Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") for Mount Logan Capital Inc. (the "Company," "we," "us," or "our") is provided to enable readers to assess our financial condition and results of operations as at and for the year ended December 31, 2022, compared with the prior fiscal year. This MD&A should be read in conjunction with the audited annual consolidated financial statements of the Company for the years ended December 31, 2022, and 2021 and the accompanying notes thereto. This MD&A is dated March 22, 2023.

Unless otherwise indicated, all amounts are stated in thousands of United States dollars ("USD"), except for shares and per share data, and have been derived from consolidated financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

Additional information about the Company, including our audited annual consolidated financial statements and our annual information form dated March 22, 2023 in respect of the year ended December 31, 2022 (the "Annual Information Form") are available on SEDAR at www.sedar.com.

Caution Regarding Forward-Looking Statements

Certain information contained in this MD&A constitutes forward-looking information, which is information regarding possible events, conditions or results of operations of the Company that is based upon assumptions about future economic conditions and courses of action and which is inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information may include, but is not limited to, statements with respect to our objectives and priorities for fiscal 2022 and beyond, our strategies or future actions, expectations for our financial condition, capital position or share price, the regulatory environment in which we operate, the results of, or outlook for, our operations or for the Canadian and U.S. economies, and the COVID-19 pandemic, and include statements made by our management. Forward-looking statements are typically identified by words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "might", "project", "predict", "potential", "target", "intend", "would", "could", "should", "believe" and similar words or phrases (including negative variations) or grammatical variations thereof. Forward-looking information contained in this MD&A includes, without limitation, statements and information about the receipt by the Company of proceeds from the sale by Cline (as defined below) to Allegiance (as defined below) of all the shares of NECC (as defined below), the timing thereof and the distribution of any proceeds to the holders of CVRs (as defined below); SCIM (as defined below) remaining the investment adviser of ACIF (as defined below) following each one year renewal period following its initial two-year term and that the Company will continue to receive the net economic benefit derived by SCIM under the ACIF Advisory Agreement (as defined below); ML Management (as defined below) remaining the collateral manager of the CLOs (as defined below) and the investment manager of Logan Ridge (as defined below); the Company's plans to extend the maturity of its CLOs in light of expiring reinvestment periods or launch new collateralized loan obligations to create new incomes streams; the Company's plans to reposition Logan Ridge's portfolio and the Company's expectations for higher portfolio income as a result thereof; the Company's plans to scale the business of Logan Ridge through strategic acquisitions; the expected benefits to the Company of the acquisition of Ability Insurance Company ("Ability") including, without limitation, a significant increase in the Company's assets under management, the generation of recurring management fees and increased income through insurance earnings as the Company transitions to a hybrid asset management business and insurance solutions model; the phaseout of LIBOR (as defined below) and the timing thereof; our expansion from a lending-oriented credit platform to an alternative asset management company and insurance solutions provider and the related asset management fee income; the closing of the Ovation Acquisition (as defined below) and statements regarding the Company's plans to establish an office in Austin, Texas following closing of the Ovation Acquisition and to retain the existing Ovation employee team; our expectations regarding anticipated investment activities and results, financing activities, the sufficiency of taxable income to support deferred tax assets and other factors that may impact our operating results, and the performance of global capital markets and interest rates.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Readers are cautioned not to place undue reliance on the forward-looking information contained in this MD&A, as a number of factors – many of which are beyond our control and the effects of which are difficult to predict – could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking information. Some of the risks and other factors that could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A include, but are not limited to: risks relating to investment performance and our ability to generate taxable income from operations, market fluctuations, the strength of the Canadian, U.S. and other economies, foreign exchange fluctuations, political and economic conditions in the countries in which the interests of the Company's portfolio investments are located, the continued impact of the novel coronavirus including the progression of the virus, the emergence of variants and the timing of the manufacture and distribution of vaccines and the level of public acceptance thereof, that the ACIF Advisory Agreement is subject to approval every year following its initial two-year term by ACIF's board of trustees, including a majority of its independent trustees, and such approvals may not be obtained, the risk that collateral management agreements in respect of the CLOs may be terminated at the direction of holders of a specified supermajority in principal amount of the notes issued by the CLO, the risk that the assets held by the CLOs are prepaid or go into default resulting in a reduction in collateral management fees, the risk that the Ovation Acquisition may not be completed, the investment advisory agreement in respect of Logan Ridge is subject to approval every year following its initial two-year term by Logan Ridge's board of directors, including a majority of its independent directors, and such approvals may not be obtained, the Company may not be able to identify and complete strategic acquisitions through Logan Ridge in order to scale the business, the management of assets of Ability may not generate recurring management fees for ML Management as currently contemplated and the Company may not

achieve sufficient income through insurance earnings to provide meaningful diversification having regard to the Company's business model, and other risks included elsewhere in this MD&A under the heading "Risks Factors" and in the Annual Information Form and other public disclosure documents filed with certain Canadian securities regulatory authorities and available under the Company's profile at www.sedar.com. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking information prove to be incorrect, actual results may vary materially from those described in this MD&A as anticipated, believed, estimated or expected.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Although the Company has attempted to identify important factors that could cause actual events and results to differ materially from those described in the forward-looking information, there may be other factors that cause events or results to differ from those intended, anticipated or estimated. The forward-looking information contained in this MD&A is provided as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as otherwise required by law. All of the forward-looking information contained in this MD&A is expressly qualified by this cautionary statement.

Nature of Business

Overview

The Company is an alternative asset management and insurance solutions company that is focused on public and private debt securities in the North American market and the reinsurance of annuity products, primarily through its wholly-owned subsidiaries.

As an asset management firm, the Company, through its wholly-owned subsidiary, Mount Logan Management LLC ("ML Management"), earns management fees, incentive fees, and servicing fees for providing investment management, monitoring and other services to investment vehicles and advisers. We also earn investment income by investing in 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, and minority equity stakes in funds and companies. ML Management is registered as an investment adviser with the United States Securities and Exchange Commission under the Investment Advisors Act of 1940, as amended, and is registered to act in an investment advisory role for clients in the United States.

Our insurance business is operated by Ability Insurance Company ("Ability"), which we acquired on October 29, 2021 (the "Ability Acquisition"). Ability is a Nebraska domiciled insurer and reinsurer of long-term care policies. As part of the transaction, we invested $10.0 million of capital into Ability to strengthen its balance sheet and launch a platform for the reinsurance of annuities. As a result of this acquisition, Ability's assets and operations have been consolidated with our operating results from and after October 29, 2021. Accordingly, comparability of our results for periods prior and subsequent to the Ability transaction may be limited.

The common shares of the Company trade on the Neo Exchange Inc. (the "NEO Exchange") under the symbol "MLC".

Our Business

Our reporting segments include asset management and insurance. The asset management segment reflects our historical operations and the insurance segment represents Ability's operations.

We have successfully diversified across multiple credit-oriented vehicles, as discussed below, all of which are underpinned by recurring fee related earnings and permanent or long duration capital.

Asset Management – Advisory

Beginning in 2020, the Company expanded its focus from a lending-oriented credit platform to an alternative asset management platform in the United States. Through its subsidiaries, the Company, acquired certain investment management contracts and/or the economic benefit thereof thereby providing a growing stream of asset management fee income.

On October 30, 2020, Sierra Crest Investment Management LLC ("SCIM"), an affiliate of BC Partners Advisors L.P. ("BC Partners"), purchased certain assets from Resource America, Inc. and became the investment adviser of the Alternative Credit Income Fund ("ACIF") pursuant to the ACIF advisory agreement (the "ACIF Advisory Agreement"). In connection with the acquisition, the Company agreed to advance to SCIM the amount of up to $15.0 million to be used by SCIM to fund the $13.0 million purchase price (the "SCIM Facility"). On closing of the acquisition, the Company advanced $12.0 million to SCIM pursuant to the SCIM Facility with a balance of up to an additional $3.0 million available for subsequent advances, and the Company entered into a services agreement (the "SCIM Services Agreement") with SCIM pursuant to which the Company provides certain administrative services to SCIM in respect of the management of ACIF. On December 17, 2020, the SCIM Services Agreement was amended to be between the Company's wholly-owned subsidiary, MLC US Holdings LLC ("US Holdings"), and SCIM. Under the SCIM Services Agreement, in exchange for the administrative services provided, SCIM pays to US Holdings, on a quarterly basis, an amount equal to the aggregate base management and incentive fees received by SCIM from ACIF 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 ACIF (collectively, the "Retained Benefits"). In addition, SCIM is reimbursed by US Holdings quarterly for certain expenses it incurs in connection with the investment advisory services provided to ACIF. Pursuant to this arrangement, US Holdings receives the net economic benefit derived by SCIM under the ACIF advisory agreement (the "ACIF Advisory Agreement"), subject to the holdback of the Retained Benefits and expense reimbursements.

On November 12, 2020, the Company, through its wholly-owned subsidiary, ML Management completed its acquisition of the rights of Garrison Investment Management LLC ("GIM") and other sellers (collectively, "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 (collectively, the "ML CLOs") (the "ML CLO Acquisition"). ML Management, as the investment manager of the ML CLOs, receives management fees based on aggregate gross assets under management, paid quarterly, and subject to various reductions based on caps, transaction fees, and fee-sharing arrangements. Following the completion of the ML CLO Acquisition, the names of Garrison Funding 2018-1 LP and Garrison MML CLO 2019-1 LP were changed to Mount Logan Funding 2018-1 LP and Mount Logan MML CLO 2019-1 LP, respectively.

On July 1, 2021, the Company, through ML Management, completed its acquisition of certain assets from Capitala Investment Advisors, LLC ("CIA") (the "Capitala Acquisition") and ML Management became the investment adviser of Logan Ridge Finance Corporation ("Logan Ridge," formerly, Capitala Finance Corp.), a U.S. publicly traded business development company whose common stock is listed on NASDAQ. ML Management, as the investment adviser of Logan Ridge, receives a fee for investment advisory and management services consisting of two components – a 1.75% annual base management fee based upon gross assets and an incentive fee tied to performance. The incentive fee consists of the following two parts:

1. The first part of the incentive fee is calculated and payable quarterly in arrears based on Logan Ridge's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income, and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, diligence, and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under Logan Ridge's administration agreement to its administrator, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with pay-in-kind interest and zero coupon securities), accrued income that Logan Ridge has not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, computed net of all realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of Logan Ridge's net assets at the end of the immediately preceding calendar quarter, is compared to a hurdle of 2.0% per quarter (8.0% annualized). ML Management receives an incentive fee with respect to the pre-incentive fee net investment income in each calendar quarter as follows:

    (a) no incentive fee in any calendar quarter in which the pre-incentive fee net investment income does not exceed the hurdle of 2.0%;

    (b) 100% of the pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle but is less than 2.5% in any calendar quarter (10.0% annualized). This portion of the pre-incentive fee net investment income (which exceeds the hurdle but is less than 2.5%) is referred to as the "catch-up." The "catch-up" is meant to provide ML Management with 20% of the pre-incentive fee net investment income as if a hurdle did not apply if this net investment income exceeds 2.5% in any calendar quarter; and

    (c) 20% of the amount of the pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter (10.0% annualized) (once the hurdle is reached and the catch-up is achieved, 20% of all pre-incentive fee investment income thereafter is allocated to ML Management).

2. The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year, commencing on December 31, 2021, and will equal 20.0% of Logan Ridge's realized capital gains, if any, on a cumulative basis with respect to each of the investments in Logan Ridge's portfolio from the fiscal quarter ending on or immediately prior to July 1, 2021 through the end of each calendar year beginning with the calendar year ending December 31, 2021, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis from September 30, 2021 through the end of each calendar year beginning with the calendar year ending December 31, 2021, less the aggregate amount of any previously paid capital gain fees under the investment advisory agreement. Any realized capital gains, realized capital losses and unrealized capital depreciation with respect to Logan Ridge's portfolio as of the end of the fiscal quarter ending on or immediately prior to July 1, 2021 will be excluded from the calculations of the capital gains fee. In the event that the investment advisory agreement shall terminate as of a date that is not a calendar year end, the termination date shall be treated as though it were a calendar year end for purposes of calculating and paying a capital gains fee.

On January 1, 2022, the Company, through ML Management, and other purchasers related to ML Management (collectively, the "GIM Purchasers") entered into an asset purchase agreement with GIM and other sellers (collectively, the "GIM Sellers") with respect to the acquisition by the GIM Purchasers of the rights and interests of the GIM Sellers under a certain investment agreement relating to Garrison Laurel Funding LP ("GLF"), the general partnership interest under a certain partnership agreement and the rights of the GIM Sellers under certain financing arrangements (the "Laurel Transaction"). In addition, Mount Logan Bluebird Funding LP ("ML Bluebird Funding"), a newly formed entity, acquired all the assets and assumed all the liabilities of Garrison Bluebird Funding LP effective as of the closing date (the "Bluebird Transaction" and together with the Laurel Transaction, the "Bluebird Laurel Transaction"). The Bluebird Laurel Transaction closed on January 1, 2022, and ML Management became the investment manager of GLF and ML Bluebird Funding. In connection with the closing, GLF changed its name to Mount Logan Laurel Funding LP ("ML Laurel Funding"). As currently structured, ML Management does not expect to receive any management fees from ML Bluebird Funding or ML Laurel Funding. The Bluebird Laurel Transaction strategically positions the Company's platform to grow the assets it manages.

On April 22, 2022, the Company, through ML Management, entered into an investment management agreement with each of Cornhusker Funding 1A LLC, Cornhusker Funding 1B LLC, and Cornhusker Funding 1C LLC (collectively, the "Cornhusker CLOs" and together with the ML CLOs, the "CLOs"). ML Management, as the investment manager, does not receive any management fees from the Cornhusker CLOs; however, the Company, through Cornhusker Feeder LLC, a newly-formed indirect wholly-owned subsidiary of the Company, and Ability, receives economic benefits through their debt and/or equity holdings in the Cornhusker CLOs.

On May 14, 2022, the Company, through ML Management, entered into an investment advisory agreement with Opportunistic Credit Interval Fund ("OCIF"), a closed-end, diversified management investment company, pursuant to which ML Management provides certain investment advisory services to OCIF and in consideration of the advisory services provided, ML Management is entitled to a fee consisting of two components – a 1.75% annual base management fee based upon gross assets and an incentive fee tied to performance. The incentive fee is calculated and payable quarterly in arrears based on OCIF’s pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means, interest income, dividend income and any other income (including any other fees, such as commitment, origination, structuring, diligence and consulting fees or other fees that OCIF receives from portfolio companies) accrued by OCIF during the calendar quarter, minus OCIF’s operating expenses for the quarter (including the base management fee, expenses payable under OCIF’s administration agreement to its administrator, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as original issue discount, debt instruments with pay-in-kind interest and zero coupon securities), accrued income that OCIF has not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of OCIF’s net assets at the end of the immediately preceding calendar quarter, will be compared to a hurdle of 1.50% per quarter (6.0% annualized).

ML Management receives an incentive fee with respect to the pre-incentive fee net investment in each calendar quarter as follows:

(a) no incentive fee in any calendar quarter in which the pre-incentive fee net investment income does not exceed the hurdle of 1.50%;

(b) 100% of the pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle but is less than 1.7647% in any calendar quarter (7.0% annualized). This portion of the pre-incentive fee net investment income (which exceeds the hurdle but is less than 1.7647%) is referred to as the “catch-up.” The “catch-up” is meant to provide ML Management with 15% of OCIF’s pre-incentive fee net investment income as if a hurdle did not apply if this net investment income exceeds 1.7647% in any calendar quarter; and

(c) 15% of the amount of OCIF’s pre-incentive fee net investment income, if any, that exceeds 1.7647% in any calendar quarter (7.0% annualized) (once the hurdle is reached and the catch-up is achieved, 15% of all pre-incentive fee net investment income thereafter is allocated to ML Management).

ML Management agreed to waive its management fees (excluding any incentive fee) and to pay or absorb the ordinary operating expenses of OCIF to the extent that its management fees plus the OCIF's ordinary annual operating expenses exceed 2.5% per annum of OCIF's average daily net assets attributable to Class I shares until August 30, 2023.

On April 29, 2022, ML Management seeded OCIF $0.1 million. On October 5, 2022, ML Management invested an additional $4.0 million into OCIF.

On August 17, 2022, the Company, through ML Management, entered into an investment sub-advisory agreement with First Trust Private Credit Fund (the "First Trust Fund") and the First Trust Capital Management L.P. (the "First Trust Advisor") acts as the investment advisor. ML Management provides certain supervision and oversight of the advisor and the board of trustees of the First Trust Fund. ML Management, as the investment sub-adviser is entitled to receive a monthly fee equal to 1% of the sub-advised assets' average daily net assets.

The following is a list of the investment vehicles managed or sub-advised by subsidiaries of the Company:

- Cornhusker Funding 1A LLC
- Cornhusker Funding 1B LLC
- Cornhusker Funding 1C LLC

- First Trust Private Credit Fund
- Logan Ridge Finance Corporation
- Mount Logan Bluebird Funding LP
- Mount Logan Funding 2018-1 LP ("2018-1 CLO")
- Mount Logan Laurel Funding LP
- Mount Logan Middle Market Funding LP
- Mount Logan Middle Market Funding A LP
- Mount Logan Middle Market Funding II LP
- Mount Logan Middle Market Funding II A LP
- Mount Logan MML CLO 2019-1 LP
- Opportunistic Credit Interval Fund

Asset Management – Loans

The Company, directly and through its subsidiaries, focuses on investing in public and private debt securities in the North American market. The Company actively sources, evaluates, underwrites, manages, monitors, and primarily invests in 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.

The Company applies rigorous and deep due diligence to the credit opportunities it assesses. Priorities include establishing downside protection and principal preservation through financial and structural protections, seeking to generate attractive returns utilizing the skill and experience of management, and leveraging the expertise and network of management.

The sourcing, negotiation and documentation of highly structured investments by management of the Company permits the construction of a diversified portfolio of investments through the use of flexible and innovative loan strategies.

While focused on senior secured middle-market credit, depending on market conditions, the Company may evaluate employing a variety of credit investing strategies as part of its investment program. These could include leveraged yield strategies, private and mezzanine lending and structured equity, dislocated structured credit/regulatory capital investments, and other credit-oriented investments as further discussed below:

Leveraged Yield Strategies

- *Low leveraged bank loan funds*: employing various strategies to invest in primarily secured bank loans with low loan-to-value ("LTV") metrics and selective and prudent financing at the asset level. This is a strategy typically employed during periods of market or sector dislocation or when an individual company's loans do not reflect true fundamental value.
- *Synthetic baskets*: investments in par or near-par performing bank loans via total return swaps or similar financing structures.

Private and Mezzanine Lending and Structured Equity

- *Private and mezzanine lending*: providing creative financing solutions to borrowers with custom documentation. Borrowers in the middle-market seek resourceful financing partners that have industry expertise, can provide certainty of execution, and can transact on an expedited timeline.
- *Structured Equity*: investing in minority structured convertible preferred equity with significant downside protection through company selection and robust negative controls.

Dislocated Structured Credit/Regulatory Capital

- *Primary and secondary structured products*: opportunistic investments in non-traditional credit instruments with varying counterparty credit risk.
- *Regulatory capital relief*: structured financing solutions to mitigate regulatory capital constraints for borrowers. Rising regulatory capital requirements for financial institutions create an opportunity for non-traditional capital providers to structure capital solution programs aimed at mitigating banks' risk of near-term capital losses in return for insurance-like payments on first loss pieces assumed by financial investors.

Investments are made and are expected to be made primarily in developed markets with a focus on North America although the Company may invest in markets outside of North America if the Company identifies investment opportunities that offer particular value.

