Cliffside Capital Ltd.
Management Discussion and Analysis

For the three and twelve months ended December 31, 2018 and 2017

Management Discussion and Analysis

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CLIFFSIDE CAPITAL LTD.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2018

The following management discussion and analysis ("MD&A") of the results of the operations and financial position of Cliffside Capital Ltd. (the "Company") prepared as of December 31, 2018 and approved by the Board of Directors on April 11, 2019, should be read in conjunction with the Company's consolidated financial statements and notes thereto for the year ended December 31, 2018, prepared in accordance with International Financial Reporting Standards (IFRS). All monetary amounts are expressed in Canadian dollars.

Forward-Looking Disclaimer

Certain statements contained in this MD&A constitute forward-looking statements which reflect the Company's current expectations and projections about future results. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such forward-looking statements are based on a number of assumptions that may prove to be incorrect. While the Company anticipates that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements except as required by applicable law. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Company.

Additional Information

Additional information about the Company can be accessed at www.cliffsidecapital.ca

Nature of the Business

The Company is in the business of investing in the growing non-bank financial services market with a strategy to generate revenue as a passive investor in receivables and other similar assets, across various asset classes. Currently, the Company holds investments in two limited partnerships, CAL LP and ACC LP III (the "Partnerships"). The Partnerships acquire receivables in the non-prime automobile financing market originated in Canada. These receivables are originated and administered by CanCap Management Inc. ("CCMI") which is a leading consumer finance company that manages the entire lifecycle of receivables from credit adjudication through to contract administration, customer service, default management and post charge-off recoveries. Non-prime refers to consumers who typically would not qualify for traditional bank financing. This market is heavily weighted to used vehicle sales and it is estimated that 3 million used cars are sold annually in Canada. It is also estimated that approximately 30% of Canadians do not qualify for financing through traditional sources. If credit quality can be bucketed into A through D grades, A is dominated by the banks, and D is a fragmented deep sub-prime market. The Partnerships acquire receivables from CCMI that are primarily in the B and C grades.

The Company trades on the TSX Venture Exchange (the "Exchange") under the symbol CEP. The Company's registered office is located at Suite 200, 11 Church Street, Toronto, M5E 1W1.

Operational Highlights

Finance receivables, including capitalized transaction costs of $92 million were acquired during the twelve months ended December 31, 2018, resulting in portfolio growth of $53 million, or 86-per-cent, to $115 million, net of transaction costs, administration fees and allowance for credit loss from December 31, 2017. The acquisition of these receivables was financed through the Partnerships' securitization facilities with their respective funders, for aggregate securitization proceeds of $97 million, resulting in net increase to securitization debt of $55 million, net of cash holdback, during the twelve months ended December 31, 2018.

For the three and twelve months ended December 31, 2018, the Company recorded net losses attributable to shareholders of $673,720 and $1,080,711 respectively. The net losses were primarily a result of higher provision for credit losses due to the new IFRS 9 provisioning standards adopted by Cliffside on January 1, 2018 which require earlier recognition of future credit losses on otherwise performing receivables. The provision for credit losses included in the reported net losses during this same period was $2,020,255 and $5,789,513 respectively, of which, $912,212 and $1,637,446, respectively, is the incremental provision under IFRS 9 for future credit losses over actual losses incurred.

Effective January 1, 2018, the Partnerships renegotiated new terms with CCMI for the acquisition of fully serviced retail sales contracts. The new terms replace the earlier fixed percentage price with a reduced fixed percentage plus a contingent component which is based on excess annual return on capital over a certain threshold. As a result, the Partnerships remeasured the outstanding deferred purchase price payable related to all retail sales contracts as of January 1, 2018 and recorded a one-time adjustment to other income of $877,843.

Additionally, the Partnerships negotiated another reduction in the acquisition price of fully serviced retail sales contracts effective January 1, 2019 which will further reduce the monthly fixed percentage price.

On April 18, 2018, the Company announced the appointment of a new Chief Executive Officer commencing May 22, 2018, the date of the Company's annual general meeting of shareholders. The new Chief Executive Officer is also the President and Chief Operating Officer of CCMI.

Subsequent to year end, the Company conducted a rights offering to raise capital to further invest in the Partnerships and fund the Company's working capital requirements. The rights offering allowed existing shareholders to purchase one new common share for every three shares held, at a purchase price of $0.165 per share. The rights offering was fully guaranteed by insiders of the Company. The rights offering resulted in the issuance of 19 million new shares from treasury for gross proceeds, before capital raise costs, of $3.1 million. The Company has invested $2.0 million of the gross proceeds in the Partnerships so far.

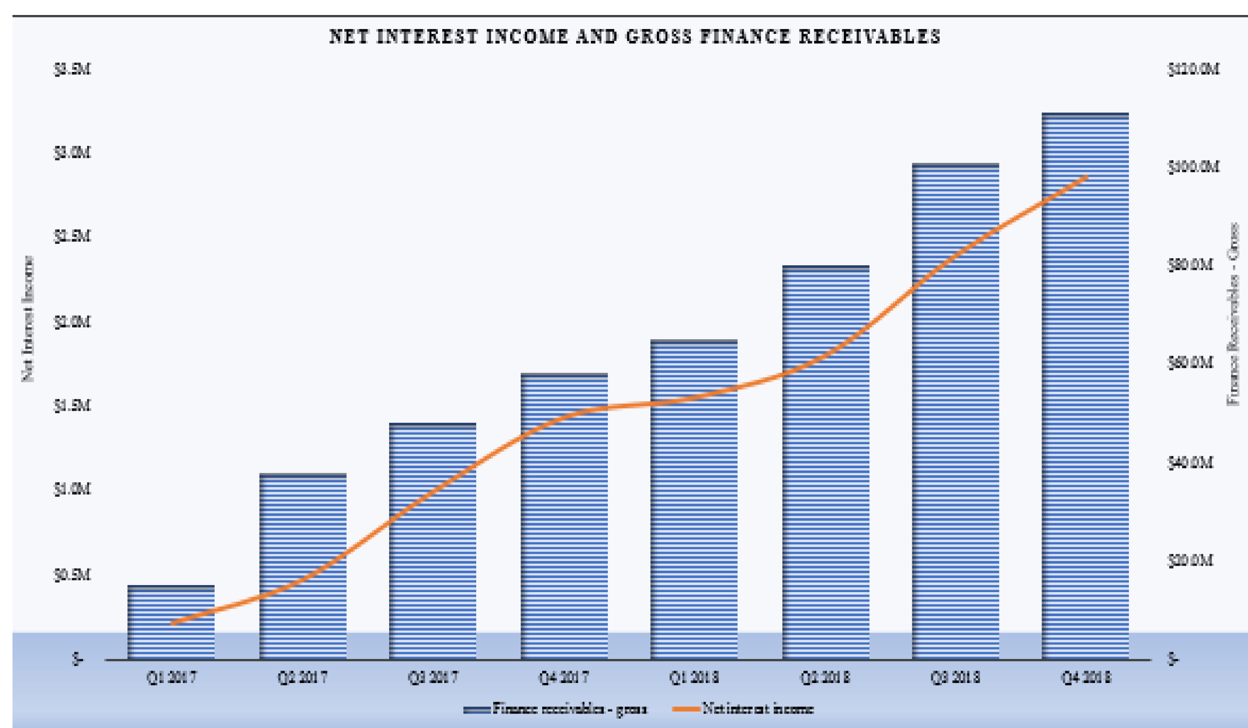
Financial Highlights

Select Operating Results

	For the three months ended		**For the twelve months ended**	
	Dec 31, 2018	**Dec 31, 2017**	**Dec 31, 2018**	**Dec 31, 2017**
	$	**$**	**$**	**$**
Income while investments equity accounted	-	-	-	51,617
Income while investments consolidated	2,931,450	1,462,584	9,707,718	3,172,028
Total income	2,931,450	1,462,584	9,707,718	3,223,645
Interest expense	1,609,543	879,969	4,651,804	1,787,923
Net financial revenue before credit losses	1,321,907	582,615	5,055,914	1,435,722
Provision for credit losses	2,020,255	432,695	5,789,513	987,425
Management fees	13,378	15,532	60,365	64,402
Other expenses	82,732	125,307	511,197	320,112

Total expenses	2,116,365	573,534	6,361,075	1,371,939
Net (loss) income before taxes and other items	(794,458)	9,081	(1,305,161)	63,783
Loss on acquisition of control	-	-	-	376,197
(Recovery of) provision for income taxes	(120,738)	-	(224,450)	14,496
Net (loss) income after taxes and other items	(673,720)	9,081	(1,080,711)	(326,910)
Non-controlling interest	(168,330)	3,565	(249,053)	30,288
Net (loss) income attributable to shareholders	**(505,390)**	**5,517**	**(831,658)**	**(357,198)**
Basic and diluted (loss) earnings per share	(0.01)	0.00	(0.01)	(0.01)

For the three and twelve months ended December 31, 2018, the Company recorded total income of $2,931,450 and $9,707,718 respectively, which represents net interest income and other income earned by the Partnerships. Net interest income is interest income earned on finance receivables net of amortization of capitalized transaction costs. Other income includes the one-time gain related to the remeasurement of the deferred purchase price payable of $877,843 for the twelve months ended December 31, 2018. For the three and twelve months ended December 31, 2017, the Company recorded $1,462,584 and $3,223,645 of total income. The growth in net interest income and associated finance receivables can be seen in the below chart.



Interest expense is incurred by the Partnerships on the securitization debt balance. The amount recorded by the Company for the three and twelve months ended December 31, 2018 was $1,609,543 and $4,651,804 respectively and $879,969 and $1,787,923 for the three months and twelve months ended December 31, 2017. Each tranche of securitization debt has a fixed rate of interest. The weighted average interest rate on the securitization debt was 5.71-per-cent and 5.66-per-cent for the three and twelve months ended December 31, 2018 respectively. The weighted average interest rate was 5.22-per-cent and 4.81-per-cent for the three and twelve months ended December 31, 2017 respectively.

As of result of the growth in finance receivables, net financial revenue before credit losses has grown to $5,055,914 for the twelve months ended December 31, 2018, a 252-per-cent increase from the same period in prior year. Of this amount, $1,321,907, or 26-per-cent was earned in three months ended December 31, 2018 compared to $582,615 for the three months ended December 31, 2017.

As mentioned previously, the Company adopted IFRS 9 on January 1, 2018 which resulted in a higher provision for credit loss than compared to the credit loss provisioning methodology under IAS 39. IFRS 9 was applied retrospectively without restatement of comparative figures. Below is a breakdown of the provision for credit losses for the three and twelve months ended December 31, 2018 and 2017:

	For the three months ended		**For the twelve months ended**	
	Dec 31, 2018	**Dec 31, 2017**	**Dec 31, 2018**	**Dec 31, 2017**
	$	$	$	$
Actual write-offs, net of recoveries and charges	1,511,590	248,836	3,329,098	490,024
Provision for credit losses under IAS 39	(403,547)	183,859	822,969	497,401
Incremental provision for credit losses under IFRS 9	912,212	-	1,637,446	-
Total provision for credit losses	**2,020,255**	**432,695**	**5,789,513**	**987,425**

The provision for credit losses for the three and twelve months ended December 31, 2018 consisted of $1,511,590 and $3,329,098 of net write-offs including repossession and recovery costs, as well as $508,665 and $2,460,415 of allowance for future credit losses respectively. Management closely monitors the shape and timing of the credit loss curve and makes policy adjustments when applicable. As the number of months the receivables are outstanding grows, there will be a corresponding initial increase in credit losses, particularly in a case where assets under administration grow quickly and form a large part of the outstanding receivables. Given the large growth in finance receivables during the year, the performance and timing of credit losses are in line with management's expectations. IFRS 9 requires earlier recognition of future credit losses resulting in an incremental provision for the three and twelve months ended December 31, 2018. This incremental provision is not indicative of a change in the expected recovery value of the underlying receivables, but rather a function of extending the allowance for credit losses to provide for expected future losses under the "expected loss" model rather than the ‘incurred loss’ model prescribed by IAS 39.

