROU assets of $9,446 (December 31, 2020 – $8,470) are recorded in Capital assets and intangible assets, along with $7,663 (December 31, 2020 – $5,437) of other Capital assets (see Note 11) and intangible assets (see Note 12).

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

	As at December 31, 2021			As at December 31, 2020		
Right-of-use assets	**Premises**	**Office equipment**	**Total**	Premises	Office equipment	Total
Balance, beginning of year	**8,467**	**3**	**8,470**	9,586	13	9,599
Additions	**2,724**	**-**	**2,724**	527	-	527
Depreciation	**(1,746)**	**(3)**	**(1,749)**	(1,634)	(11)	(1,645)
Foreign exchange	**1**	**-**	**1**	(12)	1	(11)
Balance, at end of year	**9,446**	**-**	**9,446**	8,467	3	8,470

As at	**December 31, 2021**	December 31, 2020
Lease liabilities maturity analysis		
Less than one year	**2,235**	1,566
One to five years	**7,593**	6,212
More than five years	**1,468**	2,500
Total undiscounted lease liabilities	**11,296**	10,278
Lease liabilities included in the Statements of Financial Position	**9,678**	8,793
Total cash outflow for leases recognized in the Statements of Cash Flows	**1,951**	1,965

Amounts recognized in Consolidated Statements of Income for the years ended	**December 31, 2021**	December 31, 2020
Interest on lease liabilities	356	450
Expense relating to short-term leases	31	45
Expenses relating to leases of low-value assets	5	5
Income from subleasing right-of-use assets	-	124

Note 11 – Capital assets

The Company's capital assets consist of the following as at December 31, 2021 and December 31, 2020:

	As at December 31, 2021			As at December 31, 2020		
	Cost	**Accumulated depreciation**	**Carrying value**	Cost	Accumulated depreciation	Carrying value
Leasehold improvements	**2,947**	**(717)**	**2,230**	1,581	(739)	842
Office equipment	**2,230**	**(1,157)**	**1,073**	1,643	(1,104)	539
Furniture and fixtures	**1,335**	**(337)**	**998**	1,546	(937)	609
	6,512	**(2,211)**	**4,301**	4,770	(2,780)	1,990

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

Note 12 – Intangible assets

Intangible assets consist of Computer software, customer lists, and licenses. Computer software is being amortized at a rate of 40%, using the declining balance method.

	December 31, 2021				December 31, 2020			
	Computer software	**Customer list**	**Licenses**	**Total**	Computer software	Customer list	Licenses	Total
Opening, carrying value	**290**	**590**	**2,567**	**3,447**	328	738	2,528	3,594
Additions	**196**	**-**	**-**	**196**	116	-	94	210
Amortization	**(153)**	**(118)**	**-**	**(271)**	(154)	(148)	-	(302)
Foreign exchange	**-**	**-**	**(10)**	**(10)**	-	-	(55)	(55)
Closing, carrying value	**333**	**472**	**2,557**	**3,362**	290	590	2,567	3,447

Note 13 – Accounts payable, accrued and other liabilities

As at December 31, 2021 and December 31, 2020, Accounts payable, accrued and other liabilities consist of:

As at	**December 31, 2021**	December 31, 2020
Due on novation (see Note 15)	**72,440**	-
Deposits in trust[1]	**63,895**	12,140
Accrued liabilities	**21,645**	15,725
Premium taxes payable	**14,460**	9,966
Share based payment plan	**12,004**	5,670
Taxes payable	**10,253**	4,558
Lease liabilities	**9,678**	8,793
Payable to intermediaries	**8,281**	-
Other liabilities	**3,977**	339
Derivative liabilities	**-**	152
	216,633	57,343

(1) The Company periodically holds deposits in trust from reinsurers and other counterparties as a form of collateral.

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

Note 14 – Unearned premiums

Unearned premiums are generally calculated on a pro rata basis from the unexpired portion of the premiums written (see Note 2.4(a)). The unearned premiums estimate is validated through standard actuarial techniques to ensure that after deducting any deferred policy acquisition costs, these premiums are sufficient to cover the estimated future costs of servicing the associated policies, expected claims, LAE, and taxes to be incurred. In estimating these costs, the Company in some instances uses discounting techniques to take into account the time value of money and a provision for adverse deviation is added to the discounted amount. There was no premium deficiency at December 31, 2021 or December 31, 2020.

The following changes have occurred in the provision for unearned premiums:

For the year ended December 31, 2021	**Gross**	**Ceded**	**Net**
Unearned premiums, beginning of year	**592,711**	**363,068**	**229,643**
Premiums written	**1,563,206**	**1,165,069**	**398,137**
Premiums earned	**(1,191,333)**	**(913,424)**	**(277,909)**
Commutation[(1)]	**-**	**(13,012)**	**13,012**
Foreign exchange	**661**	**395**	**266**
Unearned premiums, end of year	**965,245**	**602,096**	**363,149**

For the year ended December 31, 2020	Gross	Ceded	Net
Unearned premiums, beginning of year	328,091	178,411	149,680
Premiums written	926,442	684,985	241,457
Premiums earned	(648,413)	(487,973)	(160,440)
Foreign exchange	(13,409)	(12,355)	(1,054)
Unearned premiums, end of year	592,711	363,068	229,643

(1) During the year ended December 31, 2021, the Company modified its reinsurance arrangements related to certain aspects of its surety quota share reinsurance for cash consideration to the Company of $8,550, and which resulted in a $6,034 decrease in Unearned reinsurance commissions (see Note 9) and a $13,012 decrease in unearned premiums ceded.

