



Trisura Group Ltd.

Condensed Interim Consolidated Financial Statements (unaudited)

For the three months ended March 31, 2022

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

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

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

As at	<i>Note</i>	March 31, 2022	December 31, 2021
Assets			
Cash and cash equivalents		304,464	341,319
Investments	4	603,945	641,140
Premiums and accounts receivable, and other assets	7	308,148	311,629
Recoverable from reinsurers	8	1,441,065	1,375,354
Deferred acquisition costs		321,811	304,580
Capital assets and intangible assets		20,012	17,109
Deferred tax assets		12,088	9,223
Total assets		3,011,533	3,000,354
Liabilities			
Accounts payable, accrued and other liabilities	9	91,528	216,633
Reinsurance premiums payable	8	365,733	335,673
Unearned premiums		1,032,979	965,245
Unearned reinsurance commissions		167,754	152,003
Unpaid claims and loss adjustment expenses	10	921,589	897,011
Debt outstanding	11	75,000	75,000
		2,654,583	2,641,565
Shareholders' equity			
Common shares	12	283,480	285,035
Contributed surplus		3,217	3,497
Retained earnings		87,742	66,692
Accumulated other comprehensive (loss) income		(17,489)	3,565
		356,950	358,789
Total liabilities and shareholders' equity		3,011,533	3,000,354

See accompanying notes to the Condensed Interim Consolidated Financial Statements

TRISURA GROUP LTD.**Condensed Interim Consolidated Statements of Income (unaudited)**

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

For the three months ended March 31,	<i>Note</i>	2022	2021
Gross premiums written		481,380	310,274
Reinsurance premiums ceded		(373,210)	(232,909)
Net premiums written		108,170	77,365
Change in unearned premiums		(19,821)	(24,741)
Net premiums earned		88,349	52,624
Fee income		18,227	13,784
Net investment income (loss)	13	4,023	(5,317)
Net (losses) gains	14	(474)	3,834
Total revenues		110,125	64,925
Net claims and loss adjustment expenses	10	(23,605)	(4,107)
Net commissions		(37,108)	(18,559)
Operating expenses		(21,124)	(17,014)
Interest expenses	11.2	(591)	(187)
Total claims and expenses		(82,428)	(39,867)
Income before income taxes		27,697	25,058
Income tax expense	15	(6,647)	(5,740)
Net income attributable to shareholders		21,050	19,318
Weighted average number of common shares outstanding during the period (in thousands) – basic	16	41,175	41,079
Earnings per common share (in dollars) – basic	16	0.51	0.47
Earnings per common share (in dollars) – diluted	16	0.50	0.46

See accompanying notes to the Condensed Interim Consolidated Financial Statements

TRISURA GROUP LTD.**Condensed Interim Consolidated Statements of Comprehensive (Loss) Income (unaudited)**

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

For the three months ended March 31,	<i>Note</i>	2022	2021
Net income attributable to shareholders		21,050	19,318
Net unrealized (losses) gains on available-for-sale ("AFS") investments		(21,379)	3,495
Income tax benefit (expense)		5,443	(763)
Items that may be reclassified subsequently to net income		(15,936)	2,732
Net realized gains		(2,713)	(390)
Impairment loss	4.2	-	529
Income tax benefit		827	18
Items reclassified to net income		(1,886)	157
Items other than cumulative translation loss		(17,822)	2,889
Items that will not be reclassified subsequently to net income – cumulative translation loss		(3,232)	(2,127)
Other comprehensive (loss) income		(21,054)	762
Total comprehensive (loss) income		(4)	20,080

See accompanying notes to the Condensed Interim Consolidated Financial Statements

TRISURA GROUP LTD.

Condensed Interim Consolidated Statements of Changes in Equity (unaudited)

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

	<i>Note</i>	Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss) (net of income taxes)	Total
Balance at January 1, 2022		285,035	3,497	66,692	3,565	358,789
Net income		-	-	21,050	-	21,050
Other comprehensive loss		-	-	-	(21,054)	(21,054)
Comprehensive loss		-	-	21,050	(21,054)	(4)
Share issuance	12	551	-	-	-	551
Shares under Restricted Share Units ("RSUs") plan	12	(2,106)	-	-	-	(2,106)
Share based payments		-	(280)	-	-	(280)
Balance at March 31, 2022		283,480	3,217	87,742	(17,489)	356,950

		Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive loss (net of income taxes)	Total
Balance at January 1, 2021		285,731	1,332	4,133	(1,332)	289,864
Net income		-	-	19,318	-	19,318
Other comprehensive income		-	-	-	762	762
Comprehensive income		-	-	19,318	762	20,080
Share issuance		257	-	-	-	257
Shares under RSUs plan		(1,814)	-	-	-	(1,814)
Share based payments		-	375	-	-	375
Balance at March 31, 2021		284,174	1,707	23,451	(570)	308,762

See accompanying notes to the Condensed Interim Consolidated Financial Statements

TRISURA GROUP LTD.**Condensed Interim Consolidated Statements of Cash Flows (unaudited)**

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

For the three months ended March 31,	<i>Note</i>	2022	2021
Operating activities			
Net income		21,050	19,318
Items not involving cash:			
Depreciation and amortization		1,063	711
Unrealized loss		4,662	9,441
Impairment loss	4.2	-	529
Stock options granted		371	261
Change in working capital	19	3,298	2,453
Realized gains		(3,053)	(870)
Income taxes paid		(11,634)	(1,191)
Interest paid		(499)	(250)
Net cash flows from operating activities		15,258	30,402
Investing activities			
Proceeds on disposal of investments		53,589	36,844
Purchases of investments		(100,983)	(69,935)
Purchases of capital assets		(216)	(823)
Purchases of intangible assets		(74)	(33)
Net cash flows used in investing activities		(47,684)	(33,947)
Financing activities			
Shares issued	12	551	257
Shares purchased under RSUs plan	12	(2,106)	(1,814)
Loans received	11.1	-	26,970
Loans repaid		-	(27,555)
Principal portion of lease payments		(502)	(334)
Net cash flows used in financing activities		(2,057)	(2,476)
Net decrease in cash and cash equivalents during the period		(34,483)	(6,021)
Cash, beginning of period		330,202	120,538
Cash equivalents, beginning of period		11,117	15,981
Cash and cash equivalents, beginning of period		341,319	136,519
Impact of foreign exchange on cash and cash equivalents		(2,372)	(849)
Cash, end of period		300,327	120,648
Cash equivalents, end of period		4,137	9,001
Cash and cash equivalents, end of period		304,464	129,649

See accompanying notes to the Condensed Interim Consolidated Financial Statements

TRISURA GROUP LTD.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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

Note 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”).

Trisura Canada operates as a Canadian property and casualty insurance company. Certain lines of Trisura Canada’s business operate as a fronting carrier with a large portion of gross premiums written ceded to reinsurers. Trisura US 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. Trisura US 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.

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

Note 2 – Basis of presentation

These Condensed Interim Consolidated Financial Statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). The Condensed Interim Consolidated Financial Statements should be read in conjunction with the annual financial statements for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

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

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

These Condensed Interim Consolidated Financial Statements were authorized for issuance by the Company’s Board of Directors on May 5, 2022.

Note 3 – Summary of significant accounting policies

The accounting policies applied during the three months ended March 31, 2022 are the same as those described and disclosed in Note 2 – *Summary of significant accounting policies* of the December 31, 2021 Consolidated Financial Statements.

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

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

Note 4 – Investments**4.1 Classification of cash and cash equivalents and investments**

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

As at March 31, 2022	AFS	Cash, loans and receivables	Total
Cash and cash equivalents	-	304,464	304,464
Investments			
Fixed income	391,568	-	391,568
Common shares	81,094	-	81,094
Preferred shares	107,409	-	107,409
Alternatives	23,874	-	23,874
Total Investments	603,945	-	603,945
Total cash and cash equivalents and investments	603,945	304,464	908,409

As at December 31, 2021 ⁽¹⁾	AFS	Designated FVTPL	Cash, loans and receivables	Total
Cash and cash equivalents (see Note 10)	-	-	341,319	341,319
Investments				
Short-term securities	-	-	5,000	5,000
Fixed income (see Note 10)	375,341	60,261	8,042	443,644
Common shares	75,929	-	-	75,929
Preferred shares	102,927	-	-	102,927
Alternatives	13,640	-	-	13,640
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) Certain common shares and preferred shares totaling \$13,640 have been reclassified to Alternatives to conform with the current period financial statement presentation.

