

Cliffside Capital Ltd.
Management Discussion and Analysis

For the year ended December 31, 2021

Management Discussion and Analysis

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CLIFFSIDE CAPITAL LTD.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2021

The following management discussion and analysis (“MD&A”) of the results of the operations and financial position of Cliffside Capital Ltd. (the “Company”) prepared as of December 31, 2021 and approved by the Board of Directors on April 27, 2022, should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2021, prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. All monetary amounts are expressed in Canadian dollars.

Forward-Looking Disclaimer

Certain statements contained in this MD&A constitute forward-looking statements which reflect the Company’s current expectations and projections about future results. Often, but not always, forward-looking statements can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “estimates”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results and developments are likely to differ, the potential impact of the ongoing COVID-19 pandemic 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 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

The Company recorded a net income of \$1.6 million for the year ended December 31, 2021. The below bridge analysis, between December 31, 2020 and December 31, 2021 net income before taxes highlights the key drivers of change in net income between the years and the impact of formation of CAR LP I in Q3 2021, on net income for the year 2021.

December 31, 2020 net income before taxes	1,610,989
Net interest and other income	(702,101)
Mark-to-market gain on derivative financial instruments	305,137
Interest expense	622,266
Stage 1 provision for credit losses*	(641,052)
Stage 2 & 3 provision for credit losses*	1,970,855
Financing costs	(1,211,174)
Operating expenses	(345,479)
December 31, 2021 net income before taxes	1,609,441

**Individual credit loss stages are representative of the net movement in the balance sheet amounts between 2020 and 2021.*

As 70% of new finance receivables were acquired during the second half of 2021, not on the books long enough to generate substantial interest income, it led to a decline in net interest income for the full year. However, mark to market gains on derivative financial instruments (an interest rate swap), included in other income, partially offset the decline in net interest income. The related securitization and subordinated debt, obtained to finance the acquisition of new receivables, was obtained at a lower combined rate, which led to a higher decline in interest expense for the year, resulting in a higher net interest margin for the Company.

Under IFRS 9, an allowance for the expected credit losses (“ECL”) is recorded against stage 1 finance receivables, which include newly acquired and performing finance receivables, for which there is no significant increase in underlying credit risk between the date of their purchase to December 31, 2021. The adverse impact of this incremental provision is reflected in the movement in stage 1 credit losses of \$641,052, noted in above bridge analysis. The decline in stages 2 and 3 provision for credit losses of \$1,970,855 is reflective of a better performance of the portfolio, a result of lower write-offs and lower delinquency levels.

Financing costs of \$1,211,174 were incurred during the current year for securing new funding facilities for CAR LP I and the Company during the year.

Adjusted net income before taxes was \$2,250,493 for the year ended December 31, 2021, compared to \$2,114,597 for the prior year (refer to Non-IFRS Measures for the definition).

For the first time in its history, the Company declared a quarterly cash dividend in Q3, 2021, followed by a second quarterly cash dividend declared in Q4, 2021 on the outstanding common shares of \$0.0025 per common share (\$0.01 on an annualized basis), reflective of the strong performance of the Company's portfolio.

On July 14, 2021, the Company successfully raised \$4.5 million in gross proceeds through a private placement of its common shares, of which it invested \$3.75 million in a newly formed special purpose private limited partnership, CAR LP I, for 60% of ownership and the remaining \$0.75 million was used for its general working capital requirements. The new private limited partnership was formed to acquire non-prime consumer auto loan receivables. CAR LP I obtained a new securitization funding facility from a Schedule 1 Bank and a subordinated debt commitment from a private Canadian asset management firm. The funding structure will result in lower interest costs and improved cash flows for the limited partnership.

The company acquired a record high gross finance receivables of \$98.6 million during the year ended December 31, 2021. Net finance receivables increased by \$45.0 million, or 42.9%, from December 31, 2020, to another record high of \$149.8 million. The acquisition of finance receivables for the year ended was financed through the Partnerships' securitization facilities with their respective funders, for aggregate securitization proceeds of \$100.7 million. Securitization debt, net of cash holdback, increased by \$27.3 million or 27.4% for the year ended December 31, 2021.

The partnerships have acquired a total of \$341.3 million in finance receivables, excluding capitalized transaction costs, since inception. As of December 31, 2021, finance receivables, excluding capitalized transaction costs amounted to \$146.6 million.

While COVID-19, a global pandemic, continues to impact Canada with some government-mandated restrictions on businesses and the broader social environment; day-to-day economic activities are slowly returning to normal with the gradual lifting of the restrictions in view of high vaccination rates among Canadians. These restrictions have caused significant financial market disruption and continues to give rise to heightened uncertainty. Management closely monitors and manages the impact of such uncertainty on the Company's and the Partnerships' business.

Financial Highlights

Select Operating Results

	For the year ended	
	Dec 31, 2021	Dec 31, 2020
	\$	\$
Net interest income	13,119,287	13,846,793
Other Income		
Other income	269,105	243,700
Mark to market gains on derivative financial instruments	305,137	-
Total income	13,693,529	14,090,493
Interest expense	6,107,257	6,729,523
Net financial revenue before credit losses	7,586,272	7,360,970
Provision for credit losses	4,027,013	5,356,816
Management fees	126,380	96,590
Other expenses	1,823,438	296,575
Total expenses	5,976,831	5,749,981
Net income before taxes	1,609,441	1,610,989
Provision for (recovery of) income taxes deferred	322,948	(428,848)
Net income after taxes	1,286,493	2,039,837
Non-controlling interest	(228,808)	(343,338)
Net income attributable to shareholders	1,057,685	1,696,499

Basic and diluted earnings per share	0.01	0.02
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Non-IFRS Measures Results

