Cliffside Capital Ltd.
Management Discussion and Analysis

For the three and six months ended June 30, 2022 and 2021

Management Discussion and Analysis

CLIFFSIDE CAPITAL LTD.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

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 and approved by the Board of Directors on August 26, 2022, should be read in conjunction with the Company's unaudited consolidated interim financial statements and notes thereto for the period ended June 30, 2022, and the Company's audited financial statements and notes thereto as of December 31, 2021, prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. 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, the potential impact of the ongoing COVID-19 pandemic, the current economic environment of higher inflation and expected further rise in benchmark interest rates on the Partnerships operations and the ability to mitigate such impact, which 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.

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 non-IFRS measures provide investors with additional information regarding the Company's profitability and performance of its portfolio of finance receivables. These measures include the following:

- **Adjusted net income (loss) before taxes** - Net income before taxes excluding the impact of changes in Stage 1 provision for credit losses. Individual credit loss stages are representative of the net movement in the balance sheet amounts between periods.

- **Gross yield** - Income excluding amortization of capitalized costs and mark to market gains on derivatives for the period, divided by average finance receivables excluding capitalized transaction costs 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 finance receivables excluding capitalized transaction costs 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.

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 operates its business through three limited partnerships, CAL LP, ACC LP III and CAR LP I (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. 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

Year over Year (June 2022 over June 2021)

- Finance receivables, net grew by 98.2% to $182.1 million
- Net interest income grew by 55.6% to $8.9 million
- General and administrative expenses for six months ended include $1.2 million of amortized financing costs that were paid in third quarter of 2021

The Company continued to pursue its long-term strategy of disciplined growth and saw its Finance Receivables, net double in size compared to June 30, 2021. Gross finance receivables increased by $93.1 million, to a record high of $188 million as at June 30, 2022. The growth of gross finance receivables generated $3.2 million or 55.6% increase in net interest income for the six months ended June 30, 2022 compared to the same period in the prior year. The corresponding increase in securitization and subordinated debt led to an increase of $1.8 million in interest expense during the six months ended June 30, 2022 compared to the same period in prior year.

Despite the increase in interest income, net income before taxes of $0.9 million during the six months ended June 30, 2022 was lower by $1.2 million compared to the same period in the prior year. The decrease was primarily driven by $1.2 million of new amortized costs that were paid in third quarter of 2021 by CAR LP I and the Company and increase of $3.3 million in provision for credit losses, which were partially offset by increase of $3.7 million in net financial revenue before credit losses.

The increase of $3.3 million in provision for credit losses includes $1.5 million of increase in stage 1 provision for credit losses compared to the same period in the prior year. This increase in stage 1 provision was anticipated as a result of significant growth in gross finance receivables. Under IFRS 9, an allowance for the expected credit losses ("ECL") is recorded against stage 1 finance receivables, that include newly acquired and performing finance receivables, for which there is no significant increase in underlying credit risk between the date of their purchase to

June 30, 2022. As such, for the six months ended June 30, 2022, adjusted net income before taxes was $1.3 million or $0.5 million lower compared to the same period in the prior year (refer to Non-IFRS Measures for the definition).

Quarter over Quarter

The Company recorded net income before income taxes of $0.1 million during the three months ended June 30, 2022, compared to net income before taxes of $0.8 million for the three months ended March 31, 2022. The bridge analysis below highlights the key drivers of change in net income before taxes between the periods.

Net income before taxes for the three months ended March 31, 2022	**765,786**
Net interest and other income	647,825
Mark-to-market gain on derivative financial instruments	(299,114)
Interest expense	(344,906)
Stage 1 provision for credit losses*	(390,404)
Stage 2 & 3 provision for credit losses*	(104,868)
Operating expenses	(156,183)
Net income before taxes for the three months ended June 30, 2022	**118,136**

**Individual credit loss stages are representative of the net movement in the balance sheet amounts between Q1 2022 and Q2 2022.*

The Company increased gross finance receivables by $9.6 million, or 5.4%, from March 31, 2022, to a record high of $188 million as at June 30, 2022 which generated a $0.7 million increase in interest income during the second quarter of 2022.

The increase in net interest income was partially offset by the increase in interest expense of $0.3 million from the prior quarter. The increase in interest expense was due to the $8.2 million or 5.0% increase in securitization and subordinated debt from March 31, 2022 which was obtained to finance the acquisition of gross finance receivables. A lower mark to market gains by $0.3 million on derivative financial instruments (an interest rate swap), included in other income, also impacted the Company's net income before taxes.

The anticipated incremental provision for credit losses on newly acquired and performing finance receivables is reflected in the movement in stage 1 credit losses of $0.4 million, noted in above bridge analysis. The marginal increase in stages 2 and 3 provision for credit losses of $0.1 million is reflective of a stable performance of the portfolio. Adjusted net income before taxes was $0.5 million for the three months ended June 30, 2022, compared to $0.8 million for the three months ended March 31, 2022 (refer to Non-IFRS Measures for the definition).

Dividends

Due to continued strong portfolio performance, the Partnerships were able to distribute a total of $1.25 million to their respective limited partners during the period January 2021 to June 2022. As a result, the Company has declared and paid four successive quarterly cash dividends on the outstanding common shares of $0.0025 per common share ($0.01 on an annualized basis).

Business Outlook

On June 30, 2022, the Company announced that CAR LP I, has redeemed for cancellation (the “Redemption”) 1,250 of the outstanding units (“Units”) of CAR LP I held by certain of its limited partners, including all such units held by arm’s length parties (the “Vendors”), for an aggregate redemption price of $1,875,000. The purchase price per unit paid by CAR LP I to the Vendors was determined through arm’s length negotiations between CAR LP I and the Vendors. As a result of the completion of the Redemption, the Company now owns a 75% interest in CAR LP I, CCMI, a leading consumer loan originator and servicer and a non-arm’s length party of the Company, owning the remaining 25% of CAR LP I.

Notwithstanding the challenging global macroeconomic environment, the Company’s partnerships continue to have access to efficient financing from various Canadian lenders for their purchase of new auto loan receivables. Two of these facilities, are expected to be renewed for an equal or higher amount. The funding facility used for the purchase of loan receivables into another of the Company's partnerships, known as CAR LP I has been extended through January 2023. As the mezzanine lender who participated in this funding structure does not wish to further renew their funding beyond that point, Cliffside does not expect to fund further loan receivables into that partnership and does not expect the current facility for CAR LP I to be available past January 2023., Cliffside will use its other facilities in its other partnerships for normal course monthly purchases of loan receivables. As at June 30, 2022, a total of $76.7 million of funding remains available.

Recent and ongoing macroeconomic global events, including COVID-19, global supply chain delays, the war in Ukraine, higher global inflation as well as the expectation of a continued inflationary environment coupled with rising interest rates have resulted in alternative and non-bank financial companies, such as Cliffside, facing a challenging environment in which to raise equity capital for growth. While Cliffside maintains access to adequate funding sources and capital to permit it to continue current operations in a manner consistent with its business plan, management believes that these recent macroeconomic challenges could have an adverse effect on the Company's ability to raise new equity capital to fund future growth. Accordingly, management believes that the recent pattern of strong growth which the Company has experienced may be difficult to maintain. Management and the Board of Directors are actively monitoring and adjusting to the current environment and will continue to explore all options available to the Company. Additional macroeconomic risks and uncertainties that could have a negative impact on the Company and its business include, but are not limited to, significant disruptions and volatility in financial markets; trade sanctions; an elevated level of slowing of the Chinese economy, including negative economic impacts associated with such slowdown or any policy actions; other geopolitical tensions and conflicts; protracted or widespread trade tensions; financial market, other economic and political disruption driven by anti-establishment movements; natural disasters; other pandemic; and election outcomes.