Investment restrictions

The Company conducts its activities within the general parameters of its investment objective and strategy but subject to certain specific restrictions. In pursuing its investment strategy, the Company generally aims to adhere to the following investment restrictions:

- *Diversification* – the net amount invested by the Company in the investments of any one issuer (on a look through basis) will not exceed 20% of the portfolio of the Company, as determined at the time of such investment other than securities issued or guaranteed by the government of Canada, the government of the United States or a province, state or territory thereof.
- *Foreign exposure* – the net amount invested by the Company in securities outside of Canada and the United States will not exceed 50% of the net asset value of the Company, as determined at the time of such investment.

- *Liquidity* – the nature of the Company's business allows for investments in public and private securities, and there are no specific restrictions on the liquidity of the assets in which the Company may invest. However, management will ensure that the Company's investment portfolio has sufficient liquidity to satisfy any borrowing obligations, to manage the dividend policy, if any, adopted by the board of directors (the "Board") of the Company from time to time and any share buy-back arrangements.
- *Hedging* – the Company may use derivatives to hedge credit risk, its exposure to changes in interest rates and currency fluctuations and to gain exposure to individual securities and markets instead of directly buying the securities. The Company may use treasury futures and/or government bonds to hedge against changes in interest rates and may use credit default swaps and credit default indices to hedge credit risk.

Loan Monitoring and Risk Assessment

During 2020 and into 2021 until the acquisition of Ability, the number of loans in the Company's loan portfolio decreased as part of the Company's continued expansion of its focus from a lending-oriented credit platform to an alternative asset management platform in the United States. In December 2021, the Company divested a majority of its loan portfolio warehoused for the 2018-1 CLO, a collateral loan obligation fund of which ML Management is the investment manager.

As of December 31, 2022, other than the Company's legacy debt holdings in Cline Mining Corporation from which any net distributions/proceeds thereof are payable to the holders of the Company's contingent value rights, the Company's asset management segment loan portfolio consisted of $13.6 million advanced as a secured loan by the Company to SCIM.

Interest is typically paid quarterly or semi-annually on the Asset Management Segment Loans and the Insurance Segment Loans (as defined and described below) (collectively, the "Loans") and principal repayments are typically bullet in nature at maturity. None of the Loans have payment in kind interest arrangements. As of the date of this MD&A, there have been no defaults in respect of the Loans and all borrowers in respect of the Loans remain current on their interest payments.

As part of the Company's quarterly monitoring and valuation process for its Loans, the Company maintains a "watch list" and assigns a risk rating of 1-5 for each Loan as an internal metric to gauge potential credit risk (1 being the lowest level of risk; 5 being the highest level of risk, with a risk rating of 1 or 2 indicating that the investment is performing in-line with or above expectations). The risk rating scale and criteria are outlined below:

Risk Rating	Criteria
1	Borrower is performing above expectations and the trends and risk factors since origination or acquisition are generally favourable
2	Borrower is generally performing as expected and the risk factors are similar to the risk at the time of origination or acquisition
3	Borrower performing below expectations and the risk factors increased since origination or acquisition
4	Borrower performing materially below expectations and the risk factors increased materially since origination or acquisition. Borrower generally breaches debt covenants and loan payments(s) may be past due
5	Borrower performing significantly below expectations and the risk factors increased significantly since origination or acquisition. Borrower breached most or all debt covenants, loan payments(s) are significantly past due. Principal not expected to be repaid in full

As of the date of this MD&A, all of the Loans are rated either 1 or 2 and none are on the watchlist.

ML Management, a wholly-owned subsidiary of the Company, is the investment advisor or sub-advisor to certain external investment vehicles, including collateralized loan obligations, business development companies and interval funds, each of which hold their own portfolio of loans. As the Company's economic interest is derived from the management of such vehicles, such underlying loans do not form part of the Company's loan portfolio.

Asset Management – Other

In December 2020, the Company, through its indirect wholly-owned subsidiary, MLCSC Holdings LLC ("MLCSC Holdings") acquired a minority stake in SCIM. SCIM manages Portman Ridge Finance Corp., a U.S. business development company, and ACIF. The Company receives periodic distributions from SCIM and recognizes its share of profit or loss in SCIM.

Insurance – Ability

Our insurance business is operated by Ability. The Company acquired 100% of the equity of Ability in the fourth quarter of 2021. Beginning with the fourth quarter of 2021, we present Ability's financial results as a separate reportable segment.

Ability is a Nebraska domiciled insurer and reinsurer of long-term care policies and annuity products. Upon closing of the acquisition of Ability, ML Management entered into an investment management agreement with Ability (the "Ability IMA") to manage certain of Ability's assets that are within the scope of ML Management's expertise in providing investment management advisory services (the assets of Ability managed by ML Management referred to herein as the "Managed Ability Portfolio"). The acquisition of Ability by the Company combines two products that the Company believes are, and will continue to be, in high demand – insurance solutions and asset management. The Company's acquisition of Ability brings additional capital, strengthening of the investment portfolio, stability and continuity of liability management, and new growth opportunities that will provide increased security to policyholders. The acquisition positions the Company for a new stage of growth with a commitment for immediate and future capital, product diversification, asset management opportunities, de-risking legacy assets, and enhancing risk based capital ("RBC"). The stronger capital base and alignment will allow the Company to scale asset and liability origination for the benefit of Ability's policyholders as well as the Company and its shareholders.

Pursuant to the Ability IMA, ML Management has the following rights, powers and authority in connection with its duties thereunder: (i) authority and power to invest and reinvest the Managed Ability Portfolio in investments, in accordance with predetermined guidelines; (ii) authority and power to, in its reasonable discretion, extend, renew and/or dispose of potential and existing investments within the Managed Ability Portfolio, and to make all decisions and take all actions necessary or convenient in respect of the origination, investigation, structuring, financing, acquisition, monitoring, syndication, and remarketing of investments and additional investments, in each case, in accordance with the predetermined guidelines; (iii) prepare, review and supervise the preparation and review of all agreements, certificates, amendments, notices, instruments, and other documents required to originate, acquire, manage, finance, syndicate, remarket or dispose of any investment or potential investment in the Managed Ability Portfolio; (iv) appoint sub-advisers to invest and reinvest the Managed Ability Portfolio in investments, in each case, in accordance with the predetermined guidelines; (v) originate, manage, service, administer and make collections on investments within the Managed Ability Portfolio; and (vi) perform other reasonable and customary actions deemed appropriate by ML Management in connection with the Managed Ability Portfolio. The Managed Ability Portfolio is held primarily in the United States and is predominantly comprised of USD-denominated assets based in the United States. As of December 31, 2022, the Managed Ability Portfolio is comprised of approximately $336.9 million of assets representing approximately 38% of Ability's total investment assets.

The Company's Insurance segment also includes a loan portfolio, and as of December 31, 2022, such loan portfolio consisted of approximately $106.4 million in loans to private companies and approximately $134.8 million of mortgage loans, totaling $241.2 million (the "Insurance Segment Loans"), or approximately 27% of the entire portfolio. The Insurance Segment Loans are, collectively, of a nature such that Ability continues to satisfy its regulatory capital requirements in accordance with guidelines issued by the National Association of Insurance Commissioners.

Ability is unique in the insurance industry in that its long-term care portfolio's morbidity risk has been largely reinsured to third-parties. Ability is also no longer insuring new long-term care risk and will continue to expand and diversify its business including through the reinsurance of annuity products which commenced in the second quarter of fiscal 2022.

Long-term care insurance policies reimburse policyholders a daily amount (up to a pre-selected limit), upon meeting certain requirements, for services to assist with daily living assisted living facilities as they age.

Annuities are a contract with an insurer where individuals agree to pay a certain amount of money, either in a lump sum or through installments, which entitles them to receive a series of payments at a future date.

Effective April 1, 2022, the Company, through Ability, closed a reinsurance agreement with Atlantic Coast Life Insurance Company ("ACL") pursuant to which the Company will assume a 20% quota share coinsurance of up to $150.0 million of premium of multi-year guaranteed annuity ("MYGA") policies. Effective July 1, 2022, Ability closed on an additional reinsurance agreement with Sentinel Security Life Insurance Company ("SSL") to assume a 20% quota share coinsurance of up to $100.0 million of premium of MYGA policies.

Recent Developments

Subsequent Events

On January 31, 2023, the Company entered into a membership interest and asset purchase agreement with Ovation Partners, LP (the "Ovation Advisor"), a Texas-based specialty-finance focused asset manager, pursuant to which the Company proposes to acquire (collectively, the "Ovation Acquisition") all of the membership interests of Ovation Fund Management II LLC ("Ovation") and certain assets from the Ovation Advisor, pursuant to which ML Management would become the investment advisor to the platform which is focused on investments in commercial lending, real estate lending, consumer finance and litigation finance. In conjunction with the closing of this transaction, which remains subject to the satisfaction of the applicable closing conditions, Mount Logan expects to establish an office in Austin, TX and retain the existing Ovation team, further bolstering its presence in the United States and adding a roster of talented and dedicated professionals to its team.

On March 22, 2023, the Board declared a cash dividend in the amount of C$0.02 per common share to be paid on April 14, 2023 to shareholders of record as of April 4, 2023.

Current environment updates

Uncertainty with respect to the economic effects of rising interest rates in response to inflation, the war between Russia and Ukraine and the ongoing COVID-19 pandemic and other geopolitical events has introduced significant volatility in the financial markets, and the effect of the volatility could materially impact the Company's market risks, including those discussed in Note 19 of the annual consolidated financial statements for the year ended December 31, 2022.

All of these impacts could negatively affect the Company's financial outlook, results and operations.

Future Outlook

The Company continues to expand its focus from a lending-oriented credit platform to an alternative asset management platform in the United States. Through its subsidiaries, the Company acquired certain investment management contracts and/or the economic benefit thereof thereby providing a growing stream of asset management fee income. The investment management agreements entered into will further generate steady recurring fee revenue and operating cash flow, which we expect to result in more capital and stronger margins. See "Nature of Business" and "Recent Developments".

The Company expects to continue its transition from a balance sheet-oriented investment vehicle to a hybrid asset management business and insurance solutions model, further increasing the Company's income through insurance earnings. Management has and will continue to implement developed plans and proposals for the transition of Ability into the Company's operations as well as strategies to focus on insurance product expansion.

During 2022, the Company continued to make progress on the expansion of Ability's insurance product offerings, including entering into reinsurance agreements and annuity products.

The Company may consider extending the maturity date of its managed CLOs as the reinvestment period expires or have expired, and/or opportunistically launch new collateralized loan obligations, which would create new streams of management fee income.

LIBOR Impact

In August 2020, the IASB issued the Interest Rate Benchmark Reform Phase 2, which includes amendments to IFRS 9 *Financial Instruments* ("IFRS 9"), IFRS 7 *Financial Instruments: Disclosures* ("IFRS 7"), and IFRS 4 *Insurance Contracts* ("IFRS 4"). These amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative.

The London Interbank Offered Rate ("LIBOR") is a widely referenced benchmark rate, which is published in five currencies and a range of tenors and seeks to estimate the cost at which banks can borrow on an unsecured basis from other banks. In March 2021, the United Kingdom Financial Conduct Authority ("FCA") confirmed that all LIBOR tenors will either cease to be provided by any administrator or no longer be representative immediately after December 31, 2021, in the case of the one-week and two-month USD LIBOR tenors and all non-USD LIBOR tenors, and immediately after June 30, 2023, in the case of the remaining overnight, one-month, three-month, six-month, and twelve-month USD LIBOR tenors. The extension of certain USD LIBOR tenors until June 2023 will allow many legacy LIBOR-based contracts to mature naturally and significantly aids in reducing the risks associated with transitioning legacy contracts onto replacement rates.

Additionally, on June 22, 2021, the Office of the Superintendent of Financial Institutions ("OSFI") issued a letter setting out their expectation that Federally Regulated Financial Institutions ("FRFIs") will stop using USD LIBOR settings as soon as possible and will not enter new transactions referencing these rates after December 31, 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, has identified the Secured Overnight Financing Rate ("SOFR") as a potential alternative to LIBOR; however, each supervised institution should conduct due diligence on alternative rates to ensure they are appropriate.

Abandonment of or modifications to LIBOR could have adverse impacts on newly issued financial instruments and our existing financial instruments which reference LIBOR. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR, or any changes announced with respect to such reforms, may result in a sudden or prolonged increase or decrease in the reported LIBOR rates and the value of LIBOR-based loans and securities, including those of other issuers we or our funds currently own or may in the future own. It remains uncertain how such changes would be implemented and the effects such changes would have on the Company, issuers of instruments in which we invest and financial markets generally.

The discontinuation of LIBOR could have a significant impact on our business. We anticipate significant operational challenges for the transition away from LIBOR including, but not limited to, amending existing loan agreements with borrowers on investments that may have not been modified with fallback language and adding effective fallback language to new agreements in the event that LIBOR is discontinued before maturity. Beyond these challenges, we anticipate there may be additional risks to our current processes and information systems that will need to be identified and evaluated by us. Due to the uncertainty of the replacement for LIBOR, the potential effect of any such event on our cost of capital and net investment income cannot yet be determined. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market value for or value of any LIBOR-linked securities, loans, and other financial obligations or extensions of credit held by or due to us and could have a material adverse effect on our business, financial condition and results of operations.

Key Performance Data

Earnings per Share

The year-over-year percentage changes in earnings per share ("EPS") are the Company's key measures for analyzing earnings growth.

Basic EPS was $0.82 for the 2022 fiscal year, a decrease of $0.73 from $1.55 for the 2021 fiscal year. Adjusted basic EPS was $0.57 for the 2022 fiscal year, a decrease of $1.20 from $1.77 for the 2021 fiscal year. Diluted EPS was $0.81 for the 2022 fiscal year, a decrease of $0.73 from $1.54 for the 2021 fiscal year. Adjusted diluted EPS was $0.56 for the 2022 fiscal year, a decrease of $1.21 from 1.77 for the 2021 fiscal year. The decrease in EPS was primarily due to investing activities including the non-cash change in insurance contract liabilities and reinsurance assets. Reported net income available to holders of common shares for the 2022 fiscal year was down $10.5 million year-over-year.

Earnings per share (EPS) is calculated by dividing net income or loss attributable to common shareholders by the average number of common shares outstanding. Diluted earnings per share is calculated in the same manner, with further adjustments made to reflect the dilutive impact of instruments convertible into the Company's common shares. Adjusted EPS is calculated in the same manner using adjusted net income or loss.

Return on Equity

Reported return on equity ("ROE") was 21% for the 2022 fiscal year and adjusted ROE was 15%, compared with 55% and 63% , respectively, for the 2021 fiscal year. Reported and adjusted ROE decreased in 2022, primarily due to lower net income and non-cash change in insurance contract liabilities and reinsurance assets and higher common equity. There was a decrease of $10.5 million in reported net income available to holders of common shares and a decrease of $20.3 million in adjusted net income available to holders of common shares for the 2022 fiscal year compared to the 2021 fiscal year. Average common shareholder's equity increased $33.2 million or 63% from the 2021 fiscal year, primarily due to common shares issued in connection with business transactions completed in the fourth quarter of 2021.

Return on shareholders' equity (ROE) is calculated as net income or loss as a percentage of average shareholders' equity. Common shareholders' equity is comprised of common share capital, warrants, contributed surplus, deficit and cumulative translation adjustment. Adjusted ROE is calculated in the same manner using adjusted net income or loss.

Non-IFRS Measures and Non-IFRS Ratios

Other than adjusted results as discussed below and **Key Performance Data** above, results and measures in this MD&A are presented on an IFRS basis. Unless otherwise indicated, all amounts are in USD and have been derived from consolidated financial statements of the Company prepared in accordance with IFRS. Certain results and measures are also presented on an adjusted basis that excludes the impact of certain items, as set out in the table below. Management assesses performance on a reported basis and on an adjusted basis, and considers both to be useful in assessing underlying ongoing business performance. Presenting results on both bases provides readers with a better understanding of how management assesses results. It also permits readers to assess the impact of certain specified items on results for the periods presented, and to better assess results excluding those items that may not be reflective of ongoing results. As such, the presentation may facilitate readers' analysis of trends. Adjusted results and measures are non-IFRS measures and non-IFRS ratios and as such do not have standardized meanings under IFRS and therefore unlikely to be comparable to similar measures presented by other companies and should not be viewed in isolation from, or as a substitute for, IFRS results.

Years ended December 31	2022	2021	2020
Reported Results [1]			
Asset management			
Revenue	$ 9,419	$ 8,772	$ 3,499
Expenses	13,119	11,515	5,157
Net income (loss) - asset management	(3,700)	(2,743)	(1,658)
Insurance			
Revenue	21,641	2,807	—
Expenses	(695)	(30,810)	—
Net income (loss) - insurance	22,336	33,617	—
Income before income taxes	18,636	30,874	(1,658)
Provision for income taxes	(430)	(2,144)	(1,147)
Net income (loss)	18,206	28,730	(2,805)
Basic EPS	$ 0.82	$ 1.55	$ (0.24)
Diluted EPS	$ 0.81	$ 1.54	$ (0.24)
Adjusting Items			
Asset management			
Transaction costs [2]	(185)	(1,977)	(765)
Acquisition integration costs [3]	(1,875)	(1,448)	—
Non-cash items [4]	(559)	(787)	(95)
Impact of adjusting items on expenses	(2,619)	(4,212)	(860)
Insurance			
Unrealized gain (loss) on investments classified as FVTPL [5]	(46,122)	(356)	—
Impact of adjusting items on revenue	(46,122)	(356)	—
Direct impact of interest rates and equity markets on the valuation of insurance contracts	41,029	356	—
Impacts of investment activity on the valuation of insurance contract liabilities	13,894	34,644	—
Assumption update	(611)	—	—
Impact of adjusting items on expenses	54,312	35,000	—
Adjusted Results			
Asset management			
Revenue	$ 9,419	$ 8,772	$ 3,499
Expenses	10,500	7,303	4,297
Net income (loss) - asset management	(1,081)	1,469	(798)
Insurance			
Revenue	67,763	2,807	—
Expenses	53,617	(30,810)	—
Net income (loss) - insurance	14,146	33,617	—
Income before income taxes	13,065	35,086	(798)
Provision for income taxes	(430)	(2,144)	(1,147)
Net income (loss)	12,635	32,942	(1,945)
Basic EPS	$ 0.57	$ 1.77	$ (0.17)
Diluted EPS	$ 0.56	$ 1.77	$ (0.17)

(1) Certain comparative figures have been reclassified to conform with the current year's presentation, including the reclassification of "Net realized and unrealized gain (loss)" to "Revenue"

(2) Transaction costs are related to business acquisitions and strategic initiatives transacted by the Company.

(3) Acquisition integration costs are consulting and administration services fees related to integrating a business into the Company. Acquisition integration costs are recorded in general, administrative and other expenses.

(4) Non-cash items include amortization of acquisition-related intangible assets and impairment of goodwill, if any.

(5) Reflects unrealized gains and losses on the investment portfolio during the period, net of investment held as collateral under the funds withheld or modified coinsurance ("Modco") reinsurance agreements. This represents an adjustment made to arrive at a non-IFRS financial measure.

Return on Equity

Years ended December 31	2022	2021	2020
Net income (loss)	$ 18,206	$ 28,730	(2,805)
Adjusted net income (loss) [(1)]	12,635	32,942	(1,945)
Average common shareholders' equity	85,903	52,668	34,693
Return on equity	21%	55%	-8%
Adjusted return on equity	15%	63%	-6%

(1) Refer to footnotes (2) through (4) in table above for adjusting items.

