

The Management's Discussion and Analysis ("MD&A") for Mount Logan Capital Inc. (the "Company," "we," "us," or "our") is provided to enable readers to assess our financial condition and results of operations as at and for the three months ended March 31, 2020, compared to the corresponding period in the prior fiscal year. This MD&A should be read in conjunction with our interim consolidated financial statements for the three months ended March 31, 2020 and the accompanying notes thereto as well as our audited annual consolidated financial statements for the year ended December 31, 2019 and the accompanying notes thereto and the annual MD&A for the year ended December 31, 2019. This MD&A is dated May 11, 2020.

Unless otherwise indicated, all amounts are in thousands of United States dollars ("USD"), except for securities and per share data, and are based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

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

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

Additional information about the Company, including our audited annual consolidated financial statements and annual MD&A for the year ended December 31, 2019 and our annual information form for the year ended December 31, 2019 (the "Annual Information Form") are available on SEDAR at www.sedar.com.

NON-IFRS MEASURES AND FORWARD-LOOKING STATEMENTS

The Company has included herein certain supplemental measures of key performance, including, but not limited to, net asset value ("NAV") per share, adjusted income and comprehensive income and adjusted income per share. We utilize NAV per share in managing our business, including performance measurement. We believe that providing these performance measures on a supplemental basis is helpful to investors in assessing the overall performance of the Company's business. However, these measures are not recognized under IFRS. The definition and calculation of the non-IFRS measure used in this MD&A is provided in Section 2.

Certain information contained in this MD&A constitutes forward-looking information, which is information regarding possible events, conditions or results of operations of the Company that is based upon assumptions about future economic conditions and courses of action and which is inherently uncertain. All information other than statements of historical fact may be forward-looking information. Forward-looking information is often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "might", "project", "predict", "potential", "target", "intend", "would", "could", "should", "believe" and similar words or phrases (including negative variations) suggesting future outcomes or statements regarding an outlook. Forward-looking information contained in this MD&A includes, without limitation, our expectations regarding anticipated investment activities and results, financing activities, the sufficiency of taxable income to support deferred tax assets and other factors that may impact our operating results, and the performance of global capital markets and interest rates.

Forward-looking information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Readers are cautioned not to place undue reliance on the forward-looking information contained in this MD&A, as a number of factors – many of which are beyond our control and the effects of which are difficult to predict – could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking information. Some of the risks and other factors that could cause results to differ materially from those expressed in the forward-looking information contained in this MD&A include, but are not limited to: risks relating to investment performance and our ability to generate taxable income from operations, market fluctuations, the strength of the Canadian, U.S. and other economies, foreign exchange fluctuations, political and economic conditions in the countries in which the interests of the Company's portfolio investments are located, the impact of the recent outbreak of the novel coronavirus and other risks included elsewhere in this MD&A under the heading "Risks Factors" and in the Annual Information Form and other public disclosure documents filed with certain Canadian securities regulatory authorities and available under the

Company's profile at www.sedar.com. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking information prove to be incorrect, actual results may vary materially from those described in this MD&A as anticipated, believed, estimated or expected.

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

1. NATURE OF BUSINESS

1.1 Overview

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

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

On October 19, 2018, the Company completed a plan of arrangement under the *Business Corporations Act* (Ontario) (the "Arrangement") pursuant to which, among other things, it raised additional financing of approximately \$30.9 million through completion of a private placement and expanded its focus from natural resource lending to a broader lending-oriented credit platform. In connection with the Arrangement, the Company acquired an initial portfolio of loans and other investments with credit-oriented characteristics and now actively manages and monitors its loan portfolio on an ongoing basis. The Company's objective is to actively source, evaluate, underwrite, monitor, and primarily invest in additional loans, debt securities, and other credit-oriented instruments that present attractive risk-adjusted returns and present low risk of principal impairment through the credit cycle. The Company applies rigorous and deep due diligence to the credit opportunities it assesses. Priorities include: establishing downside protection and principal preservation through financial and structural protections; seeking to generate attractive returns utilizing the skill and experience of management; and leveraging the expertise and network of management.

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

Leveraged Yield Strategies

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

Private and Mezzanine Lending and Structured Equity

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

Dislocated Structured Credit/Regulatory Capital

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

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



1.2 Investment restrictions

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

- *Diversification* – the net amount invested by the Company in the investments of any one issuer (on a look through basis) will not exceed 20% of the portfolio of the Company, as determined at the time of such investment other than securities issued or guaranteed by the government of Canada, the government of the United States or a province, state or territory thereof.
- *Foreign exposure* – the net amount invested by the Company in securities outside of Canada and the United States will not exceed 50% of the net asset value of the Company, as determined at the time of such investment.
- *Liquidity* – the nature of the Company's business allows for investments in public and private securities, and there are no specific restrictions on the liquidity of the assets in which the Company may invest. However, management will ensure that the Company's investment portfolio has sufficient liquidity to satisfy any borrowing obligations, to manage the dividend policy, if any, adopted by the board of directors (the "Board") of the Company from time to time and any share buy-back arrangements.
- *Hedging* – the Company may use derivatives to hedge credit risk, its exposure to changes in interest rates and currency fluctuations and to gain exposure to individual securities and markets instead of directly buying the securities. The Company may use treasury futures and/or government bonds to hedge against changes in interest rates and may use credit default swaps and credit default indices to hedge credit risk.

1.3 Recent developments

On May 11, 2020, our board of directors (the "Board") declared a cash dividend in the amount of CAD\$0.02 per common share to be paid on June 26, 2020 to shareholders of record as of May 21, 2020.

1.4 Outlook

The Canadian, U.S. and global capital markets have in the past and may in the future experience periods of volatility and disruption during economic downturns and recessions. While, until recently, credit markets and the U.S. economy have experienced relative stability since the global financial crisis from 2007-2009, there can be no assurance that market conditions will normalize or improve in the near future.

