Cliffside Capital Ltd.
Management Discussion and Analysis

For the three and six months ended June 30, 2018

Management Discussion and Analysis — Page

CLIFFSIDE CAPITAL LTD.
MANAGEMENT DISCUSSION AND ANALYIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018

The following management discussion and analysis ("MD&A") of the results of the operations and financial position of Cliffside Capital Ltd. (the "Company") prepared as of June 30, 2018 and approved by the Board of Directors on August 22, 2018, should be read in conjunction with the Company's unaudited consolidated interim financial statements and notes thereto for the three and six months ended June 30, 2018, prepared in accordance with International Financial Reporting Standards (IFRS). All monetary amounts are expressed in Canadian dollars.

Forward- Looking Disclaimer

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

Additional Information

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

Nature of the Business

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

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

Operational Highlights

Finance receivables of $34 million were acquired during the six months ended June 30, 2018, resulting in net increase to finance receivables of $22 million, net of transaction costs and allowance for credit loss or 34% increase from December 31, 2017. During the six months ended June 30, 2018, CAL LP and ACC LP III continued utilizing securitization facilities with their respective funders, completing tranches for aggregate securitization proceeds of $39 million, resulting in net increase to securitization debt of $23 million, net of cash holdback.

For the three and six months ended June 30, 2018, the Company recorded net income (loss) after taxes of ($388,452) and $102,344 respectively. The loss in Q2 2018 is primarily related to credit loss provision under IFRS 9 of $404,492 and $119,339 of stock-based compensation expense. For the six months ended June 30, 2018 included in the net income is a one-time gain of $877,873 related to the remeasurement of the Partnerships' deferred purchase price payable as a result of renegotiating new terms with CCMI. The new terms replace the earlier fixed percentage price with a reduced fixed percentage plus a contingent component which is based on excess annual return on capital over a certain threshold. The new price applies to all retail sales contracts that the Partnerships owned as of January 1, 2018 as well as new acquisitions going forward. As a result, the Partnerships remeasured the outstanding deferred purchase price payable related to all retail sales contracts as of January 1, 2018 and recorded a one-time adjustment to other income.

On January 1, 2018 the Company adopted IFRS 9 and the standard was applied retrospectively, however the Company elected not to restate comparative information. Accordingly, all comparative period information is presented in accordance with IAS 39.

Under IFRS 9, 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 ECL is calculated by applying a probability of default, exposure at default, and loss given default to the population of finance receivables under each stage at each reporting date. The ECL model is forward looking and uses reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL. The new ECL model results in the earlier recognition of the allowance for credit losses, which is not indicative of a change in the expected recovery value of the underlying finance receivables, but rather a function of extending the allowance to provide for expected future losses for a period greater than previously provided for.

The following table provides a breakdown of the impact of the transition from IAS 39 to IFRS 9 to the Consolidated Statement of Financial Position:

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

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

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

Financial Highlights

Select Statement of Financial Position

As at	**Jun 30, 2018**	**Dec 31, 2017**	**Dec 31, 2016**
	$	**$**	**$**
Cash	4,541,583	3,727,486	716,009
Finance receivables - net	83,309,071	61,901,716	-
Investments in limited partnerships	-	-	4,333,906
Other assets	350,390	292,144	158,871
Total assets	**88,201,044**	**65,921,346**	**5,208,786**

Securitization debt	79,350,485	56,678,509	-
Deferred purchase price payable	3,653,377	3,530,029	-
Other liabilities	92,475	157,947	529,703
Total liabilities	83,096,337	60,366,485	529,703
Equity attributable to shareholders	4,078,373	4,400,219	4,679,083
Non-controlling interest	1,026,334	1,154,642	-
Total liabilities and equity	**88,201,044**	**65,921,346**	**5,208,786**

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

The Company had cash of $159,358 at June 30, 2018 and the Partnerships held $4,382,225 for a consolidated total of $4,541,583, At December 31, 2017, the Company had cash of $256,591 and the Partnerships held $3,470,895 for a consolidated total of $3,727,486. At December 31, 2016 the Company had cash of $716,009. The Company's cash is primarily made up of proceeds raised from private placements and share issuances in prior years, less its capital investments in the Partnerships and operating costs. The Partnerships' cash is primarily generated from the receipt of payments from customers related to the retail sales contracts, as well as net proceeds from securitization, less amounts payable on acquisition of the retail sales contracts.