Fee Related Earnings

Fee related earnings ("FRE") is a non-IFRS financial measure used to assess the asset management segment's generation of profits from revenues that are measured and received on a recurring basis and are not dependent on future realization events. The Corporation believes this measure is useful to securityholders as it provides additional insight into the profitability of the Corporation's fee generating asset management business and other recurring revenue streams. FRE is the sum of all recurring fees underpinned by asset management activities including but not limited to: (i) management and servicing fees, (ii) interest and dividend income attributable to investment management activity, (iii) transaction and monitoring fees, and (iv) performance fees received from certain managed funds, less (x) fee related compensation expense, excluding equity-based compensation, and (y) other associated operating expenses, which excludes amortization of acquisition-related intangible assets and interest and other credit facility expenses.

The Corporation calculates FRE, and reconciles FRE to net income from its asset management activities, as follows:

	Year Ended December 31,	
	2022	2021
Net income (loss) and comprehensive income (loss)	$ 18,206	$ 28,730
Adjustment to net income (loss) and comprehensive income (loss):		
Total revenue - insurance [(1)]	(21,641)	(2,807)
Total expenses - insurance	(695)	(30,810)
Net income - asset management [(2)]	(4,130)	(4,887)
Adjustments to non-fee generating asset management business and other recurring revenue stream:		
Management fee from Ability	2,356	314
Interest income	(138)	(2,164)
Dividend income	(276)	(187)
Net gains (losses) from investment activities	(722)	(665)
Administration fees	782	1,140
Transaction costs	185	1,977
Amortization of intangible assets	559	787
Interest and other credit facility expenses	3,564	2,807
General, administrative and other	3,650	3,229
Income tax (expense) benefit — asset management	29	1,717
Fee Related Earnings	$ 5,859	$ 4,068

(1) Includes add-back of management fees paid to ML Management. On October 29, 2021, the Company completed the acquisition of Ability and ML Management has been engaged as an investment adviser for a portion of Ability's assets.

(2) Represents net income for asset management operating segment.

Insurance Core Earnings

Insurance Core Earnings ("Core Earnings") is a non-IFRS financial measure which we use in our insurance segment and which we believe aids investors in better understanding the long-term earnings capacity and valuation of the business. Core Earnings allows investors to focus on the Company's operating performance by excluding the direct impact of changes in interest rates and equity markets, changes in actuarial methods and assumptions as well as a number of other items, outlined below, that we believe are material, but do not reflect the underlying earnings capacity of the business. For example, due to the long-term nature of our business, the mark-to-market movements of interest rates from period-to-period can, and frequently do, have a substantial impact on the reported amounts of our assets, liabilities and net income attributed to shareholders. These reported amounts are not actually realized at the time and may never be realized if the markets move in the opposite direction in a subsequent period. This makes it difficult for investors to evaluate how our businesses are performing from period-to-period and to compare our performance with other issuers.

While Core Earnings is relevant to how we manage our business and offers a consistent methodology, it is not insulated from macro-economic factors which can have a significant impact. See below for reconciliation of Core Earnings to net income attributed to the insurance segment.

The items included in Core Earnings and items excluded from Core Earnings are determined in accordance with the methodology under OSFI's Source of Earnings Disclosure (Life Insurance Companies) guideline and are listed below.

The increase in Core Earnings for the year ended December 31, 2022 compared with the year December 31, 2021 was primarily driven by increased net investment income on the investment portfolio, net of investments held as collateral under reinsurance agreements. During the year ended December 31, 2022, the Company also had movements in insurance contract liabilities which are not excluded from the Core Earnings calculation as defined below.

	Year Ended December 31,	
	2022	**2021**
Net income (loss) and comprehensive income (loss)	$ 18,206	$ 28,730
Adjustment to net income (loss) and comprehensive income (loss):		
Total revenue - asset management	(9,419)	(8,772)
Total expenses - asset management	13,119	11,515
Income tax (expense) benefit — asset management	430	2,144
Net income - insurance	22,336	33,617
Items excluded from Insurance Core Earnings:		
Market-related impacts:		
Unrealized gain (loss) on investments classified as FVTPL (1)	(46,122)	(356)
Direct impact of interest rates and equity markets on the valuation of insurance contracts	41,029	356
Experience-related items:		
Impacts of investment activity on the valuation of insurance contract liabilities	13,894	34,644
Assumption update	(611)	—
Total items excluded from Core Earnings	8,190	34,644
Insurance Core Earnings	$ 14,146	$ (1,027)

(1) Reflects unrealized gains and losses on the investment portfolio during the period, net of investment held as collateral under the funds withheld or Modco reinsurance agreements. This represents an adjustment made to arrive at a non-IFRS financial measure.

Items included in Core Earnings:

1. Net investment income on all investments held in the insurance segment, less intercompany investment management fees paid to ML Management.
2. Expected earnings on in-force policies, including expected release of provisions for adverse deviation, fee income, and margins on spread business such as annuities.
3. New business strain and gains.
4. Policyholder experience gains or losses.
5. Acquisition and operating expenses compared with expense assumptions used in the measurement of policy liabilities.
6. All other items not specifically excluded.
7. Tax on the above items, if any.
8. All tax related items except the impact of enacted or substantively enacted income tax rate changes, if any.

Items excluded from Core Earnings:

1. Market-related impacts including mark-to-market unrealized gains or losses on assets held in the Insurance segment and the direct impact of market interest rate movement on the valuation of insurance contract liabilities.
2. Impacts of investment activity on the valuation insurance contract liabilities.
3. Changes in actuarial methods and assumptions, if any. As noted in the **Critical Accounting Estimates** section, policy liabilities for IFRS are valued in Canada under standards established by the Actuarial Standards Board. The standards require a comprehensive review of actuarial methods and assumptions to be performed annually.
4. Certain items that, when removed, assist in explaining the Company's underlying business performance including restructuring costs, integration costs related to business acquisitions, material legal settlements, material impairment charges related to goodwill and intangible assets, impact of substantially enacted income tax rate changes and other tax impairments and net gains, losses or costs related to the disposition or acquisition of a business.

Significant Events during the Fourth Quarter

On October 19, 2022, the Company obtained a receipt from certain securities commissions or similar authorities in Canada for its (final) short form base shelf prospectus (the "Final Shelf Prospectus") which enables the Company to offer and issue up to C$45 million of common shares, debt securities, subscription receipts, warrants and units (or any combination thereof) in one or more transactions at any time during the 25-month period that the Final Shelf Prospectus is effective.

On October 20, 2022, Lind Bridge L.P. ("Lind Bridge"), a limited partnership controlled by the Company, as borrower, issued a promissory note to a third-party lender (the "Lind Bridge Note") for $7.5 million. The Lind Bridge Note bears interest at a rate per annum of 7.5% on the unpaid principal amount as payment-in-kind and matures on October 20, 2029. The Company has guaranteed the obligations of Lind Bridge under the Lind Bridge Note. The proceeds of the Lind Bridge Note were used to support the reinsurance of additional annuities in Ability.

Financial Performance Review

This section provides a review of the Company's financial performance for 2022 and should be read in conjunction with the Company's audited annual consolidated financial statements and accompanying notes for the year ended December 31, 2022.

Adjusted results in this section are non-IFRS and are discussed in the **Non-IFRS Measures and Non-IFRS Ratios** section above.

Net Income

Reported net income was $ 18.2 million, compared with net income of $28.7 million in the prior year. Adjusted net income was $12.6 million, compared with adjusted net income of $32.9 million in the corresponding period in the prior year. Adjusted net income (loss) in the current and prior year periods excludes transaction costs, acquisition-related costs (including integration costs), and amortization of acquisition-related intangible assets for the asset management segment and certain market-related impacts and experience-related items for the insurance segment.

The decrease in reported net income and adjusted net income reflects the impact of the non-cash change in insurance contract liabilities and reinsurance assets.

Asset Management

Revenue

Years ended December 31		2022		2021
Management and servicing fees	$	7,196	$	4,741
Interest income		1,225		3,179
Dividend income		276		187
Net gains (losses) from investment activities		722		665
Total revenue — asset management	$	9,419	$	8,772

Asset management revenue was $9.4 million, compared with $8.8 million in the prior year. The increase in revenue was largely driven by increased management and servicing fees. Management and servicing fees increased $2.5 million from the prior year, resulting from the completion of the Capitala Acquisition during the second-half of fiscal 2021 and investment in OCIF during fiscal 2022, partially offset by a decrease in interest income of $2.0 million due to the transfer of assets to Ability during fiscal 2022 as a result of the Company's continued expansion of its focus from a lending-oriented credit platform to an alternative asset platform.

Expenses

Years ended December 31		2022		2021
Administration fees	$	1,305	$	1,140
Transaction costs		185		1,977
Amortization of intangible assets		559		787
Interest and other credit facility expenses		3,564		2,807
General, administrative and other		7,506		4,804
Total expenses — asset management	$	13,119	$	11,515

Reported expenses was $13.1 million, an increase of $1.6 million, or 14%, from the prior year. Transaction costs are related to costs incurred primarily for professional services, in connection with the Company's continued expansion to an alternative asset management platform and the Ability Acquisition. Intangible assets include payments made to purchase existing investment management contracts from third-party

investment managers, which is amortized over the estimated useful lives of the contracts. Interest and other credit facility expenses increased $0.8 million, or 27%, from the prior year primarily due to the issuance of seller notes in connection with Ability Acquisition during the fourth quarter of 2021, increased borrowings from our existing credit facility during 2022, and the issuance of the Lind Bridge Note in 2022. General, administrative and other expenses increased $2.7 million, or 56%, from the prior year primarily due to increase in audit, compensation, and insurance expense resulting from the Company's continued expansion to an alternative asset management platform, and fees paid in connection with a transition services agreement with CIA provide certain non-investment advisory services upon reasonable request for Logan Ridge and costs incurred to launch OCIF and expense fee reimbursements to OCIF in connection with the expense limitation agreement.

Adjusted expenses was $10.5 million, an increase of $3.2 million, or 44%, from the prior year. Adjusted expenses exclude transactions and acquisition-related costs (including those in connection with the transition services agreement entered into in connection with the Capitala Acquisition) and amortization of acquisition-related intangible assets. Acquisition integration costs were $1.9 million compared to $1.5 million in the prior year.

Insurance

Revenue

Years ended December 31		2022		2021
Net premiums	$	30,632	$	(2,390)
Net investment income		55,058		6,532
Net gains (losses) from investment activities		(107,581)		(1,811)
Realized and unrealized gains (losses) on embedded derivative — funds withheld		38,575		(637)
Other income		4,957		1,113
Total revenue — insurance	$	21,641	$	2,807

Revenue includes (i) premiums received on long-term care insurance policies, net of premiums ceded to reinsurers; (ii) investment income comprised of income earned on the investment portfolio; (iii) net realized and unrealized gains and losses on assets supporting insurance and investment contract liabilities; less (iv) investment experience attributable to investments held as collateral under the terms of the funds withheld reinsurance agreement with Front Street Re ("Front Street"); and (v) other income consisting primarily of ceding commissions on ceded reinsurance.

Ability pays ceded reinsurance premiums to Front Street and Vista Life and Casualty Reinsurance Company ("Vista") to reinsure the long-term care policies written. The ceded reinsurance premium paid to Front Street to cover morbidity risk on the Medico block is in the form of a funds withheld, Yearly Renewable Term ("YRT") reinsurance agreement. The YRT premium due to Front Street is an amount contractually determined and is higher than the underlying premium paid by the policyholders to Ability. Ability also pays Vista a portion, based on a fixed percentage, of premiums received from policy holders for Vista to cover the YRT premium being paid to Front Street. We consider the Front Street agreement to be an important element of our liability management strategy of Ability's long term care business by assuming a significant portion of Ability's policy risk exposure from long-term care.

Realized and unrealized gains (losses) on embedded derivative - funds withheld represents all investment activity during the period, including unrealized and realized movements, attributable to Front Street related to reinsurance investments held by Ability as collateral.

For the year ended December 31, 2022, total revenue was $21.6 million primarily due to Ability's expansion into annuities during the year, with $46 million of MYGA premiums assumed through reinsurance during the year. These premiums relate to MYGA policies which are classified as insurance contracts. Premiums received related to MYGA policies classified as investment contracts are recorded to investment contract liabilities.

Additionally there were unrealized and realized capital losses on the insurance segment investment portfolio of $(107.6) million as a result of a significant increase in market interest rates during the year ended December 31, 2022. This amount is partially offset by investment activity during the period, including unrealized and realized capital losses, attributable to investments held as collateral under funds withheld and modified coinsurance.

See **Impact of Fair Value Accounting** below for additional details.

Expenses

Years ended December 31	2022	2021
Net policy benefits and claims	$ (18,560)	$ (33,184)
Administration fees	7,555	1,354
Interest expense	113	56
Insurance expenses	5,065	579
Other expenses	5,132	385
Total expenses — insurance	$ (695)	$ (30,810)

Insurance contract liabilities, net of the change in reinsurance assets, declined during the year ended December 31, 2022 resulting in a net expense (benefit) of $(18.6) million during the period. Under Canadian Asset Liability Method ("CALM") reserving, normal aging of the long term care business as well as the impact of investing activities and the significant increase in market interest rates during the period reduced net insurance contract liabilities. This benefit was partially offset by insurance contract liabilities recorded on new MYGA policies assumed through reinsurance during the quarter.

See **Impact of Fair Value Accounting** below for additional details.

During the year ended December 31, 2022, total benefits and expenses ceded to reinsurers of $97.4 million were received to offset policy holder claims of $106.0 million, resulting in net claims paid to policy holders of $8.6 million during the year.

Administration fees of $7.6 million for the year ended December 31, 2022, are related to costs incurred primarily for the services of Ability's third party administrator, which handles all policyholder operations for Ability. Insurance expenses of $5.1 million consist primarily of commission expenses paid to agents for the successful renewal of long term care insurance policies and ceding commissions paid on the reinsurance of MYGA business, including the addition and amortization of deferred acquisition costs.

Impact of Fair Value Accounting — Insurance

Fair value accounting policies affect the measurement of both our assets and our liabilities. The difference between the reported amounts of our assets and liabilities determined as at the balance sheet date and the Ability opening balance sheet date, in accordance with the applicable fair value accounting principles is reported as investment-related experience and impacts net income.

Insurance contract liabilities under IFRS are determined using CALM, as required by the Canadian Institute of Actuaries. The measurement of policy liabilities includes the estimated value of future policyholder benefits to be paid over the term remaining on in-force long-term care insurance policies, including the estimated costs of servicing the policies, reduced by the future expected policy revenues and future expected investment income on assets supporting the policies. Investment returns are projected using the current asset portfolios and projected reinvestment strategies. Experience gains and losses are reported when current period activity differs from what was assumed in the policy liabilities at the beginning of the period.

Provision for Income Taxes

Income taxes include those imposed on the Company's foreign subsidiaries and revaluation of deferred tax assets. Income tax expense was $0.4 million, an decrease of $1.7 million, from the prior year. The decrease primarily reflected lower provision for income taxes driven by the decrease in net income and from the revaluation of deferred tax assets. Deferred tax assets, measured at the tax rates expected to apply, represents management's estimate of temporary differences that will be able to be realized. 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.

Financial Condition Review

Asset Management

As at December 31	2022	2021
ASSETS		
Asset Management:		
Cash	$ 1,525	$ 14,433
Restricted cash	53	135
Due from affiliates	12	—
Investments	30,605	35,209
Intangible assets	21,501	22,060
Other assets	4,792	4,180
Total assets — asset management	$ 58,488	$ 76,017
LIABILITIES		
Asset Management		
Due to affiliates	$ 1,110	$ 3,852
Debt obligations	53,172	42,708
Contingent value rights	3,003	4,169
Accrued expenses and other liabilities	2,583	3,916
Total liabilities — asset management	$ 59,868	$ 54,645

Total assets of $58.5 million represents a decrease of $17.5 million, or 23%, from the prior year. Total liabilities of $59.9 million represents an increase of $5.2 million, or 10%, from the prior year.

Cash and restricted cash decreased $13.0 million from the prior year, primarily due to a $7.5 million contribution made to Cornhusker Feeder LLC which is included in the insurance segment, a contribution made to OCIF of $4.1 million and the payment of operating liabilities and the distribution of C$1.2 million to the holders of the contingent value rights ("CVRs"). Investments decreased $4.6 million from the prior year, primarily due to the Company's continued transition towards diversifying to a less capital intensive business model and a revenue model underpinned by recurring management fees. Intangible assets decreased $0.6 million from the prior year, primarily due to the amortization of those assets with definite useful lives over their estimated useful lives between 6 to 7 years. Other assets primarily include management fees receivable, deferred tax assets, deferred offering costs, interest receivable and prepaid expenses. Other assets increased $0.6 million from the prior year, primarily due to an increase in deferred tax assets and other receivable.

The Company reimburses BC Partners (or its affiliates) for an allocable portion of compensation paid to the Company's Chief Financial Officer, associated management personnel (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. Due to affiliates decreased $2.7 million from the prior year, primarily due to repayment of operating expenses paid by BC Partners on behalf of the Company to third-party providers of goods or services and administrative fees. Debt obligations increased $10.5 million from the prior year, primarily due to additional borrowings that were used to invest in OCIF and the issuance of the Lind Bridge Note to support the reinsurance of additional annuities in Ability. Upon completion of a plan of arrangement of the Company carried out under the *Business Corporations Act (Ontario)* in October 2018 (the "Arrangement"), each then outstanding common share of the Company was exchanged for one new common share of the Company created pursuant to the Arrangement and subject to certain restrictions, one CVR, with each CVR representing a contingent cash entitlement in respect of Cline Mining Corporation ("Cline"). Under the terms of the indenture governing the CVRs, the Company will seek to dispose of its holdings in Cline during the five 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. On January 7, 2022, the Company received C$1.1 million in connection with the sale of Cline and on April 7, 2022, the Company distributed C$1.2 million to the holders of the CVRs. Accrued expenses and other liabilities primarily includes payables for investments purchased, interest payable on debt obligations, dividends payable to shareholders, and other liabilities. Accrued expenses and other liabilities decreased $1.3 million from the prior year, primarily due to the reduction of interest payables for debt obligations and other liabilities.

Insurance

As at		December 31, 2022		December 31, 2021
ASSETS				
Cash and cash equivalents	$	64,373	$	29,733
Investments		884,627		881,170
Reinsurance assets		253,522		329,902
Intangible assets		5,490		2,504
Goodwill		55,015		55,015
Other assets		27,357		18,970
Total assets — insurance	$	1,290,384	$	1,317,294
LIABILITIES				
Debt obligations	$	2,250	$	2,250
Insurance contract liabilities		825,940		942,865
Investment contract liabilities		89,358		—
Funds held under reinsurance contracts		231,839		291,296
Reinsurance liabilities		10,380		10,528
Accrued expenses and other liabilities		27,093		6,421
Total liabilities — insurance	$	1,186,860	$	1,253,360

Total assets of $1.3 billion represents a decrease of $26.9 million, or 2% from December 31, 2021. Total liabilities of $1.2 billion represents a decrease of $66.5 million, or 5% from December 31, 2021.

Cash and cash equivalents increased $34.7 million as a result of increased premiums received on the reinsurance of MYGA during the year. Investments increased by $3.5 million, reflecting the growth of the insurance segment's total asset base which was mostly offset net unrealized capital losses during the year as a result of a significant increase in market interest rates. Reinsurance assets are determined by taking the difference between the gross insurance contract liabilities and the net insurance contract liabilities. The reinsurance asset represents the benefit derived from reinsurance arrangements (i.e., estimated amount to be received from reinsurers) in force at the date of the consolidated statements of financial position.

Other assets primarily include accrued investment income, receivable for investments sold, premium receivables, and guaranty funds on deposit. Other assets increased by $8.4 million compared to the previous year-end primarily as a result of premiums recoverable on MYGA reinsurance.