The recent 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, restrictions on travel and other measures to mitigate the impact of this pandemic. Such actions are creating disruption in global supply chains, and adversely impacting a number of industries, including, among others, transportation, hospitality and entertainment. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown and continued volatility. The rapid development and fluidity of this situation precludes any prediction as to the duration and extent of this pandemic and its impact on the Company's business, financial condition and results of operations, as well as the business, financial condition and results of operations of the Company's portfolio companies. Nevertheless, the novel coronavirus presents material uncertainty and risk with respect to our and our portfolio companies' performance and financial results. The Company is actively monitoring developments with respect to this pandemic and its impact as part of the Company's overall investment objective and strategy.

Business Environment and Developments/Outlook

The Canadian and U.S. capital markets are experiencing a period of extreme volatility and disruption. In December 2019, a novel strain of coronavirus (i.e., COVID-19) surfaced in China and has since been detected in numerous countries, including Canada and the United States. COVID-19 spread quickly and has been identified as a global pandemic by the World Health Organization. In response, governmental authorities have imposed restrictions on travel and the temporary closure of many corporate offices, retail stores, restaurants and manufacturing facilities and factories in affected jurisdictions, including, beginning in March 2020, in Canada and the United States.

While we have been carefully monitoring the COVID-19 pandemic and its impact on our business and the business of our portfolio companies, we have continued to fund our existing debt commitments. In addition, we have continued to make, and expect to continue to make, investments in new loans.

We cannot predict the full impact of the COVID-19 pandemic, including its duration in Canada, the United States and worldwide and the magnitude of the economic impact of the outbreak, including with respect to the travel restrictions, business closures and other quarantine, stay-at-home orders and social distancing measures imposed on service providers and other individuals by various local, state, and federal governmental authorities, as well as non-Canadian and non-U.S. governmental authorities. As such, we are unable to predict the duration of any business and supply-chain disruptions, the extent to which the COVID-19 pandemic will negatively affect our portfolio companies' operating results or the impact that such disruptions may have on our results of operations and financial condition. Depending on the duration and extent of the disruption to the operations of our portfolio companies, we expect that certain portfolio companies will experience financial distress and possibly default on their financial obligations to us and their other capital providers. It is possible that some of our portfolio companies may significantly curtail business operations, furlough or lay off employees and terminate service providers, and defer capital expenditures if subjected to prolonged and severe financial distress, which would likely impair their business on a permanent basis. These developments would likely result in a decrease in the value of our investment in any such portfolio company.

The pandemic and the resulting economic dislocations have had adverse consequences for the business operations of some of our portfolio companies and have adversely affected, and threaten to continue to adversely affect, our operations. The operational and financial performance of the portfolio companies in which we make investments depends on future developments, including the duration and spread of the outbreak, and such uncertainty may in turn impact our valuation of the portfolio companies.

The COVID-19 pandemic and the related disruption and financial distress experienced by our portfolio companies may have material adverse effects on our investment income, particularly our interest income received from our investments. In connection with the adverse effects of the COVID-19

pandemic, we may need to restructure our investments in some of our portfolio companies, which could result in reduced interest payments, an increase in the amount of PIK interest we receive, or result in permanent impairments on our investments.

We are required to carry our investments at fair value as determined in good faith by or under the direction of our Board. Decreases in fair values of our investments are recorded as unrealized depreciation. Depending on market conditions, we could incur substantial losses in future periods, which could have a material adverse impact on our business, financial condition and results of operations.

We have had a reduction in our net asset value since December 31, 2019 which is primarily the result of the impact of the COVID-19 pandemic. The decrease in net asset value as of March 31, 2020 primarily resulted from an increase in the aggregate unrealized depreciation of our investment portfolio resulting from decreases in the fair value of some of our portfolio company investments primarily due to the expected immediate adverse economic effects of the COVID-19 pandemic and the continuing uncertainty surrounding its long-term impact, as well as the re-pricing of credit risk in the broadly syndicated credit market.

As of March 31, 2020, our Board approved the fair value of our investment portfolio in good faith in accordance with our valuation procedures, with input from BC Partners Advisors L.P. ("BC Partners") based on information available at the time of approval. We believe that the COVID-19 pandemic represents an extraordinary circumstance that has materially impacted the fair value of our investments as of March 31, 2020. In addition, as a result of the COVID-19 pandemic, the fair value of our portfolio investments may be further negatively impacted in future periods by circumstances and events that are not yet known.

2. FINANCIAL REVIEW

The following section should be read in conjunction with the Company's unaudited interim consolidated financial statements and accompanying notes for the three months ended March 31, 2020.

On December 3, 2019, the Company consolidated its common shares on the basis of one (1) post-consolidation share for every eight (8) pre-consolidation shares. All references to the number of shares and per share amounts have been retroactively restated to reflect the share consolidation.

2.1 First quarter highlights

The Company reported interest income of \$865 in the first quarter of 2020, as compared to \$483 in the same period in 2019, representing an increase of \$382. The Company also reported dividend income of \$215 in the first quarter of 2020, as compared to \$0 in the same period in 2019. Total investment income was \$1,080 in the first quarter of 2020, as compared to \$483 in the same period in 2019, representing an increase of \$597.

Interest and financing expense for the first quarter of 2020 was \$648, as compared to \$90 in the same period in 2019, representing interest charged under the Revolving Senior Loan Facility plus amortization of deferred financing costs. Such costs were offset by the income generated from the additional investment opportunities.

Net income (loss) and comprehensive income (loss) attributable to shareholders for the first quarter of 2020 was \$(2,293) or \$(0.22) per basic and diluted share, as compared to a net income (loss) and comprehensive income (loss) of \$248 or \$0.02 per basic and diluted share in the same period in 2019. Net investment (loss) increased from \$(16) in the first quarter of 2019 to \$(101) in the same period in 2020. Net realized and unrealized (loss) increased from \$(434) in the first quarter in 2019 to \$(2,192) in the same period in 2020.

The Company made two new and one add-on loan investments with a total principal amount of \$5.1 million and made two full dispositions and one partial sale with a total principal amount of \$8.3 million. As at March 31, 2020, based on fair value, our portfolio consisted of 80.4% first lien loans (including delay draws), 6.2% bonds and 13.5% equity investments. As at March 31, 2020, our weighted average contractual interest rate of the portfolio at par was 5.5%.

On March 25, 2020, the Board declared a cash dividend in the amount of CAD\$0.02 per common share to be paid on April 28, 2020 to shareholders of record as of April 14, 2020.