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

Note 15 – Unpaid claims and loss adjustment expenses

The following changes have occurred to the claim reserves:

For the year ended December 31, 2021	**Direct**	**Ceded**	**Net**
Unpaid claims, beginning of year	**487,271**	**313,904**	**173,367**
Claims occurring in current year (including paid)	**820,399**	**729,346**	**91,053**
Change in undiscounted estimates for losses of prior years	**37,218**	**43,305**	**(6,087)**
Change in discounting	**(12,407)**	**(4,627)**	**(7,780)**
Change in provision for adverse deviation	**12,422**	**9,036**	**3,386**
Total claims incurred	**857,632**	**777,060**	**80,572**
Change in reserves on novation	**(72,440)**	**-**	**(72,440)**
Claims paid	**(372,490)**	**(320,484)**	**(52,006)**
Foreign exchange	**(2,962)**	**2,778**	**(5,740)**
Unpaid claims, end of year	**897,011**	**773,258**	**123,753**

For the year ended December 31, 2020	Direct	Ceded	Net
Unpaid claims, beginning of year	257,880	114,657	143,223
Claims occurring in current year (including paid)	407,439	352,118	55,321
Change in undiscounted estimates for losses of prior years	(10,169)	(7,023)	(3,146)
Change in discounting	20,157	715	19,442
Change in provision for adverse deviation	732	(213)	945
Total claims incurred	418,159	345,597	72,562
Claims paid	(180,814)	(133,629)	(47,185)
Foreign exchange	(7,954)	(12,721)	4,767
Unpaid claims, end of year	487,271	313,904	173,367

As at December 31, 2021, the unpaid claims and LAE of Trisura Canada were discounted to take into account the time value of money using a rate of 3.30% (December 31, 2020 – 2.39%) on expected claims settlement patterns. As at December 31, 2020, the expected future claim and LAE payments related to the Life reserves of Trisura International were discounted to take into account the time value of money using rates which ranged from (0.64%) to 3.75%.

Unpaid claims and loss adjustment balances due from reinsurers are grouped with unearned reinsurance assets in Recoverable from reinsurers on the Consolidated Statements of Financial Position.

For the year ended December 31, 2021, the Company incurred $82,330 of Net claims and LAE (December 31, 2020 – $72,562), of which $1,758 (December 31, 2020 – nil) are related to gains or losses associated with the measurement of investment contract liabilities.

In 2021 the Company entered into an agreement to transfer, by way of novation, all of the Trisura International rights, liabilities and obligations under its life reinsurance agreement to a third-party reinsurer. Such transfer and assumption, effective December 31, 2021, is enforceable and binding upon the Company and the assuming reinsurer, and which the cedant has approved. The novation price of $72,440 due to the assuming reinsurer is included in Accounts payable, accrued and other liabilities as at December 31, 2021 (see Note 13). The novation resulted in a loss of $2,431 which is included in Net claims and loss adjustment expenses.

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

15.1 Prior year claims development

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

Net claims loss development

Accident year	All prior years	2012	2013	2014	2015	2016	2017	2018	2019	2020	**2021**	Total
Estimate of net ultimate claims incurred		10,463	12,349	14,002	18,997	28,378	21,741	23,138	35,784	53,515	**92,124**	
One year later		8,872	9,953	12,363	15,878	26,772	19,059	20,059	32,684	53,629		
Two years later		7,402	6,651	10,310	14,365	26,380	17,409	19,854	30,647			
Three years later		6,845	5,648	9,224	14,421	25,826	16,467	19,429				
Four years later		6,568	5,324	8,934	13,340	26,739	15,222					
Five years later		7,861	5,254	8,269	12,730	26,198						
Six years later		8,102	5,179	9,303	12,682							
Seven years later		7,899	5,083	9,183								
Eight years later		8,189	5,315									
Nine years later		7,939										
Estimate of net ultimate claim incurred		7,939	5,315	9,183	12,682	26,198	15,222	19,429	30,647	53,629	**92,124**	
Cumulative claim payments to date		(6,282)	(4,598)	(8,510)	(11,699)	(23,123)	(12,743)	(14,879)	(22,518)	(27,613)	**(23,746)**	
Net unpaid claims	1,351	1,657	717	673	983	3,075	2,479	4,550	8,129	26,016	**68,378**	118,008
Impact of discounting	(11)	(69)	(33)	(34)	(52)	(146)	(191)	(383)	(643)	(1,267)	**(2,820)**	(5,649)
Impact of PfAD	71	227	131	118	148	414	401	684	999	2,005	**5,930**	11,128
Present value of net unpaid claims with PfAD	1,411	1,815	815	757	1,079	3,343	2,689	4,851	8,485	26,754	**71,488**	123,487
Add: Trisura Warranty Services Inc. (“Trisura Warranty”) unpaid claims												266
Total net unpaid claims and LAE												123,753

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

Note 16 – Debt outstanding

16.1 Loan payable

The Company maintained a five-year revolving credit facility with a Canadian Schedule I bank (the "Bank") which allowed for drawings of up to $50,000. Under this arrangement, the Company was able to 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 was accounted for at amortized cost, which was equal to the carrying value. The minimum required annual payment consisted only of interest, with no mandatory principal payments required.

In March 2020, the Company converted its Canadian dollar denominated loan balance of $29,700 to a loan balance denominated in US dollars, with the 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 in June 2020. In March 2021, the Company converted its US dollar denominated total loan balance of $21,642 USD to a loan balance denominated in Canadian dollars, with the Bank. To do so, $26,970 was drawn under the loan to repay the outstanding loan payable of $21,642 USD. In June 2021, the Company repaid the outstanding loan payable in full, for a total of $26,970.

16.2 Senior unsecured notes

On June 11, 2021, the Company completed an offering of senior unsecured notes (the "Notes"), with a principal amount of $75,000, which will mature on June 11, 2026. The Notes bear interest at a fixed annual rate of 2.64%. Interest is payable in semi-annual instalments which commenced on December 11, 2021. The Notes are direct unsecured obligations and will rank equally with all other unsecured and unsubordinated indebtedness of the Company.

The following table provides details of the total debt outstanding as at December 31, 2021 and December 31, 2020.

						Carrying value	
	Maturity date	**Term (years)**	**Fixed rate**	**Coupon (payment)**	**Principal amount**	**December 31, 2021**	December 31, 2020
Loan payable						**-**	27,555
Senior unsecured notes	June 11, 2026	5	2.64%	Jun, Dec	75,000	**75,000**	-
Total debt outstanding						**75,000**	27,555

For the year ended December 31, 2021, the Company incurred $1,638 of interest expense (December 31, 2020 – $1,113), of which $1,283 (December 31, 2020 – $663) are related to the loan payable and senior unsecured notes.

Note 17 – 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 December 31, 2021 and December 31, 2020, no non-voting shares were issued and no preferred shares are outstanding.

During the year ended December 31, 2021, 148,620 (December 31, 2020 – nil) stock options issued under the Company's existing stock option plan were exercised (see Note 27). Consideration paid by stock option holders to exercise the options resulted in an increase to share capital.

