MOUNT LOGAN CAPITAL INC.

Consolidated Financial Statements

Six months ended June 30, 2022 and 2021

MOUNT LOGAN CAPITAL INC.

Interim Consolidated Statements of Financial Position

(in thousands of United States dollars)

As at	Notes		June 30, 2022		December 31, 2021
ASSETS					
Asset Management:					
Cash		$	2,827	$	14,433
Restricted cash			55		135
Due from affiliates			158		—
Investments	7		29,273		35,209
Intangible assets	9		21,662		22,060
Other assets	15		4,267		4,180
Total assets — asset management			58,242		76,017
Insurance:					
Cash and cash equivalents		$	36,415		29,733
Investments	7		851,046		881,170
Reinsurance assets	13		278,390		329,902
Intangible assets	9		3,678		2,504
Goodwill	9		55,015		55,015
Other assets	15		22,478		18,970
Total assets — insurance			1,247,022		1,317,294
Total assets		**$**	**1,305,264**	**$**	**1,393,311**
LIABILITIES					
Asset Management					
Due to affiliates	10		597	$	3,852
Debt obligations	12		41,885		42,708
Contingent value rights	11		3,149		4,169
Accrued expenses and other liabilities	15		1,513		3,916
Total liabilities — asset management			47,144		54,645
Insurance					
Debt obligations	12		2,250		2,250
Insurance contract liabilities	13		867,337		942,865
Investment contract liabilities	14		51,777		—
Funds held under reinsurance contracts			240,789		291,296
Reinsurance liabilities	13		10,521		10,528
Accrued expenses and other liabilities	15		8,323		6,421
Total liabilities — insurance			1,180,997		1,253,360
Total liabilities			1,228,141		1,308,005
EQUITY					
Common shares	11		108,055		108,055
Warrants	11		1,129		1,129
Contributed surplus			7,240		7,240
Deficit			(17,443)		(9,260)
Cumulative translation adjustment			(21,858)		(21,858)
Total equity			77,123		85,306
Total liabilities and equity		**$**	**1,305,264**	**$**	**1,393,311**

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) Rudolph Reinfrank

Rudolph Reinfrank
Chairman of Audit Committee

MOUNT LOGAN CAPITAL INC.

Interim Consolidated Statements of Comprehensive Income (Loss)

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

	Notes	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
REVENUE					
Asset management					
Management and servicing fees	8	$ 1,864	$ 584	$ 3,842	$ 1,150
Interest income		330	807	640	1,459
Dividend income		155	25	276	137
Net gains (losses) from investment activities	5	(9)	26	200	361
Total revenue — asset management		**2,340**	**1,442**	**4,958**	**3,107**
Insurance					
Premium income					
Gross premiums		35,483	—	48,778	—
Premiums ceded to reinsurers		(16,753)	—	(33,390)	—
Net premiums		18,730	—	15,388	—
Net investment income	6	11,979	—	22,831	—
Net gains (losses) from investment activities	5	(49,469)	—	(86,570)	—
Realized and unrealized gains (losses) on embedded derivative — funds withheld		20,329	—	37,061	—
Other income		1,844	—	2,677	—
Total revenue — insurance		**3,413**	**—**	**(8,613)**	**—**
Total revenue		**5,753**	**1,442**	**(3,655)**	**3,107**
EXPENSES					
Asset management					
Administration fees	10	341	302	625	544
Transaction costs		—	389	—	505
Amortization of intangible assets	9	199	196	398	386
Interest and other credit facility expenses	12	766	237	1,527	552
General, administrative and other		1,790	693	3,365	1,158
Total expenses — asset management		**3,096**	**1,817**	**5,915**	**3,145**
Insurance					
Policy benefits and claims:					
Gross claims and benefits		28,176	—	54,801	—
Increase (decrease) in insurance contract liabilities	13	(65,290)	—	(75,527)	—
Increase (decrease) in investment contract liabilities	14	564	—	564	—
Benefits and expenses ceded to reinsurers		(25,213)	—	(49,528)	—
(Increase) decrease in reinsurance assets	13	50,221	—	58,721	—
Net policy benefits and claims		(11,542)	—	(10,969)	—
Administration fees		1,978	—	3,889	—
Interest expense		56	—	56	—
Insurance expenses		1,381	—	2,437	—
Other expenses		1,637	—	2,163	—
Total expenses — insurance		**(6,490)**	**—**	**(2,424)**	**—**
Total expenses		**(3,394)**	**1,817**	**3,491**	**3,145**
Income (loss) before taxes		**9,147**	**(375)**	**(7,146)**	**(38)**
Income tax (expense) benefit — asset management	16	(260)	171	(344)	103
Net income (loss) and comprehensive income (loss)		**$ 8,887**	**$ (204)**	**$ (7,490)**	**$ 65**
Earnings per share	11				
Basic		$ 0.40	$ (0.01)	$ (0.34)	$ 0.00
Diluted		$ 0.40	$ (0.01)	$ (0.34)	$ 0.00
Dividends per common share — USD		$ 0.02	$ 0.02	$ 0.03	$ 0.03
Dividends per common share — CAD		$ 0.02	$ 0.02	$ 0.04	$ 0.04

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

MOUNT LOGAN CAPITAL INC.

Interim Consolidated Statements of Changes in Equity

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

Six months ended June 30, 2022	Notes	Number of Voting Common Shares	Common Shares	Warrants	Contributed Surplus	Deficit	Cumulative Translation Adjustment	Total Equity
Balance at December 31, 2021		**22,190,195**	**$ 108,055**	**$ 1,129**	**$ 7,240**	**$ (9,260)**	**$ (21,858)**	**$ 85,306**
Shareholder dividends	11	—	—	—	—	(693)	—	(693)
Comprehensive income		—	—	—	—	(7,490)	—	(7,490)
Balance at June 30, 2022		**22,190,195**	**$ 108,055**	**$ 1,129**	**$ 7,240**	**$ (17,443)**	**$ (21,858)**	**$ 77,123**

Six Months Ended June 30, 2021	Notes	Number of Voting Common Shares	Common Shares	Warrants	Contributed Surplus	Deficit	Cumulative Translation Adjustment	Total Equity
Balance at December 31, 2020		**16,963,379**	**$ 93,480**	**$ 1,086**	**$ 7,240**	**$ (36,770)**	**$ (21,858)**	**$ 43,178**
Share issuance	11	223,214	477	—	—	—	—	477
Shareholder dividends	11	—	—	—	—	(554)	—	(554)
Comprehensive income		—	—	—	—	65	—	65
Balance at June 30, 2021		**17,186,593**	**$ 93,957**	**$ 1,086**	**$ 7,240**	**$ (37,259)**	**$ (21,858)**	**$ 43,166**

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

MOUNT LOGAN CAPITAL INC.

Interim Consolidated Statements of Cash Flows

(in thousands of United States dollars)

For the six months ended June 30,	Notes	2022	2021
Operating Activities			
Comprehensive income (loss)		$ (7,490)	$ 65
Adjustments to reconcile comprehensive income (loss) to net cash provided by (used in) operating activities:			
Net realized (gains) loss on investments		4,053	(207)
Net realized (gains) loss on foreign currency		22	(9)
Net change in unrealized (appreciation) depreciation on investments		82,244	(145)
Net change in unrealized (appreciation) depreciation on foreign currency		65	—
Payment in-kind		(22)	—
Change in equity investments		(813)	(292)
Net amortization of premiums and accretion of discounts on investments		—	(46)
Amortization of debt issuance costs		115	142
Amortization of intangible assets		532	386
(Increase) decrease in operating assets:			
Due from affiliates		(158)	—
Reinsurance assets		51,512	—
Deferred tax asset		—	(622)
Other assets		(2,964)	(619)
Increase (decrease) in operating liabilities:			
Due to affiliates		(3,255)	2,374
Insurance contract liabilities - Insurance		(75,527)	—
Investment contract liabilities - Insurance		51,777	—
Funds held under reinsurance contracts - Insurance		(50,507)	—
Reinsurance liabilities		(7)	—
Accrued expenses and other liabilities		(1,163)	124
Contingent value rights		(1,020)	—
Other cash used in operating activities		(472)	—
Net cash provided by (used in) operating activities		**46,922**	**1,151**
Investing Activities			
Purchases of investments		(236,719)	(23,692)
Proceeds from sales and repayments of investments		186,378	32,420
Intangible assets		—	(144)
Net cash provided by (used in) investing activities		**(50,341)**	**8,584**
Financing Activities			
Shareholder dividends	11	(693)	(554)
Proceeds from issuance of common shares, net of offering costs		—	477
Proceeds from borrowings of asset management business		—	9,829
Repayments of borrowings of asset management business		(938)	(34,400)
Net cash provided by (used in) financing activities		**(1,631)**	**(24,648)**
Net increase (decrease) in cash and restricted cash		(5,050)	(14,913)
Effects of exchange rate changes on cash and restricted cash		46	86
Cash and restricted cash, beginning of period		44,301	24,278
Cash and restricted cash, end of period		**$ 39,297**	**$ 9,451**
Supplemental disclosures of cash flow information			
Interest received		$ 21,014	$ 1,105
Interest paid		2,104	656
Dividends received		276	137
Income taxes paid		416	—
Dividends paid		—	554
Financing costs payable		—	21
Cash and restricted cash			
Asset management			
Cash		$ 2,827	$ 4,315
Restricted cash		55	5,136
Total asset management		2,882	9,451
Insurance			
Cash		36,415	—
Total insurance		36,415	—
Total cash and restricted cash		**$ 39,297**	**$ 9,451**

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

1. Organization

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

MLC is an alternative asset management and insurance solutions company. MLC, through its subsidiaries, serves as the investment manager to provide support services to various investment funds and 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 in the North American market. Mount Logan Management LLC ("ML Management"), a wholly-owned subsidiary of the Company, is registered as an investment advisor with the United Stated Securities and Exchange Commission under the Investment Advisors Act of 1940, as amended, and is registered to act in an investment advisory role for clients in the United States.

Acquisition of Ability Insurance Company

On October 29, 2021 (the "Ability Acquisition Date"), MLC completed its acquisition of 100% of the equity of Ability Insurance Company ("Ability"), a Nebraska domiciled insurer and reinsurer of long-term care policies (the "Ability Acquisition").

Ability's results are included in MLC's consolidated financial statements commencing from the Ability Acquisition Date. Additional information regarding the Ability Acquisition is included in Note 4.

References herein to the "Company" or "MLC" refer to Mount Logan Capital Inc. and its subsidiaries, including Ability, unless the context requires otherwise such as in sections where it refers to the asset management business only.

2. Basis of Presentation

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

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

These interim consolidated financial statements were authorized for issue by the board of directors (the "Board") of the Company on August 10, 2022.

The Company presents its interim consolidated statements of financial position in order of liquidity rather than on a current and non-current basis. Certain comparative figures have been reclassified to conform to the current period's presentation, including the reclassification of "Professional fees" and "Compensation" to "General, administrative and other".

Ability's insurance operations are presented separately from MLC's asset management business. The presentation in the interim consolidated statements of financial position and interim consolidated statements of comprehensive income (loss) reflect the significant industry diversification of MLC by its acquisition of Ability. Ability operates an insurance business, and MLC and certain of its subsidiaries operate an asset management business, each of which possess distinct characteristics. As a result, MLC developed a disaggregated approach for the financial statements presentation, where Ability's insurance operations are presented separately from the asset management business. MLC believes that these separate presentations provide a more informative view of the interim consolidated financial position and results of operations than traditional aggregated presentations and that reporting Ability's insurance operations separately is appropriate given, among other factors, the relative significance of Ability's policy liabilities, which are not obligations of MLC (other than the insurance companies that issued them). If a traditional aggregate presentation were to be used, MLC would expect to eliminate or combine several identical or similar captions, which would condense the presentations, but would also reduce the level of information presented. MLC believes that using a traditional aggregate presentation would result in no new line items compared to the disaggregated presentation included in the financial statements in this report. MLC also believes separate presentation of the two distinctive asset management and insurance businesses provides a more informative and transparent view of the interim consolidated financial position and results of operations than a traditional aggregated presentation.

In addition, in connection with the Ability Acquisition, we organized our business into two reportable segments: asset management and insurance. Ability's operations constitute the insurance segment. Additional information regarding segment reporting is included in Note 17.

The summary of the significant accounting policies includes a section for common accounting policies and an accounting policy section for each of the two operating segments when a policy is specific to one operating segment and not the other. Unless otherwise specified, the significant accounting policy applies to both segments.

Consolidation

These interim consolidated financial statements include the financial statements of the Company and its controlled subsidiaries and entities. 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 transactions and balances are eliminated on consolidation.

The Company holds investments in associates, where the Company holds, either directly or indirectly, between 20% and 50% of the voting rights of an entity in which significant influence is presumed to exist. Investments in associates are accounted for using the equity method. Under the equity method of accounting, investments are initially recorded at cost, and the carrying amount is increased or decreased to recognize the Company's share of investee net income or loss. Additional information regarding accounting for investments in associates is included in Note 7.

3. Significant Accounting Policies

Critical accounting judgments, estimates, and assumptions

The preparation of the interim consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. Significant estimates and assumptions include but are not limited to estimating fair values of certain financial instruments, allowance for credit losses, impairment of securities, impairment of goodwill and intangible assets, the valuation of insurance contract liabilities and reinsurance assets, determining income taxes and deferred taxes, and provisions, and amortization of deferred revenues and expenses associated with the insurance business. Actual results may differ from those estimates, and such differences could be material.

The outbreak of the 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, even after restrictive measures are relaxed or removed. The situation presents material uncertainty and risk with respect to the Company's performance and financial results. In the preparation of the interim consolidated financial statements, the Company has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of its assets and liabilities, and the reported amount of its results using the best available information as at June 30, 2022. Significant sources of estimation uncertainty include the fair value measurement of investments, the determination of expected credit losses on financial assets, and the valuation of insurance contract liabilities and reinsurance assets. The Company continues to actively monitor developments with respect to this pandemic, including existing and potential economic impacts on the Company's insurance business and 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.

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 ("FVTPL"). Certain investments are classified at amortized cost or the equity method of accounting. All other financial assets and liabilities are measured at amortized cost. Under the FVTPL 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. Deferred financing 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 obligation. Unamortized deferred financing costs are presented on the interim consolidated statements of financial position as a direct reduction of the debt obligation.

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 FVTPL. For the insurance segment, the Company elects to classify investments backing insurance contract liabilities, excluding mortgage loan receivables, as FVTPL to reduce any accounting mismatches arising from these assets and changes in the value of the related insurance contract liability. Financial assets measured at amortized cost are debt investments with contractual cash flows that meet the "solely payment of principal and interest" ("SPPI") test and are managed on a "held to collect" basis, which are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using straight-line method which approximates the effective interest method, net of an allowance for expected credit losses ("ECL"). Equity investments are generally carried at FVTPL. 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. These values are periodically assessed by management 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 expired.

