



Trisura Group Ltd.

Condensed Interim Consolidated Financial Statements (unaudited)

For the three and six months ended June 30, 2021

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

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

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

As at	Note	June 30, 2021	December 31, 2020
Assets			
Cash and cash equivalents		172,817	136,519
Investments	4, 6	611,279	503,684
Premiums and accounts receivable, and other assets	10	249,315	178,883
Recoverable from reinsurers	12	903,086	676,972
Deferred acquisition costs		241,507	188,190
Capital assets and intangible assets		17,766	13,907
Deferred tax assets		7,690	8,577
Total assets		2,203,460	1,706,732
Liabilities			
Accounts payable, accrued and other liabilities	11	73,171	57,343
Reinsurance premiums payable	12	232,347	151,707
Unearned premiums		744,767	592,711
Unearned reinsurance commissions		116,715	100,281
Unpaid claims and loss adjustment expenses	9	631,406	487,271
Debt outstanding	14	74,429	27,555
		1,872,835	1,416,868
Shareholders' equity			
Common shares	15	284,876	285,731
Contributed surplus		2,144	1,332
Retained earnings		40,340	4,133
Accumulated other comprehensive income (loss)		3,265	(1,332)
		330,625	289,864
Total liabilities and shareholders' equity		2,203,460	1,706,732

See accompanying notes to the Condensed Interim Consolidated Financial Statements

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

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

For the periods ended June 30,	Note	Three months		Six months	
		2021	2020	2021	2020
Gross premiums written		363,514	202,683	673,788	372,635
Reinsurance premiums ceded		(263,314)	(155,802)	(496,223)	(284,254)
Net premiums written		100,200	46,881	177,565	88,381
Change in unearned premiums		(33,172)	(10,105)	(57,913)	(21,038)
Net premiums earned		67,028	36,776	119,652	67,343
Fee income		12,112	5,867	25,896	13,408
Net investment income (loss)	7	2,780	6,308	(2,537)	14,842
Net gains	8	4,801	3,504	8,635	1,450
Total revenues		86,721	52,455	151,646	97,043
Net claims and loss adjustment expenses	9	(21,390)	(15,961)	(25,497)	(30,147)
Net commissions	12	(26,330)	(12,138)	(44,889)	(23,371)
Operating expenses		(19,737)	(14,753)	(36,751)	(26,838)
Interest expense	14.1	(281)	(267)	(468)	(667)
Total claims and expenses		(67,738)	(43,119)	(107,605)	(81,023)
Income before income taxes		18,983	9,336	44,041	16,020
Income tax expense	19	(2,094)	(2,749)	(7,834)	(1,062)
Net income attributable to shareholders		16,889	6,587	36,207	14,958
Weighted average number of common shares outstanding during the period (in thousands) – basic	16, 22	41,148	38,241	41,114	36,752
Earnings per common share (in dollars) – basic	16, 22	0.41	0.17	0.88	0.41
Earnings per common share (in dollars) – diluted	16, 22	0.40	0.17	0.86	0.40

See accompanying notes to the Condensed Interim Consolidated Financial Statements

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

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

For the periods ended June 30,	<i>Note</i>	Three months		Six months	
		2021	2020	2021	2020
Net income attributable to shareholders		16,889	6,587	36,207	14,958
Net unrealized gains (losses) on available-for-sale investments		9,512	17,624	13,008	(11,470)
Income tax (expense) benefit		(3,406)	(2,334)	(4,170)	2,940
Items that may be reclassified subsequently to net income		6,106	15,290	8,838	(8,530)
Net realized losses (gains)		95	(2,048)	(294)	(4,869)
Impairment loss	4.2	-	803	529	3,839
Income tax (expense) benefit		(68)	(589)	(50)	192
Items reclassified to net income		27	(1,834)	185	(838)
Items other than cumulative translation (loss) gain		6,133	13,456	9,023	(9,368)
Items that will not be reclassified subsequently to net income – Cumulative translation (loss) gain		(2,298)	(4,628)	(4,426)	6,826
Other comprehensive income (loss)		3,835	8,828	4,597	(2,542)
Total comprehensive income		20,724	15,415	40,804	12,416

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)