Insurance contract liabilities represent the amount payable to policyholders for long-term care policies and MYGA policies which contain significant insurance risk. The insurance contract liabilities risk is partially offset by reinsurance assets. Investment contract liabilities of $89.4 million represent the account value of MYGA policies which do not contain significant insurance risk. Funds held under reinsurance contracts decreased by $59.5 million, reflecting changes in the total value of reinsurance collateral under the funds withheld reinsurance agreement, which was used to fulfill policyholder obligations in the normal course of business, as well as investment activity on these assets including net unrealized capital losses during the period. Accrued expenses and other liabilities primarily includes payables for investments purchased, commissions payable, premiums received in advance of long-term care policy renewal dates, and other accrued expenses. Accrued expenses and other liabilities increased by $20.7 million, primarily due to an increase in payables for investments purchased.

Equity

As at December 31		2022		2021
Common shares	$	108,055	$	108,055
Warrants		1,129		1,129
Contributed surplus		7,240		7,240
Surplus (Deficit)		7,578		(9,260)
Cumulative translation adjustment		(21,858)		(21,858)
Total equity	$	102,144	$	85,306

Total equity increased $16.8 million from the prior year, primarily due to net increase in retained surplus.

Summary Quarterly Earnings Trends

Summary Statement of Income and Quarterly Financial Measures (1) (2)

For the three months ended	Q4-2022	Q3-2022	Q2-2022	Q1-2022	Q4-2021	Q3-2021	Q2-2021	Q1-2021	Q4-2020
Total revenue — asset management	$ 2,713	$ 1,748	$ 2,340	$ 2,618	$ 2,480	$ 3,185	$ 1,442	$ 1,665	$ 1,429
Total revenue — insurance	23,890	6,364	3,413	(12,026)	2,807	—	—	—	—
Total revenue	26,603	8,112	5,753	(9,408)	5,287	3,185	1,442	1,665	1,429
Total expenses — asset management	4,194	3,010	3,096	2,819	5,258	3,112	1,817	1,328	2,051
Total expenses — insurance	16,066	(14,337)	(6,490)	4,066	(30,810)	—	—	—	—
Total expenses	20,260	(11,327)	(3,394)	6,885	(25,552)	3,112	1,817	1,328	2,051
Income before income taxes	6,343	19,439	9,147	(16,293)	30,839	73	(375)	337	(622)
Income tax (expense) / recovery deferred	(235)	149	(260)	(84)	(2,653)	406	171	(68)	(1,147)
Total comprehensive income (loss)	6,108	19,588	8,887	(16,377)	28,186	479	(204)	269	(1,769)
Basic earnings per share	$ 0.28	$ 0.88	$ 0.40	$ (0.74)	$ 1.32	$ 0.03	$ (0.01)	$ (0.02)	$ (0.12)
Diluted earnings per share	$ 0.27	$ 0.87	$ 0.40	$ (0.74)	$ 1.32	$ 0.02	$ (0.01)	$ (0.02)	$ (0.12)

(1) Additional segmented information is included in Note 17 to our annual consolidated financial statements for the year ended December 31, 2022.

(2) Certain comparative figures have been reclassified to conform with the current period's presentation.

Caution

Information that is derived from unaudited financial information, including information as at and for the interim periods, includes all adjustments necessary for a fair presentation of such information. All such adjustments are of a normal and recurring nature. Interim operating results are not necessarily indicative of actual results for the full fiscal year.

Comparison of Q4 2022 results with Q4 2021

Asset management

Total revenue increased $0.2 million primarily related to the increase in management and servicing fees resulting from equity earnings from OCIF during the second-half of fiscal 2022 and partially offset by decrease in interest and dividend income due to the transfer of assets to Ability. Total expenses decreased $1.1 million primarily related to the decrease in transaction costs in connection with Ability Acquisition during fourth quarter of fiscal 2021 and interest and other credit facility expenses decreased due to one facility being repaid in full and terminated in fourth quarter in 2021. Also, decrease in professional fees related to consulting, tax, and legal fees.

Insurance

Total revenue increased by $21.1 million primarily as a result of net unrealized capital gains driven by changes in market interest rates, compared with net unrealized capital losses in the prior quarter. Total expenses increased by $46.8 million driven by changes in actuarially determined balances calculated under CALM.

Comparison of Q4 2022 results with Q3 2022

Asset management

Total revenue increased $1.0 million from the third quarter of 2022 primarily related to increase in management and servicing fees resulting from equity earnings from OCIF and partially offset by decrease in interest income due to the transfer of assets to Ability. Total expenses increased $1.2 million primarily related to interest and other credit facility expenses from increased average borrowings and professional fees related to audit, tax, compensation and OCIF fees reimbursement.

Insurance

Total revenue increased by $17.5 million from the third quarter of 2022 primarily as a result of net unrealized capital gains driven by changes in market interest rates, compared with net unrealized capital losses in the prior quarter. Total expenses increased by $30.3 million driven by changes in actuarially determined balances calculated under CALM.

Selected Annual Financial Information

As at and for the years ended December 31	2022	2021	2020
Revenue			
Asset management	$ 9,419	$ 8,772	$ 3,499
Insurance	21,641	2,807	—
Total revenue	**31,060**	**11,579**	**3,499**
Total assets			
Asset management	58,488	76,017	90,985
Insurance	1,290,384	1,317,294	—
Total assets	**1,348,872**	**1,393,311**	**90,985**
Long-term financial liabilities			
Asset management	54,985	46,155	47,807
Insurance	234,089	293,546	—
Total financial liabilities	**289,074**	**339,701**	**47,807**
Shares outstanding	22,190,195	22,190,195	16,963,379
Dividends paid (C$ per share)	0.08	0.08	0.08

Liquidity and Capital Resources

Capital management

The Company's objectives when managing capital are:

- to ensure that the Company maintains the level of capital necessary to meet its ongoing obligations;
- to allow the Company to respond to changes in economic and/or marketplace conditions by maintaining its ability to purchase new investments;
- to give shareholders sustained growth in shareholder value by increasing shareholders' equity; and
- to maintain a flexible capital structure which optimizes the cost of capital at acceptable levels of risk.

We actively manage our capital to meet these objectives in support of our overall business strategy.

Liquidity and financing strategy

We manage our liquidity and capital requirements by focusing on our cash flows before the consolidation of our entities and the effect of changes in short-term assets and liabilities, which we anticipate will be settled for cash within one year, and maintaining access to sufficient liquidity through various sources. The overall liquidity framework and cash management approach of our insurance business are also based on building an investment portfolio that is cash flow matched, providing cash inflows from insurance assets that meet Ability's expected cash outflows to pay its liabilities. Our primary cash flows activities typically involve: (i) generating cash flow from operations; (ii) generating income from investment activities, by investing in investments that generate yield (namely interest and dividends), as well as through the sale of investments and other assets; (iii) funding capital commitments that we have made; (iv) developing and funding new investment strategies, investment products, and other growth initiatives, including acquisitions of other investments and businesses; and (v) paying borrowings, interest payments, and repayments under credit agreements and other debt obligations.

Our primary sources of liquidity consist of amounts received from: (i) our operating activities, including management and servicing fees; (ii) realizations of performance fees from our managed funds; (iii) interest and dividends from investments that generate yield; (iv) in our insurance business, cash inflows in respect of new premiums, policyholder deposits, and reinsurance transactions; (v) realizations on investment sales and principal repayments; and (vi) borrowings under our credit facilities. In addition, we may generate cash proceeds from sales of our equity securities.

Working capital

Working capital is the excess of current assets over current liabilities. The Company defines working capital as the sum of cash, restricted cash, investments that mature within one year of the reporting date, management fees receivable, receivables for investments sold, accrued interest and dividend receivables, and premium receivables, less the sum of debt obligations, payables for investments purchased, amounts due to affiliates, reinsurance liabilities, and other liabilities that are payable within one year of the reporting date.

As at December 31, 2022, the Company has working capital of $155.8 million, reflecting current assets of $200.6 million, offset by current liabilities of $44.8 million, as compared with working capital of $109.1 million as at December 31, 2021, reflecting current assets of $134.3 million, offset by current liabilities of $25.2 million. The increase in working capital is primarily driven by increased cash in the insurance segment as a result of premium growth through the reinsurance of MYGA.

Off-balance sheet arrangements

Investment commitments

In the normal course of business, the Company may enter into commitments to fund investments, which are not reflected in the Consolidated Financial Statements. There were $1.4 million of outstanding investment commitments as at December 31, 2022 (December 31, 2021 – $1.4 million).

In connection with the Capitala Acquisition, ML Management issued a promissory note to CIA for $4.0 million, which pursuant to the terms in the agreement, may increase to $6.0 million, based on the maturity date asset values of a predefined list of assets held by Logan Ridge.

Service agreements

Service agreements

In connection with the Capitala Acquisition, ML Management entered into a transition services agreement with CIA to provide certain non-investment advisory services upon reasonable request. There were $1.5 million of outstanding service fees as at December 31, 2022 (December 31, 2021 – $2.5 million) that are payable through March 31, 2024. In addition, ML Management entered into an independent contractor agreement to provide certain services as specified in the agreement. There were $0.4 million of outstanding service fees as at December 31, 2022 (December 31, 2021 – $0.9 million) that are payable through July 1, 2023. These service fees for which services are not rendered are not reflected in the consolidated financial statements.

Capital

Our total capital consists of debt obligations and total shareholders' equity. As at December 31, 2022, our total capital was $159.0 million, an increase of $27.0 million from the prior year.

Capital Transactions

There were no shareholder transactions for the year ended December 31, 2022.

On May 7, 2021 and July 20, 2021, the Company completed private placements of an aggregate of 223,214 common shares at a price of C$2.80 and an aggregate of 2,165,000 common shares at a price of C$3.20, respectively, for gross proceeds of $6.0 million.

On October 29, 2021, in connection with the Ability Acquisition, the Company issued 1,579,671 common shares to Advantage Capital Holdings LLC at a price of C$3.92 per share, for gross value of $5.0 million. Also on October 29, 2021, in connection with the Capitala Acquisition, the Company issued 1,258,931 common shares to CIA at a price of C$3.93 per share, for gross value of $4.0 million as part of the deferred purchase price payable by the Company.

Additional information regarding capital transactions is included in Note 11 to our audited annual consolidated financial statements for the year ended December 31, 2022.

Regulatory Capital Requirements

Regulatory capital requirements for Ability are determined in accordance with guidelines issued by the National Association of Insurance Commissioners ("NAIC"). The RBC requirement is a statutory minimum level of capital that is based on two factors: an insurance company's size, and the inherent riskiness of its financial assets and operations. That is, the company must hold capital in proportion to its risk. The minimum RBC ratio for Ability is 200%. Ability's RBC ratio was in excess of the minimum requirement as at December 31, 2022.

Dividends

The declaration and payment of shareholder dividends and the amount thereof are at the discretion of the Board and depend upon various factors, including the results of operation, financial condition and, future prospects of the Company, and taking into account regulatory restrictions on the payment of shareholder dividends.

In any given period, actual cash flow from operations may differ from the amount of distributions paid to the Company's shareholders as a result of, among other things, timing differences between the receipt by the Company of proceeds from management and servicing arrangements and the sale of investments as well as premiums received that relate to insurance contracts, together with the timing for the redeployment of such proceeds and the payment of claims related to insurance contracts, in relation to the dates of declaration and payment of dividends. Distributions in excess of cash flow from operations represent an economic return of capital, rather than a return on capital, since they represent cash payments in excess of cash generated by the Company's continuing operations during the period.

The Company has from time-to-time paid distributions in the form of dividends that are in excess of cash flow from operations, which represent an economic return of capital. For the year ended December 31, 2022, distributions paid by the Corporation did not exceed cash flow from operations.

Related Party Transactions

Servicing Agreement

BC Partners, as servicing agent (the "Servicing Agent") performs (or oversees, or arranges for, the performance of) the administrative services necessary for the operation of the Company, including, without limitation, office facilities, equipment, bookkeeping and recordkeeping services and such other services the Servicing Agent, subject to review by the Board, shall from time to time deem necessary or useful to perform its obligations under the Servicing Agreement, subject to certain exclusions as agreed to between the Company and the Servicing Agent from time to time. The Servicing Agent is authorized to enter into sub-administration agreements as determined to be necessary in order to carry out the administrative services. The Servicing Agreement is subject to annual renewal.

The Company reimburses BC Partners for an allocable portion of compensation paid by the Servicing Agent (or its affiliates) to the Company's Chief Financial Officer, associated management personnel (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. While the Servicing Agent performs certain administrative functions for the Company, the management functions of the Company are wholly performed by the Company's management team.

For the year ended December 31, 2022, the Company incurred administrative fees of $1.7 million (December 31, 2021 – $1.1 million). As at December 31, 2022, administration fees payable to BC Partners was $0.3 million (December 31, 2021 –$ 0.2 million).

Potential Conflicts of Interest

The Company's senior management team is comprised of substantially the same personnel as the senior management team of BC Partners, and such personnel may serve in similar or other capacities for BC Partners or to future investment vehicles affiliated with BC Partners. As a result, such personnel provide investment advisory services to the Company and certain investment vehicles considered affiliates of BC Partners.

Compensation of Key Management Personnel

The Company's key management personnel are those personnel who have the authority and responsibility for planning, directing and controlling the activities of the Company. Directors (both executive and non-executive) are considered key personnel. Certain directors and officers of the Company are affiliated with BC Partners. For the 2022 fiscal year, the Chief Executive Officer and Co-Presidents received no cash salary or bonuses of any kind. Instead, their compensation was 100% equity-based compensation granted pursuant to the Company's security-based compensation arrangements that vests over time for services rendered. No person or employee of the Servicing Agent or its affiliates that serves as a director of the Company receives any compensation from the Company for his or her services as a director.

Common shares held by directors and officers of the Company who are affiliated with BC Partners at December 31, 2022 were 645,370 (December 31, 2021 – 1,073,728).

Other Transactions with BC Partners or its Affiliates

The Servicing Agent may, from time to time, pay amounts owed by the Company to third-party providers of goods or services, and the Company will subsequently reimburse the Servicing Agent for such amounts paid on its behalf. Amounts payable to the Servicing Agent are settled in the normal course of business without any formal payment terms. As at December 31, 2022, operating expenses reimbursable to BC Partners for amounts paid on behalf of the Company was $3.7 million (December 31, 2021 – $3.3 million).

The Company may, from time to time, enter into transactions in the normal course of operations with entities that are considered affiliates of BC Partners. At December 31, 2022, the Company held investments with affiliates of BC Partners totaling $22.0 million (December 31, 2021 – $23.9 million) and in the 2018-1 CLO totaling $nil (December 31, 2021 – $2.7 million).

Critical Accounting Estimates

The most significant assets and liabilities for which we must make estimates include: financial instruments measured at fair value; impairment of securities; income taxes and deferred tax assets; goodwill and intangible assets; insurance-related liabilities; and provisions. Note 3 of the audited annual consolidated financial statements for the year ended December 31, 2022 provide further details on these estimates and judgments made in determining the fair value of financial instruments. Actual results may differ from those estimates, and such differences could be material.

Financial Instruments Measured at Fair Value

The Company's classification of financial assets is based on the business model for managing the portfolio of assets and the contractual cash flow characteristics of these financial assets. Debt securities held within a business model 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, are classified and measured at fair value through profit or loss ("FVTPL"). Debt securities with contractual cash flows that meet the "solely payment of principal and interest" test and are managed on a "hold to collect" basis and measured at amortized cost. These financial assets are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest method, net of

an allowance for expected credit losses ("ECL"). Equity investments are generally carried at fair value through profit or loss. These values are periodically assessed by management of the Company to ensure that they are reasonable.

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 sale prices. 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. The fair value of certain securities may be estimated using valuation techniques based on assumptions that are not supported by observable market inputs. Investments for which reliable quotations are not readily available are valued at fair value, as determined using management's best estimates thereof pursuant to procedures established by the Company. These values are periodically assessed by management of the Company to ensure that they are reasonable.

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

- The Company's quarterly valuation process begins with each 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.

Additional information regarding fair value measurements is included in Note 7 of the interim consolidated financial statements for the audited annual consolidated financial statements for the year ended December 31, 2022.

Impairment of Securities

We have investments in associates, which we review at each quarter-end reporting period in order to identify and evaluate those that show indications of possible impairment. For these investments, a significant or prolonged decline in the fair value of a security to an amount below its cost is objective evidence of impairment.

Debt securities measured at amortized costs are assessed for impairment using the ECL model. The Company, excluding Ability's investments in mortgage loans, elects to measure the allowance for its net investment in loans carried at amortized cost at an amount equal to lifetime ECLs under a simplified approach that does not require the Company to track changes in credit risk. Other than Ability's mortgage loans, the Company has only one loan investment measured at amortized cost, and therefore, the simplified approach adequately approximates ECL. For Ability's investment in mortgage loans, the allowance for credit losses is measured at a 12-month expected credit loss unless there is a significant increase in credit risk.

Additional information regarding accounting for debt securities measured at amortized cost, other securities, the related allowance for credit losses and the determination of fair value is included in Note 3 and Note 7 of the audited annual consolidated financial statements for the year ended December 31, 2022.

Insurance Contract Liabilities

Policy liabilities for IFRS are valued in Canada under standards established by the Actuarial Standards Board. These standards are designed to ensure we establish an appropriate liability on the Consolidated Statements of Financial Position to cover future obligations to all our policyholders. The assumptions underlying the valuation of policy liabilities are required to be reviewed and updated on an ongoing basis to reflect recent and emerging trends in experience and changes in risk profile of the business. In conjunction with prudent business practices to manage both product and asset related risks, the selection and monitoring of appropriate valuation assumptions is designed to minimize our exposure to measurement uncertainty related to policy liabilities.

Policy liabilities have two major components: a best estimate amount and a provision for adverse deviation. The best estimate amount represents the estimated value of future policyholder benefits and settlement obligations to be paid over the term remaining on in-force policies, including the costs of servicing the policies. The best estimate amount is reduced by the future expected policy revenues and future expected investment income on assets supporting the policies, before any consideration for reinsurance ceded. To determine the best estimate amount, assumptions must be made for a number of key factors, including future mortality and morbidity rates, investment returns, lapse, operating expenses, and certain taxes (other than income taxes and includes temporary tax timing and permanent tax rate differences on the cash flows available to satisfy policy obligations).

Reinsurance is used to transfer part or all of a policy liability to another insurance company at terms negotiated with that insurance company. A separate asset for reinsurance ceded is calculated based on the terms of the reinsurance treaties that are in-force, with deductions taken for the credit standing of the reinsurance counterparties where appropriate. To recognize the uncertainty involved in determining the best estimate actuarial liability assumptions, a provision for adverse deviation ("PfAD") is established. The PfAD is determined by including a margin of conservatism for each assumption to allow for possible mis-estimation of, or deterioration in, future experience in order to provide greater comfort that the policy liabilities will be sufficient to pay future benefits. The Canadian Institute of Actuaries establishes suggested ranges for the level of margins for adverse deviation based on the risk profile of the business. Our margins are set taking into account the risk profile of our business. The effect of these margins is to increase policy liabilities over the best estimate assumptions. The margins for adverse deviation

decrease the income that is recognized at the time a new policy is sold and increase the income recognized in later periods as the margins release as the remaining policy risks reduce.

Best Estimate Assumptions

We follow established processes to determine the assumptions used in the valuation of our policy liabilities. The nature of each risk factor and the process for setting the assumptions used in the valuation are discussed below.

Mortality

Mortality relates to the occurrence of death. Mortality assumptions are based on our internal as well as industry past and emerging experience and are differentiated by sex, underwriting class, policy type and geographic market. We make assumptions about future mortality improvements using historical experience derived from population data. Reinsurance is used to offset some of our direct mortality exposure on in-force life insurance policies with the impact of the reinsurance directly reflected in our policy valuation for the determination of policy liabilities net of reinsurance. Actual mortality experience is monitored against these assumptions separately for each business. The results are favorable where mortality rates are higher than assumed for long term care insurance.

