



Trisura Group Ltd.

Condensed Interim Consolidated Financial Statements

As at and for the three and six months ended June 30, 2018

(Unaudited)

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

Table of contents for the Condensed interim consolidated financial statements of Trisura Group Ltd. as at and for the three and six months ended June 30, 2018

Condensed Interim Consolidated Statements of Financial Position	2
Condensed Interim Consolidated Statements of Comprehensive Income (Loss)	3
Condensed Interim Consolidated Statements of Changes in Equity	4
Condensed Interim Consolidated Statements of Cash Flows	5
Notes to the Condensed Interim Consolidated Financial Statements	6

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>	June 30, 2018	December 31, 2017
Assets			
Cash and cash equivalents		97,739	165,675
Investments	4	263,298	190,641
Premiums and accounts receivable, and other assets	7	31,679	23,172
Deferred acquisition costs		50,927	40,266
Recoverable from reinsurers		81,330	65,254
Capital assets and intangible assets		2,600	2,612
Deferred tax assets		781	740
Total assets		528,354	488,360
Liabilities			
Accounts payable, accrued and other liabilities	8	19,092	19,795
Reinsurance premiums payable		21,732	17,555
Unearned premiums		148,014	115,357
Unearned reinsurance commissions		11,076	5,566
Unpaid claims and loss adjustment expenses	6	172,074	178,885
Loan payable	11	29,700	29,700
		401,688	366,858
Shareholders' equity			
Common shares	12	163,582	163,582
Preferred shares	12	1,600	1,600
Contributed surplus		210	89
Accumulated deficit		(39,050)	(41,849)
Accumulated other comprehensive income (loss)		324	(1,920)
		126,666	121,502
Total liabilities and shareholders' equity		528,354	488,360

See accompanying notes to the Condensed interim consolidated financial statements

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

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

For the periods ended June 30,	Note	Three months ended		Six months ended	
		2018	2017	2018	2017
Gross premiums written		58,661	43,336	93,485	71,951
Reinsurance premiums ceded		(28,243)	(16,324)	(39,122)	(25,435)
Retrospective premiums refund		(40)	(44)	(74)	(82)
Net premiums written		30,378	26,968	54,289	46,434
Change in unearned premiums		(9,087)	(7,020)	(13,744)	(8,857)
Net premiums earned		21,291	19,948	40,545	37,577
Fee income		403	128	3,679	3,057
Total underwriting revenue		21,694	20,076	44,224	40,634
Claims and expenses					
Claims and loss adjustment expenses		(12,146)	(6,066)	(32,001)	(15,416)
Reinsurers' share of claims and loss adjustment expenses		7,950	2,994	23,102	8,079
Commissions		(10,150)	(8,512)	(19,495)	(16,692)
Reinsurance commissions		2,702	2,256	4,450	3,804
Premium taxes		(1,126)	(1,093)	(2,062)	(1,990)
Operating expenses		(8,884)	(8,227)	(17,005)	(15,562)
Total claims and expenses		(21,654)	(18,648)	(43,011)	(37,777)
Net underwriting income		40	1,428	1,213	2,857
Net investment income	14	2,079	1,593	3,989	2,337
Foreign exchange (losses) gains		(207)	130	(324)	115
Interest expense	11	(235)	(263)	(466)	(539)
Change in minority interests		-	-	-	(5,158)
Income (loss) before income taxes		1,677	2,888	4,412	(388)
Income tax expense	17	(693)	(1,128)	(1,565)	(1,887)
Net income (loss)		984	1,760	2,847	(2,275)
Net income attributable to common shareholders	1, 2.2	984	285	2,847	285
Weighted average number of common shares outstanding during the year (in thousands) – basic		6,622	5,813	6,622	5,813
Earnings per common share (in dollars) – basic and diluted	13	0.14	0.05	0.42	0.05
Net income (loss)		984	1,760	2,847	(2,275)
Unrealized gains on available-for-sale investments		2,997	826	1,134	2,066
Unrealized losses on available-for-sale investments		(2,254)	(2,393)	(3,518)	(1,976)
Income tax (benefit) expense		(211)	528	380	142
Items that may be reclassified subsequently to net income (loss)		532	(1,039)	(2,004)	232
Realized gains		(781)	(132)	(782)	(163)
Realized losses		188	7	529	11
Impairment adjustment		-	-	325	-
Income tax (expense) benefit		72	(65)	(41)	(63)
Items reclassified to net income (loss)		(521)	(190)	31	(215)
Items other than cumulative translation gains (losses)		11	(1,229)	(1,973)	17
Items that will not be reclassified subsequently to net income (loss) – Cumulative translation gains (losses)		1,931	(2,207)	4,217	(2,688)
Other comprehensive income (loss)		1,942	(3,436)	2,244	(2,671)
Total comprehensive income (loss)		2,926	(1,676)	5,091	(4,946)