The Company had a reduction in its net asset value as of March 31, 2020 as compared to its net asset value as of December 31, 2019, which was primarily the result of the impact of COVID-19. The decrease in net asset value as of March 31, 2020 primarily resulted from an increase in the aggregate unrealized depreciation of the Company's investment portfolio resulting from decreases in the fair value of some of its portfolio company investments primarily due to the expected immediate adverse economic effects of COVID-19 and the continuing uncertainty surrounding COVID-19's long-term impact, as well as the re-pricing of credit risk in the broadly syndicated credit market. To the extent the Company's portfolio companies are adversely impacted by the effects of COVID-19, it may have a material adverse impact on the Company's future net investment income, the fair value of its portfolio investments, its financial condition and the results of operations and financial condition of the Company's portfolio companies. Depending on the duration of the COVID-19 pandemic and the extent of its impact on our portfolio companies' operations and our net investment income, any future distributions to our shareholders may be for amounts less than our historical distributions, may be made less frequently than historical practices, or may not be made at all.

2.2 Income statement

	For the Three Months Ended	
	March 31, 2020	March 31, 2019
Interest income, net	\$ 865	\$ 483
Dividend income	215	—
Administration fees	(148)	—
Arrangement costs	—	(138)
Marketing	(32)	—
Interest and other credit facility expenses	(648)	(90)
Professional fees	(215)	(122)
Compensation	(56)	(81)
Directors' fees	(21)	(23)
Regulatory and shareholder relations	(24)	(26)
Other general and administrative	(37)	(19)
Net realized gain (loss) on investments	41	25
Net realized gain (loss) on foreign currency	1	—
Net change in unrealized appreciation (depreciation) on investments	(2,266)	10
Net change in unrealized gain (loss) on foreign currency	32	(469)
Total comprehensive (loss) income	\$ (2,293)	\$ (450)

The increase in interest income from investments for the three months ended March 31, 2020 as compared to the corresponding periods in 2019 was primarily due to an increase in the average size of our investment portfolio. Dividend income relates to the Company's investment in BCP Great Lakes Holdings LP. The size of our portfolio increased from \$60.9 million at cost as at March 31, 2019 to \$63.2 million at amortized cost as at March 31, 2020.

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 which provides for a revolving loan facility of up to \$50.0 million (the "Revolving Senior Loan Facility"). The Revolving Senior Loan Facility bears interest at the London Interbank Offered Rate ("LIBOR") plus the applicable spread. As at March 31, 2020, MLC I had \$34.4 million outstanding and incurred interest expense of \$486 and financing costs totaling \$162 for the three months ended March 31, 2020.

Professional fees increased primarily due to higher audit and audit related fees, and legal fees incurred in the three months ended March 31, 2020. Compensation decreased primarily due to the decrease in number of employees. The net realized and unrealized gain (loss) on investments was \$(2,225), as compared to \$35 for the same period in the prior year, which was primarily due to the negative economic impact and the increased uncertainty caused by COVID-19. The net realized and unrealized gain on currency was \$32, as compared to \$(469) for the same period in the prior year. The reduction in 2020 is as a result of the change in the Company's functional currency to USD.

2.3 Balance sheet

	March 31, 2020	December 31, 2019
Assets		
Investments, at fair value	\$ 58,242	\$ 64,489
Cash	668	425
Restricted cash	8,261	6,733
Receivable for investments sold	303	—
Due from affiliates, net	118	411
Accrued interest and dividend receivable	204	358
Deferred tax asset	2,863	2,863
Prepaid assets	23	33
Total assets	\$ 70,682	\$ 75,312
Liabilities and Shareholders' equity		
Debt, net	\$ 33,959	\$ 34,320
Payable for investments purchased	—	1,880
Interest payable	490	383
Dividends payable to shareholders	151	—
Contingent value rights	3,589	3,876
Accounts payable and accrued liabilities	728	644
Share capital	80,988	80,988
Warrants	1,086	1,086
Contributed surplus	7,240	7,240
Deficit	(35,691)	(33,247)
Cumulative translation adjustment	(21,858)	(21,858)
Total liabilities and shareholders' equity	\$ 70,682	\$ 75,312
Net asset value per share	\$ 3.00	\$ 3.23

The Company's investment portfolio, based on fair value, as at March 31, 2020 consisted of 80.4% first lien loans (including delay draws), 6.2%% bonds and 13.5%% equity investments. We made two new and one add-on investments and one partial and two full dispositions during the three months ended March 31, 2020. As at March 31, 2020, we had investments in 17 portfolio companies with an aggregate fair value of \$58.2 million.

Deferred tax assets, measured at the tax rates expected to apply, represents management's estimate of temporary differences that will be able to be realized. Deferred tax assets are recognized only when it is probable that sufficient taxable profit will be available in future periods against which deductible temporary differences may be utilized. For the three months ended March 31, 2020, based on the evidence available, including management projections of income, we believe that it is probable there will be sufficient taxable income generated by our business operations to support the deferred tax assets.

On February 22, 2019, MLC I entered into the Revolving Senior Loan Facility of up to \$50.0 million with a large financial institution as initial lender, and such other additional institutions who from time to time parties thereto. U.S. Bank N.A. serves as administrative agent, custodian, collateral agent and collateral administrator. The Revolving Senior Loan Facility is guaranteed by the Company. As at March 31, 2020, there was \$34.4 million of principal amount outstanding under the Revolving Senior Loan Facility.

On March 25, 2020, the Board declared a cash dividend in the amount of CAD\$0.02 per common share to be paid on April 28, 2020 to shareholders of record as of April 14, 2020. On May 11, 2020, the Board declared a cash dividend in the amount of CAD\$0.02 per common share to be paid on June 26, 2020 to shareholders of record as of May 21, 2020.

