Cliffside Capital Ltd.
Management Discussion and Analysis

For the year ended December 31, 2022

Management Discussion and Analysis

CLIFFSIDE CAPITAL LTD.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 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 April 25, 2023, should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the periods ended December 31, 2022 and 2021, prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). All monetary amounts are expressed in Canadian dollars.

Forward-Looking Disclaimer

Certain statements contained in this MD&A constitute forward-looking statements which reflect the Company's current expectations and projections about future results. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results and developments are likely to differ, the potential impact of the current economic environment of higher inflation and higher 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 (losses) 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

- Net finance receivables grew by 23.5% to $185.0 million
- Net interest income grew by 45.3% to $19.0 million
- Net financial revenue before credit losses, excluding mark to market gain on derivative financial instruments, increased by 34.9% to $9.8 million
- Provision for credit losses increased by $8.1 million to $12.1 million, including $2.1 million on stage 1 receivables
- Net loss before taxes of $2 million was recorded, primarily driven by higher provision for credit losses

The below bridge analysis highlights the key drivers of change in net income between December 31, 2021 and December 31, 2022.

Net income before taxes for the year ended December 31, 2021	**1,609,441**
Net interest and other income	6,275,661
Mark-to-market gain on derivative financial instruments	2,273,947
Interest expense	(3,732,770)
Stage 1 provision for credit losses*	(2,076,429)
Stage 2 & 3 provision for credit losses*	(6,016,101)
Operating expenses	(364,112)
Net (loss) before taxes for the year ended December 31, 2022	**(2,030,363)**

** Individual credit loss stages are representative of the net movement in the balance sheet amounts between 2021 & 2022.*

Gross finance receivables increased by $39.1 million or 25.3% from the prior year, to $193.4 million as at December 31, 2022. In light of the current economic environment, the Company refined the tier distribution of loans acquired to a more favourable mix compared to the prior year. The weighted average APR of new acquisitions increased by 122bps to 16.15% in 2022 compared to the prior year which was a function of passing along the rising cost of funding to new originations. Driving distribution towards higher tiers, while managing overall weighted APRs is intended to have long term positive impacts on the portfolio. The growth of gross finance receivables combined with an increase in weighted average APR generated a $5.9 million or 45.3% increase in net interest income to $19.0

million for the year ended December 31, 2022 compared to the prior year.

The corresponding securitization and subordinated debt increased by $38.9 million or 27.4% from the prior year, to $180.9 million as at December 31, 2022. Cost of funds increased by 181bps to 5.8% for new debt acquired in 2022, following steady Bank of Canada interest rate increases during the year. The growth in debt combined with rising interest rates resulted in $3.7 million or 61.1% increase in interest expense to $9.8 million during the year ended December 31, 2022 compared to the same period in prior year.

The $2.6 million mark-to-market gain on derivative financial instruments for the period ending December 31 2022, represents unrealized gain on an interest rate swap (floating rate for fixed rate). The $2.3 million increase from the prior year is a result of the rise in CDOR in 2022 and an increase in notional as we grew the portfolio. Net financial revenue before credit losses, excluding mark to market gains on derivative financial instruments, increased by 34.9% to $9.8 million.

Despite the increase in net financial revenue before credit losses, net income before income taxes for the year ended December 31, 2022 declined by $3.6 million compared to the same period in the prior year, to a net loss before taxes of $2.0 million. The decline in net income before taxes was primarily driven by $8.1 million increase in the provision for credit losses compared to the same period in the prior year. Under IFRS 9, an allowance for expected credit losses ("ECL") over the next twelve-months is required to be set up immediately on the newly acquired finance receivables (classified as stage 1) for which there is no significant increase in underlying credit risk between the date of their purchase to December 31, 2022. $2.1 million of the increase in provision for credit losses related to stage 1 finance receivables which was anticipated as a result of the growth in gross finance receivables compared to the same period in the prior year. The remaining $6.0 million increase in provision for credit losses on finance receivables, classified in stages 2 and 3, was driven by higher delinquency resulting in part from the current economic environment of higher inflation and higher benchmark interest rates. Management also strategically pulled forward some of the delinquent accounts into the current year, resulting in higher repossession inventory and an increase in stage 2 and stage 3 provisions. This decision was made to capitalize on the continued strength of wholesale values in the used vehicle market. This approach allowed the Company to benefit from higher recoveries from auctions in 2022, while balancing the full life expected losses in the portfolio.

The pace of acquisition of new finance receivables slowed in the fourth quarter of 2022 and subsequently paused in the first quarter of 2023 as the company continues to assess macroeconomic conditions and undergoes its strategic review by the Independent Committee.

Dividends

The Company announced that it will temporarily suspend the payment of quarterly dividends to its shareholders. This decision was made by the Board in light of the strategic review being conducted by a special committee ("Independent Committee"), comprised of independent members of the Board of Directors of the Company, and given the current uncertain macroeconomic environment. To date, the Company has declared and paid five successive quarterly cash dividends on the outstanding common shares of $0.0025 per common share ($0.01 on an annualized basis).

Business Outlook

On December 6, 2022 the Company announced the formation of the Independent Committee to explore and evaluate potential strategic alternatives that may be available to the Company with the goal of maximizing value for Cliffside shareholders and other stakeholders of the Company. These alternatives may include, but are not limited to, a sale of all or a portion of the common shares in the capital of the Company, a sale of all or a portion of the assets of the Company, new debt or equity financings, a strategic investment in the Company or other strategic transaction structures (collectively, "Potential Strategic Transactions"). The Independent Committee has been empowered with a broad mandate to lead the process in connection with the review of Potential Strategic Transactions, including engaging necessary professional advisors. The Independent Committee will manage any expressions of interest relating to any proposed Potential Strategic Transactions that may be forthcoming, and will work with professional advisors to assess the fairness of Potential Strategic Transactions to Shareholders and other stakeholders and make recommendations to the Company's board of directors in respect of all such matters. In connection with the formation of the Independent Committee, the Company expects to materially reduce the pace of any new asset acquisitions while the Independent Committee considers Potential Strategic Transactions.

No decisions relating to any specific Potential Strategic Transaction has been made and there are no assurances that any Potential Strategic Transaction, or transactions, will result from the formation of the Independent Committee and the strategic review process, generally.

Notwithstanding the challenging global macroeconomic environment, the Company's partnerships continue to have access to market financing from various Canadian lenders for the purchase of new auto loan receivables. One facility was renewed in October 2022 for $100 million, a $25 million increase over prior year. The funding facility used for CAR LP I will not be renewed past January 2023. Consistent with its original loan terms, and market practice for similar loan facilities, all cash flow from the partnership will repay the senior lender first, then flow to the mezzanine lender with the remaining balance flowing to the partnership equity. Cliffside will use its other facilities in its other partnerships for normal course monthly purchases of loan receivables. As at December 31, 2022, $111.1 million of funding remains available for utilization by the Partnerships through these funding facilities.