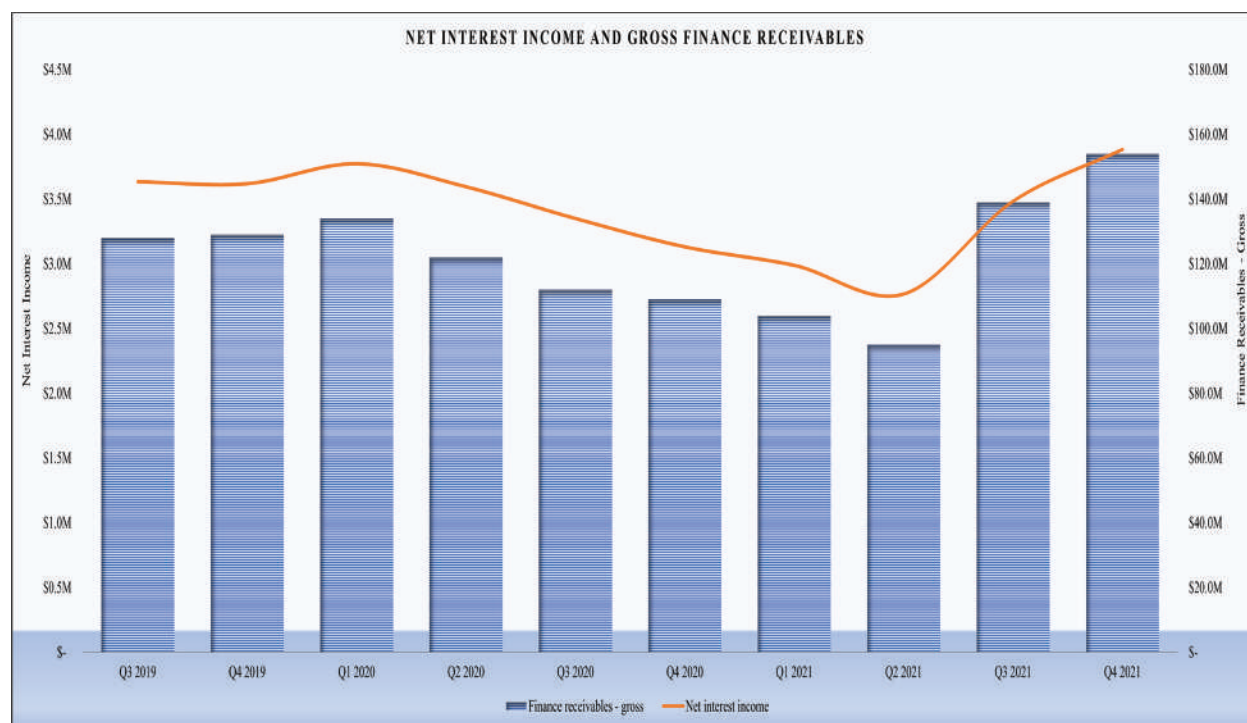
	For the year ended	
	Dec 31, 2021	Dec 31, 2020
Adjusted net income (1)	2,250,493	2,114,597
Gross yield (1)	16.07%	16.55%
Delinquencies (1)	3.17%	3.97%

(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, 2021, the Company recorded interest income of \$18,352,527, partially offset by amortization of capitalized costs of \$5,233,240. For the year ended December 31, 2020, the Company recorded interest income of \$19,879,604, partially offset by amortization of capitalized costs of \$6,032,811.

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, 2021 was \$6,107,257, compared to \$6,729,523 in the previous year. As at December 31, 2021, the weighted average interest rate on the new securitization debt was 3.94% compared to 4.60% in the previous year. As at December 31, 2021, the interest rate on subordinated debt was 9%, while there was no subordinated debt as at December 31, 2020.

Net financial revenue before credit losses was \$7,586,272 for the year ended December 31, 2021. For the year ended December 30, 2020, net financial revenue before credit losses was \$7,360,970.

The provision for credit losses for the year ended December 31, 2021 was \$4,027,013 compared to \$5,356,816 in the previous year. The decrease in provision was driven by a combination of better performance of the portfolio and better quality of new finance receivables purchased. 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 consistently 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.

For the year ended December 31, 2021, the Company incurred management fees of \$126,380 compared to \$96,590 in the previous year, pursuant to a management agreement with LC Asset Management Corporation (refer to Related Party Transactions section).

Other expenses amounted to \$1,823,438 for the year ended December 31, 2021. It 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 incurred in third quarter of 2021 by CAR LP I and the Company that are being amortized over a period of one year. Other expenses amounted to \$296,575 for the year ended December 31, 2020. It consisted of stock-based compensation of \$41,023, professional fees of \$155,524 and general and administrative expenses of \$100,028.

For the year ended December 31, 2021, the Company reported net income attributable to shareholders of \$1,057,685 compared to net income of \$1,696,499 for the year ended December 31, 2020. The higher allocation in 2020 was primarily due to recoding of a recovery of deferred income taxes, whereas a provision for deferred incomes taxes was recorded for the year ended December 31, 2021.

Select Statement of Financial Position

As at	Dec 31, 2021	Dec 31, 2020	Dec 31, 2019
	\$	\$	\$
Cash	12,426,169	5,308,888	6,541,314
Finance receivables - net	149,783,991	104,799,381	130,651,989
Derivative financial instrument	305,137	-	-
Other assets	1,769,946	813,959	189,146
Total assets	164,285,243	110,922,228	137,382,449
Securitization debt	126,970,398	99,691,748	127,229,073
Subordinated debt	14,968,599	-	-
Deferred purchase price payable	5,939,827	3,507,718	4,721,183
Other liabilities	1,110,988	211,958	172,911
Total liabilities	148,989,812	103,411,424	132,123,167
Equity attributable to shareholders	11,058,323	5,942,480	4,204,958
Non-controlling interest	4,237,108	1,568,324	1,054,324
Total liabilities and equity	164,285,243	110,922,228	137,382,449

As at	Dec 31, 2021	Dec 31, 2020	Dec 31, 2019
Finance receivables - net	149,783,991	104,799,381	130,651,989
Stage 1 allowance for credit losses	2,463,478	2,645,607	2,788,687
Stage 2 & 3 allowance for credit losses	2,098,786	1,538,847	3,203,594

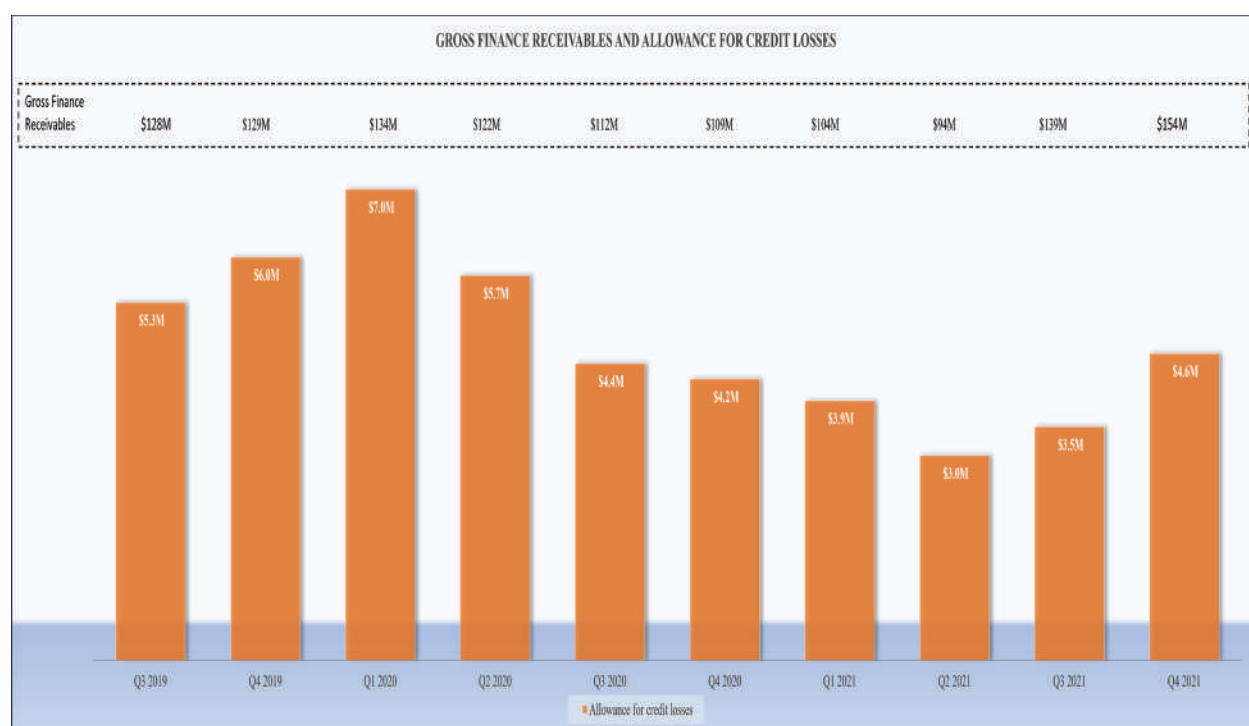
The Company had cash of \$650,754 at December 31, 2021 and the Partnerships held cash balances of \$11,775,414 for a consolidated total of \$12,426,169. At December 31, 2020, the Company had cash of \$182,611 and the Partnerships held cash balances of \$5,126,277 for a consolidated total of \$5,308,888. The Partnerships' cash is primarily generated from the receipt of payments from customers related to the retail sales/loan contracts, as well as net proceeds from securitization, less amounts payable on acquisition of the retail sales/loan contracts. The Partnerships make payments to the funders on the securitization debt on the first and fifteenth day of the following month, and therefore, hold large cash balances at the end of every month.