On closing of the Arrangement and in accordance with the terms of the Arrangement, the Company issued to its shareholders an aggregate of 17,288,140 contingent value rights ("CVR"). As part of the Arrangement, each shareholder of the Company (other than U.S. shareholders) received one (1) CVR in respect of Cline for each common share held as of the record date for the determination of shareholders entitled to receive CVRs. Pursuant to the indenture governing the terms of the CVRs, the Company will seek to dispose of Cline for the five (5) year period following the closing of the Arrangement and will distribute to the holders of the CVRs: (a) distributions received from Cline; and (b) the net proceeds from the sale of the Company's holdings in Cline (each, a "Contingent Payment Event"). On July 15, 2019, the Former Manager announced that Cline had entered into a conditional term sheet with Allegiance Coal Limited for the purchase and sale of all the shares of New Elk Coal Company ("NECC"), which holds all the mining assets of Cline.

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

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

2.4 Net asset value per share

The net asset value ("NAV") per share as at March 31, 2020 was \$3.00 compared to \$3.23 as at December 31, 2019. NAV per share is a non-IFRS measure defined as shareholders' equity divided by the total number of common shares outstanding at a point in time. The term NAV per share does not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies. We believe that NAV per share provides information useful to our shareholders in understanding our performance and provides a meaningful measure to evaluate our business relative to others in the investment industry.

2.5 Historical financial information

NAV per share

	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Investments at fair value	\$ 5.49	\$ 6.08	\$ 6.06	\$ 5.83	\$ 5.85	\$ 2.86	\$ 2.87	\$ 2.84
Cash	0.84	0.67	0.49	0.49	1.53	0.57	2.72	2.66
Net other assets (liabilities)	(3.33)	(3.52)	(3.34)	(3.14)	(4.23)	(0.38)	(0.33)	(0.21)
NAV per share	\$ 3.00	\$ 3.23	\$ 3.21	\$ 3.18	\$ 3.15	\$ 3.05	\$ 5.26	\$ 5.29

Summary of quarterly operating results

The Company's quarterly operating results for the past eight quarters are set out below.

	For the three months ended							
	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Income	\$ 1,080	\$ 1,064	\$ 990	\$ 962	\$ 483	\$ 502	\$ 22	\$ 27
Expenses	(1,181)	(1,148)	(818)	(810)	(499)	(3,028)	(285)	(403)
Net investment income	(101)	(84)	172	152	(16)	(2,526)	(263)	(376)
Net realized and unrealized gain (loss) ⁽¹⁾	(2,192)	(308)	508	(461)	(434)	959	(104)	19
Income tax (expense) / recovery deferred	—	2	2	(3)	698	2,150	—	—
Total comprehensive income (loss)	\$ (2,293)	\$ (390)	\$ 682	\$ (312)	\$ 248	\$ 583	\$ (367)	\$ (357)
Basic and diluted income (loss) per share	\$ (0.22)	\$ (0.04)	\$ 0.07	\$ (0.03)	\$ 0.02	\$ 0.06	\$ (0.12)	\$ (0.16)

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

Selected annual information

	December 31, 2019	December 31, 2018	December 31, 2017
Total investment income	\$ 3,499	\$ 596	\$ 329
Total operating expenses	3,275	3,827	400
Income (loss) and comprehensive income (loss)	228	(158)	(125)
Basic and diluted income (loss) per share	0	(0.04)	(0.01)
Total assets	75,312	37,563	12,746
Net assets	34,209	31,282	12,767

3. RELATED PARTY TRANSACTIONS

In connection with the Arrangement, the Company acquired MLC I in exchange for the issuance to an affiliate of BC Partners of 3,292,952 common shares of the Company (411,619 common shares after giving effect to the share consolidation completed on December 3, 2019. See Note 6 "Shareholders Equity" to our interim consolidated financial statements for the three months ended March 31, 2020). In connection with the Arrangement, MLC I acquired approximately \$16.0 million of primarily U.S.-based diversified senior secured loans.

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

On November 20, 2018, the Company entered into a servicing agreement (the "Servicing Agreement") with BC Partners. Under the terms of the Servicing Agreement, BC Partners as servicing agent (the "Servicing Agent") performs, or oversees the performance of, the administrative services necessary for the operation of the Company, including, without limitation: (i) provision of office facilities, equipment, clerical, bookkeeping, compliance and recordkeeping services and such other administrative services as the Servicing Agent, subject to review by the Board, shall from time to time determine to be necessary or useful to perform its obligations under the Servicing Agreement, and (ii) on behalf of the Company, conducting relations with custodians, depositories, transfer agents, dividend disbursing agents, other shareholder servicing agents, accountants, attorneys, underwriters, brokers and dealers, corporate fiduciaries, insurers, banks and such other persons in any such other capacity deemed to be necessary or desirable. The Servicing Agent is authorized to enter into sub-administration agreements as the Servicing Agent determines necessary in order to carry out the administrative services. The Company pays fees to BC Partners at amounts to be agreed by the parties for services performed for it pursuant to the terms of the Servicing Agreement. For the three months ended March 31, 2020, the Company incurred costs reimbursable to the Servicing Agent of \$148 (2019 – \$0) for an allocable portion of the compensation paid by the Servicing Agent (or its affiliates) to the Company's Chief Financial Officer and its respective staffs (based on a percentage of time such individuals devote, on an estimated basis, to the business affairs of the Company) and out-of-pocket expenses. As at March 31, 2020, operating expenses of \$155 (2019 – \$19) paid by BC Partners on behalf of the Company were reimbursable to BC Partners and were offset against amounts due from BC Partners.

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

On November 28, 2018, the Company entered into a commitment of \$10 million to invest in a unitranche lending program through BCP Great Lakes Holdings LP ("Great Lakes Holdings"). Funding of \$5 million was made under this program during 2018, with an additional \$4.5 million during 2019. The program underwrites and holds senior secured unitranche loans and seeks to build a diverse portfolio of floating rate, sponsor-backed middle-market loans paying a quarterly cash yield.

On August 19, 2019, Mount Logan Management LLC ("ML Management"), a wholly-owned subsidiary of the Company, entered into a Monitoring Agreement with BC Partners pursuant to which, among other things, ML Management will receive a fee for providing monitoring



services in respect of certain investments managed by BC Partners, all as agreed to by ML Management and BC Partners from time to time. For the three months ended March 31, 2020, ML Management recognized fee revenue under this agreement of \$0 (2019 – \$0).