Financial Highlights

Select Operating Results

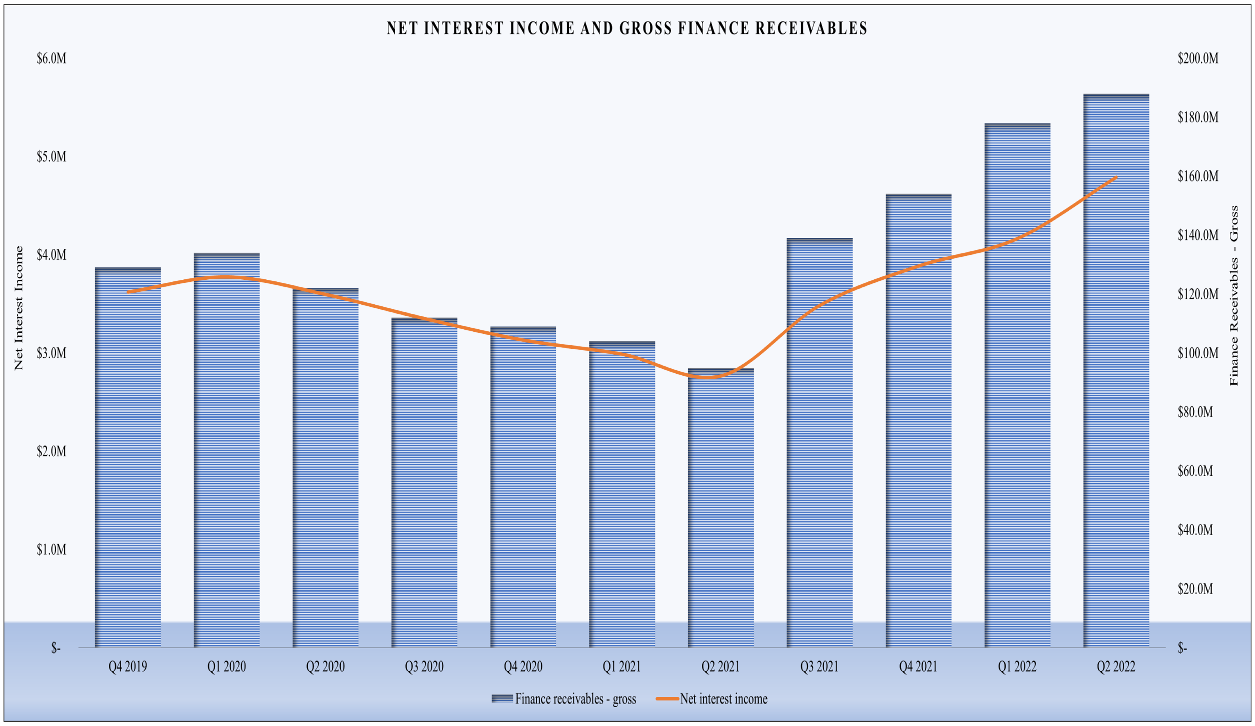
	For the three months ended		For the six months ended	
	Jun 30, 2022	**Jun 30, 2021**	**Jun 30, 2022**	**Jun 30, 2021**
	$	**$**	**$**	**$**
Net interest income	4,786,974	2,765,249	8,949,961	5,752,327
Other Income				
Other income	126,431	62,760	229,024	137,247
Mark to market gains on derivative financial instruments	951,153	-	2,201,420	-
Total income	5,864,558	2,828,009	11,380,405	5,889,574
Interest expense	2,393,227	1,249,453	4,441,548	2,620,909
Net financial revenue before credit losses	3,471,331	1,578,556	6,938,857	3,268,665
Provision for credit losses	2,401,305	264,307	4,307,339	968,388
Management fees	38,873	24,016	77,671	48,281
Stock-based compensation	-	41,023	-	41,023
Other expenses	913,017	71,197	1,669,926	139,164
Total expenses	3,353,195	400,543	6,054,936	1,196,856
Net income before taxes	118,136	1,178,013	883,921	2,071,809
Provision for income taxes deferred	(10,006)	248,450	109,532	401,635
Net income after taxes	128,142	929,563	774,389	1,670,174
Non-controlling interest	(107,068)	(238,023)	(330,855)	(432,738)
Net income attributable to shareholders	**21,074**	**691,540**	**443,534**	**1,237,436**
Basic and diluted earnings per share	0.00	0.01	0.00	0.02

Non-IFRS Measures Results	For the three months ended		For the six months ended	
	Jun 30, 2022	**Jun 30, 2021**	**Jun 30, 2022**	**Jun 30, 2021**
Adjusted net income (1)	508,540	964,835	1,314,078	1,824,500
Gross yield (1)	16.87%	16.65%	16.42%	16.73%
Delinquencies (1)	3.63%	3.09%	3.63%	3.09%

(1) *Refer to "Non-IFRS Measures" for the definition*

Net interest income is interest income earned on finance receivables, net of amortization of capitalized costs. For the three and six months ended June 30, 2022, the Company recorded interest income of $6,713,759 and $12,663,553, respectively partially offset by amortization of capitalized costs of $1,926,786 and $3,713,592, respectively. For the three and six months ended June 30, 2021, the Company recorded interest income of $3,936,620 and $8,190,963, respectively partially offset by amortization of capitalized costs of $1,171,371 and $2,438,636, respectively.

Other income represents ancillary fees earned on the finance receivables.
The below chart shows quarterly net interest income and associated finance receivables-gross at the end of each quarter.



Interest expense is incurred by the Partnerships on the securitization and subordinated debt. The amount recorded by the Company for the three and six months ended June 30, 2022 was $2,393,227 and $4,441,548, respectively compared to $1,249,453 and $2,620,909, respectively during the same period previous year. The weighted average interest rate on the new securitization debt was 5.59% and 5.11% for the three and six months ended June 30, 2022, respectively compared to 4.27% and 4.30% for the three and six months ended June 30, 2021, respectively.

Net financial revenue before credit losses was $3,471,331 and $6,938,857 for the three and six months ended June 30, 2022, respectively. For the three and six months ended June 30, 2021, net financial revenue before credit losses was $1,578,556 and $3,268,665, respectively.

The provision for credit losses for the three and six months ended June 30, 2022, was $2,401,305 and $4,307,339 compared to $264,307 and $968,388 for the same periods in the previous year. In the prior year, due to the pandemic, management strategically slowed down the acquisition of new finance receivables given the significant uncertainty surrounding the economy. The lower prior period provision for credit losses was driven by the decline in acquisition of new finance receivables during the first half of the year, and better performance of the portfolio. However, as pandemic induced restrictions lifted, the Company stepped up acquisition of finance receivables, resulting in higher provisions for credit losses. Under IFRS 9, an allowance for ECL is required on acquisition of new finance receivables, resulting in early recognition of potential future credit losses on otherwise performing finance receivables. Conversely, as the portfolio balance declines, so does an allowance for ECL, resulting in a lower provision for credit losses. While IFRS 9 leads to a mismatch between timing of when a credit loss provision is taken and the occurrence of a loss event, the portfolio has been performing consistent with our expectations. The results reflect the quality of finance receivables acquired and the expected profitability of the portfolio over its life. Management closely monitors the shape and timing of the credit loss curve.

For the three and six months ended June 30, 2022, the Company incurred management fees of $38,873 and $77,671 compared to $24,016 and $48,281 for the same periods in the previous year, pursuant to a management agreement with LC Asset Management Corporation (refer to Related Party Transactions section).

Stock-based compensation amounted to $41,023 for the three and six months ended June 30, 2022, respectively. There were no expense incurred for the three and six months ended June 30, 2022.

Other expenses amounted to $913,017 and $1,669,926 for the three and six months ended June 30, 2022, respectively. For the three months ended June 30, 2022, other expenses consisted of professional fees of $219,059 and general and administrative expenses of $693,958. Included within general and administrative expenses are $606,874 of amortized financing costs that were paid in third quarter of 2021 by CAR LP I and the Company that are being amortized over a period of one year. For the six months ended June 30, 2022, other expenses consisted of professional fees of $295,342 and general and administrative expenses of $1,374,584. Included within general and administrative expenses are $1,213,668 of amortized financing costs that were paid in third quarter of 2021 by CAR LP I and the Company that are being amortized over a period of one year.

Other expenses amounted to $71,197 and $139,164 for the three and six months ended June 30, 2021, respectively. For the three months ended June 30, 2021, other expenses consisted of professional fees of $50,106 and general and administrative expenses of $21,091. For the six months ended June 30, 2021, other expenses consisted of professional fees of $89,369 and general and administrative expenses of $49,795.

For the three and six months ended June 30, 2022, the Company reported non-controlling interest income of $107,068 and $330,855, respectively and non-controlling interest income of $238,023 and $432,738, for the three and six months ended June 30, 2021, respectively, which reflects the portion of the partnership income or loss for each period that was allocated to the other partners.

For the three and six months ended June 30, 2022, the Company reported net income attributable to shareholders of $21,074 and $443,534, respectively compared to a net income of $691,540 and $1,237,436 for the same periods during prior year.