		Common shares	Contributed surplus	Retained earnings	Accumulated other comprehensive (loss) income (net of income taxes)	Total
	<i>Note</i>					
Balance at January 1, 2021		285,731	1,332	4,133	(1,332)	289,864
Net income		-	-	36,207	-	36,207
Other comprehensive income		-	-	-	4,597	4,597
Comprehensive income		-	-	36,207	4,597	40,804
Share issuance	15	1,075	-	-	-	1,075
Shares purchased under Restricted Share Units ("RSUs") plan	15	(1,930)	-	-	-	(1,930)
Share based payments		-	812	-	-	812
Balance at June 30, 2021		284,876	2,144	40,340	3,265	330,625

		Common shares	Contributed surplus	Accumulated deficit	Accumulated other comprehensive loss (net of income taxes)	Total
	<i>Note</i>					
Balance at January 1, 2020		219,251	815	(28,309)	(1,428)	190,329
Net income		-	-	14,958	-	14,958
Other comprehensive loss		-	-	-	(2,542)	(2,542)
Comprehensive loss		-	-	14,958	(2,542)	12,416
Issuances, net of taxes	15	66,480	-	-	-	66,480
Share based payments		-	213	-	-	213
Balance at June 30, 2020		285,731	1,028	(13,351)	(3,970)	269,438

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 six months ended June 30,	2021	2020
Operating activities		
Net income	36,207	14,958
Items not involving cash:		
Depreciation and amortization	1,309	1,641
Unrealized loss	7,349	1,328
Impairment loss	529	4,687
Payment in kind	-	(285)
Stock options granted	605	380
Change in working capital	72,403	13,946
Realized gains	(1,481)	(17,198)
Income taxes paid	(7,187)	(3,287)
Interest paid	(357)	(695)
Net cash flows from operating activities	109,377	15,475
Investing activities		
Proceeds on disposal of investments	60,280	140,264
Purchases of investments	(174,677)	(208,926)
Purchases of capital assets	(2,449)	(342)
Purchases of intangible assets	(76)	(164)
Net cash flows used in investing activities	(116,922)	(69,168)
Financing activities		
Shares issued	859	65,143
Shares purchased under RSUs plan	(1,930)	-
Proceeds from issuance of debt, net of issuance costs	74,700	-
Loans received	26,970	32,700
Loans repaid	(54,525)	(32,700)
Principal portion of lease payments	(688)	(878)
Net cash flows from financing activities	45,386	64,265
Net increase in cash and cash equivalents during the period	37,841	10,572
Cash, beginning of period	120,538	68,208
Cash equivalents, beginning of period	15,981	17,697
Cash and cash equivalents, beginning of period	136,519	85,905
Impact of foreign exchange on cash and cash equivalents	(1,543)	2,688
Cash, end of period	160,910	80,368
Cash equivalents, end of period	11,907	18,797
Cash and cash equivalents, end of period	172,817	99,165

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 owns three principal subsidiaries through which it conducts insurance operations. These subsidiaries are Trisura Guarantee Insurance Company (“Trisura Canada”), Trisura Specialty Insurance Company (“Trisura US”) and Trisura International Insurance Ltd. (“Trisura International”).

Trisura Canada operates as a Canadian property and casualty insurance company. Trisura US is licensed by the Oklahoma Insurance Department as a domestic surplus lines insurer and can write business as a non-admitted surplus line insurer in all states within the United States and through its subsidiary can also write admitted business in most states. Trisura US operates as a hybrid fronting carrier where a large portion of its premium is ceded to reinsurers. Trisura US earns fee income from the reinsurers to whom it cedes premium. Trisura International is currently managing its in-force portfolio of specialty reinsurance contracts and assumes some premium from Trisura US.

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, 2020, 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 August 4, 2021.

Note 3 – Summary of significant accounting policies

The accounting policies applied during the three and six months ended June 30, 2021 are the same as those described and disclosed in Note 2 – *Summary of significant accounting policies* of the December 31, 2020 Consolidated Financial Statements.

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 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 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 June 30, 2021	AFS	Designated FVTPL	Cash, loans and receivables	Total
Cash and cash equivalents	-	-	172,817	172,817
Investments				
Short-term securities	-	-	5,000	5,000
Fixed income	340,849	65,665	4,310	410,824
Common shares	92,362	-	-	92,362
Preferred shares	94,384	-	-	94,384
Structured insurance assets	-	8,709	-	8,709
Total Investments	527,595	74,374	9,310	611,279
Total cash and investments	527,595	74,374	182,127	784,096

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 investments	407,336	90,061	142,806	640,203

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 June 30, 2021 and December 31, 2020 were as follows:

As at June 30, 2021	FVTPL	Other investments				Total
	investments					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	47,319	47,423	736	(305)	47,854	95,173
Corporate	18,346	289,445	4,099	(549)	292,995	311,341
Total bonds	65,665	336,868	4,835	(854)	340,849	406,514
Other loans	-	4,310	-	-	4,310	4,310
Total fixed income	65,665	341,178	4,835	(854)	345,159	410,824
Common shares	-	81,922	11,001	(561)	92,362	92,362
Preferred shares	-	86,619	7,998	(233)	94,384	94,384
Structured insurance assets	8,709	-	-	-	-	8,709
	74,374	514,719	23,834	(1,648)	536,905	611,279

As at December 31, 2020	FVTPL	Other investments				Total
	investments					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 ("SPPI") test. Based on a preliminary assessment, most of the debt securities would pass the test, however the composition of debt securities may change significantly by the time IFRS 9 is adopted along with IFRS 17, effective for fiscal year commencing January 1, 2023.

Management has reviewed currently available information regarding those investments with a fair value less than carrying value. During the three and six months ended June 30, 2021, management recognized total impairments of \$nil and \$529 (see Note 8), respectively on AFS investments (during the three and six months ended June 30, 2020 – \$803 and \$3,839 on AFS investments, \$nil 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.

TRISURA GROUP LTD.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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

4.3 Pledged assets

In the normal course of insurance and reinsurance operations, the Company must secure its obligations under certain insurance and reinsurance contracts by collateralizing them with letters of credit or trust arrangements. These trusts and letters of credit may, in turn, be secured by the Company's fixed income investments. As at June 30, 2021, the Company has pledged cash amounting to \$920 USD and pledged fixed maturity investments amounting to \$57,940 USD (December 31, 2020 - \$1,582 USD and \$68,182 USD, respectively), under insurance and reinsurance trust arrangements and are therefore not readily available for general use by the Company.

As at June 30, 2021, the Company pledged \$5,332 USD (December 31, 2020 – \$5,592 USD) of fixed income investments as security deposits to various US state insurance departments to be held in trust for and pledged to various states.

4.4 Structured insurance assets

The structured insurance assets represent the Company's purchase of the rights to collect commission income on portfolios of long-term care insurance policies issued by insurance companies. The commissions are paid into trusts, from which the amounts due to the Company, being the commissions net of amounts due to other parties and expenses of the trusts, are paid. The commission income for the three and six months ended June 30, 2021 amounted to \$345 and \$635 (June 30, 2020 – \$388 and \$789, respectively), which has been recorded within Net investment income (loss) (see Note 7).

Note 5 – Fair value and notional amount of derivatives

The following sets out the fair value and notional amount of derivatives as at June 30, 2021 and December 31, 2020:

As at	June 30, 2021			December 31, 2020		
	Notional amount	Fair value		Notional amount	Fair value	
Asset		Liability	Asset		Liability	
Foreign currency contracts						
Forwards	68,900	1,047	-	51,000	-	152
Equity contracts						
Swap agreements	7,430	14,100	-	8,112	8,272	-
Interest rate contracts						
Swap agreements	4,025	288	-	4,134	57	-
	80,355	15,435	-	63,246	8,329	152
Term to maturity						
less than one year	76,330	15,147	-	59,086	7,940	152
from one to five years	-	-	-	26	332	-
from five to ten years	4,025	288	-	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 June 30, 2021 are \$46,384 USD (December 31, 2020 – \$32,392 USD), €1,765 EUR (December 31, 2020 – €1,669 EUR) and £4,533 GBP (December 31, 2020 – £4,226). 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 Notes 10 and 11) and gains and losses are recorded in Net gains (see Note 8).

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

The following sets out the financial instruments classified in accordance with the fair value hierarchy as at June 30, 2021 and December 31, 2020:

As at June 30, 2021	Total fair value	Level 1	Level 2	Level 3
Government	95,173	-	95,173	-
Corporate	311,341	-	311,341	-
Total bonds	406,514	-	406,514	-
Common shares	92,362	80,536	-	11,826
Preferred shares	94,384	94,099	-	285
Structured insurance assets	8,709	-	-	8,709
Total investments	601,969	174,635	406,514	20,820
Derivative financial assets	15,435	-	15,435	-
	617,404	174,635	421,949	20,820

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

For the three and six months ended June 30, 2021 and the year ended 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 six months ended June 30, 2021 and the year ended December 31, 2020:

	June 30, 2021	December 31, 2020
Balance at beginning of period	20,667	11,568
Unrealized (losses) gains	(261)	1,891
Purchase of securities	812	7,403
Foreign exchange	(398)	(195)
Balance at end of period	20,820	20,667

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

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

Note 7 – Net investment income (loss)

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Cash and cash equivalents, and short-term securities	64	173	148	439
Bonds classified as loans and receivables	53	(36)	59	166
FVTPL bonds	232	180	476	352
AFS bonds	2,289	1,943	4,306	3,764
Interest income	2,638	2,260	4,989	4,721
AFS common shares	565	519	1,119	1,009
AFS preferred shares	849	478	1,641	1,198
Dividend income	1,414	997	2,760	2,207
(Losses) gains on investments held at FVTPL	(1,228)	2,917	(10,151)	7,697
Commission income on structured insurance assets	345	388	635	789
Investment expenses	(389)	(254)	(770)	(572)
Other investment (loss) income	(1,272)	3,051	(10,286)	7,914
Net investment income (loss)	2,780	6,308	(2,537)	14,842

Note 8 – Net gains

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Net gains from:				
financial instruments:				
AFS common shares	176	613	567	3,129
AFS preferred shares	-	16	58	16
AFS bonds	284	455	591	758
	460	1,084	1,216	3,903
derivatives:				
swap agreements ⁽¹⁾	4,206	866	7,576	689
Embedded derivatives	(554)	(872)	(920)	(872)
Net foreign currency gains	689	3,229	1,292	2,417
Impairment on investments (see Note 4.2)	-	(803)	(529)	(4,687)
Net gains	4,801	3,504	8,635	1,450

(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 9 – Unpaid claims and loss adjustment expenses

The following changes have occurred to the claim reserves:

For the three months ended June 30, 2021	Direct	Ceded	Net
Unpaid claims, beginning of period	545,307	382,988	162,319
Claims occurring in current year (including paid)	145,336	123,276	22,060
Change in undiscounted estimates for losses of prior years	16,034	16,047	(13)
Change in discounting	(1,903)	(355)	(1,548)
Change in provision for adverse deviation	1,492	601	891
Total claims incurred	160,959	139,569	21,390
Claims paid	(70,116)	(60,028)	(10,088)
Foreign exchange	(4,744)	(4,416)	(328)
Unpaid claims, end of period	631,406	458,113	173,293
For the six months ended June 30, 2021	Direct	Ceded	Net
Unpaid claims, beginning of period	487,271	313,904	173,367
Claims occurring in current year (including paid)	290,625	249,851	40,774
Change in undiscounted estimates for losses of prior years	10,088	14,595	(4,507)
Change in discounting	(12,530)	(508)	(12,022)
Change in provision for adverse deviation	2,109	857	1,252
Total claims incurred	290,292	264,795	25,497
Claims paid	(133,273)	(112,202)	(21,071)
Foreign exchange	(12,884)	(8,384)	(4,500)
Unpaid claims, end of period	631,406	458,113	173,293
For the three months ended June 30, 2020	Direct	Ceded	Net
Unpaid claims, beginning of period	311,483	154,562	156,921
Claims occurring in current year (including paid)	78,143	67,192	10,951
Change in undiscounted estimates for losses of prior years	(1,900)	(506)	(1,394)
Change in discounting	6,288	(69)	6,357
Change in provision for adverse deviation	(25)	(72)	47
Total claims incurred	82,506	66,545	15,961
Claims paid	(38,371)	(25,401)	(12,970)
Foreign exchange	(7,552)	(4,935)	(2,617)
Unpaid claims, end of period	348,066	190,771	157,295

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

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

Note 9 – Unpaid claims and loss adjustment expenses (continued)

For the six months ended June 30, 2020	Direct	Ceded	Net
Unpaid claims, beginning of period	257,880	114,657	143,223
Claims occurring in current year (including paid)	144,912	122,655	22,257
Change in undiscounted estimates for losses of prior years	(8,762)	(5,004)	(3,758)
Change in discounting	11,100	(367)	11,467
Change in provision for adverse deviation	484	303	181
Total claims incurred	147,734	117,587	30,147
Claims paid	(65,588)	(44,980)	(20,608)
Foreign exchange	8,040	3,507	4,533
Unpaid claims, end of period	348,066	190,771	157,295

Note 10 – Premiums and accounts receivable, and other assets

As at June 30, 2021 and December 31, 2020, Premiums and accounts receivable, and other assets consist of:

As at	June 30, 2021	December 31, 2020
Premiums receivable	222,231	166,017
Derivative assets	15,435	8,329
Accrued investment income	2,863	2,879
Unsettled Investments receivable	1,503	-
Prepaid expenses	567	317
Tax recoveries	398	409
Miscellaneous assets	6,318	932
	249,315	178,883

As at June 30, 2021, Premiums receivable of \$222,231 (December 31, 2020 – \$166,017) includes an amount of \$149,833 (December 31, 2020 – \$120,595) related to Trisura US for which there is a reinsurance payable of \$168,565 (December 31, 2020 – \$129,740).