In May 2020, the Company completed a public offering of 5,156,600[(1)] common shares for gross proceeds of $60,397. Concurrent with the public offering, the Company issued 640,400[(1)] 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 December 31, 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.

Effective July 9, 2021, the Company completed a four-for-one split of the Company's outstanding common stock. The additional shares required to give effect to the share split were issued to shareholders of record at the close of business on June 30, 2021. The Company's shareholders approved the share split at the annual and special meeting of shareholders held on May 26, 2021.

The following table shows the common shares issued and outstanding, excluding treasury shares:

As at	**December 31, 2021**		December 31, 2020[(1)]	
	Number of common shares	**Amount (in thousands)**	Number of common shares	Amount (in thousands)
Balance, beginning of year	**41,075,476**	**285,731**	35,278,476	219,251
Shares purchased under RSUs plan	**(58,898)**	**(2,011)**	-	-
Common shares issued	**148,620**	**1,315**	5,797,000	66,480
Balance, end of year	**41,165,198**	**285,035**	41,075,476	285,731

When the Company purchases its own shares as part of the RSUs plan, they are classified as treasury shares and the cost of these shares is recorded as a reduction to equity. As at December 31, 2021, the Company has an aggregate of 41,224,096 common shares outstanding (December 31, 2020 – 41,075,476), which includes 58,898 (December 31, 2020 – nil) treasury shares.

(1) Adjusted to reflect the four-for-one stock split effective July 9, 2021. The number of common shares is presented on a post-split basis.

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

Note 18 – Net investment income

For the years ended December 31,	**2021**	2020
Cash and cash equivalents, and short-term securities	**308**	644
Bonds classified as loans and receivables	**174**	175
FVTPL bonds	**889**	892
AFS bonds	**9,193**	8,272
Interest income	**10,564**	9,983
AFS common shares	**2,853**	1,998
AFS preferred shares	**3,977**	2,806
Dividend income	**6,830**	4,804
(Losses) gains on investments held at FVTPL	**(8,170)**	12,893
Commission income on structured insurance assets	**90**	1,349
Investment expenses	**(1,709)**	(1,250)
Other investment (loss) income	**(9,789)**	12,992
Net investment income	**7,605**	27,779

Note 19 – Net gains

For the years ended December 31,	**2021**	2020
Net gains (losses) from:		
financial instruments:		
AFS common shares	**4,271**	3,649
AFS preferred shares	**812**	1,282
AFS bonds	**(29)**	1,746
	5,054	6,677
derivatives:		
swap agreements(1)	**9,707**	2,197
Embedded derivatives	**(1,023)**	(1,314)
Net foreign currency gains	**1,275**	5,882
Impairment on investments	**(529)**	(4,992)
Net gains	**14,484**	8,450

(1) Excluding foreign currency contracts, which are reported in the line Net foreign currency gains.

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

Note 20 – Income taxes

	Statements of financial position		Statements of comprehensive income	
	December 31, 2021	December 31, 2020	**December 31, 2021**	December 31, 2020
Deferred taxes related to:				
Loss available for carry forward	**2,547**	4,393	**1,843**	(4,257)
Net unpaid claims and LAE and other	**6,713**	988	**(5,664)**	391
Deferred expenses for tax purposes	**6,650**	-	**(6,620)**	-
Investments – unrealized gains and losses	**-**	88	**88**	(88)
Capital, intangible and other assets	**46**	4,295	**4,186**	(4,416)
	15,956	9,764	**(6,167)**	(8,370)
Less deferred taxes related to:				
Deferred revenues for tax purposes	**(5,117)**	-	**5,059**	-
Investments – unrealized gains and losses	**(1,317)**	-	**1,306**	(148)
Capital, intangible and other assets	**(299)**	(1,187)	**(869)**	1,250
	(6,733)	(1,187)	**5,496**	1,102
Deferred income taxes	**9,223**	8,577	**(671)**	(7,268)
Reported in:				
Deferred tax assets	**9,223**	8,577	-	-
Income tax (recovery) reported to net income	**-**	-	**(1,920)**	(6,992)
Income tax expense reported to other comprehensive income	**-**	-	**1,249**	1,061
Income tax (recovery) reported to retained earnings	**-**	-	**-**	(1,337)

A deferred income tax asset is recognized only to the extent that realization of the related income tax benefit through future taxable profits is probable. Management has assessed the recoverability of the deferred income tax asset carrying values based on future years' taxable income projections and believes the carrying values of the deferred income tax assets as at December 31, 2021 and December 31, 2020 are recoverable.

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

Note 20 – Income taxes (continued)

The following shows the major components of income tax expense for the years ended December 31, 2021 and 2020:

For the years ended December 31,	**2021**	2020
Current tax expense	**19,804**	14,032
Deferred tax expense	**(1,920)**	(6,992)
Income tax expense	**17,884**	7,040
Income taxes recorded in other comprehensive income:		
Net changes in unrealized losses on AFS investments	**1,977**	536
Reclassification to net income of net losses on AFS investments	**(416)**	(1,024)
Origination and reversal of temporary differences	**1,249**	1,061
Total income tax expense recorded in other comprehensive income	**2,810**	573

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 Income for the years ended December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Income before income taxes	**80,443**	39,482
Statutory income tax rate	**26.5%**	26.5%
	21,317	10,463
Variations due to:		
Permanent differences	**(723)**	(807)
International operations subject to different tax rates	**(1,434)**	573
Unrecognized tax losses (gains)	**3**	(3,303)
Rate differentials:		
Current rate versus future rate	**71**	36
Change in future rate	**13**	2
True up	**(1,363)**	76
Income tax expense	**17,884**	7,040

The permanent differences relate primarily to investment income or losses that are non-taxable or taxed at rates lower than the statutory income tax rate, such as non-taxable dividend income and capital gains.

On February 5, 2020, the Company obtained an Advance Income Tax Ruling from the Canada Revenue Agency on a strategy to utilize accumulated tax losses. On February 20, 2020, the Company implemented the strategy and recorded a deferred tax asset for the accumulated tax losses.

