

**Cliffside Capital Ltd.**  
**Management Discussion and Analysis**

For the three and nine months ended September 30, 2021 and 2020

## Management Discussion and Analysis

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**CLIFFSIDE CAPITAL LTD.**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 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 September 30, 2021 and approved by the Board of Directors on November 23, 2021, should be read in conjunction with the Company’s unaudited condensed consolidated financial statements and notes thereto for the nine months ended September 30, 2021, prepared in accordance with International Financial Reporting Standards (IFRS). All monetary amounts are expressed in Canadian dollars.

**Forward-Looking Disclaimer**

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

**Nature of the Business**

The Company is in the business of investing in the growing non-bank financial services market with a strategy to generate revenue as a passive investor in receivables and other similar assets, across various asset classes. Currently, the Company holds investments in 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

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.

During the quarter, the Company declared a quarterly cash dividend on the outstanding common shares of \$0.0025 per common share (\$0.01 on an annualized basis). The dividend was paid on November 1, 2021, to holders of common shares of record at the close of business on October 1, 2021.

The Company recorded net income of \$1.5 million during the nine months ended September 30, 2021, compared to net income of \$0.7 million for the same period in the prior year. The increase in net income was primarily due to lower provision for credit losses, which was driven by a better performance of the portfolio resulting in lower write-offs and lower delinquency levels coupled with lower provision for credit losses. The increase in net income was partially offset by an increase in operating expenses due to amortization of one-time financing costs related to both CAR LP I and the Company, and provision for deferred income taxes.

The Company recorded net loss of \$0.2 million during the three months ended September 30, 2021, compared to net income of \$1.1 million for the same period in the prior year. The decrease in net income was due to an initial provision for credit losses under IFRS 9 related to acquisition of \$53.8 million of new finance receivables during the quarter and higher operating expenses due to amortization of one-time financing costs related to both CAR LP I and the Company.

Under IFRS 9, an allowance for expected credit losses ("ECL") is required on acquisition of new finance receivables, resulting in an early recognition of future credit losses on otherwise performing finance receivables. Conversely, as the portfolio balance declines so does an allowance for ECL, resulting in a lower provision for credit losses. While IFRS 9 leads to a mismatch between timing of when a credit loss provision is taken and the occurrence of a loss event, the portfolio has been performing consistent with our expectations. These results reflect the quality of finance receivables acquired and the expected profitability of the portfolio over its life. Management closely monitors the shape and timing of the credit loss curve.

The below bridge analysis, between Q3 2021 and Q2 2021 net income (loss) before taxes highlights the key drivers of change in net income (loss) and portfolio performance between the two periods and highlights the impact of formation of CAR LP I, which commenced business in Q3 2021, on net income in Q3 2021.

<b>Q2 2021 net income (loss) before taxes</b>	<b>1,178,013</b>
Net interest and other income	722,220
Interest expense	(336,993)
Stage 1 provision for credit losses*	(845,397)
Stage 2 & 3 provision for credit losses	(137,854)
Operating expenses	(739,027)
<b>Q3 2021 net income (loss) before taxes</b>	<b>(159,039)</b>

*\*Individual credit loss stages are representative of the net movement in the balance sheet amounts between Q3 and Q2 2021.*

Net interest and other income as well as interest expense increased in line with the growth in finance receivables over the three months ended September 30, 2021. As a result of the acquisition of \$53.8 million, a record high, of new finance receivables during Q3 2021 the Company was required, under the requirements of IFRS 9, to record a significant allowance for Stage 1 credit losses against loans for which there is no significant increase in underlying credit risk between the date of their purchase to September 30, 2021. The impact of this provision makes up a



significant component of the movement in Stage 1 credit losses of \$845,397 in the quarter. The finance receivables, classified as stage 1, are not considered credit-impaired assets, as they are not currently in default at the reporting date.

In addition, the net income (loss) before taxes for three months ended September 30, 2021, were adversely impacted by the amortization of \$605,540 of financing costs, included in operating expenses, and incurred on securing new funding facilities for CAR LP I during this period. The Stage 1 credit loss provision and financing costs adversely impacted the net income (loss) for the three months ended September 30, 2021, by \$1,449,937.

As the pandemic-induced restrictions have started easing up, management continues to monitor the business and economic outlook, and has cautiously begun acquisition of new finance receivables. Finance receivables of \$72.3 million were acquired during the nine months ended September 30, 2021. Net finance receivables increased by \$30.9 million, or 29.5%, from December 31, 2020, to \$135.7 million. The acquisition of finance receivables during the nine months was financed through the Partnerships' securitization facilities with their respective funders, for aggregate securitization proceeds of \$68.3 million. Securitization debt, net of cash holdback, increased by \$27.6 million or 27.7% during the nine months ended September 30, 2021.

The partnerships have acquired a total of \$312.7 million in finance receivables, excluding capitalized transaction costs, since inception. As of September 30, 2021, finance receivables, excluding capitalized transaction costs amounted to \$132.3 million.

COVID-19, a global pandemic, continues to impact Canada with some restrictions, on businesses, and the broader social environment but day-to-day economic activities are slowly returning back to normal. These restrictions have caused significant financial market disruption. The Company has considered the likely impact of government support programs, which have existed throughout COVID-19, and have now been replaced with more targeted programs that were announced recently. The current restrictions and new government support programs are expected to have an impact on unemployment rate, but it is difficult to predict it with a degree of certainty. Management closely monitors and manages the impact of these on the Company and the Partnerships' business.