Note 11 – Accounts payable, accrued and other liabilities

As at June 30, 2021 and December 31, 2020, Accounts payable, accrued and other liabilities consist of:

As at	June 30, 2021	December 31, 2020
Premium taxes payable and other liabilities	17,508	9,966
Accrued liabilities	13,342	15,725
Share based payment plan	11,231	5,670
Deposits in trust	10,806	12,140
Lease liabilities	10,508	8,793
Taxes payable	8,509	4,558
Unsettled investments payable	1,004	-
Investment contract liabilities	263	339
Derivative liabilities	-	152
	73,171	57,343

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

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

Note 12 – Reinsurance and commissions

The Company uses reinsurance in the ordinary course of business to reduce its exposure to any one claim or event under the policies it issues. A large portion of this reinsurance is affected under reinsurance agreements known as treaty reinsurance. In some instances, it is negotiated on a facultative (one-off) basis for individual policies, generally when the exposures under these policies are not sufficiently mitigated by the treaty reinsurance.

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 components of the balance sheet, and the associated credit risk is carefully monitored.

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 treaty or facultative 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 acceptable levels of collateral.

In some instances, provisions are incorporated in the treaties to protect the Company in the event a reinsurer's credit rating deteriorates during the term of the reinsurance treaty. Unlicensed reinsurers must post an agreed upon level of collateral. The Company has determined that a provision is not required for potentially uncollectible reinsurance as at June 30, 2021 and December 31, 2020.

The following table summarizes the components of Recoverable from reinsurers as at June 30, 2021 and December 31, 2020:

As at	June 30, 2021	December 31, 2020
Reinsurers' share of claims liabilities (see Note 9)	458,113	313,904
Reinsurers' share of unearned premiums	444,973	363,068
	903,086	676,972

The following table summarizes the components of Reinsurance premiums payable as at June 30, 2021 and December 31, 2020:

As at	June 30, 2021	December 31, 2020
Reinsurance payable	260,536	186,382
Reinsurance recoverable	(28,189)	(34,675)
	232,347	151,707

The following table summarizes the components of Net commissions for the three and six months ended June 30, 2021:

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Gross commissions	71,775	38,718	132,064	66,427
Reinsurance commissions	(45,445)	(26,580)	(87,175)	(43,056)
Net commissions	26,330	12,138	44,889	23,371

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Note 13 – Capital management

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

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

a) *Trisura Canada*

Under guidelines established by the Office of the Superintendent of Financial Institutions which apply to 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. Trisura Canada has exceeded this measure as at June 30, 2021 and December 31, 2020.

b) *Trisura US*

Trisura US is subject to externally imposed regulatory capital requirements by the Oklahoma Insurance Department as a Domestic Surplus Line Insurer. As an admitted carrier, through its subsidiary, Trisura US 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 Risk Based Capital exceed certain minimum thresholds as well as Company Action Levels ("CALs"), below which the Company would have to notify the regulators. As at June 30, 2021 and December 31, 2020, Trisura US was in excess of any CALs of the states in which it was licensed.

c) *Trisura International*

Trisura International is subject to externally imposed regulatory capital requirements in Barbados. As at June 30, 2021 and December 31, 2020, Trisura International maintained sufficient capital to meet these requirements.

Note 14 – Debt outstanding

14.1 Loan payable

The Company maintains a five-year revolving credit facility with a Canadian Schedule I bank (the "Bank") which allows for drawings of up to \$50,000. Under this arrangement, the Company can draw funds in the form of short-term banker's acceptances, Canadian prime rate advances, base rate advances or LIBOR rate advances. The interest rate is based on the current periods' bankers' acceptance rate, Canadian prime rate, base rate, or LIBOR rate, plus a margin. The loan balance is accounted for at amortized cost, which is equal to the carrying value. The minimum required annual payment consists only of interest, with no mandatory principal payments required.