Finance receivables consist of retail sales/loan contracts which have initial terms of 18 to 84 months at the time of origination and bear fixed rates of interest ranging from 9% to 27%. All finance receivables are secured by collateral charges on the motor vehicles financed. The balance of \$149,783,991 as at December 31, 2021 represents the outstanding principal balance and accrued interest and fees owing from customers, including associated capitalized 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 as at December 31, 2021 includes an estimate for higher ECL resulting from economic disruptions caused by COVID-19. In the current economic environment impacted by COVID-19 as well as higher inflation and expected rise in 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 \$104,799,381 at December 31, 2020 represents the

outstanding principal balance and accrued fees owing from customers, including associated transaction costs, net of unearned administration fees of \$4,689,499 and net of estimated allowance for credit losses of \$4,184,454.

The allowance for credit losses represents 2.96% of the gross finance receivables outstanding at December 31, 2021, compared to 3.84% at December 31, 2020.

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, 2021 primarily include unamortized financing costs of \$1,215,360 related to CAR LP I and the Company and amounts due from related parties in the normal course of operations of \$381,791, which were settled subsequently (refer to Related Party Transactions section). Other assets at December 31, 2020 primarily include amounts due from related parties of \$361,101, which were settled subsequently.

As at December 31, 2021, securitization debt of \$126,970,398 was outstanding which is net of a cash holdback held in trust by the funders of \$9,996,261. As at December 31, 2020, securitization debt of \$99,691,748 was outstanding which is net of a cash holdback held in trust by the funders of \$11,414,000. As at December 31, 2021, subordinated debt of \$14,968,599 was outstanding, which is a new funding facility obtained during the third quarter of 2021. The Partnerships, the Company and CCMI are subject to certain financial covenants under the securitization and subordinated debt facilities, including minimum tangible net worth requirements, all of which were in compliance during the year.

The Partnerships purchase retail sales/loan contracts from CCMI on a fully serviced basis. A component of the purchase price paid for the purchased receivables is deferred and payable to CCMI over the remaining life of the related finance receivables.

As at December 31, 2021, the deferred purchase price payable to CCMI amounted to \$5,939,827, of which \$2,804,827 is estimated to be due within one year. As at December 31, 2020, the deferred purchase price payable to CCMI amounted to \$3,507,718 of which \$2,034,666 was estimated to be due within one year.

Other liabilities as at December 31, 2021 and December 31, 2020 consisted primarily of trade payables and accruals.

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

Equity attributable to shareholders increased from \$4,204,958 at December 31, 2019 to \$5,942,480 at December 31, 2020, primarily due to net income attributable to shareholders reported by the Company for the year ended December 31, 2020 of \$1,696,499.

Non-controlling interest increased from \$1,568,324 at December 31, 2020 to \$4,237,108 at December 31, 2021, due to new investment of \$2,500,010 made during the third quarter of 2021 and proportionate share of net income reported by the Partnerships of \$228,808 to which the non-controlling parties are entitled.

Select Statement of Cash Flow Summary

	For the year ended	
	Dec 31, 2021	Dec 31, 2020
	\$	\$
Cash (used in)/provided by operating activities	(39,270,691)	26,134,237
Cash provided by/(used) financing activities	46,387,972	(27,366,663)
Increase/(decrease) in cash during the period	7,117,281	(1,232,426)

The cash used in operating activities for the year ended December 31, 2021, was primarily for the acquisition of finance receivables and transaction costs of \$98,588,876 partially offset by cash flow generated from collections of \$44,395,133 and other changes. Cash provided by operating activities for the year ended December 31, 2020 consisted primarily of cash flow generated from collections of \$43,332,223, partially offset by the acquisition of finance receivables and other changes.

The cash provided by financing activities for the year ended December 31, 2021, consisted primarily of gross proceeds from securitization debt of \$85,045,815, subordinated debt of \$15,702,094, and gross proceeds raised through private placement of its common shares of \$4,411,954. The cash used in financing activities for the year ended December 31, 2020, consisted primarily of the repayment of the securitization debt.

Fourth Quarter Results

Select Operating Results

	For the three months ended	
	Dec 31, 2021	Dec 31, 2020
	\$	\$
Net interest income	3,883,773	3,130,039
Other income		
Other income	64,816	62,311
Mark to market gains on derivative financial instrument	305,137	-
Total income	4,253,726	3,192,350
Interest expense	1,899,902	1,478,707
Net financial revenue before credit losses	2,353,824	1,713,643
Provision for credit losses	1,811,066	736,900
Management fees	38,603	44,829
Other expenses	807,484	50,052
Total expenses	2,657,153	831,781
Net (loss) income before taxes	(303,329)	881,862
(Recovery of) income taxes	(101,092)	(428,848)
Net (loss) income after taxes	(202,237)	1,310,710
Non-controlling interest	(84,640)	207,355
Net (loss) income attributable to shareholders	(117,597)	1,103,355
Basic and diluted earnings per share	0.00	0.02

Net interest income is interest income earned on finance receivables, net of amortization of capitalized costs. For the three months ended December 31, 2021, the Company recorded interest income of \$5,528,164 partially offset by amortization of capitalized costs of \$1,644,391. For the three months ended December 31, 2020, the Company recorded interest income of \$4,484,564 partially offset by amortization of capitalized costs of \$1,354,525.

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, 2021 was \$1,899,902 compared to \$1,478,707 in the previous year. The weighted average interest rate on the securitization debt was 4.16% compared to 4.15% in the same period in the previous year.