Financial Highlights

Select Operating Results

	For the year ended	
	Dec 31, 2022	**Dec 31, 2021**
	$	**$**
Net interest income	19,060,706	13,119,287
Other Income		
Other income	603,347	269,105
Mark to market gains on derivative financial instruments	2,579,084	305,137
Total income	22,243,137	13,693,529
Interest expense	9,840,027	6,107,257
Net financial revenue before credit losses	12,403,110	7,586,272
Provision for credit losses	12,119,543	4,027,013
Management fees	154,436	126,380
Stock-based compensation	91,515	132,537
Other expenses	2,067,979	1,690,901
Total expenses	14,433,473	5,976,831
Net income before taxes	(2,030,363)	1,609,441
Deferred income taxes	(539,860)	322,948
Net income after taxes	(1,490,503)	1,286,493
Non-controlling interest	(17,844)	(228,808)
Net income attributable to shareholders	**(1,508,347)**	**1,057,685**
Basic and diluted earnings per share	(0.02)	0.01

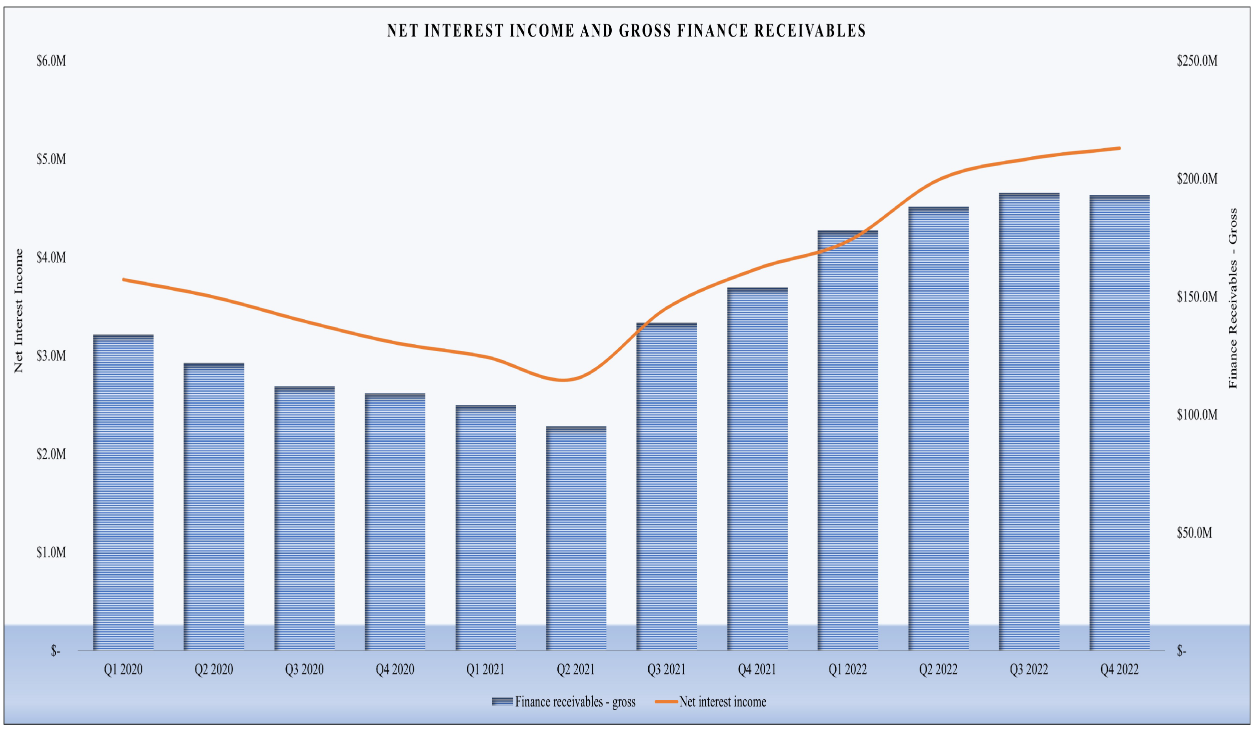
Non-IFRS Measures Results	**For the year ended**	
	Dec 31, 2022	**Dec 31, 2021**
Adjusted net income (1)	(1,249,925)	2,250,493
Gross yield (1)	16.04%	16.07%
Delinquencies (1)	5.45%	3.76%

(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 year ended December 31, 2022, the Company recorded interest income on finance receivables of $26,857,114, before amortization of capitalized costs of $7,796,408. For the year ended December 31, 2021, the Company recorded interest income of $18,352,527, before amortization of capitalized costs of $5,233,240.

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 debts. The amount recorded by the Company for the year ended December 31, 2022 was $9,840,027, compared to $6,107,257 in the previous year. As at December 31, 2022, the weighted average interest rate on the securitization debt was 5.3% compared to 3.9% in the same period in the previous year. As at December 31, 2022, the interest rate on subordinated debt was 9%, the same rate as the prior year.

Net financial revenue before credit losses was $12,403,110 for the year ended December 31, 2022. For the year ended December 31, 2021, net financial revenue before credit losses was $7,586,272.

The provision for credit losses for the year ended December 31, 2022 was $12,119,543 compared to $4,027,013 in the previous year. Under IFRS 9, an allowance for expected credit losses ("ECL") over the next twelve-months is required to be set up immediately on the newly acquired finance receivables (classified as stage 1) for which there is no significant increase in underlying credit risk between the date of their purchase to December 31, 2022. $2.1 million of the increase in provision for credit losses related to stage 1 finance receivables which was anticipated as a result of the growth in gross finance receivables compared to the same period in the prior year. The remaining $6.0 million increase in provision for credit losses on finance receivables, classified in stages 2 and 3, was driven by higher delinquency in part resulting from the current economic environment of higher inflation and higher benchmark interest rates. Management also strategically pulled forward some of the delinquent accounts into the current year, resulting in higher repossession inventory and an increase in stage 2 and stage 3 provisions. This decision was made to capitalize on the continued strength of wholesale values in the used vehicle market. This approach allowed the Company to benefit from higher recoveries from auctions in 2022, while balancing the full life expected losses in the portfolio.

For the year ended December 31, 2022, the Company incurred management fees of $154,436 compared to $126,380 in the previous year, pursuant to a management agreement with LC Asset Management Corporation (refer to Related Party Transactions section).

Other expenses for the year ended December 31, 2022 consisted of stock-based compensation of $91,515, professional fees of $120,195 and general and administrative expenses of $1,947,784. Included within general and administrative expenses are $1,335,229 of amortized financing costs that were paid in the third quarter of 2021 by CAR LP I and the Company that were amortized over a period of one year. For the year ended December 31, 2021, other expenses consisted of stock-based compensation of $132,537, professional fees of $280,007 and general and administrative expenses of $1,410,894. Included within general and administrative expenses are $1,211,174 of amortized financing costs that were paid in the third quarter of 2021 by CAR LP I and the Company that were amortized over a period of one year.

For the year ended December 31, 2022, the Company reported net (loss) attributable to shareholders of $(1,508,347) compared to a net income of $1,057,685 for the year ended December 31, 2021.

Select Statement of Financial Position

As at	**Dec 31, 2022**	**Dec 31, 2021**	**Dec 31, 2020**
	$	**$**	**$**
Cash	10,675,684	12,426,169	5,308,888
Finance receivables - net	184,956,435	149,783,991	104,799,381
Derivative financial instrument	2,884,221	305,137	-
Other assets	1,303,521	1,769,946	813,959
Total assets	**199,819,861**	**164,285,243**	**110,922,228**
Securitization debt	162,804,653	126,970,398	99,691,748
Subordinated debt	18,054,207	14,968,599	-
Deferred purchase price payable	7,645,949	5,939,827	3,507,718
Other liabilities	660,712	1,110,988	211,958
Total liabilities	189,165,521	148,989,812	103,411,424
Equity attributable to shareholders	8,239,524	11,058,323	5,942,480
Non-controlling interest	2,414,816	4,237,108	1,568,324
Total liabilities and equity	**199,819,861**	**164,285,243**	**110,922,228**