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	Preferred shares	Contributed surplus	Accumulated deficit	Accumulated other comprehensive (loss) income (net of income taxes)	Total
Balance at January 1, 2018		163,582	1,600	89	(41,849)	(1,920)	121,502
Net income		-	-	-	2,847	-	2,847
Other comprehensive income		-	-	-	-	2,244	2,244
Comprehensive loss		-	-	-	2,847	2,244	5,091
Share-based payments		-	-	121	-	-	121
Dividends paid	12	-	-	-	(48)	-	(48)
Balance at June 30, 2018		163,582	1,600	210	(39,050)	324	126,666

	<i>Note</i>	Common shares	Retained earnings	Accumulated other comprehensive income (loss) (net of income taxes)	Total
Balance at January 1, 2017		9,618	58,695	2,575	70,888
Net loss		-	(2,275)	-	(2,275)
Other comprehensive loss		-	-	(2,671)	(2,671)
Comprehensive loss		-	(2,275)	(2,671)	(4,946)
Share issuance		140,270	-	-	140,270
Adjustment on Reorganization	12	(9,618)	(90,891)	-	(100,509)
Balance at June 30, 2017		140,270	(34,471)	(96)	105,703

See accompanying notes to the Condensed interim consolidated financial statements

TRISURA GROUP LTD.**Condensed Interim Consolidated Statements of Cash Flow (Unaudited)**

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

For the six months ended June 30,	<i>Note</i>	2018	2017
Operating activities			
Net income (loss)		2,847	(2,275)
Items not involving cash:			
Depreciation and amortization		677	290
Unrealized losses		1,387	46
Impairment loss on available-for-sale investments		325	-
Share-based payments expense		243	-
Change in working capital and other		(2,245)	8,652
Realized losses (gains) on available-for-sale investments		301	(364)
Income taxes paid		(1,941)	(5,155)
Interest paid		(469)	(524)
Net cash flows from operating activities		1,125	670
Investing activities			
Proceeds on disposal of investments		32,118	19,832
Purchases of investments		(104,749)	(119,662)
Purchases of capital assets		(255)	(40)
Disposal of capital assets		-	24
Purchases of intangible assets		(60)	(91)
Net cash flows used in investing activities		(72,946)	(99,937)
Financing activities			
Change in minority interests		-	5,158
Dividends paid		(48)	-
Issuance of new loan payable	<i>11</i>	29,700	-
Shares issued		-	140,270
Repayment of note payable		-	(355)
Repayment of loan payable	<i>11</i>	(29,700)	(3,700)
Net cash flows (used in) from financing activities		(48)	141,373
Net (decrease) increase in cash and cash equivalents during the period		(71,869)	42,106
Cash, beginning of period		83,146	113,409
Cash equivalents, beginning of period		82,529	8,687
Cash and cash equivalents, beginning of period		165,675	122,096
Impact of foreign exchange on cash and cash equivalents		3,933	(3,858)
Cash, end of period		88,788	140,992
Cash equivalents, end of period		8,951	19,352
Cash and cash equivalents, end of period		97,739	160,344

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, in some instances through wholly-owned intermediary holding companies, through which it conducts insurance operations. These subsidiaries are Trisura Guarantee Insurance Company (“Trisura Guarantee”), Trisura International Insurance Ltd. (“Trisura International”), which is wholly-owned through the intermediary holding company Trisura International Holdings Ltd. (“TIHL”) and Trisura Specialty Insurance Company (“Trisura Specialty”) which is owned directly. Trisura Guarantee was previously held through an intermediary holding company, 6436978 Canada Limited (“643 Can Ltd”), which was wound up in June 2018 (see Note 15).

Trisura Guarantee operates as a Canadian property and casualty insurance company. Trisura International provides specialty insurance and reinsurance products to the global insurance market place, and is currently managing its in-force portfolio of reinsurance contracts. Trisura Specialty was incorporated on May 31, 2017 and was 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.

1.1 Reorganization Transaction

On June 15, 2017, Brookfield Asset Management Inc. (“Brookfield”) subscribed for 5,813,312 common shares of the Company in exchange for approximately \$140,270. On June 15, 2017, the Company used the \$140,270 to acquire: (i) Brookfield’s 100% interest in TIHL for approximately \$50,132; (ii) Brookfield’s 60% interest in 643 Can Ltd for approximately \$50,329; and (iii) Brookfield’s interest in a note payable from 643 Can Ltd to Brookfield for approximately \$185, leaving the Company with approximately \$39,624 in additional cash (collectively, the “Reorganization Transaction”). See Note 12 for the impact of the Reorganization Transaction on share capital.

1.2 Spin-off

On June 22, 2017, Brookfield completed the spin-off of the Company (the “Spin-off”), which was effected by way of a special dividend of all of the common shares of the Company to holders of Brookfield’s Class A and B limited voting shares as of June 1, 2017. Each holder of Brookfield’s Class A and B limited voting shares received one common share of the Company for every 170 Class A or Class B shares of Brookfield. The common shares of the Company are publicly traded on the Toronto Stock Exchange under the symbol “TSU”.