## Financial Highlights

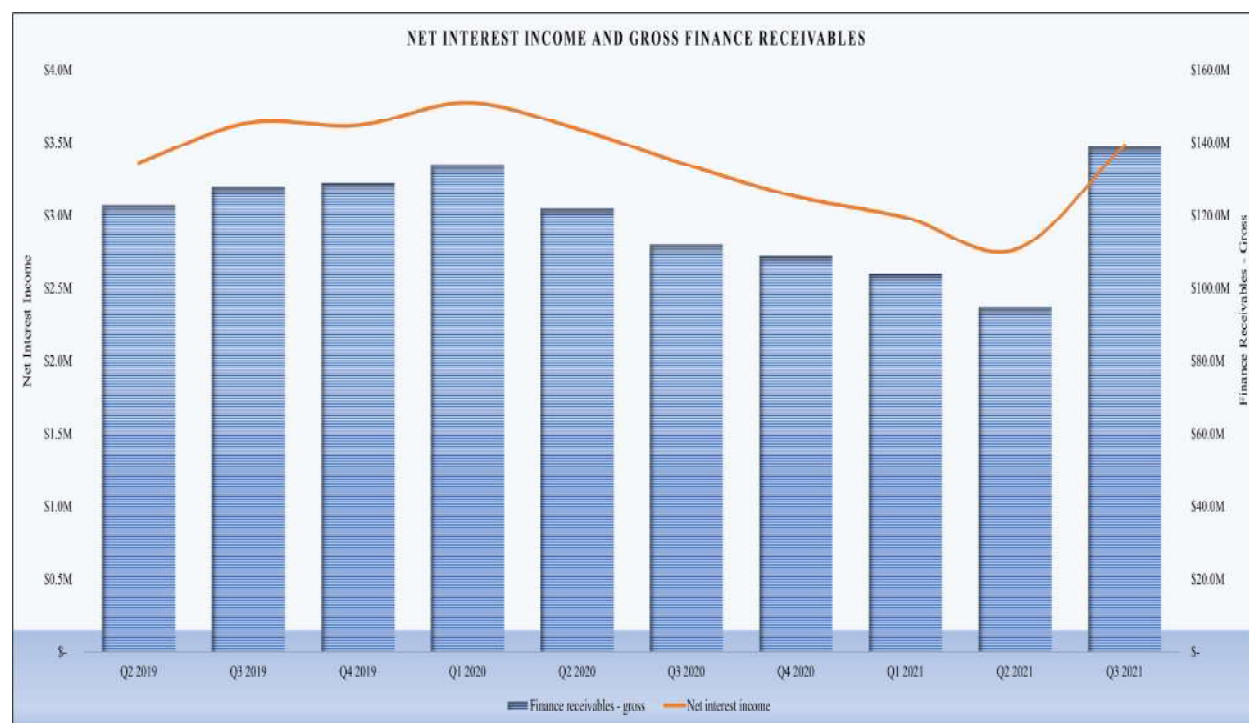
### Select Operating Results

	For the three months ended		For the nine months ended	
	Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
	\$	\$	\$	\$
Net interest income	3,483,187	3,349,292	9,235,514	10,716,755
Other income	67,042	48,619	204,289	181,389
Total income	3,550,229	3,397,911	9,439,803	10,898,144
Interest expense	1,586,446	1,598,686	4,207,355	5,250,816
Net financial revenue before credit losses	1,963,783	1,799,225	5,232,448	5,647,328
Provision for credit losses	1,247,559	651,960	2,215,947	4,619,916
Management fees	39,496	19,540	87,777	51,761
Other expenses	835,767	71,388	1,015,954	246,523
Total expenses	2,122,822	742,888	3,319,678	4,918,200
Net income (loss) before taxes	(159,039)	1,056,337	1,912,770	729,128
Provision for income taxes	22,405	-	424,040	-
Net income (loss) after taxes	(181,444)	1,056,337	1,488,730	729,128
Non-controlling interest in (profit) loss	119,290	(210,903)	(313,448)	(135,983)
<b>Net income (loss) attributable to shareholders</b>	<b>(62,154)</b>	<b>845,434</b>	<b>1,175,282</b>	<b>593,145</b>
Basic and diluted earnings per share	0.00	0.01	0.01	0.01

Net interest income is interest income earned on finance receivables, net of amortization of capitalized costs. For the three and nine months ended September 30, 2021, the Company recorded interest income of \$4,633,399 and \$12,824,362, respectively partially offset by amortization of capitalized costs of \$1,150,212 and \$3,588,848, respectively. For the three and nine months ended September 30, 2020, the Company recorded interest income of \$4,795,236 and \$15,395,040, respectively partially offset by amortization of capitalized costs of \$1,445,944 and \$4,678,285, respectively.

Other income represents ancillary fees earned on the finance receivables.

The below chart shows quarterly net interest income and finance receivables-gross at the end of each associated quarter.



Interest expense is incurred by the Partnerships on the securitization debt. The amount recorded by the Company for the three and nine months ended September 30, 2021 was \$1,586,446 and \$4,207,355, respectively compared to \$1,598,686 and \$5,250,816, respectively in the same period in the previous year. Each tranche of securitization debt has a fixed rate of interest. As at September 30, 2021, the weighted average interest rate on the new securitization debt was 3.84% for the nine months ended September 30, 2021 compared to 4.70% in the nine months ended September 30, 2020.

Net financial revenue before credit losses was \$1,963,783 and \$5,232,448 for the three and nine months ended September 30, 2021, respectively. For the three and nine months ended September 30, 2020, net financial revenue before credit losses was \$1,799,225 and \$5,647,328, respectively.

The provision for credit losses for the three and nine months ended September 30, 2021, was \$1,247,559 and \$2,215,947 compared to \$651,960 and \$4,619,916 for the same periods in the previous year. During the pandemic, management strategically slowed down the acquisition of new finance receivables given the significant uncertainty surrounding the economy. The lower provision for credit losses year-to-date was driven by a decline in acquisition of new finance receivables during the first half of the year compared to the prior year, and better performance of the portfolio. However, as pandemic induced restrictions lifted, the Company stepped up acquisition of finance receivables, resulting in a higher provision for credit losses in the third quarter compared to the same period in the previous year. Under IFRS 9, an allowance for ECL is required on acquisition of new finance receivables, resulting in early recognition of potential future credit losses on otherwise performing finance receivables. Conversely, as the portfolio balance declines, so does an allowance for ECL, resulting in a lower provision for credit losses. While IFRS 9 leads to a mismatch between timing of when a credit loss provision is taken and the occurrence of a loss event, the portfolio has been performing consistent with our expectations. The results reflect the quality of finance receivables acquired and the expected profitability of the portfolio over its life. Management closely monitors the shape and timing of the credit loss curve.

For the three and nine months ended September 30, 2021, the Company incurred management fees of \$39,496 and

\$87,777 compared to \$19,540 and \$51,761 for the same period in the previous year, pursuant to a management agreement with LC Asset Management Corporation (refer to Related Party Transactions section).

Other expenses amounted to \$835,767 and \$1,015,954 for the three and nine months ended September 30, 2021, respectively. For the three months ended September 30, 2021, other expenses consisted of stock-based compensation of \$91,514, professional fees of \$44,231 and general and administrative expenses of \$700,022 (including amortization of one-time financing costs of \$604,540, incurred by CAR LP I and the Company). For the nine months ended September 30, 2021, other expenses consisted of stock-based compensation of \$132,537, professional fees of \$133,600 and general and administrative expenses of \$749,817 (including amortization of one time financing costs of \$604,540, incurred by CAR LP I and the Company). Other expenses amounted to \$71,388 and \$246,523 for the three and nine months ended September 30, 2020, respectively. For the three months ended September 30, 2020, other expenses consisted of professional fees of \$49,373 and general and administrative expenses of \$22,015. For the nine months ended September 30, 2020 other expenses consisted of stock-based compensation of \$41,023, professional fees of \$129,147 and general and administrative expenses of \$76,353. For the three and nine months ended September 30, 2021, the Company reported net loss attributable to shareholders of \$62,154 and net income of \$1,175,282, respectively compared to a net income of \$845,434 and \$593,145 for the three and nine months ended September 30, 2020, respectively.