Select Statement of Financial Position

As at	**Jun 30, 2022**	**Dec 31, 2021**
	$	**$**
Cash	10,153,399	12,426,169
Finance receivables - net	182,091,663	149,783,991
Derivative financial instrument	2,506,557	305,137
Other assets	770,962	1,769,946
Total assets	**195,522,581**	**164,285,243**
Securitization debt	153,069,206	126,970,398
Subordinated debt	20,506,634	14,968,599
Deferred purchase price payable	7,447,092	5,939,827
Other liabilities	1,043,722	1,110,988
Total liabilities	182,066,654	148,989,812
Equity attributable to shareholders	10,546,774	11,058,323
Non-controlling interest	2,909,153	4,237,108
Total liabilities and equity	**195,522,581**	**164,285,243**

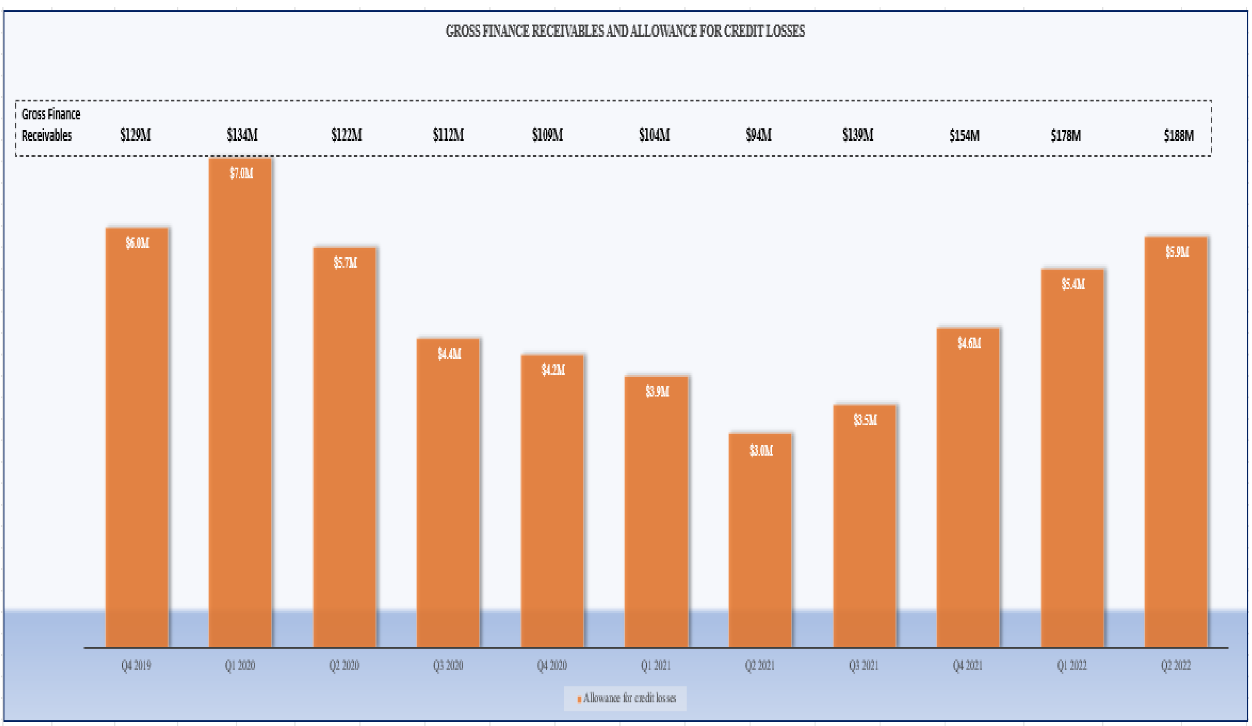
As at	**Jun 30, 2022**	**Dec 31, 2021**
Finance receivables - net	182,091,663	149,783,991
Stage 1 allowance for credit losses	3,190,616	2,463,478
Stage 2 & 3 allowance for credit losses	2,685,148	2,098,786

The Company had cash of $453,616 at June 30, 2022 and the Partnerships held cash balances of $9,699,783 for a consolidated total of $10,153,399. At December 31, 2021, the Company had cash of $650,754 and the Partnerships held cash balances of $11,775,415 for a consolidated total of $12,426,170. The Partnerships' cash is primarily generated from the receipt of payments from customers related to the retail sales/loan contracts, as well as net proceeds from securitization, less amounts payable on acquisition of the retail sales/loan contracts. The Partnerships make payments to the funders on the securitization debt on the first, tenth and fifteenth day of the following month, and therefore, hold large cash balances at the end of every month.

Finance receivables consist of retail sales/loan contracts which have initial terms of 18 to 84 months at the time of origination and bear fixed rates of interest ranging from 9% to 27%. All finance receivables are secured by collateral charges on the motor vehicles financed. The balance of $182,091,663 for finance receivables, net as at June 30, 2022 represents the outstanding principal balance and accrued interest and fees owing from customers, including associated capitalized transaction costs, net of unearned administration fees of $9,782,106, and net of estimated allowance for credit losses of $5,875,764. The allowance for credit losses as at June 30, 2022 includes an estimate for higher ECL resulting from economic disruptions caused by COVID-19 as well as the current economic environment of higher inflation and expected further rise in benchmark interest rates. In the current economic environment the IFRS 9 model in isolation may not capture all the uncertainty. Therefore, management has applied its expert credit judgment in the determination of the allowance for credit losses. The balance of $149,783,991 for finance receivables, net at December 31, 2021 represents the outstanding principal balance and accrued fees owing from customers, including associated transaction costs, net of unearned administration fees of $7,794,461 and net of estimated allowance for credit losses of $4,562,264.

The allowance for credit losses represents 3.13% of the gross finance receivables outstanding at June 30, 2022, compared to 2.96% at December 31, 2021.

Under IFRS 9, an allowance for ECL over the next twelve-months is required to be set up immediately on the acquisition of new finance receivables, even though little or no income may have been recognized on such new finance receivables. This results in the early recognition of potential future credit losses on otherwise performing and newly purchased finance receivables. It is important to note that the ECL under IFRS 9 does not impact the actual charge-offs which are driven by borrowers' credit profiles and behaviour. The below chart outlines the relationship between finance receivables and allowance for ECL. As the finance receivables continue to grow or decline, the allowance for ECL follows the finance receivables directionally, relative to immediately preceding quarter.



Other assets as at June 30, 2022 primarily include amounts due from related parties in the normal course of operations of $705,558, which were settled subsequently (refer to Related Party Transactions section). Other assets at December 31, 2021 primarily include unamortized financing costs of $1,215,360 and amounts due from related parties of $381,791, which were settled subsequently.

As at June 30, 2022, securitization debt of $153,069,206 was outstanding which is net of a cash holdback held in trust by the funders of $10,667,875. As at December 31, 2021, securitization debt of $126,970,398 was outstanding which is net of a cash holdback held in trust by the funders of $9,996,261. As at June 30, 2022, subordinated debt of $20,506,634 was outstanding, which is a new funding facility obtained during the third quarter of 2021. The Partnerships, the Company and CCMI are subject to certain financial covenants under the securitization and subordinated debt facilities, including minimum tangible net worth requirements, all of which were in compliance during the year.

The Partnerships purchase retail sales/loan 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 remaining life of the related finance receivables.

As at June 30, 2022, the deferred purchase price payable to CCMI amounted to $7,447,092, of which $3,730,805 is estimated to be due within one year. As at December 31, 2021, the deferred purchase price payable to CCMI amounted to $5,939,827 of which $2,804,827 was estimated to be due within one year.

Other liabilities as at June 30, 2022 and December 31, 2021 consisted primarily of trade payables and accruals.

Equity attributable to shareholders reduced from $11,058,323 at December 31, 2021 to $10,546,774 at June 30, 2022, primarily due to the dividends of $486,333 and the premium of $468,750 paid during the period for repurchase of Non-controlling entities' shares by CAR LP I. These decreases were partially offset by net income attributable to shareholders reported by the Company for the six months ended June 30, 2022 of $443,534.

Equity attributable to shareholders increased from $5,942,480 at December 31, 2020 to $11,058,323 at December 31, 2021. The increase relates to a private placement of shares during the third quarter of 2021, net of issuance costs, of $4,411,954, and net income attributable to shareholders of $1,057,685 for the year ended December 31, 2021, partially offset by dividend paid during the year.

Non-controlling interest reduced from $4,237,108 at December 31, 2021 to $2,909,153 at June 30, 2022, primarily due to proportionate share of distributions received by the Non-controlling entities of $252,560 and the repurchase for cancellation of outstanding partnership units held by certain of its limited partners for $1,250,000 plus prorated premium by CAR LP I which was offset by the net income of $330,855 attributable to the non-controlling parties.

Select Statement of Cash Flow Summary

	For the six months ended	
	Jun 30, 2022	**Jun 30, 2021**
	$	$
Cash (used in) provided by operating activities	(31,272,393)	14,324,808
Cash provided by (used in) financing activities	28,999,623	(14,659,573)
Decrease in cash during the period	**(2,272,770)**	**(334,765)**

The cash used in operating activities for the six months ended June 30, 2022, was primarily for the acquisition of finance receivables and transaction costs of $70,182,253 offset by cash flow generated from collections of $30,246,176 and other changes. Cash provided by operating activities for the six months ended June 30, 2021 consisted primarily of cash flow generated from collections of $22,368,652, offset by the acquisition of finance receivables and other changes.

The cash provided by financing activities during the six months ended June 30, 2022, consisted primarily of gross proceeds from securitization debt of $62,873,601 and subordinated debt of $7,942,825. The cash used in financing activities during the six months ended June 30, 2021, consisted primarily of the repayment of the securitization debt.

Reconciliation of 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:

- **Adjusted net income (loss) before taxes** - Net income before taxes excluding the impact of changes in Stage 1 provision for credit losses. Individual credit loss stages are representative of the net movement in the balance sheet amounts between periods.