Morbidity

Morbidity relates to the occurrence of accidents and sickness for the insured risks. Morbidity assumptions are based on our internal as well as industry past and emerging experience. Our morbidity risk exposure relates to future expected claims costs for long-term care insurance is significantly ceded through reinsurance.

Lapse

Policy lapses represent the termination of policies due to non-payment of premiums by policyholders. Policy termination and premium persistency assumptions are primarily based on our recent experience adjusted for expected future conditions. Actual experience is monitored against our assumptions.

Expenses and Taxes

Operating expense assumptions reflect the projected costs of maintaining and servicing in-force policies, including associated overhead expenses. Actual expenses are monitored against our assumptions.

Investment Returns

We seek to align the asset strategy for each group to the premium and benefit pattern. The projected cash flows from the assets are combined with projected cash flows from future asset purchases/sales to determine expected rates of return for future years. The investment strategies for future asset purchases and sales are based on our target investment policies and the reinvestment returns are derived from current and projected market rates for fixed interest investments and our projected outlook for non-fixed interest assets. Credit losses are projected based on our own and industry experience, as well as specific reviews of the current investment portfolio. Investment return assumptions for each asset class also incorporate expected investment management expenses based on the contractual terms of the investment management agreements effective over each asset class.

Provision for Adverse Deviation

The total provision for adverse deviation is the sum of the provisions for adverse deviation for each risk factor. Margins for adverse deviation are established for each assumption or factor used in the determination of the best estimate actuarial liability. The margins are established based on the risk characteristics of Ability's long term care and annuity businesses.

Margins for interest rate risk are included by testing a number of scenarios of future interest rates. The margin can be established by testing a limited number of scenarios, some of which are prescribed by Canadian Actuarial Standards of Practice, and determining the liability based on the worst outcome. Alternatively, the margin can be set by testing many scenarios, which are developed according to actuarial guidance. Under this approach the liability would be the average of the outcomes above a percentile in the range prescribed by the Canadian Actuarial Standards of Practice.

Additional information on insurance-related liabilities is included in Note 13 of the audited annual consolidated financial for the year ended December 31, 2022, and information on insurance risk is included in the **Risk Factors** section.

Income Taxes and Deferred Tax Assets

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in either the consolidated statements of comprehensive income (loss) or the consolidated statements of changes in equity. In determining the provision for income taxes, we interpret tax legislation, case law and administrative positions and, based on our judgment, we record the estimate of the amount required to settle tax obligations. We also make assumptions about the expected timing of the reversal of deferred tax assets. If the interpretations and assumptions differ from those of tax authorities or if the timing of reversals are not as expected, the 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 or unused tax losses and tax credits may be utilized. We are required to assess whether it is probable that deferred income tax assets will be realized. Factors used to assess the probability of realization are past experience of income and capital gains,

forecasts of future net income before taxes, and the remaining expiration period of tax loss carry forwards and tax credits. Changes in assessment of these factors could increase or decrease the provision for income taxes in future periods.

If income tax rates increase or decrease in future periods in a jurisdiction, the provision for income taxes for future periods will increase or decrease accordingly. Furthermore, deferred tax assets will increase or decrease as income tax rates increase or decrease, respectively, and will result in an income tax impact. For example, an increase in the Canadian or U.S. federal tax rate would increase our respective deferred tax asset, which would result in one-time corresponding tax benefits to income. In addition, an increase in the Canadian or U.S. federal tax rate would decrease our annual net income. The size of this annual net income decrease and any impact on the respective deferred tax asset is uncertain at this point and will be dependent on many factors, including the tax rates enacted and their timing, phase-in provisions and details regarding any legislation and its interpretation.

Additional information regarding accounting for income taxes is included in Note 16 of the audited annual consolidated financial statements for the year ended December 31, 2022.

Goodwill and Intangible Assets

Goodwill is assessed for impairment at least annually. This assessment includes a comparison of the carrying value and the recoverable amount at the cash generating unit ("CGU"). If the carrying value were to exceed the recoverable amount of the CGU, an impairment calculation would be performed. The recoverable amount of a CGU is the higher of its fair value less costs to sell and its value in use.

Intangible assets with definite lives are amortized to income on a straight-line basis over the estimated useful life. We test intangible assets with definite lives for impairment when circumstances indicate that the carrying value may not be recoverable.

Intangible assets with indefinite lives are tested annually for impairment. If an intangible asset is determined to be impaired, it will be written down to its recoverable amount, the higher of value in use and fair value less costs to sell, when this is less than carrying value.

Additional information regarding the composition of goodwill and intangible assets is included in Note 9 of the audited annual consolidated financial statements for the year ended December 31, 2022.

Management's Report on Disclosure Controls and Procedures and Internal Control over Financial Reporting

Disclosure Controls and Procedures

The Company has established, and is maintaining, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is disclosed in annual filings, interim filings or other reports and recorded, processed, summarized and reported within the time periods specified as required by securities regulations. Management has evaluated the operating effectiveness of the Company's disclosure controls and procedures as at December 31, 2022 and, given the size of the Company and the involvement at all levels of the Chief Executive Officer and Chief Financial Officer, believes that they are sufficient to provide reasonable assurance that the Company's disclosures are compliant with securities regulations.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. The control framework used to design the internal control over financial reporting is the Committee of Sponsoring Organizations of the Treadway Commission internal control framework. Management has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Because of its inherent limitations, the Company's internal control over financial reporting can provide only reasonable assurance and may not prevent or detect all possible misstatements or frauds. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management has evaluated the effectiveness of the Company's internal control over financial reporting and concluded that such internal controls over financial reporting was effective as at December 31, 2022.

Changes in Internal Control over Financial Reporting

There were no changes in internal controls over financial reporting during the year ended December 31, 2022 that may have materially affected, or are reasonably likely to materially affect, the adequacy and effectiveness of our internal control over financial reporting. Such controls and procedures are subject to continuous review and changes to such controls and procedures may require management resources and systems in the future.

Risk Factors

An investment in the securities of the Company is subject to various risks and uncertainties, including those set out below, and in the Annual Information Form which is available for review under the Company's SEDAR profile at www.sedar.com. Such risks and uncertainties should be carefully considered by an investor before making any investment decision. If any of the possibilities described in such risks actually occurs, the Company's business, financial condition and operating results could be materially adversely affected. Investors should carefully consider the risks and uncertainties described below as well as the other information contained in this MD&A and in the Annual Information Form. The risks and uncertainties described below are not the only ones the Company may face. The following risks, together with additional risks and uncertainties not currently known to the Company or that the Company may deem immaterial, could impair the Company's business, financial condition and results of operations. The market price of the securities of the Company could decline if one or more of these risks and uncertainties develop into actual events, and investors in the Company's securities may lose all or part of their investment.

Risks Related to the Business – General

Dependence upon key management

The Company depends on the business and technical expertise of its Board and its key personnel. There is little possibility that this dependence will decrease in the near term. As the Company's operations expand, additional management resources will be required. The Company may not be able to attract and retain additional experienced qualified personnel in respect of the Company's insurance solutions business. The failure to attract and retain qualified personnel for the Company's current and expected business plans would have a negative effect on operations and could adversely affect the Company's business, financial condition and results of operations.

Limited operating history for the Company's current strategy

In October 2018, the Company changed its investment strategy from a focus on natural resource lending to a broader lending-oriented credit platform with an increasing focus on the alternative asset management business. The Company did not previously have any record of operating under an investment strategy with a focus on a broader lending-oriented credit platform or as an asset management and investment firm. With the recent acquisition of Ability, the Company has continued its transition from a balance sheet oriented investment vehicle to a hybrid asset management business and insurance solutions business. As such, the Company is subject to all of the business risks and uncertainties associated with the broadening of its businesses, including the risk that the Company will not achieve its financial objectives as estimated by management. Furthermore, past successes of the Board and management in other ventures do not guarantee future successes or the success of the Company in executing its current strategy. The Company may alter its business strategies at any time without notice to its shareholders and there is no guarantee that such changes will yield similar or improved results.

No assurance of profitability

There is no assurance that the Company will earn profits in the future, or that profitability will be sustained. There is no assurance that future revenues will be sufficient to generate the funds required to continue the Company's operations. If the Company does not have sufficient capital to fund its operations, it may be required to reduce its operations accordingly.

Risks of fluctuations in the value of the Company and its shares

The net asset value and market value of the Company's shares will fluctuate with changes in, among other things, the value of the Company's investments, changes in the amount of the Company's dividends, adverse market reaction to any acquisitions or other transactions, a lack of liquidity in the trading of the Company's common shares and fluctuations in currency exchange rates. Such changes in value may occur as a result of various factors, including general economic and market conditions, the performance of companies who have borrowed from the Company, the performance of the Company relative to entities engaged in similar businesses and changes in interest rates which may affect the value of interest-bearing securities owned or managed by the Company or interest-sensitive products sold by the Company. An investment in the Company is speculative and may result in the loss of a shareholder's investment in the Company. Only shareholders who are experienced in high risk investments and who can afford to lose their investment should consider an investment in the Company.

The Company is exposed to risks associated with changes in market rates

The Company is subject to financial market risks, including changes in interest and currency exchange rates. General interest and currency exchange rate fluctuations may have a substantial negative impact on the Company's investments and investment opportunities and, accordingly, have a material adverse effect on its ability to achieve its investment objectives and its target rate of return on invested capital. In addition, an increase in interest rates would make it more expensive to use debt for the Company's financing needs, if any.

Financing risks

Additional funding will be required for the Company to acquire and source new loans and expand its alternative asset management and insurance businesses. There is no assurance that any such funds will be available or available on favorable terms. Failure to obtain additional financing, if required, on a timely basis, could cause the Company to reduce or delay its proposed operations. The primary source of funds currently available to the Company is derived from the issuance of equity and the incurrence of debt. There is no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. Ability's capital requirements will depend on the rate of its sales growth, reserve levels and the level of risk in the insurance products and the investment assets. Additional funding may be required to maintain Ability's statutory capital and surplus. Adverse market conditions may affect the availability and cost of additional funding, which will impact Ability's profitability, liquidity, and growth prospects.

There may be conflicts of interest related to obligations that management has to other clients

Certain of the Company's directors and officers serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business (notably BC Partners) as the Company does, or of investment funds managed by the same personnel. In serving in these multiple capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the Company's best interests or in the best interest of its stakeholders. The Company's investment objective may overlap with the investment objectives of such investment funds, accounts or other investment vehicles. Certain of the directors, officers and employees of the Company and its affiliates will have conflicts of interest in allocating their time between the Company and other activities in which they are or may become involved, including the management of BC Partners' affiliated funds. Directors and officers of the Company with conflicts of interest will be subject to and required to comply with the procedures set out in the *Business Corporations Act* (Ontario) and other applicable legislation, regulations, rules and policies.

The Company may acquire various financial instruments for purposes of "hedging" or reducing its risks, which may be costly and ineffective and could reduce its cash available for distribution to its shareholders

The Company may seek to hedge against interest rate and currency exchange rate fluctuations and credit risk by using financial instruments such as futures, options, swaps and forward contracts. These financial instruments may be purchased on exchanges or may be individually negotiated and traded in over-the-counter markets. Use of such financial instruments for hedging purposes may present significant risks, including the risk of loss of the amounts invested. Defaults by the other party to a hedging transaction can result in losses in the hedging transaction. Hedging activities also involve the risk of an imperfect correlation between the hedging instrument and the asset being hedged, which could result in losses both on the hedging transaction and on the instrument being hedged. Use of hedging activities may not prevent significant losses and could increase the Company's losses. Further, hedging transactions may reduce cash available to pay distributions to its shareholders.

Capital markets and the economy may experience periods of disruption and instability. These market and economic conditions could materially adversely affect the Company's business, financial condition and results of operations

The Canadian, U.S., and global capital markets and economic conditions have in the past and may in the future experience periods of volatility and disruption from changes in interest rates, credit availability, inflation rates, uncertainty, legal and regulatory changes, trade barriers, commodity prices, fluctuation in currency exchange rates, and political conditions. While credit markets and the economy have experienced relative stability since the global financial crisis from 2007-2009, there can be no assurance that market conditions will remain or improve further in the near future.

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 has had a continued adverse impact on economic and market conditions and triggered 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.

Such periods of disruption may be accompanied by depressed levels of consumer and commercial spending, a lack of liquidity in debt capital markets, significant write-offs in the financial services sector and the re-pricing of credit risk. The Company, its subsidiaries and the portfolio companies in which it invests may be adversely affected by these deteriorations in the financial markets and economic conditions throughout the world.

A weak economy could impact the quality, quantum and frequency of the deals available to the Company. Adverse economic conditions also may decrease the estimated value of the collateral securing the Company's financing structures. Further or prolonged economic slowdowns or recessions could lead to financial losses in the Company's loan portfolio and a decrease in the Company's net finance income, net income and book value. Any of these events, or any other events caused by turmoil in global financial markets, could have a material adverse effect on the Company.

The insurance market is affected by capital market and global economic conditions. Conditions of perceived or actual stress, volatility and disruption in capital markets and asset classes may decrease the returns and value of the investment portfolio and impact Ability's claim liability. During unfavorable economic conditions policyholders may defer premium payments, surrender policies, or stop paying premiums. Uncertain economic conditions may also discourage potential policyholders from purchasing Ability's products. Claim rates may increase in certain economic conditions which could lead to operating losses and capital increases from Ability's products.

Competitive business environment

The Company's ability to acquire and access new opportunities could be significantly affected by the activities of other industry participants. New competitors may enter the credit, asset management and insurance industries in which the Company operates, or current market participants may significantly increase their activities in these areas. There can be no assurance that the Company will be able to compete effectively with its competitors. If competitors were to engage in aggressive pricing policies, the Company may have difficulty originating new financing opportunities, securing new investment management mandates or, in the case of Ability, offering crediting rates at an appropriate

service standard, all of which could have a material adverse effect on the Company. Some of the Company's competitors offer a broader range of financing services than the Company and can leverage their existing relationships to offer and sell products and services that compete directly with the Company's products and services. Further, the Company's competitors may have greater financial, technical, marketing and other resources, and may have greater access to lower cost of capital. As a result of competition, the Company's ability to profitably expand its business lines may decline.

Because the Company's business model depends to a significant extent upon relationships with private equity sponsors, investment banks and commercial banks, the inability of the Company to maintain or develop these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect the Company's business

The Company depends on its and its broader organization's relationships with private equity sponsors, investment banks and commercial banks, and the Company relies to a significant extent upon these relationships to provide it with potential investment opportunities. If the Company or its organizations fails to maintain their existing relationships or develop new relationships with other sponsors or sources of investment opportunities, the Company may not be able to grow its investment portfolio. In addition, individuals with whom the Company or its broader organizations have relationships are not obligated to provide the Company with investment opportunities, and, therefore, there is no assurance that such relationships will generate investment opportunities for the Company.

Inability to realize potential benefits from growth

The Company's inability to realize the potential benefits from its growth strategy may adversely impact its operating results. The Company's ability to realize such benefits will be based on its management of growth and will require it to continue to build its operational, financial and management controls, human resource policies, and reporting systems and procedures. The Company's ability to manage its growth will depend in large part upon a number of factors, including the ability of the Company to rapidly: (i) secure additional sources of funding to fund new loans and asset management opportunities, while maintaining a prudent capital structure for the Company; and (ii) attract and retain qualified personnel in order to continue to develop the Company's pipeline of investment opportunities and provide services that respond to evolving financing needs. The Company's inability to achieve any of these objectives could have a material adverse effect on the Company.

Ability's growth depends on the size of the capital base supporting the growth. Ability may need to seek additional funding, invest additional assets and hire additional personnel in order to facilitate its growth. As Ability grows there is a risk that service quality to its customers declines if it does not commit additional resources. There is a risk that Ability may not be able to realize the potential benefits from growth if it does not adequately manage the scaling of its business. An inability to realize the benefits from growth may have a material adverse effect on its business.

Changes in laws or regulations governing the Company's operations may adversely affect the Company's business or cause the Company to alter its business strategy

The Company and its portfolio companies and Ability are and will be subject to regulation at the municipal, local, state, provincial, and federal level. New legislation may be enacted, or new interpretations, rulings or regulations could be adopted, including those governing the types of investments the Company is permitted to make and the insurance products sold or anticipated to be sold by Ability, any of which could harm the Company and its shareholders, potentially with retroactive effect. Additionally, any changes to the laws and regulations governing the Company's operations relating to permitted investments may cause the Company to alter its investment strategy to avail itself of new or different opportunities. Such changes could result in material differences to the Company's strategies and may result in the Company's investment focus shifting from the areas of expertise of the Company to other types of investments in which the Company may have less expertise or little or no experience. Thus, any such changes, if they occur, could have a material adverse effect on the Company's financial condition and results of operations.

Any changes in tax regulations or tax reform may have an adverse impact on investors and policyholders

Given the Company expects to have investment holdings in both Canada and the U.S., there is potential that tax changes in Canada or the U.S. could result in adverse effects on the Company's financial results and share price. The Company cannot predict how changes in tax legislation will affect the Company, the Company's business (including Ability), or the business of its portfolio companies but these provisions may in certain circumstances increase the tax burden on the Company's portfolio companies, which, in turn, could negatively affect their ability to meet their borrowing obligations to the Company or result in reduced asset management fees for the Company. Ability's annuity products offer income tax advantages to policyholders as compared to other savings instruments. Income tax can be deferred on the earnings during the accumulation of an annuity. Tax reforms could change this tax deferral benefit or reduce the taxation of competing products which could adversely affect Ability's annuity product sales and result in more policy surrenders. If Ability's corporate income tax rate was increased, Ability's earning would decrease accordingly.

The Company may experience fluctuations in its quarterly financial results

The Company could experience fluctuations in its quarterly operating results due to a number of factors, including its ability or inability to make investments in companies that meet its investment criteria, the interest rate payable on the debt securities it acquires, the level of its expenses (including the Company's borrowing costs), variations in and the timing of the recognition of realized and unrealized gains or losses, fluctuations in currency exchange rates, the degree to which it encounters competition in its markets and general economic conditions. As a result of these factors, financial results for any previous period should not be relied upon as being indicative of performance in future periods.

A significant portion of the Company's investment portfolio is and will be recorded at fair value as determined in good faith by management and, as a result, there is and will be uncertainty as to the value of the Company's portfolio investments

The Company is required to carry a significant portion of its portfolio investments at market value or, if there is no readily available market value, at fair value as determined by the Company's management. There is no public market for the securities of the privately-held companies in which the Company invests. Most of the Company's investments will not be publicly traded or actively traded on a secondary market. As a result, the Company values these securities quarterly at fair value as determined in good faith by the management team.

Certain factors that may be considered in determining the fair value of the Company's investments include investment dealer quotes for securities traded on the secondary market for institutional investors, the nature and realizable value of any collateral, the portfolio company's earnings and its ability to make payments on its indebtedness, the markets in which the portfolio company does business, comparison to comparable publicly traded companies, discounted cash flow and other relevant factors. As a result, the Company's determinations of fair value may differ materially from the values that would have been used if a ready market for these nontraded securities existed. Due to this uncertainty, the Company's fair value determinations may cause the net asset value of the Company on a given date to materially differ from the value that it may ultimately realize upon the sale of one or more of its investments.

The fair market value determination of the majority of Ability's investments is based on readily available market value. For Ability's investments without readily available market value, fair value will be determined by the Company's management consistent with the methodology described above. The assumptions required to reach the fair market value may change which will impact the fair market value and the net income under IFRS, which may have material adverse impact on the Company's financial position.