### *Select Statement of Financial Position*

<b>As at</b>	<b>Sep 30, 2021</b>	<b>Dec 31, 2020</b>
	<b>\$</b>	<b>\$</b>
Cash	11,123,127	5,308,888
Finance receivables - net	135,702,711	104,799,381
Other assets	2,263,122	813,959
<b>Total assets</b>	<b>149,088,960</b>	<b>110,922,228</b>
Securitization debt	115,319,259	99,691,748
Subordinated debt	12,030,133	-
Deferred purchase price payable	5,183,445	3,507,718
Derivative financial instrument	24,872	-
Other liabilities	730,393	211,958
<b>Total liabilities</b>	<b>133,288,102</b>	<b>103,411,424</b>
Equity attributable to shareholders	11,419,086	5,942,480
Non-controlling interest	4,381,772	1,568,324
<b>Total liabilities and equity</b>	<b>149,088,960</b>	<b>110,922,228</b>

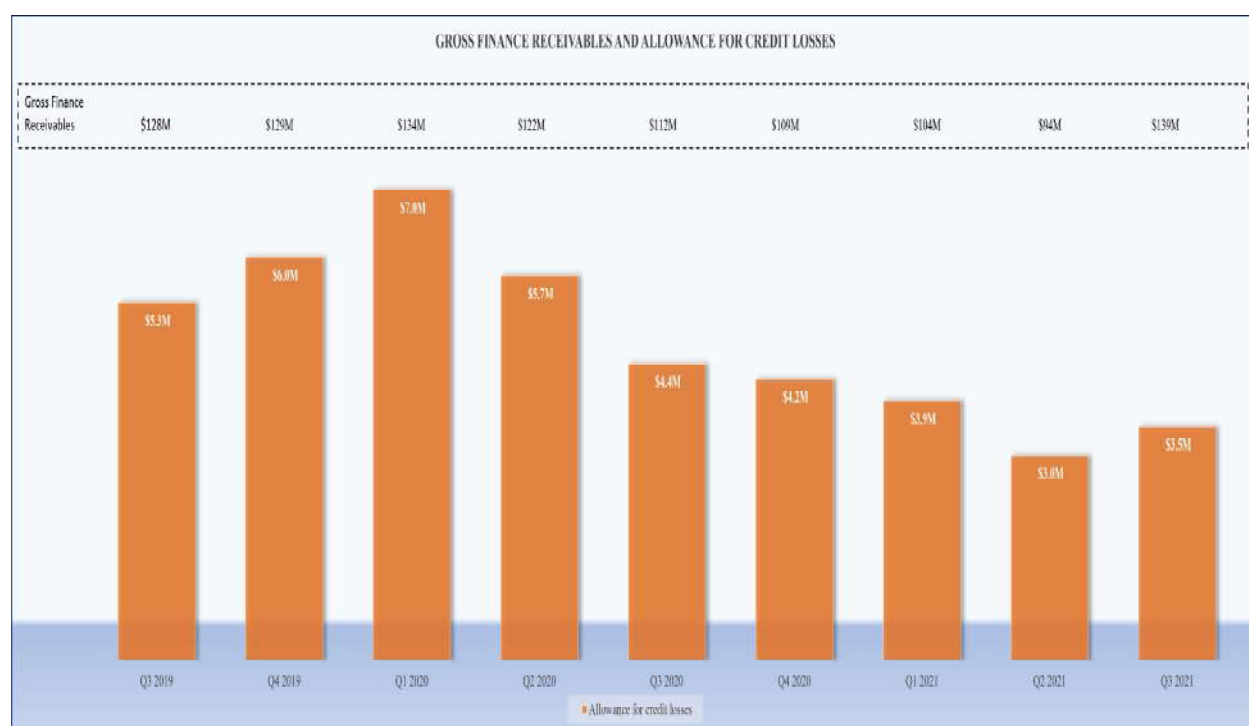
The Company had cash of \$690,396 at September 30, 2021 and the Partnerships held cash balances of \$10,432,731 for a consolidated total of \$11,123,127. At December 31, 2020, the Company had cash of \$182,611 and the Partnerships held cash balances of \$5,126,277 for a consolidated total of \$5,308,888. 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 contracts. The Partnerships make payments to the funders on the securitization debt on the first business day and fifteenth 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 12 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 \$135,702,711 as at September 30, 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 \$6,865,829, and net of estimated allowance for credit losses of \$3,473,097. The allowance for credit losses as at September 30, 2021 includes an estimate for higher ECL resulting from economic disruptions caused by COVID-19. In the current economic environment impacted by

COVID-19, the IFRS 9 model in isolation may not capture all the uncertainty as well as the impact of the public support programs by the governments. Therefore, management has applied its expert 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 2.50% of the gross finance receivables outstanding at September 30, 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.



Other assets as at September 30, 2021 primarily include unamortized one-time financing costs of \$1,813,621 related to CAR LP I and the Company and amounts due from related parties in the normal course of operations of \$1,186,694, which were settled subsequently (refer to Related Party Transactions section). Other assets at December 31, 2020 primarily include deferred income taxes of \$428,848 and amounts due from related parties of \$361,101, which were settled subsequently.

As at September 30, 2021, securitization debt of \$115,319,259 was outstanding which is net of a cash holdback held in trust by the funders of \$10,976,714. 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 September 30, 2021, subordinated debt of \$12,030,133 was outstanding, which is a new funding facility obtained during the current quarter. 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 September 30, 2021, the deferred purchase price payable to CCMI amounted to \$5,183,445, of which \$2,285,548 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 September 30, 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 \$11,419,086 at September 30, 2021. The increase relates to private placement of shares during the current quarter, net of issuance costs, of 4,411,954, and net income of \$1,175,282 for the nine months ended September 30, 2021, partially offset by dividend payable at September 30, 2021.

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 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 \$4,381,772 at September 30, 2021, due to new investment of \$2,500,000 made during the current quarter and proportionate share of net income reported by the Partnerships of \$313,448 to which the non-controlling parties are entitled.

