MOUNT LOGAN CAPITAL INC.

Interim Consolidated Financial Statements

September 30, 2020
(Unaudited)

MOUNT LOGAN CAPITAL INC.

INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of United States dollars, except number of shares and per share amounts)

	Notes		September 30, 2020 (unaudited)		December 31, 2019
ASSETS					
Investments, at fair value	3		55,099	$	64,489
Cash			132		425
Restricted cash	2		11,128		6,733
Receivable for investments sold			7,628		—
Due from BC Partners	5		—		411
Accrued interest and dividend receivable			152		358
Deferred offering costs			316		—
Deferred tax asset	9		2,863		2,863
Prepaid expenses			3		33
Total assets		**$**	**77,321**	**$**	**75,312**
LIABILITIES					
Credit facility (net of deferred financing costs of $193 and $80, respectively)	8	$	34,207	$	34,320
Payable for investments purchased			4,860		1,880
Interest payable			479		383
Due to BC Partners	5		728		—
Contingent value rights	7		3,779		3,876
Accounts payable and accrued liabilities			555		644
Total liabilities			44,608		41,103
SHAREHOLDERS' EQUITY					
Share capital	6		80,988		80,988
Warrants	6		1,086		1,086
Contributed surplus			7,240		7,240
Deficit			(34,743)		(33,247)
Cumulative translation adjustment	2		(21,858)		(21,858)
Total shareholders’ equity			32,713		34,209
Total liabilities and shareholders’ equity		**$**	**77,321**	**$**	**75,312**
Common shares issued and outstanding			**10,604,998**		**10,604,998**
Net asset value per share		**$**	**3.08**	**$**	**3.23**

The accompanying notes are an integral part of these interim consolidated financial statements.

Approved by the Board of Directors

(signed) Edward (Ted) Goldthorpe

Edward (Ted) Goldthorpe
Chief Executive Officer and Chairman

(signed) Graeme Dell

Graeme Dell
Chairman of Audit Committee

MOUNT LOGAN CAPITAL INC.

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands of United States dollars, except number of shares and per share amounts)
(unaudited)

	Notes	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
INVESTMENT INCOME					
Interest income		$ 763	$ 839	$ 2,400	$ 2,166
Dividend income		208	140	579	258
Fee income		—	11	—	11
Total investment income		**971**	**990**	**2,979**	**2,435**
OPERATING EXPENSES					
Administration fees		188	—	468	—
Arrangement costs		—	—	—	166
Interest and other credit facility expenses	8	414	484	1,582	1,052
Professional fees		115	93	543	360
Compensation		57	79	167	241
Marketing		33	85	125	85
Directors' fees		22	24	66	72
Regulatory and shareholder relations		4	3	38	61
Other general and administrative		43	50	117	90
Total operating expenses		**876**	**818**	**3,106**	**2,127**
Net investment income (loss)		**95**	**172**	**(127)**	**308**
REALIZED AND UNREALIZED GAIN (LOSS)					
Net realized gain (loss) on investments		(41)	193	69	252
Net realized gain (loss) on foreign currency		(42)	(20)	(46)	(20)
Net change in unrealized appreciation (depreciation) on investments		1,261	(4)	(952)	137
Net change in unrealized gain (loss) on foreign currency		(3)	339	20	(756)
Total net realized and unrealized gain (loss)		**1,175**	**508**	**(909)**	**(387)**
Income (Loss) and comprehensive income (loss) before income tax		**1,270**	680	**(1,036)**	(79)
Deferred tax recovered	9	—	2	—	697
Income (loss) and comprehensive income (loss)		**$ 1,270**	**$ 682**	**$ (1,036)**	**$ 618**
Weighted average shares outstanding – basic and diluted		**10,604,998**	**10,317,700**	**10,604,998**	**10,262,346**
Income (loss) per share – basic and diluted		**$ 0.12**	**$ 0.07**	**$ (0.10)**	**$ 0.06**

The accompanying notes are an integral part of these interim consolidated financial statements.

MOUNT LOGAN CAPITAL INC.

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of United States dollars, except number of shares)
(unaudited)

Nine Months Ended September 30, 2020	Notes	Number of Voting Common Shares	Share Capital	Warrants	Contributed Surplus	Deficit	Cumulative Translation Adjustment	Total Equity
Balance at December 31, 2019		**10,604,998**	**$ 80,988**	**$ 1,086**	**$ 7,240**	**$ (33,247)**	**$ (21,858)**	**$ 34,209**
Distributions to shareholders		—	—	—	—	(460)	—	(460)
Comprehensive income		—	—	—	—	(1,036)	—	(1,036)
Balance at September 30, 2020		**10,604,998**	**$ 80,988**	**$ 1,086**	**$ 7,240**	**$ (34,743)**	**$ (21,858)**	**$ 32,713**

Nine Months Ended September 30, 2019	Notes	Number of Voting Common Shares	Share Capital	Warrants	Contributed Surplus	Deficit	Cumulative Translation Adjustment	Total Equity
Balance at December 31, 2018		**10,233,905**	**$ 79,744**	**$ 1,086**	**$ 7,240**	**$ (33,312)**	**$ (23,476)**	**$ 31,282**
Share issuance		371,093	1,264	—	—	—	—	1,264
Offering costs		—	(20)	—	—	—	—	(20)
Comprehensive income (loss)		—	—	—	—	618	—	618
Cumulative translation reserve		—	—	—	—	—	958	958
Balance at September 30, 2019		**10,604,998**	**$ 80,988**	**$ 1,086**	**$ 7,240**	**$ (32,694)**	**$ (22,518)**	**$ 34,102**

The accompanying notes are an integral part of these interim consolidated financial statements.

MOUNT LOGAN CAPITAL INC.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of United States dollars)
(unaudited)

	Notes	Nine Months Ended September 30, 2020	2019
OPERATING ACTIVITIES			
Comprehensive income (loss)		$ (1,036)	$ 618
Adjustments to reconcile net cash provided by (used in) operating activities:			
Net realized (gains) losses on investments		(69)	(252)
Net realized loss on foreign currency		46	20
Net change in unrealized appreciation on investments		952	(137)
Net change in unrealized depreciation (appreciation) on foreign currency		(20)	756
Net amortization of premiums and accretion of discounts on investments		(53)	—
Amortization of debt issuance costs		410	188
Payment in-kind interest		—	(214)
Net foreign currency settlements		—	75
(Increase) decrease in operating assets:			
Due from BC Partners		411	—
Accrued interest and dividend receivable		206	(24)
Deferred tax asset		—	(794)
Prepaid expenses		30	16
Increase (decrease) in operating liabilities:			
Interest payable		96	319
Due to BC Partners		728	—
Accounts payable and accrued liabilities		(89)	(191)
Net cash provided by (used in) operating activities		**1,612**	**380**
FINANCING ACTIVITIES			
Distributions to shareholders	6	(460)	—
Borrowings on debt	8	—	26,800
Debt issuance costs	8	(522)	(532)
Deferred offering costs		(316)	—
Net cash provided by (used in) financing activities		**(1,298)**	**26,268**
INVESTING ACTIVITIES			
Purchases of investments		(16,309)	(36,138)
Proceeds from sales and repayments of investments		20,081	8,750
Net cash provided by (used in) investing activities		**3,772**	**(27,388)**
Net increase (decrease) in cash and restricted cash		4,086	(740)
Effects of exchange rate changes on cash and restricted cash		16	—
Cash and restricted cash, beginning of year		7,158	5,882
Cash and restricted cash, end of year		**$ 11,260**	**$ 5,142**
SUPPLEMENTAL INFORMATION			
Interest received		$ 2,404	$ 1,435
Interest paid		$ 748	$ 59
Dividends received		$ 579	$ —
Distributions paid		$ 461	$ —
Amounts per statements of financial position			
Cash		$ 132	$ 4,968
Restricted cash		11,128	—
Total cash and restricted cash		**$ 11,260**	**$ 4,968**

The accompanying notes are an integral part of these interim consolidated financial statements.

MOUNT LOGAN CAPITAL INC.

INTERIM CONSOLIDATED SCHEDULE OF INVESTMENT PORTFOLIO

September 30, 2020

(in thousands of United States dollars, except shares)
(unaudited)

Company[6]	Investment	Spread Above Index[1]	Interest	Maturity Date	Currency	Par / Shares	Cost	Fair Value
Debt investments								
Loans								
Consumer								
League Collegiate Holdings, LLC	Senior Secured Loan	3M L+475	5.75%	5/1/2024	USD	4,900	4,869	4,220
SW Ingredients Holdings, LLC	Senior Secured Loan	6M L+400	5.25%	7/3/2024	USD	4,900	4,883	4,826
Welcome Dairy, LLC	Senior Secured Loan	6M L+450	5.50%	6/28/2025	USD	1,748	1,734	1,734
Total consumer							11,486	10,780
Financials								
Alera Group Intermediate Holdings, Inc.	Senior Secured Loan	1M L+400	4.15%	8/1/2025	USD	3,930	3,945	3,891
CION Investment Group, LLC[7]	Promissory Note	3M L+800	9.24%	6/30/2029	USD	3,068	3,068	3,229
Total financials							7,013	7,120
Health Care								
Radiology Partners, Inc	Senior Secured Loan	12M L+425	5.99%	7/9/2025	USD	4,000	3,880	3,849
The PromptCare Companies Inc.	Senior Secured Loan	1M L+525	6.25%	12/30/2025	USD	2,328	2,307	2,327
The PromptCare Companies Inc.	Senior Secured Loan-First Delayed Draw Term Loan	1M L+525	6.25%	12/30/2025	USD	325	322	325
The PromptCare Companies Inc.[3][4][5]	Senior Secured Loan-Second Delayed Draw Term Loan	NA	1.00%	12/30/2025	USD	327	(1)	(2)
Total healthcare							6,508	6,499
Industrials								
Arcline FM Holdings LLC	Senior Secured Loan	3M L+600	7.00%	1/21/2025	USD	1,990	1,973	1,974
Gladson, LLC	Senior Secured Loan	6M L+550	6.50%	10/24/2024	USD	1,964	1,933	1,905
Mileage Plus Holdings LLC	Senior Secured Loan	3M L+525	6.25%	6/25/2027	USD	1,000	981	1,018
PHI, Inc.	Senior Secured Loan	1M L+700	8.00%	9/4/2024	USD	1,230	1,211	1,255
TCP Sunbelt Acquisition Co.	Senior Secured Loan	1M L+450	5.50%	5/31/2024	USD	4,340	4,316	4,166
Total industrials							10,414	10,318
Information technology								
Idera, Inc.	Senior Secured Loan	6M L+400	5.00%	6/28/2024	USD	3,060	3,049	3,029
Monotype Imaging Holdings Inc.	Senior Secured Loan	3M L+550	6.50%	10/9/2026	USD	1,975	1,868	1,855
Wesco Group, LLC	Senior Secured Loan	3M L+425	5.25%	6/15/2024	USD	3,430	3,408	3,246
Total information technology							8,325	8,130
Total loans							**43,746**	**42,847**
Bonds								
Cline Mining Corporation[7]				7/8/2022	CAD	8,304	6,235	3,779
Total bonds							**6,235**	**3,779**
Total debt investments							**49,981**	**46,626**
Equity investments								
BCP Great Lakes Holdings LP[7]					USD	8,594	8,594	8,473
Cline Mining Corporation[7]					CAD	2,076	401	—
Total equity investments							**8,995**	**8,473**
Total investments							**$ 58,976**	**$ 55,099**