No guarantee as to timing or amount of dividends

Holders of the Company's shares do not have a right to dividends on such shares unless declared by the Board. The declaration of dividends is at the discretion of the Board, even if the Company has sufficient distributable cash to pay such dividends. The declaration of any dividend will depend on the Company's financial results, cash requirements, future prospects and other factors deemed relevant by the Board.

Dividends are not guaranteed, and the amount of any dividend may fluctuate or be reduced or eliminated. There can be no assurance as to the levels of dividends to be paid by the Company, if any. The market value of the common shares may deteriorate if the Company is unable to pay dividends in accordance with its intended dividend strategy, or not at all, and such deterioration may be material.

Sustainability of Distributions

The Company has from time-to-time paid distributions in the form of dividends that are in excess of cash flow from operations, which represent an economic return of capital. Although the Company expects that its cash flow from operations will improve as the Company continues to grow and integrate its recently acquired insurance operations and expand its asset management platform in the United States, there are no assurances that cash flow from operations in any particular period will be sufficient to maintain cash distributions at current levels, in which case future distributions in the form of dividends may continue to represent, in whole or in part, an economic return of capital. In such circumstances and in order to maintain distributions at their current level, the Company may seek additional capital through public or private debt financings which may involve agreements that include covenants limiting or restricting the Company's ability to take specific actions such as, among others, incurring additional debt or declaring dividends above specified amounts. There can be no assurance that any such financing will be available on commercially reasonable terms or at all.

Notwithstanding the Company does not anticipate suspending cash distributions in the foreseeable future, the Company may not be able to sustain distributions at current levels without realizing increases in cash flow from operations. Such cash flow growth is dependent on the Company's ability to execute on its business plan. The declaration and payment of any distributions will depend on the Company's financial results, cash requirements, future prospects and other factors deemed relevant by the board of directors of the Company. Distributions are not guaranteed, and the amount of any distribution may fluctuate or be reduced or eliminated.

Cash flows/investment income

The Company generates income and cash flows primarily from interest and dividends from its portfolio investments, from financing activities, from investment management activities, from insurance contracts and from proceeds of the disposition of its investments. The availability of these sources of funds and the amount of funds generated from these sources are dependent upon various factors, many of which are outside of the Company's direct control. The Company's liquidity and operating results may be adversely affected if access to the capital markets is hindered, whether as a result of a downturn in market conditions generally or to matters specific to the Company, or if the value of the Company's investments decline, resulting in lesser proceeds on disposition and capital losses for the Company upon disposition.

Foreign exchange risk

A significant portion of the Company's investment portfolio is invested in U.S. dollar-denominated investments. To the extent that such exposure is not hedged, changes in the value of the U.S. dollar could have a negative impact on the Company's reported financial results and overall financial performance.

Major public health issues, and specifically the novel coronavirus COVID-19, could have an adverse impact on our financial condition and results of operations and other aspects of our business.

We are closely monitoring developments related to the COVID-19 pandemic to assess its impact on our and our portfolio companies' business. While, due to the evolving and highly uncertain nature of this event, it currently is not possible to estimate its impact precisely, the COVID-19 pandemic could impact the business, financial condition, results of operations, liquidity or prospects of the Company (including Ability) as well as our portfolio companies in a number of ways. For instance, our investment portfolio (and, specifically, the valuations of investment assets we hold) has been, and may continue to be, adversely affected as a result of market developments from the COVID-19 pandemic and uncertainty regarding its outcome. Moreover, changes in interest rates, reduced liquidity or a continued slowdown in U.S. or global economic conditions may also adversely affect the business, financial condition, results of operations, liquidity or prospects of the Company as well as our portfolio companies. Further, extreme market volatility may leave us and our portfolio companies unable to react to market events in a prudent manner consistent with our historical practices in dealing with more orderly markets. Although it is impossible to predict with certainty the potential full magnitude of the business and economic ramifications of this pandemic, including after restrictive measures have been relaxed or removed, COVID-19 has impacted, and may further impact, our business in various ways, including but not limited to:

- from an operational perspective, the activities of the Company's employees, as well as those of workforces of our vendors, service providers and counterparties, may be limited by the COVID-19 pandemic or efforts to mitigate the pandemic, including as a result of government-mandated shutdowns, requests or orders for employees to work remotely, and other social distancing measures, which could result in an adverse impact on our ability to conduct our business in the normal course;
- while the market dislocation caused by the COVID-19 pandemic may present attractive investment opportunities, due to increased volatility in the financial markets, we may not be able to complete those investments;
- if the impact of the COVID-19 pandemic continues, we may have more limited opportunities to successfully exit existing investments, due to, among other reasons, lower valuations, decreased revenues and earnings, or lack of potential buyers with financial resources to pursue an acquisition, resulting in a reduced ability to realize value from such investments;
- our portfolio companies are facing or may face in the future increased credit and liquidity risk due to volatility in financial markets, reduced revenue streams, and limited or higher cost of access to preferred sources of funding, which may result in potential write-downs or write-offs in the value of our investments. Changes in the debt financing markets are impacting, or, if the volatility in financial market continues, may in the future impact, the ability of our portfolio companies to meet their respective financial obligations;
- borrowers of loans, notes and other credit instruments in our portfolio may be unable to meet their principal or interest payment obligations or satisfy financial covenants, resulting in a decrease in the value of our investments and lower than expected return. In addition, for variable interest instruments, lower reference rates resulting from government stimulus programs in response to the COVID-19 pandemic could lead to lower interest income;
- many of our portfolio companies operate in industries that are materially impacted by the COVID-19 pandemic, including but not limited to healthcare and consumer. Many of these companies are facing operational and financial hardships resulting from the spread of COVID-19 and related governmental measures, such as the closure of stores, restrictions on travel, quarantines or stay-at-home orders. If the disruptions caused by COVID-19 continue and the restrictions put in place are not lifted, the businesses of these portfolio companies could suffer materially or become insolvent, which would decrease the value of our investments;
- an extended period of remote working by the Company's employees could strain its technology resources and introduce operational risks, including heightened cybersecurity risk. Remote working environments may be less secure and more susceptible to hacking attacks, including phishing and social engineering attempts that seek to exploit the COVID-19 pandemic; and
- COVID-19 presents a significant threat to the Company's employees' well-being and morale. While the Company has implemented a business continuity plan to protect the health of its employees and has contingency plans in place for key employees or executive officers who may become sick or otherwise unable to perform their duties for an extended period of time, such plans cannot anticipate all scenarios, and the Company may experience potential loss of productivity or a delay in the roll out of certain strategic plans.

The Company may require authorizations as it expands the scope of its business

As the Company expands the scope of its business and investment strategy, aspects of its operations may require registration with regulatory authorities in the jurisdictions in which it operates. There can be no assurance that all required approvals or authorizations will be obtained on a timely basis or at all. If such approvals or authorizations are obtained, there can be no assurance that the Company will be successful in obtaining such approvals or authorizations on terms that permit the Company to expand the scope of its business and investment strategy successfully and realize potential benefits.

The current political environment may have a material adverse impact on us and our portfolio companies.

In addition, the current U.S. and Canadian political environments and the resulting uncertainties regarding actual and potential shifts in U.S. and/or Canadian foreign investment, trade, taxation, economic, environmental and other policies under the current administrations, as well as the impact of geopolitical tension, such as a deterioration in the bilateral relationship between the U.S. and China or the conflict between Russia and Ukraine, could lead to disruption, instability and volatility in the global markets. Unfavorable economic conditions also would be expected to increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events may limit our investment originations, and limit our ability to grow and could have a material negative impact on our operating results, financial condition, results of operations and cash flows and the fair values of our debt and equity investments.

The Russian invasion of Ukraine may have a material adverse impact on us and our portfolio companies.

Commencing in 2021, Russian President Vladimir Putin ordered the Russian military to begin massing thousands of military personnel and equipment near its border with Ukraine and in Crimea, representing the largest mobilization since the illegal annexation of Crimea in 2014, and initiated troop movements into the eastern portion of Ukraine. On February 22, 2022, the United States and several European nations announced sanctions against Russia in response to Russia's actions. On February 24, 2022, President Putin commenced a full-scale invasion of Russia's pre-positioned forces into Ukraine, which could have a negative impact on the economy and business activity globally (including in the countries in which the Company invests), and therefore could adversely affect the performance of the Company's investments. Furthermore, the conflict between the two nations and the varying involvement of the United States and other NATO countries could preclude prediction as to their ultimate adverse impact on global economic and market conditions, and, as a result, presents material uncertainty and risk with respect to the Company and the performance of its investments or operations, and the ability of the Company to achieve its investment objectives. Additionally, to the extent that the Company's portfolio companies, service providers or related customer bases have material operations or assets in Russia or Ukraine, they may have adverse consequences related to the ongoing conflict, which may negatively impact the Company. The long-term impacts of the tension between Russia and Ukraine remains uncertain.

Deficiencies in the Company's financial reporting and disclosures could adversely impact its reputation

As the Company expands the size and scope of its business, there is a greater susceptibility that its financial reporting and other public disclosure documents may contain material misstatements and that the controls the Company maintains to attempt to ensure the complete accuracy of its public disclosures may fail to operate as intended. The occurrence of such events could adversely impact the Company's reputation and financial condition. In addition, the Company discloses certain metrics that do not have standardized meaning and are based on its own methodologies and assumptions, which is unique to the Company and may reduce comparability with other companies.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to give the Company's stakeholders assurance regarding the reliability of its financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. However, the process for establishing and maintaining adequate internal controls over financial reporting has inherent limitations, including the possibility of human error. The Company's internal controls over financial reporting may not prevent or detect misstatements in the Company's financial disclosures on a timely basis, or at all. Some of these processes may be new for certain subsidiaries in the Company's structure and in the case of acquisitions may take time to be fully implemented.

The Company's disclosure controls and procedures are designed to provide assurance that information required to be disclosed by the Company in reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified. The Company's policies and procedures governing disclosures may not ensure that all material information regarding the Company is disclosed in a proper and timely fashion, or that the Company will be successful in preventing the disclosure of material information to a single person or a limited group of people before such information is generally disseminated.

Failure to maintain the security of the Company's information and technology systems could have a material adverse effect on the Company

The Company relies on certain information and technology systems, including the systems of others with whom the Company does business, which may be subject to security breaches or cyber-terrorism intended to obtain unauthorized access to proprietary information or personally identifiable information, destroy data or disable, degrade or sabotage these systems, through the introduction of computer viruses, fraudulent emails, cyber-attacks or other means. Such acts of cyber-terrorism could originate from a variety of sources including our own employees or unknown third parties. In the ordinary course of our business, the Company collects and stores sensitive data, including personally identifiable information of the Company's employees and clients. Data protection and privacy rules have become a focus for regulators globally. Although the Company takes various measures to ensure the integrity of its systems and to safeguard against failures or security breaches, there can be no assurance that these measures will provide adequate protection, and a compromise in these systems could go undetected for a significant period of time. If these information and technology systems are compromised, the Company could suffer a disruption in one or more of our businesses and experience, among other things, financial loss; a loss of business opportunities; misappropriation or unauthorized release of confidential or personal information; damage to our systems and those with whom the Company does business; violations of privacy and other laws, litigation, regulatory penalties or remediation and restoration costs (particularly in light of increased regulatory focus on cyber-security by regulators around the world); as well as increased costs to maintain the Company's systems. This could have a negative impact on the Company's operating results and cash flows and result in reputational damage.

The failure of the Company's information technology systems, or those of our third-party service providers, could adversely impact our reputation and financial performance

The Company operates in businesses that are dependent on information systems and technology, and the Company relies on third-party service providers to manage certain aspects of the Company's businesses, including for certain information systems and technology, data processing systems, and the secure processing, storage and transmission of information. In particular, the Company's financial, accounting and

communications processes are all conducted through data processing systems. The Company's information technology and communications systems and those of its third-party service providers are vulnerable to damages or disruption from fire, power loss, telecommunications failure, system malfunctions, natural disasters, acts of war or terrorism, employee errors or malfeasance, computer viruses, cyber-attacks or other events which are beyond the Company's control. The Company's information systems and technology and those of our third-party vendors may not continue to be able to accommodate the Company's growth and the cost of maintaining such systems may increase from its current level, either of which could have a material adverse effect on the Company. Any interruption or deterioration in the performance or failures of the information systems and technology that are necessary for the Company's businesses, including for business continuity purposes, could impair the quality of the Company's operations and could adversely affect the Company's business, financial condition and reputation.

Risks Related to the Company's Securities

No current market for Warrants

There is currently no market through which the outstanding warrants of the Company (the "Warrants") may be sold, and such a market may not develop, therefore, holders may not be able to resell the Warrants. This may affect the pricing of the Warrants in the secondary market, the transparency and availability of trading prices and the liquidity of the Warrants. The Company does not intend to apply to list the Warrants on the NEO Exchange or any other stock exchange.

Valuation of Cline

The Company along with affiliates of Marret Asset Management Inc. (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, Marret Asset Management Inc. (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 of 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. The estimated fair value is based on assumptions related to the completion of the announced transaction and the future operations of the mine. Should the underlying assumptions change, the estimated fair value could change by a material amount.

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 C$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 was subject to certain conditions, including Allegiance raising start-up capital for the mine, which was estimated to be $55 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 completion of the transaction took place on October 26, 2020. On February 24, 2021, the Company received $0.5 million from the Former Manager in connection with the sale. On June 9, 2021, the Company distributed C$0.3 million to the holders of the contingent value rights of the Company ("CVRs"). On April 7, 2022, the Company distributed C$1.2 million to the holders of CVRs. On February 27, 2023, the Former Manager announced that NECC and three other entities indirectly owned and controlled by Allegiance, including the guarantor of NECC's obligations to Cline under secured notes issued by NECC to Cline (the "NECC Notes"), which is Cline's primary asset, had filed for Chapter 11 protection on February 21, 2023 (the "NECC Bankruptcy"). On February 28, 2023, the Former Manager announced that it was taking an 82% write-down in the value of securities in Cline held by its various funds to reflect the increased uncertainty of future cash flows to Cline from the NECC Notes. Further distributions by the Company of proceeds received from the Cline transaction, if any, will be made in accordance with the terms of the indenture governing the CVRs.

CVR holders may not receive a further payment on the CVRs

Other than a residual balance currently held by the Company for payment on the CVRs, the right to receive any further payment on the CVRs will be contingent upon the satisfaction of Contingent Payment Events. If a Contingent Payment Event is not achieved for any reason, payments will not be made on the CVRs. As a result of the NECC Bankruptcy, there is an increased risk that no further Contingent Payment Events will occur and whether the Company will receive additional proceeds for further payment on the CVRs. Accordingly, the value, if any, of the CVRs is speculative, and the CVRs may ultimately have no value.

The CVRs are difficult to value

If any payment is made on the CVRs, it will not be made until the satisfaction of a Contingent Payment Event, which may not occur. As such, it may be difficult to value the CVRs, which may affect the market price and/or make it difficult or impossible for a holder to sell its CVRs. In addition, the amount payable to holders of CVRs in respect of a particular Contingent Payment Event, if any, will be net of certain fees, expenses, costs (including transaction costs) and taxes payable by the Company in respect of such Contingent Payment Event.

The Canadian federal income tax treatment of the CVRs is unclear

There is no legal authority directly addressing the Canadian federal income tax treatment of the CVRs and the consequences of the acquisition, holding and disposition of the CVRs are therefore unclear for such purposes. Holders are urged to consult their own tax advisors regarding the Canadian federal income tax consequences to them of the acquisition, holding and disposition of CVRs.

No current market exists for CVRs

There is currently no market through which the CVRs may be sold, and such a market is not expected to develop. Accordingly, holders may not be able to resell the CVRs. This may affect the pricing of the CVRs in the secondary market, the transparency and availability of trading prices, the liquidity of the CVRs and the extent of issuer regulation. The Company does not intend to apply to list the CVRs on the NEO Exchange or any other stock exchange.

Because there will not be an active public market for the CVRs, the market price of the CVRs, if any, may be volatile

The market price of the CVRs, if any, could fluctuate significantly for many reasons, including, without limitation:

- as a result of the risk factors listed in the Annual Information Form;
- it is not expected that the CVRs will be posted for trading on any stock exchange;
- an inability to complete a Contingent Payment Event;
- Cline's operating performance;
- the NECC Bankruptcy;
- legal or regulatory changes that could impact the business of Cline; and
- general economic, securities markets and industry conditions.

Risks Related to the Business – Lending

Credit risks

The assets and other debt securities in which the Company invests are subject to credit and liquidity risk. Any loan investment may become a defaulted obligation for a variety of reasons, including non-payment of principal or interest, as well as covenant violations by the borrower in respect of the underlying loan documents. A defaulted loan may become subject to either substantial workout negotiations or restructuring, which may entail, among other things, a substantial reduction in the interest rate, a substantial write-down of principal, and a substantial change in the terms, conditions and covenants with respect to such defaulted loan. In addition, such negotiations or restructuring may be extensive and protracted over time, and therefore may result in substantial uncertainty with respect to the ultimate recovery on such defaulted loan. In addition, substantial costs and resources in such situations may be imposed on the Company, further affecting the value of the investment. The liquidity in defaulted loans may also be limited, and to the extent that defaulted loans are sold, it is highly unlikely that the proceeds from such sale will be equal to the amount of unpaid principal and interest thereon, which would adversely affect the Company's net asset value and consequently, the market value of the Company's common shares.

Due diligence risks

The due diligence process undertaken by the Company in connection with investments that it makes or wishes to make, may not reveal all relevant facts in connection with an investment. Before making investments, the Company will conduct due diligence investigations that it deems reasonable and appropriate based on the facts and circumstances applicable to each investment. When conducting due diligence investigations, the Company may be required to evaluate important and complex business, financial, tax, accounting, environmental and legal issues. Outside consultants, legal advisors, accountants and investment banks may be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence investigations and making an assessment regarding an investment, the Company relies on resources available, including information provided by the target of the investment and, in some circumstances, third party investigations. The due diligence investigations that are carried out with respect to any investment opportunity may not reveal or highlight all relevant facts that may be necessary.

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 through increased net unrealized depreciation

Conditions in the medium- and large-sized corporate debt market may deteriorate, as seen during the 2008 financial crisis, which may cause pricing levels to similarly decline or be volatile. During the 2008 financial crisis, many institutions were forced to raise cash by selling their interests in performing assets in order to satisfy margin requirements or the equivalent of margin requirements imposed by their lenders and/or, in the case of hedge funds and other investment vehicles, to satisfy widespread redemption requests. This resulted in a forced deleveraging cycle of price declines, compulsory sales, and further price declines, with falling underlying credit values, and other constraints resulting from the credit crisis generating further selling pressure. If similar events again occurred in the medium- and large-sized corporate debt market, the Company's net asset value could decline through an increase in unrealized depreciation and incurrence of realized losses in connection with the sale of the Company's investments, which could have a material adverse impact on the Company's business, financial condition and results of operations.

Financing of mid-market businesses

The Company's loan portfolio consists and is expected to consist primarily of loans provided to mid-market businesses, including privately-owned companies, many of which do not publicly report their financial condition and are not subject to the same accounting rules and securities laws that govern disclosure and financial controls of public companies. Compared to larger, publicly-traded companies, loans offered to these types of businesses may carry more inherent risk. Borrowers of the Company may generally have limited access to capital and have higher funding costs. Such businesses may need more capital to expand or compete and may be unable to obtain financing from public capital markets or from traditional sources, such as commercial banks. Mid-market businesses may also have shorter operating histories, narrower

product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns. Additionally, because many of the borrowers of the Company will not publicly report their financial condition and may not have sophisticated financial controls and oversight, the Company is more susceptible to a client's misrepresentation. The failure of a borrower to accurately report its financial position could result in the Company providing loans to a borrower that does not meet the Company's underwriting criteria, defaults on payments owing to the Company, the loss of some or all of the principal of a loan, or non-compliance by a borrower with applicable covenants. Accordingly, loans offered to these types of businesses involve higher risk than loans offered to larger businesses with greater financial resources or that are otherwise able to access traditional credit sources.