- **Gross yield** - Income excluding amortization of capitalized costs and mark to market gains on derivatives for the period, divided by average finance receivables excluding capitalized transaction costs 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 finance receivables excluding capitalized transaction costs 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 a charge on motor vehicles financed. As such, key performance indicators for the assets in the Partnerships are reported below:

	Q2 2022	**Q1 2022**	**Q4 2021**	**Q3 2021**	**Q2 2021**	**Q1 2021**	**Q4 2020**	**Q3 2020**
Gross yield	16.87%	16.52%	15.96%	15.25%	16.65%	16.84%	16.50%	16.48%
Delinquency rate	3.63%	3.76%	3.76%	2.75%	3.09%	3.42%	3.42%	2.85%

Non-IFRS Measures Reconciliation	**For the three months ended**		**For the six months ended**	
	Jun 30, 2022	**Jun 30, 2021**	**Jun 30, 2022**	**Jun 30, 2021**
Net income before taxes	118,136	1,178,013	883,921	2,071,809
Change in Stage 1 provision for credit losses	390,404	(213,178)	430,157	(247,309)
Adjusted net income before taxes	508,540	964,835	1,314,078	1,824,500

The Company's portfolio of retail sales/loan contracts, during the past eight quarters, have produced strong gross yields, consistent with the quality of portfolio, which contribute favourably to net earnings. The Company's gross yields are increasing quarter over quarter reflective of the current interest rate environment.

Management expects the delinquency ratio to be in the range of 4.5% to 5.5%. The delinquency rate for current quarter is still below the low end of the expected range at 3.76%. The trend of low delinquency is expected to return within the targeted range as economic relief programs during the pandemic have been phased out and inflationary pressures continue to outpace levels targeted by central banks. Management is focused on proactive portfolio management for better performance and credit quality, and closely monitors and measures key indicators such as Non-Sufficient Funds (NSF), payment deferral rates, customer contact rates, and promises to pay, as well as the impact of seasonality.

Liquidity and Capital Resources

The Partnerships have $9,699,783 in cash as of June 30, 2022. This cash is used to service principal and interest on the securitization and subordinated debts 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 made up of securitization and subordinated debts, which have availability of $76.7 million as at June 30, 2022. As the Partnerships continue to acquire more finance receivables and generate positive cash flows, they may distribute some of their cumulative earnings to their partners.

Through a combination of three private placements in 2013, 2014 and 2021, the Company's initial public offering ("IPO") in 2014, and the Rights offering capital raise in 2019, the Company has raised gross proceeds of $12.6 million from the issuance of common shares. These proceeds were invested in the Partnerships in 2016, 2019, 2020 and 2021 leaving the Company with approximately $0.5 million of cash on hand at June 30, 2022.

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, 2020	74,766,667	7,362,347
Issuance of common shares	-	-
Ending balance, June 30, 2021	**74,766,667**	**7,362,347**
Issuance of common shares, net of issuance cost	22,500,000	4,411,954
Ending balance, December 31, 2021	**97,266,667**	**12,044,486**
Issuance of common shares	-	-
Ending balance, June 30, 2022	**97,266,667**	**12,044,486**

The basic and diluted weighted average shares outstanding for the three and six months ended June 30, 2022 were 97,266,667 and 99,054,013 respectively. The basic and diluted weighted average shares outstanding for the three and six months ended June 30, 2021 were 74,766,667. The diluted weighted average shares outstanding for the three and six months ended June 30, 2021 excluded the effect of stock options and warrants issued and outstanding as they are considered antidilutive.

Incentive Stock Options and Warrants

Issued and outstanding stock options as at June 30, 2022 were 7,150,000. The Company granted 2,550,000 stock options to directors and officers on September 24, 2021, at an exercise price of $0.20 each, of which 637,500 vested immediately and the fair value was recorded in earnings during the quarter ended September 30, 2021, as stock-based compensation expense. The remaining 1,912,500 stock options will vest over the next three years. The newly granted stock options expire five years from the grant date.

Issued and outstanding stock warrants as at June 30, 2022 were 5,625,000. These were issued during the quarter ended September 30, 2021, to the subscribers of the private placement. These warrants can be exercised (one warrant for one common share) at any time during three years from the date of issue at a price of $0.20 per share. 2,197,000 stock warrants, granted at the time of rights offering in March 2019, were not exercised and therefore expired on March 26, 2022.

Dividends

During 2022, the Company paid quarterly cash dividend of $0.0025 per common share to its Common Share holders. These dividends were paid on February 1, May 2, and subsequent to the quarter-end on August 2, 2022.

Summary of Quarterly Results

Below is a summary of operating results for the current and past eight quarters (in millions):

	2022		2021				2020		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	$	$	$	$	$	$	$	$	$
Finance receivables-gross	187.97	178.36	154.35	139.18	94.92	104.08	108.98	117.43	127.96
Total Income	5.86	5.52	4.25	3.55	2.83	3.06	3.19	3.40	3.64
Total Expenses	5.74	4.75	4.56	3.71	1.65	2.17	2.31	2.34	2.49
Income (loss) before taxes	0.12	0.77	(0.31)	(0.16)	1.18	0.89	0.88	1.06	1.15
Provision for (recovery of) income taxes	(0.01)	0.12	(0.10)	0.02	0.25	0.15	(0.43)	-	-
Net income (loss) after taxes	0.13	0.65	(0.21)	(0.18)	0.93	0.74	1.31	1.06	1.15
Basic and diluted income (loss) per share	0.00	0.00	0.00	0.00	0.01	0.01	0.01	0.01	0.01

The quarterly highlights presented above are prepared using information derived from unaudited consolidated interim financial statements prepared in accordance with IFRS applicable to interim statements for the first three quarters of the respective year. Fourth quarters of each year were constructed from the annual audited results for the years ended December 31, 2021, December 31, 2020.

Related Party Transactions

In the ordinary course of business, the Company invests in retail sales/loan contracts and enters into transactions with its associated companies 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 follows:

	Jun 30, 2022	**Dec 31, 2021**
	$	$
Assets		
Finance receivable - gross (note a)	187,967,427	154,346,255
Other assets (note b)	705,558	928,711
Liabilities		
Accounts payable and accrued liabilities (note c)	40,613	237,734
Deferred purchase price payable (note d)	7,447,092	5,939,827

	For the three months ended		For the six months ended	
	Jun 30, 2022	Jun 30, 2021	Jun 30, 2022	Jun 30, 2021
	$	$	$	$
Income and expenses				
Management fees (note e)	38,873	24,016	77,671	48,281
Stock-based compensation (note f)	-	41,023	-	41,023
General and administrative (note g)	273,460	-	546,920	-

The Company has related party relationships with the below entities.

- CCMI and ACC LP – CCMI is a limited partner in each of the Partnerships. The Partnerships each have an agreement with CCMI and ACC LP for the ongoing purchase of retail sales/loan 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/loan contracts. CCMI sells the contracts to the Partnerships through ACC LP. CCMI and ACC LP are related to the Company as a result of significant common ownership. Refer to note 3 for further details.

- Harrison Equity Partners ("HEP") - HEP is a related party due to one of the directors of the Company owning and controlling HEP. HEP provided debt raising and capital formation services to CAR LP I during third quarter of 2021. HEP was paid a structuring fee of $1,093,840 by CAR LP I for these services.

  Balances and transactions the Partnerships have with these parties are as follows:
  Note a) Amounts represent gross outstanding finance receivables purchased from ACC LP. During the period, the Company acquired $70.2 million of gross finance receivables including transactions costs from ACC LP.

  Note b) Other assets include (i) amounts due from ACC LP and CCMI related to normal course customer collections which were settled subsequent to the end of the quarter; and (ii) for the period ended December 31, 2021 an amount of $546,920 related to unamortized structuring fee paid to HEP.

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

  Note g) For the three and six months ended June 30, 2022; general and administrative expense includes $273,460 and $546,920 of structuring fee amortization paid to HEP during third quarter of 2021 and $- for the three and six months ended June 30, 2021.

- 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% 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 $38,873 management fees payable to the Manager as of June 30, 2022 (December 31, 2021 - $38,603).
Note e) Management fees to the Manager accrued 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.

Note f) Stock-based compensation was incurred during the three and six months ended June 30, 2021 with a fair value of $41,023 respectively. No stock-based compensation was incurred during the three and six months ended June 30, 2022.

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 is 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 June 30, 2022, the undiscounted cash flows arising from the finance receivables, excluding transaction costs, are as follows:

	Within 1 year	Greater than 1 to 3 years	Greater than 3 to 5 years	Greater than 5 years	Undetermined	Total
Total receivables	58,025,527	100,425,794	71,351,107	24,392,860	-	254,195,288

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

	Within 1 year	Greater than 1 to 3 years	Greater than 3 to 5 years	Greater than 5 years	Undetermined	Total
Securitization debt[1]	51,187,892	71,580,132	31,644,463	9,961,365	-	164,373,852
Subordinated debt					20,506,634	20,506,634
Deferred purchase price payable	3,730,805	2,861,176	784,764	70,348	-	7,447,093
Accounts payable and accrued liabilities	1,043,722	-	-	-	-	1,043,722
	55,962,419	74,441,308	32,429,227	10,031,713	20,506,634	193,371,301

[1] *Securitization debt obligation within 1 year excludes $4.8 million that was settled with the securitizers subsequent to June 30, 2022 from the cash on hand with the Partnerships' as at June 30, 2022.*

The notional amount of the derivative financial instrument is $75 million, and it is used to economically hedge the floating interest rate risk related to securitization debt. The maturity of notional amount closely aligns to the securitization debt. The amounts under derivative contract are settled on a net basis each month.