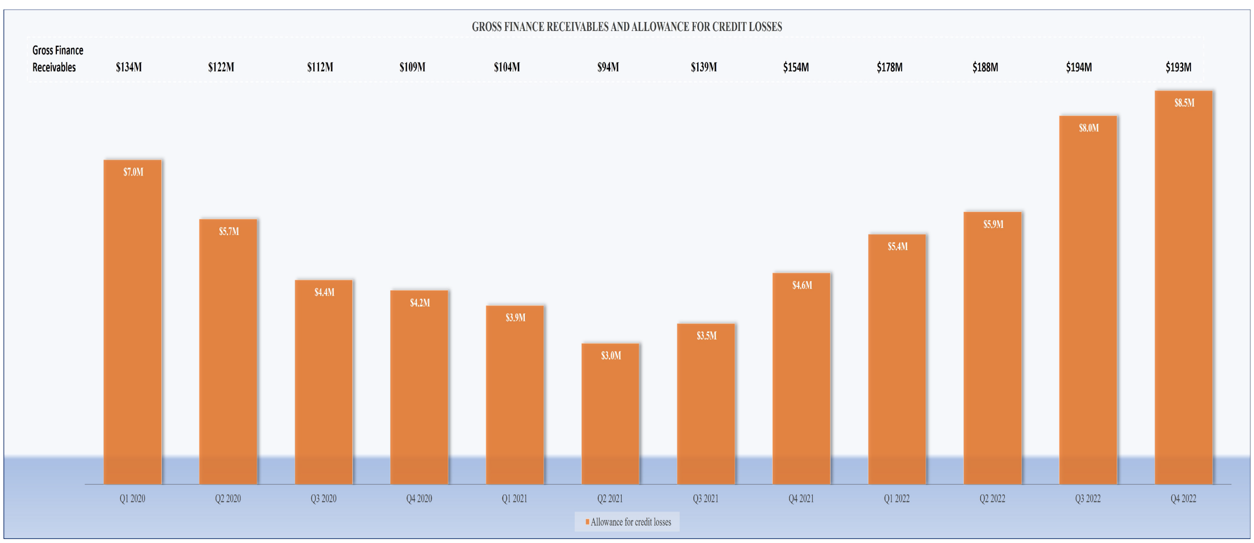
As at	**Dec 31, 2022**	**Dec 31, 2021**	**Dec 31, 2020**
Finance receivables - net	184,956,435	149,783,991	104,799,381
Stage 1 allowance for credit losses	3,471,899	2,463,478	2,645,607
Stage 2 & 3 allowance for credit losses	5,020,516	2,098,786	1,538,847

The Company had cash of $405,116 at December 31, 2022 and the Partnerships held cash balances of $10,270,568 for a consolidated total of $10,675,684. At December 31, 2021, the Company had cash of $650,755 and the Partnerships held cash balances of $11,775,414 for a consolidated total of $12,426,169. 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 during the first half 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 $184,956,435 for finance receivables, net as at December 31, 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 $9,996,992, and net of estimated allowance for credit losses of $8,492,415. In the current economic environment of higher inflation and higher benchmark interest rates, 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 4.39% of the gross finance receivables outstanding at December 31, 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 December 31, 2022 primarily include amounts due from related parties in the normal course of operations of $550,880, 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 related to CAR LP I and the Company and amounts due from related parties of $381,791, which were settled subsequently.

As at December 31, 2022, securitization debt of $162,804,653 was outstanding which is net of a cash holdback held in trust by the funders of $10,296,876. 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. Subordinated debt of $18,054,207 was outstanding at December 31, 2022, compared to $14,968,599 at December 31, 2021, 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 December 31, 2022, the deferred purchase price payable to CCMI amounted to $7,645,949, of which $2,689,516 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 December 31, 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 $8,239,524 at December 31, 2022, primarily due to the dividends of $729,500 and the premium of $625,000 paid during the period for repurchase of Non-controlling entities' shares by CAR LP I. The equity balance was further impacted by the net (loss) attributable to shareholders reported by the Company for the year ended December 31, 2022 of $(1,508,347).

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 dividends during the year.

Non-controlling interest reduced from $4,237,108 at December 31, 2021 to $2,414,816 at December 31, 2022, primarily due to proportionate share of distributions received by the Non-controlling entities of $637,603 and the repurchase for cancellation of outstanding partnership units held by certain of its limited partners for $1,202,533 plus prorated premium by CAR LP I which was offset by the net income of $17,844 attributable to the non-controlling parties.

Select Statement of Cash Flow Summary

	For the year ended	
	Dec 31, 2022	**Dec 31, 2021**
	$	$
Cash (used in) operating activities	(36,985,023)	(39,270,691)
Cash provided by financing activities	35,234,538	46,387,972
(Decrease) increase in cash during the year	**(1,750,485)**	**7,117,281**

The cash used in operating activities for the year ended December 31, 2022 and 2021, was primarily for the acquisition of finance receivables and transaction costs of $117,366,868 and $98,588,876, respectively offset by cash flow generated from collections of $62,718,957 and $44,395,133, respectively.

The cash provided by financing activities during the year ended December 31, 2022 and 2021, primarily consisted of gross proceeds from securitization debt of $113,446,870 and $85,045,815, respectively and subordinated debt of $7,942,825 and $15,702,094, respectively which were offset by the repayments of the debts.

Fourth Quarter Results

Select Operating Results

	For the three months ended	
	Dec 31, 2022	**Dec 31, 2021**
	$	**$**
Net interest income	5,108,860	3,883,773
Other income		
Other income	220,646	64,816
Mark to market gains (losses) on derivative financial instrument	(31,912)	305,137
Total income	5,297,594	4,253,726
Interest expense	2,753,253	1,899,902
Net financial revenue before credit losses	2,544,341	2,353,824
Provision for credit losses	3,924,176	1,811,066
Management fees	38,713	38,603
Other expenses	171,177	807,484
Total expenses	4,134,066	2,657,153
Net loss before taxes	(1,589,725)	(303,329)
Deferred income taxes	(340,748)	(101,092)
Net loss after taxes	(1,248,977)	(202,237)
Non-controlling interest	(187,992)	(84,640)
Net loss attributable to shareholders	**(1,060,985)**	**(117,597)**
Basic and diluted earnings (loss) per share	(0.01)	0.00

Net interest income is interest income earned on finance receivables, net of amortization of capitalized costs. For the three months ended December 31, 2022, the Company recorded interest income of $7,151,382 before amortization of capitalized costs of $2,042,522. For the three months ended December 31, 2021, the Company recorded interest income of $5,528,164 before amortization of capitalized costs of $1,644,391.

Interest expense is incurred by the Partnerships on the securitization and subordinated debts. The amount recorded by the Company for the three months ended December 31, 2022 was $2,753,253 compared to $1,899,902 in the previous year. The weighted average interest rate on the securitization debt was 6.9% compared to 4.1% in the same period in the previous year.

Net financial revenue before credit losses has increased to $2,544,341 of total income for the three months ended December 31, 2021, a 8.09% increase from the same period in prior year due to increase in finance receivables and corresponding securitization and subordinated debt compared to the fourth quarter of 2021.

The provision for credit losses for the three months ended December 31, 2022 was $3,924,176 compared to $1,811,066 in the previous year. The increase in the provision was driven by an increase in acquisition of new finance receivables during the current period compared to the prior year. Under IFRS 9, an allowance for ECL is required on acquisition of new finance receivables, resulting in an early recognition of future credit losses on otherwise performing finance receivables. Therefore, as the portfolio balance increases, so does an allowance for ECL, resulting in a higher 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 profitability of the portfolio over its life. Management closely monitors the shape and timing of the credit loss curve.

