



MOUNT LOGAN
CAPITAL

MOUNT LOGAN CAPITAL INC.

Consolidated Financial Statements

Years ended December 31, 2021 and 2020



Independent Auditor's Report

To the Shareholders and the Board of Directors of Mount Logan Capital Inc.

Opinion

We have audited the consolidated financial statements of Mount Logan Capital Inc. (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2021 and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS") and auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and the United States of America, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2020, were audited by another auditor who expressed an unmodified opinion on those statements on March 22, 2021.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian GAAS or U.S. GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS and U.S. GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Deloitte & Touche LLP

March 22, 2022

MOUNT LOGAN CAPITAL INC.

Consolidated Statements of Financial Position

(in thousands of United States dollars)

As at December 31	Notes	2021	2020
ASSETS			
Asset Management:			
Cash		\$ 14,433	\$ 6,658
Restricted cash		135	17,620
Investments	7	35,209	45,219
Intangible assets	9	22,060	3,496
Other assets	14	4,180	17,992
Total assets — asset management		76,017	90,985
Insurance:			
Cash and cash equivalents		29,733	—
Investments	7	881,170	—
Reinsurance assets	13	329,902	—
Intangible assets	9	2,504	—
Goodwill	9	55,015	—
Other assets	14	18,970	—
Total assets — insurance		1,317,294	—
Total assets		\$ 1,393,311	\$ 90,985
LIABILITIES			
Asset Management			
Due to affiliates	10	\$ 3,852	\$ 403
Debt obligations	12	42,708	39,412
Contingent value rights	11	4,169	3,954
Accrued expenses and other liabilities	14	3,916	4,038
Total liabilities — asset management		54,645	47,807
Insurance			
Debt obligations	12	2,250	—
Insurance contract liabilities	13	942,865	—
Funds held under reinsurance contracts		291,296	—
Reinsurance liabilities	13	10,528	—
Accrued expenses and other liabilities	14	6,421	—
Total liabilities — insurance		1,253,360	—
Total liabilities		1,308,005	47,807
EQUITY			
Common shares	11	108,055	93,480
Warrants	11	1,129	1,086
Contributed surplus		7,240	7,240
Deficit		(9,260)	(36,770)
Cumulative translation adjustment		(21,858)	(21,858)
Total equity		85,306	43,178
Total liabilities and equity		\$ 1,393,311	\$ 90,985

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

Approved by the Board of Directors

(signed) Edward (Ted) Goldthorpe
 Edward (Ted) Goldthorpe
 Chief Executive Officer and Chairman

(signed) Rudolph Reinfrank
 Rudolph Reinfrank
 Chairman of Audit Committee

MOUNT LOGAN CAPITAL INC.

Consolidated Statements of Comprehensive Income (Loss)

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

Year ended December 31	Notes	2021	2020
REVENUE			
Asset management			
Management and servicing fees	8	\$ 4,741	\$ 65
Interest income		3,179	3,184
Dividend income		187	676
Net gains (losses) from investment activities	5	665	(426)
Total revenue — asset management		8,772	3,499
Insurance			
Premium income			
Gross premiums		8,573	—
Premiums ceded to reinsurers		(10,963)	—
Net premiums		(2,390)	—
Net investment income	6	6,532	—
Net gains (losses) from investment activities	5	(1,811)	—
Realized and unrealized gains (losses) on embedded derivative — funds withheld		(637)	—
Other income		1,113	—
Total revenue — insurance		2,807	—
Total revenue		11,579	3,499
EXPENSES			
Asset management			
Administration fees	10	1,140	623
Transaction costs		1,977	765
Amortization of intangible assets	9	787	95
Interest and other credit facility expenses	12	2,807	2,014
General, administrative and other		4,804	1,660
Total expenses — asset management		11,515	5,157
Insurance			
Policy benefits and claims:			
Gross claims and benefits		18,072	—
Increase (decrease) in insurance contract liabilities	13	(81,192)	—
Benefits and expenses ceded to reinsurers		(16,515)	—
(Increase) decrease in reinsurance assets	13	46,451	—
Net policy benefits and claims		(33,184)	—
Administration fees		1,354	—
Interest expense		56	—
Insurance expenses		579	—
Other expenses		385	—
Total expenses — insurance		(30,810)	—
Total expenses		(19,295)	5,157
Income (loss) before taxes		30,874	(1,658)
Income tax (expense) benefit — asset management	15	(2,144)	(1,147)
Income tax (expense) benefit — insurance		—	—
Net income (loss) and comprehensive income (loss)		\$ 28,730	\$ (2,805)
Earnings per share			
Basic	11	\$ 1.55	\$ (0.24)
Diluted		\$ 1.54	\$ (0.24)
Dividends per common share — USD		\$ 0.06	\$ 0.06
Dividends per common share — CAD		\$ 0.08	\$ 0.08

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

MOUNT LOGAN CAPITAL INC.

Consolidated Statements of Changes in Equity

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

Year ended December 31, 2021	Notes	Number of Voting Common Shares	Common Shares	Warrants	Contributed Surplus	Deficit	Cumulative Translation Adjustment	Total Equity
Balance at December 31, 2020		16,963,379	\$ 93,480	\$ 1,086	\$ 7,240	\$ (36,770)	\$ (21,858)	\$ 43,178
Share issuance	11	5,226,816	14,618	—	—	—	—	14,618
Issuance of warrants	11	—	(43)	43	—	—	—	—
Shareholder dividends	11	—	—	—	—	(1,220)	—	(1,220)
Comprehensive income		—	—	—	—	28,730	—	28,730
Balance at December 31, 2021		22,190,195	\$ 108,055	\$ 1,129	\$ 7,240	\$ (9,260)	\$ (21,858)	\$ 85,306

Year Ended December 31, 2020	Notes	Number of Voting Common Shares	Common Shares	Warrants	Contributed Surplus	Deficit	Cumulative Translation Adjustment	Total Equity
Balance at December 31, 2019		10,604,998	\$ 80,988	\$ 1,086	\$ 7,240	\$ (33,247)	\$ (21,858)	\$ 34,209
Share issuance	11	6,358,381	12,492	—	—	—	—	12,492
Shareholder dividends	11	—	—	—	—	(718)	—	(718)
Comprehensive income		—	—	—	—	(2,805)	—	(2,805)
Balance at December 31, 2020		16,963,379	\$ 93,480	\$ 1,086	\$ 7,240	\$ (36,770)	\$ (21,858)	\$ 43,178

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

MOUNT LOGAN CAPITAL INC.

Consolidated Statements of Cash Flows

(in thousands of United States dollars)

Years ended December 31	Notes	2021	2020
Operating Activities			
Comprehensive income (loss)		\$ 28,730	\$ (2,805)
Adjustments to reconcile comprehensive income (loss) to net cash provided by (used in) operating activities:			
Net realized (gains) loss on investments		(1)	(87)
Net realized (gains) loss on foreign currency		(37)	56
Net change in unrealized (appreciation) depreciation on investments		1,214	477
Net change in unrealized (appreciation) depreciation on foreign currency		(30)	(20)
Payment in-kind		(61)	—
Change in equity investments		(1,345)	—
Net amortization of premiums and accretion of discounts on investments		(119)	(96)
Amortization of debt issuance costs		643	550
Amortization of intangible assets		792	95
(Increase) decrease in operating assets:			
Due from affiliates		—	411
Reinsurance assets		44,810	—
Deferred tax asset		(6,416)	1,147
Other assets		(2,801)	(45)
Increase (decrease) in operating liabilities:			
Due to affiliates		3,449	403
Insurance contract liabilities - Insurance		(81,192)	—
Funds held under reinsurance contracts - Insurance		(26,301)	—
Reinsurance liabilities		(415)	—
Accrued expenses and other liabilities		(16,335)	487
Contingent value rights		(285)	—
Other cash used in operating activities		(768)	—
Net cash provided by (used in) operating activities		(56,467)	573
Investing Activities			
Purchases of investments		(311,241)	(39,267)
Proceeds from sales and repayments of investments		287,290	43,079
Cash received from acquisition of business		123,210	—
Intangible assets		(10,600)	(3,591)
Net cash provided by (used in) investing activities		88,659	221
Financing Activities			
Proceeds from issuance of common shares	11	5,618	12,492
Shareholder dividends	11	(1,220)	(718)
Proceeds from borrowings of asset management business		64,191	4,542
Repayments of borrowings of asset management business		(80,538)	—
Net cash provided by (used in) financing activities		(11,949)	16,316
Net increase (decrease) in cash and restricted cash		20,243	17,110
Effects of exchange rate changes on cash and restricted cash		(220)	10
Cash and restricted cash, beginning of year		24,278	7,158
Cash and restricted cash, end of year		\$ 44,301	\$ 24,278
Supplemental disclosures of cash flow information			
Interest received		\$ 2,728	\$ 2,947
Interest paid		2,270	1,308
Dividends received		187	676
Income taxes paid		1,983	—
Supplemental disclosures of investing activities			
Common stock issued in connection with acquisition of businesses		\$ 9,000	\$ —
Debt obligations issued in connection with acquisition of businesses		19,000	—
Cash and restricted cash			
Asset management			
Cash		\$ 14,433	\$ 6,658
Restricted cash		135	17,620
Total asset management		14,568	24,278
Insurance			
Cash		29,733	—
Total insurance		29,733	—
Total cash and restricted cash		\$ 44,301	\$ 24,278

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

MOUNT LOGAN CAPITAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020

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

1. Organization

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

MLC is an alternative asset management and insurance solutions company. MLC, through its subsidiaries, serves as the investment manager to provide support services to various investment funds and actively sources, evaluates, underwrites, monitors, and primarily invests in loans, debt securities, and other credit-oriented instruments that present attractive risk-adjusted returns and present low risk of principal impairment through the credit cycle in the North American market. Mount Logan Management LLC ("ML Management"), a wholly-owned subsidiary of the Company, is registered as an investment advisor with the United States Securities and Exchange Commission under the *Investment Advisors Act of 1940*, as amended, and is registered to act in an investment advisory role for clients in the United States.