Net financial revenue before credit losses has increased to \$2,353,824 of total income for the three months ended December 31, 2021, a 37.36% increase from the same period in prior year due to increase in finance receivables compared to the fourth quarter of 2020.

The provision for credit losses for the three months ended December 31, 2021 was \$1,811,066 compared to \$736,900 in the previous year. The increase 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.

For the three-month period ended December 31, 2021, the Company incurred management fees of \$38,603 compared to \$44,829 in the previous year, pursuant to a management agreement with LC Asset Management Corporation (refer to Related Party Transactions section).

Other expenses amounted to \$807,484 for the three months ended December 31, 2021 and 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, 2020 other expenses of \$50,052 consisted of professional fees of \$26,377, and general and administrative expenses of \$23,675.

For the three months ended December 31, 2021, the Company reported net loss attributable to shareholders of \$117,597 compared to a net income of \$1,103,355 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 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 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Gross yield	15.55%	15.25%	16.65%	16.84%	16.50%	16.48%	16.45%	16.75%
Delinquency rate	3.76%	2.75%	3.09%	3.42%	3.42%	2.85%	4.09%	5.51%

Non-IFRS Measures Reconciliation

	For the year ended	
	Dec 31, 2021	Dec 31, 2020
Net income before taxes	1,609,441	1,610,989
Change in Stage 1 provision for credit losses	641,052	503,608
Adjusted net income before taxes	2,250,493	2,114,597

The Company's portfolio of retail sales/loan contracts, during the past eight quarters, have produced strong gross yields, consistent with the quality of portfolio, which contribute favourably to net earnings. The Company's gross yields are comparable and reasonably consistent quarter over quarter and reflect the recent reduction in associated funding costs during the year ended December 31, 2021.

With the portfolio being more seasoned, management expects the delinquency rate to be in the range of 4.5% to 5.5%. The delinquency rate for current quarter is below the low end of the range. This is due to a combination of (a) proactive portfolio management for better performance and credit quality, and (b) economic relief provided by the Canadian government to eligible unemployed individuals in the form of periodic cash payments under Canada Recovery Benefit (CRB) and its predecessor, Canada Emergency Response Benefit (CERB) program, and other programs. Management expects delinquency rate to return to its expected range over the next two quarters once the economic relief programs are phased out and the normal economic activities resume. Loan extensions granted for the year were significantly lower than those granted during the prior year. Management closely monitors and measures key indicators such as Non-Sufficient Funds (NSF), customer contact rates, and promises to pay, including the impact of seasonality.

Business Outlook

The funding facilities entered into by the Partnerships renew annually and as at December 31, 2021, \$177.8 million of funding remains available for utilization until the next renewals in third quarter of 2022.

As noted earlier under Operational Highlights, the Company raised \$4.5 million in gross proceeds through private placement of its common shares, of which it invested \$3.75 million in a newly formed limited partnership, CAR LP I for 60% of ownership. The limited partnership was formed to acquire nonprime consumer auto loan receivables with a funding structure that will result in lower funding costs and improved cash flows for the limited partnership compared to the other partnerships. As we increase our access to well-priced capital and grow our funding sources and capital base, we will continue to grow and expand our business.

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

Liquidity and Capital Resources

The Partnerships have \$11,775,414 in cash as of December 31, 2021. 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 \$178 million as at December 31, 2021. As the Partnerships continue to acquire more finance receivables and generate positive cash flows, they may distribute some of their cumulative earnings to their partners.

Through a combination of three private placements in 2013, 2014 and 2021, the Company's initial public offering ("IPO") in 2014, and the Rights offering capital raise in 2019, the Company has raised gross proceeds of \$12.6 million from the issuance of common shares. These proceeds were invested in the Partnerships in 2016, 2019, 2020 and 2021 leaving the Company with approximately \$0.7 million of cash on hand at December 31, 2021.

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, 2019	74,766,667	7,632,532
Issuance of common shares	-	-
Ending balance, December 31, 2020	74,766,667	7,632,532
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

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 basic and diluted weighted average shares outstanding for the year ended December 31, 2020 were 74,766,667. The diluted weighted average shares outstanding for the year ended December 31, 2020 excluded the effect of stock options and warrants issued and outstanding as they are considered antidilutive.

Incentive Stock Options and Warrants

Issued, and outstanding stock options as at December 31, 2021 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, 2021 were 7,822,000. Of these, 2,197,000 stock warrants, granted at the time of rights offering in March 2019 with an expiry date of March 26, 2022, were not exercised and therefore, expired subsequent to the year-end. As part of the private placement during the quarter ended September 30, 2021, the Company granted 5,625,000 stock warrants 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.

Dividends

On August 30, 2021 the Company's Board of Directors declared a quarterly cash dividend of \$0.0025 per common share of the Company that was paid on November 1, 2021 to holders of Common Shares of record on October 1, 2021.

On December 21, 2021 the Company's Board of Directors declared a quarterly cash dividend of \$0.0025 per common share of the Company that was paid subsequent to the year-end on February 1, 2022 to holders of Common Shares of record on January 17, 2022.

Summary of Quarterly Results

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

	2021				2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Finance receivables-gross	154.35	139.18	94.92	104.08	108.98	117.43	127.96	140.82	136.64	135.07	130.46	127.61
Total Income	4.25	3.55	2.83	3.06	3.19	3.40	3.64	3.86	3.70	3.65	3.44	4.03
Total Expenses	4.56	3.71	1.65	2.17	2.31	2.34	2.49	5.34	4.74	4.45	3.61	4.12
Income (loss) before taxes	(0.31)	(0.16)	1.18	0.89	0.88	1.06	1.15	(1.48)	(1.04)	(0.80)	(0.17)	(0.09)
Provision for (recovery of) income taxes	(0.10)	0.02	0.25	0.15	(0.43)	-	-	-	0.68	(0.19)	(0.02)	0.02
Net income (loss) after taxes	(0.21)	(0.18)	0.93	0.74	1.31	1.06	1.15	(1.48)	(1.72)	(0.61)	(0.15)	(0.11)
Basic and diluted income (loss) per share	0.00	0.00	0.01	0.01	0.01	0.01	0.01	(0.01)	(0.02)	(0.01)	0.00	0.00

The quarterly highlights presented above are prepared using information derived from unaudited consolidated interim financial statements prepared in accordance with IFRS applicable to interim statements for the first three quarters of the respective year. Fourth quarters of each year were constructed from the annual audited results for the years ended December 31, 2021, December 31, 2020 and December 31, 2019.