Finance receivables consist of retail sales contracts which had initial terms of 24 to 84 months at time of origination and fixed rates of interest ranging from 9% to 27%. All finance receivables are secured by collateral charges on motor vehicles. The balance of $83,309,071 at June 30, 2018 represents the outstanding principal balance and accrued fees owing from customers, as well as capitalized transaction costs, net of administration fees associated with the purchase of the finance receivables of $5,898,969 and net of estimated allowance for credit losses of $2,233,232. The balance of $61,901,716 at December 31, 2017 represents the outstanding principal balance and accrued fees owing from customers, as well as capitalized transaction costs, net of administration fees associated with the purchase of the finance receivables of $4,798,855 and net of estimated allowance for credit losses of $523,317. The Company adopted IFRS 9 on January 1, 2018 which resulted in a change in the credit loss provisioning methodology from IAS 39 to the three-stage approach under IFRS 9. As a result, an incremental allowance for credit losses of $814,822 was booked against finance receivables on January 1, 2018.

The investments in limited partnerships represented the Company's interest in the Partnerships during the period the investments were equity accounted for. As of June 30, 2018, the Company does not have any investments that are equity accounted for.

Other assets at June 30, 2018 primarily include amounts due from related parties of $147,349 and deferred income taxes of $191,909 for the portion of cumulative tax losses the Company expects to be able to recover against future taxable income. Other assets at December 31, 2017 primarily consisted of amounts due from related parties of $59,113, deferred financing costs of $77,911 and deferred income taxes of $128,850. Other assets at December 31, 2016 primarily consisted of deferred income taxes of $143,346. The increase in deferred income taxes as of June 30, 2018 from prior year was primarily due to the adoption of IFRS 9 (see operational Highlights section) which was offset by deferred taxes of $55,945.

As at June 30, 2018, securitization debt of $79,350,485 was outstanding which is net of a cash holdback held in trust by the funders of $9,147,866. As at December 31, 2017, securitization debt of $56,678,509 was outstanding which is net of a cash holdback held in trust by the funders of $6,443,712.

The Partnerships purchase retail sales contracts from CCMI on a fully serviced basis. A component of the purchase price paid for the purchased receivables is deferred and payable to CCMI over the life of the related finance receivables. As mentioned previously, effective January 1, 2018, the Partnerships renegotiated the deferred purchase price with CCMI. As a result, the Partnerships remeasured the outstanding deferred purchase price payable related to all retail sales contracts as of January 1, 2018 resulting in a one-time reduction to the deferred purchase price payable of $877,843. As at June 30, 2018, the deferred purchase price payable to CCMI amounts to $3,653,377, of which $1,846,653 is estimated to be due within one year. The Partnerships continue to measure and record the estimated fair value of the contingent component of the deferred purchase price payable. The contingent component of the deferred purchase price payable was $nil as of June 30, 2018 (December 31, 2017 -

$nil). As at December 31, 2017, the deferred purchase price payable to CCMI amounts to $3,530,029, of which $1,771,760 is estimated to be due within one year.

Other liabilities as at June 30, 2018 and December 31, 2017 consist primarily of trade payables and accruals. Other liabilities as at December 31, 2016 included $425,000 advanced by CAL LP to the Company as well as $104,703 of trade payables and accruals.

Equity attributable to shareholders decreased from $4,400,219 at December 31, 2017 to $4,078,373 at June 30, 2018, due to an adjustment of $476,146 recorded against equity related to the adoption of IFRS 9, offset by stock-based compensation granted and net income attributable to shareholders for the six months ended June 30, 2018. Equity attributable to shareholders decreased from $4,679,083 to $4,400,219 from December 31, 2016 to December 31, 2017, due to net loss of $357,198, which includes one-time loss on acquisition of control of $376,197, and stock-based compensation of $23,334.

Non-controlling interest at June 30, 2018 and December 31, 2017 included $1,129,432 of capital invested in the Partnerships by non-controlling parties representing the 15% and 40% of CAL LP and ACC LP III respectively that the Company does not own.