(1) The majority of the investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate (“LIBOR” or “L”), which resets monthly, quarterly, semiannually or annually. For each such investment, the Company has provided the spread over LIBOR and the current contractual interest rate in effect at September 30, 2020. Certain investments may be subject to an interest rate floor.

(2) Other than the investments noted by this footnote, the fair value of the Company’s investments is determined using unobservable inputs that are significant to the overall fair value measurement.

(3) Position is an unfunded loan commitment. See Note 12 “Commitments and Contingencies”.

(4) The negative cost is the result of the capitalized discount being greater than the principal amount outstanding on the loan. The negative fair value is the result of the capitalized discount on the loan.

(5) The maturity date represents the commitment period of the unfunded term loan.

(6) Unless otherwise indicated, the Company's portfolio companies are pledged as collateral to secure Great Lakes Senior MLC I LLC's debt obligation outstanding under the Revolving Senior Loan Facility. See note 8 "Credit Facility".

(7) Investment is not pledged as collateral for the Revolving Senior Loan Facility.

The accompanying notes are an integral part of these interim consolidated financial statements.

MOUNT LOGAN CAPITAL INC.

CONSOLIDATED SCHEDULE OF INVESTMENT PORTFOLIO

December 31, 2019

(in thousands of United States dollars, except shares)

Company[6]	Investment	Spread Above Index[1]	Interest	Maturity Date	Currency	Par / Shares	Cost	Fair Value
Debt investments								
Loans								
Consumer								
League Collegiate Holdings, LLC	First Lien Loan	L+475	6.50%	5/1/2024	USD	$ 4,938	$ 4,900	$ 4,789
League Collegiate Holdings, LLC[3][4][5]	First Lien Delayed Draw Term Loan	L+475	1.00%	5/1/2024	USD	—	(3)	(13)
SW Ingredients Holdings, LLC	First Lien Loan	L+425	5.91%	7/3/2025	USD	4,937	4,918	4,937
Welcome Dairy, LLC	First Lien Loan	L+450	6.30%	6/28/2025	USD	1,761	1,745	1,738
Welcome Dairy, LLC[3][4][5]	First Lien Delayed Draw Term Loan	NA	0.50%	6/28/2025	USD	—	(1)	(2)
Total consumer							11,559	11,449
Financials								
Acrisure, LLC[2]	First Lien Loan	L+425	6.19%	11/22/2023	USD	3,959	3,953	3,977
Alera Group Intermediate Holdings, Inc.	First Lien Loan	L+450	6.30%	8/1/2025	USD	3,960	3,977	4,009
CION Investment Group, LLC[7]	Promissory Note	NA	8.00%	6/30/2029	USD	3,068	3,068	3,068
Total financials							10,998	11,054
Healthcare								
Radiology Partners, Inc.[2]	First Lien Loan	L+475	6.66%	7/9/2025	USD	1,444	1,436	1,453
Total healthcare							1,436	1,453
Industrials								
Gladson, LLC	First Lien Loan	L+550	7.34%	10/24/2024	USD	1,979	1,942	1,940
PHI, Inc.	First Lien Loan	L+700	8.80%	9/4/2024	USD	2,148	2,107	2,128
TCP Sunbelt Acquisition Co.	First Lien Loan	L+450	6.44%	5/31/2024	USD	4,946	4,913	4,847
Teneo Holdings LLC	First Lien Loan	L+525	6.99%	7/12/2025	USD	4,988	4,800	4,758
Total industrials							13,762	13,673
Information technology								
The Dun & Bradstreet Corporation[2]	First Lien Loan	L+500	6.79%	2/9/2026	USD	5,000	4,998	5,050
Idera, Inc.	First Lien Loan	L+450	6.30%	6/28/2024	USD	3,084	3,070	3,100
Monotype Imaging Holdings Inc.	First Lien Loan	L+550	7.44%	10/11/2026	USD	2,000	1,880	1,880
Wesco Group, LLC	First Lien Loan	L+425	6.20%	6/15/2024	USD	3,456	3,430	3,422
Total information technology							13,378	13,452
Total loans							**51,133**	**51,081**
Bonds								
Cline Mining Corporation[7]				7/8/2022	CAD	8,304	6,394	3,876
Total bonds							**6,394**	**3,876**
Total debt investments							**57,527**	**54,957**
Equity investments								
BCP Great Lakes Holdings LP[7]					USD		9,472	9,532
Cline Mining Corporation[7]					CAD	2,075,595	411	—
Total equity investments							**9,883**	**9,532**
Total investments							**$ 67,410**	**$ 64,489**

(1) The majority of the investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate ("LIBOR" or "L"), which resets monthly, quarterly, or semiannually. For each such investment, the Company has provided the spread over LIBOR and the current contractual interest rate in effect at December 31, 2019.

(2) Other than the investments noted by this footnote, the fair value of the Company's investments is determined using unobservable inputs that are significant to the overall fair value measurement.

(3) Position is an unfunded loan commitment. See Note 12 "Commitments and Contingencies".

(4) The negative cost is the result of the capitalized discount being greater than the principal amount outstanding on the loan. The negative fair value is the result of the capitalized discount on the loan.

(5) The maturity date represents the commitment period of the unfunded term loan.

(6) Unless otherwise indicated, the Company's portfolio companies are pledged as collateral to secure Great Lakes Senior MLC I LLC's debt obligation outstanding under the Revolving Senior Loan Facility. See note 8 "Credit Facility".

(7) Investment is not pledged as collateral for the Revolving Senior Loan Facility.

The accompanying notes are an integral part of these interim consolidated financial statements.

Mount Logan Capital Inc. (the “Company” or “MLC”) is incorporated under the laws of Ontario and its common shares are publicly traded on the Neo Exchange (“NEO Exchange”) under the symbol “MLC”. Prior to October 10, 2018, the Company was named “Marret Resource Corp.” and its common shares were traded on the Toronto Stock Exchange under the symbol “MAR”.

Prior to October 19, 2018, the Company’s business of an investment firm was primarily focused on investing in public and private debt securities and making term loans (including bridge and mezzanine debt) to issuers in a broad range of natural resource sectors, including energy, base and precious metals and other commodities, and issuers involved in exploration and development. The Company’s business also included financing other resource-related businesses and investing in public and private equity and quasi-equity securities. The portfolio was managed by Marret Asset Management Inc. (the “Former Manager”) under a management services agreement (“MSA”). Pursuant to the MSA, the Former Manager was responsible for the management of the Company’s business, including the Company’s day-to-day investment operations. On October 19, 2018, the Company terminated the MSA except for retaining the Former Manager to continue to manage the Company’s investment in Cline Mining Corporation (“Cline").

On October 19, 2018, the Company completed a plan of arrangement carried out under the *Business Corporation Act* (Ontario) (the “Arrangement”) pursuant to which, among other things, it raised additional financing and expanded its focus from natural resource lending to a broader lending-oriented credit platform. In connection with the Arrangement, the Company acquired an initial portfolio of loans and other investments with credit-oriented characteristics and now actively manages and monitors its loan portfolio on an ongoing basis. The Company is an emerging asset management and investment firm primarily focused on investing in public and private debt securities. The Company holds and actively manages and monitors a portfolio of loans and other investments with credit-oriented characteristics. The Company intends to actively source, evaluate, underwrite, monitor, and primarily invest in additional loans, debt securities, and other credit-oriented instruments that present attractive risk-adjusted returns and present low risk of principal impairment through the credit cycle. Further, in connection with the Arrangement, the Company acquired Great Lakes Senior MLC I LLC (“MLC I”), in exchange for the issuance of an aggregate of 3,292,952 common shares of the Company (411,619 common shares after giving effect to the share consolidation completed on December 3, 2019. See Note 6 “Shareholders Equity”). In connection with the Arrangement, MLC I acquired approximately $16.0 million of primarily U.S.-based diversified senior secured loans and the Company directly acquired $7.3 million and CAD$5.1 million of loans sourced from BC Partners Advisors L.P. (“BC Partners”), which loans formed a part of the Company’s initial seed portfolio.

Effective December 3, 2019, the Company completed a consolidation of the issued and outstanding common shares of the Company on the basis of one (1) post-consolidation share for every eight (8) pre-consolidation shares. As a result of the share consolidation, the Company’s 84,841,881 shares issued and outstanding were consolidated to 10,604,998 shares. The exercise price and number of common shares of the Company issuable upon the exercise of the outstanding warrants of the Company were proportionately adjusted to reflect the consolidation. All references to the number of shares and per share amounts have been retroactively restated to reflect the share consolidation.