Note 2 – Basis of presentation

These Condensed interim consolidated financial statements (“interim Consolidated financial statements”) have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”). The interim Consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

These interim Consolidated financial statements and the accompanying notes were authorized for issuance by the Company’s Board of Directors on August 9, 2018.

2.1 Presentation of financial statements

For the period from January 1 to June 14, 2017, the combined financial statements are comprised of the financial results of the Company, 643 Can Ltd and its subsidiary, TIHL and its subsidiaries, and Trisura Specialty on a combined basis of presentation. All intra-group transactions, balances, income and expenses were eliminated in full on combination.

For the period beginning June 15, 2017, the interim Consolidated financial statements comprise the financial results of the Company and all entities controlled by the Company, on a consolidated basis of presentation. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

In accordance with IFRS, presentation of assets and liabilities on the interim Consolidated statements of financial position is in order of liquidity.

TRISURA GROUP LTD.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

2.2 Continuity of interests

To reflect the continuity of interests, these interim Consolidated financial statements provide comparative information of the Company for the periods prior to the Spin-off. Accordingly, the financial information for the periods prior to June 22, 2017 is presented based on the historical financial information for the Company. For the period after completion of the Spin-off, the results are based on the actual results of the Company, including the adjustments associated with the Spin-off. Therefore, net income (loss) and comprehensive income (loss) have been allocated to Brookfield for the period prior to June 22, 2017 and allocated to the post-Spin-off shareholders for the period on and after June 22, 2017. For 2017, the earnings per share ("EPS") calculations have been presented for the period from June 22 to December 31, 2017.

Note 3 – Summary of significant accounting policies

The accounting policies applied during the three and six months ended June 30, 2018 are the same as those described and disclosed in Note 2 – *Summary of significant accounting policies* of the December 31, 2017 Consolidated financial statements.

3.1 Deferral of IFRS 9 Financial Instruments ("IFRS 9")

The Company has elected to continue to apply International Auditing Standard 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") and defer implementation of IFRS 9 to January 1, 2021 to coincide with the implementation of IFRS 17 *Insurance Contracts* ("IFRS 17") as it is permitted to do under IFRS 4 *Insurance Contracts* ("IFRS 4").

The Company is applying the temporary exemption from IFRS 9 as its activities are predominantly connected with insurance as the 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 a significant activity not connected with insurance. Based on this analysis, the Company meets the criteria to defer implementation of IFRS 9.

The Company will continue to apply IAS 39 to its financial instruments until January 1, 2021.

3.2 Fees

Effective January 1, 2018, the Company adopted the new revenue standard IFRS 15 *Revenue from contracts with customers* ("IFRS 15"). There was no impact to the interim Consolidated financial statements as a result of the implementation of the new standard.

Fees charged to insureds are recorded as revenue and separately disclosed on the interim Consolidated statements of comprehensive income (loss). Fees 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 certain instances, fees are charged to reinsurers in relation to insurance contracts, and in those circumstances the fees are recognized over the same period as the related insurance contract.

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 cash and investments**

The following table presents the classification of cash and the investments.

As at June 30, 2018	AFS	Designated FVTPL	Cash, loans and receivables	Total
Cash and cash equivalents	-	-	97,739	97,739
Investments				
Fixed income	177,226	20,092	-	197,318
Income and investment trust units	2,833	-	-	2,833
Common shares	35,412	-	-	35,412
Preferred shares	15,235	-	-	15,235
Structured insurance assets	-	12,500	-	12,500
Total cash and investments	230,706	32,592	97,739	361,037

As at December 31, 2017	AFS	Designated FVTPL	Cash, loans and receivables	Total
Cash and cash equivalents	-	-	165,675	165,675
Investments				
Fixed income	106,453	22,014	-	128,467
Income and investment trust units	2,928	-	-	2,928
Common shares	31,249	-	-	31,249
Preferred shares	15,431	-	-	15,431
Structured insurance assets	-	12,566	-	12,566
Total cash and investments	156,061	34,580	165,675	356,316

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

The amortized cost and fair values of investments as at June 30, 2018 and December 31, 2017 were as follows:

As at June 30, 2018	FVTPL	AFS investments				Total
	investments	Amortized	Unrealized	Unrealized	Carrying	investments
	At carrying	cost	gains	losses	value	At carrying
	value					value
Government	20,092	32,456	397	(257)	32,596	52,688
Corporate	-	145,525	118	(1,381)	144,262	144,262
Total bonds	20,092	177,981	515	(1,638)	176,858	196,950
Mortgage backed securities	-	307	25	(2)	330	330
Asset backed securities	-	58	38	(58)	38	38
Total fixed income	20,092	178,346	578	(1,698)	177,226	197,318
Income and investment trust units	-	2,019	949	(135)	2,833	2,833
Common shares	-	29,707	6,601	(896)	35,412	35,412
Preferred shares	-	15,085	324	(174)	15,235	15,235
Structured insurance assets	12,500	-	-	-	-	12,500
	32,592	225,157	8,452	(2,903)	230,706	263,298