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

Impairment of financial assets

The allowance for ECL is recognized on financial assets that are debt instruments classified as amortized cost. The allowance for ECL represents 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. The allowance for ECL reflects 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 incorporated into the estimation of the allowance for ECL, which involves significant judgment.

The ECL 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, excluding Ability's investments in mortgage loans, elects to measure the allowance for its net investment in loans carried at amortized cost at an amount equal to lifetime ECLs under a simplified approach that does not require the Company to track changes in credit risk. Other than Ability's mortgage loans, the Company has only one loan investment measured at amortized cost, and therefore, the simplified approach adequately approximates ECL. The contractual period of the underlying loans is generally used to approximate the expected life of the net investment in loans.

For Ability's investments in mortgage loans, an allowance for ECLs, if any, is recorded on mortgage loan receivables and measured based on the discounted value of expected future cash flows at the original effective interest rates inherent in the mortgage. ECLs are measured over the next 12 months unless there is a significant increase in credit risk. In situations where there has been a significant increase in credit risk, Ability recognizes an allowance equal to the lifetime ECLs. Expected future cash flows of impaired mortgages are typically determined with reference to the fair value of collateral security underlying the mortgage, net of expected costs of realization and including any applicable insurance recoveries. Significant judgment is applied in the determination of impairment including the timing and amount of future collections.

The Company assesses, on an ongoing basis, 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-off for impaired assets based on whether there is a reasonable expectation of recovery.

In determining whether there has been a significant increase in credit risk and in calculating the amount of ECLs, the Company relies on estimates and exercises judgment regarding matters for which the ultimate outcome is unknown. These judgments include changes in circumstances that may cause future assessments of credit risk to be materially different from current assessment, which could require an increase or decrease in the allowance.

The calculation of ECLs 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 ECL, regardless of the presence of a significant increase in credit risk, are probability of default, loss given default and exposure at default. The allowance for ECL is established with consideration for borrower-specific factors, including estimated levels of collateral security, the Company's historical credit loss experience, and current and future expected economic conditions.

The allowance ECL for financial assets measured at amortized cost is 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. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation techniques are applied. These valuation techniques involve varying levels of management estimation and judgement, the degree of which is dependent on a variety of factors.

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 as opposed to unobservable inputs 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 that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by management and input from independent third-party valuation firm(s), as necessary.

The Company's contingent value rights ("CVR") liability is measured at FVTPL, and represents a contingent cash entitlement with respect to its investment in Cline Mining Corporation ("Cline"). Additional information regarding CVRs is included in Note 11.

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

- The Company's quarterly valuation process begins with each investment being initially valued by the investment professionals responsible for the respective 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). Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgement used in measuring fair value. 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.

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 is determined based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and consideration of factors specific to the asset or liability.

A significant decrease in the volume and level of activity for the asset or liability is an indication that transactions or quoted prices may not be representative of fair value because in such market conditions there may be increased instances of transactions that are not orderly. In those circumstances, further analysis of transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to estimate fair value.

Management's determination of fair value is based upon the methodologies and processes described below and may incorporate assumptions that are management's
best estimates after consideration of a variety of internal and external factors.

Level 1 Valuation Methodologies

Pricing inputs are unadjusted, quoted prices in active markets for identical assets or liabilities as of the measurement date.

Level 2 Valuation Methodologies

These financial instruments generally have bid and ask prices that can be observed in the marketplace. Bid prices represent the highest price market participants are willing to pay for an instrument. Ask prices represent the lowest price market participants are willing to accept for an instrument. For financial instruments whose inputs are based on bid-ask prices obtained from third-party pricing services, fair value may not always be a predetermined point in the bid-ask range. The Company's policy is generally to allow for mid-market pricing and adjusting to the point within the bid-ask range that meets the Company's best estimate of fair value. The Company may also use model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Valuation Methodologies

Debt securities: These financial instruments are generally valued using inputs obtained from dealers or market makers, and where these values are not available, generally valued based on a range of valuations determined by management or an independent valuation firm. Valuation models are based on discounted cash flow analyses, for which the key inputs are determined based on market comparables, which incorporate similar instruments from similar issuers.

Real estate mortgage loans: The Company's investments in real estate mortgage loans are illiquid, structured investments that are specific to the property and its operating performance. Given the duration of the Company's mortgage loans, the book value of mortgage loans approximates fair value. As there are no observable inputs, these investments are classified as Level 3 on the fair value hierarchy.

Investment transactions

Investment transactions are recorded on the trade date. Transaction costs incurred to acquire financial assets measured at FVTPL are recognized as an expense as incurred. Transaction costs incurred to acquire financial assets measured at amortized cost are amortized over the expected life of the instrument using the effective interest method. The change between fair value and amortized cost of the investments is recorded as an unrealized appreciation or depreciation on investments in the interim consolidated statements of comprehensive income (loss).

Realized gains or losses on investments are calculated using the average cost method as the difference between the net proceeds received (excluding prepayment fees, if any) and the amortized cost basis of the investment. Realized gains or losses on investments include investments charged off during the period, net of recoveries.

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 straight-line method which approximates 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.

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.

Cash and cash equivalents

Cash and cash equivalents includes demand deposits and money market funds that are readily convertible to cash and have an original maturity of three months or less.

Restricted cash

Restricted cash represents proceeds received from the Cline transaction (described below).

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, contributions and dividends to shareholders, are translated at the exchange rate prevailing on the respective dates of such transactions.

Current and deferred income taxes

Income tax expense includes current and deferred income taxes. Income tax expense is recognized in the interim consolidated statements of comprehensive income (loss), except to the extent that it relates to items recognized directly in equity, in which case the tax expense 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 income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the interim consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss and does not give rise to equal taxable and deductible temporary differences.

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.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

The Company assesses whether it is probable that its deferred income tax assets will be realized prior to expiration and, based on all available evidence, determines 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 with 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 calculate deferred income taxes.

Earnings per share

Basic earnings 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 earnings 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").

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.

Significant accounting policies – asset management

The significant accounting policies applicable to the asset management business are described below.

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 when 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. The Company reviews investments in associates quarterly to identify and evaluate indications of possible impairment. For these investments, a significant or prolonged decline in the fair value of a security to an amount below its cost is objective evidence of impairment.

Management fee revenue

Revenue from investment management fees for services rendered are calculated in accordance with the 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, as applicable.

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 with indefinite useful lives are not amortized but are subject to an annual impairment test which is performed more frequently if an indication that it is not recoverable arises. Intangible assets are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. Intangible assets that are determined to be impaired are written down to their recoverable amount. The recoverable amount is the higher of the value in use and the fair value less costs to sell. If the carrying value exceeds the recoverable amount, these assets are considered impaired. Additional information regarding intangible assets is included in Note 9.

Significant accounting policies – insurance

The significant accounting policies applicable to the insurance business, which is conducted by Ability, are described below.

Investments

Investments held by Ability include corporate bonds, U.S. government and agency obligations, mortgage-backed securities, mortgage and other loan receivables, collateralized loan obligations ("CLOs"), and all other structured securities (consisting primarily of asset-backed securities ("ABS"), (collectively ("structured securities"), foreign government obligations, equity securities, and other non-derivative investments.

Debt and Equity Securities

Ability accounts for its fixed maturity securities (including bonds, structured securities and redeemable preferred stock) and equity securities at FVTPL by election. This election reduces accounting mismatches between the accounting for these assets and the related insurance and investment contract liabilities. Realized and unrealized gains and losses are reported in Realized and unrealized gains (losses) in the interim consolidated statements of comprehensive income (loss). Interest income from these securities is reported in net investment income.

Mortgage Loan Receivables

Ability purchases mortgage loan receivables, and these loans are carried at amortized cost less the allowance for ECLs. Refer to above for further details on evaluation of ECLs on mortgage loan receivables. Loan premiums or discounts are amortized or accreted using the straight-line method which approximates the effective yield method. Realized gains and losses are recorded in investment income immediately. Interest income is accrued on the principal balance of each loan based on its contractual interest rate. Loans are considered to be in default when there is reasonable doubt that principal or interest will be collected in full. Interest income is continued to be recognized when a loan is identified as impaired, net of its related allowance.

Insurance and Investment contract liabilities

Contracts under which Ability accepts significant insurance risk from a policyholder are classified as insurance contracts in the interim consolidated statements of financial position. A contract is considered to have significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance at the inception of the contract. Once a contract has been classified as an insurance contract it remains an insurance contract even if the insurance risk reduces significantly.

Insurance contract liabilities, net of reinsurance assets, represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, taxes (other than income taxes) and expenses on policies in-force. Insurance contract liabilities are estimates based on models that include many actuarial assumptions and projections. These assumptions and projections, which are inherently uncertain, involve significant judgment, including assumptions as to the levels and/or timing of premiums, benefits, claims, expenses, investment results, mortality, longevity, morbidity, and persistency.

The assumptions on which reserves are based are intended to represent an estimation of experience for the period that policyholder benefits are payable. The adequacy of these reserves and the assumptions underlying those reserves are reviewed at least annually. Ability, cannot, however, determine with precision the amount or the timing of actual policyholder benefit payments. If actual experience is better than or equal to the assumptions, then reserves would be adequate to provide for future policyholder benefits and expenses. If experience is worse than the assumptions, additional reserves may be required to meet future policy and contract obligations. This would result in a charge to Ability's net income during the period in which excess policyholder benefits are paid or an increase in reserves occurs.

Insurance contract liabilities are determined in accordance with standards established by the Canadian Institute of Actuaries. Insurance contract liabilities, net of reinsurance assets, have been determined using the Canadian Asset Liability Method ("CALM") as permitted by IFRS 4, *Insurance Contracts*. Additional information regarding insurance contract liabilities is included in Note 13.

Contracts under which the Company does not accept significant insurance risk are classified as investment contracts and are accounted for in accordance with IFRS 9, *Financial Instruments*. Investment contract liabilities include contracts issued to retail investors that do not contain significant insurance risk. Investment contract liabilities are measured at amortized cost.

Reinsurance

Consistent with the overall business strategy, Ability assumes certain policy risks written by other insurance companies on a coinsurance basis. Reinsurance accounting is applied for reinsurance transactions when risk transfer provisions have been met. Ability reviews all contractual features, particularly those that may limit the amount of insurance risk to which the reinsurer is subject or features that delay the timely reimbursement of claims. Ability does not have any assumed or ceded reinsurance contracts that do not meet risk transfer requirements.

Ability uses ceded reinsurance contracts in the normal course of business to manage its risk exposure. For each of its reinsurance agreements, cessions under reinsurance agreements do not discharge Ability's obligations as the primary insurer. Reinsurance assets represent the benefit derived from reinsurance agreements in-force at the reporting date, considering the financial condition of the reinsurer. Amounts recoverable from reinsurers are estimated in accordance with the terms of the relevant reinsurance contract and historical reinsurance recovery information. Amounts recoverable from reinsurers are based on what Ability believes are reasonable estimates and the balance is reported as an asset in the interim consolidated statements of financial position. However, the ultimate amount of the reinsurance recoverable is not known until all claims are settled.

Allowances for ECL is recorded, if appropriate, via a charge to increase (decrease) in reinsurance assets in the interim consolidated statements of comprehensive income (loss). Ability's reinsurance recoverable assets are reviewed for ECLs by considering credit ratings for each reinsurer, right of offset including the extent of collateral held under funds withheld or modified coinsurance agreements, expected recovery rates upon default and the impact of other terms specific to the reinsurance arrangement.

Ceded reinsurance – Funds withheld with Front Street Re

Ability has a coinsurance with funds withheld arrangement with Front Street Re covering a significant portion of the long-term care business (the "Medico" block of policies). Under the funds withheld arrangement, assets are retained by Ability; however, all investment activity pertaining to those assets are passed through to Front Street Re. Investment activity includes any interest income, unrealized gains and losses, and realized gains and losses from sales on these assets.

Ceded reinsurance – Modified coinsurance with Vista

Ability also has a modified coinsurance ("Modco") agreement with Vista Life and Casualty Reinsurance Company ("Vista"). Pursuant to such agreement, Ability retains assets in a designated custody account to support the quota share of the ceded Modco reserves (102% of required U.S. statutory reserves). Similar to a funds withheld arrangement, all investment activity pertaining to those assets are passed through to Vista. Investment activity includes any interest income, unrealized gains and losses, and realized gains and losses from sales on these assets.

Ceded reinsurance – Embedded derivatives

As the return on receivables or payable balances under the arrangements with Front Street Re and Vista are not clearly and closely related to the host insurance contract, these contracts are deemed to contain embedded derivatives, which are measured at fair value based on the fair value of the assets held by Ability in designated portfolios to support the underlying liability. The fair value of the embedded derivatives for the funds withheld and Modco agreements are included in the funds held under reinsurance contracts (Front Street Re) and reinsurance assets or reinsurance liabilities line items (Vista) on the interim consolidated statement of financial position, respectively.

Goodwill

In accordance with IFRS 3, *Business Combinations* ("IFRS 3"), goodwill is recognized at the date of acquisition and represents the difference between the fair value of purchase consideration of an acquired business and Ability's proportionate share of net identifiable assets acquired. Goodwill is initially recorded at cost and is subsequently measured at cost less accumulated impairment.

Goodwill is tested for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable at the cash generating unit ("CGU") or groups of CGUs level. The Company allocates goodwill to CGUs or groups of CGUs for impairment testing at the lowest level within the entity where the goodwill is monitored for internal management purposes. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. Any potential impairment of goodwill is identified by comparing the recoverable amount with the carrying value of a CGU or groups of CGUs. Goodwill is reduced by the amount of deficiency, if any. If the deficiency exceeds the carrying amount of goodwill, the carrying values of the remaining assets in the CGU or groups of CGUs are subject to being reduced by the excess on a pro-rata basis.

Goodwill recorded as a result of the Ability Acquisition has been allocated to the insurance segment. Additional information regarding goodwill is included in Note 9.

Intangible assets

Insurance Licenses

In accordance with IFRS 3, all identifiable intangible assets acquired in a business combination are recognized separately from goodwill and are initially measured at their acquisition date fair values. This often involves identifying and recognizing intangible assets not previously recognized by the acquiree in its financial statements.

The only separately identifiable intangible assets arising from the Ability Acquisition are state insurance licenses, which have been recorded at fair value. State insurance licenses are deemed intangible assets with an indefinite useful life. The indefinite useful life assessment for the state insurance licenses are based off the circumstances that these licenses are incapable of being separated from the entity and sold, arise from a contractual and legal right to write insurance policies in respective licensed states, and the expected future economic benefits attributable to the asset will flow to the entity. An intangible asset with an indefinite useful life is not amortized but is subject to an annual impairment test which is performed more frequently if an indication that it is not recoverable arises. The state insurance licenses are recorded in insurance intangibles in the consolidated statements of financial position.