Related Party Transactions

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

	Dec 31, 2021	Dec 31, 2020
	\$	\$
Assets		
Finance receivable - gross (note a)	154,346,255	108,983,835
Other assets (note b)	928,711	361,101
Liabilities		
Accounts payable and accrued liabilities (note d)	237,734	64,221
Deferred purchase price payable (note c)	5,939,827	3,507,718

	For the year ended	
	Dec 31, 2021	Dec 31, 2020
	\$	\$
Income and expenses		
Management fees (note e)	126,380	96,590
Stock-based compensation (note f)	132,537	41,023
General and administrative (note b)	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.
- Harrison Equity Partners ("HEP") - HEP is a related party due to one of the directors of the Company owns and controls HEP. HEP provided debt raising and capital formation services to CAR LP I during the current year. 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 listed as follows:

- Note a) Amounts represent gross outstanding finance receivables purchased from ACC LP. During the period, the Company acquired \$98.6 million of finance receivables including transactions costs from ACC LP.
- Note b) Other assets include (i) amounts due from ACC LP and CCMI related to normal course customer collections. The balances were settled subsequently after the Company's quarter end; and (ii) an amount of \$546,920 related to unamortized structuring fee paid to HEP. General and administrative expense of \$546,920 represents the amortized portion of structuring fee paid to HEP.
- Note c) Amounts due to CCMI that are deferred and payable over the life of the underlying retail sales/loan contracts.

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

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

- Note d) Included in the balance was \$38,603 management fees payable to the Manager as of December 31, 2021 (December 31, 2020 - \$64,206).
- Note e) Management fees to the Manager accrued during the period.

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

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

- Note f) Stock-based compensation was issued during the year ended December 31, 2021 with a fair value of \$132,537 (2020 - \$41,023).

Risks and Uncertainties

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

Liquidity Risk

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

The primary source of liquidity for the Partnerships is cash flows from the collection of finance receivables. As at December 31, 2021, the undiscounted cash flows arising from the finance receivables, excluding transaction costs, are as follows:

	Within 1 year	Greater than 1 to 3 years	Greater than 3 to 5 years	Greater than 5 years	Undetermined	Total
Total receivables	48,875,495	84,478,647	55,034,997	18,908,132	-	207,297,271

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

	Within 1 year	Greater than 1 to 3 years	Greater than 3 to 5 years	Greater than 5 years	Undetermined	Total
Securitization debt	45,201,594	62,735,585	24,165,892	7,312,051	-	139,415,122
Subordinated debt					14,968,599	14,968,599
Deferred purchase price payable	2,804,826	2,353,561	689,809	91,631	-	5,939,827
Accounts payable and accrued liabilities	1,110,988	-	-	-	-	1,110,988
	49,117,408	65,089,146	24,855,701	7,403,682	14,968,599	161,434,536

The notional amount of the derivative financial instrument is \$53 million, and it is used to economically hedge the floating interest rate risk related to securitization debt. The maturity of notional amount closely aligns to the securitization debt. The amounts under derivative contract are settled on a net basis each month.

The amounts reported for finance receivables and securitization debt are based on contractual maturities. However, the finance receivables may become subject to losses and prepayments in which case, the cash flows shown above will not be realized. The repayment of subordinated debt is tied to the excess cash flows generated by CAR LP I and therefore, it is not included in the above contractual maturity table. These cash flows do not consider the potential impact of lock-up trigger events which can occur when loss ratios and delinquency rates are above defined thresholds. Further, the securitization debt may be due earlier if the corresponding finance receivables run-off sooner. Accordingly, the maturities and amounts in the tables above are not a forecast of future cash flows.

Credit Risk

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

The performance of the finance receivables depends on a number of factors, including general economic conditions, unemployment levels, and the circumstances of individual obligors. The maximum exposure to the finance

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

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

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

Market Risk

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

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk. The finance receivables are subject to fixed interest rates and are carried at amortized cost, such that there is no re-measurement of carrying amount as market interest rates fluctuate. Securitization debt is subject to fixed rates of interest, charged by a lender or converted from floating to fixed through an interest rate swap, for each tranche securitized.

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

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

Counterparty Risk

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

Fair Values

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

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

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

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

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

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

Trading and Share Statistics

Below are details of the Company's share price for the twelve months ended December 31, 2021 and for 2020.

For the period ended	Dec 31, 2021	Dec 31, 2020
Average monthly trading volume	88,436	50,028
Share price		
High	0.22	0.14
Low	0.15	0.05
Close	0.22	0.05
Outstanding shares at the end of the period	97,266,667	74,766,667

Cliffside Capital Ltd.
Consolidated Financial Statements

For the years ended December 31, 2021 and 2020



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, 2021 and 2020, 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, 2021 and 2020;
- the consolidated statements of net income and comprehensive 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.

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

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



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.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
April 27, 2022

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 ("IFRS") as issued by the International Accounting Standards Board ("IASB"). 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

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

As at	Dec 31, 2021	Dec 31, 2020
	\$	\$
Assets		
Cash	12,426,169	5,308,888
Finance receivables-net (note 3)	149,783,991	104,799,381
Deferred income taxes (note 6)	137,644	428,848
Derivative financial instrument (note 4)	305,137	-
Other assets	1,632,302	385,111
Total assets	164,285,243	110,922,228
Liabilities		
Accounts payable and accrued liabilities	1,110,988	211,958
Deferred purchase price payable (note 7)	5,939,827	3,507,718
Securitization debt (note 8)	126,970,398	99,691,748
Subordinated debt (note 9)	14,968,599	-
Total liabilities	148,989,812	103,411,424
Equity (note 10)		
Share capital	12,044,486	7,632,532
Contributed surplus	1,264,503	1,131,966
Cumulative deficit	(2,250,666)	(2,822,018)
Equity attributable to shareholders	11,058,323	5,942,480
Non-controlling interests (note 11)	4,237,108	1,568,324
Total equity	15,295,431	7,510,804
Total liabilities and equity	164,285,243	110,922,228

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

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

	For the year ended	
	Dec 31, 2021	Dec 31, 2020
	\$	\$
Income		
Net interest income (note 5)	13,119,287	13,846,793
Other income		
Other income	269,105	243,700
Mark-to-market gains on derivative financial instruments	305,137	-
Total income	13,693,529	14,090,493
Financial expenses		
Interest expense	6,107,257	6,729,523
Net financial revenue before credit losses	7,586,272	7,360,970
Provision for credit losses (note 3)	4,027,013	5,356,816
Net financial income	3,559,259	2,004,154
Operating expenses		
Management fees (note 15)	126,380	96,590
Stock-based compensation	132,537	41,023
General and administrative	1,690,901	255,552
Total expenses	1,949,818	393,165
Net income before income taxes	1,609,441	1,610,989
Provision for (recovery of) income taxes deferred (note 6)	322,948	(428,848)
Net income and comprehensive income	1,286,493	2,039,837
Net income attributable to shareholders	1,057,685	1,696,499
Net income attributable to non-controlling interest (note 11)	228,808	343,338
Net income and comprehensive income	1,286,493	2,039,837
Earnings per share		
Basic and diluted (note 12)	0.01	0.02

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

Cliffside Capital Ltd.
Consolidated Statements of Changes in Shareholders' Equity
(in Canadian dollars)