TRISURA GROUP LTD.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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

4.2 Unrealized gains and losses and carrying value of investments

The amortized cost and carrying value of investments as at March 31, 2022 and December 31, 2021 were as follows:

As at March 31, 2022	Amortized cost	Unrealized gains	Unrealized losses	Carrying value
Fixed income	412,536	218	(21,186)	391,568
Common shares	74,148	8,403	(1,457)	81,094
Preferred shares	104,323	4,993	(1,907)	107,409
Alternatives	23,503	2,215	(1,844)	23,874
	614,510	15,829	(26,394)	603,945

As at December 31, 2021 ⁽¹⁾	FVTPL	Other investments				Total
	investments	Amortized cost	Unrealized gains	Unrealized losses	Carrying value	investments
	At carrying value					At carrying value
Short-term securities	-	5,000	-	-	5,000	5,000
Fixed income	60,261	385,635	2,011	(4,263)	383,383	443,644
Common shares	-	68,315	8,864	(1,250)	75,929	75,929
Preferred shares	-	94,462	8,495	(30)	102,927	102,927
Alternatives	-	11,352	4,099	(1,811)	13,640	13,640
	60,261	564,764	23,470	(7,355)	580,879	641,140

(1) Certain common shares and preferred shares totaling \$13,640 have been reclassified to Alternatives to conform with the current period financial statement presentation.

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 *Financial instruments* is adopted along with IFRS 17 *Insurance Contracts*, 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 three months ended March 31, 2022, no impairment has been recognized on AFS investments (March 31, 2021 – \$529). Assumptions are used when estimating the value of impairment based on the Company's impairment policy, which involves comparing fair value to carrying value.

4.3 Pledged assets

In the normal course of insurance and reinsurance operations, the Company must secure its obligations under certain insurance and reinsurance contracts by collateralizing them with letters of credit or trust arrangements. These trusts and letters of credit may, in turn, be secured by the Company's fixed income investments. As at March 31, 2022, the Company has pledged cash amounting to \$82 and pledged fixed income investments amounting to \$3,128 (December 31, 2021 – \$8,601 and \$63,646, respectively), under insurance and reinsurance trust arrangements and are therefore not readily available for general use by the Company.

As at March 31, 2022, the Company pledged \$7,175 (December 31, 2021 – \$7,687) 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.

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

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

Note 5 – Fair value and notional amount of derivatives

The following sets out the fair value and notional amount of derivatives as at March 31, 2022 and December 31, 2021:

As at	March 31, 2022			December 31, 2021		
	Notional amount	Fair value		Notional amount	Fair value	
Asset		Liability	Asset		Liability	
Foreign currency contracts						
Forwards	103,800	1,968	-	81,400	641	-
Equity contracts						
Swap agreements	14,613	10,588	-	14,300	14,620	-
Interest rate contracts						
Swap agreements	5,024	709	-	40,566	436	-
	123,437	13,265	-	136,266	15,697	-
Term to maturity						
less than one year	118,413	12,556	-	94,484	14,060	-
from one to five years	-	-	-	1,216	1,201	-
over five years	5,024	709	-	40,566	436	-

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 March 31, 2022 are \$72,045 USD (December 31, 2021 – \$55,265 USD), €1,777 EUR (December 31, 2021 – €1,777 EUR) and £5,604 GBP (December 31, 2021 – £4,701 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 and Note 7) and gains and losses are recorded in Net (losses) gains (see Note 14).

Note 6 – Fair value measurement

The following sets out the financial instruments classified in accordance with the fair value hierarchy as at March 31, 2022 and December 31, 2021:

As at March 31, 2022	Total fair value	Level 1	Level 2	Level 3
Fixed income	391,568	-	391,568	-
Common shares	81,094	81,094	-	-
Preferred shares	107,409	107,409	-	-
Alternatives	23,874	-	-	23,874
Total investments	603,945	188,503	391,568	23,874
Derivative financial assets	13,265	-	13,265	-
	617,210	188,503	404,833	23,874

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

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

Note 6 – Fair value measurement (continued)

As at December 31, 2021 ⁽¹⁾	Total fair value	Level 1	Level 2	Level 3
Fixed income	435,602	-	435,602	-
Common shares	75,926	75,926	-	-
Preferred shares	102,930	102,930	-	-
Alternatives	13,640	-	-	13,640
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) Certain common shares and preferred shares totaling \$13,640 have been reclassified to Alternatives to conform with the current period financial statement presentation.

For the three months ended March 31, 2022, \$9,572 has been transferred into Level 3 investments (December 31, 2021 – nil).