Additional information regarding the Ability Acquisition is included in Note 4.

Deferred acquisition costs

Deferred acquisition costs ("DAC") consist of commissions and other costs that are directly related to the successful renewal of long-term care contracts. DAC is recorded in intangible assets in the interim consolidated statements of financial position and amortized over the expected renewal term of the related contracts. Amortization of deferred policy acquisition costs is recognized in insurance expenses in the consolidated statements of comprehensive income (loss).

Insurance expenses

Insurance expenses are primarily comprised of commissions expense, premium taxes, and other expenses related to insurance products and reinsurance transactions.

Future accounting and reporting changes in IFRS

Insurance Contracts

Amendments to IFRS 17, *Insurance Contracts*, were issued in June 2020 and include a two-year deferral of the effective date along with other changes targeted to address implementation concerns and challenges raised by stakeholders. IFRS 17 as amended, is effective for years beginning on January 1, 2023, to be applied retrospectively. If full retrospective application to a group of contracts is impractical, the modified retrospective or fair value methods may be used.

The new standard applies to insurance contracts issued, to all reinsurance contracts and to investment contracts with discretionary participating features provided the entity also issues insurance contracts. It requires to separate the following components from insurance contracts: (i) embedded derivatives, if they meet certain specified criteria, (ii) distinct investment components, and (iii) distinct performance obligations to provide non-insurance goods and services. These components should be accounted for separately in accordance with the related standards.

Measurement is not made on an individual contract level but on portfolios that are subdivided into specific groups. IFRS 17 requires an entity to identify portfolios of insurance contracts that share similar risks and are managed together. Each portfolio of insurance contracts shall be divided into a minimum of: (i) contracts that are onerous at initial recognition, (ii) contracts that at initial recognition have no significant possibility of becoming onerous, and (iii) any remaining contracts in the portfolio. An entity is not permitted to include contracts issued more than one year apart in the same group.

Initial measurement of a group contracts is the total of the fulfilment cash flows ("FCF") and the contractual service margin ("CSM"). FCF is comprised of the discounted expected future cash flows and an explicit risk adjustment. The contractual service margin represents the unearned profit of the group of insurance contracts that the entity will recognize in the future. Contractual service margin is measured on initial recognition of a group of insurance contracts at an amount that, unless the group of contracts is onerous, results in no income or expense arising from: (i) the initial recognition of FCF, (ii) the derecognition at that date of any asset or liability recognized for the acquisition cash flows and (iii) any cash flows arising from contracts in the group at that date. On subsequent measurement, the carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. Under certain conditions, a simplified measurement approach is permitted for short-term contracts. The general measurement model in adjusted form is to be applied to certain primary insurance contracts with participation features and to ceded reinsurance.

Another new feature is the clearly stipulated differentiation in the income statement between the technical result – which is precisely defined in IFRS 17 and comprises insurance revenue and insurance service expenses – and insurance finance income or expenses. Insurance revenue is defined in order to allow for comparability with the revenues of other industries. The standard defines the level of aggregation to be used for measuring the insurance contract liabilities and the related profitability. The Company continues its assessment of the implications of this standard and expects that it will have a significant impact on the Company's consolidated financial statements.

Amendment to IAS 1

In February 2021, the IASB amended IAS 1, *Presentation of Financial Statements*, and IFRS Practice Statement 2, *Making Materiality Judgements*, to address the process of selecting accounting policy disclosures, which will be based on assessments of the materiality of the accounting policies to the entity's financial statements. The amendments are effective prospectively on or after January 1, 2023, with earlier application permitted. Adoption of these amendments is not expected to have a significant impact on the Company's interim consolidated financial statements.

Amendment to IAS 8

In February 2021, the IASB amended IAS 8, *Accounting Policies, Changes to Accounting Estimates and Errors*, to include new definitions of estimate and change in accounting estimate, intended to help clarify the distinction between changes in accounting estimates, changes in accounting policies, and corrections of errors. The amendments are effective prospectively on or after January 1, 2023, with earlier application permitted. Adoption of these amendments is not expected to have a significant impact on the Company's interim consolidated financial statements.

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

4. Acquisition of Ability

On October 29, 2021, MLC completed the acquisition of 100% of the equity of Ability for $20.0 million through the issuance of an unsecured promissory note of $15.0 million and common shares of MLC having a value of $5.0 million. Ability is a Nebraska domiciled insurer and reinsurer of long-term care insurance policies. Ability's existing long-term care portfolio's morbidity risk has been largely re-insured to third-parties and Ability is no longer actively originating or re-insuring new long-term care policies.

The Ability Acquisition was accounted for as a business combination. The cost of an acquisition is measured at the fair value of the consideration transferred, including contingent consideration, if any. Acquisition-related costs, not related to the issuance of debt or equity securities, are recognized as an expense in the period in which they are incurred. Costs of issuing debt are capitalized and amortized over the life of the debt. Costs of issuing equity are accounted for as a deduction from equity. The identifiable assets acquired and liabilities assumed are measured at their fair values at the date of acquisition. Goodwill is measured as the excess of the aggregate of the consideration transferred over the net of the fair value of identifiable assets acquired and liabilities assumed. The results of operations of acquired businesses are included in the Company's interim consolidated financial statements beginning on the Ability Acquisition Date.

State insurance licenses were the only identifiable intangible assets acquired from the Ability Acquisition with an estimated fair value of $2.4 million. The state insurance licenses have an indefinite useful life and will be assessed for impairment annually.

Goodwill has been recorded based on the amount that purchase price exceeds the fair value of the net assets acquired. Goodwill is primarily attributable to the scale, skill sets, operations, and synergies that can be achieved subsequent to the Ability Acquisition. The goodwill recorded is not expected to be deductible for tax purposes and it has been allocated to the insurance segment in its entirety.

The following table summarizes the fair value amounts recognized for the assets acquired and liabilities assumed and resulting goodwill as at the Ability Acquisition Date:

		Ability Insurance Company
Transaction price		
Fair value of common stock issued (1)	$	5,000
Promissory note issued (2)		15,000
Transaction price		20,000
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Assets		
Cash and cash equivalents		123,210
Investments, at fair value		831,598
Reinsurance assets		374,712
Intangible assets		2,444
Other assets		11,781
Subtotal		1,343,745
Liabilities		
Debt obligations		2,250
Insurance contract liabilities		1,024,056
Funds held under reinsurance contracts		317,598
Reinsurance liabilities		10,943
Accrued expenses and other liabilities		23,913
Subtotal		1,378,760
Total identifiable net assets (liabilities)		(35,015)
Goodwill	$	55,015

(1) An aggregate of 1,579,671 common shares of MLC were issued, based on the 20-day volume-weighted average price of CAD$3.92 as of October 21, 2021 in satisfaction of the $5.0 million of share consideration.

(2) The promissory note of $15.0 million accrues interest at a rate of 5.0% annually and is due on October 29, 2031.

MLC, with the assistance of third-party specialists, as needed, performed a valuation of the acquired investments, insurance contract liabilities, funds held under reinsurance contacts, and state insurance licenses. The following is a summary of significant inputs to the valuation:

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

Investments

Ability's investment portfolio primarily consists of fixed maturity securities, mortgage loans, and collateral loans. All of these assets were measured and reported at their fair values on the Ability Acquisition Date consistent with the valuation methods outlined in Note 3. As a result, the cost basis of the acquired mortgage loan receivables was reset equal to the fair value on the Ability Acquisition Date. All other investments in Ability's portfolio continue to be held at FVTPL subsequent to the Ability Acquisition.

Insurance contract liabilities

Insurance contract liabilities were remeasured using CALM, which is considered to align with fair value at the Ability Acquisition Date. Assumptions for future mortality, persistency, expenses, investment return and other actuarial factors were based on an evaluation of Ability's recent business environment, industry experience, and anticipated future trends. The approach employed to develop these projection assumptions is described below:

- Discount rates used to calculate fair value ranged from 2.2% to 7.9%, depending on product;
- Mortality and persistency assumptions are based on both Ability and general industry experience; and
- Future investment income reflects a runoff of the existing asset portfolios and reinvestment strategies based on Ability's assumptions for asset yield, quality, and maturity. The projections are based on forward interest rates implied by the Treasury yield curve. Credit rates reflect Ability's target spreads;

Funds held under reinsurance contracts

Funds held under reinsurance contracts were valued based on the fair value of the assets held in the underlying portfolio supporting the reinsurance recoverable.

State insurance licenses

The state insurance licenses represent Ability's jurisdictional licenses required to operate in a particular state. These state insurance licenses were valued by a third-party specialist using a combination of the cost approach and market approach based on the estimated replacement cost of the state insurance licenses and comparable third-party market transactions from which the value of state insurance licenses could be derived, respectively.

5. Net gains (losses) from investment activities

Net gains (losses) from investment activities in the interim consolidated statements of comprehensive income (loss) consist primarily of the realized and unrealized gains and losses on investments (including foreign exchange gains and losses attributable to foreign denominated investments and related activities). Unrealized gains or losses result from changes in the fair value of these investments during the period. Upon disposition of an investment, previously recognized unrealized gains or losses are reversed and an offsetting realized gain or loss is recognized in the current period.

The table below summarizes the net gains (losses) from investment activities:

For the three months ended June 30,	**2022**			**2021**		
	Net Realized Gains (Losses)	**Net Unrealized Gains (Losses)**	**Total**	**Net Realized Gains (Losses)**	**Net Unrealized Gains (Losses)**	**Total**
Asset Management						
Debt securities: [1]						
Corporate	$ (20)	$ (112)	$ (132)	$ 51	$ (25)	$ 26
Equity securities	—	123	123	—	—	—
Net gains (losses) from investment activities — asset management	$ (20)	$ 11	$ (9)	$ 51	$ (25)	$ 26
Insurance						
Debt securities: [2]						
U.S. government and agency	$ (79)	$ (139)	$ (218)	$ —	$ —	$ —
U.S. state, territories and municipalities	(442)	(143)	(585)	—	—	—
Other government and agency	(32)	(852)	(884)	—	—	—
Corporate	(2,901)	(27,419)	(30,320)	—	—	—
Asset and mortgage backed securities	(13)	(16,269)	(16,282)	—	—	—
Mortgage loans [3]	14	34	48	—	—	—
Equity securities [4]	—	(707)	(707)	—	—	—
Other invested assets [5]	—	(521)	(521)	—	—	—
Net gains (losses) from investment activities — insurance	$ (3,453)	$ (46,016)	$ (49,469)	$ —	$ —	$ —

(1) Certain debt securities are measured at amortized cost and resulted in $nil net realized gain (loss) and $nil net unrealized gain (loss) for the three months ended June 30, 2022 (June 30, 2021 – $nil and $nil, respectively). The remainder of debt securities are designated at FVTPL.

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

(2) Ability accounts for its fixed maturity securities (including bonds, structured securities and redeemable preferred stock) at FVTPL by election. This election reduces accounting mismatches between the accounting for these assets and the related insurance contract liabilities. These securities are carried at fair value, with realized and unrealized gains and losses reported in net investment gains (losses) in the interim consolidated statements of comprehensive income (loss).

(3) Mortgage loans are carried at amortized cost.

(4) Equity securities (including common stock and non-redeemable preferred stock) are measured at FVTPL.

(5) Other invested assets primarily include structured securities and loan receivables.

For the six months ended June 30,	**2022**			**2021**		
	Net Realized Gains (Losses)	**Net Unrealized Gains (Losses)**	**Total**	**Net Realized Gains (Losses)**	**Net Unrealized Gains (Losses)**	**Total**
Asset Management						
Debt securities: [1]						
Corporate	$ (20)	$ 2	$ (18)	$ 216	$ 247	$ 463
Equity securities	—	218	218	—	(102)	(102)
Net gains (losses) from investment activities — asset management	$ (20)	$ 220	$ 200	$ 216	$ 145	$ 361
Insurance						
Debt securities: [2]						
U.S. government and agency	$ (79)	$ (607)	$ (686)	$ —	$ —	$ —
U.S. state, territories and municipalities	(446)	(1,107)	(1,553)	—	—	—
Other government and agency	(32)	(1,676)	(1,708)	—	—	—
Corporate	(2,915)	(55,629)	(58,544)	—	—	—
Asset and mortgage backed securities	(44)	(22,511)	(22,555)	—	—	—
Mortgage loans [3]	51	34	85	—	—	—
Equity securities [4]	—	(614)	(614)	—	—	—
Other invested assets [5]	—	(995)	(995)	—	—	—
Net gains (losses) from investment activities — insurance	$ (3,465)	$ (83,105)	$ (86,570)	$ —	$ —	$ —

(1) Certain debt securities are measured at amortized cost and resulted in $nil net realized gain (loss) and $nil net unrealized gain (loss) for the six months ended June 30, 2022 (June 30, 2021 – $nil and $nil, respectively). The remainder of debt securities are designated at FVTPL.

(2) Ability accounts for its fixed maturity securities (including bonds, structured securities and redeemable preferred stock) at FVTPL by election. This election reduces accounting mismatches between the accounting for these assets and the related insurance contract liabilities. These securities are carried at fair value, with realized and unrealized gains and losses reported in net investment gains (losses) in the interim consolidated statements of comprehensive income (loss).

(3) Mortgage loans are carried at amortized cost.

(4) Equity securities (including common stock and non-redeemable preferred stock) are measured at FVTPL.

(5) Other invested assets primarily include structured securities and loan receivables.

6. Net investment income – insurance

Net investment income for Ability is comprised primarily of interest income, including amortization of premiums and accretion of discounts, and dividend income from common and preferred stock.

The components of net investment income from insurance operations were as follows:

	Three Months Ended June 30, 2022	**Six Months Ended June 30, 2022**
Debt securities — interest and other income	$ 9,667	$ 18,841
Mortgage interest	2,751	4,781
Short-term and other investment income	22	25
Gross investment income	12,440	23,647
Less:		
Investment expenses	(461)	(816)
Net investment income	$ 11,979	$ 22,831

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

7. Investments

The following tables summarize the financial assets held by the Company:

June 30, 2022	FVTPL (1)	Other (2)	Total Fair Value (3)
Financial assets			
Asset management			
Debt securities:			
Corporate	$ 5,815	$ 13,586	$ 19,401
Investments in associates (4) (5)	—	8,966	8,966
Equity securities	906	—	906
Total investments — asset management (6)	6,721	22,552	29,273
Insurance			
Debt securities:			
U.S. government and agency	7,674	—	7,674
U.S. state, territories and municipalities	5,901	—	5,901
Other government and agency	7,766	—	7,766
Corporate	293,921	—	293,921
Asset and mortgage backed securities	344,454	—	344,454
Mortgage loans	—	145,768	145,768
Equity securities	1,930	—	1,930
Other invested assets (7)	43,632	—	43,632
Total investments — insurance	705,278	145,768	851,046
Total investments	**$ 711,999**	**$ 168,320**	**$ 880,319**

(1) The FVTPL classification was elected for securities backing insurance contract liabilities to substantially reduce any accounting mismatch arising from changes in fair value of these assets and changes in the value of their related insurance contract liabilities. If this election had not been made and instead the FVOCI classification was selected, there would be an accounting mismatch because changes in insurance contract liabilities are recognized in net income rather than in OCI.