The Company incurred management fees of $13,378 and $60,365 for the three and twelve months ended December 31, 2018 respectively, and $15,532 and $64,402 for the three and twelve months ended December 31, 2017 respectively, pursuant to a management agreement with LC Asset Management Corporation (refer to Related Party Transactions section).

Other expenses were $82,732 and $511,197 for the three and twelve months ended December 31, 2018 respectively. For the three months ended December 31, 2018 other expenses consisted of professional fees of $61,009 and general and administrative expenses of $21,723. For the twelve months ended December 31, 2018 other expenses consisted primarily of professional fees of $294,163, stock-based compensation of $119,339 and general and administrative expenses of $97,695. Professional fees included one-time set up costs related to the securitization facilities for the Partnerships which were capitalized and amortized into other expenses over the term of the facilities. Other expenses amounted to $125,307 and $320,112 for the three and twelve months ended December 31, 2017 respectively. For the three months ended December 31, 2018 other expenses consisted of professional fees of $61,009 and general and administrative expenses of $21,723. For the twelve months ended December 31, 2017 other expenses consisted of professional fees of $140,372 and general and administrative expenses of $54,354.

During the three and twelve months ended December 31, 2018, the Company recognized income tax recovery of $120,738 and $224,450 respectively as compared to income tax expense of $nil and $14,496 during the three and twelve months ended December 31, 2017 respectively.

For the three and twelve months ended December 31, 2018, the Company reported non-controlling interest of $(168,330) and $(249,053). For the three and twelve months ended December 31, 2017, the Company reported non-controlling interest of $3,565 and $30,288 respectively.

For the three and twelve months ended December 31, 2018, the Company reported net loss attributable to shareholders of $505,390 and $831,658 respectively. For the three and twelve months ended December 31, 2017, the Company reported net income attributable to shareholders of $5,517 and loss of $357,198 respectively.

Select Statement of Financial Position

As at	Consolidated Dec 31, 2018	Consolidated Dec 31, 2017	Equity accounted Dec 31, 2016
	$	**$**	**$**
Cash	5,241,528	3,727,486	716,009
Finance receivables - net	114,853,050	61,901,716	-
Investments in limited partnerships	-	-	4,333,906
Other assets	675,735	292,144	158,871
Total assets	**120,770,313**	**65,921,346**	**5,208,786**
Securitization debt	111,625,053	56,678,509	-
Deferred purchase price payable	4,983,588	3,530,029	-
Other liabilities	182,520	157,947	529,703
Total liabilities	116,791,161	60,366,485	529,703
Equity attributable to shareholders	3,269,254	4,400,219	4,679,083
Non-controlling interest	709,898	1,154,642	-
Total liabilities and equity	**120,770,313**	**65,921,346**	**5,208,786**

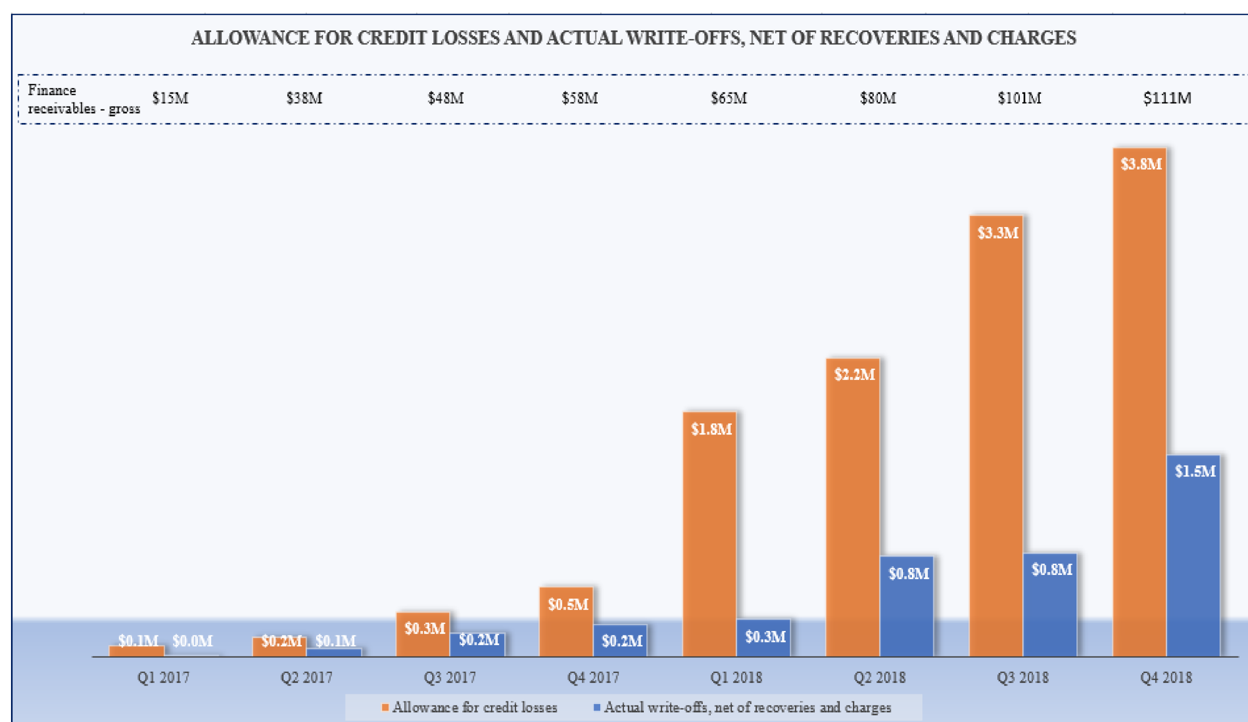
During Q1 2017, the Company began consolidating its interest in the Partnerships resulting in the recognition on a line-by-line basis of the assets and liabilities of the Partnerships in the 2017 financial position.

The Company had cash of $122,957 at December 31, 2018 and the Partnerships held $5,118,571 for a consolidated total of $5,241,528. At December 31, 2017, the Company had cash of $256,591 and the Partnerships held $3,470,895 for a consolidated total of $3,727,486. At December 31, 2016 the Company had cash of $716,009. The Company's cash is primarily made up of proceeds raised from private placements and share issuances in prior years, less its capital investments in the Partnerships and operating costs. The Partnerships' cash is primarily generated from the receipt of payments from customers related to the retail sales contracts, as well as net proceeds from securitization, less amounts payable on acquisition of the retail sales contracts. The Partnerships make payments to the funders on the securitization debt on the first business day of each month, and therefore, hold a large cash balance at the end of every month.

Finance receivables consist of retail sales contracts which had initial terms of 24 to 84 months at time of origination and bearing fixed rates of interest ranging from 9-per-cent to 27-per-cent. All finance receivables are secured by collateral charges on the motor vehicles financed. The balance of $114,853,050 at December 31, 2018 represents the outstanding principal balance and accrued interest and fees owing from customers, as well as capitalized transaction costs, net of administration fees associated with the purchase of the finance receivables of $7,591,613, and net of estimated allowance for credit losses of $3,798,554. The balance of $61,901,716 at December 31, 2017 represents the outstanding principal balance and accrued fees owing from customers, as well as capitalized transaction costs, net of administration fees associated with the purchase of the finance receivables of $4,798,855 and net of estimated allowance for credit losses of $523,317.

The significant growth in finance receivables during the twelve months ended December 31, 2018 resulted in a high credit loss provision under IFRS 9 and thus created net losses during this period of asset growth. Under IFRS 9, which was adopted retrospectively on January 1, 2018 without restatement of comparative figures, an allowance for expected credit losses ("ECL") over the next twelve-months is required to be set up immediately on acquisition of new finance receivables, without recognizing any income on such new receivables. This new ECL model results in the earlier recognition of future credit losses on otherwise performing finance receivables, and is not indicative of a

change in the expected recovery value of the underlying finance receivables, but rather a function of extending the allowance to account for a period greater than previously provided for. Therefore, the Company is expected to set aside a higher allowance for ECL while its finance receivables continue to significantly grow. The below chart outlines the relationship between allowance for ECL during the high growth phase of the Company. As finance receivables continue to grow, the allowance for credit losses is also growing while the actual losses during the quarter are significantly lower.



The investments in limited partnerships at December 31, 2016 of $4,333,906 represented the Company's interest in the Partnerships during the period the investments were equity accounted for. As of December 31, 2018, the Company does not have any investments that are equity accounted for.

Other assets at December 31, 2018 primarily include deferred income taxes of $496,285 for the portion of cumulative tax losses the Company expects to be able to recover against future taxable income, and amounts due from related parties in the normal course of operations of $32,992, which were settled subsequently (refer to Related Party Transactions section). Other assets at December 31, 2017 primarily consisted of deferred income taxes of $128,850, deferred financing costs of $77,911, and amounts due from related parties of $59,113. Other assets at December 31, 2016 primarily consisted of deferred income taxes of $143,346. The increase in deferred income taxes as of December 31, 2018 compared to prior year was primarily due to higher credit loss provisioning on the adoption of IFRS 9 (refer to Operational Highlights section) and recovery of income taxes of $224,450.

As at December 31, 2018, securitization debt of $111,625,053 was outstanding which is net of a cash holdback held in trust by the funders of $13,082,549. As at December 31, 2017, securitization debt of $56,678,509 was outstanding which is net of a cash holdback held in trust by the funders of $6,443,712. The Partnerships, the Company and CCMI are subject to certain financial covenants under the securitization facilities, including minimum tangible net worth requirements, all of which were in compliance during the period.

The Partnerships purchase retail sales contracts from CCMI on a fully serviced basis. A component of the purchase price paid for the purchased receivables is deferred and payable to CCMI over the life of the related finance receivables. As mentioned previously, effective January 1, 2018, the Partnerships renegotiated the deferred purchase price with CCMI. As a result, the Partnerships remeasured the outstanding deferred purchase price

payable related to all retail sales contracts as of January 1, 2018 resulting in a one-time reduction to the deferred purchase price payable of $877,843. As at December 31, 2018, the deferred purchase price payable to CCMI amounts to $4,983,588, of which $2,504,872 is estimated to be due within one year. The Partnerships continue to measure and record the estimated fair value of the contingent component of the deferred purchase price payable. The contingent component of the deferred purchase price payable was $nil as of December 31, 2018 (December 31, 2017 - $nil). As at December 31, 2017, the deferred purchase price payable to CCMI amounts to $3,530,029 of which $1,771,760 is estimated to be due within one year.

Other liabilities as at December 31, 2018 and December 31, 2017 consist primarily of trade payables and accruals. Other liabilities as at December 31, 2016 included $425,000 advanced by CAL LP to the Company during the period the Partnerships were not consolidated, as well as $104,703 of trade payables and accruals.

Equity attributable to shareholders decreased from $4,400,219 at December 31, 2017 to $3,269,254 at December 31, 2018, due to an adjustment of $476,146 recorded against equity related to the adoption of IFRS 9 and net loss attributable to shareholders for the twelve months ended December 31, 2018, offset by stock-based compensation granted and options exercised. Equity attributable to shareholders decreased from $4,679,083 to $4,400,219 from December 31, 2016 to December 31, 2017, due to net loss of $357,198, which includes one-time loss on acquisition of control of $376,197, and stock-based compensation of $23,334.

Non-controlling interest at December 31, 2018 and December 31, 2017 included $1,129,432 of capital invested in the Partnerships by non-controlling parties representing the 15% and 40% of CAL LP and ACC LP III respectively that the Company does not own.

Select Statement of Cash Flow Summary

	For the year ended	
	Dec 31, 2018	**Dec 31, 2017**
	$	$
Cash (used in) provided by operating activities	(53,490,002)	(48,121,902)
Cash (used in) provided by investing activities	-	893,271
Cash (used in) provided by financing activities	55,004,044	50,240,108
Increase (decrease) in cash during period	**1,514,042**	**3,011,477**

Total cash used in operating activities for the twelve months ended December 31, 2018 consisted primarily of acquisition of finance receivables of $91,659,981 offset by positive cash flows generated from collections and changes in deferred purchase price payable. Total cash used in operating activities for the twelve months ended December 31, 2017 consists primarily of acquisition of finance receivables of $56,717,448, offset by positive cash flows generated from collections, changes in deferred purchase price payable and working capital amounts.