As at December 31, 2017	FVTPL	AFS investments				Total
	investments	Amortized	Unrealized	Unrealized	Carrying	investments
	At carrying	cost	gains	losses	value	At carrying
	value					value
Government	22,014	25,436	634	(30)	26,040	48,054
Corporate	-	80,121	407	(465)	80,063	80,063
Total bonds	22,014	105,557	1,041	(495)	106,103	128,117
Mortgage backed securities	-	332	-	(18)	314	314
Asset backed securities	-	55	36	(55)	36	36
Total fixed income	22,014	105,944	1,077	(568)	106,453	128,467
Income and investment trust units	-	2,115	935	(122)	2,928	2,928
Common shares	-	25,668	6,780	(1,199)	31,249	31,249
Preferred shares	-	14,441	1,165	(175)	15,431	15,431
Structured insurance assets	12,566	-	-	-	-	12,566
	34,580	148,168	9,957	(2,064)	156,061	190,641

Management has reviewed currently available information regarding those investments with a fair value less than carrying value. For the three and six months ended June 30, 2018, management recognized impairment of \$nil and \$325, respectively (June 30, 2017 – \$nil, \$nil, respectively). Assumptions are used when estimating the value of impairment based on the Company's impairment policy, which involves comparing fair value to carrying value.

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

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

4.3 Pledged assets

In the normal course of insurance and reinsurance operations, the Company must secure its obligations under certain insurance and reinsurance contracts by collateralizing them with letters of credit or trust arrangements. These trusts and letters of credit may, in turn, be secured by the Company's fixed income investments. As at June 30, 2018, the Company has pledged cash and cash equivalents and short-term deposits amounting to \$56,015, and pledged fixed maturity investments amounting to \$28,943 (December 31, 2017 – \$52,767 and \$30,646, respectively), under insurance and reinsurance trust arrangements and are therefore not readily available for general use by the Company.

As at June 30, 2018, the Company pledged \$380 (December 31, 2017 – \$375) of fixed income investments as security deposit to the Oklahoma Insurance Department to be held in trust for and pledged to the State of Oklahoma.

Note 5 – Fair value measurement

For the six months ended June 30, 2018 and the year ended December 31, 2017, there were no transfers between levels.

The following sets out the financial instruments classified in accordance with the fair value hierarchy as at June 30, 2018 and December 31, 2017:

As at June 30, 2018	Total fair value	Level 1	Level 2	Level 3
Government	52,688	-	52,688	-
Corporate	144,262	-	144,262	-
Total bonds	196,950	-	196,950	-
Mortgage backed securities	330	-	-	330
Asset backed securities	38	-	-	38
Total fixed income	197,318	-	196,950	368
Income and investment trust units	2,833	2,833	-	-
Common shares	35,412	34,968	-	444
Preferred shares	15,235	15,235	-	-
Structured insurance assets	12,500	-	-	12,500
Total investments	263,298	53,036	196,950	13,312
Derivative financial liabilities	(378)	-	(378)	-
	262,920	53,036	196,572	13,312

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 measurement (continued)

As at December 31, 2017	Total fair value	Level 1	Level 2	Level 3
Government	48,054	-	48,054	-
Corporate	80,063	-	80,063	-
Total bonds	128,117	-	128,117	-
Mortgage backed securities	314	-	-	314
Asset backed securities	36	-	-	36
Total fixed income	128,467	-	128,117	350
Income and investment trust units	2,928	2,928	-	-
Common shares	31,249	30,942	-	307
Preferred shares	15,431	15,431	-	-
Structured insurance assets	12,566	-	-	12,566
Total investments	190,641	49,301	128,117	13,223
Derivative financial assets	152	-	152	-
	190,793	49,301	128,269	13,223

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, 2018 and the year ended December 31, 2017:

	June 30, 2018	December 31, 2017
Balance at beginning of year	13,223	15,646
Unrealized losses	(690)	(1,705)
Amortization of premium	-	(38)
Purchase of securities	139	318
Foreign exchange	640	(998)
Balance at end of period	13,312	13,223

Included within the Level 3 assets are the structured insurance assets. The structured insurance assets are valued using a proprietary discounted cash flow valuation model. The fair value of this investment is based on discounting the expected future commission using a U.S. Treasury yield curve adjusted for credit risk associated with the receipt of future commission payments from the insurance companies. The credit risk adjustment is done since the Company takes on the credit risk of the insurance companies who have the ultimate commission obligations. The majority of commissions are received from insurance companies with an A.M. Best Company, Inc. ("A.M. Best") long-term issuer credit ratings of A or better.