(2) Primarily includes assets classified as debt securities carried at amortized cost, investment properties, and equity method accounted investments.

(3) The methodologies used in determining fair values of invested assets are described in Note 3.

(4) The Company, through its wholly-owned subsidiary, ML Management, holds an equity stake in Sierra Crest Investment Management, LLC. Investments in associates accounted for using the equity method are initially recognized at cost.

(5) On April 29, 2022, ML Management seeded Opportunistic Credit Interval Fund ("OCIF"), a closed-end, diversified management investment company $0.1 million. On May 14, 2022, the Company, through ML Management, entered into an investment advisory agreement with OCIF, pursuant to which ML management provides certain investment advisory services to OCIF.

(6) Asset management investments pledged as collateral for outstanding credit facilities totaled $nil as at June 30, 2022.

(7) Other invested assets primarily include structured securities and loan receivables.

December 31, 2021	FVTPL (1)	Other (2)	Total Fair Value (3)
Financial assets			
Asset management			
Debt securities:			
Corporate	$ 9,867	$ 13,586	$ 23,453
Investments in associates (4)	—	9,263	9,263
Equity securities	2,493	—	2,493
Total investments — asset management (5)	12,360	22,849	35,209
Insurance			
Debt securities:			
U.S. government and agency	10,004	—	10,004
U.S. state, territories and municipalities	9,953	—	9,953
Other government and agency	10,034	—	10,034
Corporate	345,661	—	345,661
Asset and mortgage backed securities	366,210	—	366,210
Mortgage loans	—	111,470	111,470
Equity securities	697	—	697
Other invested assets (6)	27,141	—	27,141
Total investments — insurance	769,700	111,470	881,170
Total investments	**$ 782,060**	**$ 134,319**	**$ 916,379**

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

(1) The FVTPL classification was elected for securities backing insurance contract liabilities to substantially reduce any accounting mismatch arising from changes in fair value of these assets and changes in the value of their related insurance contract liabilities. If this election had not been made and instead the FVOCI classification was selected, there would be an accounting mismatch because changes in insurance contract liabilities are recognized in net income rather than in OCI.

(2) Primarily includes assets classified as debt securities carried at amortized cost, investment properties, and equity method accounted investments.

(3) The methodologies used in determining fair values of invested assets are described in Note 3.

(4) The Company, through its wholly-owned subsidiary, ML Management, holds an equity stake in Sierra Crest Investment Management, LLC. Investments in associates accounted for using the equity method are initially recognized at cost.

(5) Asset management investments pledged as collateral for outstanding credit facilities totaled $nil as at December 31, 2021.

(6) Other invested assets primarily include structured securities and loan receivables.

Investment in associates

An associate is an entity over which the Company has significant influence, but does 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.

On December 17, 2020, the Company, through its wholly-owned subsidiary, ML Management, acquired an equity stake in Sierra Crest Investment Management, LLC ("SCIM"). On June 8, 2021, ML Management acquired an additional equity stake in SCIM, increasing the ownership interest from 21% to 24.99%. The financial effects and risks related to this equity method investment are limited to the performance of the associate and the environment in which it operates.

The Company received dividends of $1.2 million for the six months ended June 30, 2022 (June 30, 2021 – $0.5 million), which is recorded as a reduction of carrying value. As at June 30, 2022, $0.4 million (December 31, 2021 – $1.5 million) is payable related to the purchases.

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

				June 30, 2022				December 31, 2021			
Name	Type	Principal Place of Business	Country of Incorporation	Carrying Value	Fair Value	Ownership Interest %	Voting Rights %	Carrying Value	Fair Value	Ownership Interest %	Voting Rights %
Sierra Crest Investment Management LLC	Limited Liability Company	United States	United States	$ 8,866	$ 8,866	24.99%	24.99%	$ 9,263	$ 9,263	24.99%	24.99%
Opportunities Credit Interval Fund	Delaware statutory trust	United States	United States	100	100	100.00%	100.00%	—	—	—	—

Fair value measurements

The following tables summarize the fair value hierarchy of the Company's financial assets:

	Fair Value Measurements			
June 30, 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Asset management				
Debt securities:				
Corporate	$ —	$ —	$ 5,815	$ 5,815
Equity securities	—	—	906	906
Total investments — asset management	**—**	**—**	**6,721**	**6,721**
Insurance				
Debt securities:				
U.S. government and agency	—	7,674	—	7,674
U.S. state, territories and municipalities	—	5,901	—	5,901
Other government and agency	—	7,766	—	7,766
Corporate	3,130	159,526	131,265	293,921
Asset and mortgage backed securities	—	344,454	—	344,454
Equity securities	1,649	-	281	1,930
Other invested assets	—	17,999	25,633	43,632
Total investments — insurance	**4,779**	**543,320**	**157,179**	**705,278**
Total investments	**$ 4,779**	**$ 543,320**	**$ 163,900**	**$ 711,999**

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

December 31, 2021	Fair Value Measurements Level 1	Level 2	Level 3	Total
Financial assets				
Asset management				
Debt securities:				
Corporate	$ —	$ —	$ 9,867	$ 9,867
Equity securities	419	—	2,074	2,493
Total investments — asset management	**419**	**—**	**11,941**	**12,360**
Insurance				
Debt securities:				
U.S. government and agency	—	10,004	—	10,004
U.S. state, territories and municipalities	—	9,953	—	9,953
Other government and agency	—	10,034	—	10,034
Corporate	647	246,035	98,979	345,661
Asset and mortgage backed securities	—	364,101	2,109	366,210
Equity securities	419	—	278	697
Other invested assets	—	—	27,141	27,141
Total investments — insurance	**1,066**	**640,127**	**128,507**	**769,700**
Total investments	**$ 1,485**	**$ 640,127**	**$ 140,448**	**$ 782,060**

The availability of observable inputs can vary depending on the financial asset and is affected by a wide variety of factors, including, for example, the type of instrument, whether the instrument has recently been issued, whether the instrument is traded on an active exchange or in the secondary market, and current market conditions. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires additional judgment. Accordingly, the degree of judgment exercised by MLC in determining fair value is greatest for instruments categorized in Level 3. The variability and availability of the observable inputs affected by the factors described above may cause transfers between Levels 1, 2, and 3, which MLC recognizes at the end of each reporting period.

Transfers between Level 1 and Level 2

The Company records transfers of assets between Level 1 and Level 2 at their fair values at the end of each reporting period. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. There were no assets transferred between Level 1 and Level 2 during the three months ended June 30, 2022 and 2021.

Transfers between Level 2 and Level 3

The Company records transfers of assets between Level 2 and Level 3 at the end of each reporting period. Assets are transferred into Level 3 when there is no active or inactive market and they are valued using significant unobservable inputs.

Conversely, assets are transferred from Level 3 to Level 2 when there is no active market, but can be priced using observable inputs or prices on an inactive market.

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

Six Months Ended June 30, 2022	Balance December 31, 2021	Purchases	Sales and Repayments	Net Realized Gain	Net Change in Unrealized Appreciation (Depreciation)	Transfer in [1]	Transfer out [1]	Balance June 30, 2022	Change in Unrealized Gains (Losses) on Level 3 Investments Still Held
Financial assets									
Asset management									
Debt securities:									
Corporate	$ 9,867	$ —	$ (3,650)	$ (337)	$ (65)	$ —	$ —	$ 5,815	$ 110
Equity securities	2,074	—	(1,193)	(107)	132	—	—	906	140
Total assets — asset management	**11,941**	**—**	**(4,843)**	**(444)**	**67**	**—**	**—**	**6,721**	**250**
Insurance									
Debt securities:									
Corporate	98,979	52,393	(12,656)	21	(2,581)	4,297	(9,188)	131,265	(2,612)
Asset and mortgage backed securities	2,109	—	(609)	—	(99)	933	(2,334)	—	—
Equity securities	278	—	—	—	3	—	—	281	3
Other invested assets	27,141	—	(513)	—	(995)	—	—	25,633	(996)
Total assets — insurance	**128,507**	**52,393**	**(13,778)**	**21**	**(3,672)**	**5,230**	**(11,522)**	**157,179**	**(3,605)**
Total investments	**$ 140,448**	**$ 52,393**	**$ (18,621)**	**$ (423)**	**$ (3,605)**	**$ 5,230**	**$ (11,522)**	**$ 163,900**	**$ (3,355)**

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

(1) 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.

Six Months Ended June 30, 2021	Balance December 31, 2020	Purchases	Sales and Repayments	Net Realized Gain	Net Change in Unrealized Appreciation (Depreciation)	Transfer in (1)	Transfer out (1)	Balance June 30, 2021	Change in Unrealized Gains (Losses) on Level 3 Investments Still Held
Asset management									
Debt securities:									
Corporate	$ 17,876	$ 23,245	$ (10,637)	$ 1	$ 871	$ —	$ —	$ 31,356	$ 689
Total assets — asset management	**17,876**	**23,245**	**(10,637)**	**1**	**871**	**—**	**—**	**31,356**	**689**
Total investments	**$ 17,876**	**$ 23,245**	**$ (10,637)**	**$ 1**	**$ 871**	**$ —**	**$ —**	**$ 31,356**	**$ 689**

(1) 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.

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

June 30, 2022		**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) -**
Financial assets						
Asset management						
Debt securities (1)	$ 3,093	Discounted cash flow (2)	Discount rate	12.0% (12.0%)	$ (81)	$ 92
	2,722	Discounted cash flow	Credit spread	12.1% (12.1%)	—	—
Equity investments	906	Discounted cash flow	Discount rate	30.0% (30.0%)	100	(80)
Total — asset management	**6,721**					
Insurance						
Debt securities (1):						
Corporate	20,483	Recent transaction	Transaction price	NA	NA	NA
	110,782	Discounted cash flow	Discount rate	4.0% - 15.2% (10.4%)	(874)	873
Equity securities	281	Current value method	Enterprise value multiple	8.75 (8.75)	—	—
Other invested assets	25,633	Discounted cash flow	Discount rate	8.7% - 12.0% (9.0%)	(192)	194
Total — insurance	**157,179**					
Total	**$ 163,900**					

(1) For loan investments where the recent transaction price does not estimate fair value, the Company determines the fair value utilizing a yield analysis.

(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 high/low movement of the unobservable input.

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

December 31, 2021		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) -
Financial assets						
Asset management						
Debt securities (1)	$ 4,035	Discounted cash flow (2)	Discount rate	12.0% (12.0%)	$ (109)	$ 116
	3,101	Discounted cash flow	Credit spread	9.7% (9.7%)	—	—
	2,731	Recent transaction	Transaction price	NA	NA	NA
Equity investments	1,300	Recent transaction	Transaction price	NA	NA	NA
	774	Discounted cash flow	Discount rate	27.5%-32.5% (30.0%)	79	(69)
Total — asset management	**11,941**					
Insurance						
Debt securities (1):						
Corporate	24,526	Recent transaction	Transaction price	NA	NA	NA
	74,453	Discounted cash flow	Discount rate	9.2% - 9.4% (9.3%)	131	(131)
Asset and mortgage backed securities	2,109	Recent transaction	Transaction price	NA	NA	NA
Equity securities	278	Current value method	Enterprise value multiple	8.25 - 9.25 (8.30)	2	(13)
Other invested assets	23,253	Recent transaction	Transaction price	NA	NA	NA
	3,888	Discounted cash flow	Discount rate	8.8% (8.8%)	—	—
Total — insurance	**128,507**					
Total	**$ 140,448**					

(1) For loan investments where the recent transaction price does not estimate fair value, the Company determines the fair value utilizing a yield analysis.

(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.

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 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 securities 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.

Allowance for Expected credit losses

An allowance for ECL is established when a debt instruments held at amortized cost becomes impaired. ECLs represent 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.

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

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

As at June 30, 2022	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Asset management				
Gross carrying value at amortized cost	$ 13,586	$ —	$ —	$ 13,586
Allowance for credit losses	—	—	—	—
Net carrying value at amortized cost - asset management	**13,586**	**—**	**—**	**13,586**
Insurance				
Gross carrying value at amortized cost	145,768	—	—	145,768
Allowance for credit losses	—	—	—	—
Net carrying value at amortized cost - insurance	**145,768**	**—**	**—**	**145,768**
Total	**$ 159,354**	**$ —**	**$ —**	**$ 159,354**

As at December 31, 2021	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Asset management				
Gross carrying value at amortized cost	$ 13,586	$ —	$ —	$ 13,586
Allowance for credit losses	—	—	—	—
Net carrying value at amortized cost - asset management	**13,586**	**—**	**—**	**13,586**

There was no change in ECLs as at June 30, 2022 and 2021. All ECL allowances were categorized as Stage 1 – performing instruments that have not experienced a significant increase in credit risk since initial recognition.

There were no changes to the allowance for credit losses of the Company for the three months ended June 30, 2022 and 2021.

8. Revenue from service contracts

The Company provides investment management and related services to third-party investment funds and other arrangements.

The Company's management and service contracts generally impose single performance obligations, each consisting of a series of similar related services to each customer.

The Company's performance obligations within service arrangements are generally satisfied over time as the customer simultaneously receives and consumes the benefits of the services rendered and are measured using an output method. Fees typically include variable consideration and the related revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is subsequently resolved.

Asset-based fees vary with asset values of accounts under management, subject to market conditions and investor behaviors beyond the Company's control. Fees related to services provided are generally recognized as services are rendered, which is when it becomes highly probable that no significant reversal of cumulative revenue recognized will occur. The Company has determined that its service contracts have no significant financing components as fees are collected quarterly.

The following tables summarize the Company's revenue from service contracts:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Management fees	$ 1,597	$ 587	$ 3,547	$ 1,199
Servicing fee	267	(3)	295	(49)
Total Management fee and servicing fees [(1)]	**$ 1,864**	**$ 584**	**$ 3,842**	**$ 1,150**

(1) Excludes the Company's share of profit or loss from investment in associates.