Acquisition of Ability Insurance Company

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

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

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

2. Basis of Presentation

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

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

These consolidated financial statements were authorized for issue by the board of directors (the "Board") of the Company on March 22, 2022.

The Company presents its consolidated statements of financial position in order of liquidity rather than on a current and non-current basis. A schedule of investments is not presented for the current year given the Company's expansion of its focus from a lending-oriented credit platform to an alternative asset management platform in the United States. Certain comparative figures have been reclassified to conform to the current year's presentation, the more significant of which are explained below.

Balance sheet reclassifications:

- "Investment in associates" was reclassified to "Investments";
- "Receivable for investments sold" and "Deferred tax assets" were reclassified to "Other assets"; and
- "Payable for investments purchased" and "Payable for equity units purchased" were reclassified to "Accrued expenses and other liabilities"

Income statement reclassifications:

- "Professional fees" and "Compensation" were reclassified to "General, administrative and other"

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

In addition, in connection with the Ability Acquisition, we organized our business into two reportable segments: asset management and insurance. Ability's operations constitute the insurance segment. Additional information regarding segment reporting is included in Note 16.

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

MOUNT LOGAN CAPITAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020

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

Consolidation

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

All intercompany transactions and balances are eliminated on consolidation.

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

3. Significant Accounting Policies

Critical accounting judgments, estimates, and assumptions

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

The outbreak of the coronavirus, or COVID-19, continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. The outbreak has triggered a period of global economic slowdown and continued volatility and could have a continued impact on economic and market conditions, even after restrictive measures are relaxed or removed. The situation presents material uncertainty and risk with respect to the Company's performance and financial results. In the preparation of the consolidated financial statements, the Company has incorporated the potential impact of COVID-19 into its estimates and assumptions that affect the carrying amounts of its assets and liabilities, and the reported amount of its results using the best available information as at December 31, 2021. Significant sources of estimation uncertainty include the fair value measurement of investments, the determination of expected credit losses on financial assets, and the valuation of insurance contract liabilities and reinsurance assets. The Company continues to actively monitor developments with respect to this pandemic, including existing and potential economic impacts on the Company's insurance business and underlying businesses associated with the Company's financial assets, and the ability of such businesses to meet their financial obligation to the Company on a timely basis. The Company also reviews collateral values and monitors financial results of the underlying businesses on an ongoing basis.

Financial instruments

Recognition and initial measurement

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

The Company capitalizes costs related to its borrowings. Deferred financing costs are amortized and included as a component of interest expense using the straight-line method, which approximates the effective yield method, over the life of the related debt obligation. Unamortized deferred financing costs are presented on the consolidated statements of financial position as a direct reduction of the debt obligation.

Classification and measurement of financial instruments

The Company's classification of financial assets is based on the business model for managing the portfolio of assets and the contractual cash flow characteristics of these financial assets. Debt investments held within a business model with the objective of realizing cash flows through sale and meets the definition of held for trading, rather than holding to collect the contractual cash flows, are classified and measured at FVTPL. For the insurance segment, the Company elects to classify investments backing insurance contract liabilities, excluding mortgage loan receivables, as FVTPL to reduce any accounting mismatches arising from these assets and changes in the value of the related insurance contract liability. Financial assets measured at amortized cost are debt investments with contractual cash flows that meet the "solely payment of principal and interest" ("SPPI") test and are managed on a "held to collect" basis, which are recognized initially at fair value plus or minus direct and incremental transaction costs, and are subsequently measured at amortized cost, using straight-line method which approximates the effective interest method, net of an allowance for expected credit losses ("ECL"). Equity investments are generally carried at FVTPL. Investments in associates are accounted for using the equity method. Under the equity method, such investments are initially measured at cost, and are adjusted thereafter to recognize the Company's share of profit or loss of the investee. Distributions received from an investee reduce the carrying amount of the investment. These values are periodically assessed by management to ensure that they are reasonable.

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

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

The Company also derecognizes a financial asset or liability when its terms are modified and the cash flows of the modified asset or liability are substantially different, in which case a new financial asset or liability based on the modified terms is recognized at fair value. Upon derecognition of a financial asset or liability, the

MOUNT LOGAN CAPITAL INC.

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

difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.

Impairment of financial assets

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

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

- Stage 1** all performing financial instruments that have not experienced a significant increase in credit risk since initial recognition;
- Stage 2** all performing financial instruments that have experienced a significant increase in credit risk since initial recognition; and
- Stage 3** financial instruments that are classified as impaired.

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

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

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

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

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

The calculation of ECLs includes both quantitative and qualitative information and analysis, based on the Company's historical experience and credit risk assessment from qualified personnel, including forward-looking information. The key inputs into the measurement of ECL, regardless of the presence of a significant increase in credit risk, are probability of default, loss given default and exposure at default. The allowance for ECL is established with consideration for borrower-specific factors, including estimated levels of collateral security, the Company's historical credit loss experience, and current and future expected economic conditions.

The allowance ECL for financial assets measured at amortized cost is deducted from the gross carrying amount of the assets.

Fair value measurement

Fair value is the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation techniques are applied. These valuation techniques involve varying levels of management estimation and judgement, the degree of which is dependent on a variety of factors.

Investments held that are traded in an active market, through recognized public stock exchanges, over-the-counter markets, or through recognized investment dealers are valued at their closing price (Level 1). Investments held that are not traded in an active market are valued based on the results of valuation techniques using observable market inputs as opposed to unobservable inputs on such basis and in such manner established by management (Level 2). The fair value of certain securities may be estimated using valuation techniques based on assumptions that are not supported by observable market inputs (Level 3). Investments that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by management and input from independent third-party valuation firm(s), as necessary.

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

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

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

The Company classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Market price observability is affected by a number of factors, including the type of financial instrument, the characteristics specific to the financial instrument and the state of the marketplace, including the existence and transparency of transactions between market participants. Financial instruments with readily available quoted prices in active markets generally will have a higher degree of market price observability and a lesser degree of judgement used in measuring fair value. The three levels of the fair value hierarchy are:

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

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

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

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

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

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

Level 1 Valuation Methodologies

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

Level 2 Valuation Methodologies

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

Level 3 Valuation Methodologies

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

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

Investment transactions

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

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

Interest income

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

Loans are in default when there is reasonable doubt that principal or interest will be collected in full. The Company considers many factors relevant to an investment when placing it on or removing it from default status including, but not limited to, the delinquency status of the investment, economic and business conditions, the

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overall financial condition of the underlying investment, the value of the underlying collateral, bankruptcy status, if any, and any other facts or circumstances relevant to the investment. Interest income is continued to be recognized when a loan is identified as impaired, net of its related allowance.

Dividend income

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

Cash and cash equivalents

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

Restricted cash

Restricted cash represents amounts pledged as collateral for debt obligations under the credit facility and proceeds received from the Cline transaction (described below).

Foreign currency translation

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

Current and deferred income taxes

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

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

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

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

Deferred tax assets are recognized only when it is probable that sufficient taxable profit will be available in future periods against which deductible temporary differences may be utilized.

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

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

Earnings per share

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

Shareholder dividends

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

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

Significant accounting policies – asset management

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

Associates

The Company classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint ventures, as associates. Significant influence is presumed to exist when the Company holds, either directly or indirectly, between 20% and 50% of the voting rights of an entity. Investments in associates are accounted for using the equity method. Under the equity method, such investments are initially measured at cost, and are adjusted thereafter to recognize the Company's share of profit or loss of the investee. Distributions received from an investee reduce the carrying amount of the investment. The Company reviews investments in associates quarterly to identify and evaluate indications of possible impairment. For these investments, a significant or prolonged decline in the fair value of a security to an amount below its cost is objective evidence of impairment.

Management fee revenue

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

Intangible assets

Intangible assets include payments made to purchase existing investment management contracts from third-party investment managers. Intangible assets with definite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recorded using the straight-line method and is based on the estimated useful lives between 3 to 6 years. Intangible assets are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. Intangible assets that are determined to be impaired are written down to their recoverable amount. The recoverable amount is the higher of the value in use and the fair value less costs to sell. If the carrying value exceeds the recoverable amount, these assets are considered impaired. Additional information regarding intangible assets is included in Note 9.