Dependence on the performance of borrower clients

The Company is dependent on the operations, assets and financial health of borrowers to which it directly and indirectly provides capital. If the financial performance of its borrowers decline, cash payments to the Company will likely decline. The failure of any borrower to fulfill its payment obligations to the Company could adversely affect the Company's financial condition and cash flow.

Risks facing borrower clients

Each borrower client is also subject to risks which affects its financial condition. As the Company is not privy to all aspects of its clients' businesses, it is impossible to predict exactly what risks borrowers will face. Nonetheless, typical risks include the following: (i) the success of the Company's borrowers may depend on the management talents and efforts of certain key persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse effect on a borrower; (ii) borrowers may require additional working capital to carry out their business activities and to expand their businesses. If such working capital is not available, or is not available on beneficial terms, the financial performance and development of the businesses of the borrowers may be adversely affected; (iii) damage to the reputation of the borrowers' brands could negatively impact consumer opinion of those businesses or their related products and services, which could have an adverse effect on their business; (iv) borrowers may face competition, including competition from companies with greater financial or other resources, more extensive development, manufacturing, marketing, and other capabilities. There can be no assurance that the Company's borrower clients will be able to successfully compete against their competitors or that such competition will not have a material adverse effect on their businesses; (v) borrowers may experience reduced revenues from the loss of one or more customers representing a high percentage of their revenues; (vi) borrowers may experience reduced revenues due to an inability to meet regulatory requirements, or may experience losses of revenues due to unforeseeable changes in regulations imposed by various levels of government; (vii) borrowers may rely on government or other subsidy programs for revenue or profit generation. Changes to or elimination of such programs may have an adverse effect on the borrower; and (viii) borrowers may derive some of their revenues from foreign sources and may experience negative financial results based on foreign exchange losses, hedging costs or foreign investment restrictions.

Prepayment by borrower client

Certain of the loans provided by the Company may be prepayable by the borrowers, subject to prepayment penalties. The Company is unable to predict if or when a borrower will make a prepayment. Typically, a borrower's decision to prepay depends on its continued positive economic performance and the existence of favorable financing market conditions that permit the borrower to replace its existing financing with less expensive capital. As market conditions change frequently, it is difficult to predict if or when a borrower may deem market and business conditions to be favorable for prepayment. Prepayment by a borrower may have the effect of reducing the achievable yield of the loan to a level below that which was anticipated by the Company. Such a reduction may occur when the Company is unable to invest the funds prepaid by the borrower in other transactions with an expected yield greater than or equal to the yield the Company expected to receive from the prepaying borrower.

Default by and bankruptcy of a borrower client

A borrower's failure to satisfy its borrowing obligations, including any covenants imposed by the Company, could lead to defaults and the termination of the borrower's loans and enforcement against its assets. In order to protect and recover its investments, the Company may be required to bear significant expenses (including legal, accounting, valuation and transaction expenses) to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting borrower. In certain circumstances, a borrower's default under one loan could also trigger cross-defaults under other agreements and jeopardize that borrower's ability to meet its obligations under a loan agreement it may have with the Company.

Second priority liens on collateral securing debt investments that the Company makes to its portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and the Company

Certain debt investments that the Company makes in portfolio companies may be secured on a second priority basis by the same collateral securing first priority debt of such companies. The first priority liens on the collateral will secure the portfolio company's obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by the Company under the agreements governing the loans. The holders of obligations secured by the first priority liens on the collateral will generally control the liquidation of and be entitled to receive proceeds from any realization of the collateral to repay their obligations in full before the Company. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the debt obligations secured by the second priority liens after payment in full of all obligations secured by the first priority liens on the collateral. If such proceeds are not

sufficient to repay amounts outstanding under the debt obligations secured by the second priority liens, then the Company, to the extent not repaid from the proceeds of the sale of the collateral, will only have an unsecured claim against the Company's remaining assets, if any.

The rights the Company may have with respect to the collateral securing the debt investments it makes to its portfolio companies with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that the Company enters into with the holders of senior debt. Under such an intercreditor agreement, at any time that obligations that have the benefit of the first priority liens are outstanding, any of the following actions that may be taken in respect of the collateral will be at the direction of the holders of the obligations secured by the first priority liens: the ability to cause the commencement of enforcement proceedings against the collateral; the ability to control the conduct of such proceedings; the approval of amendments to collateral documents; releases of liens on the collateral; and waivers of past defaults under collateral documents. The Company may not have the ability to control or direct such actions, even if its rights are adversely affected.

Collateral securing the Company's loans

Where the loans provided by the Company are secured by a lien on specified collateral of the borrower (particularly inventory, receivables and tangible fixed assets), there is no assurance that the Company will have obtained or properly perfected its liens, or that the value of the collateral securing any particular loan will protect the Company from suffering a partial or complete loss if the loan becomes non-performing and the Company moves to enforce against the collateral. In such event, the Company could suffer losses that could have a material adverse effect. In addition, during its underwriting process, the Company will make an estimate of the value of the collateral. A decrease in the market value of collateral assets at a rate greater than the rate projected by the Company may adversely affect the current realization values of such collateral. The degree of realization risk varies by the business of the borrower and the nature of the security.

Control over borrower clients

The Company will not always be in a position to exercise control over its borrower clients or prevent decisions by the management or shareholders of a borrower that may affect the fair value of the Company's loan, or otherwise affect the ability of the borrower to repay its obligations to the Company. Furthermore, the Company does not intend to take significant equity positions in its borrower clients. The lack of liquidity of debt positions that the Company will typically hold in its borrower clients results in the risk that the Company may not be able to dispose of its exposure to the borrower in the instance where a borrower is underperforming. This could have a material adverse effect on the Company.

Securities of borrower clients

The Company anticipates lending to both public and private companies, which may include bonus features granting the Company securities of the client. The securities issued by private companies will be subject to legal and other restrictions on resale or will be otherwise less liquid than publicly traded securities. To the extent the Company receives any form of securities issued by private companies, it may be difficult for the Company to dispose of such holdings if the need arises. Furthermore, if the Company is required to liquidate all or a portion of the securities it holds in an illiquid company, it may realize significantly less than the value at which it had previously recorded its holdings. In addition, the Company may face restrictions imposed by securities law on its ability to liquidate or otherwise trade in securities of a borrower client, including, where the Company obtains material non-public information regarding such borrower.

Material non-public information

Certain of the Company's directors, officers or employees, and their respective affiliates, may serve as directors of, or in a similar capacity with, its borrowers. In the event that material non-public information is obtained with respect to its borrowers, such persons may become subject to trading restrictions under the internal trading policies of those companies or as a result of applicable law or regulations. As a result, the Company could be prohibited for a period of time from selling the securities of a borrower, to the extent it owns any, and such a prohibition could have a material adverse effect on the Company.

Illiquidity of loans

Due to the nature of the Company's financing strategy and portfolio, certain loans may have lengthy terms and may be outstanding for a substantial period of time before they are repaid or can be liquidated under conditions preferable to the Company or, in some cases, at all. Illiquid investments carry the risk that a buyer may not be found for such investments. Also, certain of the loans expected to be offered by the Company may be subject to legal or contractual restrictions which may impede the Company's ability to dispose of such assets which it might otherwise desire to do. To the extent that there is no liquid trading market for these loans, the Company may be unable to liquidate these assets or may suffer a loss.

Payment in-kind interest

Some of the loans and debt securities made by the Company may contain a payment in-kind, or PIK, interest provision. Loans with a PIK provision carry additional risk as the Company will not receive cash until such time as the "cash payment date" is reached (unless a portion of such loan is sold). If a borrower whose loan contains a PIK provision defaults, the Company may obtain no return on its investment.

Use of leverage and changes in interest rates may affect the Company's cost of capital and net investment income

Since the Company may from time to time use debt to finance a portion of its investments, its net investment income depends, in part, upon the difference between the rate at which it borrows funds and the rate at which it invests those funds. As a result, the Company can offer no assurance that a significant change in market interest rates will not have a material adverse effect on the Company's net investment income. In

periods of rising interest rates when the Company has debt outstanding, the Company's cost of funds will increase, which could reduce its net investment income. The Company expects that its long-term fixed-rate investments will be financed primarily with equity and long-term debt. The Company may use interest rate risk management techniques in an effort to limit its exposure to interest rate fluctuations. These activities may limit the Company's ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on the Company's business, financial condition and results of operations.

The ability of the Company to service any future outstanding debt depends largely on its financial performance and is subject to prevailing economic conditions and competitive pressures. The amount of leverage that the Company employs at any particular time will depend on its assessments of market and other factors at the time of any proposed borrowing. As a result of the Company's use of leverage: (i) the common shares of the Company may be exposed to incremental risk of loss and a decrease in the value of the Company's loan portfolio would have a greater negative impact on the value of the common shares than if the Company did not use leverage; (ii) adverse changes in interest rates could reduce or eliminate the incremental income the Company receives from the proceeds of any leverage; (iii) the Company and, indirectly, its Shareholders, bear the entire cost of paying interest and repaying any borrowed funds; (iv) the Company's ability to pay dividends on its common shares may be restricted by covenants or other restrictions imposed by its lenders; (v) the Company's ability to amend its organizational documents or other agreements may be restricted if such amendments would result in a material adverse effect on its lenders; and (vi) the Company may, under some circumstances, be required to dispose of its assets under unfavorable market conditions in order to maintain its leverage, thus causing the Company to recognize a loss that might not otherwise have occurred. The extent to which the gains and losses associated with leveraged investing are increased will generally depend on the degree of leverage employed.

The interest rates of some of our term loans to our portfolio companies may be priced using a spread over LIBOR, which are expected be phased out in the future.

The London Interbank Offered Rate ("LIBOR") is a widely referenced benchmark rate, which is published in five currencies and a range of tenors and seeks to estimate the cost at which banks can borrow on an unsecured basis from other banks. On July 27, 2017, the United Kingdom Financial Conduct Authority ("FCA") announced that it would phase out the LIBOR as a benchmark by the end of 2021. In March 2021, the FCA confirmed that all LIBOR tenors will either cease to be provided by any administrator or no longer be representative immediately after December 31, 2021, in the case of the one-week and two-month USD LIBOR tenors and all non-USD LIBOR tenors, and immediately after June 30, 2023, in the case of the remaining overnight, one-month, three-month, six-month, and twelve-month USD LIBOR tenors. The extension of certain USD LIBOR tenors until June 2023 will allow many legacy LIBOR-based contracts to mature naturally and significantly aids in reducing the risks associated with transitioning legacy contracts onto replacement rates. As an alternative to LIBOR, for example, the U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S.-dollar LIBOR with the Secured Overnight Financing Rate ("SOFR"), a new index calculated by short-term repurchase agreements, backed by Treasury securities. Notwithstanding the extension of certain USD LIBOR tenors until June 2023, abandonment of or modifications to LIBOR could have adverse impacts on newly issued financial instruments and the Corporation's existing financial instruments which reference LIBOR. While some instruments may contemplate a scenario where LIBOR is no longer available by providing for an alternative rate setting methodology, not all instruments may have such provisions and there is significant uncertainty regarding the effectiveness of any such alternative methodologies. Abandonment of or modifications to LIBOR could lead to significant short-term and long-term uncertainty and market instability. If LIBOR ceases to exist, the Corporation's and its portfolio companies may need to amend or restructure the Corporation's existing LIBOR-based debt instruments and any related hedging arrangements that extend beyond 2021, which may be difficult, costly and time consuming. In addition, from time to time we invest in floating rate loans and investment securities whose interest rates are indexed to LIBOR. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR, or any changes announced with respect to such reforms, may result in a sudden or prolonged increase or decrease in the reported LIBOR rates and the value of LIBOR-based loans and securities, including those of other issuers the Corporation or its funds currently own or may in the future own. It remains uncertain how such changes would be implemented and the effects such changes would have on the Corporation, issuers of instruments in which the Corporation invests and financial markets generally.

The expected discontinuation of LIBOR could have a significant impact on the Corporation's business. The dollar amount of the Corporation's outstanding debt investments and borrowings that are linked to LIBOR with maturity dates after the anticipated discontinuation date is material. The Corporation anticipates significant operational challenges for the transition away from LIBOR including, but not limited to, amending existing loan agreements with borrowers on investments that may have not been modified with fallback language and adding effective fallback language to new agreements in the event that LIBOR is discontinued before maturity. Beyond these challenges, the Corporation anticipates there may be additional risks to the Corporation's current processes and information systems that will need to be identified and evaluated by the Corporation. Due to the uncertainty of the replacement for LIBOR, the potential effect of any such event on the Corporation's cost of capital and net investment income cannot yet be determined. The transition from LIBOR to SOFR or other alternative reference rates may also introduce operational risks in our accounting, financial reporting, loan servicing, liability management and other aspects of our business. We are assessing the impact of a transition from LIBOR; however, we cannot reasonably estimate the impact of the transition at this time.

Risks Related to the Business – Asset Management

We expect to derive an increasing amount of our revenues from funds managed pursuant to advisory agreements and collateral management agreements, either by us or another entity in which we have an economic interest relating thereto, that may be terminated

With respect to funds regulated under the United States Investment Company Act of 1940 (the "Investment Company Act"), including SCIM with respect to its management of ACIF, and Logan Ridge, each fund's investment management agreement must be approved annually (or, in

the case of Logan Ridge, annually after the expiration of its initial two-year term) by such fund's board of directors or by the vote of a majority of the stockholders and the majority of the independent members of such fund's board of directors and, in certain cases, by its stockholders, as required by law. In addition, as required by the Investment Company Act, ACIF has the right to terminate the ACIF Advisory Agreement without penalty upon 60 days' written notice to SCIM and Logan Ridge has the right to terminate the investment advisory agreement without penalty upon 60 days' written notice to ML Management. In addition, we, through ML Management, receive management fees pursuant to the investment management agreement for acting as the investment manager of certain assets of Ability. In the event the ACIF Advisory Agreement is terminated or not renewed, the recourse of US Holdings, the lender under the SCIM Facility and a wholly-owned subsidiary of the Company, would be limited to any residual value associated with the ACIF Advisory Agreement that is received by SCIM. In negotiating the terms of the SCIM Facility, including economic terms, the Company took into consideration, among other things the risk that the ACIF Advisory Agreement is subject to ongoing approvals as described above, as well as the limited recourse available to the Company's if such approvals are not obtained, with the result being that the terms of the SCIM Facility were structured having regard to the Company's assessment of the low likelihood that the ACIF Advisory Agreement may be terminated or not renewed. In that regard, the Company considered, among other things, the general stability of investment advisory agreements and that the termination of such agreements is uncommon in the industry, the performance record of SCIM as a manager, the experience of SCIM's management team in investment management activities, ACIF's historical performance, and the diversified nature of the investor base of ACIF. Notwithstanding the foregoing, there can be no assurance that the ACIF Advisory Agreement, the investment advisory agreement in respect of Logan Ridge, the investment management agreement in respect of Ability or similar agreements that we may enter into in the future will remain in place.

We, through ML Management, receive collateral management fees pursuant to collateral management agreements for acting as the collateral manager of certain of the CLOs. If all the notes issued by one of the CLOs are redeemed, or if the collateral management agreement is otherwise terminated, we will no longer receive collateral management fees from that CLO. In general, a collateral management agreement may be terminated both with and without cause at the direction of holders of a specified supermajority in principal amount of the notes issued by the CLO. Furthermore, such fees are based on the total amount of assets held by the CLO. If the assets held by the CLO are prepaid or go into default, we will receive lower collateral management fees than expected or the collateral management fees may be eliminated.

In addition, collateral management agreements typically provide that if certain over-collateralization tests are failed, the collateral management agreement may be terminated by a vote of the security holders resulting in our loss of management fees from these CLOs.

If any of our CLOs fail to meet over-collateralization tests relevant to the CLO's most senior existing debt, an event of default may occur. Upon an event of default, our ability to manage the CLO may be terminated and our ability to attempt to cure any defaults in the CLO would be limited, which would increase the likelihood of a reduction or elimination of cash flow and returns to us in those CLOs for an indefinite time.

The asset management business is competitive

The asset management business is competitive, with competition based on a variety of factors, including investment performance, business relationships, quality of service provided to investors, investor liquidity and willingness to invest, fund terms (including fees), brand recognition and business reputation. We compete for investors with a number of other asset managers, public and private funds, business development companies, interval funds and others. Numerous factors increase our competitive risks, including:

- a number of our competitors have greater financial, technical, marketing and other resources and more personnel than we do;
- several of our competitors have raised significant amounts of capital, and many of them have similar investment objectives to ours, which may create additional competition for investment opportunities and may reduce the size and duration of pricing inefficiencies that otherwise could be exploited;
- some of our competitors may have a lower cost of capital and access to funding sources that are not available to us, which may create competitive disadvantages for us with respect to our funds;
- some of our competitors may be subject to less regulation and, accordingly, may have more flexibility to undertake and execute certain business or investments than we do and/or bear less compliance expense than we do;
- some of our competitors may have better expertise or be regarded by investors as having better expertise in a specific asset class or geographic region than we do; and
- other industry participants may, from time to time, seek to recruit our investment professionals and other employees away from us.

In addition, the attractiveness of our funds relative to investments in other investment products could decrease depending on economic conditions. This competitive pressure could adversely affect our ability to make successful investments and limit our ability to raise future funds, either of which would adversely impact our business, results of operations and financial condition.

The Company requires third-party capital in order to grow its asset management business and the success of the asset management business depends on the Company's ability to appropriately allocate and deploy capital in a manner that produces targeted investment returns

The Company's asset management business depends on the Company's ability to fundraise third-party capital, deploy that capital effectively, and produce targeted investment returns.

The Company's ability to raise third-party capital depends on a number of factors, including many that are outside the Company's control. Poor investment performance could hamper the Company's ability to compete for these sources of capital or force the Company to reduce our management fees. If poor investment returns or changes in investment mandates prevent the Company from raising further capital from its existing partners, the Company may need to identify and attract new investors in order to maintain or increase the size of its private funds, and there are no assurances that the Company will be able to find new investors. Poor investment performance could result in the withdrawal of cash by existing investors in favor of better performing products. The Company's inability to retain existing investors and attract new investors could have an adverse impact on the Company's assets under management, management fees, carried interest, transaction fees, profitability and growth prospects. The Company cannot guarantee it will be able to achieve or maintain any particular level of assets under management and cannot guarantee it will be able to achieve positive relative returns, retain existing clients or attract new clients.

The successful execution of the Company's investing strategy is uncertain as it requires suitable opportunities, careful timing and business judgment, as well as the resources to complete asset purchases and restructure them, if required. There is no certainty that the Company will be able to identify suitable or sufficient opportunities that meet the Company's investment criteria and be able to acquire additional high-quality assets at attractive prices to supplement the growth of the asset management business in the short term, or at all.

If the Company is unable to successfully raise and deploy third-party capital into investments, the Company may be unable to collect management fees, carried interest or transaction fees, which would materially reduce the Company's revenue and cash flows and adversely affect the Company financial condition. If any of the Company's managed investments perform poorly or experience prolonged periods of volatility, or the Company is unable to deploy capital effectively, the Company's fee-based revenue, cash available for distribution and/or carried interest would decline. In addition, the Company could experience losses on its capital invested in its managed entities. Accordingly, the Company's expected returns on these investments may be less than the Company assumed in forecasting the value of the Company's business.