The provision for credit losses for the three months ended December 31, 2022 was $3,924,177 compared to $1,811,066 for the same period in the previous year. Under IFRS 9, an allowance for expected credit losses ("ECL") over the next twelve-months is required to be set up immediately on the newly acquired finance receivables (classified as stage 1) for which there is no significant increase in underlying credit risk between the date of their purchase to December 31, 2022. $0.5 million of the increase in provision for credit losses related to stage 1 finance receivables which was anticipated as a result of the growth in gross finance receivables compared to the same period in the prior year. The remaining $1.6 million increase in provision for credit losses on finance receivables, classified in stages 2 and 3, was driven by higher delinquency resulting from the current economic environment of higher inflation and higher benchmark interest rates. Management also strategically pulled forward some of the delinquent accounts into the fourth quarter, resulting in higher repossession inventory and an increase in stage 2 and stage 3 provisions. This decision was made to capitalize on the continued strength of wholesale values in the used vehicle market. This approach allowed the Company to benefit from higher recoveries from auctions in 2022, while balancing the full life expected losses in the portfolio.

For the three-month period ended December 31, 2022, the Company incurred management fees of $38,713 compared to $38,603 in the same period previous year, pursuant to a management agreement with LC Asset Management Corporation (refer to Related Party Transactions section).

Other expenses amounted to $171,177 for the three months ended December 31, 2022 and consisted of professional fees of $36,963, and general and administrative expenses of $134,214 (including amortization of financing costs of $60,729, incurred by CAR LP I and the Company). For the three months ended December 31, 2021 other expenses of $807,484 consisted of professional fees of $120,195, and general and administrative expenses of $687,289 (including amortization of financing costs of $606,634, incurred by CAR LP I and the Company).

For the three months ended December 31, 2022, the Company reported net loss attributable to shareholders of $1,060,985 compared to a net loss of $117,597 in the same period of the previous year.

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 (losses) on derivative 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:

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
Gross yield	16.13%	15.90%	16.31%	16.03%	15.96%	16.08%	16.83%	17.03%
Delinquency rate	5.45%	5.10%	3.63%	3.76%	3.76%	2.40%	3.09%	3.42%

Non-IFRS Measures Reconciliation	**For the year ended**	
	Dec 31, 2022	**Dec 31, 2021**
Net (loss) income before taxes	(2,030,363)	1,609,441
Change in Stage 1 provision for credit losses	780,438	641,052
Adjusted net (loss) income before taxes	(1,249,925)	2,250,493

The Company's portfolio of retail sales/loan contracts, during the past eight quarters, have produced gross yields that are consistent with the quality of portfolio, which contribute favourably to net earnings. The Company's gross yields are reflective of favourable distribution of its portfolio across tiers considering higher benchmark interest rates.

Management expects the delinquency ratio to be in the range of 4.5% to 6.0%. The delinquency rate for the current quarter has increased and is in the higher end of the range. The higher delinquency results, in part, from the current economic environment of higher inflation and higher benchmark interest rates. In this economic environment, it is expected that the delinquency will remain elevated for some quarters to come as we expect these uncertainties to settle down towards the end of 2023. 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.

Global Macroeconomic Challenges

Recent and ongoing macroeconomic global events, including global supply chain delays, the war in Ukraine, higher global inflation as well as the expectation of a continued inflationary environment coupled with higher 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, 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, 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 considering available options to adjust to the current environment and will continue to explore all possibilities 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 global 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; the pandemic; and election outcomes.

Liquidity and Capital Resources

The Partnerships have $10,270,568 in cash as of December 31, 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 $111.1 million as at December 31, 2022.

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 $0.4 million of cash on hand at December 31, 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**	**7,632,532**
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, December 31, 2022	**97,266,667**	**12,044,486**

The basic and diluted weighted average shares outstanding for the year ended December 31, 2022 are 97,266,667, respectively. The basic and diluted weighted average shares outstanding for the year ended December 31, 2021 were 85,246,119 and 86,055,553 respectively. The diluted weighted average shares outstanding for the year ended December 31, 2022 excluded the effect of stock options and warrants issued and outstanding as they were considered antidilutive.

Incentive Stock Options and Warrants

Issued and outstanding stock options as at December 31, 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 December 31, 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

Due to continued strong portfolio performance, the Partnerships were able to distribute a total of $1.2 million to their respective limited partners during the period October 2021 to December 2022. To date, the Company has declared and paid five successive quarterly cash dividends on the outstanding common shares of $0.0025 per common share ($0.01 on an annualized basis).

Summary of Quarterly Results

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

	2022 ($)				2021 ($)				2020 ($)			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Finance receivables-gross	193.45	193.85	187.97	178.36	154.35	139.18	94.92	104.08	108.98	117.43	127.96	140.82
Total Income	5.30	5.57	5.86	5.52	4.25	3.55	2.83	3.06	3.19	3.40	3.64	3.86
Total Expenses	6.89	6.89	5.74	4.75	4.56	3.71	1.65	2.17	2.31	2.34	2.49	5.34
(Loss) income before taxes	(1.59)	(1.32)	0.12	0.77	(0.31)	(0.16)	1.18	0.89	0.88	1.06	1.15	(1.48)
Deferred income taxes	(0.34)	(0.31)	(0.01)	0.12	(0.10)	0.02	0.25	0.15	(0.43)	-	-	-
Net (loss) income after taxes	**(1.25)**	**(1.01)**	**0.13**	**0.65**	**(0.21)**	**(0.18)**	**0.93**	**0.74**	**1.31**	**1.06**	**1.15**	**(1.48)**
Basic and diluted income (loss) per share	(0.01)	(0.01)	0.00	0.00	0.00	0.00	0.01	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, 2022, 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 related parties. If these transactions are eliminated upon consolidation, they are not disclosed as related party transactions. Transactions between the Company and its key management personnel also qualify as related party transactions. Related party balances and transactions are listed as follows:

	Dec 31, 2022	Dec 31, 2021
	$	$
Assets		
Finance receivable - gross (note a)	193,448,850	154,346,255
Other assets (note b)	550,880	928,711
Liabilities		
Accounts payable and accrued liabilities (note c)	76,961	237,734
Deferred purchase price payable (note d)	7,645,949	5,939,827

	For the three months ended		For the year ended	
	Dec 31, 2022	Dec 31, 2021	Dec 31, 2022	Dec 31, 2021
	$	$	$	$
Income and expenses				
Management fees (note e)	38,713	38,603	154,436	126,380
Stock-based compensation (note f)	-	-	91,515	132,537
General and administrative (note g)	-	273,460	546,920	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, 5 and 7 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 $117.4 million of gross finance receivables including transactions costs from ACC LP (2021 - $98.6 million).

Note b) Other assets include (i) amounts due from ACC LP and CCMI related to customer collections in the normal course which were settled subsequent to year end; and (ii) for the period ended December 31, 2021 an additional 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) General and administrative expense of $546,920 for the years ended December 31, 2022 and December 31, 2021 respectively, represented the amortization of the structuring fee paid to HEP.

- 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.

Following are the balances and transactions the Company had with the Manager:

Note c) Included in the balance was $76,765 management fees payable to the Manager as of December 31, 2022 (December 31, 2021 - $38,603).
Note e) Amounts represent management fees to the Manager incurred during the year.

- 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 incurred for the years ended December 31, 2022 and December 31, 2021 had a fair value of $91,515 and $132,537 respectively.

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 funding facilities, 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 December 31, 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 receivables	60,538,431	103,792,868	75,438,296	23,348,296	-	263,117,891
Derivative financial instrument	1,649,297	1,150,171	208,120	1,201	-	3,008,789
	62,187,728	104,943,039	75,646,416	23,349,497	-	266,126,680

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

	Within 1 year	1 to 3 years	3 to 5 years	Greater than 5 years	Undetermined	Total
Securitization debt[1]	44,635,091	77,155,766	43,621,658	11,566,037	-	176,978,552
Subordinated debt	-	-	-	-	18,054,207	18,054,207
Deferred purchase price payable	2,689,516	1,909,986	3,006,964	48,240	-	7,654,706
Accounts payable and accrued liabilities	660,712	-	-	-	-	660,712
	47,985,319	79,065,752	46,628,622	11,614,277	18,054,207	203,348,177

[1] *Securitization debt obligation within 1 year excludes $7.2 million that was settled with the securitizers subsequent to December 31, 2022 from the cash on hand with the Partnerships' as at December 31, 2022.*

The notional amount of the derivative financial instrument is $63 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 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 December 31, 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 the current economic environment of higher inflation and higher 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.