#### ***Select Statement of Cash Flow Summary***

	<b>For the nine months ended</b>	
	<b>Sep 30, 2021</b>	<b>Sep 30, 2020</b>
	\$	\$
Cash provided by/(used in) operating activities	(28,755,360)	17,316,507
Cash provided by/(used) financing activities	34,569,598	(18,584,130)
<b>Increase/(decrease) in cash during the period</b>	<b>5,814,238</b>	<b>(1,267,623)</b>

The cash used in operating activities for the nine months ended September 30, 2021, was primarily for the acquisition of finance receivables and transaction costs of \$72,253,533 partially offset by cash flow generated from collections of \$35,456,260 and other changes. Cash provided by operating activities for the nine months ended September 30, 2020 consisted primarily of cash flow generated from collections of \$31,853,858, partially offset by the acquisition of finance receivables and other changes.

The cash provided by financing activities for the nine months ended September 30, 2021, consisted primarily of gross proceeds from securitization debt of \$59,089,666, subordinated debt of \$12,030,133, and gross proceeds raised through private placement of its common shares of \$4,411,954. The cash used in financing activities for the nine months ended September 30, 2020, consisted primarily of the repayment of the securitization debt.

#### ***Non-IFRS Measures***

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

- **Gross yield** - Income 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:

	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Gross yield	15.25%	16.65%	16.84%	16.50%	16.48%	16.45%	16.75%	16.53%
Delinquency rate	2.75%	3.09%	3.42%	3.42%	2.85%	4.09%	5.51%	5.34%

The Company's portfolio of retail sales/loan contracts, during the past eight quarters, have produced consistent and strong gross yields, 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 three months ended September 30, 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 and is at its second lowest level over the past eight quarters. 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 within its expected range once the economic relief programs are phased out and the normal economic activities resume, over the next several months. Loan extensions granted during the quarter were significantly lower than those granted during the same period in 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 September 30, 2021, \$203.2 million of funding remains available for utilization until the next renewals in Q3 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 \$10,432,731 in cash as of September 30, 2021. This cash is used to service principal and interest on the securitization debt as well as to continue to acquire and securitize finance receivables and meet working capital requirements. The Partnerships use cash flow budgeting processes to monitor cash requirements which allows them to better manage their liquidity. The Partnerships have access to funding facilities which have availability of \$203 million as at September 30, 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, Q1 2020 and 2021 leaving the Company with approximately \$0.7 million of cash on hand at September 30, 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	-	-
<b>Ending balance, September 30, 2020</b>	<b>74,766,667</b>	<b>7,632,532</b>
Issuance of common shares	-	-
<b>Ending balance, December 31, 2020</b>	<b>74,766,667</b>	<b>7,632,532</b>
Issuance of common shares	22,500,000	4,411,954
<b>Ending balance, September 30, 2021</b>	<b>97,266,667</b>	<b>12,044,486</b>

The basic and diluted weighted average shares outstanding for the three and nine months ended September 30, 2021 were 81,016,667 and 94,076,167 respectively. The basic and diluted weighted average shares outstanding for the three and nine months ended September 30, 2020 were 74,766,667 and 81,588,667 respectively. The diluted weighted average shares outstanding for the three months ended September 30, 2021 excluded the effect of stock options and warrants issued and outstanding as they are considered antidilutive.

### *Incentive Stock Options and Warrants*

Issued, and outstanding stock options as at September 30, 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 September 30, 2021 were 7,822,000. 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.



## Summary of Quarterly Results

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

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

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

	Sep 30, 2021		Dec 31, 2020	
	\$		\$	
<b>Assets</b>				
Finance receivable - gross (note a)	139,175,808		108,983,835	
Other assets (note b)	1,186,694		361,101	
<b>Liabilities</b>				
Accounts payable and accrued liabilities (note d)	41,085		64,221	
Deferred purchase price payable (note c)	5,183,445		3,507,718	
	<b>For the three months ended</b>		<b>For the three months ended</b>	
	<b>Sep 30, 2021</b>	<b>Sep 30, 2020</b>	<b>Sep 30, 2021</b>	<b>Sep 30, 2020</b>
	\$	\$	\$	\$
<b>Income and expenses</b>				
Management fees (note e)	39,496	19,540	87,777	51,761
Stock-based compensation (note f)	91,514	-	132,537	41,023
General and administrative (note b)	273,460	-	273,460	-

The Company has related party relationships with the below entities.

- CCMI and ACC LP – CCMI is the other limited partner in each of the Partnerships. The Partnerships each have an agreement with CCMI and ACC LP 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 period. 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 \$72.3 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 \$820,380 related to unamortized structuring fee paid to HEP. Genral and and administrative expense of \$273,460 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 \$39,496 management fees payable to the Manager as of September 30, 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 nine months ended September 30, 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 September 30, 2021, the undiscounted cash flows arising from the finance receivables, excluding transaction costs, are as follows:

	<b>Within 1 year</b>	<b>Greater than 1 to 3 years</b>	<b>Greater than 3 to 5 years</b>	<b>Greater than 5 years</b>	<b>Total</b>
Total receivables	44,838,843	77,465,362	48,465,412	16,173,408	186,943,025

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

	<b>Within 1 year</b>	<b>Greater than 1 to 3 years</b>	<b>Greater than 3 to 5 years</b>	<b>Greater than 5 years</b>	<b>Total</b>
Securitization debt	38,566,929	59,296,679	22,474,293	6,226,366	126,564,267
Deferred purchase price payable	2,285,548	2,190,776	611,297	95,824	5,183,445
Derivative financial instrument	24,872	-	-	-	24,872
Accounts payable and accrued liabilities	730,393	-	-	-	730,393
	41,607,742	61,487,455	23,085,590	6,322,190	132,502,977

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. The notional amount of derivative financial instrument is \$43.9 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. 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 derivative financial instrument is estimated using industry-standard valuation models such as discounted cash flow. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates and the contractual terms of the derivative financial instrument. 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 nine months ended September 30, 2021 and for the twelve months ended December 31, 2020.