Certain directors and officers of the Company are affiliated with BC Partners. Common shares held by directors and officers of the Company who are affiliated with BC Partners at March 31, 2020 were 397,861 (2019 – 397,861) after giving effect to the share consolidation completed on December 3, 2019. The total directors' fees incurred to the directors who are affiliated with BC Partners during the three months ended March 31, 2020 was \$5 (2019 – \$6).

Key management personnel of the Company include the chief executive officer, the chief financial officer and co-presidents. Compensation incurred to officers who are affiliated with BC Partners for employee services, based on employment agreements, for the three months ended March 31, 2020 was \$53 (2019 – \$71).

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

4. FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

4.1 Liquidity and financing strategy

Our liquidity and capital resources are generated primarily from proceeds from investment sales and principal repayments, income earned on investments, and the Revolving Senior Loan Facility. We may borrow funds to make investments to the extent we determine that additional capital would allow us to take advantage of additional investment opportunities, if the market for debt financing presents attractively priced debt financing opportunities, or if the Board determines that leveraging our portfolio would be in the best interests of the Company. Where appropriate, we may seek to raise equity through the public markets to finance our growth and strengthen our financial position.

Revolving Senior Loan Facility

On February 22, 2019, MLC I entered into the Revolving Senior Loan Facility, which was amended on January 31, 2020 ("First Amendment Effective Date") of up to \$50.0 million. Pursuant to the Revolving Senior Loan Facility, MLC I was initially entitled to borrow from the lenders, on a revolving basis, up to \$29.0 million, provided that the amount available under the Revolving Senior Loan Facility will be automatically increased to: (a) \$36.6 million on the date that is seven months after the closing date of the transaction; (b) \$43.3 million on the date that is eight months after the closing date; (c) \$50.0 million on the date that is nine months after the closing date with a one-time facility increase of \$25.0 million exercisable any time after the advances equal or exceed \$40.0 million, (d) \$34.4 million on the First Amendment Effective Date and (e) \$50.0 million on March 31, 2020. The outstanding principal amount and accrued but unpaid interest in respect of the Revolving Senior Loan Facility will become payable on the 728th day after the closing date, subject to certain adjustments pursuant to the Revolving Senior Loan Facility Agreement. The availability period under the Revolving Senior Loan Facility was extended to terminate on February 19, 2021, with four one-year extensions at the Lender's option.

Working capital

As at March 31, 2020, we have a net working capital of \$(53), reflecting current assets of \$1,316, offset by current liabilities of \$1,369. The restricted cash of \$8,261 at March 31, 2020 was available to fund \$641 of these current liabilities, leaving an adjusted net working capital surplus of \$588. As at March 31, 2020, we have a cash balance of \$8,929, and the undrawn balance of the Revolving Senior Loan Facility of \$15.6 million to fund additional investments. The Company also has the ability to raise additional liquidity through the issuance of common shares and through the sale of its portfolio investments.

Off-balance sheet transactions

Portfolio company commitments

Pursuant to certain lending agreements, we are committed to fund additional loan advances. The funding commitments may expire without being drawn upon, and commitments do not necessarily represent future cash requirements for future earning assets for the Company. We are also committed to provide our proportionate share of additional capital to joint operations in accordance with contractual agreements.

As at March 31, 2020 and December 31, 2019, we had the following outstanding commitments to fund investments in current portfolio companies:

Portfolio Company	Investment	Currency	March 31, 2020	December 31, 2019
BCP Great Lakes Holdings LP	Unitranche lending program	USD \$	1,950	528
League Collegiate Holdings, LLC	First lien delayed draw term loan	USD	435	435
The PromptCare Inc.	First lien delayed draw term loan	USD	327	—
Welcome Dairy LLC	First lien delayed draw term loan	USD	227	227
		\$	2,939	1,190



4.2 Capital resources

Equity issuance

On September 10, 2019, the Company completed a non-brokered private placement of an aggregate of 2,968,751 common shares at a price of CAD\$0.56 per share for gross proceeds of \$1,264. On December 3, 2019, the Company completed a consolidation of the issued and outstanding common shares of the Company on the basis of one (1) post-consolidation share for every eight (8) pre-consolidation shares. There were no shareholder transactions for the three months ended March 31, 2020. As at March 31, 2020 and December 31, 2019 there were 10,604,998 common shares of the Company issued and outstanding.

The Company has no stock options outstanding.

As at March 31, 2020, the Company had 20,468,128 share purchase warrants ("Warrants") outstanding, which are exercisable at any time up to October 19, 2025. As a result of the share consolidation completed on December 3, 2019, every eight (8) Warrants entitle the holder to receive, upon exercise, one common share of the Company at a price of CAD\$6.16 per common share. Accordingly, an aggregate of up to 2,558,516 common shares are issuable upon the exercise of the 20,468,128 outstanding Warrants as at March 31, 2020.

As at May 11, 2020, there have been no further changes to any of the outstanding share data.

4.3 Management of capital

The Company includes the following in its capital:

	March 31, 2020	December 31, 2019	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Shareholders' equity comprised of:								
Share capital	\$ 80,988	\$ 80,988	\$ 80,988	\$ 79,744	\$ 79,744	\$ 79,744	\$ 54,218	\$ 54,218
Warrants	1,086	1,086	1,086	1,086	1,086	1,086	—	—
Contributed surplus	7,240	7,240	7,240	7,240	7,240	7,240	7,240	7,240
Deficit	(35,691)	(33,247)	(32,694)	(33,376)	(33,064)	(33,312)	(27,813)	(27,552)
Cumulative translation adjustment	(21,858)	(21,858)	(22,518)	(22,163)	(22,806)	(23,476)	(22,004)	(22,204)
	\$ 31,765	\$ 34,209	\$ 34,102	\$ 32,531	\$ 32,200	\$ 31,282	\$ 11,641	\$ 11,702
Net asset value per share	\$ 3.00	\$ 3.23	\$ 3.22	\$ 3.18	\$ 3.15	\$ 3.06	\$ 5.26	\$ 5.29

The Company's objectives when managing capital are:

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

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. The Company maintains or adjusts its capital level to enable it to meet its objectives by:

- 1) realizing proceeds from the disposition of its investments and fixed income instruments;
- 2) utilizing leverage in the form of margin or debt financing; and
- 3) raising capital through equity financings;

The Company is not subject to any capital requirements imposed by a regulator.