Expected future cash flows are projected taking into account the probability of the policy being cancelled by the insured (referred to as lapse), the insured becoming sick and making a claim under the insurance policy (referred to as morbidity) and having future premium payments waived, or the insured dying (referred to as mortality). These actuarial risks are modeled using data drawn from the insurance companies and the Society of Actuaries Long Term Care Studies, as well as data from other public and non-public sources supplemented, as appropriate, by assistance from external actuarial consultants. The assumptions used are reviewed on a regular basis.

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

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

Note 6 – Unpaid claims and loss adjustment expenses**6.1 Unpaid claims and loss adjustment expenses by line of business**

As at June 30, 2018	Gross	Ceded	Net
Trisura Guarantee			
Surety	14,330	4,170	10,160
Corporate insurance	30,912	3,324	27,588
Risk solutions	41,589	27,305	14,284
	86,831	34,799	52,032
Trisura International			
Life	68,163	-	68,163
Property and casualty	16,390	-	16,390
	84,553	-	84,553
Trisura Specialty			
Property and casualty	690	627	63
	172,074	35,426	136,648
As at December 31, 2017	Gross	Ceded	Net
Trisura Guarantee			
Surety	15,814	4,952	10,862
Corporate insurance	52,105	26,656	25,449
Risk solutions	22,593	6,638	15,955
	90,512	38,246	52,266
Trisura International			
Life	68,896	-	68,896
Property and casualty	19,477	-	19,477
	88,373	-	88,373
	178,885	38,246	140,639

Unpaid claims and loss adjustment balances due from reinsurers, referred to above as Ceded balances, are grouped with unearned reinsurance assets in Recoverable from reinsurers on the interim Consolidated statements of financial position.

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

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

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

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

Gross claim reserves	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Unpaid claims, beginning of period	177,012	165,864	178,885	163,970
Change in undiscounted estimates for losses of prior years	(1,015)	(1,427)	(2,218)	(3,381)
Change in discount rate	(382)	(203)	(350)	200
Change in provision for adverse deviation	223	104	27	425
Claims occurring in current year (including paid)	13,320	7,592	34,542	18,172
Paid on claims occurring during:				
Current year	(5,450)	(2,814)	(18,960)	(4,746)
Prior years	(9,695)	(4,299)	(22,232)	(8,840)
Foreign exchange	(1,939)	1,853	2,380	870
Unpaid claims, end of period	172,074	166,670	172,074	166,670

Reinsurers' share of claim reserves	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Unpaid claims, beginning of period	34,063	27,348	38,246	24,676
Change in undiscounted estimates for losses of prior years	571	310	1,110	(121)
Change in discount rate	(118)	(69)	(315)	(86)
Change in provision for adverse deviation	73	101	(102)	228
Claims occurring in current year (including paid)	7,424	2,652	22,409	8,058
Paid on claims occurring during:				
Current year	(3,494)	(1,509)	(15,227)	(2,347)
Prior years	(3,114)	(1,611)	(10,716)	(3,186)
Foreign exchange	21	-	21	-
Unpaid claims, end of period	35,426	27,222	35,426	27,222

Note 7 – Premiums and accounts receivable, and other assets

As at June 30, 2018 and December 31, 2017, premiums and accounts receivable, and other assets consists of:

As at	June 30, 2018	December 31, 2017
Premiums receivable	27,980	20,552
Accrued investment income	1,540	909
Tax recoveries	1,177	477
Prepaid expenses	256	224
Funds held by ceding companies	247	374
Derivative assets	-	152
Miscellaneous assets	479	484
	31,679	23,172

TRISURA GROUP LTD.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

Note 8 – Accounts payable, accrued and other liabilities

As at June 30, 2018 and December 31, 2017, accounts payable, accrued and other liabilities consist of:

As at	June 30, 2018	December 31, 2017
Deposits in trust	8,633	6,592
Accrued liabilities	4,662	6,576
Other liabilities	3,733	3,586
Investment contract liabilities	1,167	2,856
Share based payment plan	519	185
Derivative liabilities	378	-
	19,092	19,795

Note 9 – 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 effected under reinsurance agreements known as treaty reinsurance. In some instances, it is negotiated on a facultative (one-off) basis for individual policies, generally when the exposures under these policies are not sufficiently mitigated by the treaty reinsurance.

Reinsurance does not relieve the Company of its obligations to policyholders. A contingent liability exists with respect to reinsurance ceded which would become a liability of the Company in the event that any reinsurer fails to honour its obligations. For this reason, the Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk to minimize its exposure to losses from reinsurer insolvencies. All licensed reinsurers providing treaty or facultative reinsurance policies are required to have a minimum A.M. Best credit rating of A- at the inception of each policy. 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, 2018 and December 31, 2017.