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the hierarchy for the three months ended March 31, 2022 and the year ended December 31, 2021:

	March 31, 2022	December 31, 2021
Balance, beginning of period	13,640	20,667
Transfers	9,572	-
Purchase of securities	1,218	3,426
Sale of securities	(292)	(8,699)
Foreign exchange loss	(188)	(92)
Unrealized losses	(76)	(1,662)
Balance, end of period	23,874	13,640

Note 7 – Premiums and accounts receivable, and other assets

As at March 31, 2022 and December 31, 2021, Premiums and accounts receivable, and other assets consist of:

As at	March 31, 2022	December 31, 2021
Premiums receivable	270,690	271,311
Derivative assets	13,265	15,697
Receivable from reinsurers	9,548	14,084
Unsettled investments sales	7,584	2,126
Accrued investment income	2,515	2,846
Tax recoveries	2,097	626
Prepaid expenses	1,747	964
Miscellaneous assets	702	3,975
	308,148	311,629

As at March 31, 2022, Premiums receivable of \$270,690 (December 31, 2021 – \$271,311) includes an amount of \$209,681 (December 31, 2021 – \$184,485) related to Trisura US fronting arrangements for which agreed upon levels of collateral are held and there is a reinsurance payable of \$248,032 (December 31, 2021 – \$232,345).

TRISURA GROUP LTD.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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

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.

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 March 31, 2022 and December 31, 2021.

The following table summarizes the components of Recoverable from reinsurers as at March 31, 2022 and December 31, 2021:

As at	March 31, 2022	December 31, 2021
Reinsurers' share of claims liabilities (see Note 10)	790,040	773,258
Reinsurers' share of unearned premiums	651,025	602,096
	1,441,065	1,375,354

The following table summarizes the components of Reinsurance premiums payable as at March 31, 2022 and December 31, 2021:

As at	March 31, 2022	December 31, 2021
Reinsurance payable	411,453	357,226
Reinsurance recoverable	(45,720)	(21,553)
	365,733	335,673

Note 9 – Accounts payable, accrued and other liabilities

As at March 31, 2022 and December 31, 2021, Accounts payable, accrued and other liabilities consist of:

As at	March 31, 2022	December 31, 2021
Deposits in trust ⁽¹⁾	39,514	63,895
Accrued liabilities	15,409	21,645
Lease liabilities	12,714	9,678
Share based payment plan	8,704	12,004
Payable to intermediaries	4,804	8,281
Premium taxes payable	4,791	14,460
Taxes payable	3,003	10,253
Other liabilities	2,589	3,977
Due on novation (see Note 10)	-	72,440
	91,528	216,633

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

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

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

Note 10 – Unpaid claims and loss adjustment expenses

The following changes have occurred to the claim reserves:

For the three months ended March 31, 2022	Direct	Ceded	Net
Unpaid claims, beginning of period	897,011	773,258	123,753
Claims occurring in current period (including paid)	222,992	190,265	32,727
Change in undiscounted estimates for losses of prior years	(26,755)	(19,463)	(7,292)
Change in discounting	(3,277)	(1,222)	(2,055)
Change in provision for adverse deviation	(1,549)	(1,623)	74
Total claims incurred	191,411	167,957	23,454
Claims paid	(156,361)	(141,382)	(14,979)
Foreign exchange	(10,472)	(9,793)	(679)
Unpaid claims, end of period	921,589	790,040	131,549
For the three months ended March 31, 2021	Direct	Ceded	Net
Unpaid claims, beginning of period	487,271	313,904	173,367
Claims occurring in current period (including paid)	145,289	126,575	18,714
Change in undiscounted estimates for losses of prior years	(5,946)	(1,452)	(4,494)
Change in discounting	(10,628)	(154)	(10,474)
Change in provision for adverse deviation	618	257	361
Total claims incurred	129,333	125,226	4,107
Claims paid	(62,636)	(52,174)	(10,462)
Foreign exchange	(8,661)	(3,968)	(4,693)
Unpaid claims, end of period	545,307	382,988	162,319

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

In 2021 the Company entered into an agreement to transfer, by way of novation, all of the Trisura International Insurance Ltd. (“Trisura International”) rights, liabilities and obligations under its life reinsurance agreement to a third-party reinsurer. Such transfer and assumption, effective December 31, 2021, was enforceable and binding upon the Company and the assuming reinsurer, and which the cedant had approved. As at December 31, 2021, the novation price of \$72,440 due to the assuming reinsurer was included in Accounts payable, accrued and other liabilities (see Note 9). During the three months ended March 31, 2022, cash of \$8,436 and FVTPL fixed income investments of \$64,004 were transferred to the assuming reinsurer (see Note 4).