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

Note 20 – Income taxes (continued)

In June 2021, the Company identified a tax position that reduced the amount of taxable income reported for fiscal 2020, compared to the amount of taxable income used to compute the fiscal 2020 tax provision, which resulted in an increase in unused tax losses. As at December 31, 2021, the Company has unused tax losses of $9,160 (December 31, 2020 – $6,615), which will expire in the following year:

	December 31, 2021
2041	**9,160**

Note 21 – 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.

	2021	2020(1)
Net income attributable to common shareholders	**62,559**	32,442
Weighted-average number of common shares outstanding (in shares)	**41,156,246**	38,931,380
EPS – basic (in dollars)	**1.52**	0.83
Dilutive effect of the conversion of options on common shares (in shares)	**920,214**	639,064
Diluted weighted-average number of common shares outstanding (in shares)	**42,076,460**	39,570,444
EPS – diluted (in dollars)	**1.49**	0.82

(1) Adjusted to reflect the four-for-one stock split effective July 9, 2021. The number of common shares is presented on a post-split basis.

Note 22 – Risk management

As a provider of insurance products, effective risk management is critical to the Company's ability to protect the interests of its stakeholders. The most significant risks include those associated with insurance contracts and holding financial instruments. The Company has policies and procedures governing the identification, measurement, monitoring, mitigating and controlling of risks associated with insurance contracts and holding financial instruments. The most significant risk associated with insurance contracts is insurance risk, which includes pricing risk, concentration risk and reserving risk. The significant risks associated with financial instruments are credit risk, liquidity risk and market risk (comprising currency risk, interest rate risk and other price risks such as equity risk). Sensitivity analyses are performed on these significant risks which could impact the Company's results and financial condition. Results of the sensitivity analyses should only be viewed as directional estimates as they can differ materially from actual results.

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

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

22.1 Insurance risk

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

The Company's objective for managing insurance risk is to mitigate the risk while continuing to grow and to achieve profitable underwriting results within its identified product lines. Senior management seeks to achieve this objective through effective use of underwriting and pricing policies, procedures and guidelines, which it has developed for pricing and issuing bonds and policies or assuming reinsurance risk. In addition, careful oversight is applied to the underwriting process to ensure that these policies, procedures and guidelines are followed. Furthermore, the Company regularly reviews its underwriting practices to ensure that they reflect emerging trends in its existing business and in the marketplace. Insurance risk is further mitigated through effective claims and expense management, and through the use of reinsurance.

The insurance risks associated with insurance contracts underwritten by the Company are subject to a number of variables such as estimated loss ratios and estimated claims settlement costs, which are sensitive to various assumptions which can impact the estimation of claims liabilities (see Note 2.4(d)).

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

a) Pricing risk

Pricing risk is the risk that an insurance product has been priced using assumptions about claims and LAE activity that are different from the actual experience of that product line. The Company mitigates the impact of pricing risk through the use of guidelines, which are designed such that premium rates take into account claims frequency and severity, expense levels, investment returns and profit margins required to support a particular product line. The Company reviews pricing assumptions regularly to ensure that they reflect up-to-date claims experience and expected future changes in that experience, as well as market conditions. The Company further mitigates the impact of pricing risk through the employment of experienced underwriting staff.

b) Reserving risk

Reserving risk is the risk that future claims and LAE arising on past exposure periods exceed the liability recorded in respect of unpaid claims and LAE. The Company's management of reserving risk is discussed in Note 2.4(d).

c) Concentration of insurance risk

Concentration risk is the risk that the Company's insurance products are concentrated within a particular geographic area, particular class of business, or a particular insured, thereby increasing the exposure of the Company to a single event or a series of related events. Concentration of risk could arise as a result of accumulations of large numbers of insurance or reinsurance contracts exposed to similar perils, classes of business or geographic areas.

To mitigate the impact of concentration of risk, the Company applies risk management practices, including the use of reinsurance, monitoring and modelling techniques, and regularly reviews its portfolio of insurance risks for concentration and aggregation of risks and makes adjustments as needed in order to ensure exposures are within tolerances. The active management of its reinsurance programs and collateral requirements is also an important element in maintaining net claims exposures and concentration and aggregation risks within the Company's risk tolerance.

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

		December 31, 2021		December 31, 2020	
		Canada	**US**	Canada	US
Trisura Canada	Surety	**89,449**	**6,853**	66,081	5,493
	Corporate insurance	**120,972**	**-**	69,691	-
	Risk solutions	**346,732**	**-**	137,869	-
Trisura US	Fronting	**-**	**999,100**	-	647,183
Gross premiums written		**557,153**	**1,005,953**	273,641	652,676

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

22.1 Insurance risk (continued)

d) Sensitivity to insurance risk

i) Property and casualty business of Trisura Canada, Trisura US and Trisura International

The insurance risks associated with the lines of business underwritten by the Company are sensitive to various assumptions which can impact the estimation of claims liabilities. The operations of Trisura Canada include the operations of Trisura Warranty. The relevant risk variables for the Company's property and casualty lines of business associated with the estimation of claims liabilities are subject to assumptions that impact the ultimate value of the estimated loss ratio as well as the estimated claims settlement costs. The loss ratio is used to calculate losses of the Company with respect to its ongoing property and casualty insurance operations as a percentage of net premiums earned. Below is an analysis showing the impact of a 5% increase in the loss ratio, as a percentage of net premiums earned, and a 5% increase in claims settlement costs of the property and casualty claims reserves, based on an increase in the current net unpaid claims balance. Such variances in the estimation were considered reasonably possible during the years ended December 31, 2021 and 2020. The impacts described in the table below are independent of one another. A 5% decrease to the loss ratio and a 5% decrease in claims settlement costs would have the opposite effect on comprehensive income and shareholders' equity.

For the years ended December 31,	**2021**	2020	**2021**	2020
Sensitivity factor	Impact on comprehensive income, before tax		Impact on shareholders' equity	
5% increase to loss ratio	**(13,896)**	(7,790)	**(10,601)**	(5,863)
5% increase to claims settlement costs	**(6,114)**	(4,009)	**(4,763)**	(3,156)

ii) Life business of Trisura International

As at December 31, 2021, the Company's life reserves balance was nil (see Note 15).

As at December 31, 2020, the Company's life reserves were held in respect of a book of deferred annuities with guaranteed annuity conversion options ("GAO"). A significant risk factor in relation to these reserves was the proportion of policyholders who take up the GAO upon retirement. As at December 31, 2021, the impact on reserves of a 100 basis point increase or decrease in the GAO take-up rate on net income was nil (December 31, 2020 – (987) and 1,047, respectively).