1. BASIS OF PRESENTATION

The accompanying interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These interim consolidated financial statements have been prepared in accordance with International Auditing Standards 34, *Interim Financial Reporting* (“IAS 34”). These interim consolidated financial statements follow the same accounting policies and methods of application as our most recent audited consolidated financial statements for the year ended December 31, 2019. Accordingly, they should be read in conjunction with our most recent annual financial statements. All intercompany balances and transactions have been eliminated in consolidation.

These interim consolidated financial statements were authorized for issuance by the board of directors (the “Board”) of the Company on November 10, 2020.

These interim consolidated financial statements are presented in United States dollars (“USD”), which is also the Company’s functional currency.

Consolidation

These interim consolidated financial statements comprise the assets, liabilities and results of operations of the Company and its wholly-owned subsidiaries, MLC I and Mount Logan Management, LLC (“ML Management”), for the period. MLC and its subsidiaries are collectively referred to as the “Company” in these interim consolidated financial statements. Subsidiaries are all entities over which MLC has control. MLC controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date control commences and deconsolidated from the date control ceases.

2. SIGNIFICANT ACCOUNTING POLICIES

The interim consolidated financial statements for the nine months ended September 30, 2020 follow the same accounting policies and methods of their application as those used in the Company’s audited consolidated financial statements for the year ended December 31, 2019, except for the following changes in accounting policies and disclosures, as described below:

(a) Change in functional and presentation currency

Functional currency

Prior to January 1, 2020, the Company’s functional currency was the Canadian dollar (“CAD”). In accordance with International Auditing Standards 21, *The Effects of Changes in Foreign Exchange Rates* (“IAS 21”), an entity’s functional currency should reflect the underlying transactions, events and conditions that are relevant to the entity. Management considered primary and secondary indicators in determining functional currency, including the currency that influences sales prices, labor, purchases and other costs. Other indicators included the currency in which funds from financing activities are generated and the currency in which receipts from operations are usually retained. Beginning in 2018, the Company began shifting its investment focus to the U.S. market and the Company’s economic and currency exposure has shifted from Canada to the United States. At December 31, 2019, over 90.0% of the Company's investments were fully exposed to USD, all debt was denominated in USD, and the Company earned the majority of its revenue and incurred the majority of its expenses in USD.

Based on these factors, management concluded that effective January 1, 2020, the Company's functional currency should be USD. The Company has accounted for the change in functional currency prospectively, as provided for under IAS 21 with no impact of this change on prior year comparative information other than in conjunction with the change in presentation currency as discussed below.

Presentation currency

Effective January 1, 2019, the Company changed its presentation currency from CAD to USD to better reflect the Company's business activities. In making this change in presentation currency to USD, the Company followed the guidance in IAS 21, and has applied the change retrospectively, as if USD has always been the Company's presentation currency, as follows:

- assets and liabilities have been translated into USD at the rate of exchange prevailing at the respective reporting dates;
- the consolidated statements of income and comprehensive income were translated at the average exchange rates for the respective reporting periods, or at the exchange rates prevailing at the applicable transaction date;
- equity transactions have been translated at the exchange rate prevailing at the date of the transactions; and
- exchange differences arising on translation were recorded in "cumulative translation adjustment" in shareholders' equity.

(b) Critical accounting judgments, estimates, and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates, and such differences could be material. Certain prior period amounts have been reclassified to conform to the current year presentation.

The most significant assets and liabilities for which the Company makes estimates include financial instruments measured at fair value, income taxes and deferred taxes, and provisions. The Company holds financial instruments that are generally not quoted in active markets and management is required to make estimates related to its Level 3 investments. Accordingly, by their nature, estimates of fair value of this type are subjective and do not necessarily result in precise determinations.

The outbreak of the novel coronavirus, or COVID-19, continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The outbreak has triggered a period of global economic slowdown and continued volatility and could have a continued impact on economic and market conditions. The situation presents material uncertainty and risk with respect to the Company and the Company's portfolio companies' performance and financial results. In the preparation of the interim consolidated financial statements, the Company has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of its assets and liabilities, and the reported amount of its results using the best available information as of September 30, 2020. Significant sources of estimation uncertainty include the fair value measurement of investments and the determination of expected credit losses on financial assets. The Company is actively monitoring developments with respect to this pandemic, including existing and potential economic impacts on the underlying businesses associated with the Company's financial assets, and the ability of such businesses to meet their financial obligation to the Company on a timely basis. The Company also reviews collateral values and monitors financial results of the underlying businesses on an ongoing basis.

(c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the interim consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

(d) Fair value measurement

The Company's classification of financial assets is based on the business model for managing a portfolio with the objective of realizing cash flows through sale and meets the definition of held for trading, rather than holding to collect the contractual cash flows. Such financial assets are classified and measured at fair value through profit and loss.

Investments held that are traded in an active market, through recognized public stock exchanges, over-the-counter markets, or through recognized investment dealers are valued at their closing price (Level 1). Investments held that are not traded in an active market are valued based on the results of valuation techniques using observable market inputs, if available, on such basis and in such manner established by management (Level 2). The fair value of certain securities may be estimated using valuation techniques based on assumptions that are not supported by observable market inputs (Level 3). Investments for which reliable quotations are not readily available, or for which there is no bid or ask price, are valued at fair value, as determined using management's best estimates thereof pursuant to procedures established by the Company. Equity investments in other portfolio companies are primarily based on the equity method of accounting. These values are periodically assessed by management of the Company to ensure that they are reasonable.

The Company's contingent value rights liability is measured at fair value through profit and loss, and represents a contingent cash entitlement in respect of its investment in Cline. Additional information regarding the Company's accounting for contingent value rights is included in Note 3.

Investments that are not publicly traded or whose market prices are not readily available, as is expected to be the case for substantially all of the Company's investments, are valued at fair value as determined in good faith by or under the direction of the Board, based on, among other things, input of management and independent third-party valuation firm(s) engaged at the direction of the Board.

Management undertakes a multi-step valuation process, which includes, among other procedures, the following:

- The Company's quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment. The Company may utilize an independent valuation firm from time to time to provide valuation on material illiquid securities;
- Management will review the recommended valuations and determine the fair value of each investment. Valuations that are not based on readily available market quotations will be valued in good faith based on, among other things, the input of management and, where applicable, other third parties.

(e) Investment transactions

Investment transactions are recorded on the trade date. Transaction costs are costs incurred to acquire financial assets at fair value through profit or loss and are treated as an expense. The change in the difference between fair value and amortized cost of the investments is recorded as an unrealized appreciation or depreciation on investments in the interim consolidated statements of comprehensive income (loss).

Realized gains or losses on investments are calculated using the average cost method as the difference between the net proceeds received (excluding prepayment fees, if any) and the amortized cost basis of the investment without regard to unrealized appreciation or depreciation previously recognized, and include investments charged off during the period, net of recoveries. Net change in unrealized appreciation or depreciation reflects the change in portfolio investment values during the reporting period, including any reversal of previously recorded unrealized appreciation or depreciation with respect to investments disposed during the period.

The Company classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;

Level 2 Inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 Inputs are unobservable for the asset or liability.

In all cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level of input that is significant to the fair value measurement.

(f) Interest and dividend income recognition

Interest income is recorded on the accrual basis and includes the accretion of discounts and amortization of premiums. Discounts from and premiums to par value on debt investments purchased are accreted/amortized into interest income over the life of the respective security using the effective interest method. The amortized cost of debt investments represents the original cost adjusted for the accretion of discounts and amortization of premiums, if any.

Loans are generally placed on non-accrual status when there is reasonable doubt that principal or interest will be collected in full. The Company considers many factors relevant to an investment when placing it on or removing it from non-accrual status including, but not limited to, the delinquency status of the investment, economic and business conditions, the overall financial condition of the underlying investment, the value of the underlying collateral, bankruptcy status, if any, and any other facts or circumstances relevant to the investment. Accrued interest is generally reversed when a loan is placed on non-accrual status. Payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment regarding collectability of the outstanding principal and interest. Non-accrual loans may be restored to accrual status when past due principal and interest is paid current and are likely to remain current based on management's judgment.

Dividend income on preferred equity securities is recorded on the accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be collected. Dividend income on common equity securities is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly-traded portfolio companies.

(g) Foreign currency translation

Foreign currency assets and liabilities denominated in non-USD are translated at the exchange rate prevailing at period end date. Foreign currency transactions, such as, purchases and sales of investments, income and expenses, subscriptions and redemptions, and dividends to shareholders, are translated at the exchange rate prevailing on the respective dates of such transactions.

The Company isolates that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in fair values of investments held. Changes in fair value on investments are shown in net change in unrealized appreciation (depreciation) on investments in the interim consolidated statements of comprehensive income (loss), while unrealized foreign exchange related fluctuations are included with the net change in unrealized gain or loss on foreign currency in the interim consolidated statements of comprehensive income (loss). Fluctuations arising from the translation of foreign currency borrowings are also included in the net change in unrealized gains or losses on foreign currency in the interim consolidated statements of comprehensive income (loss).

(h) Financial instruments

Financial instrument assets are initially recognized when the Company becomes a party to a financial instrument contract. The Company's investments are classified at fair value through profit and loss. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid. The carrying values of financial assets and liabilities at amortized cost approximate their fair values due to their short-term nature. Transaction costs related to financial assets classified as FVTPL are expensed as incurred.

The Company records expenses related to its debt obligations as debt issuance costs. These expenses are deferred and amortized using the straight-line method, which approximates the effective yield method, over the life of the related debt instrument. Debt issuance costs are presented on the interim consolidated statements of financial position as a direct deduction from the debt liability.

(In thousands of United States dollars, except per share amounts and where otherwise noted)

(i) Current and deferred income taxes

Income tax expense includes current and deferred income taxes. Income tax expense is recognized in the interim consolidated statements of comprehensive income (loss), except to the extent that it relates to items recognized directly in equity, in which case the tax is also recognized directly in equity.

Current tax is the amount of income tax recoverable (payable) in respect of the taxable loss (profit) for a period. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for accounting and tax purposes. Deferred income tax assets and liabilities are measured at the tax rates expected to apply when temporary differences reverse. Changes in deferred income tax assets and liabilities related to a change in tax rates are recorded in the period the tax rate is substantively enacted. Current and deferred taxes are offset only when they are levied by the same taxing authority, levied on the same entity or group of entities and when there is a legal right to offset.