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

Revenue Type	Customer	Performance Obligation	Performance Obligation Satisfied Over Time or Point in Time	Variable or Fixed Consideration	Payment Terms	Subject to Return Once Recognized	Classification of Uncollected Amounts (4)
Management fee (1)	Investment funds, CLOs and other vehicles	Investment management services	Over time as services are rendered	Variable consideration since varies based on fluctuations in the basis of management fee over time	Typically quarterly in arrears	No	Other assets
Incentive fee (2)	Investment funds	Investment management services that result in achievement of minimum investment return levels	End of measurement period when fixed and determinable	Variable consideration since contingent upon the investment fund achieving more than the stipulated investment return hurdles	Typically paid shortly after the end of the performance measurement period	No	Other assets
Servicing fee (3) (5)	Sierra Crest Investment Management LLC	Administration services	Over time as services are rendered	Variable consideration since contingent upon the economics achieved by the underlying fund managed by SCIM	Typically quarterly in arrears	No	Due from affiliates

(1) The Company, through ML Management, provides investment management services to investment funds and ML CLOs (as defined below) in exchange for a management fee. Management fees are determined quarterly based on an annual rate and generally based upon gross assets or as otherwise defined in the respective contractual agreements. Management fees are considered to be constrained since some of the factors that cause the fees to fluctuate are outside of the Company's control, and are therefore not included in the transaction price. There are no significant judgments made when determining the transaction price after the contract is established.

(2) The Company, through ML Management, provides investment management services to investment funds and ML CLOs in exchange for a management fee as discussed above and, in some cases an incentive fee. The incentive fee consists of two parts: (i) the first component, the income incentive fee, is based on pre-incentive fee net investment income in excess of a hurdle rate (ii) the second component, the capital gains incentive fee, is based on cumulative realized capital gains and losses and unrealized capital depreciation. Incentive fees are considered a form of variable consideration as these fees are based on performance and the recognition of such fee is deferred until the end of the measurement period when the performance-based incentive fees become fixed and determinable. There are no significant judgments made when determining the transaction price after the contract is established.

(3) The Company, through MLC US Holdings LLC ("MLC US Holdings"), a wholly-owned subsidiary of the Company, provides certain administrative services to SCIM in respect of the management of an investment fund ("ACIF") in exchange for a servicing fee. Servicing fees are determined quarterly based on an amount equal to the aggregate base management fee and incentive fees received by SCIM from ACIF in respect of such quarter, net of debt service, plus a quarterly fee to be retained by SCIM comprised of a specified amount, plus an allocable portion of the compensation of SCIM's investment professionals in connection with their performance of investment advisory services for ACIF (collectively, the "Retained Benefits"). In addition, SCIM is reimbursed by MLC US Holdings quarterly for certain expenses it incurs in connection with the investment advisory services provided to ACIF. Pursuant to this arrangement, the Company receives the net economic benefit derived by SCIM under the ACIF advisory agreement, subject to the holdback of the Retained Benefits and expense reimbursements.

(4) For amounts classified in other assets, see Note 14 "Other assets and accrued expenses and other liabilities." Additional information regarding related party transactions is included in Note 10.

(5) Amount due from SCIM related to servicing fees is netted against the current portion of amounts due to SCIM related to the purchase of the SCIM equity.

On August 21, 2020, the Company, through ML Management, entered into an asset purchase agreement with Garrison Investment Management LLC ("GIM") and other sellers (collectively, the "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 (the "2018-1 CLO") and Garrison MML CLO 2019-1 LP (collectively, the "ML CLOs") (the "ML CLO Acquisition"). The ML CLO Acquisition closed on November 12, 2020 and ML Management became the investment manager of the ML CLOs and receives 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 ACIF. On December 17, 2020, the SCIM Services Agreement was amended to be between the Company's wholly-owned subsidiary, MLC US Holdings, and SCIM. Under the SCIM Services Agreement, in exchange for the administrative services, SCIM pays the Company, on a quarterly basis, an amount equal to the aggregate base management and incentive fees received by SCIM from ACIF in respect of such quarter, net of the Retained Benefits. In addition, SCIM is reimbursed by MLC US Holdings quarterly for certain expenses it incurs in connection with the investment advisory services provided to ACIF. Pursuant to this arrangement, the Company receives the net economic benefit derived by SCIM under the ACIF advisory agreement, subject to the holdback of the Retained Benefits and expense reimbursements.

On April 20, 2021, the Company, through ML Management, entered into an asset purchase agreement with Capitala Investment Advisors, LLC ("CIA") with respect to the acquisition by ML Management of certain assets from CIA and whereby ML Management will become the investment adviser of Capitala Finance Corp. ("Capitala"), a U.S. publicly traded business development company whose common stock is listed on NASDAQ (the "Capitala Acquisition"). The Capitala Acquisition closed on July 1, 2021 and Capitala Finance Corp. changed its name to Logan Ridge Finance Corporation ("Logan Ridge"). ML Management, as the investment adviser, receives a fee for investment advisory and management services consisting of two components – a 1.75% annual base management fee based upon gross assets and an incentive fee tied to performance. The incentive fee consists of the following two parts:

> The first part of the incentive fee is calculated and payable quarterly in arrears based on Logan Ridge's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income, and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, diligence, and consulting fees or

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

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

(2) 100% of the pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle but is less than 2.5% in any calendar quarter (10.0% annualized). This portion of the pre-incentive fee net investment income (which exceeds the hurdle but is less than 2.5%) is referred to as the "catch-up." The "catch-up" is meant to provide ML Management with 20% of the pre-incentive fee net investment income as if a hurdle did not apply if this net investment income exceeds 2.5% in any calendar quarter; and

(3) 20% of the amount of the pre-incentive fee net investment income, if any, that exceeds 2.5% in any calendar quarter (10.0% annualized) (once the hurdle is reached and the catch-up is achieved, 20% of all pre-incentive fee investment income thereafter is allocated to ML Management).

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

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

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

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

(2) 100% of the pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle but is less than 1.7647% in any calendar quarter (7.0% annualized). This portion of the pre-incentive fee net investment income (which exceeds the hurdle but is less than 1.7647%) is referred to as the "catch-up." The "catch-up" is meant to provide ML Management with 15% of OCIF's pre-incentive fee net investment income as if a hurdle did not apply if this net investment income exceeds 1.7647% in any calendar quarter; and

(3) 15% of the amount of OCIF's pre-incentive fee net investment income, if any, that exceeds 1.7647% in any calendar quarter (7.0% annualized) (once the hurdle is reached and the catch-up is achieved, 15% of all pre-incentive fee net investment income thereafter is allocated to ML Management).

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

Management fees earned from MLC's consolidated entities are eliminated in consolidation.

9. Goodwill and intangible assets

The following table is a summary of goodwill and intangible assets:

	Balance December 31, 2021	Additions	Amortization Expense	Balance June 30, 2022
Asset management				
Intangible assets — indefinite life				
Investment management contracts	$ 19,204	$ —	$ —	$ 19,204
Intangible assets — definite life				
Investment management contracts	2,856	—	(398)	2,458
Total intangible assets — asset management	$ 22,060	$ —	$ (398)	$ 21,662
Insurance				
Goodwill	$ 55,015	$ —	$ —	$ 55,015
Intangible assets — indefinite life				
State insurance licenses	2,444	—	—	2,444
Intangible assets — definite life				
Deferred acquisition costs	60	1,308	(134)	1,234
Total intangible assets — insurance	2,504	1,308	(134)	3,678
Total goodwill and intangible assets — insurance	$ 57,519	$ 1,308	$ (134)	$ 58,693

Asset Management

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.

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. Amortization expense is recognized in the consolidated statements of comprehensive income (loss) in amortization of intangible assets. The indefinite useful life assessment for certain investment management contracts is based on the ability to renew these contracts indefinitely. In addition, there are no legal, regulatory or contractual provisions that limit the useful lives of these intangible assets. An intangible asset with an indefinite useful life is not amortized but is subject to an annual impairment test which is performed more frequently if an indication that it is not recoverable arises.

Insurance

Goodwill represents the excess of acquisition cost over the fair value of net tangible and intangible assets acquired in connection with an acquisition. Goodwill is assessed for impairment annually in the third quarter of each fiscal year or more frequently if circumstances indicate impairment may have incurred.

Ability holds an Intangible assets consisting of state insurance licenses, which was recognized upon acquisition at fair value and recorded in Intangible assets in the statement of financial position. The state insurance licenses will subsequently be measured at cost less any accumulated impairment losses. The indefinite lived intangible assets are not subject to amortization but are subject to an annual impairment test which is performed more frequently if an indication that the carrying amount is not recoverable arises.

Deferred acquisition costs ("DAC") consist of commissions and other costs that are directly related to the successful renewal of long term care contracts. DAC is recorded in insurance intangible assets in the consolidated statements of financial position and amortized over the expected renewal term of the related contracts. Amortization of deferred policy acquisition costs is recognized in insurance expenses in the consolidated statements of comprehensive income (loss).

Impairment testing

The useful lives of intangible assets are reviewed annually for any changes in circumstances. The Company tests definite-life intangible assets for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. The indefinite useful life assessment is reviewed at least annually to determine whether events and circumstances exist to continue to support the indefinite useful life of intangible asset. 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 changes in estimated useful lives for the six months ended June 30, 2022.

There were no write-downs of intangible assets for the six months ended June 30, 2022 (June 30, 2021 – $nil).

10. Related party transactions

Servicing Agreement

On November 20, 2018, the Company entered into a servicing agreement (the "Servicing Agreement") with BC Partners Advisors L.P. ("BC Partners"). Under the terms of the Servicing Agreement, BC Partners as servicing agent (the "Servicing Agent") performs (or oversees, or arranges for, the performance of) the administrative services necessary for the operation of the Company, including, without limitation, office facilities, equipment, bookkeeping and recordkeeping services and such other services the Servicing Agent, subject to review by the Board, shall from time to time deem necessary or useful to perform its obligations under this Servicing Agreement. The Servicing Agent is authorized to enter into sub-administration agreements as determined to be necessary in order to carry out the administrative services.

Unless earlier terminated as described below, the Servicing Agreement will remain in effect from year-to-year 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.

The Company reimburses BC Partners for an allocable portion of compensation paid by the Servicing Agent (or its affiliates) to the Company's Chief Financial Officer, associated management personnel (based on a percentage of time such individuals devote, on an estimated basis, to the business affairs of the Company), and out-of-pocket expenses. While the Servicing Agent performs certain administrative functions for the Company, the management functions of the Company are wholly performed by the Company's management team. For the three months ended June 30, 2022, the Company incurred administrative fees of $0.3 million (June 30, 2021 – $0.3 million). For the six months ended June 30, 2022, the Company incurred administrative fees of $0.6 million (June 30, 2021 – $0.5 million). As at June 30, 2022, administration fees payable to BC Partners was $0.3 million (December 31, 2021 –$ 0.2 million).

Potential Conflicts of Interest

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

Compensation of Key Management Personnel

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

Common shares held by directors and officers of the Company who are affiliated with BC Partners at June 30, 2022 were 645,370 (December 31, 2021 – 645,370).

Other Transactions with BC Partners or its Affiliates

The Servicing Agent may, from time to time, pay amounts owed by the Company to third-party providers of goods or services, and the Company will subsequently reimburse the Servicing Agent for such amounts paid on its behalf. Amounts payable to the Servicing Agent are settled in the normal course of business without any formal payment terms. As at June 30, 2022, operating expenses reimbursable to BC Partners for amounts paid on behalf of the Company was $0.3 million (December 31, 2021 – $3.3 million).

The Company may, from time to time, enter into transactions in the normal course of operations with entities that are considered affiliates of BC Partners. At June 30, 2022, the Company held investments with affiliates of BC Partners totaling $nil (December 31, 2021 – $23.9 million) and in the 2018-1 CLO totaling $nil (December 31, 2021 – $2.7 million).

11. Share capital and earnings per share

Authorized share capital

The Company is authorized to issue an unlimited number of common shares, without par value, for unlimited consideration. The common shares are not redeemable or convertible. Dividends are declared by the Board at its discretion. Historically, the Board has declared dividends on a quarterly basis and the amount can vary from quarter to quarter.

The Company is authorized to issue an unlimited number of preference shares, without par value, in series, for unlimited consideration.

Share issuance

As at June 30, 2022, there were 22,190,195 common shares issued and outstanding (December 31, 2021 – 22,190,195). There were no preference shares outstanding as at June 30, 2022 (December 31, 2021 – nil).

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

There were no shareholder transactions for the three and six months ended June 30, 2022 and 2021.

Dividends

The following table reflects the distributions declared on the common shares of the Company during the three months ended June 30, 2022 and 2021:

			Dividend Amount per Share		Total Dividend Amount	
Declaration Date	Record Date	Payment Date	CAD	USD (1)	CAD	USD (1)
March 22, 2022	March 31, 2022	April 8, 2022	$ 0.020	$ 0.016	$ 444	$ 352
May 10, 2022	May 27, 2022	June 24, 2022	$ 0.020	$ 0.015	$ 444	$ 341
					$ 888	**$ 693**
March 22, 2021	March 31, 2021	April 7, 2021	$ 0.020	$ 0.016	$ 339	$ 271
May 12, 2021	May 27, 2021	June 25, 2021	0.020	0.016	344	283
					$ 683	**$ 554**

(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 ("RSU") plan (the "RSU 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 RSU Plan to pay awards which have been granted and are outstanding under the RSU 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.

Under the RSU Plan, RSUs of MLC were granted to certain key employees and directors on February 15, 2022, being the "grant date". RSU grants are made in the form of equity-settled awards that vest one-third annually beginning one year after the grant date, whereby one RSU will vest in exchange for one common share. The grant date fair value of each equity-settled RSU unit granted is calculated based on the closing price per common share on the Neo Exchange on the date of grant. A total of 331,795 RSUs granted at a price of $4.04 per common share were outstanding as at June 30, 2022 (December 31, 2021 – nil).

There were no options or awards outstanding under the Option Plan as at June 30, 2022 (December 31, 2021 – nil).

Arrangement – contingent value rights

On October 19, 2018, in connection with the completion of a plan of arrangement carried out under the OBCA (the "Arrangement"), 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.

Upon completion of the Arrangement, each of the common shares of the Company was exchanged for one new common share of the Company created pursuant to the Arrangement ("New Shares") and, subject to certain restrictions, one CVR, with each CVR representing a contingent cash entitlement in respect of Cline. The Company issued to its shareholders an aggregate of 17,288,140 CVRs. Under the terms of the indenture governing the CVRs, the Company will seek to dispose of Cline during the five year period following the closing of the Arrangement and will distribute to the holders of the CVRs any distributions received from Cline and the net proceeds received from the sale of the Company's holdings in Cline.

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.

