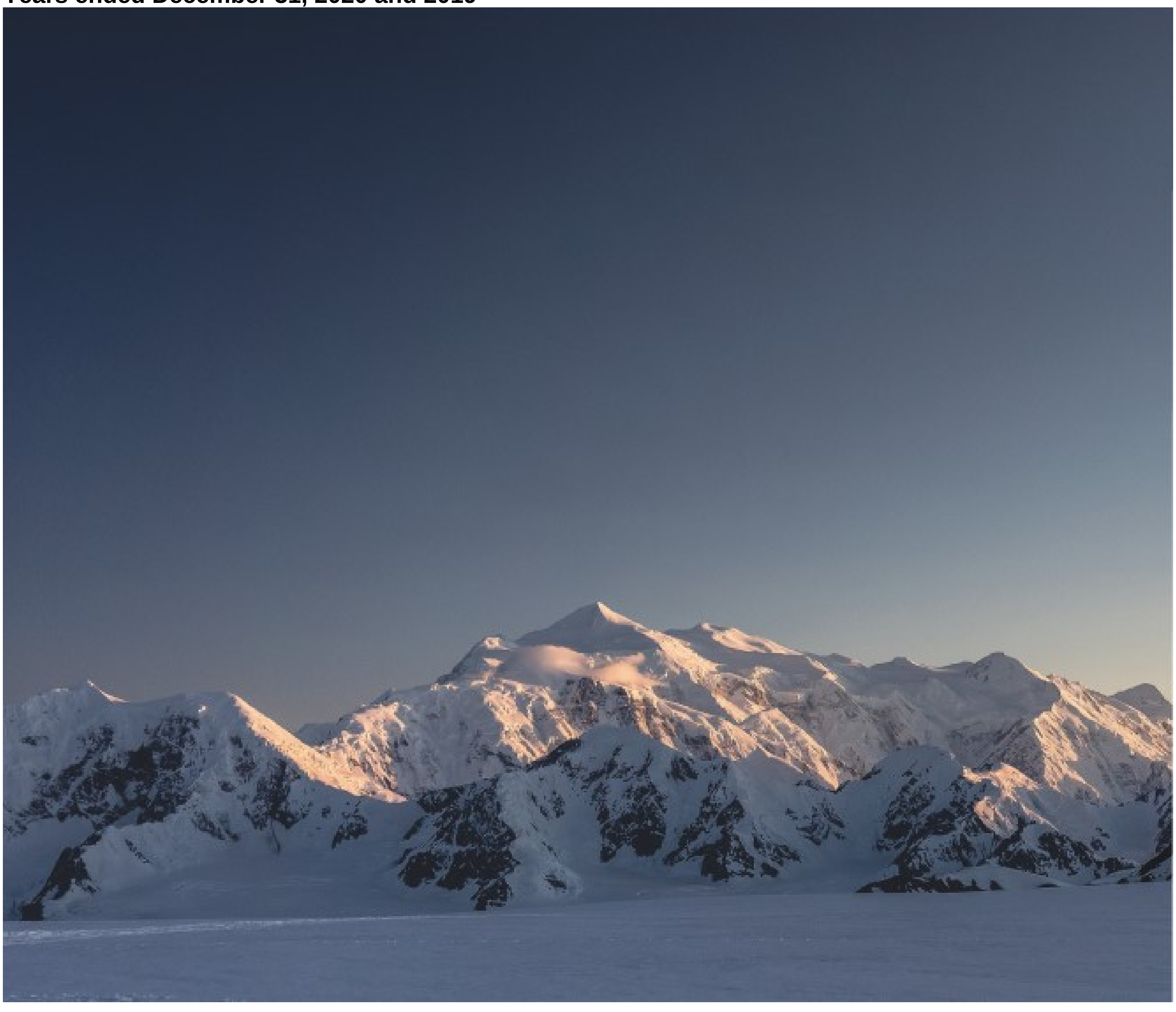
MOUNT LOGAN CAPITAL INC.

Consolidated Financial Statements

Years ended December 31, 2020 and 2019



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Mount Logan Capital Inc.

Opinion

We have audited the consolidated financial statements of Mount Logan Capital Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019
- the consolidated statements of comprehensive income (loss) for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Evaluation of fair value of Level 3 financial assets and financial liabilities

Description of the matter

We draw attention to Notes 2 and 3 to the financial statements. The Entity records certain of its investments and contingent value rights at fair value. The Entity has investments of $25,715 thousand of which $17,876 thousand are categorized as Level 3 in the fair value hierarchy. The Entity has contingent value rights of $3,954 thousand which are categorized as Level 3 in the fair value hierarchy. The estimate of fair value for Level 3 investments and contingent value rights is developed using yield analysis and discounted cash flow methodologies. The significant unobservable input into these valuation techniques is the discount rate.

Why the matter is a key audit matter

We identified the evaluation of the fair value of Level 3 financial assets and financial liabilities as a key audit matter. This matter represented an area of significant risk of material misstatement given the magnitude of the Level 3 financial assets and financial liabilities and the high degree of estimation uncertainty in determining the fair value. In addition, significant auditor judgement and specialized skills and knowledge were required in evaluating the results of our procedures.

How the matter was addressed in the audit

The following is the primary procedure we performed to address this key audit matter:

For the Level 3 debt investments, we involved valuations professionals with specialized skills and knowledge to assess the discount rate by independently establishing discount rates for comparable instruments.

For the Level 3 bonds and contingent value rights, we involved valuations professionals with specialized skills and knowledge to assess the discount rate utilized in the valuation of bonds and contingent value rights; the valuations professionals developed an independent estimate of the discount rate from publicly available data, and consideration of the Entity's specific risk factors.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Peter Hayes.

Toronto, Canada

March 22, 2021

MOUNT LOGAN CAPITAL INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Investments	3	$ 38,219	$ 64,489
Investment in associates	4	7,000	—
Cash		6,658	425
Restricted cash	2	17,620	6,733
Receivable for investments sold		15,840	—
Due from affiliates	8	—	411
Other assets		436	391
Deferred tax assets	12	1,716	2,863
Intangible assets, net	7	3,496	—
Total assets		**$ 90,985**	**$ 75,312**
LIABILITIES			
Debt	11	$ 39,412	$ 34,320
Payable for investments purchased		988	1,880
Other liabilities		1,514	1,027
Due to affiliates	8	403	—
Payable for equity units purchased	4	1,536	—
Contingent value rights	10	3,954	3,876
Total liabilities		47,807	41,103
SHAREHOLDERS' EQUITY			
Share capital	9	93,480	80,988
Warrants	9	1,086	1,086
Contributed surplus		7,240	7,240
Deficit		(36,770)	(33,247)
Cumulative translation adjustment	2	(21,858)	(21,858)
Total shareholders' equity		43,178	34,209
Total liabilities and shareholders' equity		**$ 90,985**	**$ 75,312**
Common shares issued and outstanding		**16,963,379**	**10,604,998**
Net asset value per share		**$ 2.55**	**$ 3.23**