Current income taxes include any adjustment to income taxes payable in respect of previous years. The Company also makes assumptions about the expected timing of the reversal of deferred tax assets and liabilities. If the Company's interpretations differ from those of taxing authorities or if the timing of reversals is not as expected, its provision for income taxes could increase or decrease in future periods. The amount of any such increase or decrease cannot be reasonably estimated.

Deferred tax assets are recognized only when it is probable that sufficient taxable profit will be available in future periods against which deductible temporary differences may be utilized. The Company assesses whether it is probable that its deferred income tax assets will be realized prior to expiration and, based on all the available evidence, determine if any portion of its deferred income tax assets should not be recognized. The factors used to assess the probability of realization are the Company's past experience of income and capital gains, its forecast of future net income before taxes, and the period remaining before the expiration of tax loss carryforwards. Changes in the Company's assessment of these factors could increase or decrease its provision for income taxes in future periods. Enacted or substantially enacted rates in effect at the reporting date that are expected to apply when the deferred income tax asset is realized or the deferred tax liability is settled are used to calculated deferred income taxes.

Additional information regarding the Company's accounting for income taxes is included in Note 9.

(j) Income (loss) per share

Basic income (loss) per share is calculated by dividing net income or loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is calculated in the same manner, with further adjustments to reflect the dilutive effect of common share equivalents outstanding. Outstanding warrants are excluded from the calculation of diluted earnings per share when the average market price of common shares does not exceed the exercise price of the warrants (i.e., they are "out of the money").

(k) Restricted cash

Restricted cash represents amounts pledged as collateral for the credit facility.

(l) Dividends

Dividends to the Company's shareholders are recorded on the declaration date. The payment of any cash dividend to shareholders of the Company in the future will be at the discretion of the Board and will depend on, among other things, the financial condition, capital requirements and earnings of the Company, and any other factors that the Board may consider relevant.

The *Business Corporations Act* (Ontario) ("OBCA") provides that a corporation may not declare or pay a dividend if there are reasonable grounds for believing that the corporation is, or would be after the payment of the dividend, unable to pay its liabilities as they become due or the realizable value of its assets would thereby be less than the aggregate of its liabilities and stated capital of all classes of shares of its capital. Furthermore, holders of common shares may be subject to the prior dividends rights of holders of preference shares, if any, then outstanding.

3. FAIR VALUE MEASUREMENT

The following table summarizes the fair value hierarchy of the Company's assets and liabilities measured at fair value:

	Fair Value Measurements			
September 30, 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments	—	$ 18,743	$ 24,104	$ 42,847
Repurchase agreements	—	—	—	—
Bonds	—	—	3,779	3,779
Equity investments	—	—	8,473	8,473
	$ —	**$ 18,743**	**$ 36,356**	**$ 55,099**
Financial liabilities				
Contingent value rights	$ —	$ —	$ 3,779	$ 3,779
	$ —	**$ —**	**$ 3,779**	**$ 3,779**

(In thousands of United States dollars, except per share amounts and where otherwise noted)

	Fair Value Measurements			
December 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments	$ —	$ 10,480	$ 40,601	$ 51,081
Bonds	—	—	3,876	3,876
Equity investments	—	—	9,532	9,532
	$ —	**$ 10,480**	**$ 54,009**	**$ 64,489**
Financial liabilities				
Contingent value rights	$ —	$ —	$ 3,876	$ 3,876
	$ —	**$ —**	**$ 3,876**	**$ 3,876**

The following is a reconciliation of the Company's investment portfolio for which Level 3 inputs were used in determining fair value:

	Debt Investments	Repurchase Agreements	Bonds	Equity Investments	Total Financial Assets	Contingent Value Rights
Balance at December 31, 2019	$ 40,601	$ —	$ 3,876	$ 9,532	$ 54,009	$ 3,876
Purchases of investments and other adjustments to cost	13,165	645	—	652	14,462	—
Proceeds from principal repayments and sales of investments	(23,391)	(651)	—	(1,530)	(25,572)	—
Net realized gain on investments	78	—	—	—	78	—
Net change in unrealized appreciation (depreciation) on investments (1)	(612)	6	(97)	(181)	(884)	(97)
Transfers into Level 3 (2)	9,027	—	—	—	9,027	—
Transfers out of Level 3 (2)	(14,764)	—	—	—	(14,764)	—
Balance at September 30, 2020	$ 24,104	$ —	$ 3,779	$ 8,473	$ 36,356	$ 3,779
Net change in unrealized appreciation (depreciation) on Level 3 investments still held	$ (612)	$ 6	$ 63	$ (170)	$ (713)	$ 63

(1) Includes realized and unrealized gain (loss) on investments and foreign currency.
(2) Transfers into Level 3 are due to decrease in the quantity and reliability of broker quotes obtained. Transfers out of Level 3 are due to an increase in the quantity and reliability of broker quotes obtained. Transfers are assumed to have occurred at the end of the period.

	Debt Investments	Repurchase Agreements	Bonds	Equity Investments	Total Financial Assets	Contingent Value Rights
Balance at December 31, 2018	$ 18,472	$ —	$ 5,823	$ 4,987	$ 29,282	$ 5,823
Purchases of investments and other adjustments to cost	39,271	—	—	5,657	44,928	—
Proceeds from principal repayments and sales of investments	(20,660)	—	—	(988)	(21,648)	—
Net realized gain on investments	252	—	—	—	252	—
Net change in unrealized appreciation (depreciation) on investments (1)	(61)	—	(2,022)	20	(2,063)	(2,022)
Balance at September 30, 2019	$ 37,274	$ —	$ 3,801	$ 9,676	$ 50,751	$ 3,801
Net change in unrealized appreciation (depreciation) on Level 3 investments still held	$ (224)	$ —	$ (1,812)	$ 35	$ (2,001)	$ (1,812)

(1) Includes realized and unrealized gain (loss) on investments and foreign currency.

The valuation techniques and significant unobservable inputs used in the valuation of level 3 investments were as follows:

September 30, 2020		Quantitative Information about Level 3 Fair Value Measurements				
Asset Category	Fair Value	Valuation Technique/Methodology	Unobservable Input	Range (Weighted Average)	Change in Valuation (3) +	Change in Valuation (3) -
First lien loans(1)	20,875	Yield analysis	Discount rate	5.3% - 13.2% (8.7%)	(730)	660
Promissory notes	3,229	Yield analysis	Market yield	12.2% - 12.7% (12.4%)	(46)	46
Bonds(2)	3,779	Discounted cash flow	Discount rate	12.0%	(66)	139
Equity investments	8,473	Net asset value	Net asset value	NA	NA	NA
Contingent value rights(2)	(3,779)	Direct offset to bonds	Discount rate	12.0%	139	(66)
	$ 32,577					

(1) For loan investments where the recent transaction price does not estimate fair value, the Company determines the fair value utilizing a yield analysis. In a yield analysis, a price is ascribed for each investment based upon an assessment of current and expected market yields for similar investments and risk profiles. Additional consideration is given to the

(In thousands of United States dollars, except per share amounts and where otherwise noted)

expected life, portfolio company performance since close, and other terms and risks associated with an investment. Among other factors, a determinant of risk is the amount of leverage used by the portfolio company relative to its total enterprise value, and the rights and remedies of the Company's investment within the portfolio company's capital structure.

(2) The estimated fair value was determined based on discounted cash flows of expected proceeds resulting from the sale by Cline to Allegiance Coal Limited of all the shares in New Elk Coal Company ("NECC"). The estimated fair value in Cline was determined based on both observable and unobservable assumptions primarily related to expected value of certain Cline assets to be realized on sale, timing of the repayment of certain obligations owed by NECC to Cline, and the discount rate used.

(3) Represents a sensitivity analysis to the impact of a 100 basis point movement of the unobservable input.

December 31, 2019		Quantitative Information about Level 3 Fair Value Measurements				
Asset Category	Fair Value	Valuation Technique/Methodology	Unobservable Input	Range (Weighted Average)	Change in Valuation [3] +	Change in Valuation [3] -
First lien loans	$ 7,829	Recent transaction	Transaction price	94.0-101.3 (98.6)	$ 79	$ (79)
First lien loans[1]	29,704	Yield analysis	Market yield	7.1%-11.2% (8.5%)	303	(303)
Promissory notes	3,068	Recent transaction	Transaction price	100.0 (100.0)	31	(31)
Bonds[2]	3,876	Discounted cash flow	Discount rate	12.0%	461	(160)
Equity investments	9,532	Net asset value	Net asset value	NA	NA	NA
Contingent value rights[2]	(3,876)	Direct offset to bonds	Discount rate	12.0%	(160)	461
	$ 50,133					

(1) For loan investments where the recent transaction price does not estimate fair value, the Company determines the fair value utilizing a yield analysis. In a yield analysis, a price is ascribed for each investment based upon an assessment of current and expected market yields for similar investments and risk profiles. Additional consideration is given to the expected life, portfolio company performance since close, and other terms and risks associated with an investment. Among other factors, a determinant of risk is the amount of leverage used by the portfolio company relative to its total enterprise value, and the rights and remedies of the Company's investment within the portfolio company's capital structure.

(2) The estimated fair value was determined based on discounted cash flows of expected proceeds resulting from the sale by Cline to Allegiance Coal Limited of all the shares in New Elk Coal Company ("NECC"). The estimated fair value in Cline was determined based on both observable and unobservable assumptions primarily related to expected value of certain Cline assets to be realized on sale, timing of the repayment of certain obligations owed by NECC to Cline, and the discount rate used.

(3) Represents a sensitivity analysis to the impact of a 1 point movement of the price on fair values.

The Company typically determines the fair value of its performing Level 3 debt investments utilizing a yield analysis. In a yield analysis, a price is ascribed for each investment based upon an assessment of current and expected market yields for similar investments and risk profiles. Additional consideration is given to the expected life, portfolio company performance since close, and other terms and risks associated with an investment. Among other factors, a determinant of risk is the amount of leverage used by the portfolio company relative to the total enterprise value of the company, and the rights and remedies of our investment within each portfolio company's capital structure.