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 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

The following table summarizes the fair value of the Partnership's financial instruments as of December 31, 2022:

	Fair Value Level	Carrying Value (CV) ($)	Fair Value (FV) ($)	(CV) - (FV) ($)
Financial assets				
Cash	1	10,675,684	10,675,684	-
Other assets	2	620,017	620,017	-
Derivative financial instrument	2	2,884,221	2,884,221	-
Finance receivables - net	3	184,956,435	177,035,627	7,920,808
Total financial assets		199,136,357	191,215,549	7,920,808
Financial liabilities				
Accounts payable and accrued liabilities	2	660,712	660,712	-
Deferred purchase price payable	3	7,645,949	7,645,949	-
Securitization debt	3	162,804,653	158,121,620	4,683,033
Subordinate debt	3	18,054,207	16,044,045	2,010,162
Total financial liabilities		189,165,521	182,472,326	6,693,195

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

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

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

- Cash, other assets, accounts payable and accrued liabilities - The carrying value of these items equals fair value due to their short-term nature i.e. these are settled within 30 days or less.
- Finance receivables, securitization debt and subordinate debt - Finance receivables, securitization debt and subordinate debt are subject to fixed rates of interest and have similar maturities. The fair value is calculated by discounting anticipated future cash flows at an appropriate risk weighted rate.
- Derivative financial instrument - The fair value is calculated by discounting anticipated future cash flows at an appropriate risk weighted rate.
- 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.

For the year ended December 31, 2021 the carrying values of the financial assets and liabilities approximated their fair values.

Trading and Share Statistics

Below are details of the Company's share price for the year ended December 31, 2022 and the twelve months ended December 31, 2021.

For the year ended	Dec 31, 2022	Dec 31, 2021
Average monthly trading volume	88,276	88,436
Share price		
High	0.30	0.22
Low	0.08	0.15
Close	0.13	0.22
Outstanding shares at the end of the year	97,266,667	97,266,667

Cliffside Capital Ltd.
Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

Independent auditor's report

To the Shareholders of Cliffside Capital Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Cliffside Capital Ltd. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2022 and 2021;
- the consolidated statements of net (loss) income and comprehensive (loss) income for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were

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addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses (ECL) on finance receivables *Refer to note 2 – Summary of significant accounting policies and note 3 – Finance receivables to the consolidated financial statements.* As at December 31, 2022, the Company's finance receivables – net amounted to $185.0 million, for which an ECL of $8.5 million was recognized. Management uses a three stage approach to calculate 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. Management determines the ECL using a model that requires management to apply significant judgment and involves a large number of significant assumptions, such as: probability of default, whether a significant increase in credit risk since initial recognition has occurred, exposure at default and loss given default and is applied to the population of finance receivables under each stage at each reporting date.	Our approach to addressing the matter included the following procedures, among others: • Evaluated the design and tested the operating effectiveness of internal controls related to the ECL on finance receivables. • Developed an independent point estimate of the ECL. This involved the use of available historical data to independently develop assumptions related to when a significant increase in credit risk has occurred, probability of default, exposure at default and loss given default. • Tested the underlying data used in developing the independent point estimate. • Compared the independent point estimate to management's estimate to evaluate the reasonableness of the ECL.

We considered this a key audit matter due to the significant judgment applied by management in developing significant assumptions to determine the ECL. This, in turn, resulted in significant audit effort and subjectivity in performing procedures to test the ECL determined by management.

Other information

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

Auditor’s responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Jonathan Willis.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 25, 2023

Management's Responsibility for the Consolidated Financial Statements

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

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

When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

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

“Praveen Gupta” (signed)

Praveen Gupta
Chief Financial Officer

“Stephen Malone” (signed)

Stephen Malone
Chief Executive Officer

Consolidated Financial Statements **Page**

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

As at	Dec 31, 2022	Dec 31, 2021
	$	$
Assets		
Cash	10,675,684	12,426,169
Finance receivables-net (note 3)	184,956,435	149,783,991
Deferred income taxes	677,504	137,644
Derivative financial instrument (note 4)	2,884,221	305,137
Other assets	626,017	1,632,302
Total assets	**199,819,861**	**164,285,243**
Liabilities		
Accounts payable and accrued liabilities	660,712	1,110,988
Deferred purchase price payable	7,645,949	5,939,827
Securitization debt (note 8)	162,804,653	126,970,398
Subordinated debt (note 9)	18,054,207	14,968,599
Total liabilities	189,165,521	148,989,812
Equity (note 10)		
Share capital	12,044,486	12,044,486
Contributed surplus	1,356,018	1,264,503
Cumulative deficit	(5,160,980)	(2,250,666)
Equity attributable to shareholders	8,239,524	11,058,323
Non-controlling interests (note 11)	2,414,816	4,237,108
Total equity	10,654,340	15,295,431
Total liabilities and equity	**199,819,861**	**164,285,243**

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

(in Canadian dollars)

	For the year ended	
	Dec 31, 2022	**Dec 31, 2021**
	$	$
Income		
Net interest income	19,060,706	13,119,287
Other income		
Other income	603,347	269,105
Mark-to-market gains on derivative financial instrument	2,579,084	305,137
Total income	22,243,137	13,693,529
Financial expenses		
Interest expense	9,840,027	6,107,257
Net financial revenue before credit losses	12,403,110	7,586,272
Provision for credit losses (note 3)	12,119,543	4,027,013
Net financial income	283,567	3,559,259
Operating expenses		
Management fees (note 15)	154,436	126,380
Stock-based compensation	91,515	132,537
General and administrative	2,067,979	1,690,901
Total operating expenses	2,313,930	1,949,818
Net (loss) income before income taxes	**(2,030,363)**	**1,609,441**
Deferred income taxes	(539,860)	322,948
Net (loss) income and comprehensive (loss) income	**(1,490,503)**	**1,286,493**
Net (loss) income attributable to shareholders	(1,508,347)	1,057,685
Net income attributable to non-controlling interest (note 11)	17,844	228,808
Net (loss) income and comprehensive (loss) income	**(1,490,503)**	**1,286,493**
Earnings or loss per share		
Basic and diluted (note 12)	(0.02)	0.01

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

(in Canadian dollars)

	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**
Shares issuance, net of issuance costs	4,411,954	-	-	-	4,411,954
Stock-based compensation	-	132,537	-	-	132,537
Dividends	-	-	(486,333)	-	(486,333)
Investment by non-controlling entities	-	-	-	2,500,010	2,500,010
Distribution to non-controlling entities	-	-	-	(60,034)	(60,034)
Net income and comprehensive income for the year	-	-	1,057,685	228,808	1,286,493
Balance, December 31, 2021	**12,044,486**	**1,264,503**	**(2,250,666)**	**4,237,108**	**15,295,431**
Stock-based compensation	-	91,515	-	-	91,515
Dividends	-	-	(729,500)	-	(729,500)
Distribution to non-controlling entities	-	-	-	(637,603)	(637,603)
Repurchase of non-controlling entities share	-	-	(203,717)	(1,046,283)	(1,250,000)
Premium paid on above repurchase of equity	-	-	(468,750)	(156,250)	(625,000)
Net (loss) income and comprehensive (loss) income for the year	-	-	(1,508,347)	17,844	(1,490,503)
Balance, December 31, 2022	**12,044,486**	**1,356,018**	**(5,160,980)**	**2,414,816**	**10,654,340**