As at December 31, 2020, Unpaid claims and LAE reserves were discounted due to the time value of money and were sensitive to interest rates. The impact of the interest rate sensitivity on unpaid claims is shown in Note 22.4(b).

22.2 Credit risk

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

For debt securities, the Company manages its credit risk by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty or based on the collateral supporting the counterparty risk. Management also limits its aggregate debt securities credit risk by placing limits on aggregate values of securities at different credit rating levels. Management monitors credit quality of its debt securities on an on-going basis through its reviews of the investment portfolio.

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

22.2 Credit risk (continued)

For Premiums receivable, the Company uses insurance brokers, managing general agents, and program administrators as intermediaries for the distribution of its product offerings and is therefore subject to the risk that these intermediaries fail to remit the premiums they have collected on its behalf. The Company primarily deals with intermediaries with which it has entered into a contract that details, among other things, the intermediary's responsibilities and payment obligations. These intermediaries are typically regulated and licensed by insurance regulators. Further, the Company monitors accounts receivable and follows up all past due amounts to ensure satisfactory collection arrangements are in place. As at December 31, 2021, premiums receivable past due but not considered to be impaired is $11,155 (December 31, 2020 – $2,171).

For recoverables from reinsurers, the Company applies its reinsurance risk management policy to manage the credit risk associated with these balances. The Company is ultimately at risk on the limits of coverage provided under its product offerings, regardless of whether it has ceded a portion of this exposure to reinsurers. If a reinsurer is unwilling or unable to satisfy its obligations, the Company does not have the right to correspondingly reduce its claims payment obligations. The Company's reinsurance coverage is well diversified and controls are in place to manage exposure to reinsurance counterparties.

The Company uses both licensed and unlicensed reinsurers. When using licensed reinsurers, the Company generally uses those with an A.M. Best credit rating of A-, and management monitors these ratings on a regular basis. If the reinsurer has an A.M. Best rating of below A- and agreed upon level of collateral is provided. Furthermore, the Company's reinsurance risk management policy places limits on the participation of individual reinsurers in the Company's reinsurance arrangements to ensure that no single reinsurer represents an undue level of credit risk. These participations and limits are reviewed regularly, and exceptions are approved by the Company's risk committee.

When the Company uses an unlicensed or unrated reinsurer, it is required to establish a custodial account secured under a reinsurance security agreement, post a letter of credit or provide other forms of security acceptable to the Company.

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

a) Maximum exposure to credit risk of the Company

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

As at	**December 31, 2021**	December 31, 2020
Cash and cash equivalents, and short-term securities[(1)]	**346,319**	141,519
Bonds[(1)]		
Government	**106,953**	97,239
Corporate	**328,649**	282,584
Other loans	**8,042**	1,287
Structured insurance asset	**-**	9,690
Premiums receivable	**271,311**	166,017
Accrued investment income	**2,846**	2,879
Derivative assets	**15,697**	8,329
Other assets	**20,811**	1,341
	1,100,628	710,885

(1) Cash and cash equivalents include cash of $8,436 and Bonds include FVTPL investments of $60,261 which will be transferred to the assuming reinsurer on closing of the novation (see Note 15).

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

22.2 Credit risk (continued)

b) Concentration of credit risk of the Company

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

As at	December 31, 2021[1]	December 31, 2020
Government	**106,953**	97,239
Financial	**102,500**	90,247
Industrial	**56,618**	39,260
Real estate	**35,139**	16,283
Energy	**30,398**	23,818
Telecom services	**29,113**	25,904
Consumer staples	**18,175**	16,060
Automotive	**15,975**	13,501
Consumer discretionary	**15,645**	23,594
Power and pipelines	**10,340**	18,305
Utility	**9,321**	6,625
Other	**13,467**	10,274
	443,644	381,110

(1) Fixed income securities include investments of $60,261 which will be transferred to the assuming reinsurer on closing of the novation (see Note 15).

c) Asset quality

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

As at	December 31, 2021	December 31, 2020
Fixed income securities[1]		
AAA	**50,043**	40,880
AA	**80,644**	84,757
A	**122,934**	100,659
BBB	**130,695**	118,717
Below BBB	**59,328**	36,097
	443,644	381,110
Cash equivalents and short-term securities		
R-1 (high)	**16,117**	20,981
	459,761	402,091

(1) Fixed income securities include investments of $60,261 which will be transferred to the assuming reinsurer on closing of the novation (see Note 15).

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

22.2 Credit risk (continued)

d) Recoverable from reinsurers

The following table shows a breakdown of the reinsurance recoverable, and corresponding reinsurance payable and collateral held, by AM Best rating of the reinsurers:

As at	**December 31, 2021**		December 31, 2020	
AM Best rating	**Reinsurance recoverable**	**Reinsurance payable and collateral held**	Reinsurance recoverable	Reinsurance payable and collateral held
A++	**28,185**	**5,796**	9,735	4,046
A+	**606,633**	**170,343**	275,595	53,774
A	**225,088**	**113,512**	110,515	31,754
A-	**108,542**	**57,792**	49,334	31,787
B++	**154,334**	**147,630**	102,210	104,700
Below B++	**3,874**	**5,975**	4,170	1,962
Unrated	**248,698**	**230,311**	125,413	137,296
	1,375,354	**731,359**	676,972	365,319

22.3 Liquidity risk

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

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

By their nature, the timing and quantum of claims and loss adjustment payments are subject to significant uncertainty and are estimated actuarially as set out in Note 2.4(d). Although the Company has reinsurance treaties in place under which a portion of the claims payments may be recovered, including by way of set off against premiums payable to the reinsurers, such recoveries usually follow the making of payments and often delays of a number of months can occur. Hence the Company must have access to sufficient liquid resources to fund gross amounts payable when required.

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

22.3 Liquidity risk (continued)

To manage its liquidity requirements, the Company maintains a minimum balance of cash and cash equivalents, and short-term securities and a highly rated, highly liquid investment portfolio. The Company's investment policy sets out credit quality criteria and has limits on single issuer exposures. In addition, the investment policy stipulates average duration targets.