On October 27, 2020, the Former Manager announced that Allegiance Coal Limited, a coal exploration and development company, acquired all the shares in New Elk Coal Company ("NECC"), which holds all the mining assets of Cline. On February 24, 2021 and January 7, 2022, the Company received CAD$0.5 million and CAD$1.1 million, respectively, from the Former Manager in connection with the sale. On June 9, 2021 and April 7, 2022, the Company distributed CAD$0.3 million and CAD$1.2 million, respectively, to the holders of the CVRs. Further distributions 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.

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

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 "Arrangement Warrants"). As at June 30, 2022 and 2021, the Company had 20,468,128 Arrangement Warrants outstanding, which are exercisable at any time up to October 19, 2025. As a result of a share consolidation completed on December 3, 2019, every eight (8) Arrangement Warrants entitled 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 Arrangement Warrants as at June 30, 2022 and 2021.

In connection with the private placement on July 20, 2021, the Company issued an aggregate of 76,923 Broker Warrants, each of which is exercisable to acquire one common share at any time up to January 20, 2023 at an exercise price of CAD$3.90.

As at June 30, 2022, there were 20,468,128 Arrangement Warrants outstanding (December 31, 2021 – 20,468,128) and 76,923 Broker Warrants outstanding (December 31, 2021 – 76,923).

Earnings per share

Basic earnings 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 earnings per share is calculated in the same manner, with further adjustments made to reflect the dilutive impact of instruments convertible into the Company’s common shares.

The following table sets forth the computation of basic and diluted income (loss) per common share for the three and six months ended June 30, 2022 and 2021:

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Basic earnings per share				
Net income (loss)	$ 8,887	$ (204)	$ (7,490)	$ 65
Weighted-average number of common shares outstanding	22,190,195	17,096,822	22,190,195	17,030,834
Basic earnings per share	$ 0.40	$ (0.01)	$ (0.34)	$ 0.00
Diluted earnings per share				
Net income (loss)	8,887	(204)	(7,490)	65
Weighted-average number of common shares outstanding	22,190,195	17,096,822	22,190,195	17,030,834
Effect of dilutive investments				
Warrants potentially exercisable (1)	76,923	—	76,923	—
Weighted-average number of diluted common shares outstanding	22,267,118	17,096,822	22,267,118	17,030,834
Diluted earnings per share	$ 0.40	$ (0.01)	$ (0.34)	$ 0.00

(1) The Arrangement Warrants are excluded from the calculation of diluted earnings per share given the exercise price is greater than the average market price of the Company's common shares (i.e., they are "out of the money").

12. Debt obligations

Asset management

MLC I Revolving Senior Loan Facility

On February 22, 2019, Great Lakes Senior MLC I LLC ("MLC I"), a wholly-owned subsidiary of the Company, entered into a facility and security agreement (the "MLC I Revolving Senior Loan Facility") with certain financial institutions (the "Lender"), pursuant to which MLC I may borrow up to $50.0 million. Under the terms of the MLC I Revolving Senior Loan Facility, as amended, the maximum commitment financing available is $50.0 million and 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. 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 MLC I Revolving Senior Loan Facility is reached. The MLC I Revolving Senior Loan Facility is guaranteed by MLC.

The MLC I 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 February 4, 2021, the outstanding amount under the MLC I Revolving Senior Loan Facility was repaid in full and the facility was terminated.

MLCSC Credit Facility

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 "MLCSC 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.

On August 20, 2021, the outstanding amount under the MLCSC Credit Facility was repaid in full and the facility was terminated.

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

MLC I Revolving Credit Facility

On May 7, 2021, MLC I entered into a revolving credit and security agreement (the "Facility Agreement") with a large US-domiciled financial institution, as administrative agent (the "Agent"). Pursuant to the Facility Agreement, the Agent shall arrange for lenders to advance to MLC I on a revolving basis up to $60.0 million (the "MLC I Revolving Credit Facility"). The MLC I Revolving Credit Facility matures on February 7, 2022, subject to earlier repayment at the option of MLC I. Amounts drawn under the MLC I Revolving Credit Facility will bear interest at LIBOR plus a spread of 4.00% for the first three months, 5.50% for the following three months, and 8.00% thereafter. Payment of principal and interest are made on the maturity date. The MLC I Revolving Credit Facility is collateralized by assets held by MLC I. ML Management is a guarantor of the MLC I Revolving Credit Facility and the MLC I Revolving Credit Facility is non-recourse in nature to the Company.

The MLC I Revolving Credit Facility contains affirmative and restrictive covenants, events of default and other customary provisions.

On December 14, 2021, the outstanding amount under the MLC I Revolving Credit Facility was repaid in full and the facility was terminated.

MLC US Holdings Credit Facility

On August 20, 2021, MLC US Holdings entered into a credit facility with a large US-based asset manager, as administrative agent and collateral agent for the lenders, whereby MLC US Holdings may borrow up to $25.0 million by December 31, 2021 (the "MLC US Holdings Credit Facility"). The MLC US Holdings Credit Facility matures on August 20, 2027.

Amounts drawn under the MLC US Holdings Credit Facility will bear interest at LIBOR plus a spread of 7.50%. The benchmark, LIBOR, will be replace by the secured overnight financing rate ("SOFR") upon the transition from LIBOR. A commitment fee of 0.50% per annum is charged on undrawn amounts through December 31, 2021. Payment of principal and interest are made on each payment date, with the remaining principal outstanding and accrued but unpaid interest payable on August 20, 2027. The MLC US Holdings Credit Facility is collateralized by assets held by MLC US Holdings. MLC is a guarantor of the MLC US Holdings Credit Facility.

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

Seller Notes

On July 1, 2021, MLC completed the Capitala Acquisition through in part the issuance of an unsecured promissory note of $4.0 million, which bears no interest and is payable by July 1, 2025. The repayment amount on maturity date is adjusted to reflect the performance of the investment portfolio of Logan Ridge specified at closing and shall not be less than $nil or more than $6.0 million.

On October 29, 2021, MLC completed the Ability Acquisition through in part the issuance of an unsecured promissory note of $15.0 million, which bears interest at 5% per annum and is payable by October 29, 2031.

Debt obligations consisted of the following as at June 30, 2022 and December 31, 2021:

As at June 30, 2022	**Maturity date**	**Stated interest Rate**	**Effective interest rate**	**Extension options**	**Total facility**	**Outstanding balance**
Seller note — Capitala Acquisition	July 2025	—	—	N/A	$ 4,000	$ 4,000
MLC US Holdings Credit Facility (1)	August 2027	L+7.50%	8.50%	N/A	25,000	24,063
Seller note — Ability Acquisition	October 2031	5.0%	5.0%	N/A	15,000	15,000
Total debt					**$ 44,000**	**$ 43,063**

L - London Interbank Offered Rate

(1) The MLC US Holdings Credit Facility is secured by all assets and interests in assets and proceeds owned and acquired by MLC US Holdings.

As at December 31, 2021	**Maturity date**	**Stated interest Rate**	**Effective interest rate**	**Extension options**	**Total facility**	**Outstanding balance**
Seller note — Capitala Acquisition	July 2025	—	—	N/A	$ 4,000	$ 4,000
MLC US Holdings Credit Facility (1)	August 2027	L+7.50%	8.50%	N/A	25,000	25,000
Seller note — Ability Acquisition	October 2031	5.0%	5.0%	N/A	15,000	15,000
Total debt					**$ 44,000**	**$ 44,000**

L - London Interbank Offered Rate

(1) The MLC US Holdings Credit Facility is secured by all assets and interests in assets and proceeds owned and acquired by MLC US Holdings.

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

The scheduled principal repayments are as follows:

As at	June 30, 2022	December 31, 2021
2022	$ 626	$ 1,250
2023	1,250	1,250
2024	1,250	1,250
2025	5,250	5,250
2026	1,250	1,250
2027 and thereafter	33,437	33,750
	43,063	44,000
Transaction costs (net of amortization)	(1,178)	(1,292)
Total debt	**$ 41,885**	**$ 42,708**

For the three months ended June 30, 2022, interest expense, including the amortization of debt issuance costs, was $0.8 million (June 30, 2021 – $0.2 million). For the six months ended June 30, 2022, interest expense, including the amortization of debt issuance costs, was $1.5 million (June 30, 2021 – $0.6 million).

Insurance

Surplus Note

Ability has the following surplus debenture outstanding at June 30, 2022 and December 31, 2021:

As at June 30, 2022	Date Issued	Date of Maturity	Interest Rate	Par Value	Carrying Value of Note	Interest and/or Principal Paid during current year (1)
Sentinel Security Life Insurance Company	2/25/2013	May 2023	5.00%	$ 2,250	$ 2,250	$ 56
Total Surplus Notes				**$ 2,250**	**$ 2,250**	**$ 56**

As at December 31, 2021	Date Issued	Date of Maturity	Interest Rate	Par Value	Carrying Value of Note	Interest and/or Principal Paid during current year (2)
Sentinel Security Life Insurance Company	2/25/2013	May 2023	5.00%	$ 2,250	$ 2,250	$ 56
Total Surplus Notes				**$ 2,250**	**$ 2,250**	**$ 56**

(1) Reflects interest and/or principal paid from the Ability Acquisition Date through June 30, 2022.

(2) Reflects interest and/or principal paid from the Ability Acquisition Date through December 31, 2021.

The surplus note is subordinated in right of payment of all indebtedness, policy claims, and other creditor claims. Payments of interest or principal shall be paid only if Ability has the required levels of statutory surplus and upon prior authorization by the Director of the Nebraska Department of Insurance.

13. Insurance contract liabilities and reinsurance assets

(a) Insurance contract liabilities and reinsurance assets

Insurance contract liabilities are reported gross of reinsurance ceded and ceded liabilities are reported separately as reinsurance assets. A summary of gross and net insurance contract liabilities are shown below.

As at	June 30, 2022	December 31, 2021
Gross Insurance contract liabilities	$ 867,337	$ 942,865
Reinsurance assets	(278,390)	(329,902)
Modco investments (1)	(199,376)	(205,297)
Net insurance contract liabilities	**$ 389,571**	**$ 407,666**

(1) Under the modified coinsurance agreement with Vista Life, the funds withheld assets are held with legal right of offset to the related insurance contract liabilities. See Note 3 "Significant Accounting Policies" for further details.

Net insurance contract liabilities represent the amount which, together with estimated future premiums and net investment income, will be sufficient to pay estimated future benefits, taxes (other than income taxes) and expenses on policies in-force net of reinsurance premiums and recoveries.

Net insurance contract liabilities are determined using CALM, as required by the Canadian Institute of Actuaries. The determination of net insurance contract liabilities is based on an explicit projection of cash flows using current assumptions for each material cash flow item. Investment returns are projected using the current asset portfolios and projected reinvestment strategies.

Each assumption is based on the best estimate, adjusted by a margin for adverse deviation. For fixed income returns, this margin is established by scenario testing a range of prescribed and company-developed scenarios consistent with Canadian Actuarial Standards of Practice. For all other assumptions, this margin is established by directly adjusting the best estimate assumption.

Cash flows used in the net insurance contract liabilities valuation adjust the gross policy cash flows to reflect projected cash flows from ceded reinsurance. The cash flow impact of ceded reinsurance varies depending upon the amount of reinsurance, the structure of reinsurance treaties, the expected economic benefit from treaty cash flows and the impact of margins for adverse deviation. Gross insurance contract liabilities are determined by discounting gross policy cash flows using the same discount rate as the net CALM model discount rate.

The reinsurance asset is determined by taking the difference between the gross insurance contract liabilities and the net insurance contract liabilities. The reinsurance asset represents the benefit derived from reinsurance arrangements in force at the date of the consolidated statements of financial position.

(b) Assets backing insurance contract liabilities

Ability has established target investment strategies and asset mixes supporting insurance contract liabilities which consider the expected duration of the liabilities supported by the assets and expectations of market performance. Changes in the fair value of assets backing net insurance contract liabilities would have a limited impact on the Company’s net income wherever there is an effective matching of assets and liabilities, as these changes would be partially offset by corresponding changes in the value of net insurance contract liabilities.

(c) Significant insurance contract liability valuation assumptions

The determination of insurance contract liabilities using CALM incorporates best-estimate assumptions. Certain significant assumptions include mortality and morbidity, policy lapses and future investment yields. Insurance contract liabilities have two major components: a best estimate amount and a provision for adverse deviation.

Best estimate assumptions

Best estimate assumptions are made with respect to mortality and morbidity, investment returns, and policy lapse. Actual experience is monitored to ensure that assumptions remain appropriate and assumptions are changed as warranted. Assumptions are discussed in more detail below.

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

Nature of factor and assumption methodology		Risk management
Mortality and morbidity	Mortality relates to the occurrence of death and is a key assumption for long term care insurance. Mortality assumptions are based on the Company's internal experience as well as past and emerging industry experience. Assumptions are differentiated by sex, underwriting class, policy type and geographic market. Assumptions are made for future mortality improvements. Morbidity relates to the occurrence of accidents and sickness for insured risks and is a key assumption for long term care insurance. Morbidity assumptions are based on the Company's internal experience as well as past and emerging industry experience and are established for each type of morbidity risk and geographic market. No assumptions are made for future morbidity improvements.	Ability monitors claim trends on an ongoing basis. Ability has extensive ceded reinsurance with third parties on the long term care insurance portfolio. Through the use of reinsurance, Ability has reduced exposure to mortality risk and almost no exposure to morbidity risk on a net basis.
Lapse	Policies are terminated or enter non-forfeiture status due to non-payment of premiums. Policy termination and lapse assumptions are primarily based on the Company's recent experience adjusted for expected future conditions.	The Company monitors lapse experience regularly. Recent lapse experience may be impacted due to shock lapses that have occurred in response to significant premium rate increase activity.
Investment returns	The Company establishes investment strategies to support the underlying insurance contract liabilities. Projected cash flows from these assets are combined with projected cash flows from future asset purchases/sales to determine expected rates of return on these assets for future years. Investment strategies are based on target investment policies and the reinvestment returns are derived from current and projected market rates for fixed income investments and a projected outlook for other alternative long-duration assets. Investment return assumptions include expected future asset credit losses on fixed income investments. Credit losses are projected based on past experience of the Company and industry as well as specific reviews of the current investment portfolio. Investment return assumptions for each asset class also incorporate expected investment management expenses that are derived from the terms of Ability's investment management agreements. The costs are attributed to each asset class to develop unitized assumptions per dollar of asset for each asset class.	Ability's investment strategy considers the correlating of asset cash flows with the corresponding liabilities, which is designed to partially mitigate the Company's exposure to future changes in interest rates.

Ability reviews actuarial methods and assumptions on an annual basis. If changes are made to assumptions, the full impact is recognized in the consolidated statements of comprehensive income (loss) immediately.