Significant unobservable inputs include an illiquidity spread as well as a credit spread, both of which would increase the discount rate. These rates are set initially at a level such that the loan valuation equals the initial purchase cost of the loan and are subsequently adjusted at each valuation date to reflect management's current assessment of market conditions as well as of loan-specific credit and illiquidity risk. Discount rates are subject to adjustment based on both management's current assessment of market conditions and the economic performance of individual investments. The significant unobservable inputs used in the fair value measurement of the Company's Level 3 debt investments primarily include current market yields, including relevant market indices, but may also include quotes from brokers, dealers, and pricing services as indicated by comparable investments.

The Company, along with affiliates of the Former Manager (the "Group"), holds an investment in the equity and bonds of Cline. Under a restructuring plan involving Cline, approved by the courts in 2015, the Group owns all of the equity and the senior secured bonds of Cline post-restructuring. On July 15, 2019, the Former Manager announced that Cline had entered into a conditional term sheet with Allegiance Coal Limited ("Allegiance") for the purchase and sale of all the shares of New Elk Coal Company, LLC ("NECC"), which holds all the mining assets of Cline. The fair value of Cline was determined based on the net present value of expected proceeds resulting from the proposed sale of Cline's mining assets.

On January 22, 2020, the Former Manager announced that Cline had entered into a binding agreement for the sale by Cline to Allegiance of all the shares in NECC. The total acquisition cost is CAD$55.0 million to be comprised of a mix of cash, shares of Allegiance and deferred cash payments that will be subject to certain conditions. Completion of the sale was to take place before July 15, 2020 and is subject to certain conditions, including Allegiance raising start-up capital for the mine, which was estimated to be $55.0 million at the time of the announcement.

On June 5, 2020, the Former Manager announced that Cline had amended the binding agreement for the sale by Cline to Allegiance of all the shares of NECC with respect to, among other things, the structure of the consideration payable by Allegiance, and subsequently announced that the completion of the transaction is estimated to take place before the end of October 2020.

On October 27, 2020, the Former Manager announced that the Cline transaction was completed on October 26, 2020 whereby Allegiance acquired all the shares in NECC, which holds all the mining assets of Cline. The Company understands that it is the Former Manager's intention to direct Cline to remit the net proceeds from the transaction, less a prudent provision for any ongoing minimal Cline operating costs, to the senior bondholders (which includes the Company) as soon as practicable after receipt. The distribution by the Company of any proceeds received from the Cline transaction will be made in accordance with the terms of the indenture governing the CVRs (as defined below).

The estimated fair value is based on assumptions related to the completion of the announced transaction and the future operations of the mine. The assumptions include the expected timing of the repayment of certain obligations owed by NECC to Cline and the appropriateness of discount rates used in the estimates. Accordingly, by their nature, estimates of fair value of this type are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could change by a material amount.

4. MANAGEMENT SERVICES AGREEMENT

On October 19, 2018, in connection with the completion of the Arrangement, the Company terminated the Management Services Agreement ("MSA") except for retaining the Former Manager to continue to manage the Company's investment in Cline for a fee equal to 1% of the net proceeds of any distribution made by Cline in a particular year or 1% of the net proceeds to the Company from a sale of the Company's interest in Cline. Fees that are attributable to the investment in Cline shall only be determined and become payable to the Former Manager on the sale of the investment in Cline, in its entirety, and shall be calculated using, and payable only on the net sale proceeds actually received by the Company for its investment in Cline. Any fees paid to the Former Manager as a result of the sale of the investment in Cline will reduce the amounts paid to the holders of CVRs (as defined below).

5. RELATED PARTY TRANSACTIONS

In connection with the Arrangement, the Company acquired MLC I in exchange for the issuance to an affiliate of BC Partners of 3,292,952 common shares of the Company (411,619 common shares after giving effect to the share consolidation completed on December 3, 2019. See Note 6 "Shareholders Equity"). In connection with the Arrangement, MLC I acquired approximately $16.0 million of primarily U.S.-based diversified senior secured loans.

Also in connection with the closing of the Arrangement, the Company directly acquired $7.3 million and CAD$5.1 million of loans sourced from BC Partners, which loans also formed part of the Company's initial seed portfolio.

Servicing Agreement

On November 20, 2018, the Company entered into a servicing agreement (the "Servicing Agreement") with BC Partners. Under the terms of the Servicing Agreement, BC Partners as servicing agent (the "Servicing Agent") performs, or oversees the performance of, the administrative services necessary for the operation of the Company, including, without limitation: (i) provision of office facilities, equipment, clerical, bookkeeping, compliance and recordkeeping services and such other administrative services as the Servicing Agent, subject to review by the Board, shall from time to time determine to be necessary or useful to perform its obligations under the Servicing Agreement, and (ii) on behalf of the Company, conducting relations with custodians, depositories, transfer agents, dividend disbursing agents, other shareholder servicing agents, accountants, attorneys, underwriters, brokers and dealers, corporate fiduciaries, insurers, banks and such other persons in any such other capacity deemed to be necessary or desirable. The Servicing Agent is authorized to enter into sub-administration agreements as the Servicing Agent determines necessary in order to carry out the administrative services. The Company pays fees to BC Partners at amounts to be agreed by the parties for services performed for it pursuant to the terms of the Servicing Agreement. While the Servicing Agent performs certain administrative functions for the Company pursuant to the Servicing Agreement, the management functions of the Company are wholly performed by the Company's management team. For the nine months ended September 30, 2020, the Company incurred costs reimbursable to the Servicing Agent of $468 (September 30, 2019 – $0) for an allocable portion of the compensation paid by the Servicing Agent (or its affiliates) to the Company's Chief Financial Officer and its respective staffs (based on a percentage of time such individuals devote, on an estimated basis, to the business affairs of the Company) and out-of-pocket expenses. As at September 30, 2020, operating expenses of $1,114 (December 31, 2019 – $18) paid by BC Partners on behalf of the Company were reimbursable to BC Partners and were offset against amounts due from BC Partners.

Unless earlier terminated as described below, the Servicing Agreement will remain in effect until November 20, 2020 and shall continue automatically for successive annual periods, if approved annually by (i) the vote of the Board and (ii) the vote of a majority of the Company's directors who are not parties to the Servicing Agreement or a "related party" of the Servicing Agent, or of any of its affiliates, as defined in the Multilateral Instrument 61-101 under Canadian securities law. The Servicing Agreement may be terminated at any time, without the payment of any penalty, upon 60 days' written notice by the vote of the Board or by the Servicing Agent. On November 10, 2020, the continuation of the Servicing Agreement was approved in accordance with the foregoing.

Unitranche Lending Program

On November 28, 2018, the Company entered into a commitment of $10 million (to be drawn over time) to invest in a unitranche lending program through BCP Great Lakes Holdings LP ("Great Lakes Holdings"), a Delaware limited partnership formed as a co-investment vehicle to facilitate the participation of certain co-investors to invest, directly or indirectly, in BCP Great Lakes Funding LLC. Funding of $9.5 million was made under this program through 2019, with an additional $0.7 million during 2020, and the Company received return of capitals totaling $1.5 million during 2020. The Company is responsible for its unfunded capital commitment. The program underwrites and holds senior secured unitranche loans and seeks to build a diverse portfolio of floating rate, sponsor-backed middle-market loans paying a quarterly cash yield.

Monitoring Agreement

On August 19, 2019, ML Management, a wholly-owned subsidiary of the Company, entered into a Monitoring Agreement with BC Partners pursuant to which, among other things, ML Management will receive a fee for providing monitoring services in respect of certain investments managed by BC Partners, all as agreed to by ML Management and BC Partners from time to time. For the nine months ended September 30, 2020, ML Management recognized fee revenue under this agreement of $0 (September 30, 2019 – $0).

SCIM Transaction

On June 19, 2020, the Company together with Sierra Crest Investment Management ("SCIM"), an affiliate of BC Partners, entered into a definitive agreement (the "CIF Purchase Agreement"), subject to certain approvals, for the acquisition by SCIM of certain assets from Resource America, Inc. ("Resource" or the "CIF Seller") and for SCIM to become the investment adviser of the Resource Credit Income Fund ("CIF" or the "Fund") pursuant to a new advisory agreement (the "CIF Advisory Agreement") to be entered into between SCIM and CIF (the "SCIM Transaction"). CIF is a U.S.-based, continuously offered, closed-end interval fund, that invests across credit markets including direct credit, private credit, and public credit. As part of the transaction, the Company has agreed to, among other things, guarantee the payment of all financial obligations of SCIM under the CIF Purchase Agreement, including the payment of the purchase price to the CIF Seller. The SCIM Transaction closed on October 30, 2020 and SCIM became the investment adviser of CIF. Pursuant to the CIF Advisory Agreement, SCIM will receive an annual base management fee equal to 1.85% of CIF's average daily net assets and a quarterly income incentive fee. The CIF Advisory Agreement is renewable annually following an initial two-year term, which renewal must be approved by (a) a majority of the outstanding voting securities of CIF or by vote of CIF's Board of Trustees; and (b) by vote of a majority of non-interested Trustees (the "CIF Approvals"). In connection with the closing of the SCIM Transaction, the Company and SCIM entered into a promissory note pursuant to which, among other things, the Company advanced SCIM approximately $12 million to fund the purchase price under the CIF Purchase Agreement and may advance up to an additional approximately $3.0 million, for an aggregate principal amount not to exceed $15.0 million (the "SCIM Facility"). The SCIM Facility has a term of 20 years(extendable for up to one year in certain circumstances described below), subject to earlier repayment upon the occurrence of certain events including, but not limited to, the termination of the CIF Advisory Agreement, certain merger and acquisition activity affecting CIF, or a liquidation or dissolution of CIF. Quarterly payments of accrued interest will be required for the first 10 years of the SCIM Facility, with outstanding principal being payable in equal quarterly installments for the remaining 10 years. To the extent SCIM does not receive sufficient net management or incentive fees under the CIF Advisory Agreement for a given quarter, SCIM will have the right to defer payment of interest and, if applicable, principal until the following quarter. In addition, SCIM will have the right to extend the interest-only payment period for a consecutive 12-month period which will automatically extend the maturity date of the SCIM Facility accordingly. Interest on the SCIM Facility will be fixed at 8.00% per annum. The SCIM Facility is secured by certain of SCIM's cash flows derived from the CIF Advisory Agreement. The Company will not have recourse to any other business operations of SCIM pursuant to or in connection with the SCIM Facility. If the CIF Advisory Agreement is terminated, the SCIM Services Agreement (as defined below) would automatically terminate pursuant to its terms and all amounts outstanding under the SCIM Facility would become due and payable in full by SCIM to the Company within ten business days thereafter.