<b>For the period ended</b>	<b>Sep 30, 2021</b>	<b>Dec 31, 2020</b>
Average monthly trading volume	50,454	50,028
Share price		
High	0.20	0.14
Low	0.11	0.05
Close	0.20	0.05
Outstanding shares	97,266,667	74,766,667

**Cliffside Capital Ltd.**  
**Condensed Consolidated Financial Statements**  
**(Unaudited)**

For the three and nine months ended September 30, 2021 and 2020

**Notice to reader pursuant to National Instrument 51-102**

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

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

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

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Praveen Gupta  
Chief Financial Officer

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Stephen Malone  
Chief Executive Officer



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

As at	Sep 30, 2021	Dec 31, 2020
	\$	\$
	(unaudited)	
<b>Assets</b>		
Cash	11,123,127	5,308,888
Finance receivables-net (note 3)	135,702,711	104,799,381
Deferred income taxes (note 5)	36,552	428,848
Other assets	2,226,570	385,111
<b>Total assets</b>	<b>149,088,960</b>	<b>110,922,228</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	730,393	211,958
Derivative financial instrument	24,872	-
Deferred purchase price payable (note 6)	5,183,445	3,507,718
Securitization debt (note 7)	115,319,259	99,691,748
Subordinated debt (note 8)	12,030,133	-
<b>Total liabilities</b>	<b>133,288,102</b>	<b>103,411,424</b>
<b>Equity (note 9)</b>		
Share capital	12,044,486	7,632,532
Contributed surplus	1,264,503	1,131,966
Cumulative deficit	(1,889,903)	(2,822,018)
Equity attributable to shareholders	11,419,086	5,942,480
Non-controlling interests (note 10)	4,381,772	1,568,324
<b>Total equity</b>	<b>15,800,858</b>	<b>7,510,804</b>
<b>Total liabilities and equity</b>	<b>149,088,960</b>	<b>110,922,228</b>

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

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

(unaudited)	For the three months ended		For the nine months ended	
	Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
	\$	\$	\$	\$
<b>Income</b>				
Net interest income (note 4)	3,483,187	3,349,292	9,235,514	10,716,755
Other income	67,042	48,619	204,289	181,389
<b>Total income</b>	<b>3,550,229</b>	<b>3,397,911</b>	<b>9,439,803</b>	<b>10,898,144</b>
<b>Financial expenses</b>				
Interest expense	1,586,446	1,598,686	4,207,355	5,250,816
Net financial revenue before credit losses	1,963,783	1,799,225	5,232,448	5,647,328
Provision for credit losses (note 3)	1,247,559	651,960	2,215,947	4,619,916
<b>Net financial income</b>	<b>716,224</b>	<b>1,147,265</b>	<b>3,016,501</b>	<b>1,027,412</b>
<b>Operating expenses</b>				
Management fees (note 14)	39,496	19,540	87,777	51,761
Stock-based compensation	91,514	-	132,537	41,023
General and administrative	744,253	71,388	883,417	205,500
<b>Total expenses</b>	<b>875,263</b>	<b>90,928</b>	<b>1,103,731</b>	<b>298,284</b>
<b>Net income (loss) before income taxes</b>	<b>(159,039)</b>	<b>1,056,337</b>	<b>1,912,770</b>	<b>729,128</b>
Provision for income taxes deferred (note 5)	22,405	-	424,040	-
<b>Net income (loss) and comprehensive income (loss)</b>	<b>(181,444)</b>	<b>1,056,337</b>	<b>1,488,730</b>	<b>729,128</b>
Net income (loss) attributable to shareholders	(62,154)	845,434	1,175,282	593,145
Net income (loss) attributable to non-controlling interest (note 10)	(119,290)	210,903	313,448	135,983
<b>Net income (loss) and comprehensive income (loss)</b>	<b>(181,444)</b>	<b>1,056,337</b>	<b>1,488,730</b>	<b>729,128</b>
<b>Earnings per share</b>				
Basic and diluted (note 11)	0.00	0.01	0.01	0.01

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

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

(unaudited)	Share Capital	Contributed Surplus	Cumulative Deficit	Non-Controlling Interest	Total
	\$	\$	\$	\$	\$
<b>Balance, December 31, 2019</b>	<b>7,632,532</b>	<b>1,090,943</b>	<b>(4,518,517)</b>	<b>1,054,324</b>	<b>5,259,282</b>
Stock-based compensation	-	41,023	-	-	41,023
Investment by non-controlling entity	-	-	-	270,677	270,677
Net income and comprehensive income for the period	-	-	593,145	135,983	729,128
<b>Balance, September 30, 2020</b>	<b>7,632,532</b>	<b>1,131,966</b>	<b>(3,925,372)</b>	<b>1,460,984</b>	<b>6,300,110</b>
<b>Balance, December 31, 2020</b>	<b>7,632,532</b>	<b>1,131,966</b>	<b>(2,822,018)</b>	<b>1,568,324</b>	<b>7,510,804</b>
Share issuance net of issuance cost	4,411,954				4,411,954
Stock-based compensation	-	132,537	-	-	132,537
Dividend payable			(243,167)		(243,167)
Investment by non-controlling entities				2,500,000	2,500,000
Net income and comprehensive income for the period	-	-	1,175,282	313,448	1,488,730
<b>Balance, September 30, 2021</b>	<b>12,044,486</b>	<b>1,264,503</b>	<b>(1,889,903)</b>	<b>4,381,772</b>	<b>15,800,858</b>

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

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

(unaudited)	For the nine months ended	
	Sep 30, 2021	Sep 30, 2020
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>	\$	\$
Net income	1,488,730	729,128
Adjustments for non-cash items		
Provision for income taxes	392,295	-
Provision for credit losses	2,215,947	4,619,916
Amortization of capitalized costs	3,588,848	4,678,285
Stock-based compensation	132,537	41,023
Dividend payable	(243,167)	-
Change in accrued interest receivable	89,148	184,229
Change in working capital	(1,298,152)	(248,120)
Acquisition of finance receivables and transaction costs	(72,253,533)	(23,704,011)
Collections on finance receivables	35,456,260	31,853,858
Additions to deferred purchase price payable	3,746,834	1,502,555
Payment of deferred purchase price payable	(2,071,107)	(2,340,356)
<b>Cash provided by (used in) operating activities</b>	<b>(28,755,360)</b>	<b>17,316,507</b>
<b>Cash provided by investing activities</b>	<b>-</b>	<b>-</b>
<b>Financing activities</b>		
Gross proceeds from securitization debt	59,089,666	25,419,846
Subordinated debt, net repayment	12,030,133	-
Repayments of securitization debt	(43,899,441)	(48,244,901)
Decrease in securitization debt cash holdback, net of releases	437,286	3,970,248
Investment by non-controlling entity	2,500,000	270,677
Issuance of common shares	4,411,954	-
<b>Cash provided by (used in) by financing activities</b>	<b>34,569,598</b>	<b>(18,584,130)</b>
Increase (Decrease) in cash for the period	5,814,239	(1,267,623)
Cash, beginning of period	5,308,888	6,541,314
<b>Cash, end of period</b>	<b>11,123,127</b>	<b>5,273,691</b>
Interest paid	3,739,314	3,600,722

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

**Cliffside Capital Ltd.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

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**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 condensed consolidated financial statements*

The financial statements were approved by the Company’s Board of Directors and authorized for issue on November 23, 2021.