No cash was generated by investing activities for the twelve months ended December 31, 2018. For the twelve months ended December 31, 2017, the amount represents the cash acquired on acquisition of control of the Partnerships.

The cash generated from financing activities for the twelve months ended December 31, 2018 and December 31, 2017 represents the financing of operating activities, primarily the acquisition of finance receivables through securitization debt, net of holdbacks and repayments. The Company did not declare or pay any dividends during the period.

Non-IFRS Measures

The Company prepares its financial statements in accordance with IFRS. In this MD&A, in addition to financial results provided in accordance with IFRS, the Company discloses certain financial measures not recognized under IFRS and which do not have standard meanings prescribed by IFRS. These measures include the following:

- **Gross yield** - Income while investments consolidated excluding amortization of capitalized costs and one-time gain related to the remeasurement of the deferred purchase price payable, for the period, divided by average finance receivables for the same period, annualized

- **Delinquency rate** - Outstanding principal balance of delinquent finance receivables (those greater than 30 days past due) at the end of a period, divided by the total outstanding principal balance of all receivables at the same date

The non-IFRS measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS.

The Company's primary assets are the finance receivables which are secured by collateral charges on motor vehicles. As such, key performance indicators for the assets in the Partnerships are reported below.

	For the three months ended		**For the twelve months ended**	
	Dec 31, 2018	**Dec 31, 2017**	**Dec 31, 2018**	**Dec 31, 2017**
Gross yield	16.72%	16.67%	16.62%	16.45%

As at	**Consolidated Dec 31, 2018**	**Consolidated Dec 31, 2017**	**Equity accounted Dec 31, 2016**
Delinquency rate	3.78%	2.15%	1.59%

The Company's portfolios of retail sales contracts have fairly consistent and strong gross yields which contribute favourably to net earnings. The Company's gross yields are consistent quarter over quarter.

Management expects the delinquency rate to be in the range of 3.5% to 4% as the portfolios begin to mature. Certain periods throughout the year are also more susceptible to higher delinquency rates due to seasonality which is anticipated in the first and last quarters of the year. Key indicators such as returned payments, customer contact rates, and promises to pay are also measured closely. Overall portfolio performance and delinquency rates for the Company are as expected based on the size and age of the portfolios.

Business Outlook

The funding facilities entered into by the Partnerships renew annually and provide access to $116 million of total funds under the current renewal year. This consists of $105 million of securitization funding and $11 million of revolving financing in order to fund the acquisition of retail sales contracts. Of the current renewal year, $35 million was used and $81 million remains available as at December 31, 2018. The available funding will increase the Partnerships acquisition capacity and provide for further growth in assets and returns.

Cliffside is targeting growth in assets under management and growth in returns, while maintaining an acceptable level of credit risk to ultimately deliver reliable returns to its shareholders.

Liquidity and Capital Resources

The Partnerships have $5,118,571 in cash as of December 31, 2018. This cash is used to service principal and interest on the securitization debt as well as to continue to acquire and securitize finance receivables and meet working capital requirements. The Partnerships use cash flow budgeting processes to monitor cash requirements which allows them to better manage their liquidity. The Partnerships have access to funding facilities which have availability of $81 million as at December 31, 2018. As the Partnerships continue to acquire more finance receivables and generate positive cash flows, they may distribute some of their cumulative earnings to their limited partners.

Through a combination of two private placements and the Company's initial public offering ("IPO"), the Company raised gross proceeds of $5 million from the issuance of common shares. These proceeds were largely invested in

the Partnerships during 2016 leaving the Company with approximately $122,957 of cash on hand at December 31, 2018. In addition, subsequent to December 31, 2018, the Company conducted a rights offering and raised gross proceeds of $3.1 million, of which, $2.0 million has been invested in the Partnerships so far to allow for the continued growth in finance receivables. The remaining net proceeds from the rights offering will be used by the Company for its operating requirements and future investments. Management considers cash on hand, together with the remaining net proceeds from the rights offering, to be sufficient to meet the Company's working capital requirements subsequent to year end.

Share Capital

The Company is authorized to issue an unlimited number of common shares. Issued and outstanding common shares are as follows:

	Shares	Amount ($)
Ending balance, December 31, 2016	55,000,000	4,735,791
Issuance of common shares	550,000	55,000
Ending balance, December 31, 2017	**55,550,000**	**4,790,791**
Ending balance, December 31, 2017	55,550,000	4,790,791
Issuance of common shares	525,000	57,500
Ending balance, December 31, 2018	**56,075,000**	**4,848,291**

The basic and diluted weighted average shares outstanding for the twelve months ended December 31, 2018 and 2017 were 56,075,000 and 55,550,000 respectively. The diluted weighted average shares outstanding excludes the effect of stock options issued and outstanding for the three months and twelve months ended December 31, 2018 and 2017 as they are considered antidilutive as the Company incurred losses attributable to shareholders for the periods.

Escrowed Shares

34,250,000 of the 45,000,000 common shares of the Company issued in 2014 prior to the IPO were deposited with the escrow agent under an escrow agreement (the "Escrowed Shares"). As of December 31, 2018, 10,275,001 shares remain under escrow and an additional 15-per-cent of the original number of Escrowed Shares will be released every July and January such that all Escrowed Shares will be released by July 2019.

	Shares
Ending balance, December 31, 2016	30,825,000
Released	(10,274,999)
Ending balance, December 31, 2017	**20,550,001**
Ending balance, December 31, 2017	20,550,001
Released	(10,275,000)
Ending balance, December 31, 2018	**10,275,001**

Incentive Stock Options

Issued and outstanding stock options at December 31, 2018 were 4,975,000, of which, 4,075,000 were exercisable. During the twelve months ended December 31, 2018, the Company announced a new Chief Executive Officer effective May 22, 2018. On this date, there were 500,000 unvested stock options belonging to the prior Chief Executive Officer which were forfeited. In addition, the Company granted 1,700,000 stock options to directors and officers on June 21, 2018, of which 800,000 vested immediately and the fair value was recorded in earnings during the three months ended June 30, 2018 as stock-based compensation expense. The remaining 900,000 stock options will vest over the next three years. The newly granted stock options have an exercise price of $0.20 and expire five years from the grant date. During the twelve months ended December 31, 2018, 525,000 options were exercised.

Summary of Quarterly Results

	2018				2017			
	Q4 $	Q3 $	Q2 $	Q1 $	Q4 $	Q3 $	Q2 $	Q1 $
Finance receivables-gross	118,651,605	108,832,321	85,542,303	70,336,321	62,425,033	52,263,004	41,787,735	16,451,983
Total Income	2,931,450	2,458,967	1,927,676	2,389,625	1,462,584	1,016,285	505,701	239,075
Total Expenses	3,725,908	3,151,940	2,413,156	1,721,875	1,453,503	1,027,412	473,168	587,823
Income (loss) before taxes	(794,458)	(692,973)	(485,480)	667,750	9,081	(11,127)	32,533	(348,748)
Recovery of (provision for) income taxes	(120,738)	(183,637)	97,028	(176,954)	-	2,948	(58,966)	41,522
Net Income (loss) after taxes	(673,720)	(509,336)	(388,452)	490,796	9,081	(8,179)	(26,433)	(307,226)
Basic and diluted loss per share	(0.01)	(0.01)	(0.01)	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)

Certain comparative information above has been reclassified to conform with the current presentation. The quarterly highlights presented above are prepared in accordance with IFRS and are presented in Canadian dollars.

As the Company continues to grow its finance receivables, total income, total expenses, and adjusted net income before income taxes and other items are also growing every quarter.

Related Party Transactions

In the ordinary course of business, the Company invests in retail sales contracts and enters into transactions with its associated and other related parties. If these transactions are eliminated on consolidation, they are not disclosed as related party transactions. Transactions between the Company and its associated companies and key management personnel also qualify as related party transactions. Related party balances and transactions are listed as followed:

	Dec 31, 2018	Dec 31, 2017
	$	$
Assets		
Finance receivable - gross (note a)	118,651,604	62,425,033
Other Assets (note b)	32,992	59,113
Liabilities		
Accounts payable and accrued liabilities (note c)	31,882	38,301
Deferred purchase price payable (note d)	4,983,588	3,530,029

	For the three months ended		For the twelve months ended	
	Dec 31, 2018	Dec 31, 2017	Dec 31, 2018	Dec 31, 2017
	$	$	$	$
Income and expenses				
Other income (note e)	-	-	877,843	-
Management fees (note f)	13,378	15,532	60,365	64,402
Stock-based compensation (note g)	-	23,334	119,339	23,334

The Company has related party relationships with the below entities.

- CCMI, ACC LP II and ACC LP – CCMI is the other limited partner in each of the Partnerships. The Partnerships each have an agreement with CCMI and ACC LP (previously ACC LP II) for the ongoing purchase of retail sales contracts originated by CCMI which meet certain investment criteria established by the Company. Pursuant to these agreements, CCMI is responsible for providing ongoing portfolio and securitization facility administration services to the Partnerships. Accordingly, a portion of the purchase price is payable upfront, and a portion is deferred and payable over the life of the underlying retail sales contracts. During the first quarter of 2018, the Partnerships negotiated new terms to the purchase price resulting in the deferred component being broken down into a fixed monthly percentage as well as a contingent amount based on excess annual return on capital over a certain threshold. CCMI sells the contracts to the Partnerships through ACC LP (previously through ACC LP II). CCMI, ACC LP II and ACC LP are related to the Company as a result of significant common ownership.

Balances and transactions the Partnerships have with these parties are listed as follows:

Note a) Amounts represent gross outstanding finance receivables purchased from ACC LP. During the year, the Company acquired $91.7 million of finance receivables including transactions costs from ACC LP.
Note b) Other assets include amounts due from ACC LP and CCMI related to normal course customer collections. The balances were settled subsequently after the Company's periods end.
Note c) Included in the balance was $18,504 due to ACC LP and ACC LP II (2017 - $22,769 due to ACC LP II and CCMI). Amounts due to ACC LP, ACC LP II and CCMI related to normal course operating expenses. The amounts were settled subsequently after the Company's year end.
Note d) Amounts due to CCMI that are deferred and payable over the life of the underlying retail sales contracts.
Note e) Amounts represent the impact of one-time remeasurement of the deferred purchase price payable resulting from the negotiated new terms with CCMI.

- LC Asset Management Corporation - The Company entered into a management agreement with LC Asset Management Corporation (the "Manager") dated July 1, 2016 to provide investment advice and manage the operations of the Company. The Company pays the Manager a fee of 1.25-per-cent annually of the Company's gross unconsolidated assets and a potential performance bonus subject to the financial performance of the Company. The Manager is related to the Company as a result of significant common ownership. Additionally, the Chief Executive Officer of the Company holds the same position for the Manager.

Balances and transactions the Company has with the Manager are listed as follows:

Note c) Included in the balance was $13,378 management fees payable to the Manager as of December 31, 2018 (2017 - $15,532) which were settled subsequently after the respective year end.
Note f) Management fees to the Manager incurred during the period.

- Key management personnel - Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company, directly or indirectly. The Company considers certain of its officers and directors to be key management personnel.

Balances and transactions the Company has with key management personnel are listed as follows:

Note g) Stock-based compensation for key management personnel with a fair value of $119,339 was expensed during the twelve months ended December 31, 2018 (2017 - $nil). During the three months ended December 31, 2018, 525,000 options previously granted and vested were exercised.

Changes in Accounting Policies Including Initial Adoption

Standards issued but not yet effective

The standard issued or amended but not yet effective at December 31, 2018 is:

IFRIC 23 *'Uncertainty over Income Tax Treatments'*

The IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" which addresses the accounting for income taxes and clarifies the application of recognition and measurement standards under IAS 12, "Income Taxes" when there is uncertainty over income tax treatments. The interpretation is effective for periods beginning on or after January 1, 2019. Management is currently assessing the impact of this interpretation on its consolidated financial statements.