On March 16, 2020, the Company converted its Canadian dollar denominated loan balance of \$29,700 to a loan balance denominated in US dollars, with the same bank. To do so, \$21,642 USD was drawn under the loan to immediately repay the outstanding loan payable of \$29,700. On March 20, 2020, an additional \$3,000 was drawn under the credit facility, which was repaid on June 19, 2020.

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 CAD 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.

For the three and six months ended June 30, 2021, the Company incurred \$281 and \$468 of interest expense, respectively (June 30, 2020 – \$267 and \$667, respectively), of which \$194 and \$293 (June 30, 2020 – \$174 and \$416) are related to the loan payable and senior unsecured notes.

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

Note 14 – Debt outstanding (continued)

14.2 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 2.641%. Interest is payable in semi-annual instalments commencing 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 Company incurred \$571 of costs directly attributable to the debt offering, which have been deducted from the carrying value of the Notes.

The following table provides details of the total debt outstanding as at June 30, 2021 and December 31, 2020.

	Maturity date	Term (years)	Fixed rate	Coupon (payment)	Principal amount	Carrying value (net of issuance costs)	
						June 30, 2021	December 31, 2020
Loan payable						-	27,555
Senior unsecured notes	June 11, 2026	5	2.641%	Jun, Dec.	75,000	74,429	-
Total debt outstanding						74,429	27,555

Note 15 – 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 June 30, 2021 and December 31, 2020, no non-voting shares were issued and no preferred shares are outstanding.

During the six months ended June 30, 2021, 29,655 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 May 2020, the Company completed a public offering of 1,289,150 common shares for gross proceeds of \$60,397. Concurrent with the public offering, the Company issued 160,100 common shares to investors on a private placement basis for gross proceeds of \$7,501. The Company incurred costs of \$2,416 in commission paid to underwriters as well as \$339 of costs directly attributable to the share issuance, which have been deducted from equity. At 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.

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

As at	June 30, 2021		December 31, 2020	
	Number of shares	Amount (in thousands)	Number of shares	Amount (in thousands)
Balance, beginning of period	10,268,869	285,731	8,819,619	219,251
Shares purchased under RSUs plan	(14,706)	(1,930)	-	-
Common shares issued	29,655	1,075	1,449,250	66,480
Balance, end of period	10,283,818	284,876	10,268,869	285,731
Balance, end of period ⁽¹⁾	41,135,272	284,876	41,075,476	285,731

When the Company purchases its own shares as part of its RSUs plan, they are classified as treasury shares and the cost of these shares is recorded as a reduction in equity. As at June 30, 2021, the Company has an aggregate 10,298,524 (December 31, 2020 – 10,268,869) common shares outstanding, which includes 14,706 (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. See Note 22.

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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 June 30		Six months ended June 30	
	2021	2020	2021	2020
Net income attributable to common shareholders	16,889	6,587	36,207	14,958
Weighted-average number of common shares outstanding (in shares)	10,286,928	9,560,347	10,278,487	9,187,937
Weighted-average number of common shares outstanding (in shares) ⁽¹⁾	41,147,712	38,241,388	41,113,948	36,751,748
EPS – basic (in dollars)	1.64	0.69	3.52	1.63
EPS – basic (in dollars) ⁽¹⁾	0.41	0.17	0.88	0.41
Dilutive effect of the conversion of options on common shares (in shares)	249,618	107,969	221,775	103,958
Dilutive effect of the conversion of options on common shares (in shares) ⁽¹⁾	998,472	431,876	887,100	415,832
Diluted weighted-average number of common shares outstanding (in shares)	10,536,546	9,668,316	10,500,262	9,291,895
Diluted weighted-average number of common shares outstanding (in shares) ⁽¹⁾	42,146,184	38,673,264	42,001,048	37,167,580
EPS – diluted (in dollars)	1.60	0.68	3.45	1.61
EPS – diluted (in dollars) ⁽¹⁾	0.40	0.17	0.86	0.40

(1) Adjusted to reflect the four-for-one stock split effective July 9, 2021. The number of common shares and earnings per common share amounts are presented on a post-split basis. See Note 22.

Note 17 – Investment in subsidiary

On May 21, 2020, Trisura International Holdings Ltd., an intermediary holding company and wholly-owned subsidiary of the Company, completed a voluntary dissolution. The assets and liabilities of the subsidiary were transferred to the Company, including the shares of its wholly-owned subsidiary, Trisura International. This dissolution had no impact on the Consolidated Statements of Financial Position and results of operations of the Company.