**2 Summary of Significant Accounting Policies**

*Basis of presentation*

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

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

*Statement of compliance*

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

*Basis of consolidation*

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

*Controlled entities*

The condensed consolidated financial statements incorporate the assets and liabilities of all controlled

**Cliffside Capital Ltd.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

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entities of the Company as at September 30, 2021 and December 31, 2020 and the results of all controlled entities for the period ended on September 30, 2021 and September 30, 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 variable returns from its involvement with the entity, and the ability to use its power over the entity to affect the amount of returns. Controlled entities are fully consolidated from the date on which control is obtained by the company.

*Use of estimates and judgments*

The preparation of these condensed consolidated financial statements in conformity with IFRS requires management of the Company to make certain judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and judgments are used when accounting for items and matters such as consolidation of investments in limited partnerships, capitalized transaction costs, provision for credit losses, deferred purchase price payable, deferred income taxes, including recoverability of deferred tax assets, and fair value of stock options or other amounts pursuant to the Company's significant accounting policies. While COVID-19, a global pandemic, continues to impact Canada with some restrictions, on businesses, and broader social environment but day-to-day economic activities are slowly returning back to normal. These restrictions have caused significant financial market disruption. This has given rise to heightened uncertainty as it relates to the key areas of estimation uncertainty. The Company has utilized estimates, assumptions and judgments that reflect this uncertainty. 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 September 30, 2021 and December 31, 2020 under IFRS 9.

	<b>Classification</b>	<b>Measurement</b>
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 deb	Other financial liabilities	Amortized cost
Derivative financial instrument	FVTPL	Fair value

**Cliffside Capital Ltd.**  
**Notes to the Condensed Consolidated Financial Statements**  
**(Unaudited)**

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*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 as FVTPL if doing so eliminates or significantly reduces an accounting mismatch which would otherwise arise. Derivative financial instrument designated as FVTPL is recorded in the Condensed Consolidated Statement of Financial Position at fair value. Changes in fair value are recognized in Other income in the Condensed Consolidated Statement of Income (Loss).

*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



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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 Company, together with CCMI (a related party), has historical data for over seven years, and during this period, management has observed the impact of changes in macroeconomic variables on the receivables. Assumptions monitored include unemployment rates, interest rates and used car prices. The historical performance of these assumptions allows the Company to build its sensitivity tolerance. The Company integrates assessment of SICR using lifetime probability of default ("PD") and forward-looking macroeconomic assumptions in computing the ECL calculation. Based on historical information and sensitivity analyses, generally, macroeconomic assumptions do not have a significant impact on ECL. In addition, the Company has also considered the likely impact of government support programs, which have existed during COVID-19, but expected to phase out at some point in future, though the timeline is unknown. This is expected to have an impact on unemployment rate, but it is difficult to predict it with a degree of certainty. Notwithstanding the impact, at each measurement date, the Company 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 judgment.

*Impairment of financial assets other than finance receivables*

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

*Effective interest method*

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

*Transaction costs*

Transaction costs that are directly attributable to the issuance of financial assets or liabilities are accounted

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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.

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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 September 30, 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 12 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 \$72.3 million of gross finance receivables, representing \$66.1 million of finance receivables and \$6.2 million of transaction costs, and obtained securitization and subordinated debt proceeds of \$68.3 million during the nine months ended September 30, 2021 (2020 - acquired \$23.7 million of gross finance receivables including transaction costs, and obtained securitization proceeds of \$25.4 million).

The finance receivables can be broken down as follows:

	<b>Sep 30, 2021</b>	<b>Dec 31, 2020</b>
Finance receivables	132,309,979	104,294,336
Add: Transaction costs	9,761,773	6,953,398
Less: Administration fees	(2,895,944)	(2,263,899)
<b>Finance receivables - gross</b>	<b>139,175,808</b>	<b>108,983,835</b>
Allowance for credit losses	(3,473,097)	(4,184,454)
<b>Finance receivables - net</b>	<b>135,702,711</b>	<b>104,799,381</b>

Included in the finance receivables is motor vehicle inventory, repossessed from customers of \$208,147 on hand as of September 30, 2021 (December 31, 2020 - \$190,651). These amounts represent net proceeds collected through auctions of motor vehicles subsequent to period end.

Outstanding payments, including principal and interest, contractually due under the finance receivables, as well as transaction costs, as at September 30, 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.

	<b>Sep 30, 2021</b>	<b>Dec 31, 2020</b>
Within 1 year	44,838,843	36,871,834
Greater than 1 to 3 years	77,465,362	64,939,776
Greater than 3 to 5 years	48,465,412	37,572,489
Greater than 5 years	16,173,408	5,436,427
Total receivables	186,943,025	144,820,526
Less: Unearned interest	(54,633,046)	(40,526,190)
Total receivables, net of unearned interest	132,309,979	104,294,336
Add: Transaction costs, net of administration fees	6,865,829	4,689,499
<b>Finance receivables - gross</b>	<b>139,175,808</b>	<b>108,983,835</b>
Allowance for credit losses	(3,473,097)	(4,184,454)
<b>Finance receivables - net</b>	<b>135,702,711</b>	<b>104,799,381</b>

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

Finance receivables' maximum exposure and allowance for credit losses by stage as of September 30, 2021 are as follows:

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

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	<b>Finance receivables by stage</b>		<b>Allowance for credit losses</b>	
<b>Credit risk rating</b>				
Stage 1	125,786,290	97.5%	(2,282,942)	65.7%
Stage 2	2,435,982	1.9%	(725,217)	20.9%
Stage 3	787,196	0.6%	(464,938)	13.4%
Total maximum exposure by stage	129,009,468	100.0%	(3,473,097)	100.0%
Transactions costs	9,761,773			
Fees and other charges	404,567			
Allowance for credit losses	(3,473,097)			
<b>Finance receivables - net</b>	<b>135,702,711</b>			

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

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

<b>Credit risk rating</b>	<b>Finance receivables by stage</b>		<b>Allowance for credit losses</b>	
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	<u>(4,184,454)</u>			
<b>Finance receivables - net</b>	<b><u>104,799,381</u></b>			

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

The changes in allowance for credit losses between January 1, 2021 to September 30, 2021 are as follows:

	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Allowance for credit losses, January 1, 2021</b>	<b>2,645,607</b>	<b>943,417</b>	<b>595,430</b>	<b>4,184,454</b>
Transfer				
From stage 1 to 2	(358,252)	358,252	-	-
From stage 2 to 1	2,242,930	(2,242,930)	-	-
From stage 2 to 3	-	(1,464,566)	1,464,566	-
From stage 3 to 2	-	204,012	(204,012)	-
Early termination	(372,884)	(44,680)	(298,730)	(716,294)
New finance receivables purchased, net	1,011,226	8,741	-	1,019,967
Change in PDs/EADs/LGDs	<u>(2,885,685)</u>	<u>2,962,971</u>	<u>1,834,988</u>	<u>1,912,274</u>
<b>Provision for credit losses for the period</b>	<b>(362,665)</b>	<b>(218,200)</b>	<b>2,796,812</b>	<b>2,215,947</b>
<b>Less: Write-offs, net of recoveries plus collection charges</b>	<b>-</b>	<b>-</b>	<b>(2,927,304)</b>	<b>(2,927,304)</b>
<b>Allowance for credit losses, September 30, 2021</b>	<b><u>2,282,942</u></b>	<b><u>725,217</u></b>	<b><u>464,938</u></b>	<b><u>3,473,097</u></b>

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

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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
<b>Allowance for credit losses, January 1, 2020</b>	<b>2,788,687</b>	<b>1,406,811</b>	<b>1,796,783</b>	<b>5,992,281</b>
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
<b>Provision for credit losses for the year</b>	<b>(143,080)</b>	<b>(463,394)</b>	<b>5,963,290</b>	<b>5,356,816</b>
<b>Less: Write-offs, net of recoveries plus collection charges</b>	<b>-</b>	<b>-</b>	<b>(7,164,643)</b>	<b>(7,164,643)</b>
<b>Allowance for credit losses, December 31, 2020</b>	<b>2,645,607</b>	<b>943,417</b>	<b>595,430</b>	<b>4,184,454</b>

Change in PDs/EADs/LGDs, noted in above tables, included other qualitative factors as of the quarter-ended September 30, 2021 and year-ended December 31, 2020.

#### 4. Net Interest Income

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

	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>Sep 30, 2021</b>	<b>Sep 30, 2020</b>	<b>Sep 30, 2021</b>	<b>Sep 30, 2020</b>
Interest income	4,633,399	4,795,236	12,824,362	15,395,040
Amortization of capitalized costs	(1,150,212)	(1,445,944)	(3,588,848)	(4,678,285)
<b>Net interest income</b>	<b>3,483,187</b>	<b>3,349,292</b>	<b>9,235,514</b>	<b>10,716,755</b>

The amortization of capitalized costs includes amortization of origination costs of \$426,821 and \$1,154,669 for the three and nine months ended September 30, 2021, respectively (2020 - \$424,969 and \$1,368,178, respectively). In addition, it also includes the amortization of the premium associated with acquiring fully serviced loans from CCMI, a related party (see note 14), of \$723,390 and \$2,434,178 for the three and nine months ended September 30, 2021, respectively (2020 - \$1,020,975 and \$3,310,107, respectively).

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**5. Deferred Income Taxes**

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 three months ended		For the nine months ended	
	Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
Net income (loss) before taxes	(159,039)	1,056,337	1,912,770	729,128
Applicable tax rate	26.5%	26.5%	26.5%	26.5%
Expected income tax expense (recovery) at applicable tax rate	(42,145)	279,929	506,884	193,219
Expense (recovery) resulting from:				
Expenses not deductible for tax	24,251	-	35,122	10,871
Non-controlling interest and other items	43,008	(76,040)	(113,012)	(49,028)
Timing Differences	(2,709)	(2,619)	(4,954)	(15,712)
Valuation allowance	-	(201,270)	-	(139,350)
<b>Total provision for income taxes</b>	<b>22,405</b>	<b>-</b>	<b>424,040</b>	<b>-</b>

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

**6. Deferred Purchase Price Payable**

The Partnerships purchase retail sales/loan contracts from CCMI, a related party (refer to note 14), on a fully serviced basis. A component of the purchase price for the purchased receivables is deferred and payable to CCMI over the life of the related finance receivables. A breakdown of the amount owing at September 30, 2021 and December 31, 2020 is provided below:

	Sep 30, 2021	Dec 31, 2020
Due within 1 year	2,285,548	2,034,666
Due greater than 1 year	2,897,897	1,473,052
<b>Total deferred purchase price payable</b>	<b>5,183,445</b>	<b>3,507,718</b>

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 \$2,071,107 paid by the Partnerships to CCMI for the nine months ended September 30, 2021 (\$2,340,356 for the nine months ended September 30, 2020; \$3,089,043 for the twelve months ended December 31, 2020).



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**7. Securitization Debt**

Securitization debt represents funding secured by the finance receivables. For the nine months ended September 30, 2021, the Partnerships had securitized finance receivables for securitization proceeds of \$59.1 million which had principal outstanding, excluding capitalized transaction costs at the time of securitization of \$66.1 million (twelve months ended December 31, 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. As at September 30, 2021, the weighted average interest rate on the new securitization debt was 3.84% for the nine months ended September 30, 2021 compared to 4.70% in the nine months ended September 30, 2020.

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 period.

In accordance with the securitization agreements, the Partnerships transfer all of their rights, title and interest in the securitized finance receivables to the securitizers and must remit all scheduled or received principal and interest payments to the securitizers. Each securitization transaction has a fixed maturity, interest rate and repayment schedule based on the underlying finance receivables. If the Partnerships fail to meet any covenants under the securitization agreements, the 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 nine months ended September 30, 2021 and December 31, 2020 is broken down as follows:

	<b>Sep 30, 2021</b>	<b>Dec 31, 2020</b>
Securitization debt, opening balance	99,691,748	127,229,073
Gross proceeds on securitization	59,079,069	30,938,596
Repayments to securitizers	(43,899,441)	(62,654,068)
Decrease in cash holdback, net of releases	437,286	4,127,843
Change in unamortized securitization costs	10,597	50,304
<b>Securitization debt, ending balance</b>	<b>115,319,259</b>	<b>99,691,748</b>

The securitization debt as at September 30, 2021 is net of cash reserve of \$10,976,714 (December 31, 2020

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- \$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.

*Securitization debt, gross*

Outstanding payments, including principal and interest, contractually due under the securitization debt, as at September 30, 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.