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

Approved by the Board of Directors

(signed) Edward (Ted) Goldthorpe

Edward (Ted) Goldthorpe
Chief Executive Officer and Chairman

(signed) Graeme Dell

Graeme Dell
Chairman of Audit Committee

MOUNT LOGAN CAPITAL INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

	Notes	Years ended December 31, 2020	2019
REVENUE			
Interest income		$ 3,184	$ 3,046
Dividend income	5	676	442
Management fee and other income	6	65	11
Total revenue		**3,925**	**3,499**
EXPENSES			
Administration fees		623	141
Arrangement costs		—	166
Transaction costs		765	—
Amortization of intangible assets	7	95	—
Interest and other credit facility expenses	11	2,014	1,563
Professional fees		874	593
Compensation		225	312
Other expenses		561	500
Total expenses		**5,157**	**3,275**
Net income (loss)		**(1,232)**	**224**
REALIZED AND UNREALIZED GAIN (LOSS)			
Net realized gain on investments		87	620
Net realized loss on foreign currency		(56)	(43)
Net change in unrealized appreciation (depreciation) on investments		(477)	9
Net change in unrealized gain (loss) on foreign currency		20	(1,281)
Total net realized and unrealized loss		**(426)**	**(695)**
Loss and comprehensive loss before income tax		**(1,658)**	**(471)**
Deferred tax (expense) recovered	12	(1,147)	699
Income (loss) and comprehensive income (loss)		**$ (2,805)**	**$ 228**
Weighted average shares outstanding – basic and diluted	13	**11,728,698**	**10,348,477**
Income (loss) per share – basic and diluted	13	**$ (0.24)**	**$ 0.02**

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

MOUNT LOGAN CAPITAL INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

Years Ended December 31, 2020 and 2019	Notes	Number of Voting Common Shares	Share Capital	Warrants	Contributed Surplus	Deficit	Cumulative Translation Adjustment	Total Equity
Balance at December 31, 2018		**81,873,130**	**$ 79,744**	**$ 1,086**	**$ 7,240**	**$ (33,312)**	**$ (23,476)**	**$ 31,282**
Share issuance, net of issuance costs	9	2,968,751	1,244	—	—	—	—	1,244
Share consolidation	9	(74,236,883)	—	—	—	—	—	—
Distributions to shareholders	9	—	—	—	—	(163)	—	(163)
Comprehensive income		—	—	—	—	228	—	228
Cumulative translation reserve		—	—	—	—	—	1,618	1,618
Balance at December 31, 2019		**10,604,998**	**$ 80,988**	**$ 1,086**	**$ 7,240**	**$ (33,247)**	**$ (21,858)**	**$ 34,209**
Share issuance, net of issuance costs	9	6,358,381	12,492	—	—	—	—	12,492
Distributions to shareholders	9	—	—	—	—	(718)	—	(718)
Comprehensive loss		—	—	—	—	(2,805)	—	(2,805)
Balance at December 31, 2020		**16,963,379**	**$ 93,480**	**$ 1,086**	**$ 7,240**	**$ (36,770)**	**$ (21,858)**	**$ 43,178**

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

MOUNT LOGAN CAPITAL INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of United States dollars)

	Notes	Years ended December 31, 2020	2019
OPERATING ACTIVITIES			
Comprehensive income (loss)		$ (2,805)	$ 228
Adjustments to reconcile net cash provided by (used in) operating activities:			
Net realized (gains) losses on investments		(87)	(620)
Net realized loss on foreign currency		56	43
Net change in unrealized appreciation on investments		477	(9)
Net change in unrealized depreciation (appreciation) on foreign currency		(20)	1,281
Net amortization of premiums and accretion of discounts on investments		(96)	(49)
Amortization of debt issuance costs		550	452
Amortization of intangible assets		95	—
Payment in-kind interest		—	(221)
(Increase) decrease in operating assets:			
Due from affiliates		411	(411)
Deferred tax asset		1,147	(819)
Other assets		(45)	(36)
Increase (decrease) in operating liabilities:			
Due to affiliates		403	—
Other liabilities		487	569
Net cash provided by (used in) operating activities		**573**	**408**
FINANCING ACTIVITIES			
Proceeds from issuance of common shares, net of offering costs	**9**	12,492	1,244
Distributions to shareholders	**9**	(718)	(163)
Borrowings on debt, net of deferred financing costs	**11**	4,542	33,868
Net cash provided by (used in) financing activities		**16,316**	**34,949**
INVESTING ACTIVITIES			
Purchases of investments		(39,267)	(58,695)
Proceeds from sales and repayments of investments		43,079	24,492
Intangible assets		(3,591)	—
Net cash provided by (used in) investing activities		**221**	**(34,203)**
Net increase (decrease) in cash and restricted cash		17,110	1,154
Effects of exchange rate changes on cash and restricted cash		10	122
Cash and restricted cash, beginning of year		7,158	5,882
Cash and restricted cash, end of year		**$ 24,278**	**$ 7,158**
SUPPLEMENTAL INFORMATION			
Interest received		$ 2,947	$ 3,184
Interest paid		$ 1,308	$ 747
Dividends received		$ 676	$ —
Distributions paid		$ 718	$ —
Amounts per statements of financial position			
Cash		$ 6,658	$ 425
Restricted cash		17,620	6,733
Total cash and restricted cash		**$ 24,278**	**$ 7,158**

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

MOUNT LOGAN CAPITAL INC.

CONSOLIDATED SCHEDULE OF INVESTMENT PORTFOLIO

December 31, 2020

(in thousands of United States dollars, except shares)

Company[6]	Investment	Spread Above Index[1]	Interest	Maturity Date	Currency	Par / Shares	Cost	Carrying Value
Debt investments								
Loans								
Consumer								
League Collegiate Holdings, LLC	Senior Secured Loan	3M L+500 plus 1.25% PIK	7.25%	5/1/2024	USD	4,888	4,859	4,414
Total consumer							4,859	4,414
Financials								
Alera Group Intermediate Holdings, Inc.	Senior Secured Loan	1M L+400	4.50%	8/1/2025	USD	3,920	3,934	3,910
Asurion, LLC	Senior Secured Loan	1M L+325	3.40%	12/23/2026	USD	1,000	988	991
Sierra Crest Management LLC[7][8]	Promissory Note	NA	8.00%	10/30/2040	USD	12,504	12,504	12,504
Total financials							17,426	17,405
Health Care								
Radiology Partners, Inc[10]	Senior Secured Loan	L+425	4.81%	7/9/2025	USD	4,000	3,884	3,943
The PromptCare Companies Inc.	Senior Secured Loan	1M L+525	6.25%	12/30/2025	USD	2,322	2,302	2,305
The PromptCare Companies Inc.	Senior Secured Loan	1M L+525	6.25%	12/30/2025	USD	324	321	322
The PromptCare Companies Inc.[3][4][5]	Senior Secured Loan	NA	1.00%	12/30/2025	USD	327	(1)	(3)
Total healthcare							6,506	6,567
Industrials								
Mileage Plus Holdings LLC	Senior Secured Loan	3M L+525	6.25%	6/21/2027	USD	1,000	981	1,044
Total industrials							981	1,044
Information technology								
Idera, Inc.	Senior Secured Loan	6M L+400	5.00%	6/28/2024	USD	3,053	3,042	2,974
Monotype Imaging Holdings Inc.	Senior Secured Loan	3M L+550	6.50%	10/9/2026	USD	1,963	1,861	1,861
Total information technology							4,903	4,835
Total loans							**34,675**	**34,265**
Bonds								
Cline Mining Corporation[7]				7/8/2022	CAD	8,304	6,523	3,954
Total bonds							**6,523**	**3,954**
Total debt investments							**41,198**	**38,219**
Equity investments								
Sierra Crest Management LLC[7][9]					USD	2,797	7,000	7,000
Cline Mining Corporation[7]					CAD	2,075,595	419	—
Total equity investments							**7,419**	**7,000**
Total investments							**$ 48,617**	**$ 45,219**