Significant accounting policies – insurance

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

Investments

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

Debt and Equity Securities

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

Mortgage Loan Receivables

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

Insurance contract liabilities

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

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

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

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

Reinsurance

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

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

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

Ceded reinsurance – Funds withheld with Front Street Re

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

Ceded reinsurance – Modified coinsurance with Vista

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

Ceded reinsurance – Embedded derivatives

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

Goodwill

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

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

Goodwill recorded as a result of the Ability Acquisition has been allocated to the insurance segment. Additional information regarding segment reporting is included in Note 16.

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Intangible assets

Insurance Licenses

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

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

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

Deferred acquisition costs

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

Insurance expenses

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

Future accounting and reporting changes in IFRS

Insurance Contracts

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

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

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

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

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

Amendment to IAS 1

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

Amendment to IAS 8

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

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4. Acquisition of Ability

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

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

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

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

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

	Ability Insurance Company
Transaction price	
Fair value of common stock issued ⁽¹⁾	\$ 5,000
Promissory note issued ⁽²⁾	15,000
Transaction price	20,000
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Assets	
Cash and cash equivalents	123,210
Investments, at fair value	831,598
Reinsurance assets	374,712
Intangible assets	2,444
Other assets	11,781
Subtotal	1,343,745
Liabilities	
Debt obligations	2,250
Insurance contract liabilities	1,024,056
Funds held under reinsurance contracts	317,598
Reinsurance liabilities	10,943
Accrued expenses and other liabilities	23,912
Subtotal	1,378,759
Total identifiable net assets (liabilities)	(35,015)
Goodwill	\$ 55,015

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

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

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

Investments

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

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Insurance contract liabilities

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

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

Funds held under reinsurance contracts

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

State insurance licenses

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

Acquisition-related costs, primarily comprised of accounting, tax, actuarial, legal and other costs associated with completing the Ability Acquisition, were \$1.8 million for the year ended December 31, 2021 (2020 – \$0.8 million).

Unaudited pro-forma financial information

The table below presents certain unaudited pro-forma financial information, for illustrative purposes only, for the year ended December 31, 2021, as if the Ability Acquisition took place on January 1, 2021. The unaudited pro-forma information presented does not include adjustments to reflect any potential revenue synergies or cost savings that may be achievable in connection with the Ability Acquisition. The unaudited pro-forma information is presented for information purposes only and is not necessarily indicative of future operations or results.

Year ended December 31		2021
Total revenues	\$	31,799
Net income		50,489

Amounts above reflect certain pro-forma adjustments that were directly attributable to the Ability Acquisition. These adjustments include financing consummated by MLC to complete the transaction.

For the year ended December 31, 2021, actual revenue of \$2.5 million and net income of \$41.5 million from the Ability Acquisition are included in the Company's consolidated statements of comprehensive income (loss).

5. Net gains (losses) from investment activities

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

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

	Year Ended December 31, 2021			Year Ended December 31, 2020		
	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total	Net Realized Gains (Losses)	Net Unrealized Gains (Losses)	Total
Asset Management						
Debt securities: ⁽¹⁾						
Corporate	\$ 243	\$ 422	\$ 665	\$ 31	\$ (457)	\$ (426)
Net gains (losses) from investment activities — asset management	\$ 243	\$ 422	\$ 665	\$ 31	\$ (457)	\$ (426)
Insurance						
Debt securities: ⁽²⁾						
U.S. government and agency	\$ —	\$ (14)	\$ (14)	\$ —	\$ —	\$ —
U.S. state, territories and municipalities	—	(28)	(28)	—	—	—
Other government and agency	—	(89)	(89)	—	—	—
Corporate	(228)	(2,055)	(2,283)	—	—	—
Asset and mortgage backed securities	24	553	577	—	—	—
Equity securities	(1)	27	26	—	—	—
Net gains (losses) from investment activities — insurance	\$ (205)	\$ (1,606)	\$ (1,811)	\$ —	\$ —	\$ —

(1) Certain debt securities are measured at amortized cost and resulted in \$nil net realized gain (loss) and \$nil net unrealized gain (loss) for the year ended December 31, 2021 (2020 – \$nil and \$nil, respectively). The remainder of debt securities are designated at FVTPL.

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

6. Net investment income – insurance

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

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

Year ended December 31	2021
Debt securities — interest and other income	\$ 5,530
Mortgage interest	1,355
Short-term and other investment income	6
Equity securities — dividends and other income	—
Gross investment income	6,890
Less:	
Investment expenses	(359)
Net investment income	\$ 6,532

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7. Investments

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

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

December 31, 2020	FVTPL	Other ⁽²⁾	Total Carrying Value	Total Fair Value ⁽³⁾
Financial assets				
Asset management				
Debt securities:				
Corporate	\$ 25,715	\$ 12,504	\$ 41,198	\$ 38,219
Investments in associates ⁽⁴⁾	—	7,000	7,000	7,000
Equity securities	—	—	419	—
Total investments — asset management ⁽⁷⁾	25,715	19,504	48,617	45,219
Total investments	\$ 25,715	\$ 19,504	\$ 48,617	\$ 45,219

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

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

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

(4) On December 17, 2020, the Company, through its wholly-owned subsidiary, ML Management, acquired an equity stake in Sierra Crest Investment Management, LLC. Investments in associates accounted for using the equity method are initially recognized at cost.

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

(6) Asset management investments pledged as collateral for outstanding credit facilities totaled \$nil as at December 31, 2021 (2020 – \$21.8 million).

Investment in associates

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

On December 17, 2020, the Company, through its wholly-owned subsidiary, ML Management, acquired an equity stake in Sierra Crest Investment Management, LLC (“SCIM”). On June 8, 2021, ML Management acquired an additional equity stake in SCIM, increasing the ownership interest from 21% at December 31, 2020 to 24.99% as at December 31, 2021. The financial effects and risks related to this equity method investment are limited to the performance of the associate and the environment in which it operates.

The Company received dividends of \$1.8 million for the year ended December 31, 2021 (2020 – \$nil), which is recorded as a reduction of carrying value. As at December 31, 2021, \$0.5 million (2020 – \$1.5 million) is payable related to the purchases.

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

Name	Type	Principal Place of Business	Country of Incorporation	December 31, 2021				December 31, 2020			
				Carrying Value ⁽¹⁾	Fair Value	Ownership Interest %	Voting Rights %	Carrying Value	Fair Value	Ownership Interest %	Voting Rights %
Sierra Crest Investment Management LLC	Limited Liability Company	United States	United States	\$ 8,452	\$ 9,263	24.99%	24.99%	\$ 7,000	\$ 7,000	21.00%	21.00%

Fair value measurements

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

December 31, 2021	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Financial assets				
Asset management				
Debt securities:				
Corporate	\$ —	\$ —	\$ 9,867	\$ 9,867
Equity securities	419	—	2,074	2,493
Total investments — asset management	419	—	11,941	12,360
Insurance				
Debt securities:				
U.S. government and agency	—	10,004	—	10,004
U.S. state, territories and municipalities	—	9,953	—	9,953
Other government and agency	—	10,034	—	10,034
Corporate	647	246,035	98,979	345,661
Asset and mortgage backed securities	—	364,101	2,109	366,210
Equity securities	419	—	278	697
Other invested assets	—	—	27,141	27,141
Total investments — insurance	1,066	640,126	128,507	769,700
Total investments	\$ 1,485	\$ 640,126	\$ 140,448	\$ 782,060

December 31, 2020	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Financial assets				
Asset management				
Debt securities:				
Corporate	\$ —	\$ 7,839	\$ 17,876	\$ 25,715
Total assets — asset management	—	7,839	17,876	25,715
Total investments	\$ —	\$ 7,839	\$ 17,876	\$ 25,715

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

Transfers between Level 1 and Level 2

The Company records transfers of assets and liabilities between Level 1 and Level 2 at their fair values at the end of each reporting period. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. There were no assets transferred between Level 1 and Level 2 during the years ended December 31, 2021 and 2020.

Transfers between Level 2 and Level 3

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

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

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

Year Ended December 31, 2021	Balance December 31, 2020 ⁽¹⁾	Purchases	Sales and Repayments	Net Realized Gain	Net Change in Unrealized Appreciation (Depreciation)	Transfer in ⁽²⁾	Transfer out ⁽²⁾	Balance December 31, 2021	Change in Unrealized Gains (Losses) on Level 3 Investments Still Held
Financial assets									
Asset management									
Debt securities:									
Corporate	\$ 17,876	\$ 48,778	\$ (57,001)	\$ (79)	\$ 293	\$ —	\$ —	\$ 9,867	\$ 249
Equity securities	—	1,320	—	—	754	—	—	2,074	752
Total assets — asset management	17,876	50,098	(57,001)	(79)	1,047	—	—	11,941	1,001
Insurance									
Debt securities:									
Corporate	70,087	35,124	(9,120)	(101)	42	2,948	—	98,979	60
Asset and mortgage backed securities	7,500	2,109	—	—	0	—	(7,500)	2,109	0
Equity securities	250	—	—	—	28	—	—	278	28
Other invested assets	27,141	3,888	(3,888)	—	—	—	—	27,141	—
Total assets — insurance	104,978	41,122	(13,008)	(101)	70	2,948	(7,500)	128,507	88
Total investments	\$ 122,854	\$ 91,220	\$ (70,009)	\$ (180)	\$ 1,117	\$ 2,948	\$ (7,500)	\$ 140,448	\$ 1,089

(1) Insurance opening balances in the table above are presented as at the Ability Acquisition Date.