Note 10 – Capital management

The Company's capital is its shareholders' equity, which consists of common shares, preferred shares, contributed surplus, accumulated deficit and accumulated other comprehensive 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.

10.1 Regulatory capital

a) *Trisura Guarantee*

Under guidelines established by the Office of the Superintendent of Financial Institutions which apply to Trisura Guarantee, Canadian property and casualty insurance companies must maintain minimum levels of capital as determined in accordance with a prescribed test, the minimum capital test ("MCT"), which expresses available capital (actual capital plus or minus specified adjustments) as a percentage of required capital. Companies are expected to maintain MCT level of at least 150% and are further required to establish their own unique target MCT levels based on the nature of their operations and the business they write. Management, with the board of directors' approval, has established Trisura Guarantee's target MCT level in accordance with these requirements. Trisura Guarantee exceeded this measure at June 30, 2018 and December 31, 2017.

TRISURA GROUP LTD.

Notes to the Condensed Interim Consolidated Financial Statements (Unaudited)

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

10.1 Regulatory capital (continued)

b) *Trisura International*

Trisura International is subject to externally imposed regulatory capital requirements in Barbados. As at June 30, 2018, Trisura International, including its subsidiary, was required to maintain minimum capital totaling \$165 (December 31, 2017 - \$157), and it has exceeded this requirement. This amount is restricted from potential dividend payments.

c) *Trisura Specialty*

Trisura Specialty is subject to externally imposed regulatory capital requirements by the Oklahoma Insurance Department as a Domestic Surplus Line Insurer. As at June 30, 2018, Trisura Specialty was required to maintain minimum capital and surplus totaling \$19,752, (December 31, 2017 - \$18,818), and it has exceeded this requirement.

Note 11 – Loan payable

On March 14, 2018, the Company entered into a five-year revolving credit facility with a Canadian Schedule I bank (the “Bank”) which allows for drawings of up to \$35,000. Under this arrangement, the Company can draw funds in the form of short term banker’s acceptances, Canadian prime rate advances, base rate advances or LIBOR rate advances. The rate is based on the current periods’ bankers’ acceptance rate, Canadian prime rate, base rate, or LIBOR rate, plus a margin. The loan balance is accounted for at amortized cost, which is equal to the carrying value. The minimum required annual payment consists only of interest, with no mandatory principal payments required.

On March 14, 2018, \$29,700 was drawn under the loan, which was used to repay the outstanding loan payable of \$29,700 which had been borrowed by a subsidiary of the Company under a previous lending facility.

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

As part of the covenants of the current and previous loan arrangements, the Company is required to maintain certain financial ratios, which were fully met as at June 30, 2018 and December 31, 2017.

For the three and six months ended June 30, 2018, the Company incurred \$235 and \$466 of interest expense, respectively (June 30, 2017 - \$263 and \$539, respectively). As at June 30, 2018, the loan balance was \$29,700 (December 31, 2017 - \$29,700).

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).

The impact of the Reorganization Transaction on share capital was to increase common shares to \$140,270. The impact of this transaction on retained earnings was to reduce retained earnings by \$31,631 being the difference between consideration paid for Brookfield’s interest in 643 Can Ltd and the book value of 643 Can Ltd as at June 15, 2017. The impact of the reorganization on share capital was an adjustment to share capital of \$(9,618) and an adjustment to retained earnings of \$(90,891), which is inclusive of the reduction in retained earnings of \$31,631 described above. These adjustments reflect the impact of moving from a presentation of financial statements on a combined basis, to a presentation of financial statements on a consolidated basis.

On November 30, 2017, the Company exchanged the shares of 643 Can Ltd that were then owned by certain current and retired members of the management of Trisura Guarantee (“Management”) for newly issued common shares, and Class A, Series 1, preferred shares of the Company. As a result of this transaction, the Company issued to management 963,143 common shares from treasury and 64,000 preferred shares. The impact of the transaction was an increase to share capital by \$28,944 and a reduction to retained earnings by \$9,303. The minority interests were reclassified from a liability to a reduction in retained earnings.

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

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

Note 12 – Share capital (continued)

Consideration also included notes payable by the Company that were used by Management to repay shareholder loans owing to 643 Can Ltd which were outstanding at the time.

Holders of the preferred shares are entitled to a cumulative dividend of 6%, payable quarterly, at a fixed rate of 6%. The dividend rate will be reset on December 31, 2022 and every five years thereafter at a rate equal to the five-year government of Canada bond yield plus 7.5%. The Company has the right to redeem preferred shares at any time on 30 to 60 days notice.

On December 11, 2017, the Company held a special meeting of shareholders and approved a one-for-ten share consolidation of its common shares, followed immediately by a ten-to-one share split by way of a share distribution. The impact of this transaction on share capital was to reduce shares outstanding by 154,815 shares, and a reduction to share capital of \$4,031.