(1) The majority of the investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate ("LIBOR" or "L"), which resets monthly, quarterly, semiannually or annually. For each such investment, the Company has provided the spread over LIBOR and the current contractual interest rate in effect at December 31, 2020. Certain investments may be subject to an interest rate floor.

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

(3) Position is an unfunded loan commitment. See Note 14 "Commitments and Contingencies".

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

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

(6) Unless otherwise indicated, the Company's portfolio companies are pledged as collateral to secure Great Lakes Senior MLC I LLC's debt obligation outstanding under the Revolving Senior Loan Facility. See note 11 "Debt".

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

(8) Investment measured using amortized cost.

(9) Investment measured using the equity method.

(10) The senior secured loan is comprised of two components: $1,846,451 at 12M L+425 and $2,153,549 at 1M L+425. Interest rate disclosed reflects the blended rate of the contracts.

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

MOUNT LOGAN CAPITAL INC.

CONSOLIDATED SCHEDULE OF INVESTMENT PORTFOLIO

December 31, 2019

(in thousands of United States dollars, except shares)

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

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

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

(3) Position is an unfunded loan commitment. See Note 14 "Commitments and Contingencies".

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

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

(6) Unless otherwise indicated, the Company's portfolio companies are pledged as collateral to secure Great Lakes Senior MLC I LLC's debt obligation outstanding under the Revolving Senior Loan Facility. See note 11 "Debt".

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

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

Mount Logan Capital Inc. (the “Company” or “MLC”) is incorporated under the laws of Ontario and its common shares are publicly traded on the Neo Exchange (“NEO Exchange”) under the symbol “MLC”.

The Company operates as an emerging asset management and investment firm primarily focused on investing in public and private debt securities in the North American market. The Company holds and actively manages and monitors a portfolio of loans and other investments with credit-oriented characteristics. The Company actively sources, evaluates, underwrites, 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. During 2020, the Company, through its subsidiaries, acquired certain investment management contracts and/or economic benefit thereof.

1. BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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

These consolidated financial statements were authorized for issuance by the board of directors (the “Board”) of the Company on March 22, 2021.

Consolidation

These consolidated financial statements include the financial statements of the Company and its controlled subsidiaries. The Company controls an entity when it: (i) has power to direct the relevant activities of the entity; (ii) is exposed to, or has rights to, variable returns from its involvement with the entity; and (iii) has the ability to affect those returns through its power over the entity.

All intercompany balances and transactions are eliminated on consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements for the year ended December 31, 2020 follow the same accounting policies and methods of their application as those used in the Company’s audited consolidated financial statements for the year ended December 31, 2019, except for the change in functional currency, as described below:

Change in functional and presentation currency

Functional currency

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

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

Presentation currency

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

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

Critical accounting judgments, estimates, and assumptions

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and related disclosures. Significant estimates and assumptions include the valuation of financial instruments, allowance for credit losses, income taxes and deferred taxes, and provisions. The Company holds financial instruments that are generally not quoted in active markets and management is required to make estimates related to these investments. Accordingly, by their nature, estimates of fair value of this type are subjective and do not necessarily result in precise determinations. Actual results may differ from those estimates, and such differences could be material.

The outbreak of the novel coronavirus, or COVID-19, continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The outbreak has triggered a period of global economic slowdown and continued volatility and could have a continued impact on economic and market conditions. The situation presents material uncertainty and risk with respect to the Company and the Company's portfolio companies' performance and financial results. In the preparation of the consolidated financial statements, the Company has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of its assets and liabilities, and the reported amount of its results using the best available information as of December 31, 2020. Significant sources of estimation uncertainty include the fair value measurement of investments and the determination of expected credit losses on financial assets. The Company is actively monitoring developments with respect to this pandemic, including existing and potential economic impacts on the underlying businesses associated with the Company's financial assets, and the ability of such businesses to meet their financial obligation to the Company on a timely basis. The Company also reviews collateral values and monitors financial results of the underlying businesses on an ongoing basis.

Reclassification of prior period presentation

Certain comparative figures have been reclassified to conform to the current year's presentation.

Offsetting financial instruments

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

Financial instruments

Recognition and initial measurement

Financial instrument assets are initially recognized when the Company becomes a party to a financial instrument contract. The majority of the Company's investments are classified at fair value through profit and loss. Certain investments are classified at amortized cost. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid. The carrying values of financial assets and liabilities at amortized cost approximate their fair values.

The Company capitalizes costs related to its borrowings. These costs are amortized and included as a component of interest expense using the straight-line method, which approximates the effective yield method, over the life of the related debt instrument. Unamortized capitalized debt issuance costs are presented on the consolidated statements of financial position as a direct deduction from the debt liability.

Classification and measurement of financial instruments

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 investments 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 and loss ("FVTPL"). Financial assets measured at amortized cost are debt financial instruments with contractual cash flows that meet the "solely payment of principal and interest" ("SPPI") test and are managed on a "hold to collect" basis. 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.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the asset.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company also derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Impairment of financial assets

ECL allowances are recognized on financial assets that are debt instruments classified as amortized cost. Expected credit losses are the difference between all contractual cash flows that are due to the Company and all the cash flows the Company expects to receive, discounted at the original effective interest rate. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. Forward-looking information is explicitly incorporated into the estimation of ECL allowances, which involves significant judgment. ECL allowances on loans are included in allowance for credit losses on the consolidated statements of financial position.

The expected loss impairment model is based on a forward-looking approach: (i) 12-month ECL or (ii) lifetime ECL for those financial instruments that have experienced a significant increase in credit risk since initial recognition or when there is objective evidence of impairment. ECL allowances are categorized into three stages:

Stage 1 all performing financial instruments that have not experienced a significant increase in credit risk since initial recognition;

Stage 2 all performing financial instruments that have experienced a significant increase in credit risk since initial recognition; and

Stage 3 financial instruments that are classified as impaired.