TRISURA GROUP LTD.

Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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Note 18 – 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 insurance solutions underwritten in the United States. The operations of Trisura International comprises the Company's international reinsurance operations.

The following tables show the results for the three and six months ended June 30, 2021 and 2020:

Three months ended June 30, 2021	Trisura Canada	Trisura US	Trisura International	Corporate and consolidation adjustments	Total
Gross premiums written	142,906	221,268	4,748	(5,408)	363,514
Net premiums written	79,297	16,155	4,748	-	100,200
Net premiums earned:					
from external customers	53,288	10,029	-	-	63,317
inter-segment premiums ⁽¹⁾	-	-	3,711	-	3,711
Fee income	1,029	11,298	-	(215)	12,112
Net investment income (loss)	2,064	1,112	(610)	214	2,780
Net gains (losses)	252	206	(29)	4,372	4,801
Total revenues	56,633	22,645	3,072	4,371	86,721
Net claims	(13,065)	(6,791)	(1,534)	-	(21,390)
Net expenses	(32,345)	(7,419)	(1,685)	(4,618)	(46,067)
Interest expense	(73)	(8)	(6)	(194)	(281)
Total claims and expenses	(45,483)	(14,218)	(3,225)	(4,812)	(67,738)
Net income (loss) before tax	11,150	8,427	(153)	(441)	18,983

Six months ended June 30, 2021	Trisura Canada	Trisura US	Trisura International	Corporate and consolidation adjustments	Total
Gross premiums written	228,478	445,941	8,845	(9,476)	673,788
Net premiums written	140,108	28,612	8,845	-	177,565
Net premiums earned:					
from external customers	95,263	17,225	-	-	112,488
inter-segment premiums ⁽¹⁾	-	-	7,164	-	7,164
Fee income	5,330	20,978	-	(412)	25,896
Net investment income (loss)	3,897	2,155	(8,957)	368	(2,537)
Net (losses) gains	(100)	560	180	7,995	8,635
Total revenues	104,390	40,918	(1,613)	7,951	151,646
Net claims	(18,658)	(12,472)	5,633	-	(25,497)
Net expenses	(58,476)	(12,403)	(3,198)	(7,563)	(81,640)
Interest expense	(146)	(17)	(12)	(293)	(468)
Total claims and expenses	(77,280)	(24,892)	2,423	(7,856)	(107,605)
Net income before tax	27,110	16,026	810	95	44,041

(1) For the three and six months ended June 30, 2021, Trisura International earned inter-segment premiums of \$3,711 and \$7,164 (June 30, 2020 – \$1,126 and \$1,315, respectively) from Trisura US. The inter-segment ceding arrangement was entered into at prevailing market rates.

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Notes to the Condensed Interim Consolidated Financial Statements (unaudited)

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

Note 18 – Segmented information (continued)

Three months ended June 30, 2020	Trisura Canada	Trisura US	Trisura International	Corporate and consolidation adjustments	Total
Gross premiums written	57,798	144,819	4,415	(4,349)	202,683
Net premiums written	37,623	4,843	4,415	-	46,881
Net premiums earned:					
from external customers	30,597	5,053	-	-	35,650
inter-segment premiums ⁽¹⁾	-	-	1,126	-	1,126
Fee income	301	5,566	-	-	5,867
Net investment income	1,780	885	3,591	52	6,308
Net (losses) gains	(1,055)	639	(95)	4,015	3,504
Total revenues	31,623	12,143	4,622	4,067	52,455
Net claims	(4,953)	(3,698)	(7,310)	-	(15,961)
Net expenses	(19,498)	(3,493)	(922)	(2,978)	(26,891)
Interest expense	(77)	(9)	(7)	(174)	(267)
Total claims and expenses	(24,528)	(7,200)	(8,239)	(3,152)	(43,119)
Net income (loss) before tax	7,095	4,943	(3,617)	915	9,336