Adoption of new accounting policies

IFRS 9 'Financial Instruments'

The Company has adopted IFRS 9 and has applied it retrospectively but has elected not to restate comparative information. Any adjustments to carrying amounts of financial assets or liabilities are recognized at the beginning of the current reporting period, with the difference recognized in cumulative deficit. The change in classification and measurement from adopting IFRS 9 did not result in a financial impact. The financial impact on adoption of IFRS 9 was a result of remeasurement of the allowance for credit losses. The following table provides a breakdown of the impact of the transition from IAS 39 to IFRS 9 to the Consolidated Statement of Financial Position:

	As at January 1, 2018 under IAS 39	**Impact of Adoption of IFRS 9**	**As at January 1, 2018 under IFRS 9**
	$	$	$
Finance receivables - net	61,901,716	(814,822)	61,086,894
Deferred income taxes	128,850	142,985	271,835
Cumulative deficit	1,102,239	476,146	1,578,385
Non-controlling interest	(1,154,642)	195,691	(958,951)

As a result of adopting IFRS 9, the allowance for credit losses increased by $814,822 resulting in a decrease in net finance receivables. The after tax net impact to opening cumulative deficit was an increase of $476,146 and to non-controlling interest was a decrease of $195,691.

Risks and Uncertainties

In the normal course of business, the Company is exposed to certain risks and uncertainties and manages them, as follows:

Liquidity Risk

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The primary source of liquidity for the Company is from cash raised from equity financing which would be used to finance working capital requirements and to meet the Company's financial obligations associated with financial liabilities. The Partnerships' financial obligations related to the finance receivables are non-recourse to the Company.

The primary source of liquidity for the Partnerships is cash flows from the collection of finance receivables. As at December 31, 2018, the undiscounted cash flows arising from the finance receivables, excluding transaction costs, are as follows:

	Within 1 year	In 1 to 3 years	In 4 to 5 years	Greater than 5 years	Total
Total receivables	33,804,132	64,464,012	51,309,034	14,339,706	163,916,884

These cash flows are considered to be sufficient to cover the Partnerships financial obligations for the same period as follows:

	Within 1 year	In 1 to 3 years	In 4 to 5 years	Greater than 5 years	Total
Securitization debt	30,580,589	52,171,850	37,233,472	9,138,874	129,124,785
Deferred purchase price payable	2,504,872	2,064,816	406,937	6,963	4,983,588
Accounts payable and accrued liabilities	182,520	-	-	-	182,520
	33,267,981	54,236,666	37,640,409	9,145,837	134,290,893

The amounts reported for finance receivables and securitization debt are based on contractual maturities. However the finance receivables may become subject to losses and prepayments in which case, the cash flows shown above will not be realized. Further, the securitization debt may be due earlier if the corresponding finance receivables run-off sooner. Accordingly, the maturities and amounts in the tables above are not a forecast of future cash flows.

Credit Risk

Credit risk arises from the possibility that obligors may be unable to fulfill their commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. Credit risk has a significant impact on finance receivables. The underlying obligors to the finance receivables typically would not be approved for financing at prime rates. These customers may have had poor or inadequate credit history, or may be purchasing a vehicle that does not meet prime auto lending guidelines.

The performance of the finance receivables depends on a number of factors, including general economic conditions, unemployment levels, and the circumstances of individual obligors. The maximum exposure to the finance receivables is represented by the carrying amount thereof. Although credit risk has a significant impact on retail receivables, it is mitigated by the Partnerships having a first priority perfected security interest in the related financed vehicles. In the case of obligor defaults, the value of the repossessed collateral provides a source of protection. Every reasonable effort is made to follow-up on delinquent accounts and to keep accounts current and repossession is considered only as a last resort. A repossessed vehicle is sold and proceeds are applied to the amount owing on the account. As such, the Partnerships are also exposed to fluctuations in used vehicle prices.

The finance receivables have no significant concentration of credit risk due to the fact that they are made up of a pool of receivables, with no individual receivable having a significant balance in relation to the outstanding portfolio balance. In addition, the receivables are geographically dispersed throughout Canada, the underlying collateral consists of varying vehicle makes, models and types, the underlying obligors of the receivables have varying credit ratings, and the receivables have varying interest rates and terms.

Market Risk

Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk. The finance receivables are subject to fixed interest rates and are carried at amortized cost, such that there is no re-measurement of carrying amount as market interest rates fluctuate. Securitization debt is subject to fixed rates of interest for each tranche securitized. The revolving lines of credit have floating rates of interest however significant exposure is not expected due to the short term nature of the revolving debt. The Partnerships are not currently utilizing their revolving lines of credit.

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Company does not have any financial instruments denominated in a foreign currency and therefore is not exposed to any currency risk.

Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. The cash flows associated with financial instruments of the Company are exposed to other price risk to the extent of fluctuations in used vehicle prices which impacts the recovery on repossessed vehicle sales.

Counterparty Risk

The Company and Partnerships are exposed to counterparty risk through their relationship with CCMI. CCMI is responsible for presenting retail sales contracts to the Partnerships that meet the Company's investment criteria. There is a risk that CCMI may not be able to present contracts that are acceptable to the Company and the Partnerships would have to find a new source of originations. Further, CCMI is responsible for servicing the Partnerships retail sales contracts and there is a risk that CCMI may not be able to service the contracts in the future. The Partnerships have a standby backup servicer if this were to occur.

Fair Values

The Company's financial instruments include cash, finance receivables, other assets, securitization debt, deferred purchase price payable, and accounts payable and accrued liabilities. The carrying values of cash, other assets, deferred purchase price payable, and accounts payable and accrued liabilities approximate their fair values as the balances are either recorded at amortized cost using the effective interest method, or have a short-term nature. Finance receivables and securitization debt are subject to fixed rates of interest and have similar maturities. As such, the Company is economically hedged against changes in market interest rates, and will not experience a financial impact if there is a change in rates.

Trading and Share Statistics

Below are details of the Company's share price for the twelve months ended December 31, 2018 and 2017.

For the twelve months ended	Dec 31, 2018	Dec 31, 2017
Average monthly trading volume	316,648	154,063
Share price		
High	0.35	0.20
Low	0.08	0.07
Close	0.18	0.16
Outstanding shares	56,075,000	55,550,000

Cliffside Capital Ltd.
Consolidated Financial Statements

For the year ended December 31, 2018 and 2017

Management Report

The accompanying consolidated financial statements of Cliffside Capital Ltd. and all other financial information in the Management Discussion and Analysis of Cliffside Capital Ltd. are the responsibility of management and have been approved by the Board of Directors ("Board").

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). Consolidated financial statements are not precise since they include certain amounts based on assumptions and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Management has prepared the other financial information presented elsewhere and has ensured that it is consistent with these consolidated financial statements.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee meets periodically with management and the external auditor to discuss auditing matters and financial issues, to satisfy it that each party is properly discharging its responsibilities, and, the consolidated financial statements for issuance to shareholders. The Audit Committee also considers, for review of the Board and approval by the shareholders, the engagement or reappointment of the external auditor. The consolidated financial statements have been audited by PricewaterhouseCoopers LLP in accordance with Canadian generally accepted auditing standards. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.

Independent auditor's report

To the Shareholders of Cliffside Capital Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Cliffside Capital Ltd. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of net income (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

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

Other information

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

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Our opinion on the consolidated 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 consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated 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 the 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 consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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.
- 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated 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 consolidated 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 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.

The engagement partner on the audit resulting in this independent auditor's report is David Rozee.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 11, 2019

Consolidated Financial Statements **Page**

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As at	**Dec 31, 2018**	**Dec 31, 2017**
	$	$
Assets		
Cash	5,241,528	3,727,486
Finance receivables - net (note 3)	114,853,050	61,901,716
Deferred income taxes (note 6)	496,285	128,850
Other assets	179,450	163,294
Total assets	**120,770,313**	**65,921,346**
Liabilities		
Accounts payable and accrued liabilities	182,520	157,947
Deferred purchase price payable (note 7)	4,983,588	3,530,029
Securitization debt (note 8)	111,625,053	56,678,509
Total liabilities	116,791,161	60,366,485
Equity (note 9)		
Share capital	4,848,291	4,790,791
Contributed surplus	831,006	711,667
Cumulative deficit	(2,410,043)	(1,102,239)
Equity attributable to shareholders	3,269,254	4,400,219
Non-controlling interest (note 10)	709,898	1,154,642
Total equity	3,979,152	5,554,861
Total liabilities and equity	**120,770,313**	**65,921,346**

Approved on behalf of the Board:

"Michael Stein" (signed)

Michael Stein

"Stephen Malone" (signed)

Stephen Malone

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

Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

(in Canadian dollars)

	For the year ended	
	Dec 31, 2018	**Dec 31, 2017**
	$	$
Income while investments equity accounted		
Income from limited partnerships	-	51,617
Income while investments consolidated		
Net interest income (note 4)	8,612,943	3,107,103
Other income (note 5)	1,094,775	64,925
Total income	9,707,718	3,223,645
Financial expenses		
Interest expense (note 8)	4,651,804	1,787,923
Net financial revenue before credit losses	5,055,914	1,435,722
Provision for credit losses (note 3)	5,789,513	987,425
Net financial (loss) income	(733,599)	448,297
Operating expenses		
Management fees (note 14)	60,365	64,402
Stock-based compensation	119,339	23,334
General and administrative	391,858	296,778
Total expenses	571,562	384,514
Net (loss) income before undernoted loss and income taxes	**(1,305,161)**	**63,783**
Loss on acquisition of control	-	376,197
Net loss before income taxes	**(1,305,161)**	**(312,414)**
Recovery of (provision of) income taxes (note 6) - deferred	(224,450)	14,496
Net loss and comprehensive loss	**(1,080,711)**	**(326,910)**
Net loss attributable to shareholders	(831,658)	(357,198)
Net (loss) income attributable to non-controlling interest (note 10)	(249,053)	30,288
Net loss and comprehensive loss	**(1,080,711)**	**(326,910)**
Loss per share attributable to shareholders		
Basic and diluted (note 11)	(0.01)	(0.01)

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

	Share Capital	Contributed Surplus	Cumulative Deficit	Non-Controlling Interest	Total
	$	$	$	$	$
Balance, December 31, 2016	4,735,791	688,333	(745,041)	-	4,679,083
Options exercised	55,000	-	-	-	55,000
Stock-based compensation		23,334	-	-	23,334
Net income (loss) and comprehensive income (loss) for the year	-	-	(357,198)	30,288	(326,910)
Non-controlling interest	-	-	-	1,124,354	1,124,354
Balance, December 31, 2017	**4,790,791**	**711,667**	**(1,102,239)**	**1,154,642**	**5,554,861**
Balance, December 31, 2017	4,790,791	711,667	(1,102,239)	1,154,642	5,554,861
IFRS 9 transition impact (note 2)	-	-	(476,146)	(195,691)	(671,837)
Balance, January 1, 2018	4,790,791	711,667	(1,578,385)	958,951	4,883,024
Stock-based compensation	-	119,339	-	-	119,339
Options exercised	57,500	-	-	-	57,500
Net loss and comprehensive loss for the year	-	-	(831,658)	(249,053)	(1,080,711)
Balance, December 31, 2018	**4,848,291**	**831,006**	**(2,410,043)**	**709,898**	**3,979,152**

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

Cliffside Capital Ltd.
Consolidated Statements of Cash Flows
(in Canadian dollars)

	For the year ended	
	Dec 31, 2018	**Dec 31, 2017**
Cash provided (used in) by		
Operating activities	$	$
Net loss and comprehensive loss	(1,080,711)	(326,910)
Adjustments for non-cash items		
Loss on acquisition of control	-	376,197
Provision for (recovery of) income taxes	(224,450)	14,496
Provision for credit losses	5,789,513	987,425
Amortization of capitalized costs	4,649,837	1,710,144
Stock-based compensation	119,339	23,334
Income from limited partnerships	-	(51,617)
Change in accrued interest receivable	(176,476)	(194,658)
Change in working capital	8,417	(435,293)
Acquisition of finance receivables and transaction costs	(91,659,981)	(56,717,448)
Collections on finance receivables	27,630,951	3,803,094
Increase in deferred purchase price payable	5,305,559	4,987,835
Repayment of deferred purchase price payable	(3,852,000)	(2,298,501)
Cash used in operating activities	(53,490,002)	(48,121,902)
Investing activities		
Cash acquired on change in control	-	893,271
Cash provided by investing activities	-	893,271
Financing activities		
Proceeds from securitization debt, net of holdback	96,583,989	65,502,305
Repayments of securitization debt	(34,998,608)	(8,854,735)
Additions to securitization debt cash holdback, net of releases	(6,638,837)	(6,443,712)
Distributions to non-controlling interests	-	(18,750)
Issuance of common shares	57,500	55,000
Cash provided by financing activities	55,004,044	50,240,108
Increase in cash during year	1,514,042	3,011,477
Cash, beginning of year	3,727,486	716,009
Cash, end of year	**5,241,528**	**3,727,486**

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

1. Nature of Organization

Description of the business

Cliffside Capital Ltd. (the "Company") holds investments in two limited partnerships, CAL LP and ACC LP III (the "Partnerships"). The Partnerships were formed to engage in the business of investing in retail sales contracts originated by CanCap Management Inc. ("CCMI"), and secured by collateral charges on motor vehicles. CAL LP was formed on February 22, 2016 and ACC LP III was formed on October 14, 2016. The Company owns 85-per-cent and 60-per-cent of the partnership units in CAL LP and ACC LP III respectively, and CCMI owns the remaining interest.