Note 11 – Debt outstanding**11.1 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 is able to draw funds in the form of short-term banker’s acceptances, Canadian prime rate advances, base rate advances or SOFR loans. The interest rate was based on the current periods’ bankers’ acceptance rate, Canadian prime rate, base rate, or SOFR loans 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.

TRISURA GROUP LTD.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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

11.2 Senior unsecured notes

In June 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 March 31, 2022 and December 31, 2021.

	Maturity date	Term (years)	Fixed rate	Coupon (payment)	Principal amount	Carrying value	
						March 31, 2022	December 31, 2021
Senior unsecured notes	June 11, 2026	5	2.64%	June, December	75,000	75,000	

For the period ended March 31, 2022, the Company incurred \$591 of interest expense (March 31, 2021 – \$187), of which \$488 (March 31, 2021 – nil) are related to the senior unsecured notes.

Note 12 – Share capital

The Company’s authorized share capital consists of: (i) an unlimited number of common shares; (ii) an unlimited number of non-voting shares; and (iii) an unlimited number of preference shares (issuable in series). As at March 31, 2022 and December 31, 2021, no non-voting shares were issued and no preferred shares are outstanding.

During the three months ended March 31, 2022, 42,896 (December 31, 2021 – 148,620) stock options issued under the Company’s existing stock option plan were exercised. Consideration paid by stock option holders to exercise the options resulted in an increase to share capital.

In July 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	March 31, 2022		December 31, 2021	
	Number of common shares	Amount (in thousands)	Number of common shares	Amount (in thousands)
Balance, beginning of period	41,165,198	285,035	41,075,476	285,731
Shares under RSUs plan	(48,574)	(2,106)	(58,898)	(2,011)
Common shares issued	42,896	551	148,620	1,315
Balance, end of period	41,159,520	283,480	41,165,198	285,035

As part of the RSUs plan, the Company purchases its own shares which are classified as treasury shares and the costs of these shares are recorded as a reduction to equity. As at March 31, 2022, the Company has an aggregate of 41,266,992 common shares outstanding (December 31, 2021 – 41,224,096), which includes 107,472 treasury shares (December 31, 2021 – 58,898).

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

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

Note 13 – Net investment income (loss)

For the three months ended March 31,	2022	2021
Cash and cash equivalents, and short-term securities	89	84
AFS fixed income	2,570	2,022
FVTPL fixed income	-	244
Interest income	2,659	2,350
AFS common shares	844	554
AFS preferred shares	1,077	792
Dividend income	1,921	1,346
Losses on investments held at FVTPL	(78)	(8,922)
Commission income on structured insurance assets	-	290
Investment expenses	(479)	(381)
Other investment loss	(557)	(9,013)
Net investment income (loss)	4,023	(5,317)

Note 14 – Net (losses) gains

For the three months ended March 31,	2022	2021
Net gains from:		
financial instruments:		
AFS common shares	2,147	391
AFS preferred shares	769	58
AFS fixed income	82	307
	2,998	756
derivatives:		
swap agreements ⁽¹⁾	(3,767)	3,370
Embedded derivatives	(285)	(366)
Net foreign currency gains	580	603
Impairment on investments	-	(529)
Net (losses) gains	(474)	3,834

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

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

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

Note 15 – Income taxes

The following table shows the major components of income tax expense for the three months ended March 31, 2022 and 2021:

	Three months ended March 31	
	2022	2021
Current tax expense	7,349	3,573
Deferred tax (benefit) expense	(702)	2,167
Income tax expense	6,647	5,740
Income taxes recorded in other comprehensive (loss) income:		
Net changes in unrealized (losses) gains on AFS investments	(3,371)	1,153
Reclassification to net income of net losses on AFS investments	(673)	(18)
Origination and reversal of temporary differences	(2,226)	(390)
Total income tax (benefit) expense recorded in other comprehensive income	(6,270)	745

The following is a reconciliation of income taxes calculated at the statutory income tax rate to the income tax provision included in the Condensed Interim Consolidated Statements of Income for the three months ended March 31, 2022 and 2021:

	March 31, 2022	March 31, 2021
Income before income taxes	27,697	25,058
Statutory income tax rate	26.5%	26.5%
	7,340	6,640
Variations due to:		
Permanent differences	(290)	(199)
International operations subject to different tax rates	(586)	(693)
Unrecognized tax loss	28	-
Rate differentials:		
Change in future rate	2	12
True up	153	(20)
Income tax expense	6,647	5,740

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.