5. CRITICAL ACCOUNTING ESTIMATES

5.1 Investments

The Company's investments are classified as fair value through profit or loss and are measured at fair value. Investments held that are traded in an active market, through recognized public stock exchanges, over-the-counter markets, or through recognized investment dealers are valued at their closing sale prices. Investments held that are not traded in an active market are valued based on the results of valuation techniques using observable market inputs, if available, on such basis and in such manner established by management. The fair value of certain securities may be estimated using valuation techniques based on assumptions that are not supported by observable market inputs. These values are periodically assessed by management of the Company to ensure that they are reasonable.

Investments for which reliable quotations are not readily available, or for which there is no bid or ask price, are valued at fair value, as determined using management's best estimates thereof pursuant to procedures established by the Company.



The Company's contingent value rights liability is measured at fair value through profit and loss, and represents a contingent cash entitlement in respect of its investment in Cline.

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

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

Investment in Cline

The Company, along with affiliates of the Former Manager (the "Group"), holds an investment in the equity and bonds of Cline. Under a restructuring plan involving Cline, approved by the courts in 2015, the Group owns all of the equity and the senior secured bonds of Cline post-restructuring. On July 15, 2019, the Former Manager announced that Cline had entered into a conditional term sheet with Allegiance for the purchase and sale of all of the shares of NECC, which owns the mining assets of Cline. The fair value of Cline was determined based on the net present value of expected proceeds resulting from the proposed sale of Cline's mining assets. The estimate fair value is based on assumptions related to the completion of the announced transaction and the future operations of the mine. The assumptions are limited by the uncertainty related to completion of the proposed transaction, economic uncertainty of proposed mining operations and the appropriateness of discount rates used in the estimates. Accordingly, by their nature, estimates of fair value of this type are subjective and do not necessarily result in precise determinations. As a result of the entering into of the conditional term sheet for the sale of all the shares of NECC, the fair value of Cline was written-down to reflect expected proceeds from the proposed sale. On January 22, 2020, the Former Manager announced that Cline had entered into a binding agreement for the sale by Cline to Allegiance Coal Limited of all the shares in NECC. The total acquisition cost is \$55.0 million and completion of the sale must take place before July 15, 2020.

Cline has advised the Company that it plans to manage its continued liquidity utilizing existing current assets and expected proceeds from disposal of surplus assets.

The Company makes estimates related to its Level 3 investments and, in particular its investment in Cline. The estimated fair value of this investment depends upon, among other things, (i) estimates involving anticipated costs and timing associated with bringing the mine to production, which in turn depends upon assumptions regarding coal prices in the future, economic cycles, and the performance of the broader coal mining sector and (ii) assumption regarding the use of a specific market comparables. These assumptions are limited by the availability of reliable comparable data, economic uncertainty, and the uncertainty of predictions regarding commodity markets, which may impact the ability of Cline to divest of its mine asset. Accordingly, by their nature, estimates of fair value of this type are subjective and do not necessarily result in precise determinations. Should the underlying assumptions used by the Company and the Former Manager change, the estimated fair value could change by a material amount.

5.2 Accounting estimates and policies

Accounting estimates

The Company makes estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates are based on management's historical experience and various other assumptions that are believed by management to be reasonable under the circumstances. Such assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ materially from these estimates. Refer to the notes to the interim consolidated financial statements for the three months ended March 31, 2020 for details on critical accounting estimates.

Dividends

Dividends to the Company's shareholders are recorded on the record date. The amount to be paid out as a dividend is determined by the Board.

6. NON-IFRS MEASURES

The Company has included in this MD&A certain supplemental measures of performance. We utilize these measures in managing the business and evaluating its performance. Management believes that adjusted income per share is helpful to investors in assessing the overall performance of the Company's business. Non-IFRS financial measures used by the Company and referred to in this MD&A do not have any standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other issuers.

In preparing the adjusted financial information presented in this section, management has eliminated non-recurring items to present a normalized picture of the Company's financial performance. The measures used include:

- Adjusted net investment income is defined as net investment loss before credit facility costs.
- Adjusted basic and diluted income per share is defined as adjusted net investment income divided by the weighted average common shares outstanding in the period.

For the three months ended	March 31, 2020
Adjusted net investment income	\$ 182
Weighted average shares outstanding - basic and diluted	10,604,998
Adjusted net investment income per share - basic and diluted	\$ 0.02

The table below reconciles the adjusted non-IFRS financial measures reflected in the Company's interim consolidated financial statements for the three months ended March 31, 2020.

For the three months ended	March 31, 2020
Net investment loss	\$ (101)
Adjustments:	
Credit facility costs	283
Adjusted net investment income	\$ 182

7. RISK FACTORS

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

Dependence upon key management

The Company depends on the business and technical expertise of its Board of Directors and its key personnel. There is little possibility that this dependence will decrease in the near term. As the Company's operations expand, additional general management resources will be required. The Company, through the Board of Directors, may not be able to attract and retain additional qualified personnel and this would have a negative effect on the Company's operations.

Limited operating history for the Company's new current strategy

Following the completion of the Arrangement, the Company changed its investment strategy from a focus on natural resource lending to a broader lending-oriented credit platform. Prior to the Arrangement, the Company did not have any record of operating under an investment strategy with a focus on broader lending-oriented credit platform. As such, the Company is subject to all of the business risks and uncertainties associated with the broadening of its business, including the risk that the Company will not achieve its financial objectives as estimated by its management. Furthermore, past successes of the Board of Directors in other ventures do not guarantee future successes.

No assurance of profitability

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

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

The net asset value and market value of the Company's shares will fluctuate with changes in the market value of the Company's investments and fluctuations in currency exchange rates. Such changes in value may occur as the result of various factors, including general economic and market conditions, the performance of corporations who have borrowed from the Company and changes in interest rates which may affect the value of interest-bearing securities owned by the Company. An investment in the Company is speculative and may result in the loss of a substantial portion of a shareholder's investment. Only shareholders who are experienced in high risk investments and who can afford to lose a substantial portion of their investment should consider an investment in the Company.