In addition, the Company and SCIM entered into a services agreement (the "SCIM Services Agreement") concurrently with the closing of the SCIM Facility pursuant to which the Company will provide certain administrative services to SCIM in respect of CIF. Under the SCIM Services Agreement, in exchange for the administrative services relating to CIF, SCIM will pay to the Company, on a quarterly basis, an amount equal to the aggregate base management and incentive fees received by SCIM from CIF under the CIF Advisory Agreement in respect of such quarter, net of debt service, a quarterly fee to be retained by SCIM comprised of a specified amount, plus an allocable portion of the compensation of SCIM's investment professionals in connection with their performance of investment advisory services for CIF (collectively, the "Retained Benefits"). In addition, SCIM will be reimbursed by the Company quarterly for certain expenses it incurs in connection with the investment advisory services provided pursuant to the CIF Advisory Agreement. Pursuant to this arrangement, the Company will receive the net economic benefit derived by SCIM under the CIF Advisory Agreement, subject to the holdback of the Retained Benefits and expense reimbursements.

Compensation

Certain directors and officers of the Company are affiliated with BC Partners. Common shares held by directors and officers of the Company who are affiliated with BC Partners at September 30, 2020 were 397,861 (2019 – 397,861 after giving effect to the share consolidation completed on December 3, 2019). The total directors' fees incurred to the directors who are affiliated with BC Partners during the nine months ended September 30, 2020 was $16 (September 30, 2019 – $18).

Key management personnel of the Company include the chief executive officer, the chief financial officer and co-presidents. Compensation incurred to officers who are affiliated with BC Partners for employee services, based on employment agreements, for the nine months ended September 30, 2020 was $165 (September 30, 2019 – $237).

(In thousands of United States dollars, except per share amounts and where otherwise noted)

6. SHAREHOLDERS' EQUITY

The Company is authorized to issue an unlimited number of preference shares, issuable in one or more series, and an unlimited number of common shares.

As of September 30, 2020, there were 10,604,998 common shares issued and outstanding (December 31, 2019 – 10,604,998).

Other than shareholder distributions, there were no shareholder transactions for the nine months ended September 30, 2020.

On September 10, 2019, the Company completed a non-brokered private placement of an aggregate of 2,968,751 common shares at a price of CAD$0.56 per share for aggregate gross proceeds of $1,264.

Arrangement

On October 19, 2018, upon completion of the Arrangement, each of the common shares of the Company was exchanged for one new common share of the Company created pursuant to the Arrangement ("New Shares") and, subject to certain restrictions, one contingent value right ("CVR"), with each CVR representing a contingent cash entitlement in respect of Cline. Under the terms of the indenture governing the CVRs, the Company will seek to dispose of Cline for the five (5) year period following the closing of the Arrangement and will distribute to the holders of the CVRs any distributions received from Cline and the net proceeds received from the sale of the Company's holdings in Cline.

In addition, each shareholder, subject to certain restrictions, was provided with the option to exchange all of its New Shares for: (i) CAD$0.53 in cash (subject to proration) for each New Share held, or (ii) 7.62 warrants (subject to proration) exercisable for a period of seven years from the effective date of the Arrangement at a price of CAD$0.77 per share for each New Share held, which is a non-cash transaction. All warrants are outstanding as at September 30, 2020 and December 31, 2019. As at September 30, 2020 and December 31, 2019, the Company had 20,468,128 warrants outstanding which are exercisable at any time up to October 19, 2025. As a result of the share consolidation completed on December 3, 2019, every eight (8) warrants entitle the holder to receive, upon exercise, one common share of the Company at a price of CAD$6.16 per common share. Accordingly, an aggregate of up to 2,558,516 common shares are issuable upon the exercise of the 20,468,128 outstanding warrants as at September 30, 2020 and December 31, 2019. In connection with the Arrangement, the Company incurred costs totaling $3,199.

Share consolidation

On December 3, 2019, the Company completed a consolidation of the issued and outstanding common shares of the Company on the basis of one (1) post-consolidation share for every eight (8) pre-consolidation shares. The exercise price and number of common shares of the Company issuable upon the exercise of the outstanding warrants of the Company were proportionately adjusted to reflect the consolidation. All references to the number of shares and per share amounts have been retroactively restated to reflect the share consolidation.

Dividends

The following table reflects the distributions declared on the common shares of the Company during the nine months ended September 30, 2020:

			Common shares	Dividend amount per share		Total dividend amount	
Date of declaration	Record date	Payment date	outstanding	CAD	USD[1]	CAD	USD[1]
March 25, 2020	April 14, 2020	April 28, 2020	10,604,998	$ 0.020	$ 0.014	$ 212	$ 151
May 11, 2020	May 21, 2020	June 26, 2020	10,604,998	0.020	0.014	212	151
August 7, 2020	August 25, 2020	September 24, 2020	10,604,998	0.020	0.015	212	158

[1] Dividends are issued and paid in CAD. For reporting purposes, amounts recorded in equity are translated to USD using the daily exchange rate on the date of declaration.

The dividends were designated as an eligible dividend for the purpose of the *Income Tax Act* (Canada) and any similar provincial or territorial legislation.

Stock option plan and performance and restricted share unit plan

On May 30, 2019, the Company's shareholders approved (i) a stock option plan (the "Option Plan") and (ii) a performance and restricted share unit plan (the "PR Plan"). The Option Plan provides that the administrators may, from time to time, at their discretion, grant to directors, officers, employees and certain other service providers of the Company or its subsidiaries, in connection with their employment or position, options to purchase common shares of the Company. The aggregate number of common shares that are issuable under the Option Plan upon the exercise of options which have been granted and are outstanding, together with common shares that are issuable pursuant to outstanding awards and grants under any other share compensation arrangement of the Company, shall not at any time exceed 10% of the common shares then issued and outstanding. The purchase price for any common shares underlying an option shall not be less than the fair market value of a common share on the date the option is granted, being the closing price of the common shares on the NEO Exchange on the last trading day before the date of grant. Options granted under the Option Plan have a maximum term of 10 years from the date of grant. The aggregate number of common shares that are issuable under the PR Plan to pay awards which have been granted and are outstanding under the PR Plan, together with common shares that are issuable pursuant to outstanding awards or grants under any other share compensation arrangement of the Company, shall not exceed at any time 10% of the common shares then issued and outstanding. There were no options or awards outstanding under either the Option Plan or the PR Plan as at September 30, 2020 and December 31, 2019.

(In thousands of United States dollars, except per share amounts and where otherwise noted)

7. CONTINGENT VALUE RIGHTS

On closing of the Arrangement and in accordance with the terms of the Arrangement, the Company issued to its shareholders an aggregate of 17,288,140 CVRs. As part of the Arrangement, each shareholder of the Company (other than U.S. shareholders) received one (1) CVR in respect of Cline for each common share held as of the record date for the determination of shareholders entitled to receive CVRs. Pursuant to the indenture governing the terms of the CVRs, the Company will seek to dispose of Cline for the five (5) year period following the closing of the Arrangement and will distribute to the holders of the CVRs: (a) distributions received from Cline; and (b) the net proceeds received from the sale of the Company's holdings in Cline. Fees that are attributable to the investment in Cline shall only be determined and become payable to the Former Manager on the sale of the investment in Cline, in its entirety, and shall be calculated using, and payable only on the net sale proceeds actually received by the Company for its investment in Cline. Any fees paid to the Former Manager as a result of the sale of the investment in Cline will reduce the amounts paid to the holders of CVRs. As at September 30, 2020, the CVRs had a fair value of $3,779, being the fair value of the investment in Cline (December 31, 2019 – $3,876).

8. CREDIT FACILITY

On February 22, 2019 (the "Closing Date"), MLC I entered into a facility and security agreement, which was amended on January 31, 2020 ("First Amendment Effective Date") and further amended on July 31, 2020 (as amended, the "Revolving Senior Loan Facility"), of up to $50.0 million with a large financial institution as initial lender, and such other additional institutions who from time to time parties thereto (the "Lender"). U.S. Bank N.A. serves as administrative agent, custodian, collateral agent and collateral administrator. The Revolving Senior Loan Facility is guaranteed by the Company.

The maximum principal amount of the Revolving Senior Loan Facility was initially $29.0 million, which amount was automatically amended to: (a) $36.6 million seven months after the Closing Date, (b) $43.3 million eight months after the Closing Date, (c) $50.0 million nine months after the Closing Date (d) $34.4 million on the First Amendment Effective Date and (e) $50.0 million on September 30, 2020, with a one-time facility increase of $25.0 million exercisable at any time after total advances equal or exceed $40.0 million.

The availability period under the Revolving Senior Loan Facility was extended to terminate on February 19, 2021, with three one-year extensions remaining subject to the Lender's consent.

Amounts drawn under the Revolving Senior Loan Facility will bear interest at LIBOR plus a spread of 2.50% or 1.80% depending on the asset base with a minimum weighted average interest of LIBOR plus 2.15%. The Company pays a commitment fee of 0.50% per annum on undrawn amounts under the Revolving Senior Loan Facility. In addition, the Company accrues a make whole fee, payable on the maturity date, for each day during the period beginning on November 22, 2019 and ending on the date the maximum principal amount of the Revolving Senior Loan Facility is reached. For the nine months ended September 30, 2020, interest expense, including the amortization of debt issuance costs, was $1.6 million (September 30, 2019 – $1.1 million).