The asset management industry has experienced significant historical growth which may not continue

The Company's ability to generate revenues will be dependent on the growth of the asset management industry and by the Company's performance within the asset management industry. The asset management industry has experienced significant historical growth which may not continue and adverse economic conditions and other factors, including any significant decline in the financial markets, could affect market acceptance of the Company's services or result in clients withdrawing from the markets or decreasing their level and/or rate of investment. A decline in the growth of the asset management industry or other changes to the industry that discourage investors from investing with the Company and could affect the Company's ability to attract clients and result in a decline in revenues.

The Company is subject to numerous laws, rules, and regulatory requirements which may impact its business, including resulting in financial penalties, loss of business, and/or damage to its reputation in instances of non-compliance

The Company's ability to carry on business is dependent upon its compliance with, and continued registration under, securities legislation in the jurisdictions where it carries on business. Monitoring and responding to the rapidly changing securities regulatory environment requires significant managerial, operational and financial resources. Laws or regulations governing the Company's operations or particular investment products or services could be amended or interpreted in a manner that is adverse to the Company. Any change in the securities regulatory framework or failure to comply with these regulations could result in fines, temporary or permanent prohibitions on the Company's activities or the activities of some of the Company's personnel or reputational harm, which could materially adversely affect the Company's business, financial condition and results of operations.

The Company manages a limited number of funds and investments

The Company manages a limited number of funds and each fund may participate in a limited number of investments. The Company's entitlement to carried interest in respect of a particular fund depends on the returns generated in respect of the limited number of investments made by that fund. A fund's investments may be concentrated within relatively few industries, sectors, countries or regions. The Company and its fund investments may also be exposed to one or more common or systemic risks. The aggregate returns of the Company's funds, and therefore the amount of our carried interest, may be negatively affected by the unfavorable performance of a single investment or small group or type of investments. The unfavorable performance of even a single fund may have a material adverse effect on the Company's business, operations and financial results.

Changes in Asset Management Fees

Investors in future funds may negotiate to pay the Company lower management fees, reimburse the Company for fewer expenses or change the economic terms of the Company's future funds to be less favorable than those of the Company's current funds, reducing our financial opportunity from those asset management activities.

Risks Related to the Business – Insurance

The Company's insurance business is heavily regulated and changes in regulation could reduce the Company's profitability

The Company's insurance and reinsurance subsidiary, being Ability, is highly regulated by insurance regulators in the United States and changes in regulations affecting the Ability's insurance business may reduce the Company's profitability and limit its growth.

Ability operates in 42 U.S. states and the District of Columbia. The insurance and reinsurance industry is generally heavily regulated and Ability's operations in each of these jurisdictions are subject to varying degrees of regulation and supervision. The laws and regulations of the jurisdictions in which Ability operates may require Ability to, among other things, maintain minimum levels of statutory capital, surplus and

liquidity, meet solvency standards, submit to periodic examinations of its financial condition, and restrict payments of dividends and distributions of capital. Ability is also subject to laws and regulations that may restrict its ability to write insurance and reinsurance policies, make certain types of investments and distribute funds. With respect to investments, Ability must comply with applicable regulations regarding the type and concentration of investments it may make. These restrictions are set forth in investment guidelines that ML Management must comply with when providing investment management to Ability. These restrictions may limit Ability's ability to invest and ML Management's ability to earn fees on those investments. In addition, Ability is subject to laws and regulations governing affiliate transactions. The investment management agreements between ML Management and Ability were approved by applicable insurance regulators, and any changes of such agreements, including with respect to fees, must receive applicable approval. These affiliate transaction rules are particularly important to Ability given its relationship with ML Management.

In connection with the conduct of Ability's insurance and reinsurance business, it is crucial that Ability establish and maintain good working relationships with the various regulatory authorities having jurisdiction over its business. If those relationships and that reputation were to deteriorate, Ability's business could be materially adversely affected. For example, Ability requires various consents and approvals from its regulators, both with respect to transactions Ability enters into and in the ordinary course of the conduct of its business. If Ability fails to maintain good working relationships with its regulators, it may become more difficult or impossible for Ability to obtain those consents and approvals, either on a timely basis or at all.

Regulations applicable to Ability and interpretations and enforcement of such regulations may change. Insurance regulators have increased their scrutiny of the insurance regulatory framework in the United States. Ability is unable to predict whether, when or in what form legislators will enact legislative and regulatory changes, and Ability cannot provide any assurances that more stringent restrictions will not be adopted from time to time in jurisdictions in which Ability conducts business.

The cost of compliance with existing laws and regulations is high and the cost of compliance with any new regulatory requirements could have a significant and negative effect on Ability's business. Ability may not be able to comply fully with, or obtain desired exemptions from, any such new laws and regulations that govern the conduct of Ability's business. Failure to comply with, or to obtain desired authorizations and/or exemptions under, any applicable laws could result in restrictions on Ability's ability to do business or undertake activities that are regulated in one or more of the jurisdictions in which Ability operates, could impact Ability's potential growth and could subject Ability to fines and other sanctions. In addition, changes in the laws or regulations to which Ability is subject, or in the interpretations thereof by enforcement or regulatory agencies, could have a material adverse effect on Ability's business, results of operations and financial condition.

The acquisition of Ability may not achieve its intended benefits, and certain difficulties, costs or expenses may outweigh such intended benefits

The Company may be unable to realize the anticipated benefits of the Ability Acquisition. Achieving the anticipated benefits, including the acquisition's impact on the Company's assets under management, fee paying assets under management, book value, fee related earnings and after-tax distributable earnings, is subject to a number of uncertainties, including whether the Ability business will continue to operate and grow in the manner the Company anticipates. While Ability is expected to continue to operate as a separate business, the acquisition may result in material difficulties, costs, and expenses, including:

- incremental operating costs arising from the integration of certain standards, controls, procedures and policies, including Ability's obligations to provide financial reporting as a subsidiary of a public company;
- unknown potential liabilities of Ability, including those for which the Company may become responsible or take responsibility;
- the potential loss of key employees at Ability and the costs associated with our efforts to retain or replace them;
- disruptions or perceived disruptions resulting from the acquisition that may affect Ability's relationships with its policyholders and counterparties; and
- the significant attention required from the Company's senior management.

A significant portion of the benefit of the Ability Acquisition is anticipated to come from ML Management's role as investment manager for Ability. ML Management has not previously managed the entirety of the investment assets of an insurance company or assets of insurance companies at this scale, and the Company may not achieve its objectives. In addition, ML Management's investment management activities will require the assistance of Ability employees, with whom the Company has not historically worked.

A number of the foregoing factors will be outside of the Company's control and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy, which could adversely affect the Company's and Ability's business, financial condition and results of operations. In addition, other events outside of the Company's control, including, but not limited to, political climate, the severity and duration of the COVID-19 pandemic, and regulatory or legislative changes, could also adversely affect the Company's ability to realize the anticipated benefits from the Ability Acquisition. As a result of these risks, the Company may fail to realize some or all of the anticipated benefits of the Ability Acquisition or in an amount sufficient to offset the potential difficulties, costs and expenses arising from the acquisition. Accordingly, shareholders of the Company and potential investors should not place undue reliance on the Company's expectation of the anticipated benefits from the acquisition.

In addition, while the Company expects Ability to continue to operate as a separate business with its existing brands and management team following the acquisition, acquiring Ability adds significantly to the scale and scope of the Company's overall business and operations. The

Company has never owned an insurance company. Acquiring Ability changes the risks to which the Company is subject and may give rise to new and unexpected operational risks that could offset some of the benefits the Company expects from the acquisition.

Inclusion of Ability's business as a consolidated subsidiary of the Company will result in certain additional risks to the Company, which risks are expected to be material and could have a material adverse effect on the Company's future results of operations and financial condition

Ability operates its business as a consolidated subsidiary of the Company. The Company has not historically engaged in a business similar to Ability and Ability's business and structure pose additional risks to the Company, many of which may be material. These risks include, but are not limited to:

- business operational risks, including, interest rate and credit spread fluctuations and the impact of such changes on interest-sensitive products, the competitive nature of the insurance and reinsurance industry, the illiquidity of certain investment assets and the potential difficulty of selling and/or realizing full value on such assets if necessary and the performance of third-party service providers;
- risks related to Ability's growth strategy, which includes reinsurance of insurance obligations written by unaffiliated insurance companies, the ability to identify attractive insurance markets, reinsurance opportunities, or investments with returns as favorable as those obtained historically, and ability to effectively manage its growth;
- regulatory risks relating to the insurance and reinsurance industries, including capital regulations, laws or regulations which impose meaningful limitations on its business, fiduciary or best interest standards in connection with the sale of Ability's products, regulations relating to reserves and obligations to pay assessments through guaranty associations, changes in statutory accounting principles, heightened privacy regulations, and uncertainty regarding future changes in regulations;
- risks related to guarantees within certain of Ability's insurance products;
- any gaps in Ability's risk management policies and procedures, which may leave it exposed to unidentified or unanticipated risk; and
- risks associated with the business Ability reinsures and business it cedes to reinsurers.

Each of these risks could have material adverse effect on the Company's results of operations and financial condition.

Ability operates in a highly competitive industry that includes a number of companies, many of which are larger and more well-known, which could limit Ability's ability to increase or maintain market share and/or margins

Ability operates in highly competitive markets and competes with large and small industry participants. Ability faces intense competition, based upon price, terms and conditions, relationships with distribution partners and other clients, quality of service, capital and perceived financial strength (including independent rating agencies' ratings), technology, innovation, ease of use, capacity, product breadth, reputation and experience, brand recognition and claims processing.

Ability's competitors include other insurers, reinsurers and other financial institutions that offer investment products. Many of Ability's competitors are large and well-established, and some have greater market share or breadth of distribution, assume a greater level of risk while maintaining financial strength ratings, or have higher financial strength, claims-paying or credit ratings than Ability does or benefit, by offering various lines of insurance, from diversification of risks and possible positive impacts on capital requirements. Ability's competitors may also have lower operating costs than Ability, which may allow them to price insurance products, reinsurance solutions or acquisitions more competitively. Furthermore, Ability may face greater operational complexity when compared to competitors who offer a more limited range of products due to the breadth of Ability's product offering.

Competition in the industry could result in increased pressure on the pricing of certain of Ability's products and services, and could harm Ability's ability to maintain or increase profitable growth. For example, fixed annuity sales are materially impacted by the crediting rate offered on Ability's fixed annuities compared to that offered by its competitors. There can be no guarantee that Ability will be able or choose to set crediting rates at competitive levels, which may impact sales. Moreover, sales to fiduciaries may be materially impacted by Ability's ability and willingness to offer one of the most competitive crediting rates.

Because of the highly competitive nature of the insurance industry, there can be no assurance that Ability will maintain or grow its market share, continue to identify attractive opportunities in either the individual or institutional markets, or that competitive pressure will not have a material adverse effect on Ability's business, results of operations and financial condition.

Differences between Ability's policyholder behavior estimates, reserve assumptions and actual claims experience, in particular with respect to the timing and magnitude of claims and surrenders, may adversely affect Ability's results of operations or financial condition

Ability holds reserves to pay future policy benefits and claims. Ability's reserves are estimated based on data and models that include many assumptions and projections, which are inherently uncertain and involve significant judgment, including assumptions as to the levels and/or timing of receipt or payment of premiums, benefits, claims, expenses, interest credits, investment results (including equity and other market returns), mortality, morbidity, longevity and persistency.

While Ability periodically reviews the adequacy of its reserves and the assumptions underlying those reserves, Ability cannot determine with precision the amounts that Ability will pay for, or the timing of payment of, actual benefits, claims and expenses or whether the assets supporting policy liabilities, together with future premiums, will grow to the level assumed prior to the payment of benefits or claims. For Ability's reinsurance of fixed-rate annuities, reserves are equal to policyholder account balances before applicable surrender charges, and lapse,

surrender rates and persistency assumptions are important assumptions used in calculating these reserves and drivers of profitability with respect to these products. Advances in technology, including predictive medical technology that enables consumers to select products better matched to their individual longevity or mortality risk profile and other medical breakthroughs that extend lives, could cause Ability's future experience to deviate significantly from actuarial assumptions, which could significantly impact the level of reserves and profitability. The resulting acceleration of expense amortization, reduced spread or increased payments could have a material adverse effect on Ability's business, financial condition and results of operations.

If actual experience differs significantly from assumptions or estimates, certain balances included in Ability's balance sheet may not be adequate, particularly deferred acquisition costs, value of business acquired, negative value or business acquired, policy reserves and other actuarial balances. If Ability concludes that its reserves, together with future premiums, are insufficient to cover future policy benefits and claims, Ability would be required to increase its reserves and incur income statement charges for the period in which it makes the determination, which could have a material adverse effect on Ability's business, financial condition and results of operations. An increase in the statutory reserves of Ability may negatively affect liquidity and capitalization.

Estimates used in the preparation of financial statements and models for insurance products may differ materially from actual experience

IFRS requires the application of accounting guidance and policies that often involve a significant degree of judgment when accounting for insurance products. These estimates include, but are not limited to, premium persistency, future policy benefits and related expenses, valuation of embedded derivatives, valuation and impairment of investments and amortization of deferred revenues and expenses, and the valuation and impairment of goodwill recognized in accordance with the Ability transaction. These accounting estimates require the use of assumptions, some of which are highly uncertain at the time of estimation. These estimates are based on judgment, current facts and circumstances and, when applicable, internally developed models. Therefore, actual results could differ from these estimates, possibly in the near term. Inaccuracies could result in, among other things, an increase in policyholder benefit reserves or acceleration of the amortization of deferred revenues and expenses, which would result in a charge to earnings, a restatement of Ability's historical financial statements or other material adjustments. Additionally, the potential for unforeseen developments, including changes in laws, regulations or accounting standards, may result in losses and loss expenses materially different from the reserves initially established.

In addition, Ability employs models to price products, calculate reserves and value assets, as well as evaluate risk and determine capital requirements, among other uses. These models rely on estimates and projections that are inherently uncertain, may use incomplete, outdated or incorrect data or assumptions and may not operate properly. As Ability's business continues to expand and evolve, the number and complexity of models it employs has grown, increasing exposure to error in the design, implementation or use of models, including the associated data input, controls and assumptions, and the controls in place to mitigate their risk may not be effective in all cases.

Ability's historical growth rates may not be indicative of its future growth, and Ability may not be able to identify attractive insurance markets, reinsurance opportunities or investments with returns that are as favorable as Ability's historical returns and grow new business volumes at historical levels

Ability's historical growth rates may not reflect its future growth rates. While Ability anticipates that it will continue to grow by deepening existing and adding new distribution relationships in Ability's individual market, pursuing attractive reinsurance opportunities and expanding its funding agreement business in the institutional market, taking advantage of investment opportunities to support Ability's growth, developing new products and entering new markets, Ability may not be able to identify opportunities to do so. With future growth, there can be no guarantee that Ability's net underwriting return will be as favorable as its historic returns. Weaker margins may challenge Ability's ability to grow profitably or at the returns targeted. Further, in order to maintain or increase investment returns, it may be necessary to expand the scope of Ability's investing activities to asset classes in which Ability historically has not invested, which may increase the risk of Ability's investment portfolio. If Ability is unable to find profitable growth opportunities, it will be more difficult for Ability to continue to grow, and could negatively affect its results of operations and financial condition.

Ability's future growth depends on its ability to continue to offer and sell products that Ability's customers find attractive. Consumer preferences regarding annuities and life insurance are subject to change. In particular, due to market risks, consumers may not continue to view annuities as an attractive retirement savings product, which would impact Ability's ability to sell such products to its target consumers. In addition, there is no guarantee that younger generations will use life insurance products at the same rate as previous generations as a result of changes in savings habits and demographic shifts. Ability's expected growth is largely concentrated in fixed-rate annuities. However, this product may not continue to grow at historical market levels, and there can be no assurance that consumers will continue to prefer these products. Moreover, sales of Ability's products and continued future growth depend on its ability to offer competitive pricing and attractive policyholder benefits. For example, one factor impacting sales of fixed-rate annuities is the crediting rate Ability offers compared to that offered by its competitors. Ability sets its crediting rates based on expected investment returns, policyholder behavior assumptions and other factors that may be beyond Ability's control. Ability expects that overall sales of fixed-rate annuities will continue to be sensitive to changes in pricing, in particular when compared to pricing on comparable products such as bank certificates of deposit. If consumer preferences for Ability's products change, Ability's revenues and results of operations may be materially adversely impacted.

Ability faces risks associated with business it reinsures and business it cedes to reinsurers and which could cause a material adverse effect on Ability's business, results of operations and financial condition

As part of Ability's overall risk management strategy, it cedes business to other insurance companies through reinsurance. Ability's inability to collect from its reinsurers (including reinsurance clients in transactions where Ability reinsures business net of ceded reinsurance) on its reinsurance claims could have a material adverse effect on Ability's business, results of operations and financial condition. Although reinsurers

are liable to Ability to the extent of the reinsurance coverage it acquires, Ability remains primarily liable as the direct insurer on all risks that it writes; therefore, Ability's reinsurance agreements do not eliminate its obligation to pay claims. As a result, Ability is subject to the risk that it may not recover amounts due from reinsurers. The risk could arise primarily in two situations: (i) Ability's reinsurers may dispute some of its reinsurance claims based on contract terms, and, as a result, Ability may receive partial or no payment; or (ii) Ability's reinsurers may default on their obligations. While Ability may manage these risks through transaction-related diligence, contract terms, collateral requirements, hedging, and other oversight mechanisms, Ability's efforts may not be successful. A reinsurer's insolvency, or its inability or unwillingness to make payments due to Ability under the terms of the relevant reinsurance agreements, could have a material adverse effect on Ability's business, results of operations and financial condition.

Ability also bears the risk that the companies that reinsure its mortality risk on a yearly renewable term, where the reinsurer may reset the premium and other terms each year, increase the premiums they charge to levels Ability deems unacceptable. If that occurs, Ability will either need to pay such increased premiums, which will affect margins and financial results, or alternatively, Ability will need to limit or potentially terminate reinsurance, which will increase the risks that Ability retains.

Conversely, Ability assumes liabilities from other insurance companies. Changes in the ratings, creditworthiness or market perception of such ceding companies or in the administration of policies reinsured to Ability could cause policyholders of contracts reinsured to Ability to surrender or lapse their policies in unexpected amounts. In addition, to the extent such ceding companies do not perform their obligations under the relevant reinsurance agreements, Ability may not achieve the results intended and could suffer unexpected losses. In either case, Ability has exposure to reinsurance clients, which could materially and adversely affect Ability's business, financial condition, results of operations and cash flows.

The determination of the amount of impairments and allowances for credit losses recognized on Ability's investments is highly subjective and could materially affect its results of operations or financial condition

The determination of the amount of impairments and allowances for credit losses is based upon Ability's periodic evaluation and assessment of known and inherent risks associated with the respective asset class and the specific investment being reviewed. Such evaluations and assessments are revised as conditions change and new information becomes available. Management updates its evaluations regularly and reflects changes in allowances and impairments in its financial results as such evaluations are revised. Impairments result in a non-cash charge to earnings during the period in which the impairment charge is taken. Changes in allowances for credit losses can result in either a charge or credit to earnings.

For example, an allowance is recognized on Ability's fixed maturity securities when the fair value of the security is less than its amortized cost basis and credit related losses are deemed to have occurred. The determination of the allowance requires assessment of the security's expected future cash flows, which depend on a variety of macroeconomic factors and security-specific considerations. Similarly, the determination of the allowance on Ability's mortgage and other loan receivables requires an assessment of expected credit losses that considers current, historical and forecasted macroeconomic data and loan-specific factors. As expectations change based on macroeconomic data and individual investment considerations, the associated allowance for credit losses can be adjusted, up or down.

There can be no assurance that management has accurately determined the amount of impairments and allowances for credit losses recognized in Ability's financial statements and their potential impact on regulatory capital. Furthermore, additional impairments and allowance provisions may be taken in the future.