	Share Capital	Contributed Surplus	Cumulative Deficit	Non-Controlling Interest	Total
	\$	\$	\$	\$	\$
Balance, December 31, 2019	7,632,532	1,090,943	(4,518,517)	1,054,324	5,259,282
Stock-based compensation	-	41,023	-	-	41,023
Investment by non-controlling entity	-	-	-	270,677	270,677
Distribution to non-controlling entity	-	-	-	(100,015)	(100,015)
Net income and comprehensive income for the year	-	-	1,696,499	343,338	2,039,837
Balance, December 31, 2020	7,632,532	1,131,966	(2,822,018)	1,568,324	7,510,804
Share issuance net of issuance cost	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

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, 2021	Dec 31, 2020
Cash provided by (used in)		
Operating activities	\$	\$
Net income	1,286,493	2,039,837
Adjustments for non-cash items		
Deferred income taxes	291,204	(428,848)
Provision for credit losses	4,027,013	5,356,816
Amortization of capitalized costs	6,485,918	6,032,811
Stock-based compensation	132,537	41,023
Change in accrued interest receivable	(51,118)	254,831
Mark-to-market gains on derivative financial instruments	(305,137)	-
Change in working capital	624,033	(156,918)
Acquisition of finance receivables and transaction costs	(98,588,876)	(29,124,073)
Collections on finance receivables	44,395,133	43,332,223
Additions to deferred purchase price payable	5,372,656	1,875,578
Payment of deferred purchase price payable	(2,940,547)	(3,089,043)
Cash provided by (used in) operating activities	(39,270,691)	26,134,237
Cash provided by investing activities	-	-
Financing activities		
Gross proceeds from securitization debt	85,045,815	30,988,900
Repayments of securitization debt	(59,186,115)	(62,654,068)
Decrease in securitization debt cash holdback, net of releases	1,417,739	4,127,843
Gross proceeds from subordinated debt	15,702,094	-
Repayments of subordinated debt	(733,495)	-
Transaction costs related to debt	(2,466,829)	-
Dividends paid	(243,167)	-
Investment by non-controlling entity	2,500,010	270,677
Distribution to non-controlling entity	(60,034)	(100,015)
Issuance of common shares net of issuance costs	4,411,954	-
Cash provided by (used in) by financing activities	46,387,972	(27,366,663)
Increase (Decrease) in cash for the year	7,117,281	(1,232,426)
Cash, beginning of period	5,308,888	6,541,314
Cash, end of period	12,426,169	5,308,888
Supplementary information related to operating activities		
Interest paid	5,549,625	6,689,736

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”) 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 60% of the partnership units in CAL LP, ACC LP III and CAR LP I respectively, and CCMI owns 15%, 40% and 20% of the partnership units in CAL LP, ACC LP III and CAR LP I, respectively. The remaining interest of 20% in CAR LP I is owned by external investors.

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 27, 2022.

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 (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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, 2021 and December 31, 2020 and the results of all controlled entities for the year ended on December 31, 2021 and December 31, 2020, 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

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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 caused by COVID-19, a global pandemic, as well as the current economic environment of higher inflation and expected rise in benchmark interest rates. While management makes its best estimates and assumptions, actual results could differ from those estimates. Any changes in estimates are applied on a prospective basis.

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

Financial instruments

The following is a summary of classification and measurement of financial instruments outstanding at December 31, 2021 and December 31, 2020 under IFRS 9.

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

Classification and measurement

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

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

Assets held to collect and other financial liabilities

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

Impairment of finance receivables

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

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

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

receivables greater than 30 days past due.

Finance receivables are segmented into different stages at each measurement date as below:

Stage 1: any receivable that does not fall under stage 2 and 3 and further segmented by the origination tier

Stage 2: receivable is greater than 30 days and under 91 days past due

Stage 3: any receivable that meets the default definition as follows:

greater than 90 days past due; or

collectability is no longer reasonably assured, and the collateral has been assigned for repossession

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

Forward- looking information incorporated in the ECL models

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

Impairment of financial assets other than finance receivables

Financial assets other than finance receivables consist of cash and other assets. The credit risk of these assets is low. The Company assumes that there is no significant increase in credit risk for instruments that have a low credit risk.

Effective interest method

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

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Transaction costs

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

Offsetting financial assets and liabilities

Financial assets and financial liabilities are offset with the net amount reported on the statement of financial position only when there is a legally enforceable right to offset the recognized amount in all situations and there is an intention to settle on a net basis or the asset and the liability will be settled simultaneously.

Derecognition of financial instruments

A financial asset is derecognized when:

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

A financial liability is derecognized when:

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

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

Revenue recognition

Net interest income

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

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

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

Other income

Other income includes fees charged to obligors for items such as due date changes, past due payments, and non-sufficient funds, all of which are recognized when realized. It also includes changes in the fair value of

derivative financial instruments.

Deferred income taxes

Deferred income taxes are calculated using the asset and liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the statement of financial position are used to calculate deferred income tax liabilities or assets. Deferred income tax liabilities or assets are calculated using tax rates substantively enacted in the periods that the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that substantive enactment occurs. A deferred income tax asset is recognized to the extent that it is probable that the asset can be recovered. As at December 31, 2021, the Company has recognized a deferred tax asset for the portion of loss carry-forwards and temporary differences it expects to be recoverable.

Stock-based compensation

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

Earnings or loss per share

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

Comprehensive income (loss)

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

Segment reporting

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

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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 acquired \$98.6 million of gross finance receivables, representing \$94.6 million of finance receivables and \$4.0 million of transaction costs, and obtained securitization and subordinated debt proceeds of \$100.7 million during the year ended December 31, 2021 (2020 - acquired \$29.1 million of gross finance receivables including transaction costs, and obtained securitization proceeds of \$31.0 million).

	Dec 31, 2021	Dec 31, 2020
Finance receivables	146,551,794	104,294,336
Add: Transaction costs	10,927,992	6,953,398
Less: Administration fees	(3,133,531)	(2,263,899)
Finance receivables - gross	154,346,255	108,983,835
Allowance for credit losses	(4,562,264)	(4,184,454)
Finance receivables - net	149,783,991	104,799,381

Included in the finance receivables is motor vehicle inventory, repossessed from customers with a net realizable value of \$849,430 as of December 31, 2021 (December 31, 2020 - \$190,651). These amounts represent net proceeds expected to be collected through auctions of motor vehicles subsequent to year-end.