Debt securities measured at amortized cost are classified as impaired when it is determined that there is no longer reasonable assurance that principal or interest will be collected in their entirety or on a timely basis as a result of one or more loss events, including default, bankruptcy or delinquency. In determining whether or not a default has occurred, the Company considers both qualitative and quantitative factors, including compliance with financial covenants and days past due. Interest income on impaired debt securities measured at amortized cost is recognized based on amortized cost, net of allowance, and the original effective interest rate on the impaired debt security.

The Company elects to measure the loss allowance for its net investment in loans at an amount equal to lifetime expected credit losses under a simplified approach that does not require the Company to track changes in credit risk. In considering the lifetime of the net investment in loans, the contractual period of the underlying loans is generally used.

On an ongoing basis, the Company assesses whether any investment should be classified as impaired and whether any resulting write-off or change in allowance should be recorded. The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Company assesses the timing and amount of write-offs for impaired assets based on whether there is a reasonable expectation of recovery.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Company considers reasonable and supportable information that is relevant and available. This includes both quantitative and qualitative information and analysis, based on the Company’s historical experience and credit risk assessment from qualified personnel, including forward-looking information.

The key inputs into the measurement of expected credit loss, regardless of the presence of significant increase in credit risk, are probability of default, loss given default and exposure at default. The allowance for expected credit loss is established with consideration for borrower-specific factors, including estimated levels of collateral security, the Company’ historical credit loss experience, and current and future expected economic conditions.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Fair value measurement

Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investments held that are traded in an active market, through recognized public stock exchanges, over-the-counter markets, or through recognized investment dealers are valued at their closing price (Level 1). Investments held that are not traded in an active market are valued based on the results of valuation techniques using observable market inputs, if available, on such basis and in such manner established by management (Level 2). The fair value of certain securities may be estimated using valuation techniques based on assumptions that are not supported by observable market inputs (Level 3). Investments for which reliable quotations are not readily available are valued at fair value, as determined using management’s best estimates thereof pursuant to procedures established by the Company.

The Company’s contingent value rights liability is measured at fair value through profit and loss, and represents a contingent cash entitlement in respect of its investment in Cline Mining Corporation (“Cline”). Additional information regarding the Company’s accounting for contingent value rights is included in Note 10.

Investments that are not publicly traded or whose market prices are not readily available, as is expected to be the case for substantially all of the Company’s investments, are valued at fair value as determined in good faith by management and input from independent third-party valuation firm(s), as necessary.

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

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

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

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date;

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

Level 3 Significant inputs that are unobservable for an asset or liability.

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

Associates

The Company classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint ventures, as associates. Significant influence is presumed to exist where the Company holds, either directly or indirectly, between 20% and 50% of the voting rights of an entity. Investments in associates are accounted for using the equity method. Under the equity method, such investments are initially measured at cost, and are adjusted thereafter to recognize the Company’s share of profit or loss of the investee. Distributions received from an investee reduce the carrying amount of the investment.

Intangible assets

Intangible assets include payments made to purchase existing investment management contracts from third-party investment managers. Intangible assets with definite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recorded using the straight-line method and is based on the estimated useful lives between 3 to 6 years. Intangible assets are reviewed for impairment at least annually and whenever there is an indication that the asset may be impaired.

Investment transactions

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

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

Interest income

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

Loans are in default when there is reasonable doubt that principal or interest will be collected in full. The Company considers many factors relevant to an investment when placing it on or removing it from default status including, but not limited to, the delinquency status of the investment, economic and business conditions, the overall financial condition of the underlying investment, the value of the underlying collateral, bankruptcy status, if any, and any other facts or circumstances relevant to the investment. Interest income is continued to be recognized when a loan is identified as impaired, net of its related allowance.

Transaction costs are amortized over the expected life of the instrument using the effective interest method for instruments measured at amortized cost.

Dividend income

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

Management fee revenue

Revenue from investment management fees for services rendered are calculated in accordance with respective agreements of the managed funds or service agreements. The fees are earned and recognized over the period during which the assets are managed by the Company. Management fee revenue is recognized net of amounts payable to third parties.

Foreign currency translation

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

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

Current and deferred income taxes

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

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

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

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

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

Earnings per share

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

Restricted cash

Restricted cash represents amounts pledged as collateral for debt obligation.

Shareholder dividends

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

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

Future changes in IFRS

IBOR Reform

In August 2020, the IASB issued *Interest Rate Benchmark Reform: Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16,* which addresses issues that affect financial reporting once an existing rate is replaced with an alternative rate and provides specific disclosure requirements. For financial instruments at amortized cost, the amendments introduce a practical expedient such that if a change in the contractual cash flows is as a result of IBOR reform and occurs on an economically equivalent basis, the change will be accounted for by updating the effective interest rate with no immediate gain or loss recognized. The amendments also require additional disclosure that allow users to understand the effect of IBOR reform on the Company's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after January 1, 2021. We continue to evaluate the impact of the amendments on the Company's consolidated financial statements.

3. FINANCIAL INSTRUMENTS

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

	Fair Value Measurements			
December 31, 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments	$ —	$ 7,839	$ 13,922	$ 21,761
Bonds	—	—	3,954	3,954
	$ —	**$ 7,839**	**$ 17,876**	**$ 25,715**
Financial liabilities				
Contingent value rights	$ —	$ —	$ 3,954	$ 3,954
	$ —	**$ —**	**$ 3,954**	**$ 3,954**

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

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

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

	Debt Investments	Repurchase Agreements	Bonds	Equity Investments	Total Financial Assets	Contingent Value Rights
Balance at December 31, 2019	$ 40,601	$ —	$ 3,876	$ 9,532	$ 54,009	$ 3,876
Purchases of investments and other adjustments to cost	13,205	645	—	783	14,633	—
Proceeds from principal repayments and sales of investments	(37,779)	(645)	—	(10,255)	(48,679)	—
Net realized gain on investments	163	—	—	—	163	—
Net change in unrealized appreciation (depreciation) on investments [1]	(388)	—	78	(60)	(370)	78
Transfers into Level 3 [2]	—	—	—	—	—	—
Transfers out of Level 3 [2]	(1,880)	—	—	—	(1,880)	—
Balance at December 31, 2020	$ 13,922	$ —	$ 3,954	$ —	$ 17,876	$ 3,954
Net change in unrealized appreciation (depreciation) on Level 3 investments still held	$ (388)	$ —	$ (50)	$ (68)	$ (506)	$ (50)

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

	Debt Investments	Repurchase Agreements	Bonds	Equity Investments	Total Financial Assets	Contingent Value Rights
Balance at December 31, 2018	$ 18,472	$ —	$ 5,823	$ 4,987	$ 29,282	$ 5,823
Purchases of investments and other adjustments to cost	44,062	—	—	6,343	50,405	—
Proceeds from principal repayments and sales of investments	(22,583)	—	—	(1,858)	(24,441)	—
Net realized gain on investments	634	—	—	—	634	—
Net change in unrealized appreciation (depreciation) on investments [1]	16	—	(1,947)	60	(1,871)	(1,947)
Balance at December 31, 2019	$ 40,601	$ —	$ 3,876	$ 9,532	$ 54,009	$ 3,876
Net change in unrealized appreciation (depreciation) on Level 3 investments still held	$ 13	$ —	$ (1,947)	$ 65	$ (1,869)	$ (1,947)