(2) Transfers into Level 3 are due to decrease in the quantity and reliability of broker quotes obtained. Transfers out of Level 3 are due to an increase in the quantity and reliability of broker quotes obtained. Transfers are assumed to have occurred at the end of the period.

Year Ended December 31, 2020	Balance December 31, 2019	Purchases	Sales and Repayments	Net Realized Gain	Net Change in Unrealized Appreciation (Depreciation)	Transfer in ⁽¹⁾	Transfer out ⁽¹⁾	Balance December 31, 2020	Change in Unrealized Gains (Losses) on Level 3 Investments Still Held
Asset management									
Debt securities:									
Corporate	\$ 44,477	\$ 13,205	\$ (37,779)	\$ 163	\$ (310)	\$ —	\$ (1,880)	\$ 17,876	\$ (438)
Repurchase agreements	—	645	(645)	—	—	—	—	—	—
Equity securities	9,532	783	(10,255)	—	(60)	—	—	—	(68)
Total assets — asset management	54,009	14,633	(48,679)	163	(370)	—	(1,880)	17,876	(506)
Total investments	\$ 54,009	\$ 14,633	\$ (48,679)	\$ 163	\$ (370)	\$ —	\$ (1,880)	\$ 17,876	\$ (506)

(1) Transfers into Level 3 are due to decrease in the quantity and reliability of broker quotes obtained. Transfers out of Level 3 are due to an increase in the quantity and reliability of broker quotes obtained. Transfers are assumed to have occurred at the end of the period.

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

December 31, 2021

Asset Category	Fair Value	Quantitative Information about Level 3 Fair Value Measurements				
		Valuation Technique/ Methodology	Unobservable Input	Range (Weighted Average)	Change in Valuation ⁽³⁾ +	Change in Valuation ⁽³⁾ -
Financial assets						
Asset management						
Debt securities	\$ 4,035	Discounted cash flow	Discount rate	12.0% (12.0%)	\$ (109)	\$ 116
	3,101	Discounted cash flow	Credit spread	9.7% (9.7%)	—	—
	2,731	Recent transaction	price	NA	NA	NA
Equity investments	1,300	Recent transaction	price	NA	NA	NA
	774	Discounted cash flow	Discount rate	27.5%-32.5% (30.0%)	79	(69)
Total — asset management	11,941					
Insurance						
Debt securities:						
Corporate	24,526	Recent transaction	Transaction price	NA	NA	NA
	74,453	Discounted cash flow	Discount rate	9.2% - 9.4% (9.3%)	131	(131)
Asset and mortgage backed securities	2,109	Recent transaction	price	NA	NA	NA
Equity securities	278	Current value method	Enterprise value multiple	8.25 - 9.25 (8.30)	2	(13)
Other invested assets	23,253	Recent transaction	price	NA	NA	NA
	3,888	Discounted cash flow	Discount rate	8.8% (8.8%)	—	—
Total — insurance	128,507					
Total	\$ 140,448					

- (1) For loan investments where the recent transaction price does not estimate fair value, the Company determines the fair value utilizing a yield analysis.
- (2) The estimated fair value was determined based on discounted cash flows of expected proceeds resulting from the sale by Cline to Allegiance Coal Limited of all the shares in New Elk Coal Company ("NECC"). The estimated fair value in Cline was determined based on both observable and unobservable assumptions primarily related to expected value of certain Cline assets to be realized on sale, timing of the repayment of certain obligations owed by NECC to Cline, and the discount rate used.
- (3) Represents a sensitivity analysis to the impact of a high/low movement of the unobservable input.

December 31, 2020

Asset Category	Fair Value	Quantitative Information about Level 3 Fair Value Measurements				
		Valuation Technique/ Methodology	Unobservable Input	Range (Weighted Average)	Change in Valuation ⁽³⁾ +	Change in Valuation ⁽³⁾ -
Financial assets						
Asset management						
First lien loans ⁽¹⁾	\$ 13,922	Yield analysis	Discount rate	5.1%-13.4% (8.1%)	\$ (397)	\$ 520
Bonds ⁽²⁾	3,954	Discounted cash flow	Discount rate	12.0%	(128)	136
	\$ 17,876					

- (1) For loan investments where the recent transaction price does not estimate fair value, the Company determines the fair value utilizing a yield analysis.
- (2) The estimated fair value was determined based on discounted cash flows of expected proceeds resulting from the sale by Cline to Allegiance Coal Limited of all the shares in New Elk Coal Company ("NECC"). The estimated fair value in Cline was determined based on both observable and unobservable assumptions primarily related to expected value of certain Cline assets to be realized on sale, timing of the repayment of certain obligations owed by NECC to Cline, and the discount rate used.
- (3) Represents a sensitivity analysis to the impact of a 100 basis point movement of the unobservable input.

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

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

Allowance for Expected credit losses

An allowance for ECL is established when a debt instrument held at amortized cost becomes impaired. ECLs represent the difference between all contractual cash flows that are due to the Company and all the cash flows the Company expects to receive, discounted at the original effective interest rate. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount, which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

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

As at December 31, 2021	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Asset management				
Gross carrying value at amortized cost	\$ 13,586	\$ —	\$ —	\$ 13,586
Allowance for credit losses	—	—	—	—
Net carrying value at amortized cost - asset management	\$ 13,586	\$ —	\$ —	\$ 13,586
Insurance				
Gross carrying value at amortized cost	\$ 111,470	\$ —	\$ —	\$ 111,470
Allowance for credit losses	—	—	—	—
Net carrying value at amortized cost - insurance	\$ 111,470	\$ —	\$ —	\$ 111,470
Total	\$ 125,056	\$ —	\$ —	\$ 125,056
As at December 31, 2020	Stage 1	Stage 2	Stage 3	Total
Financial assets				
Asset management				
Gross carrying value at amortized cost	\$ 12,504	\$ —	\$ —	\$ 12,504
Allowance for credit losses	—	—	—	—
Net carrying value at amortized cost - asset management	\$ 12,504	\$ —	\$ —	\$ 12,504

There was no change in ECLs as at December 31, 2021 and 2020. All ECL allowances were categorized as Stage 1 – performing instruments that have not experienced a significant increase in credit risk since initial recognition.

There were no changes to the allowance for credit losses of the Company for the years ended December 31, 2021 and 2020.

8. Revenue from service contracts

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

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

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

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

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

For the years ended December 31	2021	2020
Management fees	\$ 3,326	\$ 65
Servicing fee	69	—
Total Management fee and servicing fees ⁽¹⁾	\$ 3,395	\$ 65

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

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

- (1) The Company, through ML Management, provides investment management services to investment funds and CLOs in exchange for a management fee. Management fees are determined quarterly based on an annual rate and generally based upon gross assets or as otherwise defined in the respective contractual agreements. Management fees are considered to be constrained since some of the factors that cause the fees to fluctuate are outside of the Company's control, and are therefore not included in the transaction price. There are no significant judgments made when determining the transaction price after the contract is established.
- (2) The Company, through ML Management, provides investment management services to investment funds and CLOs in exchange for a management fee as discussed above and, in some cases an incentive fee. The incentive fee consists of two parts: (i) the first component, the income incentive fee, is based on pre-incentive fee net investment income in excess of a hurdle rate (ii) the second component, the capital gains incentive fee, is based on cumulative realized capital gains and losses and unrealized capital depreciation. Incentive fees are considered a form of variable consideration as these fees are based on performance and the recognition of such fee is deferred until the end of the measurement period when the performance-based incentive fees become fixed and determinable. There are no significant judgments made when determining the transaction price after the contract is established.
- (3) The Company, through MLC US Holdings LLC ("MLC US Holdings"), provides certain administrative services to SCIM in respect of the management of an investment fund ("ACIF") in exchange for a servicing fee. Servicing fees are determined quarterly based on an amount equal to the aggregate base management fee and incentive fees received by SCIM from ACIF in respect of such quarter, net of debt service, plus a quarterly fee to be retained by SCIM comprised of a specified amount, plus an allocable portion of the compensation of SCIM's investment professionals in connection with their performance of investment advisory services for ACIF (collectively, the "Retained Benefits"). In addition, SCIM will be reimbursed by MLC US Holdings quarterly for certain expenses it incurs in connection with the investment advisory services provided to ACIF. Pursuant to this arrangement, the Company will receive the net economic benefit derived by SCIM under the ACIF advisory agreement, subject to the holdback of the Retained Benefits and expense reimbursements.
- (4) For amounts classified in other assets, see Note 14 "Other assets and accrued expenses and other liabilities." Additional information regarding related party transactions is included in Note 10.
- (5) Amount due from SCIM related to administrative services is netted against the current portion of amounts due to SCIM related to the purchase of the SCIM equity.