The Company trades on the TSX Venture Exchange (the "Exchange") under the symbol CEP. The Company's registered office is located at 11 Church Street, Suite 200, Toronto, Ontario M5E 1W1.

Approval of consolidated financial statements

The financial statements were approved by the Company's Board of Directors and authorized for issue on April 11, 2019.

2 Summary of Significant Accounting Policies

Basis of presentation

These consolidated financial statements are stated in Canadian dollars, which is the functional currency of the Company and have been prepared using the historical cost convention.

The statement of financial position of the Company is presented on a non-classified basis in order of liquidity of assets and liabilities. Due to the prepayment feature related to the finance receivables, presentation based on liquidity provides information that is reliable and more relevant.

These financial statements have been prepared on a going concern basis and accounting policies followed in these financial statements were consistently applied to all periods presented.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Basis of consolidation

These consolidated financial statements include the accounts of the Company and the Partnerships. The financial statements of the Partnerships are prepared for the same reporting period as the Company, using consistent accounting policies. All intracompany balances, income and expenses, and distributions are eliminated in full. Consolidation of an investee begins when the Company obtains power over the relevant activities of the investee and is able to use its power to affect variable returns. The Company began consolidating its interest in ACC LP III from January 31, 2017 and CAL LP from March 31, 2017.

Prior to December 31, 2016, the Company accounted for its investment in the Partnerships under the equity method in accordance with IAS 28 as it was deemed that CCMI controlled the Partnerships by virtue of its ability to direct the relevant activities of the Partnerships. The Company acquired control of the

Partnerships during the three months ended March 31, 2017 and as such the Investments in Limited Partnerships was eliminated on the statement of financial position. As of December 31, 2017, the Company does not have any investments that are equity accounted for.

Controlled entities

The consolidated financial statements incorporate the assets and liabilities of all controlled entities of the Company as at December 31, 2018 and the results of all controlled entities for the year then ended.

Controlled entities are all entities over which the Company has the power to direct the relevant activities generally accompanying a shareholding of more than one half of the voting rights, exposure, or rights, to variable returns from its involvement with the entity, and the ability to use its power over the entity to affect the amount of returns. Controlled entities are fully consolidated from the date on which control is transferred to the company.

Use of estimates and judgments

The preparation of these consolidated financial statements in conformity with IFRS requires management of the Company to make certain judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are used when accounting for items and matters such as consolidation of investments in limited partnerships, capitalized transaction costs, provision for credit losses, deferred purchase price payable, deferred income taxes, including recoverability of deferred tax assets, and fair value of stock options or other amounts pursuant to the Company's significant accounting policies. Actual results could differ from those estimates. Any changes in estimates are applied on a prospective basis.

In determining whether an entity should be consolidated, the Company makes significant judgments about whether it has control over such entity. The Company considers voting rights, contractual rights under certain arrangements, and other relevant factors in determining if the Company has the power and ability to affect returns from an entity. For more details on significant estimates and judgments used for capitalized transaction costs, provision for credit losses, deferred purchase price payable, deferred income taxes, including recoverability of deferred tax assets, and fair value of stock options, refer to the relevant notes in these consolidated financial statements.

Financial instruments

The Company adopted IFRS 9 "Financial Instruments" on January 1, 2018. The following is a summary of changes in measurement and classification of financial instruments outstanding at December 31, 2018 under IFRS 9 and at December 31, 2017 under IAS 39.

	IFRS 9	**IAS 39**
Classification		
Cash	Assets held to collect	Loans and receivables
Finance receivables - net	Assets held to collect	Loans and receivables
Other assets	Assets held to collect	Loans and receivables
Measurement		
Cash	Amortize cost	Amortize cost
Finance receivables - net	Amortize cost	Amortize cost
Other assets	Amortize cost	Amortize cost

The Company has adopted IFRS 9 and has applied it retrospectively but has elected not to restate comparative information. Any adjustments to carrying amounts of financial assets or liabilities are recognized at the beginning of the current reporting period, with the difference recognized in cumulative deficit. The change in classification and measurement from adopting IFRS 9 did not result in a financial impact. The financial impact on adoption of IFRS 9 was a result of remeasurement of the allowance for credit losses. The following table provides a breakdown of the impact of the transition from IAS 39 to IFRS 9 to the Consolidated Statement of Financial Position:

	As at January 1, 2018 under IAS 39	**Impact of impairment**	**As at January 1, 2018 under IFRS 9**
Finance receivables - net	61,901,716	(814,822)	61,086,894
Deferred income taxes	128,850	142,985	271,835
Cumulative deficit	1,102,239	476,146	1,578,385
Non-controlling interest	(1,154,642)	195,691	(958,951)

As a result of adopting IFRS 9, the allowance for credit losses increased by $814,822 resulting in a decrease in net finance receivables. The after tax net impact to opening cumulative deficit was an increase of $476,146 and to non-controlling interest was a decrease of $195,691.

IFRS 9 – Classification and measurement

The Company's business model is to hold financial assets to collect the contractual cash flow based on its contractual terms. As a result the Company classifies the portfolio of finance receivables under the hold to collect business model. Finance receivables represent loans to borrowers, which are repaid in instalments at fixed rates of interest embedded in the contract and paid on the contracted dates. There are no features in the contracts that allow the borrower to extend and/or modify the term of the contracts that would create distortion on the business model. The Company initially recognizes finance receivables' principal at fair value and interest is the compensation for the time value of money, credit risk associated with the principal, lending risks, servicing costs and profit margin. Cash and other assets also classified as held to collect; other assets consist mainly of prepaids and amounts due from related parties.

Assets held to collect and other financial liabilities

Financial assets held to collect and other financial liabilities are initially measured at fair value, plus or minus transactions cost that are directly attributable to the acquisition or issue of the financial instruments. Immediately after initial recognition, an expected credit loss allowance is recognized for financial assets measured under this category. Financial assets and liabilities are subsequently carried at amortized cost using the effective interest method. Any changes are recognized in profit or loss.

IFRS 9 - Impairment of finance receivables

The Company uses a three stage approach to calculate expected credit losses ("ECL") which is based on the change in credit quality of the finance receivables since initial recognition. Under the first stage, where there has not been a significant increase in credit risk since initial recognition, an amount equal to 12 months ECL is recorded. Under the second stage, where there has been a significant increase in credit risk since initial recognition but the financial instruments are not credit impaired and continue to accrue interest, an amount equal to the lifetime ECL is recorded. Under the third stage, where there is objective evidence of impairment, these financial assets are classified as credit impaired and an amount equal to the lifetime ECL is recorded. The lifetime of finance receivables is determined based on the remaining contractual maturity dates.

The ECL is calculated by applying a probability of default, exposure at default, and loss given default to the population of finance receivables under each stage at each reporting date. The ECL model is forward looking and uses reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL. The new ECL model under IFRS 9 is an expected loss model instead of an incurred loss model under IAS 39.

Depending on the severity of the credit risk, finance receivables' ECL would be calculated under stage 1, 2 or 3. The Company considers finance receivables to have experienced a significant increase in credit risk when the finance receivables are greater than 30 days past due. Historically, the Company has experienced substantially higher collection rates for receivables less than or equal to 30 days past due as compared to receivables greater than 30 days past due.

Finance receivables are segmented into different stages at each measurement date as below:
Stage 1: any receivable that does not fall under stage 2 and 3 and further segmented by the origination tier
Stage 2: receivable is greater than 30 days and under 91 days past due
Stage 3: any receivable that meets the default definition as follows:

- greater than 90 days past due; or
- collectability is no longer reasonably assured, as a result the collateral has been assigned for repossession

A defaulted finance receivable is fully written-off when it is over 180 days past due. The Company, where possible will continue to pursue recovery actions against the borrowers until all actions are exhausted.

Forward- looking information incorporated in the ECL models

The assessment of significant increase in credit risk ("SICR") and the calculation of ECL both consider forward-looking information. The future impact of macroeconomic assumptions is assessed by reviewing historical information. The Company has historical data that dates back four to five years, and during this period, management has observed the impact of changes in macroeconomic variables on the receivables. Assumptions monitored include unemployment rates, interest rates and used car prices. The historical performance of these assumptions allows the Company to build its sensitivity tolerance. The Company integrates assessment of SICR using lifetime probability of default ("PD") and forward-looking macroeconomic assumptions in computing the ECL calculation. Based on historical information and sensitivity analyses, macroeconomic assumptions do not have a significant impact on ECL and share an equal magnitude to the calculation given its insignificancy. Notwithstanding the impact, at each measurement date, the Company considers current available industry data and adjustments to the ECL will be made if there is an indication the assumptions are likely to move beyond the range of tolerance. The estimation and application of assumptions requires significant judgment.

IFRS 9 - Impairment of financial assets other than finance receivables

Financial assets other than finance receivables consist of cash and other assets. The credit risk of these assets is low, as a result, it is impractical to calculate the impairment impact associated with these assets.

IAS 39 – Classification and measurement

The Company initially measures all of its financial instruments at fair value. Subsequent measurement and treatment of any gain or loss is recorded as follows:

(a) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at

amortized cost using the effective interest method.

(b) Other financial liabilities are measured at amortized cost using the effective interest method.

<u>*IAS 39 – Impairment of financial assets*</u>

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Losses expected as a result of future events, no matter how likely, are not recognized until such time as objective evidence of impairment arises.

The Company establishes an allowance for credit losses against the finance receivables first by evaluating the portfolio for specific indications of impairment and then by evaluating the remaining portfolio collectively for indications of impairment. Receivables greater than 90 days past due are fully provided for, net of estimated recoveries.

<u>*IFRS 9 and IAS 39*</u>

Effective interest method

The effective interest method under both IFRS 9 and IAS 39 is a method of calculating the amortized cost of a financial asset or financial liability and allocating the interest income or interest expense over the expected life of the financial asset or financial liability (or group of financial assets or financial liabilities). The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument. The calculation includes all fees paid or received between parties to the contract, transaction costs and all other premiums or discounts that are an integral part of the effective interest rate.