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

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

December 31, 2020		Quantitative Information about Level 3 Fair Value Measurements				
Asset Category	Fair Value	Valuation Technique/Methodology	Unobservable Input	Range (Weighted Average)	Change in Valuation [3] +	Change in Valuation [3] -
First lien loans[1]	13,922	Yield analysis	Discount rate	5.1%-13.4% (8.1%)	(397)	520
Bonds[2]	3,954	Discounted cash flow	Discount rate	12.0%	(128)	136
Contingent value rights[2]	(3,954)	Direct offset to bonds	Discount rate	12.0%	136	(128)
	$ 13,922					

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

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

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

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

December 31, 2019 — Quantitative Information about Level 3 Fair Value Measurements

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

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

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

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

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

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

The Company, along with affiliates of Marret Asset Management Inc. (the "Former Manager" and collectively, 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 October 27, 2020, the Former Manager announced that on October 26, 2020 Allegiance Coal Limited ("Allegiance") acquired all the shares in New Elk Coal Company LLC ("NECC"), which holds all the mining assets of Cline. The Company understands that it is the Former Manager's intention to direct Cline to remit the net proceeds from the transaction, less a prudent provision for any ongoing Cline operating costs, to the senior bondholders (which includes the Company) as soon as practicable after receipt. The distribution by the Company of any proceeds received from the Cline transaction will be made in accordance with the terms of the indenture governing the CVRs (as defined below). The estimated fair value of Cline, and the related contingent value rights liability, are based on assumptions related to the completed transaction and the future operations of the mine. The assumptions include the expected timing of the repayment of certain obligations owed by NECC to Cline and the appropriateness of discount rates used in the estimates. Accordingly, by their nature, estimates of fair value of this type are subjective and do not necessarily result in precise determinations. Should the underlying assumptions change, the estimated fair value could change by a material amount, but would have no net impact on the net income or total shareholders' equity of the Company.

The following table summarizes the characterization of ECL allowances of the Company:

	December 31, 2020 Stage 1	Stage 2	Stage 3	Total
Financial assets				
Gross carrying value at amortized cost	$ 12,504	$ —	$ —	$ 12,504
Allowance for credit losses	—	—	—	—
Net carrying value at amortized cost	**$ 12,504**	**$ —**	**$ —**	**$ 12,504**

The following table summarizes the changes to the allowance for credit losses of the Company:

	December 31, 2020	December 31, 2019
Beginning balance	$ —	$ —
Additions	—	—
Ending balance	**$ —**	**$ —**

4. INVESTMENT IN ASSOCIATES

An associate is an entity over which the Company has significant influence, but not control (or joint control). Generally, the Company is considered to exert significant influence when it holds, directly or indirectly, between 20% and 50% of the voting power of the investee.

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

On December 17, 2020, the Company, through its wholly-owned subsidiary, Mount Logan Management LLC ("ML Management"), acquired an equity stake in Sierra Crest Investment Management, LLC ("SCIM") for $7.0 million. As at December 31, 2020, $1.5 million is payable on September 30, 2021 related to the purchase.

The Company's associates that are accounted for under the equity method include:

Name	Type	Principal place of business	Country of incorporation	Ownership interest %	Voting rights %
Sierra Crest Investment Management LLC	Limited Liability Company	United States	United States	21%	21%

5. INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

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

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

Investment in Great Lakes Holdings is susceptible to market price risk arising from uncertainty about future values of its net asset value. The maximum exposure to loss from interest in Great Lakes Holdings is equal to the fair value of the investment at any given point in time. The fair value of Great Lakes Holdings is disclosed on the consolidated statements of financial position as part of investments and listed in the consolidated schedule of investments. The investment in Great Lakes Holdings was fully disposed in the fourth quarter of 2020 and as a result, as of December 31, 2020, the Company has no commitment to invest in Great Lakes Holdings. As at December 31, 2019, the Company had a 14.9% ownership in Great Lakes Holdings.

Dividend income received for the year ended December 31, 2020 was $676 (December 31, 2019 – $442).

6. MANAGEMENT FEE INCOME

On November 20, 2018, the Company, through ML Management, entered into a Monitoring Agreement with BC Partners Advisors L.P. ("BC Partners") pursuant to which, among other things, the Company will receive a fee for providing monitoring services in respect of certain investments managed by BC Partners, all as agreed to by ML Management and BC Partners from time to time.

On August 21, 2020, the Company, through ML Management, entered into an Asset Purchase Agreement with Garrison Investment Management LLC and other sellers (collectively, "GARS Sellers") with respect to the acquisition by ML Management of the rights of the GARS Sellers under certain investment management agreements, the general partnership interests of the GARS Sellers under certain partnership agreements and the rights of the GARS Sellers under certain collateral management agreements relating to Garrison Funding 2018-1 LP and Garrison MML CLO 2019-1 LP (collectively, the "CLOs") for a purchase price of $3 million (the "CLO Acquisition"). The transactions contemplated under the CLO Acquisition closed on November 12, 2020. In respect of the CLO Acquisition, ML Management became the investment manager of the CLOs and is entitled to receive management fees based upon aggregate gross assets under management, paid quarterly, and subject to various reductions based on caps, transaction fees, and fee-sharing arrangements.

On October 30, 2020, the Company and SCIM entered into a services agreement (the "SCIM Services Agreement") pursuant to which the Company will provide certain administrative services to SCIM in respect of the management of an investment fund ("CIF"). On December 17, 2020, the SCIM Services Agreement was amended to be between the Company's wholly-owned subsidiary, MLC US Holdings LLC, and SCIM. Under the SCIM Services Agreement, in exchange for the administrative services, SCIM will pay to the Company, on a quarterly basis, an amount equal to the aggregate base management and incentive fees received by SCIM from CIF in respect of such quarter, net of debt service, a quarterly fee to be retained by SCIM comprised of a specified amount, plus an allocable portion of the compensation of SCIM's investment professionals in connection with their performance of investment advisory services for CIF (collectively, the "Retained Benefits"). In addition, SCIM will be reimbursed by the Company quarterly for certain expenses it incurs in connection with the investment advisory services provided to CIF. Pursuant to this arrangement, the Company will receive the net economic benefit derived by SCIM under the CIF advisory agreement, subject to the holdback of the Retained Benefits and expense reimbursements.

The following table summarizes the management fee income for the years ended December 31, 2020 and 2019:

	Year Ended December 31, 2020	Year Ended December 31, 2019
Investment management and collateral management agreements	$ 65	$ —
Monitoring agreement	—	11
	$ 65	**$ 11**

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

7. INTANGIBLE ASSETS

Intangible assets related to the Company's acquisitions of management agreements are initially recorded at their fair value at the acquisition date and subsequently at cost less accumulated amortization and accumulated impairment losses.