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

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

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

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

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9. Goodwill and intangible assets

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

	Balance December 31, 2020 ⁽¹⁾	Additions	Amortization Expense	Balance December 31, 2021
Asset management				
Intangible assets — indefinite life				
Investment management contracts	\$ —	\$ 19,204	\$ —	\$ 19,204
Intangible assets — definite life				
Investment management contracts	3,496	147	(787)	2,856
Total intangible assets — asset management	\$ 3,496	\$ 19,351	\$ (787)	\$ 22,060
Insurance				
Goodwill	\$ 55,015	\$ —	\$ —	\$ 55,015
Intangible assets — indefinite life				
State insurance licenses	2,444	—	—	2,444
Intangible assets — definite life				
Deferred acquisition costs	—	65	(5)	60
Total intangible assets — insurance	2,444	65	(5)	2,504
Total goodwill and intangible assets — insurance	\$ 57,459	\$ 65	\$ (5)	\$ 57,519

(1) Beginning balance as at October 29, 2021 for insurance segment.

Asset Management

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

Amortization is recorded using the straight-line method and is based on the estimated periods that the Company expects to collect management fees, which range from 3 to 6 years. Amortization expense is recognized in the consolidated statements of comprehensive income (loss) in amortization of intangible assets. The indefinite useful life assessment for certain investment management contracts is based on the ability to renew these contracts indefinitely. In addition, there are no legal, regulatory or contractual provisions that limit the useful lives of these intangible assets. An intangible asset with an indefinite useful life is not amortized but is subject to an annual impairment test which is performed more frequently if an indication that it is not recoverable arises.

Insurance

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

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

Impairment testing

The useful lives of intangible assets are reviewed annually for any changes in circumstances. The Company tests definite-life intangible assets for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. The indefinite useful life assessment is reviewed at least annually to determine whether events and circumstances exist to continue to support the indefinite useful life of intangible asset. If any intangible assets are determined to be impaired, the Company writes them down to their recoverable amount, the higher of value in use and fair value less costs to sell. There were no changes in estimated useful lives as of the year ended December 31, 2021.

There were no write-downs of intangible assets for the year ended December 31, 2021 (2020 — \$nil).

10. Related party transactions

Servicing Agreement

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

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

The Company reimburses BC Partners for an allocable portion of compensation paid by the Servicing Agent (or its affiliates) to the Company's Chief Financial Officer, associated management personnel (based on a percentage of time such individuals devote, on an estimated basis, to the business affairs of the Company), and out-of-pocket expenses. While the Servicing Agent performs certain administrative functions for the Company, the management functions of the Company are wholly performed by the Company's management team. For the year ended December 31, 2021 the Company incurred administrative fees of \$1.1 million (2020 – \$0.6 million). As at December 31, 2021, administration fees payable to BC Partners was \$0.4 million (2020 – \$0.3 million).

Potential Conflicts of Interest

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

Compensation of Key Management Personnel

The Company's key management personnel are those personnel who have the authority and responsibility for planning, directing and controlling the activities of the Company. Directors (both executive and non-executive) are considered key personnel. Certain directors and officers of the Company are affiliated with BC Partners. Compensation paid to officers who are affiliated with BC Partners for employee services, based on employment agreements, for the year ended December 31, 2021 was \$0.2 million (2020 – \$0.2 million). No person or employee of the Servicing Agent or its affiliates that serves as a director of the Company receives any compensation from the Company for his or her services as a director.

Common shares held by directors and officers of the Company who are affiliated with BC Partners at December 31, 2021 were 1,073,728 (2020 – 792,797).

Other Transactions with BC Partners or its Affiliates

The Servicing Agent may, from time to time, pay amounts owed by the Company to third-party providers of goods or services, and the Company will subsequently reimburse the Servicing Agent for such amounts paid on its behalf. Amounts payable to the Servicing Agent are settled in the normal course of business without any formal payment terms. As at December 31, 2021, operating expenses reimbursable to BC Partners for amounts paid on behalf of the Company was \$3.3 million (2020 – \$nil).

The Company may, from time to time, enter into transactions in the normal course of operations with entities that are considered affiliates of BC Partners. During the fourth quarter ended December 31, 2021, the Company sold certain investments at market value to the 2018-1 CLO. At December 31, 2021, the Company held investments with affiliates of BC Partners totaling \$23.9 million and in the 2018-1 CLO totaling \$2.7 million.

11. Share capital and earnings per share

Authorized share capital

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

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

Share issuance

As at December 31, 2021, there were 22,190,195 common shares issued and outstanding (2020 – 16,963,379). There were no preference shares outstanding as at December 31, 2021 (2020 – nil).

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The following table summarizes the shareholder transactions for the years ended December 31, 2021 and 2020:

	Shares	Amount	Warrants	Amount
Balance at December 31, 2019	10,604,998	\$ 80,988	20,468,128	\$ 1,086
Shares issued:				
October 27, 2020 ⁽¹⁾	6,108,199	12,777	—	—
November 25, 2020 ⁽¹⁾	250,182	525	—	—
Share issuance costs	—	(810)	—	—
Balance at December 31, 2020	16,963,379	93,480	20,468,128	1,086
Shares issued:				
May 7, 2021 ⁽²⁾	223,214	500	—	—
July 20, 2021 ⁽²⁾	2,165,000	5,474	—	—
October 29, 2021 ⁽³⁾	2,838,602	9,000	—	—
Share issuance costs	—	(356)	—	—
Warrants issued ⁽⁴⁾	—	(43)	76,923	43
Balance at December 31, 2021	22,190,195	\$ 108,055	20,545,051	\$ 1,129

- (1) On October 27, 2020 and November 25, 2020, the Company completed private placements of an aggregate of 6,358,381 common shares at a price of CAD\$2.75 per share for aggregate gross proceeds of \$13,302.
- (2) On May 7, 2021 and July 20, 2021, the Company completed private placements of an aggregate of 223,214 common shares at a price of CAD\$2.80 and an aggregate of 2,165,000 common shares at a price of CAD\$3.20, respectively, for gross proceeds of \$5,974.
- (3) On October 29, 2021, in connection with the Ability Acquisition, the Company issued 1,579,671 common shares to Advantage Capital Holdings LLC at a price per share of CAD\$3.92 per share, for gross value of \$5.0 million. Also on October 29, 2021, in connection with the Capitala Acquisition, the Company issued 1,258,931 common shares to CIA at a price of CAD\$3.93 per share, for gross value of \$4.0 million as part of the deferred purchase price payable by the Company.
- (4) In connection with the private placement on July 20, 2021, the Company issued an aggregate of 76,923 broker warrants ("Broker Warrants"), each of which is exercisable to acquire one common share at any time up to January 20, 2023 at an exercise price of CAD\$3.90.

Dividends

The following table reflects the distributions declared on the common shares of the Company during the years ended December 31, 2021 and 2020:

Declaration Date	Record Date	Payment Date	Dividend Amount per Share		Total Dividend Amount	
			CAD	USD ⁽¹⁾	CAD	USD ⁽¹⁾
March 22, 2021	March 31, 2021	April 7, 2021	\$ 0.020	\$ 0.016	\$ 339	\$ 271
May 12, 2021	May 27, 2021	June 25, 2021	0.020	0.016	344	283
August 12, 2021	August 24, 2021	September 24, 2021	0.020	0.016	387	309
November 9, 2021	November 22, 2021	December 23, 2021	0.020	0.016	444	357
					\$ 1,514	\$ 1,220
March 25, 2020	April 14, 2020	April 28, 2020	\$ 0.020	\$ 0.014	\$ 212	\$ 151
May 11, 2020	May 21, 2020	June 26, 2020	0.020	0.014	212	151
August 7, 2020	August 25, 2020	September 24, 2020	0.020	0.015	212	158
November 10, 2020	November 23, 2020	December 23, 2020	0.020	0.015	334	258
					\$ 970	\$ 718

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

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

Stock option plan and performance and restricted share unit plan

On May 30, 2019, the Company's shareholders approved (i) a stock option plan (the "Option Plan") and (ii) a performance and restricted share unit ("RSU") plan (the "RSU Plan"). The Option Plan provides that the administrators may, from time to time, at their discretion, grant to directors, officers, employees and certain other service providers of the Company or its subsidiaries, in connection with their employment or position, options to purchase common shares of the Company. The aggregate number of common shares that are issuable under the Option Plan upon the exercise of options which have been granted and are outstanding, together with common shares that are issuable pursuant to outstanding awards and grants under any other share compensation arrangement of the Company, shall not at any time exceed 10% of the common shares then issued and outstanding. The purchase price for any common shares underlying an option shall not be less than the fair market value of a common share on the date the option is granted, being the closing price of the common shares on the NEO Exchange on the last trading day before the date of grant. Options granted under the Option Plan have a maximum term of 10 years from the date of grant. The aggregate number of common shares that are issuable under the RSU Plan to pay awards which have been granted and are outstanding under the RSU Plan, together with common shares that are issuable pursuant to outstanding awards or grants under any other share compensation arrangement of the Company, shall not exceed at any time 10% of the common shares then issued and outstanding. There were no options or awards outstanding under either the Option Plan or the RSU Plan as at December 31, 2021 and 2020.