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. The repayment of subordinated debt is tied to the excess cash flows generated by CAR LP I and therefore, it is not included in the above contractual maturity table. These cash flows do not consider the potential impact of lock-up trigger events which can occur when loss ratios and delinquency rates are above defined thresholds. 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. As repossessed vehicles are 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.

As a result of COVID-19, a global pandemic as well as the current economic environment of higher inflation and expected further rise in benchmark interest, a measurement uncertainty exists with respect to provision for credit losses. The Company has addressed this by closely monitoring the performance of its portfolio, including delinquency ratio, payment deferrals sought and granted, etc. These performance metrics, including their impact, have been leveraged to overlay an additional amount of ECL for finance receivables in stage 1.

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, charged by a lender or converted from floating to fixed through an interest rate swap, for each tranche securitized.

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/loan 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/loan 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. CAR LP I also has a standby backup servicer.

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.

The fair value of the derivative financial instrument is estimated by using a third-party broker quotation. This is categorized within Level 2 of the hierarchy.

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, subordinated 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/loan contracts. These items are categorized within Level 3 of the hierarchy. The carrying value of these items approximates fair value.

Finance receivables, securitization debt and subordinated 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 six months ended June 30, 2022 and the twelve months ended December 31, 2021.

For the period ended	Jun 30, 2022	Dec 31, 2021
Average monthly trading volume	99,472	88,436
Share price		
High	0.30	0.22
Low	0.11	0.15
Close	0.19	0.22
Outstanding shares at the end of the period	97,266,667	97,266,667

Cliffside Capital Ltd.
Condensed Consolidated Financial Statements
(Unaudited)

For the three and six months ended June 30, 2022 and 2021

Notice to reader pursuant to National Instrument 51-102

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed financial statements, they must be accompanied by a notice indicating that the condensed financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated financial statements of Cliffside Capital Ltd. have been prepared by management and approved by the Audit Committee and Board of Directors of the Company.

The Company's independent auditors have not performed a review of these condensed consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditors.

"Praveen Gupta" (signed)	*"Stephen Malone" (signed)*
Praveen Gupta Chief Financial Officer	Stephen Malone Chief Executive Officer

Condensed Consolidated Financial Statements **Page**

Cliffside Capital Ltd.
Condensed Consolidated Statements of Financial Position
(in Canadian dollars)

As at	Jun 30, 2022	Dec 31, 2021
	$ (unaudited)	$
Assets		
Cash	10,153,399	12,426,169
Finance receivables-net (note 3)	182,091,663	149,783,991
Deferred income taxes	28,112	137,644
Derivative financial instrument (note 4)	2,506,557	305,137
Other assets	742,850	1,632,302
Total assets	**195,522,581**	**164,285,243**
Liabilities		
Accounts payable and accrued liabilities	1,043,722	1,110,988
Deferred purchase price payable	7,447,092	5,939,827
Securitization debt (note 5)	153,069,206	126,970,398
Subordinated debt (note 6)	20,506,634	14,968,599
Total liabilities	182,066,654	148,989,812
Equity (note 7)		
Share capital	12,044,486	12,044,486
Contributed surplus	1,264,503	1,264,503
Cumulative deficit	(2,762,215)	(2,250,666)
Equity attributable to shareholders	10,546,774	11,058,323
Non-controlling interests (note 8)	2,909,153	4,237,108
Total equity	13,455,927	15,295,431
Total liabilities and equity	**195,522,581**	**164,285,243**

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

Cliffside Capital Ltd.
Condensed Consolidated Statements of Net Income and Comprehensive Income
(in Canadian dollars)

(unaudited)	For the three months ended Jun 30, 2022	For the three months ended Jun 30, 2021	For the six months ended Jun 30, 2022	For the six months ended Jun 30, 2021
	$	$	$	$
Income				
Net interest income	4,786,974	2,765,249	8,949,961	5,752,327
Other income				
Other income	126,431	62,760	229,024	137,247
Mark-to-market gains on derivative financial instruments	951,153	-	2,201,420	-
Total income	5,864,558	2,828,009	11,380,405	5,889,574
Financial expenses				
Interest expense	2,393,227	1,249,453	4,441,548	2,620,909
Net financial revenue before credit losses	3,471,331	1,578,556	6,938,857	3,268,665
Provision for credit losses (note 3)	2,401,305	264,307	4,307,339	968,388
Net financial income	1,070,026	1,314,249	2,631,518	2,300,277
Operating expenses				
Management fees (note 12)	38,873	24,016	77,671	48,281
Stock-based compensation	-	41,023	-	41,023
General and administrative	913,017	71,197	1,669,926	139,164
Total expenses	951,890	136,236	1,747,597	228,468
Net income before income taxes	**118,136**	**1,178,013**	**883,921**	**2,071,809**
Provision for income taxes deferred	(10,006)	248,450	109,532	401,635
Net income and comprehensive income	**128,142**	**929,563**	**774,389**	**1,670,174**
Net income attributable to shareholders	21,074	691,540	443,534	1,237,436
Net income attributable to non-controlling interest (note 8)	107,068	238,023	330,855	432,738
Net income and comprehensive income	**128,142**	**929,563**	**774,389**	**1,670,174**
Earnings per share				
Basic and diluted (note 9)	0.00	0.01	0.00	0.02

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

(in Canadian dollars)

(unaudited)	**Share Capital**	**Contributed Surplus**	**Cumulative Deficit**	**Non-Controlling Interest**	**Total**
	$	**$**	**$**	**$**	**$**
Balance, December 31, 2020	**7,632,532**	**1,131,966**	**(2,822,018)**	**1,568,324**	**7,510,804**
Stock-based compensation		41,023			**41,023**
Net income and comprehensive income for the period			1,237,436	432,738	**1,670,174**
Balance, June 30, 2021	**7,632,532**	**1,172,989**	**(1,584,582)**	**2,001,062**	**9,222,001**
Shares issuance, net of issuance costs	4,411,954	-	-	-	**4,411,954**
Stock-based compensation	-	91,514	-	-	**91,514**
Dividends	-	-	(486,333)	-	**(486,333)**
Investment by non-controlling entity	-	-	-	2,500,010	2,500,010
Distribution to non-controlling entity	-	-	-	(60,034)	(60,034)
Net loss and comprehensive loss for the period	-	-	(179,751)	(203,930)	(383,681)
Balance, December 31, 2021	**12,044,486**	**1,264,503**	**(2,250,666)**	**4,237,108**	**15,295,431**
Dividends	-	-	(486,333)	-	(486,333)
Distribution to non-controlling entities	-	-	-	(252,560)	(252,560)
Repurchase of non-controlling entities share	-	-	-	(1,250,000)	(1,250,000)
Premium paid to non-controlling entities	-	-	(468,750)	(156,250)	(625,000)
Net income and comprehensive income for the period	-	-	443,534	330,855	774,389
Balance, June 30, 2022	**12,044,486**	**1,264,503**	**(2,762,215)**	**2,909,153**	**13,455,927**

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

(in Canadian dollars)

(unaudited)	**For the six months ended Jun 30, 2022**	**Jun 30, 2021**
Cash provided by (used in)		
Operating activities	$	$
Net income	774,389	1,670,174
Adjustments for non-cash items		
Deferred income taxes	109,532	401,635
Provision for credit losses	4,307,339	968,388
Amortization of capitalized costs	4,949,624	2,438,636
Stock-based compensation	-	41,023
Change in accrued interest receivable	(392,525)	40,159
Mark-to-market gains on derivative financial instruments	(2,201,420)	-
Change in working capital	(390,520)	(114,628)
Acquisition of finance receivables and transaction costs	(70,182,253)	(12,889,930)
Collections on finance receivables	30,246,176	22,368,652
Additions to deferred purchase price payable	3,513,947	811,670
Payment of deferred purchase price payable	(2,006,682)	(1,410,971)
Cash (used in) provided by operating activities	(31,272,393)	14,324,808
Cash provided by investing activities	-	-
Financing activities		
Gross proceeds from securitization debt	62,873,601	14,252,168
Repayments of securitization debt	(36,072,318)	(29,624,908)
(Increase) decrease in securitization debt cash holdback, net of releases	(671,615)	713,167
Gross proceeds from subordinated debt	7,942,825	-
Repayments of subordinated debt	(2,404,790)	-
Transaction costs related to debt	(54,186)	-
Dividends paid	(486,334)	-
Repurchase of non-controlling entities share	(1,875,000)	
Distribution to non-controlling entity	(252,560)	-
Cash provided by (used in) financing activities	28,999,623	(14,659,573)
Decrease in cash for the period	(2,272,770)	(334,765)
Cash, beginning of the period	12,426,169	5,308,888
Cash, end of the period	**10,153,399**	**4,974,123**
Supplementary information related to operating activities		
Interest paid	**3,915,492**	**2,628,810**

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

1. Nature of Organization

Description of the business

Cliffside Capital Ltd. (the "Company") holds investments in three limited partnerships, CAL LP, ACC LP III and CAR LP I (the "Partnerships"). The Partnerships were formed to engage in the business of investing in retail sales/loan contracts originated by CanCap Management Inc. ("CCMI") and secured by collateral charges on motor vehicles. CAL LP was formed on February 22, 2016, ACC LP III was formed on October 14, 2016 and CAR LP I was formed on April 29, 2021. The Company owns 85%, 60% and 75% of the partnership units in CAL LP, ACC LP III and CAR LP I respectively, and CCMI owns 15%, 40% and 25% of the partnership units in CAL LP, ACC LP III and CAR LP I respectively. Refer to note 8 for details on ownership of partnership units in CAR LP I as of June 30, 2022.