(d) Sensitivity of insurance contract liabilities to changes in non-economic assumptions

The sensitivity of net income attributed to changes in non-economic assumptions underlying insurance contract liabilities and to a deterioration or improvement in non-economic assumptions is shown below.

Actual results can differ materially from these estimates for a variety of reasons including the interaction among these factors when more than one changes; changes in actuarial and investment return and future investment activity assumptions; effective tax rates and other market factors; and the general limitations of internal models.

Potential impact on net income arising from changes to non-economic assumptions are shown below:

As at	June 30, 2022 (1)	December 31, 2021 (1)
Policy related assumptions		
2% adverse change in future mortality rates	$ 4,145	$ 5,464
5% adverse change in future morbidity rates	2,951	1,452
10% adverse change in future lapse	9,596	8,774

(1) The impacts of the adverse sensitivities on LTC for morbidity, mortality, and lapse do not assume any partial offsets from Ability's capacity to contractually raise premium rates in such events, subject to state regulatory approval. In practice, the Company would plan to file additional rate increases equal to the amount of deterioration resulting from the sensitivities.

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

(e) Provision for adverse deviation assumptions

The assumptions made in establishing insurance contract liabilities reflect expected best estimates of future experience. To recognize the uncertainty in these best estimate assumptions, to allow for possible misestimation of and deterioration in experience and to provide a greater degree of assurance that the insurance contract liabilities are adequate to pay future benefits, the Appointed Actuary is required to include a margin in each assumption.

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

Specific guidance is also provided for other risks such as market, credit, mortality and morbidity risks. For other risks which are not specifically addressed by the Canadian Institute of Actuaries, a range is provided of 5 percent to 20 percent of the expected experience assumption. Ability uses assumptions within the permissible ranges, with the determination of the level set considering the risk profile of the business. On occasion, in specific circumstances for additional prudence, a margin may exceed the high end of the range, which is permissible under the Canadian Actuarial Standards of Practice. This additional margin would be released if the specific circumstances which led to it being established were to change.

Each margin is reviewed annually for continued appropriateness.

(f) Change in insurance contract liabilities

The change in insurance contract liabilities was a result of the following business activities and changes in actuarial estimates.

For the six months ended June 30, 2022	Net actuarial liabilities	Other insurance contract liabilities (assets) (1)	Net insurance contract liabilities	Add: Modco investments	Reinsurance assets	Gross insurance contract liabilities
Balance as at December 31, 2021	$ 416,372	$ (8,706)	$ 407,666	$ 205,297	$ 329,902	$ 942,865
New policies	20,445	—	20,445	—	—	20,445
Normal in-force movement	(37,817)	(723)	(38,540)	(5,921)	(51,512)	(95,973)
Balance as at June 30, 2022	$ 399,000	$ (9,429)	$ 389,571	$ 199,376	$ 278,390	$ 867,337

(1) Other insurance contract liabilities are comprised of loss adjustment expenses and settlement amounts payable or receivable with reinsurers.

For the year ended December 31, 2021	Net actuarial liabilities	Other insurance contract liabilities (assets) (1)	Net insurance contract liabilities	Add: Modco investments	Reinsurance assets	Gross insurance contract liabilities
At transaction closing, October 29, 2021	$ 453,350	$ (8,537)	$ 444,813	$ 204,532	$ 374,712	$ 1,024,056
Normal in-force movement	(40,978)	(169)	(41,147)	765	(49,810)	(90,191)
Changes in methods and assumptions	4,000	—	4,000	—	5,000	9,000
Balance as at December 31, 2021	$ 416,372	$ (8,706)	$ 407,666	$ 205,297	$ 329,902	$ 942,865

(1) Other insurance contract liabilities are comprised of loss adjustment expenses and settlement amounts payable or receivable with reinsurers.

(g) Insurance contracts contractual obligations

Insurance contracts give rise to obligations fixed by agreement. As at June 30, 2022 and December 31, 2021, the Company's contractual obligations and commitments relating to insurance contracts are as follows.

As at June 30, 2022	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Insurance contract liabilities (1)	$ (28,604)	$ (56,182)	$ (80,582)	$ (613,904)	$ (779,272)

As at December 31, 2021	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Insurance contract liabilities (1)	$ (29,577)	$ (55,699)	$ (57,883)	$ (623,699)	$ (766,859)

(1) Insurance contract liability cash flows include estimates related to the timing and payment of disability claims, lapse rates, commissions and premium taxes offset by contractual future premiums on in-force contracts. These estimated cash flows are based on the best estimate assumptions used in the determination of insurance contract liabilities. These amounts are undiscounted and reflect recoveries from reinsurance agreements. Due to the use of assumptions, actual cash flows may differ from these estimates.

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

14. Investment contract liabilities

Investment contract liabilities are contractual obligations that are measured at amortized cost and do not contain significant insurance risk. Investment contract liabilities include MYGA annuity products that provide guaranteed income payments for a contractually determined period.

The following table presents the carrying and fair values of investment contract liabilities.

As at June 30, 2022	Amortized Cost (1)	Fair Value
U.S. fixed annuity products	$ 51,777	$ 49,071
Investment contract liabilities	$ 51,777	$ 49,071

Carrying value of fixed annuity products is amortized at a rate that exactly discounts the projected actual cash flows to the net carrying amount of the liability at the date of issue.

Fair value of fixed annuity products is determined by projecting cash flows according to the contract terms and discounting the cash flows at current market rates. As at June 30, 2022, fair value of all investment contract liabilities was determined using Level 2 valuation techniques.

The changes in investment contract liabilities measured at amortized cost was a result of the following business activities.

	Three Months Ended June 30, 2022	Six Months Ended June 30, 2022
Beginning balance	$ —	$ —
Policy deposits	51,517	51,517
Interest	430	430
Withdrawals	(170)	(170)
Balance as at June 30, 2022	**$ 51,777**	**$ 51,777**

Investment contracts contractual obligations

As at June 30, 2022, the Company's contractual obligations and commitments relating to the investment contracts are as follows.

Payments due by period	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Investment contract liabilities	$ —	$ —	$ (56,347)	$ (5,372)	$ (61,719)

15. Other assets and Accrued expenses and other liabilities

Other assets consist of the following:

As at	June 30, 2022	December 31, 2021
Asset management		
Management fee receivable	$ 1,240	$ 1,179
Deferred tax assets	1,267	943
Accrued interest and dividends receivable	847	719
Other	913	1,339
Total other assets — asset management	4,267	4,180
Insurance		
Accrued investment income	11,858	9,425
Receivable for investments sold	2,666	8,320
Premium receivables	7,574	718
Guaranty funds on deposit	380	449
Other	—	58
Total other assets — insurance	22,478	18,970
Total other assets	$ 26,745	$ 23,150

(1) Represents amounts due from third-parties for investment sales for which a cash settlement has not occurred.

Other liabilities and accrued expenses consist of the following:

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

As at		June 30, 2022		December 31, 2021
Asset management				
Payable for investments purchased [1]	$	399	$	1,248
Interest payable		(6)		2,460
Accounts payable and accrued liabilities		1,120		208
Total accrued expenses and other liabilities — asset management		1,513		3,916
Insurance				
Payable for investments purchased [1]		4,886		3,833
Commissions payable		262		281
Premiums received in advance		1,478		1,406
Other accrued expenses		1,697		901
Total accrued expenses and other liabilities — insurance		8,323		6,421
Total accrued expenses and other liabilities	$	9,836	$	10,337

(1) Represents amounts owed to third-parties for investment purchases for which a cash settlement has not occurred.

16. Income taxes

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. Current and deferred taxes are offset only when they are levied by the same tax authority, on the same entity or group of entities, and when there is a legal right to offset. 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 operations to support these deferred tax assets.

Income earned through the Company's foreign subsidiaries is generally taxed in the foreign country in which they operate. Canada also taxes the income earned through the Company's controlled foreign subsidiaries and a deduction is allowed for certain foreign taxes paid on such income.

Tax reconciliation

The effective income tax rate reflected in the consolidated statements of comprehensive income (loss) varies from the Canadian tax rate of 26.50 percent for the six months ended June 30, 2022 (June 30, 2021 – 26.50 percent) for the items outlined in the following table.

For the six months ended June 30,		2022		2021
Income (loss) before income taxes	$	(7,146)	$	(38)
Combined Canadian federal and provincial statutory tax rate		26.50%		26.50%
Income tax expense at Canadian statutory tax rate		(1,894)		(10)
Increase (decrease) resulting from:				
Permanent differences in tax rate on income not subject to tax in Canada		(270)		213
Deferred tax asset not recognized		4,003		(281)
Effect of tax rate of foreign jurisidictions		394		(25)
Foreign Accrual Property Income impact		(1,976)		—
Other		87		—
Income tax expense (recovery)	**$**	**344**	**$**	**(103)**

The following table presents a summary of the Company’s income tax expense (recovery).

For the six months ended June 30,		2022		2021
Current tax				
Current tax on profits for the year	$	669	$	(103)
Total current tax		669		(103)
Deferred tax				
Origination and reversal of timing difference		(325)		—
Total deferred tax		(325)		—
Total income tax (recovery)	$	344	$	(103)

Deferred tax asset – asset management

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

As at		June 30, 2022		December 31, 2021
Expenditure pools not yet deducted [1]	$	56,360	$	57,507
Non-capital losses available [2]		39,301		36,349
Net capital losses available [3]		23,918		24,405
Other [4] [5]		18,511		10,775
Gross deductible temporary differences		138,090		129,036
Deferred tax asset, gross		36,704		34,268
Deferred tax asset not recognized		(35,437)		(33,325)
Deferred tax asset, net	**$**	**1,267**	**$**	**943**

(1) The Company has $56,360 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 $39,301 of non-capital losses available to offset future taxable income. These losses expire between 2026 and 2042.

(3) The Company has $23,918 of net capital losses available to offset future capital gains for which no benefit has been recorded. These losses have no expiry date.

(4) The Company has $13,065 of foreign accrual property losses available to offset future foreign accrual property income for which no benefit has been recorded. These losses expire in 2041.

(5) The Company has $1,079 of temporary differences for which no benefit has been recorded. These temporary differences have no expiry date.

Deferred tax asset – insurance

Ability has unrecorded deferred tax assets of $25.9 million. These unrecorded deferred tax assets are made up of temporary differences that do not have an expiry date and $31.3 million of non-capital losses that will begin to expire in 2030.

As at		June 30, 2022		December 31, 2021
Insurance reserves	$	46,310	$	81,960
Deferred acquisition costs		30,704		29,842
Net operating loss carryforward		31,342		28,867
Investments		30,469		(8,989)
Other		(15,594)		(14,935)
Gross deductible temporary differences		123,231		116,745
Deferred tax asset, gross		25,878		24,517
Deferred tax asset not recognized		(25,878)		(24,517)
Deferred tax asset, net	$	—	$	—

17. Segment reporting

In connection with the Ability Acquisition, MLC modified its business structure to operate through two reportable segments: asset management and insurance. Prior to the acquisition, MLC operated through one reportable segment: asset management. For this reason, the current year financial statement presentation will differ from previous financial reports filed with securities regulatory authorities in Canada. Retrospective application of segmented presentation is not applicable as prior to the acquisition, the insurance business did not exist.

The Company defines operating segments by type of product and business line. The Chief Executive Officer analyzes the results of each reportable segment, which are based on their performance as defined by the Company's management structure. Each reportable segment is responsible for managing its operating results, developing products, defining strategies for services and distribution based on the profile and needs of its business and market.

The asset management business consists of management and other fees, and interest and dividend income from investments. Management and other fees are comprised of fees received as investment manager to the funds being managed and servicing fees for providing certain administrative services to SCIM in respect of the management of ACIF. Interest and dividend income are comprised of revenue received from investments held.

The insurance business is operated by Ability. Ability's insurance business consists of premium revenue from long term care insurance policies, as well as investment income generated from Ability's investment portfolio.

Financial information for the reportable segments is presented in the following tables:

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

For the three months ended June 30, 2022 (1)	Asset Management	Insurance	Intercompany Adjustments (2)	Total
Revenue				
Management and servicing fees	$ 2,391	$ —	$ (527)	$ 1,864
Net investment income	—	11,452	527	11,979
Net gains (losses) from investment activities	(586)	(48,892)	—	(49,478)
Realized and unrealized gains (losses) on embedded derivative — funds withheld	—	20,329	—	20,329
Net premiums	—	18,730	—	18,730
Other income	485	1,844	—	2,329
Total revenue	2,290	3,463	—	5,753
Less:				
Administration fees	341	1,978	—	2,319
Transaction costs	—	—	—	—
Amortization of intangible assets	199	—	—	199
Interest and other credit facility expenses	766	56	—	822
Insurance expenses	—	1,381	—	1,381
Net policy benefits and claims	—	(11,542)	—	(11,542)
General, administrative and other	1,790	1,637	—	3,427
Income tax expense	260	—	—	260
Net income (loss)	$ (1,066)	$ 9,953	$ —	$ 8,887

For the six months ended June 30, 2022 (1)	Asset Management	Insurance	Intercompany Adjustments (2)	Total
Revenue				
Management and servicing fees	$ 4,851	$ —	$ (1,009)	$ 3,842
Net investment income	—	21,822	1,009	22,831
Net gains (losses) from investment activities	(377)	(85,993)	—	(86,370)
Realized and unrealized gains (losses) on embedded derivative — funds withheld	—	37,061	—	37,061
Net premiums	—	15,388	—	15,388
Other income	916	2,677	—	3,593
Total revenue	5,390	(9,045)	—	(3,655)
Less:				
Administration fees	625	3,889	—	4,514
Transaction costs	—	—	—	—
Amortization of intangible assets	398	—	—	398
Interest and other credit facility expenses	1,527	56	—	1,583
Insurance expenses	—	2,437	—	2,437
Net policy benefits and claims	—	(10,969)	—	(10,969)
General, administrative and other	3,365	2,163	—	5,528
Income tax expense	344	—	—	344
Net income (loss)	$ (869)	$ (6,621)	$ —	$ (7,490)
Total assets	$ 97,584	$ 1,247,022	$ (39,342)	$ 1,305,264
Total liabilities	$ 47,144	$ 1,181,659	$ (662)	$ 1,228,141

(1) As the insurance business was not acquired by MLC until October 29, 2021, segmented information was not applicable as at and for the six months ended June 30, 2021.

(2) Adjustments are made for the intercompany transactions between MLC and Ability.

18. Commitments and contingencies

Investment commitments

In the normal course of business, the Company may enter into commitments to fund investments, which are not reflected in the consolidated financial statements. There were $4.5 million of outstanding investment commitments as at June 30, 2022 (December 31, 2021 – $1.4 million).