	<b>Sep 30, 2021</b>	<b>Dec 31, 2020</b>
Within 1 year	38,566,929	33,018,435
Greater than 1 to 3 years	59,296,679	50,866,808
Greater than 3 to 5 years	22,474,293	24,832,541
Greater than 5 years	6,226,366	2,721,865
Securitization debt, gross	126,564,267	111,439,649
Less: Unearned interest and unamortized securitization costs	(11,245,008)	(11,747,901)
<b>Securitization debt, ending balance</b>	<b>115,319,259</b>	<b>99,691,748</b>

**8. 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% p.a. 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.

**9. Share Capital**

a) Authorized and Issued

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

	<b>Shares</b>	<b>Amount (\$)</b>
Ending balance, December 31, 2019	74,766,667	7,632,532
Issuance of common shares	-	-
<b>Ending balance, September 30, 2020</b>	<b>74,766,667</b>	<b>7,632,532</b>
Issuance of common shares	-	-
<b>Ending balance, December 31, 2020</b>	<b>74,766,667</b>	<b>7,632,532</b>
Issuance of common shares, net of issuance cost	22,500,000	4,411,954
<b>Ending balance, September 30, 2021</b>	<b>97,266,667</b>	<b>12,044,486</b>

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

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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, with 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 September 30, 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 September 30, 2021 were 7,822,000. 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.

**10. Non-Controlling Interest**

A breakdown of the non-controlling interest on the statement of financial position as of September 30, 2021 is as follows:

	<b>CAL LP</b>	<b>ACC LP III</b>	<b>CAR LP I</b>	<b>TOTAL</b>
Equity invested by third parties in partnerships	807,099	1,428,010	2,500,000	4,735,109
Non-controlling portion of retained earnings (deficit)	38,179	(586,199)	-	(548,020)
Non-controlling portion of current period income (loss)	203,512	500,053	(390,117)	313,448
Non-controlling portion of distributions	(18,750)	(100,015)	-	(118,765)
<b>Total non-controlling interest</b>	<b>1,030,040</b>	<b>1,241,849</b>	<b>2,109,883</b>	<b>4,381,772</b>

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

	<b>CAL LP</b>	<b>ACC LP III</b>	<b>TOTAL</b>
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)
<b>Total non-controlling interest</b>	<b>826,528</b>	<b>741,796</b>	<b>1,568,324</b>

**11. Earnings Per Share**

Earnings per share for the nine months ended September 30, 2021 and 2020 were calculated based on the following:

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

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	For the three months ended		For the nine months ended	
	Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
Income (loss) attributable to shareholders (\$)	(62,154)	845,434	1,175,282	593,145
Weighted average shares outstanding – basic	93,516,667	74,766,667	81,016,667	74,766,667
<b>Earnings per share – basic (\$)</b>	<b>0.00</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>
Income (loss) attributable to shareholders (\$)	(62,154)	845,434	1,175,282	593,145
Weighted average shares outstanding – diluted	93,516,667	81,588,667	94,076,167	81,588,667
<b>Earnings per share – diluted (\$)</b>	<b>0.00</b>	<b>0.01</b>	<b>0.01</b>	<b>0.01</b>

The diluted weighted average shares outstanding for the periods presented above include the effect of vested stock options and warrants issued and outstanding except for the three months ended September 30, 2021, as they are considered antidilutive in that period.

## 12. 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 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 September 30, 2021, \$203.2 million of funding remains available for utilization until the next renewals in 2022.

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

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

The Company expects its current capital resources will be sufficient to carry its operations beyond its current fiscal year.

## 13. Financial Instruments and Risk Management

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

### *Liquidity Risk*

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The primary source of liquidity for the Company is from cash raised from equity financing, which 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.

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The primary source of liquidity for the Partnerships is cash flows from the collection of finance receivables. As at September 30, 2021, the undiscounted cash flows arising from the finance receivables, excluding transaction costs, are as follows:

	<b>Within 1 year</b>	<b>Greater than 1 to 3 years</b>	<b>Greater than 3 to 5 years</b>	<b>Greater than 5 years</b>	<b>Total</b>
Total receivables	44,838,843	77,465,362	48,465,412	16,173,408	186,943,025

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

	<b>Within 1 year</b>	<b>Greater than 1 to 3 years</b>	<b>Greater than 3 to 5 years</b>	<b>Greater than 5 years</b>	<b>Total</b>
Securitization debt	38,566,929	59,296,679	22,474,293	6,226,366	126,564,267
Deferred purchase price payable	2,285,548	2,190,776	611,297	95,824	5,183,445
Derivative financial instrument	24,872	-	-	-	24,872
Accounts payable and accrued liabilities	730,393	-	-	-	730,393
	<u>41,607,742</u>	<u>61,487,455</u>	<u>23,085,590</u>	<u>6,322,190</u>	<u>132,502,977</u>

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. The notional amount of derivative financial instrument is \$43.9 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. 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

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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 September 30, 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. 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 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.

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*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 using industry-standard valuation models such as discounted cash flow. These models project future cash flows and discount the future amounts to a present value using market-based expectations for interest rates and the contractual terms of the derivative financial instrument. 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.

**14. Related Party Transactions**

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

	Sep 30, 2021	Dec 31, 2020
	\$	\$
<b>Assets</b>		
Finance receivable - gross (note a)	139,175,808	108,983,835
Other assets (note b)	1,186,694	361,101
<b>Liabilities</b>		
Accounts payable and accrued liabilities (note d)	41,085	64,221

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

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Deferred purchase price payable (note c)			5,183,445	3,507,718
	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>Sep 30, 2021</b>	<b>Sep 30, 2020</b>	<b>Sep 30, 2021</b>	<b>Sep 30, 2020</b>
	\$	\$	\$	\$
<b>Income and expenses</b>				
Management fees (note e)	39,496	19,540	87,777	51,761
Stock-based compensation (note f)	91,514	-	132,537	41,023
General and administrative (note b)	273,460	-	273,460	-

The Company has related party relationships with the below entities.

- CCMI and ACC LP – CCMI is the other limited partner in each of the Partnerships. The Partnerships each have an agreement with CCMI and ACC LP 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, 4 and 6 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 period. HEP was paid a structuring fee of \$1,093,840 by CAR LP I for these services.

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

Note a) Amounts represent gross outstanding finance receivables purchased from ACC LP. During the period, the Company acquired \$72.3 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 quarter end; and (ii) an amount of \$820,380 related to unamortized structuring fee paid to HEP. Genral and and administrative expense of \$273,460 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 \$39,496 management fees payable to the Manager as of September 30, 2021 (December 31, 2020 - \$64,206).

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



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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 nine months ended September 30, 2021 with a fair value of \$132,537 (2020 - \$41,023).