The following table presents the changes in the balance of intangible assets:

		Investment Management Contracts
Cost as at December 31, 2019	$	—
Additions		3,591
Cost as at December 31, 2020	**$**	**3,591**

The following table presents the accumulated amortization of intangible assets:

		Investment Management Contracts
Accumulated amortization at December 31, 2019	$	—
Amortization		95
Accumulated amortization at December 31, 2020	**$**	**95**
Carrying value at December 31, 2019	$	—
Carrying value at December 31, 2020	**$**	**3,496**

Amortization is recorded using the straight-line method and is based on the estimated periods that the Company expects to collect management fees, which range from 3 to 6 years. The Company has $3.5 million as at December 31, 2020 (December 31, 2019 – $nil) in intangible assets with definite lives that relate to fund management contracts.

The useful lives of intangible assets are reviewed annually for any changes in circumstances. We test definite-life intangible assets for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. If any intangible assets are determined to be impaired, the Company writes them down to their recoverable amount, the higher of value in use and fair value less costs to sell.

There were no write-downs of intangible assets during the year ended December 31, 2020 (December 31, 2019 – $nil).

8. RELATED PARTY TRANSACTIONS

Servicing Agreement

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

On November 20, 2018, the Company entered into a servicing agreement (the "Servicing Agreement") with BC Partners. Under the terms of the Servicing Agreement, BC Partners as servicing agent (the "Servicing Agent") performs, or oversees the performance of, the administrative services necessary for the operation of the Company, including, without limitation: (i) provision of office facilities, equipment, clerical, bookkeeping, compliance and recordkeeping services and such other administrative services as the Servicing Agent, subject to review by the Board, shall from time to time determine to be necessary or useful to perform its obligations under the Servicing Agreement, and (ii) on behalf of the Company, conducting relations with custodians, depositories, transfer agents, dividend disbursing agents, other shareholder servicing agents, accountants, attorneys, underwriters, brokers and dealers, corporate fiduciaries, insurers, banks and such other persons in any such other capacity deemed to be necessary or desirable. The Servicing Agent is authorized to enter into sub-administration agreements as the Servicing Agent determines necessary in order to carry out the administrative services. The Company pays fees to BC Partners at amounts to be agreed by the parties for services performed for it pursuant to the terms of the Servicing Agreement. While the Servicing Agent performs certain administrative functions for the Company pursuant to the Servicing Agreement, the management functions of the Company are wholly performed by the Company's management team. For the year ended December 31, 2020, the Company incurred costs reimbursable to the Servicing Agent of $623 (December 31, 2019 – $141) for an allocable portion of the compensation paid by the Servicing Agent (or its affiliates) to the Company's Chief Financial Officer and his staff (based on a percentage of time such individuals devote, on an estimated basis, to the business affairs of the Company) and out-of-pocket expenses. As at December 31, 2020, operating expenses of $nil (December 31, 2019 – $18) paid by BC Partners on behalf of the Company were reimbursable to BC Partners and were offset against amounts due from BC Partners.

Unless earlier terminated as described below, the Servicing Agreement will remain in effect until November 20, 2021 and shall continue automatically for successive annual periods, if approved annually by (i) the vote of the Board and (ii) the vote of a majority of the Company's directors who are not parties to the Servicing Agreement or a "related party" of the Servicing Agent, or of any of its affiliates, as defined in the Multilateral Instrument 61-101 under Canadian securities law. The Servicing Agreement may be terminated at any time, without the payment of any penalty, upon 60 days' written notice by the vote of the Board or by the Servicing Agent. On November 10, 2020, the continuation of the Servicing Agreement was approved in accordance with the foregoing until November 20, 2021.

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

Unitranche Lending Program

On November 28, 2018, the Company entered into a commitment of $10 million (to be drawn over time) to invest in a unitranche lending program through BCP Great Lakes Holdings, a Delaware limited partnership formed as a co-investment vehicle to facilitate the participation of certain co-investors to invest, directly or indirectly, in BCP Great Lakes Funding LLC. The program underwrites and holds senior secured unitranche loans and seeks to build a diverse portfolio of floating rate, sponsor-backed middle-market loans paying a quarterly cash yield. Funding of $9.5 million was made under this program through 2019, with an additional $0.8 million during 2020, and the Company received distributions, representing return of capitals, totaling $10.3 million during 2020, resulting in the full disposition of this investment and termination of any funding commitments related thereto. As at December 31, 2020, the Company does not own any investment, and has no ongoing investment commitment, in Great Lakes Holdings.

Compensation

Certain directors and officers of the Company are affiliated with BC Partners. Common shares held by directors and officers of the Company who are affiliated with BC Partners at December 31, 2020 were 792,797 (December 31, 2019 – 397,861 after giving effect to the share consolidation completed on December 3, 2019). The total directors' fees incurred to the directors who are affiliated with BC Partners during the year ended December 31, 2020 was $22 (December 31, 2019 – $25).

Key management personnel of the Company include the chief executive officer, the chief financial officer and co-presidents and directors. Compensation incurred to officers who are affiliated with BC Partners for employee services, based on employment agreements, for the year ended December 31, 2020 was $225 (December 31, 2019 – $299).

9. SHAREHOLDERS' EQUITY

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

Share consolidation

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

As of December 31, 2020, there were 16,963,379 common shares issued and outstanding (December 31, 2019 – 10,604,998).

The following table summarizes the shareholder transactions for the years ended December 31, 2020 and 2019:

	Shares		Amount	Warrants		Amount
Balance at December 31, 2018	81,873,130	$	79,744	20,468,128	$	1,086
Shares issued	2,968,751		1,264	—		—
Share issue costs	—		(20)	—		—
Share consolidation	(74,236,883)		—	—		—
Balance at December 31, 2019	10,604,998		80,988	20,468,128		1,086
Shares issued	6,358,381		13,302	—		—
Share issue costs	—		(810)	—		—
Balance at December 31, 2020	**16,963,379**	**$**	**93,480**	**20,468,128**	**$**	**1,086**

On September 10, 2019, the Company completed a non-brokered private placement of an aggregate of 2,968,751 common shares at a price of CAD$0.56 per share for aggregate gross proceeds of $1,264 (371,094 common shares at a price of CAD$4.48 per share after giving effect to the share consolidation completed on December 3, 2019). On October 27, 2020 and November 25, 2020, the Company completed private placements of an aggregate of 6,358,381 common shares at a price of CAD$2.75 per share for aggregate gross proceeds of $13,302.