Outstanding payments, including principal and interest, contractually due under the finance receivables, as well as transaction costs, as at December 31, 2021 and December 31, 2020 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, 2021	Dec 31, 2020
Within 1 year	48,875,495	36,871,834
Greater than 1 to 3 years	84,478,647	64,939,776
Greater than 3 to 5 years	55,034,997	37,572,489
Greater than 5 years	18,908,132	5,436,427
Total receivables	207,297,271	144,820,526
Less: Unearned interest	(60,745,477)	(40,526,190)
Total receivables, net of unearned interest	146,551,794	104,294,336
Add: Transaction costs, net of administration fees	7,794,461	4,689,499
Finance receivables - gross	154,346,255	108,983,835
Allowance for credit losses	(4,562,264)	(4,184,454)
Finance receivables - net	149,783,991	104,799,381

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

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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			

Finance receivables' maximum exposure and allowance for credit losses by stage as of December 31, 2020 are as follows:

Credit risk rating	Finance receivables by stage		Allowance for credit losses	
Stage 1	98,317,736	96.5%	(2,645,607)	63.3%
Stage 2	2,579,633	2.5%	(943,417)	22.5%
Stage 3	994,442	1.0%	(595,430)	14.2%
Total maximum exposure by stage	101,891,811	100.0%	(4,184,454)	100.0%
Transactions costs	6,953,398			
Fees and other charges	138,626			
Allowance for credit losses	(4,184,454)			
Finance receivables - net	104,799,381			

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

The changes in allowance for credit losses between January 1, 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

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

Cliffside Capital Ltd.
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The changes in allowance for credit losses between January 1, 2020 to December 31, 2020 are as follows:

	Stage 1	Stage 2	Stage 3	Total
Allowance for credit losses, January 1, 2020	2,788,687	1,406,811	1,796,783	5,992,281
Transfer				
From stage 1 to 2	(931,140)	931,140	-	-
From stage 2 to 1	3,229,292	(3,229,292)	-	-
From stage 2 to 3	-	(3,046,371)	3,046,371	-
From stage 3 to 2	-	897,867	(897,867)	-
Early termination	(508,490)	(54,790)	(21,454)	(584,734)
New finance receivables purchased, net	633,964	-	-	633,964
Change in PDs/EADs/LGDs	(2,566,706)	4,038,052	3,836,240	5,307,586
Provision for credit losses for the year	(143,080)	(463,394)	5,963,290	5,356,816
Less: Write-offs, net of recoveries plus collection charges	-	-	(7,164,643)	(7,164,643)
Allowance for credit losses, December 31, 2020	2,645,607	943,417	595,430	4,184,454

Change in PDs/EADs/LGDs, noted in above tables, included other qualitative factors as of the years ended December 31, 2021 and December 31, 2020.

4. Derivative Financial Instrument

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

	Dec 31, 2021		
	Notional	Fair Value Assets	Fair Value Liabilities
Interest rate swap contracts	53,000,000	305,137	-

The interest rate swap contract fixed the Company's interest rate on the securitization debt to 1.30% for the remainder of its duration in exchange for Company's interest rate based on the monthly rate for Canadian Dollar bankers acceptances (CAD-BA-CDOR). The interest rate swap contract matures on November 15, 2027.

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 broken down as follows:

	For the year ended	
	Dec 31, 2021	Dec 31, 2020
Interest income	18,352,527	19,879,604
Amortization of capitalized costs	(5,233,240)	(6,032,811)
Net interest income	13,119,287	13,846,793

The amortization of capitalized costs includes amortization of origination costs of \$1,633,183 for the year

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ended December 31, 2021 (2020 - \$1,775,299). In addition, it also includes the amortization of the premium associated with acquiring fully serviced loans from CCMI, a related party (see note 15), of \$3,600,057 for the year ended December 31, 2021 (2020 - \$4,257,512).

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 a reduction to the deferred income tax asset, amounting to \$0.3 million. Components of the Company's deferred income tax asset are as follows:

	Dec 31, 2021	Dec 31, 2020
Non-capital losses carry forwards	1,622,812	1,953,424
Partnership temporary differences	(1,539,165)	(1,539,165)
Share issuance costs	53,997	14,589
Total deferred income taxes asset	137,644	428,848

A reconciliation of deferred income tax asset is as follows:

	Dec 31, 2021	Dec 31, 2020
Balance, beginning of year	428,848	-
Recognized in equity	31,744	-
Recognized in net income (loss)	(322,948)	428,848
Total deferred income taxes	137,644	428,848

The Company has recognized a deferred income tax asset for the cumulative tax losses as of year ended December 31, 2021 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, 2021	Dec 31, 2020
Current tax	-	-
Deferred tax		
Related to current year income (losses)	322,948	452,770
Related to previously unrecognized losses	-	(881,618)
Total provision (recovery of) for income taxes	322,948	(428,848)

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

	For the year ended Dec 31, 2021	Dec 31, 2020
Net income (loss) before taxes	1,609,441	1,610,989
Applicable tax rate	26.5%	26.5%
Expected income tax expense at applicable tax rate	426,502	426,912
Expense (recovery) resulting from:		
Expenses not deductible for tax	35,122	10,871
Non-controlling interest and other items	(50,151)	(123,789)

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

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Timing Differences	(88,525)	138,776
Valuation allowance	-	(881,618)
Total provision for (recovery of) income taxes	322,948	(428,848)

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, a related party (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, 2021 and December 31, 2020 is provided below:

	Dec 31, 2021	Dec 31, 2020
Due within 1 year	2,804,827	2,034,666
Due greater than 1 year	3,135,000	1,473,052
Total deferred purchase price payable	5,939,827	3,507,718

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 \$2,940,547 paid by the Partnerships to CCMI for the year ended December 31, 2021 (December 31, 2020 - \$3,089,043).

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8. Securitization Debt

Securitization debt represents funding secured by the finance receivables. For the year ended December 31, 2021, the Partnerships had securitized finance receivables for securitization proceeds of \$85.0 million which had principal outstanding, excluding capitalized transaction costs at the time of securitization of \$94.6 million (2020 – proceeds of \$31.0 million with principal outstanding of \$26.8 million). Securitization debt is recorded at amortized cost using the effective interest method. Each tranche securitized under the facilities has a fixed rate of interest. The weighted average interest rate on the securitization debt is 3.94% for the year ended December 31, 2021 (2020 - 4.60%)

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 year ended December 31, 2021 and December 31, 2020 is broken down as follows:

	Dec 31, 2021	Dec 31, 2020
Securitization debt, opening balance	99,691,748	127,229,073
Gross proceeds on securitization	85,045,815	30,938,596
Repayments to securitizers	(59,186,115)	(62,654,068)
Decrease in cash holdback, net of releases	1,417,739	4,127,843
Change in unamortized securitization costs	1,211	50,304
Securitization debt, ending balance	126,970,398	99,691,748

The securitization debt as at December 31, 2021 is net of cash reserve of \$9,996,261 (December 31, 2020 - \$11,414,000), 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.

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Securitization debt, gross

Outstanding payments, including principal and interest, contractually due under the securitization debt, as at December 31, 2021 and December 31, 2020 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, 2021	Dec 31, 2020
Within 1 year	45,201,594	33,018,435
Greater than 1 to 3 years	62,735,585	50,866,808
Greater than 3 to 5 years	24,165,892	24,832,541
Greater than 5 years	7,312,051	2,721,865
Securitization debt, gross	139,415,122	111,439,649
Less: Unearned interest and unamortized securitization costs	(12,444,724)	(11,747,901)
Securitization debt, ending balance	126,970,398	99,691,748

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, 2021 CAR LP I has not recognized a contingent liability for profit sharing.