Transaction costs

Transaction costs that are directly attributable to the issuance of financial assets or liabilities are accounted for as part of the carrying value at inception, and are recognized over the term of the assets or liabilities using the effective interest method. Capitalized transaction costs in financial assets include the premium associated with purchasing fully serviced retail sales contracts, as well as the Partnerships' share of costs associated with acquiring the underlying contracts, which are amortized into earnings and netted against interest income. Capitalized transaction costs in financial liabilities include securitization costs which are amortized into earnings and included within interest expense.

Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset with the net amount reported on the statement of financial position only when there is a legally enforceable right to offset the recognized amount in all situations and there is an intention to settle on a net basis or the asset and the liability will be settled simultaneously. No amounts have been offset as at December 31, 2018.

Derecognition of financial instruments

A financial asset is derecognized when:

- the contractual rights to cash flows from the financial assets expires; or
- the Company transfers the contractual rights to cash flows from the financial assets; or

- the Company assumes a contractual obligation to pay the cash flow collected from the financial assets where the Company does not retain the risks and rewards and/or control of the financial assets.

A financial liability is derecognized when:

- the obligation under the liability is discharged, cancelled or expires; or
- exchange of financial liability with the same lender on substantially different terms, or the terms of an existing financial liability are substantially modified.

The original financial liability is derecognized and the new financial liability is recognized, and the difference between the original and the new financial liability is recognized in the consolidated statements of comprehensive income.

Investments in equity accounted entities

Entities over which the Company has significant influence are accounted for using the equity method. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but it is not in control or joint control over those investees.

Under the equity method, the carrying value of an interest in an investee is initially recognized at cost and adjusted for the Company's share of net income, other comprehensive income ("OCI"), and distributions by the equity-accounted investment. The Company determines at each reporting date whether there is any objective evidence that the investment is impaired. If this is the case, the Company calculates the amount of impairment as the difference between the carrying value of the investment, including transaction costs, and the recoverable amount of the limited partnership interest and recognizes the impairment in the statement of net income (loss) and net comprehensive income (loss).

Transaction costs that are directly attributable to the acquisition of the investment are accounted for as part of the carrying value of the investment.

Deferred purchase price payable

Deferred purchase price payable consists of two components - a fixed percentage calculated on the outstanding finance receivables as of the last day of each month, plus an additional amount based on excess annual return on capital (earned by the Partnerships) over a certain threshold. The additional amount is termed a contingent consideration since it is contingent on the Partnerships' future earnings. Both components of deferred purchase price payable are measured by considering any changes in conditions and potential financial outcomes compared to what existed at the time of initial recognition and measurement.

Revenue recognition

Net interest income

The Partnerships recognize interest income and interest expense for all interest-bearing financial instruments using the effective interest method. Recognition of interest income is suspended for any finance receivables that are more than 90 days past due, or sooner when collectability is no longer reasonably assured.

The obligors' retail sales contract principal amounts include an administrative fee which may become partially refundable in the event of prepayment prior to the scheduled maturity date of the contract. This amount is amortized into interest income on a daily basis over the term of the retail sales contracts using the

effective interest rate.

Interest income is presented net of amortization of capitalized costs associated with originating and purchasing the underlying contracts.

Other income

Other income includes fees charged to obligors for items such as due date changes, past due payments, and non-sufficient funds, all of which are recognized when realized. For the year ended December 31, 2018, it also included a one-time adjustment related to the remeasurement of the deferred purchase price payable (refer to note 5 for details).

Deferred income taxes

Deferred income taxes are calculated using the asset and liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the statement of financial position are used to calculate deferred income tax liabilities or assets. Deferred income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that substantive enactment occurs. As at December 31, 2018, the Company has recognized a deferred tax asset for the portion of loss carry-forwards and temporary differences it expects to be recoverable.

Stock-based compensation

The Company issues stock-based compensation to directors, officers, employees and consultants. The fair value of options issued to directors, officers, employees and consultants to the Company is charged to net income (loss) over the vesting period with an offsetting amount recorded to contributed surplus. The fair value of options issued to agents in conjunction with a public offering is charged against share capital with the offsetting amount recorded to contributed surplus. Fair value is measured using the Black-Scholes option-pricing model. Consideration paid on the exercise of stock options is recorded as share capital.

Earnings or loss per share

Earnings or loss per share are calculated using the weighted average number of shares outstanding during the reporting period. The treasury stock method of calculating diluted earnings per share is used, which assumes that all outstanding stock options granted with an exercise price below the average market value are exercised during the reporting period and the proceeds received from the assumed exercise of options are used to acquire shares in the open market at the average price. The difference between the number of shares assumed and the number of shares assumed purchased is then included in the denominator of the diluted earnings per share computation. Shares that are considered contingently returnable are excluded from the calculation of basic and diluted earnings or loss per share.

Comprehensive income (loss)

Comprehensive income (loss) includes all changes in equity of the Company, except those resulting from investments by shareholders and distributions to shareholders. Comprehensive income (loss) is the total of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) comprises income, expenses and losses that, in accordance with IFRS, require recognition, but are excluded from net income (loss). The Company does not have any items giving rise to other comprehensive income (loss) in the reporting period, nor is there any accumulated balance of other comprehensive income (loss). All gains

and losses, including those arising from measurement of all financial instruments have been recognized in net income (loss) for the period.

Segment reporting

The only segment the Company currently holds investments in is the automotive financial services segment in Canada.

Adoption of new accounting policies

IFRS 9 'Financial Instruments'

The Company adopted IFRS 9 "Financial Instruments" on January 1, 2018. See above Financial Instruments section for detail discussion on impact of adoption.

Standards issued but not yet effective:

The standard issued or amended but not yet effective at December 31, 2018 is:

IFRIC 23 'Uncertainty over Income Tax Treatments'

The IASB issued IFRIC 23, "Uncertainty over Income Tax Treatments" which addresses the accounting for income taxes and clarifies the application of recognition and measurement standards under IAS 12, "Income Taxes" when there is uncertainty over income tax treatments. The interpretation is effective for periods beginning on or after January 1, 2019. Management is currently assessing the impact of this interpretation on its consolidated financial statements.

3. Finance Receivables

Finance receivables consist of retail sales contracts which had initial terms of 24 to 84 months at time of origination and fixed rates of interest ranging from 9-per-cent to 27-per-cent. All finance receivables are secured by collateral charges on motor vehicles. The Partnerships acquired $91.7 million of finance receivables including transaction costs and obtained securitization proceeds of $96.6 million during the year ended December 31, 2018. As of December 31, 2018, $0.2 million was in the pool of finance receivables and held for securitization in subsequent period. (2017 - acquired $56.7 million and obtained securitization proceeds of $72.1 million. $2.0 million was held for securitization in subsequent periods).

The finance receivables can be broken down as follows:

	Dec 31, 2018	**Dec 31, 2017**
Finance receivables	111,059,991	57,626,178
Add: Transaction costs	10,103,397	6,098,352
Less: Administration fees	(2,511,784)	(1,299,497)
Finance receivables - gross	**118,651,604**	**62,425,033**
Allowance for credit losses	(3,798,554)	(523,317)
Finance receivables - net	**114,853,050**	**61,901,716**

Finance receivables – gross

Outstanding payments, including principal and interest, contractually due under the finance receivables, as well as transaction costs, as at December 31, 2018 and December 31, 2017 are outlined below. Management

expects that a portion of the retail sales contracts will be repaid in full prior to the maturity date. Accordingly, the maturities in the table below are not a forecast of future cash collections.

	Dec 31, 2018	Dec 31, 2017
Within 1 year	33,804,132	16,661,247
In 2 to 3 years	64,464,012	32,182,933
In 4 to 5 years	51,309,034	26,973,923
Greater than 5 years	14,339,706	6,890,282
Total receivables	163,916,884	82,708,385
Less: Unearned interest	(52,856,893)	(25,082,207)
Total receivables, net of unearned interest	111,059,991	57,626,178
Add: Transaction costs, net of administration fees	7,591,613	4,798,855
Finance receivables - gross	**118,651,604**	**62,425,033**
Allowance for credit losses	(3,798,554)	(523,317)
Finance receivables - net	**114,853,050**	**61,901,716**

The gross carrying value of finance receivables at amortized cost represents principle, unearned interest and transaction costs, net of administration fees. The balance increased by $56,226,571 from the prior year primarily due to business growth as a result of new acquisition of finance receivables, net of transaction costs of $91,659,981, primarily offset by early terminations, paydown and write-offs of $35,433,410. The overall credit quality of the portfolio remained consistent throughout the year.

Finance receivables maximum exposure and allowance for credit losses by stage as of December 31, 2018 under IFRS 9 are as follows:

Credit risk rating	Finance receivables by stage		Allowance for credit losses	
Stage 1	106,566,324	96.1	(1,926,034)	50.7
Stage 2	2,856,485	2.6	(1,115,713)	29.4
Stage 3	1,403,425	1.3	(756,807)	19.9
Total maximum exposure by stage	110,826,234	100.0	(3,798,554)	100.0
Transactions costs, net of administration fees	7,591,613			
Fees and other charges	233,757			
Allowance for credit losses	(3,798,554)			
Finance receivables - net	**114,853,050**			

The fair value of collateral held as security for finance receivables range from 37% to 40% of its maximum exposure.

Finance receivables maximum exposure and allowance for credit losses as of December 31, 2017 under IAS 39 are as follows:

	Finance receivables by rating		Allowance for credit losses	
Credit risk rating	$	%	$	%
1 - 30 days past due	2,336,060	4.1	153,946	29.3
31 - 60 days past due	775,442	1.3	137,430	26.3
61 - 90 days past due	299,302	0.5	134,332	25.7
91 + days past due	177,471	0.3	97,609	18.7
Total maximum exposure	3,588,275	6.2	523,317	100.0
Financial receivables with no sign of impairment	54,037,903	93.8		
Total receivables, net of unearned interest	57,626,178	100.0		
Transactions costs, net of administration fees	4,798,855			
Allowance for credit losses	(523,317)			
Finance receivables - net	**61,901,716**			

The changes in allowance for credit losses between January 1, 2018 to December 31, 2018 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for credit losses, January 01, 2018	**855,548**	**351,812**	**130,779**	**1,338,139**
Transfer				
From stage 1 to 2	(66,379)	66,379	-	-
From stage 2 to 1	48,482	(48,482)	-	-
From stage 2 to 3	-	(317,906)	317,906	-
Early termination	(245,946)	(2,567)	(50,396)	(298,909)
Change in PDs/LGDs/EADs	5,578	457,111	2,290,131	2,752,820
New finance receivables purchased, net	3,335,602	-	-	3,335,602
Transfer to stage 2	(2,006,851)	2,006,851	-	-
Transfer to stage 3	-	(1,397,485)	1,397,485	-
Provision for credit losses	**1,070,486**	**763,901**	**3,955,126**	**5,789,513**
Less: Write-offs, net of recoveries	**-**	**-**	**(3,329,098)**	**(3,329,098)**
Allowance for credit losses, December 31, 2018	**1,926,034**	**1,115,713**	**756,807**	**3,798,554**

The Partnerships' allowance for credit losses as at December 31, 2017 can be broken down as follows:

	Dec 31, 2017
Allowance for credit losses, beginning of year	25,916
Additional allowance for the period	987,425
Write-offs, net of recoveries	(490,024)
Allowance for credit losses, end of year	**523,317**

Provision for credit losses for the year ended December 31, 2018 and 2017 can be broken as follows:

	For the year ended	
	Dec 31, 2018	Dec 31, 2017
	$	$
Actual write-offs, net of recoveries and charges	3,329,098	490,024
Incremental provision for credit losses	2,460,415	497,401
Total provision for credit losses	**5,789,513**	**987,425**

4. Net Interest Income

Interest income represents interest earned on the finance receivables. The amount is presented net of amortization of capitalized costs associated with originating and purchasing the underlying retail sales contracts which is broken down as follows:

	For the year ended	
	Dec 31, 2018	Dec 31, 2017
Interest income	13,262,780	4,779,031
Amortization of capitalized costs	(4,649,837)	(1,671,928)
Net interest income	**8,612,943**	**3,107,103**

The amortization of capitalized costs includes amortization of origination costs of $1,309,772 for the year ended December 31, 2018 (2017 - $482,406). In addition, it also includes the amortization of the premium associated with acquiring fully serviced loans from CCMI, a related party (see note 14), of $3,340,065 for the year ended December 31, 2018 (2017 - $1,189,522).