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

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

	For the year ended Dec 31, 2022	Dec 31, 2021
Cash provided by (used in)		
Operating activities	**$**	**$**
Net (loss) income	(1,490,503)	1,286,493
Adjustments for non-cash items		
Deferred income taxes	(539,860)	291,204
Provision for credit losses	12,119,543	4,027,013
Amortization of capitalized costs	9,211,823	6,485,918
Stock-based compensation	91,515	132,537
Change in accrued interest receivable	(440,483)	(51,118)
Mark-to-market gains on derivative financial instrument	(2,579,084)	(305,137)
Change in working capital	(416,186)	624,033
Acquisition of finance receivables and transaction costs	(117,366,868)	(98,588,876)
Collections on finance receivables	62,718,957	44,395,133
Additions to deferred purchase price payable	5,984,769	5,372,656
Payment of deferred purchase price payable	(4,278,646)	(2,940,547)
Cash (used in) operating activities	**(36,985,023)**	**(39,270,691)**
Financing activities		
Gross proceeds from securitization debt	113,446,870	85,045,815
Repayments of securitization debt	(77,251,048)	(59,186,115)
(Increase) decrease in securitization debt cash holdback, net of releases	(300,616)	1,417,739
Gross proceeds from subordinated debt	7,942,825	15,702,094
Repayments of subordinated debt	(4,857,217)	(733,495)
Transaction costs related to debt	(261,006)	(2,466,829)
Dividends paid	(972,667)	(243,167)
Investment by non-controlling entity	-	2,500,010
Issuance of common shares	-	4,411,954
Distribution to non-controlling entities	(637,603)	(60,034)
Repurchase of non-controlling entities share	(1,875,000)	-
Cash provided by financing activities	**35,234,538**	**46,387,972**
(Decrease) Increase in cash for the year	**(1,750,485)**	**7,117,281**
Cash, beginning of the year	12,426,169	5,308,888
Cash, end of the year	**10,675,684**	**12,426,169**
Supplementary information related to operating activities		
Interest received	25,117,928	17,650,473
Interest paid	9,645,103	5,549,625

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

1. Nature of Organization

Description of the business

Cliffside Capital Ltd. (the "Company") holds investments in 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"), a related party 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 limited partnership units in CAL LP, ACC LP III and CAR LP I respectively, and CCMI owns the rest of the partnership units in these partnerships. Refer to note 11 for details on changes in the ownership of limited 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 consolidated financial statements

The financial statements were approved by the Company's Board of Directors and authorized for issue on April 25, 2023.

2. Summary of Significant Accounting Policies

Basis of presentation

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

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

Statement of compliance

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

Basis of consolidation

These consolidated financial statements include the accounts of the Company and the Partnerships. The financial statements of the Partnerships are prepared for the same reporting period as the Company, using consistent accounting policies. All intracompany balances, income and expenses, and distributions are eliminated in full.

Controlled entities

The consolidated financial statements incorporate the assets and liabilities of all controlled entities of the Company as at December 31, 2022 and December 31, 2021 and the results of all controlled entities for the years ended on December 31, 2022 and December 31, 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 consolidated financial statements in conformity with IFRS requires management of the Company to make certain judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are used when accounting for items and matters such as consolidation of investments in limited partnerships, capitalized transaction costs, provision for credit losses, deferred purchase price payable, deferred income taxes, including recoverability of deferred tax assets, and fair value of stock options or other amounts pursuant to the Company's significant accounting policies. The Company has utilized estimates, assumptions and judgments that reflect the uncertainties presented by the current economic environment of higher inflation and higher 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 December 31, 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. Changes in the fair value are recognized in Other income in the Consolidated Statements of Net (Loss) Income and Comprehensive (Loss) 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 determined using a model that requires application of significant judgment and calculated by applying significant assumptions such as 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, continues 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, 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 macroeconomic environment that has been largely stable, with a limited period of higher inflation rates and higher benchmark interest 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 an unconditional and 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 expire; 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 expire; 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 (loss) 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 December 31, 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. 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.

Standards issued but not yet effective

On October 31, 2022 the IASB issued amendments 'Non-current liabilities with covenants' to IAS 1, 'Presentation of financial statements'. The amendments clarify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification as current or non-current, even if the covenant is only assessed after the entity's reporting date. The new amendments are effective for annual reporting periods beginning on or after 1 January 2024 and override the previous amendments. These amendments are not expected to have an impact on the Company's consolidated financial statements.

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 $193.4 million of gross finance receivables, representing $183.5 million of finance receivables and $9.9 million of transaction costs as at December 31, 2022 (December 31, 2021 - $154.3 million of gross finance receivables including $7.8 million of transaction costs). The Partnerships received securitization and subordinated debt proceeds of $121.4 million during the year ended December 31, 2022 (twelve months ended December 31, 2021 - $100.7 million).

	Dec 31, 2022	Dec 31, 2021
	$	$
Finance receivables	183,451,858	146,551,794
Add: Transaction costs	13,535,803	10,927,992
Less: Administration fees	(3,538,811)	(3,133,531)
Finance receivables - gross	**193,448,850**	**154,346,255**
Allowance for credit losses	(8,492,415)	(4,562,264)
Finance receivables - net	**184,956,435**	**149,783,991**

Included in the finance receivables is motor vehicle inventory, repossessed from customers with a net realizable value of $1,403,653 as of December 31, 2022 (December 31, 2021 - $849,430). These amounts represent net proceeds expected to be collected through auctions of motor vehicles subsequent to the year end.

Outstanding payments, including principal and interest, contractually due under the finance receivables, as well as transaction costs, as at December 31, 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.

	Dec 31, 2022	Dec 31, 2021
	$	$
Within one year	60,538,431	48,875,495
One to three years	103,792,868	84,478,647
Three to five years	75,438,296	55,034,997
Greater than five years	23,348,296	18,908,132
Total receivables	263,117,891	207,297,271
Less: Unearned interest	(79,666,033)	(60,745,477)
Total receivables, net of unearned interest	183,451,858	146,551,794
Add: Transaction costs, net of administration fees	9,996,992	7,794,461
Finance receivables - gross	**193,448,850**	**154,346,255**
Allowance for credit losses	(8,492,415)	(4,562,264)
Finance receivables - net	**184,956,435**	**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 December 31, 2022 are as follows:

Credit risk rating	**Finance receivables by stage**		**Allowance for credit losses**	
	$	**%**	**$**	**%**
Stage 1	169,066,978	94.3	(3,471,899)	40.9
Stage 2	5,571,004	3.1	(2,091,359)	24.6
Stage 3	4,648,741	2.6	(2,929,157)	34.5
Total maximum exposure by stage	179,286,723	100.0	(8,492,415)	100.0
Transactions costs	13,535,803			
Fees and other charges	626,324			
Allowance for credit losses	(8,492,415)			
Finance receivables - net	**184,956,435**			

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 45% to 50% of its maximum exposure.

The changes in allowance for credit losses between January 1, 2022 to December 31, 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	(1,108,755)	1,108,755	-	-
From stage 2 to 1	218,627	(218,627)	-	-
From stage 2 to 3	-	(2,385,728)	2,385,728	-
From stage 3 to 2	-	9,758	(9,758)	-
Early termination	(464,211)	-	-	(464,211)
New finance receivables purchased, net	1,553,755	-	-	1,553,755
Change in PDs/EADs/LGDs	809,005	2,434,566	7,786,428	11,029,999
Provision for credit losses for the year	**1,008,421**	**948,724**	**10,162,398**	**12,119,543**
Less: Write-offs, net of recoveries plus collection charges	**-**	**-**	**(8,189,392)**	**(8,189,392)**
Allowance for credit losses, December 31, 2022	**3,471,899**	**2,091,359**	**2,929,157**	**8,492,415**

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 year-ended December 31, 2022 and year ended December 31, 2021.