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

	Dec 31, 2021
Subordinated debt, opening balance	-
Gross proceeds on subordinated debt	15,702,094
Repayments on subordinated debt	(733,495)
Subordinated debt, closing balance	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, 2019	74,766,667	7,632,532
Issuance of common shares	-	-
Ending balance, December 31, 2020	74,766,667	7,632,532

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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

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 holds 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.

b) Stock Options and Warrants

Issued, and outstanding stock options as at December 31, 2021 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, 2021 were 7,822,000. Of these, 2,197,000 stock warrants, granted at the time of rights offering in March 2019 with an expiry date of March 26, 2022, were not exercised and therefore, expired subsequent to the year-end. As part of the private placement during the quarter ended September 30, 2021, the Company granted 5,625,000 stock warrants 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.

c) Dividends

On August 30, 2021 the Company's Board of Directors declared a quarterly cash dividend of \$0.0025 per common share of the Company that was paid on November 1, 2021 to holders of Common Shares of record on October 1, 2021.

On December 21, 2021 the Company's Board of Directors declared a quarterly cash dividend of \$0.0025 per common share of the Company that was paid subsequent to the year-end on February 1, 2022 to holders of Common Shares of record on January 17, 2022.

11. Non-Controlling Interest

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)

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

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Non-controlling portion of current year 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

A breakdown of the non-controlling interest on the statement of financial position as of December 31, 2020 is as follows:

	CAL LP	ACC LP III	TOTAL
Equity invested by third parties in partnerships	807,099	1,428,010	2,235,109
Non-controlling portion of retained earnings (deficit)	(78,256)	(813,102)	(891,358)
Non-controlling portion of current year income	116,435	226,903	343,338
Non-controlling portion of distributions	(18,750)	(100,015)	(118,765)
Total non-controlling interest	826,528	741,796	1,568,324

12. Earnings Per Share

Earnings per share for the year ended December 31, 2021 and 2020 were calculated based on the following:

	For the year ended	
	Dec 31, 2021	Dec 31, 2020
Income (loss) attributable to shareholders (\$)	1,057,685	1,696,499
Weighted average shares outstanding – basic	85,246,119	74,766,667
Earnings per share – basic (\$)	0.01	0.02
Income (loss) attributable to shareholders (\$)	1,057,685	1,696,499
Weighted average shares outstanding – diluted	86,055,553	74,766,667
Earnings per share – diluted (\$)	0.01	0.02

The diluted weighted average shares outstanding for the year ended December 31, 2020 presented above excluded the effect of stock options and warrants issued and outstanding as they were considered antidilutive.

13. Capital Management

The Company's capital is comprised of equity, securitization debt and subordinated debt. The Company's objectives when managing capital are to safeguard the Company's ability to continue and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The company received securitization funding facility renewals from both of its existing third party lenders for up to \$85 million and a new securitization funding facility of \$140 million from a new funder, together with a new subordinated debt commitment of \$35.2 million, bringing the total funding availability to \$260.2 million. The funding facilities entered into by the Partnerships renew annually and as at December 31, 2021, \$177.8 million of funding remains available for utilization until the next renewals in 2022.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash.

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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 equity financing, which is used to finance working capital requirements and to meet the Company's financial obligations associated with financial liabilities. The Partnerships' financial obligations related to the finance receivables are non-recourse to the Company.

The primary source of liquidity for the Partnerships is cash flows from the collection of finance receivables. As at December 31, 2021, the undiscounted cash flows arising from the finance receivables, excluding transaction costs, are as follows:

	Within 1 year	Greater than 1 to 3 years	Greater than 3 to 5 years	Greater than 5 years	Undetermined	Total
Total finance receivables	48,875,495	84,478,647	55,034,997	18,908,132	-	207,297,271

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

	Within 1 year	Greater than 1 to 3 years	Greater than 3 to 5 years	Greater than 5 years	Undetermined	Total
Securitization debt	45,201,594	62,735,585	24,165,892	7,312,051	-	139,415,122
Subordinated debt					14,968,599	14,968,599
Deferred purchase price payable	2,804,826	2,353,561	689,809	91,631	-	5,939,827
Accounts payable and accrued liabilities	1,110,988	-	-	-	-	1,110,988
	49,117,408	65,089,146	24,855,701	7,403,682	14,968,599	161,434,536

The notional amount of derivative financial instrument is \$53 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

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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, 2021. A repossessed vehicle is sold, and proceeds are applied to the amount owing on the account. As such, the Partnerships are also exposed to fluctuations in used vehicle prices.

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

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

Market Risk

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

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk. The finance receivables are subject to fixed interest rates and are carried at amortized cost, such that there is no re-measurement of carrying amount as market interest rates fluctuate. Subordinate debt is subject to fixed rates of interest and carried at amortized cost. Securitization debt is also subject to fixed rates of interest, charged by a lender or converted from

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

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

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

Counterparty Risk

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

Fair Values

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

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

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

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

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

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hierarchy. The carrying value of these items approximates fair value.

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

15. Related Party Transactions

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

	Dec 31, 2021	Dec 31, 2020
	\$	\$
Assets		
Finance receivable - gross (note a)	154,346,255	108,983,835
Other assets (note b)	928,711	361,101
Liabilities		
Accounts payable and accrued liabilities (note d)	237,734	64,221
Deferred purchase price payable (note c)	5,939,827	3,507,718
	For the year ended	
	Dec 31, 2021	Dec 31, 2020
	\$	\$
Income and expenses		
Management fees (note e)	126,380	96,590
Stock-based compensation (note f)	132,537	41,023
General and administrative (note b)	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 notes 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 owns and controls HEP. HEP provided debt raising and capital formation services to CAR LP I during the current year. 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:

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

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- Note a) Amounts represent gross outstanding finance receivables purchased from ACC LP. During the year, the Company acquired \$98.6 million of gross finance receivables including transactions costs from ACC LP.
- Note b) Other assets include (i) amounts due from ACC LP and CCMI related to normal course customer collections. The balances were settled subsequently after the Company's year end; and (ii) an amount of \$546,920 related to unamortized structuring fee paid to HEP. General and administrative expense of \$546,920 represents the amortized portion of structuring fee paid to HEP.
- Note c) Amounts due to CCMI that are deferred and payable over the life of the underlying retail sales/loan contracts.
- LC Asset Management Corporation - The Company entered into a management agreement with LC Asset Management Corporation (the "Manager") dated July 1, 2016 to provide investment advice and manage the operations of the Company. The Company pays the Manager a fee of 1.25% annually of the Company's gross unconsolidated assets and a potential performance bonus subject to the financial performance of the Company. The Manager is related to the Company as a result of significant common ownership. Additionally, the Chief Executive Officer of the Company holds the same position for the Manager.

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

Note d) Included in the balance was \$38,603 management fees payable to the Manager as of December 31, 2021 (December 31, 2020 - \$64,206).

Note e) Management fees to the Manager accrued during the period.

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

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

Note f) Stock-based compensation was issued during the year ended December 31, 2021 with a fair value of \$132,537 (2020 - \$41,023).