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Arrangement – contingent value rights

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

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

In addition, each shareholder, subject to certain restrictions, was provided with the option to exchange all of its New Shares for: (i) CAD\$0.53 in cash (subject to proration) for each New Share held, or (ii) 7.62 warrants (subject to proration) exercisable for a period of seven years from the effective date of the Arrangement at a price of CAD\$0.77 per share for each New Share held, which is a non-cash transaction.

On October 27, 2020, the Former Manager announced that Allegiance Coal Limited, a coal exploration and development company, acquired all the shares in New Elk Coal Company ("NECC"), which holds all the mining assets of Cline. On February 24, 2021, the Company received CAD\$0.5 million from the Former Manager in connection with the sale. On June 9, 2021, the Company distributed CAD\$0.3 million to the holders of the CVRs and CAD\$0.2 million is payable as at December 31, 2021. Further distributions by the Company of any proceeds received from the Cline transaction will be made in accordance with the terms of the indenture governing the CVRs.

Warrants

On closing of the Arrangement and in accordance with the terms of the Arrangement, the Company issued to shareholders who made an election to acquire warrants under the Arrangement warrants to acquire an aggregate of 20,468,128 common shares of the Company (the "Arrangement Warrants"). As at December 31, 2021 and 2020, the Company had 20,468,128 Arrangement Warrants outstanding, which are exercisable at any time up to October 19, 2025. As a result of a share consolidation completed on December 3, 2019, every eight (8) Arrangement Warrants entitled the holder to receive, upon exercise, one common share of the Company at a price of CAD\$6.16 per common share. Accordingly, an aggregate of up to 2,558,516 common shares are issuable upon the exercise of the 20,468,128 outstanding Arrangement Warrants as at December 31, 2021 and 2020.

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

As at December 31, 2021, there were 20,468,128 Arrangement Warrants outstanding (2020 – 20,468,128) and 76,923 Broker Warrants outstanding (2020 – nil).

Earnings per share

Basic earnings per share is calculated by dividing net income or loss attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated in the same manner, with further adjustments made to reflect the dilutive impact of instruments convertible into the Company's common shares.

The following table sets forth the computation of basic and diluted income (loss) per common share for the years ended December 31, 2021 and 2020:

Years ended December 31	2021	2020
Basic earnings per share		
Net income (loss)	\$ 28,730	\$ (2,805)
Weighted-average number of common shares outstanding	18,581,531	11,728,698
Basic earnings per share	\$ 1.55	\$ (0.24)
Diluted earnings per share		
Net income (loss)	28,730	(2,805)
Weighted-average number of common shares outstanding	18,581,531	11,728,698
Effect of dilutive investments		
Warrants potentially exercisable ⁽¹⁾	76,923	—
Weighted-average number of diluted common shares outstanding	18,658,454	11,728,698
Diluted earnings per share	\$ 1.54	\$ (0.24)

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

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12. Debt obligations

Asset management

MLC I Revolving Senior Loan Facility

On February 22, 2019, Great Lakes Senior MLC I LLC ("MLC I"), a wholly-owned subsidiary of the Company, entered into a facility and security agreement (the "MLC I Revolving Senior Loan Facility") with certain financial institutions (the "Lender"), pursuant to which MLC I may borrow up to \$50.0 million. Under the terms of the MLC I Revolving Senior Loan Facility, as amended, the maximum commitment financing available is \$50.0 million and will bear interest at LIBOR plus a spread of 2.50% or 1.80% depending on the asset base with a minimum weighted average interest of LIBOR plus 2.15%. The Company pays a commitment fee of 0.50% per annum on undrawn amounts. In addition, the Company accrues a make whole fee, payable on the maturity date, for each day during the period beginning on November 22, 2019 and ending on the date the maximum principal amount of the MLC I Revolving Senior Loan Facility is reached. The MLC I Revolving Senior Loan Facility is guaranteed by MLC.

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

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

MLCSC Credit Facility

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

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

MLC I Revolving Credit Facility

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

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

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

MLC US Holdings

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

Amounts drawn under the MLC US Holdings Credit Facility will bear interest at LIBOR plus a spread of 7.50%. A commitment fee of 0.50% per annum is charged on undrawn amounts. Payment of principal and interest are made on each payment date, with the remaining principal outstanding and accrued but unpaid interest payable on August 20, 2027. The MLC US Holdings Credit Facility is collateralized by assets held by MLC US Holdings. MLC is a guarantor of the MLC US Holdings Credit Facility.

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

Seller Note

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

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

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Debt obligations consisted of the following as at December 31, 2021 and 2020:

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

L - London Interbank Offered Rate

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

As at December 31, 2020	Maturity date	Stated interest Rate	Effective interest rate	Extension options	Total facility	Outstanding balance
MLC I Revolving Senior Loan Facility ⁽¹⁾	February 2021	L+2.17%	2.39%	One-year	\$ 50,000	\$ 34,400
MLCSC Credit Facility ⁽²⁾	April 2024	9.5%	9.50%	N/A	5,330	5,330
Total debt					\$ 55,330	\$ 39,730

L - London Interbank Offered Rate

(1) The MLC I Revolving Senior Loan Facility was secured by loan investments and cash held by MLC I and guaranteed by the Company. The MLC I Revolving Senior Loan Facility was repaid in full and terminated on February 4, 2021.

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

The scheduled principal repayments are as follows:

As at December 31	2021	2020
2021	\$ —	\$ 35,398
2022	1,250	1,330
2023	1,250	1,330
2024	1,250	1,672
2025	5,250	—
2026	1,250	—
2027 and thereafter	33,750	—
	44,000	39,730
Transaction costs (net of amortization)	(1,292)	(318)
Total debt	\$ 42,708	\$ 39,412

For the year ended December 31, 2021, interest expense, including the amortization of debt issuance costs, was \$2.8 million (2020 – \$2.0 million).

Insurance

Surplus Note

Ability has the following surplus debenture outstanding at December 31, 2021:

As at December 31, 2021	Date Issued	Date of Maturity	Interest Rate	Par Value	Carrying Value of Note	Interest and/or Principal Paid during current year ⁽¹⁾
Sentinel Security Life Insurance Company	2/25/2013	May 2023	5.00%	\$ 2,250	\$ 2,250	\$ 56
Total Surplus Notes				\$ 2,250	\$ 2,250	\$ 56

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

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

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13. Insurance contract liabilities and reinsurance assets

(a) Insurance contract liabilities and reinsurance assets

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

	December 31, 2021
Gross Insurance contract liabilities	\$ 942,865
Reinsurance assets	329,902
Add: Modco investments (1)	205,297
Net insurance contract liabilities	\$ 407,666

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

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

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

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

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

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

(b) Assets backing insurance contract liabilities

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

(c) Significant insurance contract liability valuation assumptions

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

Best estimate assumptions

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

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

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

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

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

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

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

	<u>December 31, 2021</u>
Policy related assumptions	
2% adverse change in future mortality rates	\$ 5,464
5% adverse change in future morbidity rates	1,452
10% adverse change in future lapse	8,774

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

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(e) Provision for adverse deviation assumptions

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

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

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

Each margin is reviewed annually for continued appropriateness.

(f) Change in insurance contract liabilities

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

Year ended December 31, 2021	Net actuarial liabilities	Other insurance contract liab. (assets) ⁽¹⁾	Net insurance contract liabilities	Add: Modco investments	Reinsurance assets	Gross insurance contract liabilities
At transaction closing, October 29, 2021	\$ 453,350	\$ (8,537)	\$ 444,813	\$ 204,532	\$ 374,712	\$ 1,024,056
New policies	—	—	—	—	—	—
Normal in-force movement	(40,978)	(168)	(41,147)	765	(49,810)	(90,191)
Changes in methods and assumptions	4,000	—	4,000	—	5,000	9,000
Reinsurance transactions	—	—	—	—	—	—
Balance as at December 31, 2021	\$ 416,371	\$ (8,705)	\$ 407,666	\$ 205,297	\$ 329,902	\$ 942,865

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

(g) Insurance contracts contractual obligations

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

Payments due by period	Less than 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
Insurance contract liabilities ⁽¹⁾	\$ (29,577)	\$ (55,699)	\$ (57,883)	\$ (623,699)	\$ (766,859)

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

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14. Other assets and Accrued expenses and other liabilities

Other assets consist of the following:

As at December 31	2021	2020
Asset management		
Management fee receivable	\$ 1,179	\$ 118
Receivable for investments sold ⁽¹⁾	—	15,840
Deferred tax assets	943	1,716
Accrued interest and dividends receivable	719	239
Other	1,339	79
Total other assets — asset management	4,180	17,992
Insurance		
Accrued investment income	9,425	—
Receivable for investments sold	8,320	—
Premium receivables	718	—
Guaranty funds on deposit	449	—
Other	58	—
Total other assets — insurance	18,970	—
Total other assets	\$ 23,150	\$ 17,992