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 condensed consolidated financial statements

The financial statements were approved by the Company's Board of Directors and authorized for issue on August 26, 2022.

2 Summary of Significant Accounting Policies

Basis of presentation

These condensed 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.

Statement of compliance

The condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), including International Accounting Standard 34, Interim Financial Reporting. Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with IFRS have been omitted or condensed and should be read in conjunction with the annual consolidated financial statements.

Basis of consolidation

These condensed 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.

Controlled entities

The condensed consolidated financial statements incorporate the assets and liabilities of all controlled entities of the Company as at June 30, 2022 and December 31, 2021 and the results of all controlled entities for the period ended on June 30, 2022 and June 30, 2021, respectively.

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 obtained by the company.

Use of estimates and judgments

The preparation of these condensed 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 condensed 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. The Company has utilized estimates, assumptions and judgments that reflect the uncertainties caused by COVID-19, a global pandemic, as well as the current economic environment of higher inflation and expected further rise in benchmark interest rates. While management makes its best estimates and assumptions, 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 following is a summary of classification and measurement of financial instruments outstanding at June 30, 2022 and December 31, 2021 under IFRS 9.

	Classification	**Measurement**
Cash	Assets held to collect	Amortized cost
Finance receivables - net	Assets held to collect	Amortized cost
Other assets	Assets held to collect	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Deferred purchase price payable	Other financial liabilities	Amortized cost
Securitization debt	Other financial liabilities	Amortized cost
Subordinated debt	Other financial liabilities	Amortized cost
Derivative financial instrument	FVTPL	Fair value

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 are also classified as held to collect; other assets consist mainly of amounts due from related parties.

Derivative financial instrument is classified as FVTPL upon initial recognition, and once designated, the designation is irrevocable. The FVTPL designation is available only for those financial assets and liabilities for which a reliable estimate of fair value can be obtained. Financial assets and liabilities are designated at FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. Derivative financial instrument designated as FVTPL is recorded in the Condensed Consolidated Statement of Financial Position at fair value. Changes in fair value are recognized in Other income in the Condensed Consolidated Statements of Net Income and Comprehensive Income. The fair value of the derivative financial instrument is estimated by using a third-party broker quotation.

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 transaction costs 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.

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.

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 follows:
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, and 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 Partnership, together with CCMI (a related party), has historical data for over seven years. Management has leveraged the historical data to find out if there is an observable correlation between such historical data and changes in selected macroeconomic variables over the same period. These macroeconomic variables are unemployment rate, gross domestic product (GDP), oil prices, consumer price index (CPI) and real wages. Management has not observed any meaningful correlation between the historical data and changes in selected macroeconomic variables, primarily due to a stable macroeconomic environment over the period of observation. The historical performance of these assumptions allows the Partnership to build its sensitivity tolerance. The Partnership integrates assessment of SICR using lifetime probability of default ("PD") and forward-looking macroeconomic assumptions in computing the ECL calculation. Based on above work performed, historical information and sensitivity analyses, generally; macroeconomic assumptions do not have a significant impact on ECL. However, management will continue to review the correlation between macroeconomic variables and their impact on the Partnership's finance receivables in future periods, at least annually, and incorporate relevant impact, if any, in its assessment of SICR and PD for the calculation of ECL. Notwithstanding the impact, at each measurement date, the Partnership considers current available relevant macroeconomic assumptions, 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 expert credit judgment.

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. The Company assumes that there is no significant increase in credit risk for instruments that have a low credit risk.

Effective interest method

The effective interest method 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/loan contracts, as well as the Partnerships' shares 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.

Derecognition of financial instruments

A financial asset is derecognized when:
- the contractual rights to cash flows from the financial asset expires; or
- the Company transfers the contractual rights to cash flows from the financial asset; or
- the Company assumes a contractual obligation to pay the cash flow collected from the financial asset where the Company does not retain the risks and rewards and/or control of the financial asset.

A financial liability is derecognized when:
- the obligation under the liability is discharged, cancelled or expires; or
- there is an 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.

Revenue recognition

Net interest income

The Partnerships recognize interest income and interest expense for all interest-bearing financial instruments using the effective interest method.

The obligors' retail sales/loan contract principal amounts include an administrative fee which may become partially rebatable 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/loan 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. It also includes changes in the fair value of derivative financial instruments.

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 substantively enacted 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. A deferred income tax asset is recognized to the extent that it is probable that the asset can be recovered. As at June 30, 2022, 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 and warrants 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 and warrants issued to agents in conjunction with a public offering and warrants issued to guarantors of Rights offering are 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 and stock warrants 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 issued and the number of shares assumed purchased is then included in the denominator of the diluted earnings per share computation. Net income (loss) attributable to shareholders is used in the numerator.

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.

3. Finance Receivables

Finance receivables consist of retail sales/loan contracts which had initial terms of 18 to 84 months at time of origination and bear fixed rates of interest ranging from 9% to 27%. All finance receivables are secured by collateral charges on motor vehicles. The Partnerships had $188.0 million of gross finance receivables, representing $174.6 million of finance receivables and $13.4 million of transaction costs as at June 30, 2022 (December 31, 2021 - $154.3 million of gross finance receivables including transaction costs). The Partnerships received securitization and subordinated debt proceeds of $70.8 million during the six months ended June 30, 2022 (twelve months ended December 31, 2021 - $100.7 million).

	Jun 30, 2022	**Dec 31, 2021**
Finance receivables	178,185,321	146,551,794
Add: Transaction costs	13,414,673	10,927,992
Less: Administration fees	(3,632,567)	(3,133,531)
Finance receivables - gross	**187,967,427**	**154,346,255**
Allowance for credit losses	(5,875,764)	(4,562,264)
Finance receivables - net	**182,091,663**	**149,783,991**

Included in the finance receivables is motor vehicle inventory, repossessed from customers with a net realizable value of $983,575 as of June 30, 2022 (December 31, 2021 - $849,430). These amounts represent net proceeds expected to be collected through auctions of motor vehicles subsequent to the period end.

Outstanding payments, including principal and interest, contractually due under the finance receivables, as well as transaction costs, as at June 30, 2022 and December 31, 2021 are outlined below. Management expects that a portion of the retail sales/loan 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.

	Jun 30, 2022	**Dec 31, 2021**
Within one year	58,025,527	48,875,495
One to three years	100,425,794	84,478,647
Three to five years	71,351,107	55,034,997
Greater than five years	24,392,860	18,908,132
Total receivables	254,195,288	207,297,271
Less: Unearned interest	(76,009,967)	(60,745,477)
Total receivables, net of unearned interest	178,185,321	146,551,794
Add: Transaction costs, net of administration fees	9,782,106	7,794,461
Finance receivables - gross	**187,967,427**	**154,346,255**
Allowance for credit losses	(5,875,764)	(4,562,264)
Finance receivables - net	**182,091,663**	**149,783,991**

The carrying value of gross finance receivables at amortized cost represents principal and transaction costs, net of administration fees.

Finance receivables' maximum exposure and allowance for credit losses by stage as of June 30, 2022 are as follows:

Credit risk rating	Finance receivables by stage		Allowance for credit losses	
Stage 1	167,586,768	96.2%	(3,190,616)	54.3%
Stage 2	4,061,197	2.3%	(1,219,108)	20.7%
Stage 3	2,530,612	1.5%	(1,466,040)	25.0%
Total maximum exposure by stage	174,178,577	100.0%	(5,875,764)	100.0%
Transactions costs	13,414,673			
Fees and other charges	374,177			
Allowance for credit losses	(5,875,764)			
Finance receivables - net	**182,091,663**			

Finance receivables' maximum exposure and allowance for credit losses by stage as of December 31, 2021 are as follows:

Credit risk rating	Finance receivables by stage		Allowance for credit losses	
Stage 1	137,543,928	96.1%	(2,463,478)	54.0%
Stage 2	3,846,170	2.7%	(1,142,635)	25.0%
Stage 3	1,733,090	1.2%	(956,151)	21.0%
Total maximum exposure by stage	143,123,188	100.0%	(4,562,264)	100.0%
Transactions costs	10,927,992			
Fees and other charges	295,075			
Allowance for credit losses	(4,562,264)			
Finance receivables - net	**149,783,991**			

The fair value of collateral held as security for finance receivables range from 40% to 45% of its maximum exposure.