The following table shows the common shares issued and outstanding:

As at	June 30, 2018		December 31, 2017	
	Number of shares	Amount (in thousands)	Number of shares	Amount (in thousands)
Balance, beginning of year	6,621,680	163,582	-	-
Common shares issued	-	-	6,776,495	167,613
Common shares redeemed	-	-	(154,815)	(4,031)
Balance, end of period	6,621,680	163,582	6,621,680	163,582

The following table shows the preferred shares issued and outstanding:

As at	June 30, 2018		December 31, 2017	
	Number of shares	Amount (in thousands)	Number of shares	Amount (in thousands)
Balance, beginning of year	64,000	1,600	-	-
Preferred shares issued	-	-	64,000	1,600
Preferred shares redeemed	-	-	-	-
Balance, end of period	64,000	1,600	64,000	1,600

At June 30, 2018, the Company had declared and paid two quarterly dividends, each of \$0.375 (in dollars) (December 31, 2017 – \$0.13 (in dollars)) per share for each Class A, Series 1, preferred share. The consolidated common share capital of the Company as at June 30, 2018 was \$163,582 (December 31, 2017 – \$163,582).

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

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

Note 13 – Earnings per share

Basic earnings per common share is 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 after adjusting both amounts for the effects of all dilutive potential common shares, which consist of stock options.

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Net income attributable to shareholders	984	285	2,847	285
Less: Dividends declared on preferred shares, net of tax	(24)	-	(48)	-
Net income attributable to common shareholders	960	285	2,799	285
Weighted-average number of common shares outstanding (in shares)	6,621,680	5,813,312	6,621,680	5,813,312
EPS – basic (in dollars)	0.14	0.05	0.42	0.05
Dilutive effect of the conversion of options on common shares (in shares)	87,000	-	87,000	-
Diluted weighted-average number of common shares outstanding (in shares)	6,708,680	5,813,312	6,708,680	5,813,312
EPS – diluted (in dollars)	0.14	0.05	0.42	0.05

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

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

Note 14 – Investment income

The components of net investment income for the three and six months ended June 30, 2018 and 2017 were as follows:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Cash and cash equivalents	174	121	355	291
Available-for-sale bonds	1,117	821	2,177	1,601
Interest on executive share purchase plan	-	15	-	31
Interest expense on notes payable	-	(2)	-	(6)
Net interest income	1,291	955	2,532	1,917
Available-for-sale income and investment trust units	(46)	77	(14)	101
Available-for-sale common shares	317	210	569	436
Available-for-sale preferred shares	204	175	369	357
FVTPL convertible debenture	-	-	-	(29)
Business and dividend income	1,766	1,417	3,456	2,782
Unrealized loss on investments held at FVTPL	(1,608)	(1,962)	(2,094)	(3,373)
Commission income on assets at FVTPL	461	212	985	440
Loss on investment contracts	-	(9)	-	(9)
Investment expenses	(158)	(160)	(341)	(297)
Other investment income (loss)	461	(502)	2,006	(457)
Available-for-sale bonds	1,011	2,021	2,042	2,691
Available-for-sale common shares	(20)	(6)	(361)	23
Available-for-sale preferred shares	627	80	627	80
Gain on disposition of investments	1,618	2,095	2,308	2,794
Impairment on investments	-	-	(325)	-
	2,079	1,593	3,989	2,337

Note 15 – Investment in subsidiary

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

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

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

Note 16 – Segmented information

The Company has three reportable segments. The operations of Trisura Guarantee is one reportable segment which comprises surety solutions, risk solutions and corporate insurance solutions products underwritten in Canada. The operations of TIHL, referred to below as Trisura International, is a second reportable segment which comprises the Company's international reinsurance operations. The operations of Trisura Specialty is a third operating segment, which provides specialty insurance solutions underwritten in the United States. The operations of Trisura Guarantee included the operations of its intermediary holding company, 643 Can Ltd, until June 19, 2018.

The following table shows the results for the three and six months ended June 30, 2018 and 2017:

Three months ended June 30, 2018	Trisura Guarantee	Trisura International	Trisura Specialty	Corporate and consolidation adjustments	Total
Net premiums earned	21,175	22	94	-	21,291
Fee income	346	-	57	-	403
Total underwriting revenue	21,521	22	151	-	21,694
Net claims	(5,149)	1,011	(58)	-	(4,196)
Net expenses	(14,790)	(730)	(938)	(1,000)	(17,458)
Total claims and expenses	(19,939)	281	(996)	(1,000)	(21,654)
Net underwriting income (loss)	1,582	303	(845)	(1,000)	40
Investment income (loss)	1,722	(51)	398	10	2,079
Foreign exchange loss	-	(150)	-	(57)	(207)
Interest expense	-	-	-	(235)	(235)
Net income (loss) before tax	3,304	102	(447)	(1,282)	1,677