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

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

As at December 31, 2021	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**No specific maturity**	**Total**
Cash and cash equivalents(1)	**19,553**	**-**	**-**	**321,766**	**341,319**
Investments(1)	**99,696**	**217,797**	**182,973**	**140,674**	**641,140**
Premiums receivable	**284,650**	**745**	**-**	**-**	**285,395**
Other financial assets	**24,533**	**1,265**	**436**	**-**	**26,234**
Reinsurers' share of claims liabilities	**292,590**	**461,783**	**18,885**	**-**	**773,258**
Financial and insurance assets(2)	**721,022**	**681,590**	**202,294**	**462,440**	**2,067,346**

As at December 31, 2020	Up to 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
Cash and cash equivalents(3)	15,981	-	-	120,538	136,519
Investments	66,992	188,167	151,230	97,295	503,684
Premiums receivable	164,601	1,416	-	-	166,017
Other financial assets	12,350	332	184	-	12,866
Reinsurers' share of claims liabilities	177,853	126,788	9,263	-	313,904
Financial and insurance assets(2)	437,777	316,703	160,677	217,833	1,132,990

(1) Cash and cash equivalents include cash of $8,436 and investments of $60,261 which will be transferred to the assuming reinsurer on closing of the novation (see Note 15).
(2) Deferred acquisition costs and reinsurers' share of unearned premiums have been excluded as they are not subject to liquidity risk.
(3) Cash and cash equivalents of $51,037, previously presented in Up to 1 year has been included in No specific maturity, with no impact to total cash and cash equivalents.

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

22.3 Liquidity risk (continued)

As at December 31, 2021	**Up to 1 year**	**1 to 5 years**	**Over 5 years**	**No specific maturity**	**Total**
Unpaid claims and LAE(4)	**346,372**	**522,913**	**32,738**	**-**	**902,023**
Reinsurance premiums payable	**335,673**	**-**	**-**	**-**	**335,673**
Other financial liabilities	**129,714**	**1,342**	**-**	**75,899**	**206,955**
Debt Outstanding	**-**	**75,000**	**-**	**-**	**75,000**
Financial and insurance liabilities(5)	**811,759**	**599,255**	**32,738**	**75,899**	**1,519,651**

As at December 31, 2020	Up to 1 year	1 to 5 years	Over 5 years	No specific maturity	Total
Unpaid claims and LAE(4)	220,291	208,555	54,900	-	483,746
Reinsurance premiums payable	151,707	-	-	-	151,707
Other financial liabilities	35,947	-	-	12,150	48,097
Loan payable	11,459	16,096	-	-	27,555
Financial and insurance liabilities(5)	419,404	224,651	54,900	12,150	711,105

(4) Undiscounted and excluding PfADs.
(5) Unearned premiums and unearned reinsurance commissions have been excluded as they are not subject to liquidity risk.

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

22.4 Market risk

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

a) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company faces currency risk as a result of having operations in the United States and Canada, as well as European exposure through its reinsurance operations and therefore has exposure to currency risk arising from fluctuations in exchange rates of the Canadian dollar and Euro against the United States dollar. The Company also has currency risk as a result of having investments in the Company's Canadian operations denominated in foreign currencies. The foreign currency positions of the Company are monitored regularly and the Company uses derivatives throughout the year to manage foreign exchange risks where appropriate.

i) Exposure to currency risk

The Company manages its currency risk through its investment policy which considers duration of investments held as well as asset liability matching.

The following table summarizes the net currency exposure of Canadian domiciled entities categorized by major currency. The balances in the table below are presented in the foreign currency indicated:

	USD		**EUR**		**GBP**		**BRL**	
As at December 31,	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
Cash and investments	**72,400**	42,043	**1,719**	1,661	**4,503**	4,195	**4,017**	5,500
Less: foreign – currency derivatives, notional amount	**(55,265)**	(32,392)	**(1,777)**	(1,669)	**(4,701)**	(4,226)	**-**	-
Total net exposure	**17,135**	9,651	**(58)**	(8)	**(198)**	(31)	**4,017**	5,500

The following table summarizes the carrying value of assets and liabilities, denominated in a currency other than USD, of Trisura International categorized by major currency. All amounts below are converted to Canadian dollar equivalents. The assets and liabilities below are translated at exchange rates at the reporting date and are stated before considering the effect of any forward currency exchange contracts:

	December 31, 2021		December 31, 2020	
	EUR	**Other**	EUR	Other
Assets	**65,312**	**3,204**	82,894	2,254
Liabilities	**74,614**	**164**	90,490	212
Net assets	**(9,302)**	**3,040**	(7,596)	2,042

The following table summarizes the carrying value of net assets of Trisura International and Trisura US in their functional currency of USD, as well as loan payable which is denominated in USD.

As at December 31,	**2021**	2020
Consolidated net assets of:		
Trisura International	**9,160**	10,252
Trisura US	**167,807**	122,555
Total net currency exposure to the USD	**176,967**	132,807
Loan denominated in USD	**-**	(21,642)
Net currency exposure to the USD	**176,967**	111,165

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

22.4 Market risk (continued)

ii) Sensitivity to currency risk

	Impact on comprehensive income and shareholders' equity			
As at December 31,	**2021**	2020	**2021**	2020
Sensitivity factor	10% increase in CDN versus USD		10% decrease in CDN versus USD	
USD investments supporting Canadian domiciled entities	**(1,453)**	(821)	**1,598**	903
Consolidated net assets of subsidiaries	**(20,404)**	(12,388)	**22,440**	13,630
	10% increase in USD versus EUR		10% decrease in USD versus EUR	
EUR net assets supporting Trisura International (in USD)	**667**	543	**(733)**	(597)

b) Interest rate risk

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

The Company manages its interest rate risk through its investment policy which considers duration of investments held as well as asset liability matching.

As at December 31, 2021

Sensitivity factor	**Fixed income (including preferred shares)**	**Net unpaid claims**	**Impact on comprehensive income**
100 basis point increase in the yield curve(1)	**(19,614)**	**(1,834)**	**(13,536)**
100 basis point decrease in the yield curve(1)	**19,550**	**1,941**	**13,408**

(1) Assumes parallel shift in the yield curve, and all other variables remain constant.