4. Derivative Financial Instrument

Partnership's derivative is an over-the-counter customized derivative transaction and are not exchange traded. The following table summarizes the notional amount and estimated fair value of the derivative financial instrument as at December 31, 2022:

	Dec 31, 2022		
	Notional	**Fair Value Assets**	**Fair Value Liabilities**
Interest rate swap contracts	63,000,000		
Current portion		1,715,008	-
Non-current portion		1,169,213	-
Totals	**63,000,000**	**2,884,221**	**-**

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 or CDOR). The interest rate swap contract matures in December 2027.

The Company's exposure to IBOR Reform is limited to the CDOR. Regulators have recommended that markets start to adopt alternative risk-free rates. The derivative contract's CDOR rate will be replaced with a new applicable rate in advance of the cessation of CDOR at the end of June 2024.

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

	Dec 31, 2021		
	Notional	**Fair Value Assets**	**Fair Value Liabilities**
Interest rate swap contracts	53,000,000		
Current portion		17,711	-
Non-current portion		287,426	-
Totals	**53,000,000**	**305,137**	**-**

5. Net Interest Income

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

	For the years ended	
	Dec 31, 2022	**Dec 31, 2021**
	$	**$**
Interest income	26,857,114	18,352,527
Amortization of capitalized costs	(7,796,408)	(5,233,240)
Net interest income	**19,060,706**	**13,119,287**

The amortization of capitalized costs includes amortization of origination costs of $2,197,340 for the year ended December 31, 2022 (2021 - $1,633,183). In addition, it also includes the amortization of the premium associated with acquiring fully serviced loans from CCMI (see note 15), of $5,599,068 for the year ended December 31, 2022 (2021 - $3,600,057).

6. Deferred Income Taxes

The non-capital losses incurred to date are $7 million, the effect of which has been recognized in the financial statements as an increase to the deferred income tax asset, amounting to $0.5 million. Components of the Company's deferred income tax asset are as follows:

	Dec 31, 2022	**Dec 31, 2021**
	$	**$**
Non-capital losses carry forwards	1,750,720	1,622,812
Partnership temporary differences	(1,098,346)	(1,539,165)
Share issuance costs	25,130	53,997
Total deferred income taxes asset	**677,504**	**137,644**

A reconciliation of deferred income tax asset is as follows:

	Dec 31, 2022	**Dec 31, 2021**
	$	**$**
Balance, beginning of year	137,644	428,848
Recognized in equity	-	31,744
Recognized in net loss (income)	539,860	(322,948)
Total deferred income taxes	**677,504**	**137,644**

The Company has recognized a deferred income tax asset for the cumulative tax losses as of the year ended December 31, 2022 since it is probable that the tax benefit can be utilized. If it is unutilized, the tax losses carry-forwards expire commencing 2033. The tax benefit of deductible share issuance costs has been allocated directly to share capital.

The components of tax can be broken down as follow:

	Dec 31, 2022	**Dec 31, 2021**
	$	**$**
Current tax	-	-
Deferred tax		
Related to current year (losses) income	(539,860)	322,948
Total (recovery of) provision for income taxes	**(539,860)**	**322,948**

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

	For the years ended Dec 31, 2022	Dec 31, 2021
	$	$
Net (loss) income before taxes	(2,030,363)	1,609,441
Applicable tax rate	26.5%	26.5%
Expected income tax (recovery) expense at applicable tax rate	(538,046)	426,502
(Recovery) expense resulting from:		
Expenses not deductible for tax	24,251	35,122
Non-controlling interest and other items	(6,434)	(50,151)
Timing Differences	(19,631)	(88,525)
Total (recovery of) provision for income taxes	**(539,860)**	**322,948**

Net income for tax purposes relating to the Partnerships is allocated to the limited partners on an annual basis.

7. Deferred Purchase Price Payable

The Partnerships purchase retail sales/loan contracts from CCMI (refer to note 15), on a fully serviced basis. A component of the purchase price for the purchased receivables is deferred and payable to CCMI over the life of the related finance receivables. A breakdown of the amount owing at December 31, 2022 and December 31, 2021 is presented below:

	Dec 31, 2022	Dec 31, 2021
	$	$
Due within 1 year	3,869,137	2,804,827
Due greater than 1 year	3,776,812	3,135,000
Total deferred purchase price payable	**7,645,949**	**5,939,827**

CCMI continues to administer the contracts on behalf of the Partnerships which pay a deferred purchase price to CCMI based on the outstanding finance receivables balance at the end of every month. The total amount payable at the time the Partnerships purchase the receivables is calculated as the present value of estimated future cash payments and is capitalized within transaction costs under finance receivables. Accordingly, every month, as the associated finance receivables continue to remain outstanding, a portion of the deferred purchase price becomes due and payable. The liability is paid monthly with a total of $4,278,646 paid by the Partnerships to CCMI for the year ended December 31, 2022 (December 31, 2021 - $2,940,547).

8. Securitization Debt

Securitization debt represents funding secured by the finance receivables. For the year ended December 31, 2022, the Partnerships had securitized finance receivables for securitization proceeds of $113.4 million which had principal outstanding, excluding capitalized transaction costs at the time of securitization of $112.9 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 as at December 31, 2022 is 5.25%.

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 years ended December 31, 2022 and December 31, 2021 respectively, is broken down as follows:

	Dec 31, 2022	**Dec 31, 2021**
	$	**$**
Securitization debt, opening balance	126,970,398	99,691,748
Gross proceeds on securitization	113,446,870	85,045,815
Repayments to securitizers	(77,251,048)	(59,186,115)
(Increase) decrease in cash holdback, net of releases	(300,616)	1,417,739
Change in unamortized securitization costs	(60,951)	1,211
Securitization debt, ending balance	**162,804,653**	**126,970,398**

The securitization debt as at December 31, 2022 is net of cash reserve of $10,296,876 (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 December 31, 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.

	Dec 31, 2022	Dec 31, 2021
	$	$
Within one year	51,905,433	45,201,594
One to three years	77,155,766	62,735,585
Three to five years	43,621,658	24,165,892
Greater than five years	11,566,037	7,312,051
Securitization debt, gross	184,248,894	139,415,122
Less: Unearned interest and unamortized securitization costs	(21,444,241)	(12,444,724)
Securitization debt, ending balance	**162,804,653**	**126,970,398**

9. 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 December 31, 2022 CAR LP I has not recognized a contingent liability for profit sharing.

The subordinated debt activity and balance for the years ended December 31, 2022 and December 31, 2021 respectively, is broken down as follows:

	Dec 31, 2022	Dec 31, 2021
	$	$
Subordinated debt, opening balance	14,968,599	-
Gross proceeds on subordinated debt	7,942,825	15,702,094
Repayments on subordinated debt	(4,857,217)	(733,495)
Subordinated debt, ending balance	**18,054,207**	**14,968,599**

10. 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, 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, December 31, 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 11 for details on the transaction.

b) Stock Options and Warrants

Issued and outstanding stock options as at December 31, 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 December 31, 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, August 2 and November 10, 2022.

11. Non-Controlling Interest

A breakdown of the non-controlling interest on the statement of financial position as of December 31, 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 year income (loss)	(198,998)	247,110	(30,268)	17,844
Non-controlling portion of distributions	(131,314)	(640,074)	(45,014)	(816,402)
Repurchase of equity invested by third parties in partnership	-	-	(1,046,283)	(1,046,283)
Premium paid on above repurchase of equity	-	-	(156,250)	(156,250)
Total non-controlling interest	**737,738**	**1,023,708**	**653,370**	**2,414,816**

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**

The table below summarizes the financial information for each of the Partnerships where the Company holds its investments along with Non-controlling interest's ownership percentage in each of these partnerships as of December 31, 2022.