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

Other liabilities and accrued expenses consist of the following:

As at December 31	2021	2020
Asset management		
Payable for investments purchased ⁽¹⁾	\$ 1,248	\$ 2,524
Interest payable	2,460	539
Accounts payable and accrued liabilities	208	975
Total accrued expenses and other liabilities — asset management	3,916	4,038
Insurance		
Payable for investments purchased ⁽¹⁾	3,833	—
Commissions payable	281	—
Premiums received in advance	1,406	—
Other accrued expenses	902	—
Total accrued expenses and other liabilities — insurance	6,422	—
Total accrued expenses and other liabilities	\$ 10,338	\$ 4,038

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

15. Income taxes

Current tax is the amount of income tax recoverable (payable) in respect of the taxable loss (profit) for a period. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities for accounting and tax purposes. Deferred income tax assets and liabilities are measured at the tax rates expected to apply when temporary differences reverse. Current and deferred taxes are offset only when they are levied by the same tax authority, on the same entity or group of entities, and when there is a legal right to offset. On the evidence available, including management projections of income, the Company believes that it is probable there will be sufficient taxable income generated by the Company's operations to support these deferred tax assets.

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

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Tax reconciliation

The effective income tax rate reflected in the consolidated statements of comprehensive income (loss) varies from the Canadian tax rate of 26.50 percent for the year ended December 31, 2021 (2020 – 26.50 percent) for the items outlined in the following table.

For the years ended December 31	2021	2020
Income (loss) before income taxes	\$ 30,874	\$ (1,658)
Combined Canadian federal and provincial statutory tax rate	26.50%	26.50%
Income tax expense at Canadian statutory tax rate	8,182	(439)
Increase (decrease) resulting from:		
Permanent differences in tax rate on income not subject to tax in Canada	256	223
Deferred tax asset not recognized	(3,361)	1,360
Effect of tax rate of foreign jurisdictions	(1,780)	3
Foreign Accrual Property Income impact	(1,241)	—
Other	88	—
Income tax expense (recovery)	\$ 2,144	\$ 1,147

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

Years Ended December 31	2021	2020
Current tax		
Current tax on profits for the year	\$ 1,370	\$ —
Total current tax	1,370	—
Deferred tax		
Origination and reversal of timing difference	774	1,147
Total deferred tax	774	1,147
Total income tax (recovery)	\$ 2,144	\$ 1,147

Deferred tax asset – asset management

As at December 31	2021	2020
Expenditure pools not yet deducted ⁽¹⁾	\$ 57,507	\$ 57,163
Non-capital losses available ⁽²⁾	36,349	34,406
Net capital losses available ⁽³⁾	24,405	24,260
Other ^{(4) (5)}	10,775	2,175
Gross deductible temporary differences	129,036	118,004
Deferred tax asset, gross	34,268	31,271
Deferred tax asset not recognized	(33,325)	(29,555)
Deferred tax asset, net	\$ 943	\$ 1,716

(1) The Company has \$57,507 of scientific research and experimental development expenditure pools available for deduction against future income. These expenditure pools have no expiry date.

(2) The Company has \$36,349 of non-capital losses available to offset future taxable income. These losses expire between 2026 and 2040.

(3) The Company has \$24,405 of net capital losses available to offset future capital gains for which no benefit has been recorded. These losses have no expiry date.

(4) The Company has \$5,842 of foreign accrual property losses available to offset future foreign accrual property income for which no benefit has been recorded. These losses expire in 2041.

(5) The Company has \$1,654 of temporary differences for which no benefit has been recorded. These temporary differences have no expiry date.

A deferred tax asset has been recognized with respect to U.S. temporary differences of \$3,279. The Company believes that it is probable there will be sufficient taxable income generated by the Company's operations in the U.S. to support this deferred tax asset.

Deferred tax asset – insurance

Ability has unrecorded deferred tax assets of \$24.5 million. These unrecorded deferred tax assets are made up of temporary differences that do not have an expiry date and \$28.9 million of non-capital losses that will begin to expire in 2030.

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As at December 31	2021
Insurance reserves	\$ 81,960
Deferred acquisition costs	29,842
Net operating loss carryforward	28,867
Investments	(8,989)
Other	(14,935)
Gross deductible temporary differences	116,745
Deferred tax asset, gross	24,517
Deferred tax asset not recognized	(24,517)
Deferred tax asset, net	\$ —

16. Segment reporting

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

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

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

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

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

Year Ended December 31, 2021 ⁽¹⁾	Asset Management	Insurance	Intercompany Adjustments ⁽²⁾	Total
Revenue				
Management and servicing fees	\$ 5,055	\$ —	\$ (314)	\$ 4,741
Net investment income	—	6,218	314	6,532
Net gains (losses) from investment activities	665	(2,448)	—	(1,783)
Net premiums	—	(2,390)	—	(2,390)
Other income	3,366	1,113	—	4,479
Total revenue	9,086	2,493	—	11,579
Less:				
Administration fees	1,140	1,354	—	2,494
Transaction costs	1,977	—	—	1,977
Amortization of intangible assets	787	—	—	787
Interest and other credit facility expenses	2,807	56	—	2,863
Insurance expense	—	579	—	579
Net policy benefits and claims	—	(33,184)	—	(33,184)
General, administrative and other	4,804	385	—	5,189
Income tax expense	2,144	—	—	2,144
Net income (loss)	\$ (4,573)	\$ 33,303	\$ —	\$ 28,730
Total assets	\$ 106,648	\$ 1,317,294	\$ (30,631)	\$ 1,393,311
Total liabilities	\$ 54,645	\$ 1,253,991	\$ (631)	\$ 1,308,005

(1) As the insurance business was not acquired by MLC until October 29, 2021, segmented information was not applicable as at and for the year ended December 31, 2020.

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

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17. Commitments and contingencies

Investment commitments

In the normal course of business, the Company may enter into commitments to fund investments, which are not reflected in the consolidated financial statements. There were \$1.4 million (2020 – \$2.8 million) of outstanding investment commitments as at December 31, 2021.

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

Service agreements

In connection with the Capitala Acquisition, ML Management entered into a transition services agreement with CIA to provide certain non-investment advisory services upon reasonable request. There were \$2.5 million (2020 – \$nil) of outstanding service fees as at December 31, 2021 that are payable through March 31, 2024. In addition, ML Management entered into an independent contractor agreement to provide certain services as specified in the agreement. There were \$0.9 million (2020 – \$nil) of outstanding service fees as at December 31, 2021 that are payable through July 1, 2023. These service fees for which services are not rendered are not reflected in the consolidated financial statements.

Contingent liabilities and litigation

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

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

18. Financial risk management

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

Credit and counterparty risk

Credit and counterparty risk is the potential for loss due to the failure of a borrower or counterparty to repay a loan or honor another predetermined financial obligation. Credit risk arises predominantly with respect to loans, derivatives and other credit instruments. The objective of the credit risk management is to ensure that all material credit risks to which the Company is exposed are identified, measured, managed, monitored and reported. The Company's credit risk policy is to minimize its exposure to counterparties with perceived higher risk of default by dealing only with counterparties that meet the Company's credit standards and by obtaining collateral through security on assets of the obligors.

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

The Company's maximum credit risk exposure as at the reporting date is represented by the respective carrying amounts of the financial assets in the consolidated statements of financial position.

Market risk

Market risk is the potential for adverse changes in the value of the Company's assets and liabilities resulting from market variables such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing). The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. Market risk includes currency risk, interest rate risk and other price risk.

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

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ultimate adverse impact of the novel coronavirus. Nevertheless, the novel coronavirus presents material uncertainty and risk with respect to our and our portfolio companies' performance and financial results.

Interest rate risk

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

Interest rate sensitivity

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

As at December 31 ⁽¹⁾		2021		2020
50 or 100 basis point increase ⁽²⁾	\$	2,067	\$	(44)
50 or 100 basis point decrease ⁽²⁾		(2,800)		44

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

(2) Due to the low interest rate environment, for 2021, earnings sensitivity to interest rates are measured using 50 basis points.

The following table summarizes the potential change in market values of hypothetical base rate changes in interest rates on our debt investments.

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

Liquidity and funding risk

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

Liquid assets

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

As at December 31		2021		2020
Cash and cash equivalents	\$	44,166	\$	24,278
Investments		787,872		41,265
Management fee receivable		1,179		—
Receivable for investments sold		8,320		15,840
Accrued interest and dividend receivable		10,056		239
Total liquid assets	\$	851,593	\$	81,622

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

The tables below show the remaining contractual maturities of on-balance sheet assets and liabilities and off-balance sheet commitments. The contractual maturity of financial assets and liabilities is an input to, but is not necessarily consistent with, the expected maturity of assets and liabilities that is used in the management of liquidity and funding risk. The Company forecasts asset and liability cash flows, under both normal market conditions and a number of stress scenarios, to manage liquidity and funding risk. Stress scenarios include assumptions for loan repayments, and credit commitment and facility drawdowns. Stress scenarios also consider

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the time horizon over which liquid assets can be monetized and related haircuts and potential collateral requirements that may result from both market volatility and credit rating downgrades, among other assumptions.