Arrangement

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

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

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

Dividends

The following table reflects the distributions declared on the common shares of the Company during the years ended December 31, 2020 and 2019:

			Common shares	Dividend amount per share		Total dividend amount	
Date of declaration	Record date	Payment date	outstanding	CAD	USD[1]	CAD	USD[1]
March 25, 2020	April 14, 2020	April 28, 2020	10,604,998	$ 0.020	$ 0.014	$ 212	$ 151
May 11, 2020	May 21, 2020	June 26, 2020	10,604,998	0.020	0.014	212	151
August 7, 2020	August 25, 2020	September 24, 2020	10,604,998	0.020	0.015	212	158
November 10, 2020	November 23, 2020	December 23, 2020	16,713,197	0.020	0.015	334	258
						$ 970	**$ 718**
December 4, 2019	December 13, 2019	December 27, 2019	10,604,998	$ 0.020	$ 0.020	$ 212	$ 163
						$ 212	**$ 163**

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

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

Stock option plan and performance and restricted share unit plan

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

Warrants

On closing of the Arrangement and in accordance with the terms of the Arrangement, the Company issued to shareholders who made an election to acquire warrants under the Arrangement, warrants to acquire an aggregate of 20,468,128 common shares of the Company (the "Warrants"). As at December 31, 2020, the Company had 20,468,128 Warrants outstanding which are exercisable at any time up to October 19, 2025. As a result of the Company completed on December 3, 2019, every eight (8) Warrants entitle the holder to receive, upon exercise, one common share of the Company at a price of CAD$6.16 per common share. Accordingly, an aggregate of up to 2,558,516 common shares are issuable upon the exercise of the 20,468,128 outstanding Warrants as at December 31, 2020 and 2019.

10. CONTINGENT VALUE RIGHTS

On closing of the Arrangement and in accordance with the terms of the Arrangement, the Company issued to its shareholders an aggregate of 17,288,140 CVRs. As part of the Arrangement, each shareholder of the Company (other than U.S. shareholders) received one (1) CVR in respect of Cline for each common share held as of the record date for the determination of shareholders entitled to receive CVRs. Pursuant to the indenture governing the terms of the CVRs, the Company will seek to dispose of Cline for the five (5) year period following the closing of the Arrangement and will distribute to the holders of the CVRs: (a) distributions received from Cline; and (b) the net proceeds received from the sale of the Company's holdings in Cline. Fees that are attributable to the investment in Cline shall only be determined and become payable to the Former Manager on the sale of the investment in Cline, in its entirety, and shall be calculated using, and payable only on the net sale proceeds actually received by the Company for its investment in Cline. Any fees paid to the Former Manager as a result of the sale of the investment in Cline will reduce the amounts paid to the holders of CVRs. On October 27, 2020, the Former Manager announced that on October 26, 2020 Allegiance acquired all the shares in NECC, which holds all the mining assets of Cline. The Company understands that it is the Former Managers intention to direct Cline to remit the net proceeds from the transaction, less a prudent provision of any ongoing Cline operating costs, to the senior bondholders (which includes the Company) as soon as practicable after receipt. As at December 31, 2020, the CVRs had a fair value of $3,954, being the fair value of the investment in Cline (December 31, 2019 – $3,876).

11. DEBT

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

The maximum principal amount of the Revolving Senior Loan Facility was initially $29.0 million, which amount was automatically amended to:
(a) $36.6 million seven months after the Closing Date, (b) $43.3 million eight months after the Closing Date, (c) $50.0 million nine months after the

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

Closing Date (d) $34.4 million on the First Amendment Effective Date and (e) $50.0 million on September 30, 2020, with a one-time facility increase of $25.0 million exercisable at any time after total advances equal or exceed $40.0 million.

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

Amounts drawn under the Revolving Senior Loan Facility will bear interest at LIBOR plus a spread of 2.50% or 1.80% depending on the asset base with a minimum weighted average interest of LIBOR plus 2.15%. The Company pays a commitment fee of 0.50% per annum on undrawn amounts under the Revolving Senior Loan Facility. In addition, the Company accrues a make whole fee, payable on the maturity date, for each day during the period beginning on November 22, 2019 and ending on the date the maximum principal amount of the Revolving Senior Loan Facility is reached.

The outstanding principal amount and accrued but unpaid interest in respect of the Revolving Senior Loan Facility will become payable on February 19, 2021, subject to certain adjustments pursuant to the Revolving Senior Loan Facility. On February 4, 2021, the outstanding amount under the Revolving Senior Loan Facility was repaid in full.

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

On December 17, 2020, MLCSC Holdings Finance LLC, a wholly-owned indirect subsidiary of the Company, entered into a credit facility of $5.3 million with a large financial institution as lender (the "Credit Facility"), which bears interest at 9.50% per annum and matures on April 2, 2024. Payment of principal and interest are made on each payment date, with the remaining principal outstanding and accrued but unpaid interest payable on April 2, 2024.

The Credit Facility contains affirmative and negative covenants, events of default and other customary provision, including periodic financial reporting requirements.

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

	December 31, 2020					
	Maturity date	Stated interest Rate	Effective interest rate	Extension options	Total facility	Outstanding balance
Revolving Senior Loan Facility [1]	February 2021	L+2.17%	2.39%	One-year	$ 50,000	$ 34,400
Credit Facility [2]	April 2024	9.5%	9.50%	N/A	5,330	5,330
Total debt						**$ 39,730**

(1) The Revolving Senior Loan Facility is secured by loan investments and cash held by Great Lakes Senior MLC I LLC and guaranteed by the Company. During the year ended December 31, 2020, the Company exercised the first of its four one-year extension options, extending the maturity from February 2020 to February 2021.

(2) The Credit Facility is secured by the management fee income related to the management of the interval fund.

	December 31, 2019					
	Maturity date	Stated interest Rate	Effective interest rate	Extension options	Total facility	Outstanding balance
Revolving Senior Loan Facility [1]	February 2021	L+2.16%	4.11%	One-year	$ 50,000	$ 34,400
Total debt						**$ 34,400**

(1) The Revolving Senior Loan Facility is secured by loan investments and cash held by Great Lakes Senior MLC I LLC and guaranteed by the Company. The Revolving Senior Loan Facility has four one-year extension options.

The scheduled principal repayments are as follows:

	Revolving Senior Loan Facility	Credit Facility	Total
2021	$ 34,400	$ 998	$ 35,398
2022	—	1,330	1,330
2023	—	1,330	1,330
2024	—	1,672	1,672
2025	—	—	—
2026 and thereafter	—	—	—
	34,400	5,330	39,730
Transaction costs (net of amortization)			(318)
Total debt			**$ 39,412**

For the year ended December 31, 2020, interest expense, including the amortization of debt issuance costs, was $2.0 million (December 31, 2019 – $1.6 million).

12. INCOME TAXES

Included in deferred income tax assets is $1,716 (December 31, 2019 – $2,863) related to deductible temporary differences. On the evidence available, including management projections of income, the Company believes that it is probable there will be sufficient taxable income generated by the Company's business operations to support these deferred tax assets.