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

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

No current market for Warrants

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

Financing risks

Additional funding will be required for the Company to acquire and source new loans. There is no assurance that any such funds will be available or available on favorable terms. Failure to obtain additional financing, if required, on a timely basis, could cause the Company to reduce or delay its proposed operations. The primary source of funds currently available to the Company is derived from the issuance of equity and under the Revolving Senior Loan Facility. There is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

Credit risks

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

Due diligence risks

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

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

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

Financing of mid-market businesses

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

financial condition and may not have sophisticated financial controls and oversight, the Company is more susceptible to a client's misrepresentation. The failure of a borrower to accurately report its financial position could result in the Company providing loans to a borrower that does not meet the Company's underwriting criteria, defaults on payments owing to the Company, the loss of some or all of the principal of a loan, or non-compliance by a borrower with applicable covenants. Accordingly, loans offered to these types of businesses involve higher risk than loans offered to larger businesses with greater financial resources or that are otherwise able to access traditional credit sources.

Dependence on the performance of borrower clients

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

Risks facing borrower clients

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

Prepayment by borrower client

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

Default by and bankruptcy of a borrower client

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

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

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

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

Collateral securing the Company's loans

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

Control over borrower clients

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

Securities of borrower clients

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

Material non-public information

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

Illiquidity of loans

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

Payment in-kind interest

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

Changes in strategies

The Company may alter its business strategies at any time without notice to its shareholders and there is no guarantee that such changes will yield similar or improved returns, if any.

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

Certain of the Company's directors and officers serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business (notably BC Partners) as the Company does, or of investment funds managed by the same personnel. In serving in these multiple capacities, they may have obligations to other clients or investors in those entities, the fulfillment of which may not be in the Company's best interests or in the best interest of its stakeholders. The Company's investment objective may overlap with the investment

objectives of such investment funds, accounts or other investment vehicles. Certain of the Company's directors, officers and employees and certain of the Company's affiliates will have conflicts of interest in allocating their time between the Company and other activities in which they are or may become involved, including the management of BC Partners' affiliated funds. Directors and officers of the Company with conflicts of interest will be subject to and required to comply with the procedures set out in the *Business Corporations Act (Ontario)* and other applicable legislation, regulations, rules and policies.

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

Since the Company uses debt to finance a portion of its investments, its net investment income depends, in part, upon the difference between the rate at which it borrows funds and the rate at which it invests those funds. As a result, the Company can offer no assurance that a significant change in market interest rates will not have a material adverse effect on the Company's net investment income. In periods of rising interest rates when the Company has debt outstanding, the Company's cost of funds will increase, which could reduce its net investment income. The Company expects that its long-term fixed-rate investments will be financed primarily with equity and long-term debt. The Company may use interest rate risk management techniques in an effort to limit its exposure to interest rate fluctuations. These activities may limit the Company's ability to participate in the benefits of lower interest rates with respect to the hedged portfolio. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on the Company's business, financial condition and results of operations.

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

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

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

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

The Canadian, U.S., and global capital markets have in the past and may in the future experience periods of volatility and disruption during economic downturns and recessions. While credit markets and the United States economy have experienced relative stability since the global financial crisis from 2007-2009, there can be no assurance that market conditions will remain or improve further in the near future.

The recent 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, restrictions on travel and other measures to mitigate the impact of this pandemic. Such actions are creating disruption in global supply chains, and adversely impacting a number of industries, including, among others, transportation, hospitality and entertainment. The outbreak could have a continued adverse impact on economic and market conditions and trigger a period of global economic slowdown and continued volatility. The rapid development and fluidity of this situation precludes any prediction as to the duration and extent of this pandemic and its impact on the Company's business, financial condition and results of operations, as well as the business, financial condition and results of operations of the Company's portfolio companies. Nevertheless, the novel coronavirus presents material uncertainty and risk with respect to our and our portfolio companies' performance and financial results. The Company is actively monitoring developments with respect to this pandemic and its impact as part of the Company's overall investment objective and strategy.

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

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

Competitive business environment

The Company's ability to acquire new financing opportunities could be significantly affected by the activities of other industry participants. New competitors may enter the credit industry in which the Company operates, or current market participants may significantly increase their activities in this area. There can be no assurance that the Company will be able to compete effectively with its competitors in connection with the acquisition or origination of new financing opportunities. If these or other competitors were to engage in aggressive pricing policies, the Company may have difficulty originating new financing opportunities or could be forced to offer lower rates, both of which could have a material adverse effect on the Company. Some of the Company's competitors offer a broader range of financing services than the Company and can leverage their existing relationships to offer and sell services that compete directly with the Company's services. Further, the Company's competitors may have greater financial, technical, marketing and other resources, and may have greater access to lower cost capital. As a result of competition, the Company may not be able to attract new borrowers or sustain the rate of growth that the Company expects to achieve. As a result, the Company's ability to profitably expand its loan portfolio may decline.

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

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

Inability to realize potential benefits from growth

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

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

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

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

Given the Company is expected to have investment holdings in both Canada and the U.S., there is potential that potential tax changes in Canada or the U.S. could result in adverse effects on the Company's financial results and share price. The Company cannot predict how changes in tax legislation will affect the Company, the Company's business, or the business of its portfolio companies but these provisions may in certain circumstances increase the tax burden on the Company's portfolio companies, which, in turn, could negatively affect their ability to meet their borrowing obligations to the Company.

The Company may experience fluctuations in its quarterly results

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

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

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

Certain factors that may be considered in determining the fair value of the Company's investments include investment dealer quotes for securities traded on the secondary market for institutional investors, the nature and realizable value of any collateral, the portfolio company's earnings and its ability to make payments on its indebtedness, the markets in which the portfolio company does business, comparison to

comparable publicly traded companies, discounted cash flow and other relevant factors. As a result, the Company's determinations of fair value may differ materially from the values that would have been used if a ready market for these nontraded securities existed. Due to this uncertainty, the Company's fair value determinations may cause the net asset value of the Company on a given date to materially differ from the value that it may ultimately realize upon the sale of one or more of its investments.