5. Other Income

The breakdown of other income is as follows:

	For the year ended	
	Dec 31, 2018	Dec 31, 2017
Deferred purchase price remeasurement	877,843	-
Fees and other charges	216,932	64,925
Other income	**1,094,775**	**64,925**

Included in other income for the year ended December 31, 2018 is the impact of a one-time remeasurement of the deferred purchase price payable (refer to note 7 for details) as well as the change in fair value of the contingent component of the deferred purchase price.

6. Deferred Income Taxes

The non-capital losses incurred to date are $1.8 million, the effect of which has been recognized in the financial statements as deferred income tax assets, amounting to $0.5 million. Components of the Company's deferred income tax asset are as follows:

	Dec 31, 2018	Dec 31, 2017
Non-capital losses carryforwards	480,723	114,125
Partnership temporary differences	(21,020)	-
Share issuance costs	5,670	14,725
Other	30,912	-
Total deferred income taxes asset	**496,285**	**128,850**

A reconciliation of deferred tax assets is as follows:

	Dec 31, 2018	Dec 31, 2017
Balance, beginning of year	128,850	143,346
Recognized in deficit	142,985	-
Recognized in net income	224,450	(14,496)
Total deferred income taxes	**496,285**	**128,850**

The Company has recognized a deferred income tax asset for the cumulative tax losses it expects to be able to recover. If unutilized, the tax loss carry-forwards expire commencing 2033. The tax benefit of deductible share issuance costs has been allocated directly to share capital.

The components of tax can be broken down as follow:

	Dec 31, 2018	Dec 31, 2017
Current tax	-	-
Deferred tax		
Related to current year income (losses)	(224,450)	14,496
Total (recovery of) provision for income taxes	**(224,450)**	**14,496**

A reconciliation of income taxes calculated at the statutory Canadian combined federal and provincial corporate tax rate to the income tax provision in the statement of net income (loss) and comprehensive income (loss) is provided below:

	For the year ended	
	Dec 31, 2018	Dec 31, 2017
Net loss before taxes	(1,305,161)	(312,414)
Applicable tax rate	26.5%	26.5%
Expected recovery of income taxes at applicable tax rate	(345,869)	(82,790)
Increase (decrease) in recovery resulting from:		
Expenses not deductible for tax	31,624	105,876
Non-controlling interest and other items	89,795	(8,590)
Total (recovery of) provision for income taxes	**(224,450)**	**14,496**

Taxable income, if any, is distributed to the Partnerships' limited partners on an annual basis. As a result, the Partnerships are not subject to income tax, as the limited partners are taxed directly.

7. Deferred Purchase Price Payable

The Partnerships purchase retail sales contracts from CCMI, a related party (refer to note 14), on a fully serviced basis. A component of the purchase price for the purchased receivables is deferred and payable to CCMI over the life of the related finance receivables. A breakdown of the amount owing at December 31, 2018 and December 31, 2017 is provided below:

	Dec 31, 2018	Dec 31, 2017
Due within 1 year	2,504,872	1,771,760
Due greater than 1 year	2,478,716	1,758,269
Total deferred purchase price payable	**4,983,588**	**3,530,029**

Effective January 1, 2018, the Partnerships renegotiated the deferred purchase price with CCMI. The new price replaces the earlier fixed percentage price with a reduced fixed percentage plus a contingent component which is based on excess annual return on capital over a certain threshold. The new price applies to all retail sales contracts that the Partnerships owned as of January 1, 2018 as well as new acquisitions going forward. As a result, the Partnerships remeasured the outstanding deferred purchase price payable related to all retail sales contracts as of January 1, 2018 and recorded a one-time adjustment to other income (refer to note 5).

The Partnerships continue to measure and record the estimated fair value of the contingent component of the deferred purchase price payable. The contingent component of the deferred purchase price payable is $nil as of December 31, 2018 (December 31, 2017 - $nil).

CCMI continues to administer the contracts on behalf of the Partnerships who pay a deferred purchase price to CCMI based on the outstanding finance receivables balance at the end of every month. The total amount payable at the time the Partnerships purchase the receivables is calculated as the present value of these estimated future cash payments, and is capitalized within transaction costs under finance receivables. Accordingly, every month, as the associated finance receivables continue to remain outstanding, a portion of the deferred purchase price becomes due and payable. The liability is paid monthly with a total of $3,852,000 paid by the Partnerships to CCMI for the year ended December 31, 2018 (2017 - $2,298,501).

8. Securitization Debt

Securitization debt represents funding secured by the finance receivables and sold to the securitizers. For the year ended December 31, 2018, the Partnerships had securitized finance receivables for securitization proceeds of $96.6 million which had principal outstanding, excluding capitalized transaction costs at time of securitization of $82.8 million (2017 – proceeds of $72.1 million with principal outstanding of $62.9 million). Securitization debt is recorded at amortized cost using the effective interest method. Each tranche securitized under the facilities has a fixed rate of interest. The weighted average interest rate on the securitization debt is 5.66-per-cent for the year ended December 31, 2018 (2017 - 4.81-per-cent).

The securitization transaction does not qualify for de-recognition under IFRS due to the fact that the Partnerships retain exposure to prepayment risk and certain credit loss risk. As such, net proceeds received upon securitization are recognized as securitization debt on the statement of financial position and the related finance receivables continue to be recognized as assets. In order to protect against these prepayment and credit loss risks, the securitizers maintain a cash holdback account which is held in reserve for the Partnerships. The securitizers have recourse to draw down on the cash holdback for any obligor defaults experienced in the securitized portfolio and reduce their exposure to potential credit losses. The cash holdback is offset against securitization debt on the statement of financial position. Additionally, as further protection against prepayment and credit loss risks, the securitizers also have an overcollateralization component to every securitization transaction. As a result, the securitizers have recourse against 100-per-cent of the collateral, however purchase less than 100-per-cent of the finance receivables.

Pursuant to the securitization agreements, the securitizers appoint CCMI as the servicer of all retail sales contracts securitized by the Partnerships. The Partnerships, the Company and CCMI are subject to certain financial covenants under the securitization facilities, including minimum tangible net worth requirements, all of which were in compliance during the period.

In accordance with the securitization agreements, the Partnerships transfer all of their rights, title and interest in the securitized finance receivables to the securitizers, and must remit all scheduled or received principal and interest payments to the securitizers. Each securitization transaction has a fixed maturity,

interest rate and repayment schedule based on the underlying finance receivables. If the Partnerships fail to meet any covenants under the securitization agreements, the securitizer may take control of the finance receivables and assign a back-up servicer. Under this event, the Partnerships' obligation as it pertains to the securitization debt would be extinguished. As such, the total cash holdback and the finance receivables overcollateralization represent the Partnerships' maximum exposure to their securitized receivables. The securitization debt is non-recourse to the Partnerships.

The securitization debt activity and balance for the year ended December 31, 2018 and 2017 is broken down as follows:

	Dec 31, 2018	Dec 31, 2017
Securitization debt, opening balance	56,678,509	-
Net proceeds on securitization	96,607,353	72,051,542
Repayments to securitizer	(34,998,608)	(8,854,735)
Additions to cash holdback, net of releases	(6,638,837)	(6,443,712)
Change in unamortized securitization costs	(23,364)	(74,586)
Securitization debt, ending balance	**111,625,053**	**56,678,509**

Securitization costs are capitalized and amortized into interest expense over the term of the securitization agreement.

Securitization debt, gross

Outstanding payments, including principal and interest, contractually due under the securitization debt, as at December 31, 2018 and December 31, 2017 are outlined below. Management expects that a portion of the securitization debt will be repaid in full prior to the maturity date. Accordingly, the maturities in the table below are not a forecast of future cash payments.

	Dec 31, 2018	Dec 31, 2017
Within 1 year	30,580,589	14,457,996
In 2 to 3 years	52,171,850	31,609,682
In 4 to 5 years	37,233,472	15,931,885
Greater than 5 years	9,138,874	2,373,905
Securitization debt, gross	129,124,785	64,373,468
Less: Unearned interest	(17,499,732)	(7,694,959)
Securitization debt, ending balance	**111,625,053**	**56,678,509**

9. Share Capital

a) Authorized and Issued

The Company is authorized to issue an unlimited number of common shares. Issued and outstanding common shares are summarized below:

	Shares	Amount ($)
Ending balance, December 31, 2016	55,000,000	4,735,791
Issuance of common shares	550,000	55,000
Ending balance, December 31, 2017	**55,550,000**	**4,790,791**
Ending balance, December 31, 2017	55,550,000	4,790,791
Issuance of common shares	525,000	57,500
Ending balance, December 31, 2018	**56,075,000**	**4,848,291**

b) Stock Options

Issued and outstanding stock options at December 31, 2018 were 4,975,000, of which, 4,075,000 were exercisable. During the year, the Company announced a change in the Chief Executive Officer effective May 22, 2018. As a result, there were 500,000 unvested stock options which were forfeited on May 22, 2018. In addition, the Company granted 1,700,000 stock options to directors and officers on June 21, 2018, of which 800,000 vested immediately and the fair value was recorded in earnings during the year ended December 31, 2018 as stock-based compensation expense. The remaining 900,000 stock options will vest over the next three years. The newly granted stock options expire five years from the grant date. During the year ended December 31, 2018, 525,000 options were exercised, as a result $57,500 was recorded in share capital.

Issued and outstanding stock options are summarized below. The weighted average remaining contractual term of the outstanding options at December 31, 2018 is calculated to be 5.16 years (2017 - 7.17 years).

	For the year ended Dec 31, 2018		**For the year ended Dec 31, 2017**	
	Number of Options	**Weighted Average Exercise Price ($)**	**Number of Option**	**Weighted Average Exercise Price ($)**
Opening balance	4,300,000	0.10	4,850,000	0.10
Options exercised	(525,000)	0.11	(550,000)	0.10
Options forfeited	(500,000)	0.10	-	-
Options issued	1,700,000	0.20	-	-
Ending balance	**4,975,000**	**0.13**	**4,300,000**	**0.10**
Exercisable at end of year	**4,075,000**	**0.13**	**3,800,000**	**0.10**

c) Escrowed Shares

34,250,000 of the 45,000,000 common shares of the Company issued in 2014 prior to the IPO were deposited with the escrow agent under an escrow agreement (the "Escrowed Shares"). As of December 31, 2018, 10,275,001 shares remain under escrow and an additional 15-per-cent of the original number of Escrowed Shares will be released every July and January such that all Escrowed Shares will be released by July 2019.

Issued and outstanding Escrowed Shares are as follows:

	Shares
Ending balance, December 31, 2016	30,825,000
Released	(10,274,999)
Ending balance, December 31, 2017	**20,550,001**
Ending balance, December 31, 2017	20,550,001
Released	(10,275,000)
Ending balance, December 31, 2018	**10,275,001**

10. Non-Controlling Interest

A breakdown of the non-controlling interest on the statement of financial position as of December 31, 2018 is as follows:

	CAL LP	ACC LP III	TOTAL
Equity invested by third parties in partnerships	529,422	600,010	1,129,432
Non-controlling portion of retained earnings	35,482	8,478	43,960
Non-controlling portion of IFRS 9 transition impact	(43,826)	(151,865)	(195,691)
Non-controlling portion of current period losses	(25,476)	(223,577)	(249,053)
Non-controlling portion of distributions	(18,750)	-	(18,750)
Total non-controlling interest	**476,852**	**233,046**	**709,898**

A breakdown of the non-controlling interest on the statement of financial position as of December 31, 2017 is as follows:

	CAL LP	ACC LP III	TOTAL
Equity invested by third parties in partnerships	529,422	600,010	1,129,432
Non-controlling portion of retained earnings	831	1,017	1,848
Non-controlling portion of current period earnings	34,651	7,461	42,112
Non-controlling portion of distributions	(18,750)	-	(18,750)
Total non-controlling interest	**546,154**	**608,488**	**1,154,642**

11. Loss Per Share

Loss per share for the year ended December 31, 2018 and 2017 were calculated based on the following:

	For the year ended	
	Dec 31, 2018	Dec 31, 2017
Loss attributable to shareholders ($)	(831,658)	(357,198)
Weighted average shares outstanding – basic	55,769,452	55,250,137
Loss per share – basic ($)	**(0.01)**	**(0.01)**
Loss attributable to shareholders ($)	(831,658)	(357,198)
Weighted average shares outstanding – diluted	55,769,452	55,250,137
Loss per share – diluted ($)	**(0.01)**	**(0.01)**

The diluted weighted average shares outstanding for the year ended December 31, 2018 and 2017 exclude the effect of stock options issued and outstanding as they are considered antidilutive as the Company incurred a loss for the year.