The outstanding principal amount and accrued but unpaid interest in respect of the Revolving Senior Loan Facility will become payable on February 19, 2021, subject to certain adjustments pursuant to the Revolving Senior Loan Facility.

The Revolving Senior Loan Facility contains affirmative and restrictive covenants, events of default and other customary provisions, including periodic financial reporting requirements and minimum liquidity requirements.

Debt obligations consisted of the following as at September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Revolving Senior Loan Facility:		
Principal outstanding	$ 34,400	$ 34,400
Unamortized financing costs	(193)	(80)
	$ 34,207	**$ 34,320**

9. INCOME TAXES

Included in deferred income tax assets is $2,863 (December 31, 2019 – $2,863) related to deductible temporary differences. On the evidence available, including management projections of income, the Company believes that it is probable there will be sufficient taxable income generated by the Company's business operations to support these deferred tax assets.

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Income (loss) from operations before income taxes	$ (1,036)	$ (759)
Combined federal and provincial statutory income taxes	26.50%	26.50%
Income tax provision based on statutory income taxes	(275)	(201)
Permanent differences	(26)	—
Deferred tax asset not recognized	301	201
Recognition of previously unrecognized tax losses	—	(695)
Total tax expense (recovery)	**$ —**	**$ (695)**

(In thousands of United States dollars, except per share amounts and where otherwise noted)

Based on the Company's income tax filings and current year activity, the gross deductible temporary differences are as follows:

	September 30, 2020	December 31, 2019
Scientific research costs not yet deducted(1)	$ 54,640	$ 56,044
Non-capital losses available(2)	33,110	32,796
Net capital losses available(3)	23,189	23,785
Other	1,384	1,406
Gross deductible temporary differences	112,323	114,031
Combined federal and provincial statutory income taxes	26.50%	26.50%
Deferred tax asset, gross	29,766	30,218
Valuation allowance	(26,903)	(27,355)
Deferred tax asset, net	**$ 2,863**	**$ 2,863**

(1) The Company has $54,640 of scientific research and experimental development expenditure pools available for deduction against future income. These expenditure pools have no expiry date.

(2) The Company has $33,110 of non-capital losses available to offset future taxable income. These losses expire between 2026 and 2040.

(3) The Company has $23,189 of net capital losses available to offset future capital gains for which no benefit has been recorded. These losses have no expiry date.

10. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

The Company has made a $10 million commitment to invest in Great Lakes Holdings, a Delaware limited partnership formed as a co-investment vehicle to facilitate the participation of certain co-investors to invest, directly or indirectly, in BCP Great Lakes Funding LLC ("Great Lakes Funding"). The Company is liable for its unfunded capital commitment. The Company may not sell, assign, pledge or otherwise transfer or encumber all or any part of its interest in Great Lakes Holdings, nor shall the Company have the power to substitute a transferee in its place as a substitute limited partner without having obtained the prior written consent of the general partner. The Company does not have the right to withdraw from Great Lakes Holdings without the consent of the general partner and upon such terms and conditions as may be specifically agreed upon between the general partner and the Company. The investment strategy of Great Lakes Funding is to underwrite and hold senior, secured unitranche loans made to middle-market companies.

In determining whether the Company has control or significant influence over Great Lakes Holdings, the Company assesses voting rights, the exposure to variable returns, and its ability to use the voting rights to affect the amount of the returns. The Company categorizes its investment in Great Lakes Holdings as unconsolidated structured entities.

Investment in Great Lakes Holdings is susceptible to market price risk arising from uncertainty about future values of its net asset value. The maximum exposure to loss from interest in Great Lakes Holdings is equal to the fair value of the investment at any given point in time. The fair value of Great Lakes Holdings is disclosed on the interim consolidated statements of financial position as part of investments and listed in the consolidated schedule of investments.

As at September 30, 2020 and December 31, 2019, the Company has a 7.9% and 14.9% ownership in Great Lakes Holdings, respectively. As at September 30, 2020, the cost and fair value of the Company's investment in Great Lakes Holdings was $8,594 and $8,473, respectively. As at September 30, 2020, the Company's remaining unfunded commitment to Great Lakes Holdings was $1.4 million.

11. INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted income (loss) per common share for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30,	
	2020	2019
Comprehensive income (loss)	$ (1,036)	$ 618
Weighted average share of common stock outstanding – basic and diluted	10,604,998	10,317,700
Income (loss) per common share – basic and diluted	$ (0.10)	$ 0.06

12. COMMITMENTS AND CONTINGENCIES

From time to time, the Company may enter into commitments to fund investments. As at September 30, 2020 and December 31, 2019, the Company had the following outstanding commitments to fund investments in current portfolio companies:

Portfolio Company	Investment	Currency	September 30, 2020	December 31, 2019
BCP Great Lakes Holdings LP	Unitranche lending program	USD	$ 1,406	$ 528
The PromptCare Companies Inc.	First lien delayed draw term loan	USD	327	—
			$ 1,733	**$ 528**

(In thousands of United States dollars, except per share amounts and where otherwise noted)

On October 15, 2019, the Company announced that it identified two instances of unlawful activity by a sophisticated third party resulting in two wire transfers of the Company's funds to third party accounts. The Company recovered $1.0 million in unlawful wires and BC Partners entered into a binding agreement to advance (the "Advance") to the Company an amount equal to the unrecovered amount (the "Lost Amount"). The Company acknowledges and agrees that it shall (a) continue to use its reasonable best efforts to pursue recovery of the Lost Amount, and (b) has no obligation to repay to BCP Partners any portion of the Advance, other than from all funds it recovers pursuant to (a) above.

On June 19, 2020, the Company, as guarantor, entered into the CIF Purchase Agreement between SCIM and Resource whereby the Company agreed to advance to SCIM up to $15 million to fund the purchase price under the CIF Purchase Agreement.

On August 21, 2020, ML Management entered into an Asset Purchase Agreement with Garrison Investment Management LLC and other sellers (collectively, "GARS Sellers") with respect to the acquisition by ML Management of the rights of the GARS Sellers under certain investment management agreements, the general partnership interests of the GARS Sellers under certain partnership agreements and the rights of the GARS Sellers under certain collateral management agreements relating to Garrison Funding 2018-1 LP and Garrison MML CLO 2019-1 LP for a purchase price of $3 million (the "GARS Transaction").

13. FINANCIAL RISK MANAGEMENT

In the normal course of business, the Company is exposed to a variety of financial risks. The Company seeks to minimize potential adverse effects of these risks for the Company's performance through management's professional experience in portfolio management and by monitoring the Company's investment positions and market events, and periodically may use derivatives to hedge certain risk exposures. To assist in managing risks, the Company maintains a governance structure that oversees the investment activities and monitors compliance with the Company's stated investment strategies, internal guidelines, and securities regulations.

(a) Credit risk

Credit risk is the risk of a financial loss occurring as a result of the default of a counterparty on its obligation to the Company. It arises principally from debt securities held, and also from derivative financial assets, cash and cash equivalents, and other receivables. The Company's maximum credit risk exposure as at the reporting date is represented by the respective carrying amounts of the financial assets in the consolidated statements of financial position. The Company's credit risk policy is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the Company's credit standards and by obtaining collateral through security on substantially all assets of the obligors.

Credit risk is managed by dealing with counterparties the Company believes to be creditworthy and by regular monitoring of credit exposures. None of the counterparties to the debt instruments are publicly rated. The Company deposits its cash with highly-rated banking corporations.

The Company's investments in debt securities are generally unrated.

(b) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities as they fall due or can only do so on terms that are materially disadvantageous. Prudent liquidity risk management includes maintaining sufficient cash on hand and the availability of funding through an adequate amount of committed credit facilities. The Company may borrow funds to make investments to the extent it determines that additional capital would allow it to take advantage of additional investment opportunities or if the market for debt financing presents attractively priced debt financing opportunities. The Company also has the ability to raise additional liquidity through the issuance of common shares and through the sale of its portfolio investments. Periodic cash flow forecasts are performed to ensure the Company has sufficient cash to meet operational and financing costs. Liquidity risk arising from the contingent value rights is mitigated by the investment in Cline.

The carrying value of financial liabilities broken down by contractual maturity is as follows:

	September 30, 2020	December 31, 2019
On demand	$ —	$ —
0 - 12 months	40,829	37,227
1 - 3 years	3,779	—
3 - 5 years	—	3,876
5 years or more	—	—
Total carrying value of financial liabilities	**$ 44,608**	**$ 41,103**

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Company's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Market risk includes currency risk, interest rate risk and other price risk.

The outbreak of the novel coronavirus, or COVID-19, in many countries continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The global impact of the outbreak has been rapidly evolving, and as cases of the virus have continued to be identified in additional countries, many countries have reacted by instituting quarantines and restrictions on travel. Such actions are creating disruption in global supply chains, and adversely impacting a number of industries, such as transportation, hospitality and entertainment. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown. The rapid development and fluidity of this situation precludes any prediction as to the ultimate adverse impact of the novel coronavirus. Nevertheless, the novel coronavirus presents material uncertainty and risk with respect to our and our portfolio companies' performance and financial results.

(In thousands of United States dollars, except per share amounts and where otherwise noted)

The Company had a reduction in its net asset value as of September 30, 2020 as compared to its net asset value as of December 31, 2019, which was primarily the result of the impact of COVID-19. The decrease in net asset value as of September 30, 2020 primarily resulted from an increase in the aggregate unrealized depreciation of the Company's investment portfolio resulting from decreases in the fair value of some of its portfolio company investments primarily due to the expected immediate adverse economic effects of COVID-19 and the continuing uncertainty surrounding COVID-19's long-term impact, as well as the re-pricing of credit risk in the broadly syndicated credit market. To the extent the Company's portfolio companies are adversely impacted by the effects of COVID-19, it may have a material adverse impact on the Company's future net investment income, the fair value of its portfolio investments, its financial condition and the results of operations and financial condition of the Company's portfolio companies.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company holds certain debt investments with fixed interest rates that expose it to fair value interest rate risk. The Company also holds debt investments subject to variable interest rates, which exposes it to cash flow interest rate risk and is partially mitigated with those debt investments subject to an interest rate floor. The Company also holds a debt obligation subject to variable interest rates, which partially mitigates it to cash flow interest rate risk.