No guarantee as to timing or amount of dividends

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

The Company may not declare or pay a dividend if there are reasonable grounds to believe that (i) it is, or after the payment would be, unable to pay its liabilities as they become due, or (ii) the realizable value of its assets would thereby be less than the aggregate of its liabilities, including those arising in the ordinary course of business. Dividends are not guaranteed, and the amount of any dividend may fluctuate or be reduced or eliminated. There can be no assurance as to the levels of dividends to be paid by the Company, if any. The market value of the common shares may deteriorate if the Company is unable to pay dividends in accordance with its intended dividend strategy, or not at all, and such deterioration may be material.

Given the nature of the Company's activities, its results of operations and financial condition are dependent upon the market value of the securities that comprise the Company's portfolio

Market value of portfolio companies can be reflective of the actual or anticipated operating results and/or the general market conditions that affect the sectors in which the Company invests. There are various factors that could affect these sectors which could have a negative impact on the Company's portfolio companies and thereby have an adverse effect on the Company's business. Additionally, macroeconomic factors such as fluctuations in commodity prices and global political, economic and market conditions could have an adverse effect on one or more sectors to which the Company is exposed, and a disproportionate effect on the sectors as compared to the overall market, thereby negatively impacting one or more of the portfolio companies concurrently.

Cash flows/investment income

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

Foreign exchange risk

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

Valuation of Cline

The Group holds an investment in the equity and bonds of Cline. Under a restructuring plan involving Cline, approved by the courts in 2015, the Group owns all of the equity and the senior secured bonds of Cline post-restructuring. On July 15, 2019, the Former Manager announced that Cline had entered into a conditional term sheet with Allegiance Coal Limited for the purchase and sale of all of the shares of NECC, which holds all the mining assets of Cline. The fair value of Cline was determined based on the net present value of expected proceeds resulting from the proposed sale of Cline's mining assets. The estimate fair value is based on assumptions related to the completion of the announced transaction and the future operations of the mine. Should the underlying assumptions change, the estimated fair value could change by a material amount.

On January 22, 2020, the Former Manager announced that Cline had entered into a binding agreement for the sale by Cline to Allegiance Coal Limited of all the shares in NECC. The total acquisition cost is CAD\$55.0 million to be comprised of a mix of cash, shares of Allegiance Coal Limited and deferred cash payments that will be subject to certain conditions. Completion of the sale must take place before July 15, 2020 and is subject to certain conditions, including Allegiance Coal Limited raising start-up capital for the mine, which was estimated to be \$55 million at the time of the announcement.

CVR holders may never receive a payment on the CVRs

The right to receive any payment on the CVRs will be contingent upon the satisfaction of Contingent Payment Events. If a Contingent Payment Event is not achieved for any reason, payments will not be made on the CVRs. Accordingly, the value, if any, of the CVRs is speculative, and the CVRs may ultimately have no value.

The CVRs are difficult to value

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

The Canadian federal income tax treatment of the CVRs is unclear

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

No current market exists for CVRs

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

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

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

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

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

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

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

officers who may become sick or otherwise unable to perform their duties for an extended period of time, such plans cannot anticipate all scenarios, and the Company may experience potential loss of productivity or a delay in the roll out of certain strategic plans.

We are currently operating in a period of capital markets disruption and economic uncertainty.

The Canadian and U.S. capital markets have experienced extreme volatility and disruption following the global outbreak of COVID-19 that began in December 2019. Some economists and major investment banks have expressed concern that the continued spread of the virus globally could lead to a world-wide economic downturn. Disruptions in the capital markets have increased the spread between the yields realized on risk-free and higher risk securities, resulting in illiquidity in parts of the capital markets. These and future market disruptions and/or illiquidity would be expected to have an adverse effect on the business, financial condition, results of operations and cash flows of the Company and our portfolio companies. Unfavorable economic conditions also would be expected to increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events have limited and could continue to limit our investment originations, limit our ability to grow and have a material adverse impact on our operating results and the fair values of our debt and equity investments.

If the current period of capital market disruption and instability continues for an extended period of time, there is a risk that investors in our equity securities may not receive distributions consistent with historical levels or at all or that our distributions may not grow over time and a portion of our distributions may be a return of capital.

Although we have paid distributions to our shareholders, we can give no assurances that we will achieve investment results that will allow us to make any cash distributions going forward. Our ability to pay distributions has been, and may continue to be, adversely affected by the impact of one or more of the risk factors described in this MD&A, including the COVID-19 pandemic described above. For example, if the temporary closure of many corporate offices, retail stores, and manufacturing facilities and factories in the jurisdictions, including Canada and the United States, affected by the COVID-19 pandemic were to continue for an extended period of time it could result in reduced cash flows to us from our existing portfolio companies, which could reduce cash available for distribution to our shareholders. If we declare a distribution, we may be forced to sell some of our investments in order to make cash distribution payments. To the extent we make distributions to shareholders that include a return of capital, such portion of the distribution essentially constitutes a return of the shareholder's investment. Although such return of capital may not be taxable, such distributions would generally decrease a shareholder's basis in our common shares and may therefore increase such shareholder's tax liability for capital gains upon the future sale of such shares. A return of capital distribution may cause a shareholder to recognize a capital gain from the sale of our common shares even if the shareholder sells its shares for less than the original purchase price.

8. EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company has established, and is maintaining, disclosure controls and procedures to provide reasonable assurance that material information relating to the Company is disclosed in annual filings, interim filings or other reports and recorded, processed, summarized and reported within the time periods specified as required by securities regulations. Management has evaluated the operating effectiveness of the Company's disclosure controls and procedures as at March 31, 2020 and, given the size of the Company and the involvement at all levels of the Chief Executive Officer and Chief Financial Officer, believes that they are sufficient to provide reasonable assurance that the Company's disclosures are compliant with securities regulations.

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Management has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Because of its inherent limitations, the Company's internal control over financial reporting may not prevent or detect all possible misstatements or frauds. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate. Management has assessed the operating effectiveness of the Company's internal control over financial reporting and concluded that such internal controls were appropriately designed and operating effectively as at March 31, 2020.

During the three months ended March 31, 2020, there were no changes to policies, procedures and processes that comprise the system of internal controls over financial reporting that may have affected, or are reasonably likely to materially affect, our internal control over financial reporting. Such controls and procedures are subject to continuous review and changes to such controls and procedures may require management resources and systems in the future.