Six months ended June 30, 2020	Trisura Canada	Trisura US	Trisura International	Corporate and consolidation adjustments	Total
Gross premiums written	107,068	265,501	4,969	(4,903)	372,635
Net premiums written	72,556	10,857	4,968	-	88,381
Net premiums earned:					
from external customers	57,097	8,931	-	-	66,028
inter-segment premiums ⁽¹⁾	-	-	1,315	-	1,315
Fee income	3,743	9,665	-	-	13,408
Net investment income	4,093	1,570	9,103	76	14,842
Net (losses) gains	(2,621)	683	(160)	3,548	1,450
Total revenues	62,312	20,849	10,258	3,624	97,043
Net claims	(11,389)	(6,179)	(12,579)	-	(30,147)
Net expenses	(38,220)	(6,521)	(1,791)	(3,677)	(50,209)
Interest expense	(219)	(18)	(14)	(416)	(667)
Total claims and expenses	(49,828)	(12,718)	(14,384)	(4,093)	(81,023)
Net income (loss) before tax	12,484	8,131	(4,126)	(469)	16,020

(1) For the three and six months ended June 30, 2021, Trisura International earned inter-segment premiums of \$3,711 and \$7,164 (June 30, 2020 – \$1,126 and \$1,315, respectively) from Trisura US. The inter-segment ceding arrangement was entered into at prevailing market rates.

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Note 18 – Segmented information (continued)

As at June 30, 2021	Trisura Canada	Trisura US	Trisura International	Corporate and consolidation adjustments	Total
Assets	726,904	1,334,168	108,761	33,627	2,203,460
Liabilities	588,997	1,136,983	94,800	52,055	1,872,835

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 19 – Income taxes

The following shows the major components of income tax expense for the three and six months ended June 30, 2021 and 2020:

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Current tax expense:				
Current period	5,000	3,196	8,573	6,502
Prior year true up	33	-	33	-
	5,033	3,196	8,606	6,502
Deferred tax expense:				
Origination and reversal of temporary differences	(2,939)	(447)	(772)	(5,440)
Income tax expense	2,094	2,749	7,834	1,062
Income taxes recorded in other comprehensive income (loss):				
Net changes in unrealized gains (losses) on AFS investments	1,337	2,374	2,491	(3,482)
Reclassification to net income of net gains (losses) on AFS investments	68	589	50	(192)
Origination and reversal of temporary differences	2,069	(40)	1,679	542
Total income tax expense (benefit) recorded in other comprehensive income (loss)	3,474	2,923	4,220	(3,132)

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Note 19 – Income taxes (continued)

The following is a reconciliation of income taxes calculated at the statutory income tax rate to the income tax provision included in the Condensed Interim Consolidated Statements of Income for the three and six months ended June 30, 2021 and 2020:

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Income before income taxes	18,983	9,336	44,041	16,020
Statutory income tax rate	26.5%	26.5%	26.5%	26.5%
	5,030	2,474	11,671	4,245
Variations due to:				
Permanent differences	(1,359)	(187)	(1,546)	(400)
International operations subject to different tax rates	(427)	620	(1,133)	666
Unrecognized tax losses	-	(261)	-	(3,425)
Rate differentials:				
Current rate versus future rate	71	(2)	71	3
Change in future rate	-	58	12	2
True up	(1,221)	47	(1,241)	(29)
Income tax expense	2,094	2,749	7,834	1,062

The permanent differences relate 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.

As at June 30, 2021, the Company has unused tax losses of \$14,755 (December 31, 2020 – \$6,615). 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 of June 30, 2021. The Company's unused tax losses will expire in the following years:

	June 30, 2021
2037	1,439
2038	4,985
2039	3,337
2040	2,986
2041	2,008
	14,755

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Note 20 – Equity-settled restricted share units (“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 June 30, 2021 and December 31, 2020:

As at	June 30, 2021 (in units)	December 31, 2020 (in units)
Outstanding, beginning of period	8,239	-
Vested during the period	(2,755)	-
Cancelled during the period	(2,195)	-
Granted during the period	16,901	8,239
Outstanding, end of period	20,190	8,239

During the three and six months ended June 30, 2021, compensation expense of \$285 and \$437 (June 30, 2020 - \$28 and \$47, respectively) related to the RSUs were recorded in Operating expenses, respectively.

Note 21 – Equity-settled stock options

The following is a continuity schedule of stock options outstanding as at June 30, 2021 and December 31, 2020:

	June 30, 2021		December 31, 2020	
	Number of options	Weighted average exercise price (in dollars)	Number of options	Weighted average exercise price (in dollars)
Outstanding, beginning of period	333,680	32.91	242,235	26.38
Exercised during the period	(29,655)	28.96	-	-
Granted during the period	78,954	111.42	91,445	50.23
Outstanding, end of period	382,979	49.40	333,680	32.91

Note 22 – Subsequent event

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.