As at December 31, 2020

Sensitivity factor	Fixed income (including preferred shares)	Structured insurance asset	Net unpaid claims	Impact on comprehensive income
100 basis point increase in the yield curve(1)	(34,330)	(486)	(27,741)	(4,761)
100 basis point decrease in the yield curve(1)	33,372	536	33,592	(1,776)

(1) Assumes parallel shift in the yield curve, and all other variables remain constant.

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

22.4 Market risk (continued)

c) Equity price risk

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

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

As at December 31,	**2021**	2020
Sensitivity factor	Impact on net income(1)	
10% increase in equity prices	**6,819**	3,761
10% decrease in equity prices	**(6,819)**	(3,761)

(1) The methodology used to calculate the change is based on 10% of the fair value of the equities (excluding preferred shares and any funds which hold predominantly fixed income securities), net of tax, at the statement of financial position dates.

Note 23 – Capital management

The Company's capital is its shareholders' equity, which consists of common shares, contributed surplus, retained earnings and accumulated other comprehensive income (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.

a) Trisura Canada

Under guidelines established by the Office of the Superintendent of Financial Institutions which apply to the regulated insurance company of Trisura Canada, 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 Canada's target MCT level in accordance with these requirements. The regulated insurance company of Trisura Canada has exceeded this measure as at December 31, 2021 and December 31, 2020.

b) Trisura US

The regulated insurance companies of Trisura US are subject to externally imposed regulatory capital requirements by the Oklahoma Insurance Department as a Domestic Surplus Line Insurer. The Company's admitted carrier is subject to the various capital requirements of each state in which it is licensed. A requirement of the regulators is that Trisura US's regulated insurance companies' Risk Based Capital exceed certain minimum thresholds as well as Company Action Levels ("CALs"), below which the companies would have to notify the regulators. As at December 31, 2021 and December 31, 2020, the regulated insurance companies of Trisura US were in excess of any CALs of the states in which they were licensed.

c) Trisura International

The regulated insurance companies of Trisura International are subject to externally imposed regulatory capital requirements in Barbados. As at December 31, 2021 and December 31, 2020, the regulated insurance companies of Trisura International maintained sufficient capital to meet these requirements.

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

Note 24 – Segmented information

The Company has three reportable segments. The operations of Trisura Canada comprise Surety, Risk Solutions and Corporate Insurance products primarily underwritten in Canada. The operations of Trisura US provides specialty fronting 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 years ended December 31, 2021 and 2020:

Year ended December 31, 2021	**Trisura Canada**	**Trisura US**	**Trisura International**	**Corporate and consolidation adjustments**	**Total**
Gross premiums written	564,006	999,100	21,708	(21,608)	**1,563,206**
Net premiums written	310,950	65,479	21,708	-	**398,137**
Net premiums earned:					
from external customers	221,318	36,402	-	-	**257,720**
inter-segment premiums(1)	1,820	-	18,369	-	**20,189**
Fee income	6,844	44,082	-	(1,047)	**49,879**
Net investment income (loss)	8,722	4,926	(7,033)	990	**7,605**
Net gains	1,179	2,384	258	10,663	**14,484**
Total revenues	239,883	87,794	11,594	10,606	**349,877**
Net claims	(47,306)	(28,438)	(6,586)	-	**(82,330)**
Net expenses	(140,566)	(27,098)	(7,363)	(10,439)	**(185,466)**
Interest expenses	(296)	(38)	(21)	(1,283)	**(1,638)**
Total claims and expenses	(188,168)	(55,574)	(13,970)	(11,722)	**(269,434)**
Net income (loss) before tax	**51,715**	**32,220**	**(2,376)**	**(1,116)**	**80,443**

Year ended December 31, 2020	Trisura Canada	Trisura US	Trisura International	Corporate and consolidation adjustments	Total
Gross premiums written	279,135	647,183	13,117	(12,993)	926,442
Net premiums written	197,286	30,922	13,116	-	241,324
Net premiums earned:					
from external customers	133,535	21,244	-	-	154,779
inter-segment premiums(1)	-	-	5,905	-	5,905
Fee income	5,027	24,692	-	-	29,719
Net investment income	7,842	3,880	15,594	463	27,779
Net (losses) gains	(829)	1,596	(683)	8,366	8,450
Total revenues	145,575	51,412	20,816	8,829	226,632
Net claims	(33,762)	(16,216)	(22,584)	-	(72,562)
Net expenses	(85,367)	(15,108)	(4,423)	(8,577)	(113,475)
Interest expenses	(383)	(40)	(27)	(663)	(1,113)
Total claims and expenses	(119,512)	(31,364)	(27,034)	(9,240)	(187,150)
Net income (loss) before tax	26,063	20,048	(6,218)	(411)	39,482

(1) For the year ended December 31, 2021, Trisura International earned inter-segment premiums of $18,369 (December 31, 2020 – $5,905) from Trisura US and Trisura Canada earned inter-segment premiums of $1,820 (December 31, 2020 – nil) from Trisura US. The inter-segment ceding arrangements were entered into at prevailing market rates.

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

Note 24 – Segmented information (continued)

As at December 31, 2021	**Trisura Canada**	**Trisura US**	**Trisura International**	**Corporate and consolidation adjustments**	**Total**
Assets	**1,095,984**	**1,795,027**	**111,022**	**(1,679)**	**3,000,354**
Liabilities	**929,845**	**1,582,280**	**99,408**	**30,032**	**2,641,565**

As at December 31, 2020	Trisura Canada	Trisura US	Trisura International	Corporate and consolidation adjustments	Total
Assets	541,603	1,021,020	121,347	22,762	1,706,732
Liabilities	431,858	864,983	108,295	11,732	1,416,868

Note 25 – Benefits

The Company has established and contributes to a number of group retirement savings plan arrangements under which the Company makes contributions. Contributions are charged to operating expense and are recognized as incurred.