As at March 31, 2022, the Company has unused tax losses of \$9,851 (December 31, 2021 – \$9,160), which will expire in the following years:

	March 31, 2022
2041	9,160
2042	691
	9,851

TRISURA GROUP LTD.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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

Note 16 – Earnings per share

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

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

	Three months ended	
	March 31	
	2022	2021 ⁽¹⁾
Net income attributable to common shareholders	21,050	19,318
Weighted-average number of common shares outstanding (in shares)	41,174,761	41,079,432
EPS – basic (in dollars)	0.51	0.47
Dilutive effect of the conversion of options on common shares (in shares)	985,858	911,148
Diluted weighted-average number of common shares outstanding (in shares)	42,160,619	41,990,580
EPS – diluted (in dollars)	0.50	0.46

(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 17 – Capital management

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

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

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 March 31, 2022 and December 31, 2021.

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 March 31, 2022 and December 31, 2021, the regulated insurance companies of Trisura US were in excess of any CALs of the states in which they were licensed.

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

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

Note 18 – Segmented information

As at March 31, 2022, the Company has two reportable segments. The operations of Trisura Canada comprise Surety business underwritten in both Canada and the United States, and Risk Solutions and Corporate Insurance products primarily underwritten in Canada. Trisura US provides specialty fronting insurance solutions underwritten in the United States. The operations of Trisura US includes the reinsurance operations of Trisura International.

During the three months ended March 31, 2022, the Company determined that Trisura International, which comprised the Company's international reinsurance operations, no longer met the quantitative threshold for reportable segment disclosure purposes and the Company's chief operating decision maker no longer deems Trisura International's results to be significant. The run-off operations of Trisura International has been reclassified to Corporate and other in the current period and the comparative information has been restated to conform with the current period presentation.

The following tables show the results for the three months ended March 31, 2022 and 2021:

Three months ended March 31, 2022	Trisura Canada	Trisura US	Corporate and other	Total
Gross premiums written	139,636	341,744	-	481,380
Net premiums written	74,868	33,302	-	108,170
Net premiums earned	68,955	19,394	-	88,349
Fee income	4,342	13,885	-	18,227
Net investment income	2,705	1,113	205	4,023
Net gains (losses)	3,081	(1,020)	(2,535)	(474)
Total revenues	79,083	33,372	(2,330)	110,125
Net claims and loss adjustment expenses	(10,840)	(12,674)	(91)	(23,605)
Net expenses	(48,357)	(12,191)	2,316	(58,232)
Interest expenses	(67)	(32)	(492)	(591)
Total claims and expenses	(59,264)	(24,897)	1,733	(82,428)
Net income (loss) before tax	19,819	8,475	(597)	27,697

Three months ended March 31, 2021	Trisura Canada	Trisura US	Corporate and other	Total
Gross premiums written	85,572	224,673	29	310,274
Net premiums written	60,811	16,525	29	77,365
Net premiums earned	41,975	10,620	29	52,624
Fee income	4,301	9,483	-	13,784
Net investment income (loss)	1,833	1,043	(8,193)	(5,317)
Net (losses) gains	(352)	354	3,832	3,834
Total revenues	47,757	21,500	(4,332)	64,925
Net claims and loss adjustment expenses	(5,593)	(7,800)	9,286	(4,107)
Net expenses	(26,131)	(5,699)	(3,743)	(35,573)
Interest expense	(73)	(9)	(105)	(187)
Total claims and expenses	(31,797)	(13,508)	5,438	(39,867)
Net income before tax	15,960	7,992	1,106	25,058

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

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

Note 18 – Segmented information (continued)

As at March 31, 2022	Trisura Canada	Trisura US	Corporate and other	Total
Assets	1,044,729	1,906,494	60,310	3,011,533
Liabilities	874,970	1,693,522	86,091	2,654,583

As at December 31, 2021	Trisura Canada	Trisura US	Corporate and other	Total
Assets	1,095,984	1,763,972	140,398	3,000,354
Liabilities	929,845	1,549,154	162,566	2,641,565

Note 19 – Additional information on the Consolidated Statements of Cash Flows

The following table shows the Change in working capital for the periods ended March 31, 2022 and March 31, 2021:

For the periods ended March 31,	2022	2021
Reinsurance premiums payable	36,151	38,318
Unearned premiums, net	19,817	41,283
Unpaid claims and loss adjustment expenses, net	8,478	(9,734)
Income taxes	6,288	5,737
Other operating liabilities	2,831	1,920
Accounts payable and accrued liabilities	(56,935)	(8,035)
Other operating assets	(12,025)	(45,896)
Deferred acquisition costs, net	(1,307)	(21,140)
	3,298	2,453