Six months ended June 30, 2018	Trisura Guarantee	Trisura International	Trisura Specialty	Corporate and consolidation adjustments	Total
Net premiums earned	40,395	46	104	-	40,545
Fee income	3,616	-	63	-	3,679
Total underwriting revenue	44,011	46	167	-	44,224
Net claims	(9,482)	647	(64)	-	(8,899)
Net expenses	(29,797)	(1,338)	(1,561)	(1,416)	(34,112)
Total claims and expenses	(39,279)	(691)	(1,625)	(1,416)	(43,011)
Net underwriting income (loss)	4,732	(645)	(1,458)	(1,416)	1,213
Investment income	2,177	1,130	662	20	3,989
Foreign exchange loss	-	(194)	-	(130)	(324)
Interest expense	(185)	-	-	(281)	(466)
Net income (loss) before tax	6,724	291	(796)	(1,807)	4,412

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

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

Note 16 – Segmented information (continued)

Three months ended June 30, 2017	Trisura Guarantee (inclusive of 643 Can Ltd)	Trisura International	Corporate and consolidation adjustments	Total
Net premiums earned	19,905	43	-	19,948
Fee income	119	9	-	128
Total underwriting revenue	20,024	52	-	20,076
Net claims	3,009	62	-	3,071
Net expenses	13,748	740	1,089	15,577
Total claims and expenses	16,757	802	1,089	18,648
Net underwriting income (loss)	3,267	(750)	(1,089)	1,428
Investment income	1,128	465	-	1,593
Foreign exchange loss	-	109	21	130
Interest expense	(263)	-	-	(263)
Net income (loss) before tax	4,132	(176)	(1,068)	2,888

Six months ended June 30, 2017	Trisura Guarantee (inclusive of 643 Can Ltd)	Trisura International	Corporate and consolidation adjustments	Total
Net premiums earned	37,534	43	-	37,577
Fee income	3,048	9	-	3,057
Total underwriting revenue	40,582	52	-	40,634
Net claims	7,948	(612)	-	7,336
Net expenses	27,173	1,355	1,913	30,441
Total claims and expenses	35,121	743	1,913	37,777
Net underwriting income (loss)	5,461	(691)	(1,913)	2,857
Investment income	2,138	199	-	2,337
Foreign exchange loss	-	94	21	115
Interest expense	(539)	-	-	(539)
Change in minority interests	(5,158)	-	-	(5,158)
Net income (loss) before tax	1,902	(398)	(1,892)	(388)

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

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

Note 16 – Segmented information (continued)

The following table shows Loan payable of \$29,700 at June 30, 2018 included with the liabilities of Corporate and consolidation adjustments (see Note 11). The Loan payable of \$29,700 at December 31, 2017 was included with the liabilities of Trisura Guarantee (inclusive of 643 Can Ltd).

As at June 30, 2018	Trisura Guarantee	Trisura International	Trisura Specialty	Corporate and consolidation adjustments	Total
Assets	338,972	115,323	82,139	(8,080)	528,354
Liabilities	267,075	87,370	17,038	30,205	401,688

As at December 31, 2017	Trisura Guarantee (inclusive of 643 Can Ltd)	Trisura International	Trisura Specialty	Corporate and consolidation adjustments	Total
Assets	317,124	119,208	56,888	(4,860)	488,360
Liabilities	273,679	92,658	426	95	366,858

Note 17 – Income taxes

The following shows the major components of income tax expense for the three and six months ended June 30, 2018 and 2017:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Current tax expense:				
Current year	482	989	1,470	1,784
Prior year adjustment	(83)	41	(83)	41
Deferred tax expense:				
Origination and reversal of temporary differences	294	98	178	62
Income tax expense	693	1,128	1,565	1,887
Income taxes recorded in other comprehensive income (loss):				
Net changes in unrealized (losses) gains on available-for-sale investments	502	(426)	(148)	(37)
Reclassification to net income (loss) of net losses on available-for-sale investments	(72)	63	20	51
Origination and reversal of temporary differences	(291)	(100)	(211)	(93)
Total income tax (recovery) expense recorded in other comprehensive income (loss)	139	(463)	(339)	(79)

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

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

Note 17 – 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 interim Consolidated statements of comprehensive income (loss) for the three and six months ended June 30, 2018 and 2017:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Income (loss) before income taxes	1,677	2,888	4,412	(388)
Statutory income tax rate	26.5%	26.5%	26.5%	26.5%
	444	765	1,169	(103)
Variations due to:				
Permanent differences	(112)	(85)	(192)	1,202
International operations subject to different tax rates	16	324	(54)	588
Unrecognized tax loss	426	85	723	157
Rate differentials:				
Current rate vs. future rate	3	-	3	-
Change in future rate	(1)	(2)	(1)	2
True up	(83)	41	(83)	41
Income tax expense	693	1,128	1,565	1,887