Note 26 – Key management personnel

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

The following transactions were carried out with key management personnel during the years ended December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Salaries and other employee benefits	**3,080**	2,725
Share based payments	**11,380**	7,736

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

Note 27 – Share based compensation

27.1 Equity-settled stock options

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

The following is a continuity schedule of stock options outstanding as at December 31, 2021 and December 31, 2020:

	December 31, 2021		December 31, 2020[1]	
	Number of options	**Weighted average exercise price (in dollars)**	Number of options	Weighted average exercise price (in dollars)
Outstanding, beginning of year	**1,334,720**	**8.23**	968,940	6.60
Exercised during the year	**(148,620)**	**7.07**	-	-
Granted during the year	**315,816**	**27.86**	365,780	12.56
Outstanding, end of year	**1,501,916**	**12.47**	1,334,720	8.23

As at December 31, 2021, the outstanding stock options consist of the following:

Exercise price per share (in dollars)	**Number of options outstanding**[1]	**Average remaining contractual life (in years)**	**Number of options exercisable**[1]
37.99	30,000	9.46	-
29.38	185,824	9.14	-
21.99	100,000	9.01	-
12.56	359,512	8.15	66,888
7.16	40,000	7.63	16,000
7.31	96,000	7.21	-
6.77	294,588	7.16	102,024
6.42	70,000	6.88	30,000
6.09	326,000	5.64	256,400

(1) Adjusted to reflect the four-for-one stock split effective July 9, 2021.

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

27.1 Equity-settled stock options (continued)

As at December 31, 2020, the outstanding stock options consist of the following:

Exercise price per share (in dollars)[1]	Number of options outstanding[1]	Average remaining contractual life (in years)	Number of options exercisable[1]
12.56	365,780	9.15	-
7.16	40,000	8.63	8,000
7.31	160,000	8.21	32,000
6.77	320,940	8.16	64,188
6.42	100,000	7.88	40,000
6.09	348,000	6.64	208,800

As at December 31, 2021, 471,312 (December 31, 2020 – 352,988[1]) equity-based stock options were vested. As at December 31, 2021, the Company had recorded $2,587 (December 31, 2020 – $1,544) in share reserve related to the options in the contributed surplus balance of the Consolidated Statements of Financial Position. For the year ended December 31, 2021, the Company recorded $1,308 (December 31, 2020 – $729) of expense related to the options, in Operating expenses. The fair value of the options issued were determined using the Black-Scholes option pricing model. Inputs to the model include expected volatility, option life and risk free rate. Volatility estimate was based on the historical volatility of the Company's stock price. The weighted average fair value of stock options issued in 2021 at the measurement date was $6.89 (in dollars) (December 31, 2020 – $2.54[1] (in dollars)).

27.2 Cash-settled stock options

As at December 31, 2021, 187,480 options were outstanding which had been issued to officers of the Company by the board of directors as part of a cash-settled share based payment plan (December 31, 2020 – 275,480[1]), with a vesting period of 20% per year over five years, and an expiration date of ten years. As at December 31, 2021, 28,640 options were vested (December 31, 2020 – 16,744[1]). As at December 31, 2021, the Company had recorded $6,800 (December 31, 2020 – $3,435) in liabilities related to the options in the Consolidated Statements of Financial Position. For the year ended December 31, 2021, the Company recorded $6,685 (December 31, 2020 – $5,723) of expense related to the options, in Operating expenses, which includes two exercise transactions of 10,000 options and 48,000 options, with weighted average prices of $39.95[1] (in dollars) and $46.71 (in dollars) per share, respectively. The fair value of the options issued were determined using the Black-Scholes option pricing model. Inputs to the model include expected volatility, option life and risk free rate. Volatility estimate was based on the historical volatility of the Company's stock price. As at December 31, 2021, the weighted average fair value of share options issued was $41.35 (in dollars) (December 31, 2020 – $16.47[1] (in dollars)).

27.3 Cash-settled DSUs

DSUs are awarded to certain directors of the Company at the market value of the Company's common shares at the grant date. These DSUs are awarded in lieu of directors fees at the option of the Directors. Each DSU entitles the holder to receive an amount equivalent to the value of a common share at settlement. As at December 31, 2021, 109,120 (December 31, 2020 – 100,364[1]) DSUs were awarded to directors who are not employees of the Company or one of its affiliates.

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

For the years ended December 31,	**2021 (in units)**	2020[1] (in units)
Opening balance	**100,364**	81,248
Granted during the year	**8,756**	19,116
Ending balance	**109,120**	100,364

As at December 31, 2021, no units had been exercised (December 31, 2020 – nil) and $5,204 (December 31, 2020 – $2,235) had been recorded as liabilities. The liability was measured based on the fair value of the common shares of the Company at December 31, 2021. For the year ended December 31, 2021, the Company recorded $2,949 (December 31, 2020 – $1,396) of expense related to the DSUs in Operating expenses.

(1) Adjusted to reflect the four-for-one stock split effective July 9, 2021.

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

27.4 Equity-settled RSUs

The Company awards certain employees RSUs based on the fair value of the Company's common shares at the grant date. These RSUs will typically vest over three years, however in some instances the vesting period may differ.

The following table shows the RSUs issued and outstanding as at December 31, 2021 and December 31, 2020:

As at	**December 31, 2021 (in units)**	December 31, 2020[1] (in units)
Outstanding, beginning of year	**32,956**	-
Vested during the year	**(10,824)**	-
Cancelled during the year	**(12,529)**	-
Granted during the year	**71,431**	32,956
Outstanding, end of year	**81,034**	32,956

During the year ended December 31, 2021, compensation expense of $1,121 (December 31, 2020 - $241) related to the RSUs were recorded in Operating expenses.

(1) Adjusted to reflect the four-for-one stock split effective July 9, 2021.

Note 28 – Additional information on the Consolidated Statements of Cash Flows

The following table shows the Change in working capital for the years ended December 31, 2021 and December 31, 2020:

For the years ended December 31,	**2021**	2020
Reinsurance premiums payable	**170,063**	79,268
Accounts payable and accrued liabilities	**151,850**	17,340
Unearned premiums, net	**133,240**	81,017
Income taxes	**17,754**	4,132
Other operating liabilities	**2,426**	377
Premiums and accounts receivable	**(116,731)**	(89,454)
Deferred acquisition costs, net	**(64,626)**	(34,563)
Unpaid claims and loss adjustment expenses, net	**(48,358)**	33,321
Other operating assets	**(1,571)**	(10,026)
	244,047	81,412

Note 29 – Commitments

The Company has entered into commitments related to the funding of investments. These commitments are generally payable on demand based on the funding needs of the private equity investments and subject to the terms and conditions of each limited partnership agreement. As at December 31, 2021, the unfunded commitments for the Company are $42,318 (December 31, 2020 – $28,803).