12. Capital Management

The Company's capital is comprised of equity and securitization debt. The Company's objectives when managing capital are to safeguard the Company's ability to continue and maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The funding facilities entered into by the Partnerships renew annually and provide access to $116 million of total funds under the current renewal year. This consists of $105 million of securitization funding and $11 million of revolving financing in order to fund the acquisition of retail sales contracts. Of the current renewal year, $35 million was used and $81 million remains available as at December 31, 2018.
The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure,

the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

The Company expects its current capital resources will be sufficient to carry its operations through its current operating period.

13. Financial Instruments and Risk Management

In the normal course of business, the Company is exposed to certain risks and uncertainties, and manages them as follows:

Liquidity Risk

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The primary source of liquidity for the Company is from cash raised from equity financing, which would be used to finance working capital requirements and to meet the Company's financial obligations associated with financial liabilities. The Partnerships' financial obligations related to the finance receivables are non-recourse to the Company.

The primary source of liquidity for the Partnerships is cash flows from the collection of finance receivables. As at December 31, 2018, the undiscounted cash flows arising from the finance receivables, excluding transaction costs, are as follows:

	Within 1 year	In 1 to 3 years	In 4 to 5 years	Greater than 5 years	Total
Total receivables	33,804,132	64,464,012	51,309,034	14,339,706	163,916,884

These cash flows are considered to be sufficient to cover the Partnerships financial obligations for the same period as follows:

	Within 1 year	In 1 to 3 years	In 4 to 5 years	Greater than 5 years	Total
Securitization debt	30,580,589	52,171,850	37,233,472	9,138,874	129,124,785
Deferred purchase price payable	2,504,872	2,064,816	406,937	6,963	4,983,588
Accounts payable and accrued liabilities	182,520	-	-	-	182,520
	33,267,981	54,236,666	37,640,409	9,145,837	134,290,893

The amounts reported for finance receivables and securitization debt are based on contractual maturities. However the finance receivables may become subject to losses and prepayments in which case, the cash flows shown above will not be realized. Further, the securitization debt may be due earlier if the corresponding finance receivables run-off sooner. Accordingly, the maturities and amounts in the tables above are not a forecast of future cash flows.

Credit Risk

Credit risk arises from the possibility that obligors may be unable to fulfill their commitments. For a financial asset, this is typically the gross carrying amount, net of any amounts offset and any impairment losses. Credit risk has a significant impact on finance receivables. The underlying obligors to the finance receivables typically would not be approved for financing at prime rates. These customers may have had poor or inadequate credit history, or may be purchasing a vehicle that does not meet prime auto lending

guidelines.

The performance of the finance receivables depends on a number of factors, including general economic conditions, unemployment levels, and the circumstances of individual obligors. The maximum exposure to the finance receivables is represented by the carrying amount thereof. Although credit risk has a significant impact on retail receivables, it is mitigated by the Partnerships having a first priority perfected security interest in the related financed vehicles. In the case of obligor defaults, the value of the repossessed collateral provides a source of protection. Every reasonable effort is made to follow-up on delinquent accounts and to keep accounts current and repossession is considered only as a last resort. Refer to note 3 for details on past due accounts as of December 31, 2018. A repossessed vehicle is sold and proceeds are applied to the amount owing on the account. As such, the Partnerships are also exposed to fluctuations in used vehicle prices.

The finance receivables have no significant concentration of credit risk due to the fact that they are made up of a pool of receivables, with no individual receivable having a significant balance in relation to the outstanding portfolio balance. In addition, the receivables are geographically dispersed throughout Canada, the underlying collateral consists of varying vehicle makes, models and types, the underlying obligors of the receivables have varying credit ratings, and the receivables have varying interest rates and terms.

Market Risk

Market risk is the risk that changes in market prices will have an effect on future cash flows associated with financial instruments. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk. The finance receivables are subject to fixed interest rates and are carried at amortized cost, such that there is no re-measurement of carrying amount as market interest rates fluctuate. Securitization debt is subject to fixed rates of interest for each tranche securitized. The revolving lines of credit have floating rates of interest however significant exposure is not expected due to the short term nature of the revolving debt. The Partnerships are not currently utilizing their revolving lines of credit.

Currency risk is the risk that changes in foreign exchange rates may have an effect on future cash flows associated with financial instruments. The Company does not have any financial instruments denominated in a foreign currency and therefore is not exposed to currency risk.

Other price risk is the risk that changes in market prices, including commodity or equity prices, will have an effect on future cash flows associated with financial instruments. The cash flows associated with financial instruments of the Company are exposed to other price risk to the extent of fluctuations in used vehicle prices which impacts the recovery on repossessed vehicle sales.

Counterparty Risk

The Company and Partnerships are exposed to counterparty risk through their relationship with CCMI. CCMI is responsible for presenting retail sales contracts to the Partnerships that meet the Company's investment criteria. There is a risk that CCMI may not be able to present contracts that are acceptable to the Company and the Partnerships would have to find a new source of originations. Further, CCMI is responsible for servicing the Partnerships retail sales contracts and there is a risk that CCMI may not be able to service the contracts in the future. CAL LP has a standby backup servicer and it can be used for

ACC LP III if this were to occur.

Fair Values

In measuring fair value, the Company uses various valuation methodologies and prioritizes the use of observable inputs. The use of observable and unobservable inputs and their significance in measuring fair value are reflected in the Company's fair value hierarchy assessment.

- Level 1 - inputs include quoted prices for identical instruments and are the most observable.
- Level 2 - inputs include quoted prices for similar instruments and observable inputs such as interest rates, currency exchange rates and yield curves.
- Level 3 - inputs include data not observable in the market and reflect management judgment about the assumptions market participants would use in pricing the instruments.

The Company reviews the inputs to the fair value measurements to ensure they are appropriately categorized within the fair value hierarchy. The valuation techniques used in estimating fair values are as follows:

- Finance receivables, securitization debt and deferred purchase price payable - The fair value is calculated by discounting anticipated future cash flows at an appropriate risk weighted rate and takes into consideration estimated losses, estimated prepayments, estimated administration costs, and other fees ancillary to administering the underlying retail sales contracts. These items are categorized within Level 3 of the hierarchy. The carrying value of these items approximates fair value.

	Fair Value Level	Carrying Value ($)	Fair Value ($)
Financial assets at amortized cost			
Finance receivables - net	3	114,853,050	114,853,050
Financial liabilities at amortized cost			
Securitization debt	3	111,625,053	111,625,053
Deferred purchase price payable	3	4,983,588	4,983,588

Finance receivables and securitization debt are subject to fixed rates of interest and have similar maturities. As such, the Company is economically hedged against changes in market interest rates, and will not experience a financial impact if there is a change in rates.

14. Related Party Transactions

In the ordinary course of business, the Company invests in retail sales contracts and enters into transactions with its associated and other related parties. If these transactions are eliminated on consolidation, they are not disclosed as related party transactions. Transactions between the Company and its associated companies and key management personnel also qualify as related party transactions. Related party balances and transactions are listed as followed:

	Dec 31, 2018	Dec 31, 2017
	$	$
Assets		
Finance receivable - gross (note a)	118,651,604	62,425,033
Other Assets (note b)	32,992	59,113
Liabilities		
Accounts payable and accrued liabilities (note c)	31,882	38,301
Deferred purchase price payable (note d)	4,983,588	3,530,029

	For the year ended	
	Dec 31, 2018	Dec 31, 2017
	$	$
Income and expenses		
Other income (note e)	877,843	-
Management fees (note f)	60,365	64,402
Stock-based compensation (note g)	119,339	23,334

The Company has related party relationships with the below entities.

- CCMI, ACC LP II and ACC LP – CCMI is the other limited partner in each of the Partnerships. The Partnerships each have an agreement with CCMI and ACC LP (previously ACC LP II) for the ongoing purchase of retail sales contracts originated by CCMI which meet certain investment criteria established by the Company. Pursuant to these agreements, CCMI is responsible for providing ongoing portfolio and securitization facility administration services to the Partnerships. Accordingly, a portion of the purchase price is payable upfront, and a portion is deferred and payable over the life of the underlying retail sales contracts. During the first quarter of 2018, the Partnerships negotiated new terms to the purchase price resulting in the deferred component being broken down into a fixed monthly percentage as well as a contingent amount based on excess annual return on capital over a certain threshold (see note 7 for details). CCMI sells the contracts to the Partnerships through ACC LP (previously through ACC LP II). CCMI, ACC LP II and ACC LP are related to the Company as a result of significant common ownership. Refer to note 3, 4, 5 and 7 for further details.

Balances and transactions the Partnerships have with these parties are listed as follows:

Note a) Amounts represent gross outstanding finance receivables purchased from ACC LP. During the year, the Company acquired $91.7 million of finance receivables including transactions costs from ACC LP.

Note b) Other assets include amounts due from ACC LP and CCMI related to normal course customer collections. The balances were settled subsequently after the Company's year end.

Note c) Included in the balance was $18,504 due to ACC LP and ACC LP II (2017 - $22,769 due to ACC LP II and CCMI). Amounts due to ACC LP, ACC LP II and CCMI related to normal course operating expenses. The amounts were settled subsequently after the Company's year end.

Note d) Amounts due to CCMI that are deferred and payable over the life of the underlying retail sales contracts.

Note e) Amounts represent the impact of one-time remeasurement of the deferred purchase price payable resulting from the negotiated new terms with CCMI (refer to note 5 for details).

- LC Asset Management Corporation - The Company entered into a management agreement with LC Asset Management Corporation (the "Manager") dated July 1, 2016 to provide investment advice and manage the operations of the Company. The Company pays the Manager a fee of 1.25-per-cent annually of the Company's gross unconsolidated assets and a potential performance bonus subject to the financial performance of the Company. The Manager is related to the Company as a result of significant common ownership. Additionally, the Chief Executive Officer of the Company holds the same position for the Manager.

Balances and transactions the Company has with the Manager are listed as follows:
Note c) Included in the balance was $13,378 management fees payable to the Manager as of December 31, 2018 (2017 - $15,532) which were settled subsequently after the respective year end.
Note f) Management fees to the Manager incurred during the period.

- Key management personnel - Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the Company, directly or indirectly. The Company considers certain of its officers and directors to be key management personnel.

Balances and transactions the Company has with key management personnel are listed as follows:
Note g) Stock-based compensation for key management personnel with a fair value of $119,339 was expensed during the year ended December 31, 2018 (2017 - $nil), 525,000 options previously granted and vested were exercised. Refer to note 9 for further details.

15. Subsequent event

Subsequent to year end, the Company conducted a rights offering to raise capital to further invest in the Partnerships and fund the Company's working capital requirements. The rights offering allowed existing shareholders to purchase one new common share for every three shares held, at a purchase price of $0.165 per share. The rights offering was fully guaranteed by insiders of the Company. The rights offering resulted in the issuance of 19 million new shares from treasury for gross proceeds, before capital raise costs, of $3.1 million. The Company has invested $2.0 million of the gross proceeds in the Partnerships so far.

Additionally, the Partnerships negotiated another reduction in the acquisition price of fully serviced retail sales contracts effective January 1, 2019 which will further reduce the monthly fixed percentage price.