The following table summarizes the Company's exposure to interest rate risk, including the Company's assets and liabilities categorized by the remaining term to maturity:

	September 30, 2020	December 31, 2019
Less than 1 year	$ (34,400)	$ —
1 - 3 years	4,797	(34,400)
3 - 5 years	34,094	24,189
> 5 years	7,735	30,768
Total	**$ 12,226**	**$ 20,557**

The annualized impact on net income of hypothetical base rate changes in interest rates on our debt investments and debt obligation had the prevailing interest rates been lowered or raised by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, was $291 (December 31, 2019 – $179). In practice, actual results may differ from this sensitivity analysis.

(e) Valuation risk

The Company invests, and plans to continue to invest, primarily in illiquid debt of private companies. Most of the Company's investments will not have a readily available market price, and the Company values these investments at fair value as determined in good faith by or under the direction of the Board and independent third-party valuation firm(s) and in accordance with the Company's valuation policy. There is no single standard for determining fair value. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments the Company makes. If the Company was required to liquidate a portfolio investment in a forced or liquidation sale, it may realize amounts that are different from the amounts presented and such differences could be material.

Price declines in the medium- and large-sized corporate debt market may adversely affect the fair value of the Company's portfolio, reducing the net asset value of the Company through increased net unrealized depreciation.

(f) Concentration risk

Concentration risk arises because of the concentration of exposures within the same category, whether it is geographic location, product type, industry sector or counterparty type.

The following is a summary of the Company's concentration risk, based on geographic location and product type:

	September 30, 2020		December 31, 2019	
	Fair value	% of total	Fair value	% of total
Loans	$ 42,847	77.8%	$ 51,081	79.2%
Bonds	3,779	6.9%	3,876	6.0%
Equity	8,473	15.3%	9,532	14.8%
	$ 55,099	**100.0%**	**$ 64,489**	**100.0%**

(In thousands of United States dollars, except per share amounts and where otherwise noted)

	September 30, 2020		December 31, 2019	
	Fair value	% of total	Fair value	% of total
United States	$ 51,320	93.1%	$ 60,613	94.0%
Canada	3,779	6.9%	3,876	6.0%
	$ 55,099	**100.0%**	**$ 64,489**	**100.0%**

(g) Currency risk

Currency risk is the risk that financial instruments which are denominated in currencies other than the Company's functional currency, the United States dollar, will fluctuate due to changes in exchange rates and adversely impact the Company's reported income, cash flows or fair values of its investment holdings. The Company may reduce its currency exposure through the use of derivative arrangements such as foreign exchange forward contracts or futures contracts. As at September 30, 2020 and December 31, 2019, the Company had exposure to the Canadian dollar through its holding of investments and assets and liabilities denominated in Canadian dollars. The amount by which the net assets of the Company would have increased or decreased, as at September 30, 2020, had the prevailing exchange rates been lowered or raised by $0.01 was $13 (December 31, 2019 - $7). In practice, actual results may differ from this sensitivity analysis.

The tables below indicate the currencies to which the Company had significant net exposure other than its functional currency as at September 30, 2020 and December 31, 2019, on its monetary assets and liabilities, as well as the underlying notional amount of any foreign forward currency contracts:

September 30, 2020:

Currency	Non-USD denominated investments	Non-USD denominated assets	Non-USD denominated liabilities	Net exposure	As a % of net equity
CAD	$ 3,779	$ 28	$ (4,785)	$ (978)	3.0%

December 31, 2019:

Currency	Non-USD denominated investments	Non-USD denominated assets	Non-USD denominated liabilities	Net exposure	As a % of net equity
CAD	$ 3,876	$ 112	$ (4,495)	$ (507)	1.5%

As at September 30, 2020 and December 31, 2019, the majority of the Company's net assets were denominated in U.S. dollars.

14. CAPITAL MANAGEMENT

The Company's capital consists of debt, cash and shareholders' equity. The Company manages equity as capital and may adjust the amount of debt borrowings, dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets. The Company's officers and senior management are responsible for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Company's Board of Directors is responsible for overseeing this process.

15. COVID UPDATE

The outbreak of the novel coronavirus, or COVID-19, in many countries continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The global impact of the outbreak has been rapidly evolving, and as cases of the virus have continued to be identified in additional countries, many countries have reacted by instituting or reinstituting quarantines, restrictions on travel and other measures to mitigate the impact of this pandemic. While many of these measures have been relaxed in certain jurisdictions, spread of the virus continues and restrictions generally remain in place. Such actions have created disruption in global supply chains, and have adversely impacted a number of industries, including, among others, transportation, hospitality and entertainment. The outbreak has triggered a period of global economic slowdown and continued volatility and could have a continued adverse impact on economic and market conditions. The rapid development and fluidity of this situation precludes any prediction as to the duration and extent of this pandemic and its impact on the Company's business, financial condition and results of operations, as well as the business, financial condition and results of operations of the Company's portfolio companies. Nevertheless, the novel coronavirus presents material uncertainty and risk with respect to our and our portfolio companies' performance and financial results. The Company is actively monitoring developments with respect to this pandemic and its impact as part of the Company's overall investment objective and strategy.

Each company in the Company's investment portfolio has faced different pressures as a result of the COVID-19 pandemic. Some portfolio companies have been affected more severely than others, while some have even benefitted from the impact of COVID-19. In respect of portfolio companies that have been negatively impacted by COVID-19, certain adverse consequences experienced have included declines in demand for products and/or services, increased costs, disruptions to supply chains, and interruptions to operations thus necessitating certain cost-cutting measures including, but not limited to, permanent layoffs, temporary reductions in force, curtailed operations, renegotiation of supply contracts, and reduced discretionary spending and capital expenditures. In addition, a number of portfolio companies have evaluated or participated in government programs for financing or tax breaks in order to supplement reduced cash flow. Furthermore, in order to adapt, a number of portfolio companies have: (i) adjusted their internal business operations to permit more effective remote work; (ii) shifted their sales to new channels amid disruptions in distribution; and (iii) altered their products or services to adapt to new customer needs in light of COVID-19. The adverse impacts of the COVID-19 pandemic on the Company's portfolio companies have in turn adversely affected, and threaten to continue to adversely affect, the Company's operations, including a higher risk of defaults which could lead to lower cash flow and increased credit risk of borrowers, potentially ultimately leading to declines in the fair value of the Company's investment portfolio. In order to remain informed of potential negative impacts, the Company is in more frequent contact with its underlying borrowers and receiving incremental reporting information (such as near term cash flow forecasts to gauge liquidity) to understand the outlook and potential risks affecting the borrowers. As a lender to its portfolio companies holding a portion of debt, the Company generally has access to certain operational information concerning its portfolio companies customary for lenders, but the Company is not actively involved in the operations of its portfolio companies. As such, the Company's understanding and assessments of the risks, trends and uncertainties facing its portfolio companies are based on the information available to the Company as a lender, which could be limited in certain circumstances. The Company seeks to actively monitor its investment portfolio and have regular communications with its portfolio companies to continuously update, re-assess and mitigate these risks, trends and uncertainties.

The foregoing adverse impacts of the COVID-19 pandemic could continue even as certain jurisdictions begin the process of permitting the reopening of businesses and other organizations and easing restrictions on social interactions. Given the continuing development of the COVID-19 pandemic and the uncertainty surrounding its long-term impact, it is not possible to say with certainty whether the foregoing trends and uncertainties will continue. However, as of the date hereof, there have not been any payment defaults in the Company's investment portfolio. All borrowers remain current on their interest payments and the Company remains in frequent contact with its borrowers and loan agents regarding the ongoing performance of borrowers and any potential business disruptions."

16. SUBSEQUENT EVENT

On October 26, 2020, the Cline transaction was completed whereby Allegiance acquired all the shares in NECC, which holds all the mining assets of Cline. The Company understands that it is the Former Manager's intention to direct Cline to remit the net proceeds from the transaction, less a prudent provision for any ongoing minimal Cline operating costs, to the senior bondholders (which includes the Company) as soon as practicable after receipt. The distribution by the Company by any proceeds received from the Cline transaction will be made in accordance with the terms of the indenture governing the CVRs.

On October 27, 2020, the Company completed a private placement and issued 6,108,199 common shares of the Company (the "Shares") at a purchase price of CAD$2.75 per Share for gross proceeds of approximately CAD$16.8 million (the "Private Placement"). The Private Placement was conducted through a syndicate of agents led by Canaccord Genuity Corp. and included ATB Capital Markets Inc. and Stifel GMP (collectively, the "Agents") pursuant to an agency agreement dated October 27, 2020 (the "Agency Agreement") providing for the issuance of up to 7,272,727 common shares of the Company for aggregate gross proceeds of up to $20,000,000 (the "Offering"). In connection with the closing of the Private Placement, the Agents received a cash commission equal to 6% of the gross proceeds of the Private Placement, subject to a reduced fee in respect of proceeds raised directly by the Company from certain subscribers as agreed to between the Company and the Agents. Pursuant to the Agency Agreement, the Company may complete one or more additional closings of common shares for total gross proceeds (including from the Private Placement) of up to $20,000,000. The Company has also granted the Agents an option (the "Agents' Option") to sell up to an additional 1,090,909 Shares and the Agents' Option is exercisable for a period of 48 hours prior to the final closing of the Offering. The Company used a portion of net proceeds of the Offering to fund the Company's obligations in connection with the SCIM Transaction. The net proceeds of the Offering will also be used by the Company to continue to invest in public and private debt securities in the North American market in furtherance of its business objective as an alternative asset management company and for general corporate and working capital purposes.

On October 30, 2020, the SCIM Transaction closed and the Company advanced SCIM approximately $12 million in connection with the SCIM Facility and SCIM became the investment adviser to CIF.

On November 6, 2020, the U.S. Securities and Exchange Commission declared ML Management's registration as an investment adviser to be effective.

On November 10, 2020, the Board declared a cash dividend in the amount of CAD$0.02 per common share to be paid on December 23, 2020 to shareholders of record on November 23, 2020.

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