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

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

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	Less than 1 year	1-3 years	3-5 years	Over 5 years	No specified maturity	2020 Total
On-Balance Sheet Financial Instruments						
Assets						
Cash	\$ 24,278	\$ —	\$ —	\$ —	\$ —	\$ 24,278
Receivable for investments sold	15,840	—	—	—	—	15,840
Investments	—	4,998	17,865	15,356	7,000	45,219
Other assets	436	—	—	—	5,212	5,648
Total assets	40,554	4,998	17,865	15,356	12,212	90,985
Liabilities and equity						
Debt obligations	34,082	—	5,330	—	—	39,412
Payable for investments purchased	2,524	—	—	—	—	2,524
Other liabilities	1,917	—	—	—	3,954	5,871
Total liabilities	38,523	—	5,330	—	3,954	47,807
Total equity	—	—	—	—	43,178	43,178
Total liabilities and equity	\$ 38,523	\$ —	\$ 5,330	\$ —	\$ 47,132	\$ 90,985
Off-Balance Sheet Commitments						
Commitments to extend credit	\$ —	\$ —	\$ 327	\$ 2,496	\$ —	\$ 2,823

Valuation risk

MLC invests, and plans to continue to invest, primarily in illiquid debt of private companies. The majority of Ability's investments are liquid, have readily available market prices, falling under level 1 or level 2 of the fair value hierarchy. Most of the MLC's, and a portion of Ability's, investments will not have a readily available market price, and the Company values these investments at fair value as determined in good faith by management and independent third-party valuation firm(s) and in accordance with the Company's valuation policy. There is no single standard for determining fair value. As a result, determining fair value requires that judgment be applied to the specific facts and circumstances of each portfolio investment while employing a consistently applied valuation process for the types of investments the Company makes. If the Company was required to liquidate a portfolio investment in a forced or liquidation sale, it may realize amounts that are different from the amounts presented and such differences could be material.

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

Concentration risk

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

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

	December 31, 2021		December 31, 2020	
	Fair value	% of total	Fair value	% of total
Asset management				
United States	\$ 7,910	22%	\$ 34,265	90%
Canada	27,299	78%	3,954	10%
	35,209	100%	38,219	100%
Insurance				
United States	378,822	43%	—	—
Canada	7,426	1%	—	—
Other	494,922	56%	—	—
	881,170	100%	—	—
	\$ 916,379		\$ 38,219	

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

Currency risk

Currency risk is the risk that financial instruments which are denominated in currencies other than the Company's functional currency, the United States dollar, will fluctuate due to changes in currency exchange rates and adversely impact the Company's reported income, cash flows or fair values of its investment holdings. The Company may reduce its currency exposure through the use of derivative arrangements such as foreign exchange forward contracts or futures contracts.

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As at December 31, 2021 and 2020, the Company had exposure to the Canadian dollar through its holding of investments and other assets and liabilities denominated in Canadian dollars. The amount by which the net assets of the Company would have increased or decreased, as at December 31, 2021, had the prevailing exchange rates been lowered or raised by \$0.01 was \$55 (2020 – \$2). In practice, actual results may differ from this sensitivity analysis.

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

As at December 31	Currency exposure	Non-USD denominated investments	Non-USD denominated assets	Non-USD denominated liabilities	Net exposure	As a % of net equity
2021	CAD	\$ 7,910	\$ 682	\$ (4,243)	\$ 4,349	5.1%
2020	CAD	3,954	27	(4,173)	(192)	0.4%

As at December 31, 2021 and 2020, the majority of the Company's net assets were denominated in U.S. dollars.

Reinsurance Risk

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

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

As at December 31, 2021	A.M Best Credit Rating	Reinsurance Recoverables	Funds withheld payable	Net reinsurance credit exposure
Medico Insurance Company	A-	\$ 3,664	\$ —	\$ 3,664
Front Street Re	Not Rated	306,092	291,296	14,796
Vista Life and Casualty Reinsurance Co ⁽¹⁾	Not Rated	20,145	—	20,145
Total	\$ —	\$ 329,902	\$ 291,296	\$ 38,606

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

As at December 31, 2021, Ability's exposure to credit risk was mitigated by collateral held as security under funds withheld and modified coinsurance agreements. Net exposure after considering offsetting agreements and the benefit of the fair value of collateral held was \$72 million as at December 31, 2021.

19. Capital management and requirements

The Company's equity consists of capital and debt. In order to maintain or adjust the capital structure, the Company actively manages its equity as capital and may adjust the amount of debt borrowings, dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets. The Company's capital management framework takes into account the requirements of the Company as a whole as well as the needs and requirements of each of its subsidiaries. The Company's officers and senior management are responsible for managing the Company's capital and do so through active portfolio management quarterly meetings and regular review of financial information.

As at December 31, 2021, the Company was in compliance with all financial covenants in its debt facilities.

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

20. COVID update

The outbreak of the novel coronavirus, or COVID-19, and mutation of variants in many countries continues to adversely impact global commercial activity and has contributed to significant volatility in financial markets. Adverse impacts as a result of restrictions implemented to mitigate the spread of the pandemic are, but not limited to, disruption in global supply chains, slowdown in hospitality, transportation, and entertainment industries, among other industries, decrease demand for certain products, increase in expenses, as well as interruptions in operations necessitating cost-cutting measures like layoffs, reduction in force, reduced discretionary spending and capital expenditures and supply contract renegotiation. The outbreak has triggered a period of global economic slowdown and continued volatility and could have a continued impact on economic and market conditions. The foregoing adverse impacts of the COVID-19 pandemic could continue even as certain jurisdictions begin or continue the process of lifting restrictions. The overall impact of the COVID-19 pandemic remains uncertain and depends on, among other things, the progression of the virus, the emergence of variants, the timing of the manufacture and distribution of vaccines and the level of public acceptance thereof and that the actions taken by governments in different jurisdictions vary. The rapid development and continued fluidity of this situation precludes any prediction as to the duration and extent, as well as foregoing trends and uncertainty of this pandemic and its impact on the Company's business and operating segments, financial

MOUNT LOGAN CAPITAL INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2021 and 2020

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

condition, and results of operations. The Company continues to actively monitor developments with respect to this pandemic and its impact as part of the Company's overall investment objective, strategy, and operating segments.

Relative to the asset management segment, each company in the Company's investment portfolio has from time to time faced different pressures as a result of the COVID-19 pandemic. Aforementioned COVID-19 adverse impacts potentially affect each underlying portfolio company's business, operations, and financial condition, including a higher risk of defaults which could lead to lower cash flow and increased credit risk of borrowers, potentially ultimately leading to declines in the fair value of the Company's investment portfolio. In order to remain informed of potential negative impacts, the Company seeks to actively monitor its investment portfolio and have regular communications with its portfolio companies to continuously update, re-assess and mitigate these risks, trends and uncertainties. Furthermore, from a risk mitigation perspective, the Company aims to maintain a portfolio that is diversified by industry. The pandemic related disruption and financial distress experienced by our investment portfolio companies may have material adverse effects on our investment income, particularly our interest income received from our investments and would likely result in a decrease in the value of our investment in any such portfolio company. However, as of the date hereof, there have not been any payment defaults in the Company's investment portfolio. All borrowers remain current on their interest payments and the Company remains in frequent contact with its borrowers and loan agents regarding the ongoing performance of borrowers and any potential business disruptions.

The Company's insurance segment is subject to regulation and supervision by government authorities in the jurisdictions in which it operates. In the U.S., state insurance regulators issued an unprecedented volume of emergency measures to address the impact of the COVID-19 pandemic on policyholders. These regulatory changes impacted policy administration and business practices for insurance companies, and, as content and timing varied by state, they have introduced additional operational and compliance complexity to the business. The Company is staying informed with preceding insurance industry regulations and the potential for further external insurance regulations that develop as a result of COVID-19.

The Company's business continuity plan allowed it to continue to operate without disruption by mobilizing its workforce and working remotely.

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, our insurance segment operations of Ability, 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. 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, potential treatments and therapies, and the manufacture and distribution of vaccines, and such uncertainty may in turn impact our valuation of the portfolio companies. 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. The pandemic 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 and would likely result in a decrease in the value of our investment in any such portfolio company. The new Ability insurance segment is deemed an essential business. Ability has successfully operated and will continue to successfully operate in the environment of the pandemic. Management has and will continue to implement developed plans and proposals for the transition of Ability acquisition into operations as well as strategies to focus on insurance product expansion through offering of annuities for more attractive risks and return characteristics.

21. Subsequent events

On March 22, 2022, the Board declared a cash dividend in the amount of CAD\$0.02 per common share to be paid on April 8, 2022 to shareholders of record on March 31, 2022.

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



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