The changes in allowance for credit losses between January 1, 2022 to June 30, 2022 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for credit losses, January 1, 2022	**2,463,478**	**1,142,635**	**956,151**	**4,562,264**
Transfer				
From stage 1 to 2	(551,170)	551,170	-	-
From stage 2 to 1	328,263	(328,263)	-	-
From stage 2 to 3	-	(526,215)	526,215	-
From stage 3 to 2	-	9,939	(9,939)	-
Early termination	(291,211)	(71,224)	(49,926)	(412,361)
New finance receivables purchased, net	1,108,271	-	-	1,108,271
Change in PDs/EADs/LGDs	132,985	441,066	3,037,379	3,611,430
Provision for credit losses for the period	**727,138**	**76,473**	**3,503,729**	**4,307,340**
Less: Write-offs, net of recoveries plus collection charges	**-**	**-**	**(2,993,840)**	**(2,993,840)**
Allowance for credit losses, June 30, 2022	**3,190,616**	**1,219,108**	**1,466,040**	**5,875,764**

The changes in allowance for credit losses between January 1, 2021 to December 31, 2021 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for credit losses, January 1, 2021	**2,645,607**	**943,417**	**595,430**	**4,184,454**
Transfer				
From stage 1 to 2	(420,489)	420,489	-	-
From stage 2 to 1	310,620	(310,620)	-	-
From stage 2 to 3	-	(370,457)	370,457	-
From stage 3 to 2	-	43,438	(43,438)	-
Early termination	(650,920)	(62,662)	-	(713,582)
New finance receivables purchased, net	1,054,350	-	-	1,054,350
Change in PDs/EADs/LGDs	(475,691)	479,031	3,682,905	3,686,245
Provision for credit losses for the year	**(182,129)**	**199,218**	**4,009,924**	**4,027,013**
Less: Write-offs, net of recoveries plus collection charges	**-**	**-**	**(3,649,203)**	**(3,649,203)**
Allowance for credit losses, December 31, 2021	**2,463,478**	**1,142,635**	**956,151**	**4,562,264**

Change in PDs/EADs/LGDs, noted in above tables, included other qualitative factors as of the quarter-ended ended June 30, 2022 and year-ended December 31, 2021.

4. Derivative Financial Instrument

The Partnership derivatives are over-the-counter customized derivative transactions and are not exchange traded. The following table summarizes the notional amount and estimated fair value of the derivative financial instruments as at June 30, 2022:

	Jun 30, 2022		
	Notional	**Fair Value Assets**	**Fair Value Liabilities**
Interest rate swap contracts	75,000,000		
Current portion	-	995,682	-
Non-current portion	-	1,510,874	-
Totals	**75,000,000**	**2,506,556**	**-**

The interest rate swap contract fixed the Company's interest rate on the securitization debt to 1.77% for the remainder of its duration in exchange for Company's interest rate based on the monthly rate for Canadian Dollar bankers acceptances (CAD-BA-CDOR). The interest rate swap contract matures in December 2027.

The following table summarizes the notional amount and estimated fair value of the derivative financial instruments as at December 31, 2021:

	Dec 31, 2021		
	Notional	**Fair Value Assets**	**Fair Value Liabilities**
Interest rate swap contracts	53,000,000		
Current portion	-	-	178,552
Non-current portion	-	483,689	-
Totals	**53,000,000**	**483,689**	**178,552**

5. Securitization Debt

Securitization debt represents funding secured by the finance receivables. For the six months ended June 30, 2022, the Partnerships had securitized finance receivables for securitization proceeds of $62.9 million which had principal outstanding, excluding capitalized transaction costs at the time of securitization of $67.5 million (twelve months ended 2021 – proceeds of $85.0 million with principal outstanding of $94.6 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 5.11% for the six months ended June 30, 2022 (twelve months ended 2021 - 3.94%)

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 the 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% of the collateral, however they fund less than 100% of the finance receivables.

Pursuant to the securitization agreements, the securitizers appointed CCMI as the servicer of all retail sales/loan 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 year.

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 securitizers 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 six months and twelve months ended June 30, 2022 and December 31, 2021 respectively, is broken down as follows:

	Jun 30, 2022	Dec 31, 2021
Securitization debt, opening balance	126,970,398	99,691,748
Gross proceeds on securitization	62,873,601	85,045,815
Repayments to securitizers	(36,072,318)	(59,186,115)
(Increase) decrease in cash holdback, net of releases	(671,615)	1,417,739
Change in unamortized securitization costs	(30,860)	1,211
Securitization debt, ending balance	**153,069,206**	**126,970,398**

The securitization debt as at June 30, 2022 is net of cash reserve of $10,667,875 (December 31, 2021 - $9,996,261), which is held back by the funders in separate accounts. Securitization costs are capitalized and amortized into interest expense over the term of the related securitization agreement.

Securitization debt, gross

Outstanding payments, including principal and interest, contractually due under the securitization debt, as at June 30, 2022 and December 31, 2021 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.

	Jun 30, 2022	Dec 31, 2021
Within one year	55,980,786	45,201,594
One to three years	71,580,132	62,735,585
Three to five years	31,644,463	24,165,892
Greater than five years	9,961,365	7,312,051
Securitization debt, gross	169,166,746	139,415,122
Less: Unearned interest and unamortized securitization costs	(16,097,540)	(12,444,724)
Securitization debt, ending balance	**153,069,206**	**126,970,398**

6. Subordinated Debt

This debt is subordinated to the securitization debt of CAR LP I and is subject to the terms and conditions contained in the securitization debt agreement and other related agreements. It carries an interest rate of 9% per annum and the repayment of debt is tied to the excess cash flows generated by CAR LP I and is also subject to certain covenants. The lender has committed for a maximum amount of subordinated debt of $35.2 million. In addition, there is a profit-sharing arrangement with the lender after the repayment in full of the subordinated debt. As of June 30, 2022 CAR LP I has not recognized a contingent liability for profit sharing.

The subordinated debt activity and balance for the six months and twelve months ended June 30, 2022 and December 31, 2021 respectively, is broken down as follows:

	Jun 30, 2022	**Dec 31, 2021**
Subordinated debt, opening balance	14,968,599	-
Gross proceeds on subordinated debt	7,942,825	15,702,093
Repayments on subordinated debt	(2,404,790)	(733,494)
Subordinated debt, closing balance	**20,506,634**	**14,968,599**

7. 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, 2020	74,766,667	7,632,532
Issuance of common shares	-	-
Ending balance, June 30, 2021	**74,766,667**	**7,632,532**
Issuance of common shares, net of issuance cost	22,500,000	4,411,954
Ending Balance, December 31, 2021	**97,266,667**	**12,044,486**
Issuance of common shares	-	-
Ending balance, June 30, 2022	**97,266,667**	**12,044,486**

On July 14, 2021, the company completed a private placement of 22,500,000 units ("Units"), at $0.20 per Unit, and raised $4,500,000 in gross proceeds. Each Unit is comprised of one common share in the capital of Company and one-quarter of one common share purchase warrant (each whole common share purchase warrant, a "**Warrant**"). Each Warrant is exercisable for a three-year period to purchase one common share at a price of $0.20. Of the proceeds raised, the Company used $3,750,000 to fund a newly formed special purpose limited partnership, CAR LP I, of which the Company held a 60% equity interest. The remaining proceeds were used for general working capital purposes. The Company incurred issuance costs, net of deferred tax, of $88,046.

On June 30, 2022 CAR LP I repurchased the 20% of the partnership units owned by the external investors. This event resulted in an increase of the equity interest held by the Company to owning 75% of the partnership units in CAR LP I as of the period ended June 30, 2022. Refer to note 8 for details on the transaction.

b) Stock Options and Warrants

Issued and outstanding stock options as at June 30, 2022 were 7,150,000. The Company granted 2,550,000 stock options to directors and officers on September 24, 2021, at an exercise price of $0.20 each, of which 637,500 vested immediately and the fair value was recorded in earnings during the quarter ended September 30, 2021, as stock-based compensation expense. The remaining 1,912,500 stock options will vest over the next three years. The newly granted stock options expire five years from the grant date.

Issued and outstanding stock warrants as at June 30, 2022 were 5,625,000. These were issued during the quarter ended September 30, 2021, to the subscribers of the private placement. These warrants can be exercised (one warrant for one common share) at any time during three years from the date of issue at a price of $0.20 per share. 2,197,000 stock warrants, granted at the time of rights offering in March 2019, were not exercised and therefore expired on March 26, 2022.

c) Dividends

During 2022, the Company paid quarterly cash dividend of $0.0025 per common share to its Common Shareholders. These dividends were paid on February 1, May 2, and subsequent to the quarter-end on August 2, 2022.