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

	Year Ended December 31, 2020	Year Ended December 31, 2019
Income (loss) from operations before income taxes	$ (1,658)	$ (471)
Combined federal and provincial statutory income taxes	26.50%	26.50%
Income tax provision based on statutory income taxes	(439)	(125)
Permanent differences	223	(588)
Deferred tax asset not recognized	1,360	14
Rate differential	3	—
Total tax expense (recovery)	**$ 1,147**	**$ (699)**

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

	December 31, 2020	December 31, 2019
Scientific research costs not yet deducted(1)	$ 57,163	$ 56,044
Non-capital losses available(2)	34,406	32,796
Net capital losses available(3)	24,260	23,785
Other	2,175	1,406
Gross deductible temporary differences	118,004	114,031
Combined federal and provincial statutory income taxes	26.50%	26.50%
Deferred tax asset, gross	31,271	30,218
Deferred tax asset not recognized	(29,555)	(27,355)
Deferred tax asset, net	**$ 1,716**	**$ 2,863**

(1) The Company has $57,163 of scientific research and experimental development expenditure pools available for deduction against future income. These expenditure pools have no expiry date.

(2) The Company has $34,406 of non-capital losses available to offset future taxable income. These losses expire between 2026 and 2040.

(3) The Company has $24,260 of net capital losses available to offset future capital gains for which no benefit has been recorded. These losses have no expiry date.

13. INCOME (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted income (loss) per common share for the year ended December 31, 2020 and 2019:

	Twelve Months Ended December 31,	
	2020	2019
Comprehensive income (loss)	$ (2,805)	$ 228
Weighted average share of common stock outstanding – basic and diluted	11,728,698	10,348,477
Income (loss) per common share – basic and diluted	$ (0.24)	$ 0.02

14. COMMITMENTS AND CONTINGENCIES

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

Portfolio Company	Investment	Currency	December 31, 2020	December 31, 2019
BCP Great Lakes Holdings LP	Unitranche lending program	USD	$ —	$ 528
League Collegiate Holdings, LLC	First lien delayed draw term loan	USD	—	435
The PromptCare Companies Inc.	First lien delayed draw term loan	USD	327	—
Sierra Crest Management LLC	Promissory note	USD	2,496	—
Welcome Dairy, LLC	First lien delayed draw term loan	USD	—	227
			$ 2,823	**$ 1,190**

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

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

15. FINANCIAL RISK MANAGEMENT

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

(a) Credit risk

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

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

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

(b) Liquidity risk

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

The notional amount of financial liabilities broken down by contractual maturity is as follows:

	December 31, 2020	December 31, 2019
On demand	$ —	$ —
0 - 12 months	39,839	37,307
1 - 3 years	2,660	—
3 - 5 years	1,672	—
5 years or more	—	—
Total carrying value of financial liabilities	**$ 44,171**	**$ 37,307**

(c) Market risk

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

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

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

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

(d) Interest rate risk

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

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

	December 31, 2020	December 31, 2019
Less than 1 year	$ (34,400)	$ —
1 - 3 years	4,998	(34,400)
3 - 5 years	12,536	24,189
> 5 years	15,356	30,768
Total	**$ (1,510)**	**$ 20,557**

The annualized impact on net income of hypothetical base rate changes in interest rates on our debt investments and debt obligation had the prevailing interest rates been lowered or raised by 1%, assuming a parallel shift in the yield curve, with all other variables remaining constant, was $44 (December 31, 2019 – $179). In practice, actual results may differ from this sensitivity analysis.

(e) Valuation risk

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

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

(f) Concentration risk

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

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

	December 31, 2020		December 31, 2019	
	Fair value	% of total	Fair value	% of total
Loans	$ 34,265	89.7%	$ 51,081	79.2%
Bonds	3,954	10.3%	3,876	6.0%
Equity	—	0.0%	9,532	14.8%
	$ 38,219	**100.0%**	**$ 64,489**	**100.0%**

	December 31, 2020		December 31, 2019	
	Fair value	% of total	Fair value	% of total
United States	$ 34,265	89.7%	$ 60,613	94.0%
Canada	3,954	10.3%	3,876	6.0%
	$ 38,219	**100.0%**	**$ 64,489**	**100.0%**

(g) Currency risk

Currency risk is the risk that financial instruments which are denominated in currencies other than the Company's functional currency, the United States dollar, will fluctuate due to changes in currency exchange rates and adversely impact the Company's reported income, cash flows or fair values of its investment holdings. The Company may reduce its currency exposure through the use of derivative arrangements such as foreign exchange forward contracts or futures contracts. As at December 31, 2020 and December 31, 2019, the Company had exposure to the Canadian dollar through its holding of investments and other assets and liabilities denominated in Canadian dollars. The amount by which the net assets of the Company would have increased or decreased, as at December 31, 2020, had the prevailing exchange rates been lowered or raised by $0.01 was $2 (December 31, 2019 - $7). In practice, actual results may differ from this sensitivity analysis.

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

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

December 31, 2020:

Currency	Non-USD denominated investments	Non-USD denominated assets	Non-USD denominated liabilities	Net exposure	As a % of net equity
CAD	$ 3,954	$ 27	$ (4,173)	$ (192)	0.4%

December 31, 2019:

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

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

16. CAPITAL MANAGEMENT

The Company’s objectives when managing capital are: (i) to safeguard its ability to meet financial obligations and growth objectives, including future acquisitions; (ii) to provide an appropriate return to its shareholders; and (iii) to maintain an optimal capital structure that allows multiple financing options, should a financing need arise. The Company’s capital consists of debt, cash and shareholders’ equity. In order to maintain or adjust the capital structure, the Company actively manages its equity as capital and may adjust the amount of debt borrowings, dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets. The Company’s officers and senior management are responsible for managing the Company’s capital and do so through active portfolio management quarterly meetings and regular review of financial information.

As of December 31, 2020, the Company was in compliance with all financial covenants in its debt facilities.

17. COVID UPDATE

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

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

The foregoing adverse impacts of the COVID-19 pandemic could continue even as certain jurisdictions begin the process of permitting the reopening of businesses and other organizations and easing restrictions on social interactions. The overall impact of the COVID-19 pandemic remains uncertain and depends on, among other things, the progression of the virus, the emergence of variants, the timing of the manufacture and distribution of vaccines and the level of public acceptance thereof and that the actions taken by governments in different jurisdictions vary. Given the continuing development of the COVID-19 pandemic and the uncertainty surrounding its long-term impact, it is not possible to say with certainty whether the foregoing trends and uncertainties will continue. However, as of the date hereof, there have not been any payment defaults in the Company's investment portfolio. All borrowers remain current on their interest payments and the Company remains in frequent contact with its borrowers and loan agents regarding the ongoing performance of borrowers and any potential business disruptions.

18. SUBSEQUENT EVENTS

On February 4, 2021, the Revolving Senior Loan Facility was terminated and repaid in full.

On February 24, 2021, the Company received $0.5 million from the Former Manager in connection with the sale of Cline. The distribution by the Company of any proceeds received from the Cline transaction will be made in accordance with the terms of the indenture governing the CVRs.

On March 22, 2021, the Board declared a cash dividend in the amount of CAD$0.02 per common share to be paid on April 7, 2021 to shareholders of record on March 31, 2021.

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