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

Service agreements

In connection with the Capitala Acquisition, ML Management entered into a transition services agreement with CIA to provide certain non-investment advisory services upon reasonable request. There were $2.0 million of outstanding service fees as at June 30, 2022 (December 31, 2021 – $2.5 million) that are payable through March 31, 2024. In addition, ML Management entered into an independent contractor agreement to provide certain services as specified in the agreement. There were $0.6 million of outstanding service fees as at June 30, 2022 (December 31, 2021 – $0.9 million) that are payable through July 1, 2023. These service fees for which services are not rendered are not reflected in the consolidated financial statements.

Contingent liabilities and litigation

Ability is subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on insurance policies. This category of business litigation typically involves, among other things, allegations of underwriting errors or misconduct and litigation related to regulatory activity. These nonclaims litigation matters are considered when determining general expense accruals are necessary. As at December 31, 2021, there were no litigation related expense accruals. Legal and regulatory actions are subject to inherent uncertainties, and future events could change management's assessment of the probability or estimated amount of potential losses from pending or threatened legal and regulatory matters. A future adverse ruling by the courts in any of these pending cases could have a material adverse impact on the financial condition of Ability. Based on management's best assessment at this time, Ability is adequately reserved for these cases as at June 30, 2022.

Ability at different times may receive notifications of the insolvency of various insurance companies. It is expected that the insolvency will result in a Guaranty Fund Assessment against Ability at some future date. At this time, Ability is unable to estimate the possible amounts, if any, of such assessments as no data is available from the National Organization of Life and Health Guaranty Associations in the United States. Accordingly, Ability is unable to determine the impact, if any, that such assessments may have on its financial position or results of operations.

19. 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.

Credit and counterparty risk

Credit and counterparty risk is the potential for loss due to the failure of a borrower or counterparty to repay a loan or honor another predetermined financial obligation. Credit risk arises predominantly with respect to loans, derivatives and other credit instruments. The objective of the credit risk management is to ensure that all material credit risks to which the Company is exposed are identified, measured, managed, monitored and reported. 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.

All credit risk exposures are subject to regular monitoring. The frequency of review increases in accordance with the likelihood and size of potential credit losses. In addition, regular portfolio and sector reviews are carried out, including scenario analysis based on current, emerging or prospective risks, such as the COVID-19 pandemic.

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.

Market risk

Market risk is the potential for adverse changes in the value of the Company's assets and liabilities resulting from market variables such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing). 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 has had 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.

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 exposes it to fair value interest rate risk. The Company also holds debt investments with variable interest rates that 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.

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

Interest rate sensitivity

The following table summarizes the potential annualized impact on net income of hypothetical base rate changes in interest rates on our debt investments and debt obligations assuming a parallel shift in the yield curve, with all other variables remaining constant.

As at	**June 30, 2022**	**December 31, 2021**
50 basis point increase (1)	$ 669	$ 2,067
50 basis point decrease (1)	(1,245)	(2,800)

(1) Losses are presented in brackets and gains are presented as positive numbers.

Actual results may differ significantly from these sensitivity analyzes. As such, the sensitivities should only be viewed as directional estimates of the underlying sensitivities for the respective factors based on the assumptions outlined above.

Liquidity and funding 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.

Liquid assets

Unencumbered liquid assets, including high-quality assets that are marketable, can be pledged as security for borrowings, and can be converted to cash in a time frame that meets liquidity and funding requirements.

As at	**June 30, 2022**	**December 31, 2021**
Cash and cash equivalents	39,242	$ 44,166
Investments	720,047	787,872
Management fee receivable	1,240	1,179
Receivable for investments sold	2,666	8,320
Accrued interest and dividend receivable	12,705	10,056
Total liquid assets	**$ 775,900**	**$ 851,593**

Contractual maturities of assets and liabilities and off-balance sheet commitments

The tables below show the remaining contractual maturities of on-balance sheet assets and liabilities and off-balance sheet commitments. The contractual maturity of financial assets and liabilities is an input to, but is not necessarily consistent with, the expected maturity of assets and liabilities that is used in the management of liquidity and funding risk. The Company forecasts asset and liability cash flows, under both normal market conditions and a number of stress scenarios, to manage liquidity and funding risk. Stress scenarios include assumptions for loan repayments, and credit commitment and facility drawdowns. Stress scenarios also consider the time horizon over which liquid assets can be monetized and related haircuts and potential collateral requirements that may result from both market volatility and credit rating downgrades, among other assumptions.

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

The following table summarizes the Company's contractual maturities of financial assets and liabilities and off-balance sheet commitments. Additional information regarding Ability's insurance contract liabilities is included in Note 13.

	June 30, 2022					
	Less than 1 year	**1-3 years**	**3-5 years**	**Over 5 years**	**No specified maturity**	**Total**
On-Balance Sheet Financial Instruments						
Assets						
Asset Management:						
Cash	$ —	$ —	$ —	$ —	$ 2,827	$ 2,827
Restricted cash	—	—	—	—	55	55
Due from affiliates	158	—	—	—	—	158
Investments	—	—	2,721	13,587	12,965	29,273
Intangible assets	—	—	—	—	21,662	21,662
Other assets	4,267	—	—	—	—	4,267
Insurance:						
Cash	36,415	—	—	—	—	36,415
Investments	66,216	119,530	41,562	610,340	13,398	851,046
Guaranty funds on deposit	—	—	—	—	380	380
Other assets	22,098	—	—	—	—	22,098
Total assets	129,154	119,530	44,283	623,927	51,287	968,181
Liabilities and equity						
Asset Management:						
Due to affiliates	597	—	—	—	—	597
Debt obligations	510	2,042	5,021	34,312	—	41,885
Contingent value rights	—	—	—	—	3,149	3,149
Accrued expenses and other liabilities	1,513	—	—	—	—	1,513
Insurance:						
Debt obligations	—	2,250	—	—	—	2,250
Funds held under reinsurance contracts	—	—	—	240,789	—	240,789
Reinsurance liabilities	10,521	—	—	—	—	10,521
Accrued expenses and other liabilities	8,323	—	—	—	—	8,323
Total liabilities	21,464	4,292	5,021	275,101	3,149	309,027
Total equity	—	—	—	—	77,123	77,123
Total liabilities and equity	**$ 21,464**	**$ 4,292**	**$ 5,021**	**$ 275,101**	**$ 80,272**	**$ 386,150**
Off-Balance Sheet Commitments						
Asset Management:						
Commitments to extend credit (1)	$ —	$ —	$ —	$ 1,414	$ —	$ 1,414
Service agreements	1,500	1,125	—	—	—	2,625
	$ 1,500	**$ 1,125**	**$ —**	**$ 1,414**	**$ —**	**$ 4,039**

(1) In the normal course of business, the Company may enter into commitments to fund investments, which are not reflected in the consolidated financial statements. There were $4.5 million of outstanding investment commitments as at June 30, 2022.

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

	December 31, 2021					
	Less than 1 year	1-3 years	3-5 years	Over 5 years	No specified maturity	Total
On-Balance Sheet Financial Instruments						
Assets						
Asset Management:						
Cash	$ 14,433	$ —	$ —	$ —	$ 135	$ 14,568
Investments	—	—	3,101	16,317	15,791	35,209
Other assets	3,237	—	—	—	22,060	25,297
Insurance:						
Cash	29,733	—	—	—	—	29,733
Investments	69,793	107,411	32,446	670,175	1,345	881,170
Guaranty funds on deposit	—	—	—	—	449	449
Other assets	18,521	—	—	—	—	18,521
Total assets	135,717	107,411	35,547	686,492	39,780	1,004,947
Liabilities and equity						
Asset Management:						
Debt obligations	1,021	2,042	6,042	33,603	—	42,708
Payable for investments purchased	949	299	—	—	—	1,248
Other liabilities	6,195	—	—	—	4,169	10,364
Insurance:						
Debt obligations	—	2,250	—	—	—	2,250
Funds held under reinsurance contracts	—	—	—	291,296	—	291,296
Reinsurance liabilities	10,528	—	—	—	—	10,528
Accrued expenses and other liabilities	6,422	—	—	—	—	6,422
Total liabilities	25,115	4,591	6,042	324,899	4,169	364,816
Total equity	—	—	—	—	85,306	85,306
Total liabilities and equity	**$ 25,115**	**$ 4,591**	**$ 6,042**	**$ 324,899**	**$ 89,475**	**$ 450,122**
Off-Balance Sheet Commitments						
Asset Management:						
Commitments to extend credit (1)	$ —	$ —	$ —	$ 1,414	$ —	$ 1,414
Service agreements	1,500	1,875	—	—	—	3,375
	$ 1,500	**$ 1,875**	**$ —**	**$ 1,414**	**$ —**	**$ 4,789**

(1) In the normal course of business, the Company may enter into commitments to fund investments, which are not reflected in the consolidated financial statements. There were $1.4 million of outstanding investment commitments as at December 31, 2021.

Valuation risk

MLC invests, and plans to continue to invest, primarily in illiquid debt of private companies. The majority of Ability's investments are liquid, have readily available market prices, falling under level 1 or level 2 of the fair value hierarchy. Most of the MLC's, and a portion of Ability'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.

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.

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

The following is a summary of the Company's investments concentration risk:

	June 30, 2022		December 31, 2021	
	Fair value	% of total	Fair value	% of total
Asset management				
United States	$ 22,553	77%	$ 27,299	78%
Canada	6,720	23%	7,910	22%
	29,273	100%	35,209	100%
Insurance				
United States	525,014	62%	378,822	43%
Canada	6,681	1%	7,426	1%
Other	319,351	38%	494,922	56%
	851,046	100%	881,170	100%
	$ 880,319		**$ 916,379**	

Ability's insurance contract liabilities are originated entirely in the United States.

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 June 30, 2022 and December 31, 2021, 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 June 30, 2022, had the prevailing exchange rates been lowered or raised by $0.01 was $47 (December 31, 2021 – $55). In practice, actual results may differ from this sensitivity analysis.

The table below summarizes the currencies that the Company had significant net exposure on its financial assets and liabilities:

As at	**Currency exposure**	**Non-USD denominated investments**	**Non-USD denominated assets**	**Non-USD denominated liabilities**	**Net exposure**	**As a % of net equity**
June 30, 2022	CAD	$ 6,720	$ 58	$ (3,153)	$ 3,625	4.7%
December 31, 2021	CAD	7,910	682	(4,243)	4,349	5.1%

As at June 30, 2022 and December 31, 2021, the majority of the Company's net assets were denominated in U.S. dollars.

Reinsurance Risk

In the normal course of business, Ability limits the amount of loss on any one policy by reinsuring certain levels of risk with other insurers. In addition, the Company accepts reinsurance from other reinsurers. Reinsurance ceded does not discharge Ability's liability as the primary insurer. Failure of reinsurers to honor their obligations could result in losses to Ability; consequently, allowances are established for any amounts deemed uncollectible after considering the benefit of collateral held. Ability continually monitors the financial health and solvency of its reinsurance partners and the quality of the collateral held in the Front Street Re and Vista Life portfolios.

Certain concentrations of credit risk related to reinsurance recoverables exist with the insurance organizations listed in the table below:

As at June 30, 2022	**A.M Best Credit Rating**	**Reinsurance Recoverables**	**Funds withheld payable**	**Net reinsurance credit exposure**
Medico Insurance Company	A-	$ 3,423	$ —	$ 3,423
Front Street Re	Not Rated	266,609	240,789	25,820
Vista Life and Casualty Reinsurance Co [1]	Not Rated	(3,597)	—	(3,597)
Total	**$ —**	**$ 266,435**	**$ 240,789**	**$ 25,646**

As at December 31, 2021	**A.M Best Credit Rating**	**Reinsurance Recoverables**	**Funds withheld payable**	**Net reinsurance credit exposure**
Medico Insurance Company	A-	$ 3,664	$ —	$ 3,664
Front Street Re	Not Rated	306,092	291,296	14,796
Vista Life and Casualty Reinsurance Co [1]	Not Rated	20,146	—	20,146
Total	**$ —**	**$ 329,902**	**$ 291,296**	**$ 38,606**

(1) Under the modified coinsurance agreement with Vista Life, the funds withheld assets are held with legal right of offset to the related insurance contract liabilities. As at June 30, 2022, the fair value of assets held in the designated Vista Life portfolios is $199.4 million (December 31, 2021 – $205.3 million).

As at June 30, 2022, Ability’s exposure to credit risk was mitigated by collateral held as security under funds withheld and modified coinsurance agreements. Net exposure after considering offsetting agreements and the benefit of the fair value of collateral held was $25.7 million as at June 30, 2022.

20. Capital management and requirements

The Company’s equity consists of capital and debt. 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 capital management framework takes into account the requirements of the Company as a whole as well as the needs and requirements of each of its subsidiaries. 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 at June 30, 2022, the Company was in compliance with all financial covenants in its debt facilities.

Ability is subject to external capital requirements in the United States, as required by Nebraska statute. In addition, insurance companies domiciled in the United States are subject to certain Risk-Based Capital (“RBC”) requirements as specified by the National Association of Insurance Commissioners ("NAIC"). Under those requirements, the amount of statutory capital and surplus maintained by an insurance company is to be determined based on the various risk factors related to it.

21. COVID-19 pandemic and geopolitical tensions impacts

The COVID-19 pandemic continues to cause material disruption to businesses globally, resulting in continued economic pressures. While governments in different regions have now moved to ease restrictions put in place, many factors continue to extend economic uncertainty, including but not limited to: the availability, adoption and uncertainty around the effectiveness of vaccines; the emergence of COVID-19 variants; and the extent and timing of related government and central bank actions.

The Company's financial outlook for the remainder of 2022 will depend in part on the duration and intensity of the COVID-19 pandemic impacts as discussed above. With respect to the Company's insurance solutions business, the impact of the pandemic on mortality, longevity, disability and other claims experience in future periods remains uncertain and may differ by region and business line. The Company continues to manage risks of changes to mortality and longevity rates by issuing annuity products along with using reinsurance solutions where appropriate. The Company continues to actively monitor events and information, and, to date, net impacts have been modest.

Global financial markets continued to be volatile in the second quarter of 2022, in part due to the conflict between Russia and Ukraine and the related sanctions and economic fallout. The outlook for financial markets over the short and medium-term remains highly uncertain and vulnerable to continued geopolitical tensions.

The Company continues to monitor potential impacts of the conflict including: financial impacts, which may complicate efforts by central banks to counter already elevated levels of inflation due, in part, to supply chain disruptions related to the pandemic; heightened cyber risks; and risks related to disruption of key suppliers. All of these impacts could negatively affect the Company's financial outlook, results and operations.

22. Subsequent events

On August 10, 2022, the Board declared a cash dividend in the amount of CAD$0.02 per common share to be paid on September 23, 2022 to shareholders of record on August 24, 2022.

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