As at and for the year ended December 31, 2022	LP III ($)	CAL LP ($)	CAR LP I ($)
Non-controlling ownership percentage	40%	15%	25%
Total assets	20,670,743	92,903,253	85,108,265
Total liabilities	17,851,592	87,825,122	83,358,761
Net Assets	2,819,151	5,078,131	1,749,504
Total income	3,186,139	6,953,867	12,096,561
Financial expenses	2,269,558	8,650,525	11,039,487
Operating expenses	76,071	108,310	1,567,800
Net income	840,510	(1,804,968)	(510,726)
Operating cash flows	19,309,787	(46,921,401)	(8,858,042)
Financing cash flows	(20,099,315)	48,276,672	6,787,451
Increase (decrease) in cash flows	(789,528)	1,355,271	(2,070,591)

The table below summarizes the financial information for each of the Partnerships where the Company holds its investments along with Non-controlling interest's ownership percentage in each of these partnerships as of December 31, 2021.

As at and for the year ended December 31, 2021	LP III ($)	CAL LP ($)	CAR LP I ($)
Non-controlling ownership percentage	40%	15%	40%
Total assets	40,673,296	43,865,225	78,921,210
Total liabilities	37,344,655	36,632,126	74,605,980
Net Assets	3,328,641	7,233,099	4,315,230
Total income	5,855,282	5,145,366	2,691,947
Financial expenses	3,817,618	3,042,424	3,274,227
Operating expenses	82,354	82,330	1,352,500
Net income	1,955,310	2,020,612	(1,934,780)
Operating cash flows	19,497,011	9,570,120	(68,088,720)
Financing cash flows	(19,659,872)	(8,699,166)	74,029,764
Increase (decrease) in cash flows	(162,861)	870,954	5,941,044

12. Earnings or Loss Per Share

Earnings per share for the year ended December 31, 2022 and 2021 were calculated based on the following:

	For the year ended	
	Dec 31, 2022	**Dec 31, 2021**
(Loss) income attributable to shareholders ($)	(1,508,347)	1,057,685
Weighted average shares outstanding – basic	97,266,667	85,246,119
Earnings or loss per share – basic ($)	**(0.02)**	**0.01**
(Loss) income attributable to shareholders ($)	(1,508,347)	1,057,685
Weighted average shares outstanding – diluted	97,266,667	86,055,553
Earnings or loss per share – diluted ($)	**(0.02)**	**0.01**

The diluted weighted average shares outstanding for the year ended December 31, 2022 presented above excluded the effect of stock options and warrants issued and outstanding as they were considered antidilutive.

13. Capital Management

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 $165 million, together with a subordinated debt commitment of $35.2 million, bringing the total funding availability to $200.2 million. As at December 31, 2022, $111.1 million of funding remains available for utilization by the Partnerships through these funding facilities. Subsequent to the year ended December 31, 2022, the securitization debt facility of CAR LP I entered into an Early Amortization Event (refer to note 16 for details).

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.

14. 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 funding facilities, 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 December 31, 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
Finance receivables	60,538,431	103,792,868	75,438,296	23,348,296	-	263,117,891
Derivative financial instrument	1,649,297	1,150,171	208,120	1,201	-	3,008,789
	62,187,728	104,943,039	75,646,416	23,349,497	-	266,126,680

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]	44,635,091	77,155,766	43,621,658	11,566,037	-	176,978,552
Subordinated debt	-	-	-	-	18,054,207	18,054,207
Deferred purchase price payable	2,689,516	1,909,986	3,006,964	48,240	-	7,654,706
Accounts payable and accrued liabilities	660,712	-	-	-	-	660,712
	47,985,319	79,065,752	46,628,622	11,614,277	18,054,207	203,348,177

[1] *Securitization debt obligation within 1 year excludes $7.2 million that was settled with the securitizers subsequent to December 31, 2022 from the cash on hand with the Partnerships' as at December 31, 2022.*

The notional amount of derivative financial instrument is $63 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 December 31, 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 the current economic environment of higher inflation and higher 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.

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

The following table summarizes the fair value of the Partnership's financial instruments as of December 31, 2022:

	Fair Value Level	Carrying Value (CV) ($)	Fair Value (FV) ($)	(CV) - (FV) ($)
Financial assets				
Cash	1	10,675,684	10,675,684	-
Other assets	2	620,017	620,017	-
Derivative financial instrument	2	2,884,221	2,884,221	-
Finance receivables - net	3	184,956,435	177,035,627	7,920,808
Total financial assets		199,136,357	191,215,549	7,920,808
Financial liabilities				
Accounts payable and accrued liabilities	2	660,712	660,712	-
Deferred purchase price payable	3	7,645,949	7,645,949	-
Securitization debt	3	162,804,653	158,121,620	4,683,033
Subordinate debt	3	18,054,207	16,044,045	2,010,162
Total financial liabilities		189,165,521	182,472,326	6,693,195

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

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

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

- Cash, other assets, accounts payable and accrued liabilities - The carrying value of these items equals fair value due to their short-term nature i.e. these are settled within 30 days or less.
- Finance receivables, securitization debt and subordinate debt - Finance receivables, securitization debt and subordinate debt are subject to fixed rates of interest and have similar maturities. The fair value is calculated by discounting anticipated future cash flows at an appropriate risk weighted rate.
- Derivative financial instrument - The fair value is calculated by discounting anticipated future cash flows at an appropriate risk weighted rate.
- 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.

For the year ended December 31, 2021 the carrying values of the financial assets and liabilities approximated their fair values.

15. Related Party Transactions

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

	Dec 31, 2022 $	Dec 31, 2021 $
Assets		
Finance receivable - gross (note a)	193,448,850	154,346,255
Other assets (note b)	550,880	928,711
Liabilities		
Accounts payable and accrued liabilities (note c)	76,961	237,734
Deferred purchase price payable (note d)	7,645,949	5,939,827

	For the year ended Dec 31, 2022 $	 Dec 31, 2021 $
Expenses		
Management fees (note e)	154,436	126,380
Stock-based compensation (note f)	91,515	132,537
General and administrative (note g)	546,920	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, 5 and 7 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 $117.4 million of gross finance receivables including transactions costs from ACC

LP (2021 - $98.6 million).

Note b) Other assets include (i) amounts due from ACC LP and CCMI related to customer collections in the normal course which were settled subsequent to year end; and (ii) for the period ended December 31, 2021 an additional 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) General and administrative expense of $546,920 for the years ended December 31, 2022 and December 31, 2021 respectively, represented the amortization of the structuring fee paid to HEP.

- 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.

Following are the balances and transactions the Company had with the Manager:

Note c) Included in the balance was $76,765 management fees payable to the Manager as of December 31, 2022 (December 31, 2021 - $38,603).
Note e) Amounts represent management fees to the Manager incurred during the year.

- 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 incurred for the years ended December 31, 2022 and December 31, 2021 had a fair value of $91,515 and $132,537 respectively.

16. Subsequent event

During January 2023, the funding facilities of CAR LP I entered into an Early Amortization Event. As a result, all of the customer collections are applied against the Securitization debt with the exception of certain operational expenses and a portion of the deferred purchase price.

In February 2023, the Company announced that it will temporarily suspend the payment of quarterly dividends to its shareholders. This decision was made by the Board in light of the strategic review being conducted by a special committee ("Independent Committee"), comprised of independent members of the Board of Directors of the Company, and given the current uncertain macroeconomic environment.