8. Non-Controlling Interest

A breakdown of the non-controlling interest on the statement of financial position as of June 30, 2022 is as follows:

	CAL LP	**ACC LP III**	**CAR LP I**	**TOTAL**
Equity invested by third parties in partnerships	807,099	1,428,010	2,500,010	4,735,119
Non-controlling portion of retained earnings (deficit)	260,951	(11,338)	(568,825)	(319,212)
Non-controlling portion of current period income	5,206	156,109	169,540	330,855
Non-controlling portion of distributions	(131,314)	(300,045)	-	(431,359)
Repurchase of equity invested by third parties in partnership	-	-	(1,250,000)	(1,250,000)
Premium paid to non-controlling entities	-	-	(156,250)	(156,250)
Total non-controlling interest	**941,942**	**1,272,736**	**2,100,725**	**2,909,153**

On June 30, 2022 CAR LP I repurchased for cancellation 1,250 of its outstanding partnership units held by certain of its limited partners, for an aggregate price of $1,875,000. As a result of the repurchase for cancellation, the Company’s ownership of CAR LP I partnership units increased from 60% to 75%, and CCMI's ownership of CAR LP I partnership units increased from 20% to 25%.

A breakdown of the non-controlling interest on the statement of financial position as of December 31, 2021 is as follows:

	CAL LP	**ACC LP III**	**CAR LP I**	**TOTAL**
Equity invested by third parties in partnerships	807,099	1,428,010	2,500,010	4,735,119

Non-controlling portion of retained earnings (deficit)	38,179	(586,199)	-	(548,020)
Non-controlling portion of 2021 income (loss)	222,772	574,861	(568,825)	228,808
Non-controlling portion of distributions	(78,784)	(100,015)	-	(178,799)
Total non-controlling interest	**989,266**	**1,316,657**	**1,931,185**	**4,237,108**

9. Earnings Per Share

Earnings per share for the six months ended June 30, 2022 and 2021 were calculated based on the following:

	For the three months ended		For the six months ended	
	Jun 30, 2022	**Jun 30, 2021**	**Jun 30, 2022**	**Jun 30, 2021**
Income attributable to shareholders ($)	21,074	691,540	443,534	1,237,436
Weighted average shares outstanding – basic	97,266,667	74,766,667	97,266,667	74,766,667
Earnings per share – basic ($)	**0.00**	**0.01**	**0.00**	**0.02**
Income attributable to shareholders ($)	21,074	691,540	443,534	1,237,436
Weighted average shares outstanding – diluted	99,054,013	74,766,667	99,054,013	74,766,667
Earnings per share – diluted ($)	**0.00**	**0.01**	**0.00**	**0.02**

The diluted weighted average shares outstanding for the three and six months ended June 30, 2021 presented above excluded the effect of stock options and warrants issued and outstanding as they were considered antidilutive.

10. Capital Management

The Company's capital is comprised of equity, securitization debt and subordinated debt. The Company's objectives when managing capital are to safeguard the Company's ability to continue and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The company has securitization funding facilities with its existing third party lenders for up to $180 million, together with a subordinated debt commitment of $35.2 million, bringing the total funding availability to $215.2 million. The funding facilities entered into by the Partnerships renew annually and as at June 30, 2022, $76.7 million of funding remains available for utilization until the next renewals in 2022.

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 beyond its current fiscal year.

11. 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 is 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 June 30, 2022, the undiscounted cash flows arising from the finance receivables, excluding transaction costs, are as follows:

	Within 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	Undetermined	Total
Total finance receivables	58,025,527	100,425,794	71,351,107	24,392,860	-	254,195,288

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

	Within 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	Undetermined	Total
Securitization debt[1]	51,187,892	71,580,132	31,644,463	9,961,365	-	164,373,852
Subordinated debt					20,506,634	20,506,634
Deferred purchase price payable	3,730,805	2,861,176	784,764	70,348	-	7,447,093
Accounts payable and accrued liabilities	1,043,722	-	-	-	-	1,043,722
	55,962,419	74,441,308	32,429,227	10,031,713	20,506,634	193,371,301

[1] *Securitization debt obligation within 1 year excludes $4.8 million that was settled with the securitizers subsequent to June 30, 2022 from the cash on hand with the Partnerships' as at June 30, 2022.*

The notional amount of derivative financial instrument is $75 million, and it is used to economically hedge the floating interest rate risk related to securitization debt. The maturity of the notional amount closely aligns to the securitization debt. The amounts under derivative contract are settled on a net basis each month.

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. The repayments for subordinated debt are based on the excess cash flows generated by CAR LP I and therefore, the time period for these cash flows cannot be reasonably determined. These cash flows do not consider the potential impact of lock-up trigger events which can occur when loss ratios and delinquency rates, as defined in the securitization agreements, are above certain thresholds. 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 June 30, 2022. As repossessed vehicles are sold, the proceeds are applied to the amount owing on the account. As such, the Partnerships are also exposed to fluctuations in used vehicle prices.

As a result of COVID-19, a global pandemic, as well as the current economic environment of higher inflation and expected further rise in benchmark interest, a measurement uncertainty exists with respect to provision for credit losses, as described in note 2 under *Use of estimates and judgments*. The Company has addressed this by closely monitoring the performance of its portfolio, including delinquency ratio, payment deferrals sought and granted, and other criteria. These performance metrics, including their impact, have been leveraged to overlay an additional amount of ECL for receivables in stage 1.

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. Subordinate debt is subject to fixed rates of interest and carried at amortized cost. Securitization debt is also subject to fixed rates of interest, charged by a lender or converted from floating to fixed through an interest rate swap, for each tranche securitized. CAR LP I's interest rate swap is an agreement with counterparty to receive a floating rate of interest in return for the CAR LP I paying a fixed rate of interest, based upon a notional balance. CAR LP I enters into interest rate swap contracts to convert floating-rate debt to fixed rate debt to match the characteristics of its finance receivables. As the interest rate swap economically hedges the majority of the securitization debt, any change in the interest rates will have an insignificant impact on the profit or loss of the CAR LP I.

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/loan 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/loan 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. CAR LP I also has a standby backup servicer.

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 fair value of the derivative financial instrument is estimated by using a third-party broker quotation. This is categorized within Level 2 of the hierarchy.

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, subordinated 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/loan contracts. These items are categorized within Level 3 of the hierarchy. The carrying value of these items approximates fair value.

Finance receivables, securitization debt and subordinated 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.

12. Related Party Transactions

In the ordinary course of business, the Company invests in retail sales/loan contracts and enters into transactions with its associated entities 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 follows:

	Jun 30, 2022	Dec 31, 2021
	$	$
Assets		
Finance receivable - gross (note a)	187,967,427	154,346,255
Other assets (note b)	705,558	928,711
Liabilities		
Accounts payable and accrued liabilities (note c)	40,613	237,734
Deferred purchase price payable (note d)	7,447,092	5,939,827

	For the three months ended		For the six months ended	
	Jun 30, 2022	Jun 30, 2021	Jun 30, 2022	Jun 30, 2021
	$	$	$	$
Income and expenses				
Management fees (note e)	38,873	24,016	77,671	48,281
Stock-based compensation (note f)	-	41,023	-	41,023
General and administrative (note g)	273,460	-	546,920	-

The Company has related party relationships with the below entities.

- CCMI and ACC LP – CCMI is a limited partner in each of the Partnerships. The Partnerships each have an agreement with CCMI and ACC LP for the ongoing purchase of retail sales/loan 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/loan contracts. CCMI sells the contracts to the Partnerships through ACC LP. CCMI and ACC LP are related to the Company as a result of significant common ownership. Refer to note 3 for further details.

- Harrison Equity Partners ("HEP") - HEP is a related party due to one of the directors of the Company owning and controlling HEP. HEP provided debt raising and capital formation services to CAR LP I during third quarter of 2021. HEP was paid a structuring fee of $1,093,840 by CAR LP I for these services.

Balances and transactions the Partnerships have with these parties are as follows:
Note a) Amounts represent gross outstanding finance receivables purchased from ACC LP. During the period, the Company acquired $70.2 million of gross finance receivables including

transactions costs from ACC LP.

Note b) Other assets include (i) amounts due from ACC LP and CCMI related to normal course customer collections which were settled subsequent to the end of the quarter; and (ii) for the period ended December 31, 2021 an amount of $546,920 related to unamortized structuring fee paid to HEP.

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

Note g) For the three and six months ended June 30, 2022; general and administrative expense includes $273,460 and $546,920 of structuring fee amortization paid to HEP during third quarter of 2021 and $- for the three and six months ended June 30, 2021.

- 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% 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 $38,873 management fees payable to the Manager as of June 30, 2022 (December 31, 2021 - $38,603).
Note e) Management fees to the Manager accrued 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.

Note f) Stock-based compensation was incurred during the three and six months ended June 30, 2021 with a fair value of $41,023 respectively. No stock-based compensation was incurred during the three and six months ended June 30, 2022.