Select Operating Results

	For the three months ended		**For the six months ended**	
	Jun 30, 2018	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2017**
	$	**$**	**$**	**$**
Income while investments equity accounted	-	-	-	51,617
Income while investments consolidated	1,927,676	505,701	4,317,301	693,159
Total income including other income	1,927,676	505,701	4,317,301	744,776
Interest expense	983,941	262,502	1,803,840	362,745
Provision for credit losses	1,156,731	125,587	1,933,120	190,216
Management fees	16,141	16,865	31,820	34,745
Other expenses	256,343	68,214	366,251	91,243
Total expenses	2,413,156	473,168	4,135,031	678,949
Net income (loss) before taxes and other items	(485,480)	32,533	182,270	65,827
Loss on acquisition of control	-	-	-	376,197
Provision for (recovery of) income taxes	(97,028)	58,966	79,926	17,444
Non-controlling interest	(85,242)	21,550	67,383	27,396
Net income (loss) attributable to shareholders	**(303,210)**	**(47,983)**	**34,961**	**(355,210)**
Basic and diluted earnings (loss) per share	(0.01)	(0.00)	0.00	(0.01)

For the three and six months ended June 30, 2018, the Company recorded income while investments were consolidated of $1,927,676 and $4,317,301 respectively, which primarily represents net interest income and other income earned by the Partnerships. Net interest income represents interest income earned on finance receivables net of amortization of capitalized transaction costs. Other income includes the one-time gain related to the remeasurement of the deferred purchase price payable, as well as the change in fair value of the contingent component of the deferred purchase price. The remeasurement resulted in a gain of $82,511 and $877,843 for the three and six months ended June 30, 2018. For the three and six months ended June 30, 2017, the Company recorded $51,617 of income from the Partnerships during the period the Partnerships were equity accounted for, as well as $505,701 and $693,159 of net interest income and other fee income during the period the Partnerships were consolidated.

Interest expense is incurred by the Partnerships on the securitization debt balance. The amount recorded by the Company for the three and six months ended June 30, 2018 was $983,941 and $1,803,840 respectively and $262,502 and $362,745 for the three months and six months ended June 30, 2017. Each tranche of securitization debt has a fixed rate of interest. The weighted average interest rate on the securitization debt was 5.57% and 5.51% for the three and six months ended June 30, 2018 respectively. The weighted average interest rate was 4.55% and 4.63% for the three and six months ended June 30, 2017 respectively.

As mentioned previously, the Company adopted IFRS 9 on January 1, 2018 which resulted in a higher provision for credit loss than compared to the credit loss provisioning methodology under IAS 39. Below is a breakdown of the provision for credit losses for the three and six months ended June 30, 2018 and 2017:

	For the three months ended		**For the six months ended**	
	June 30, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
	$	**$**	**$**	**$**
Actual write-offs, net of recoveries	752,239	62,067	1,038,027	68,892
Provision for credit losses under IAS 39	140,790	63,520	468,784	121,324
Incremental provision for credit losses under IFRS 9	263,702	-	426,309	-
Total provision for credit losses	**1,156,731**	**125,587**	**1,933,120**	**190,216**

The provision for credit losses for the three and six months ended June 30, 2018 consisted of $752,239 and $1,038,027 of net write-offs including repossession and recovery costs, as well as $404,492 and $895,093 of allowance for future credit losses respectively. IFRS 9 requires earlier recognition of future credit losses resulting in an incremental provision for the three and six months ended June 30, 2018. This incremental provision is not indicative of a change in the expected recovery value of the underlying receivables, but rather a function of extending the allowance for credit losses to provide for expected future losses for a period greater than previously provided for under the ‘incurred loss’ model prescribed by IAS 39. The provision for credit losses for the three and six months ended June 30, 2017 consisted of $62,067 and $68,892 of net write-offs including repossession and recovery costs, as well as $63,520 and $121,324 of allowance for future credit losses respectively.

The Company incurred management fees of $16,141 and $31,820 for the three and six months ended June 30, 2018 respectively and the Company incurred management fees of $16,865 and $34,745 for the three and six months ended June 30, 2017 respectively pursuant to a management agreement with LC Asset Management Corporation (see Related Party Transactions section).

Other expenses were $256,343 and $366,251 for the three and six months ended June 30, 2018 respectively. For the three months ended June 30, 2018 other expenses consisted primarily of professional fees of $114,855, stock-based compensation of $119,339 and general and administrative expenses of $22,149. For the six months ended June 30, 2018 other expenses consisted primarily of professional fees of $198,238, stock-based compensation of $119,339 and general and administrative expenses of $48,674. Professional fees included one-time set up costs related to the securitization facilities for the Partnerships which were capitalized and amortized into other expenses over the term of the facilities. Other expenses amounted to $68,214 and $ 91,243 for the three and six months ended June 30, 2017 respectively. For the three months ended June 30, 2017 other expenses consisted of professional fees of $47,708 and general and administrative expenses of $20,506. For the six months ended June 30, 2017 other expenses consisted of professional fees of $63,967 and general and administrative expenses of $27,276.

During the three and six months ended June 30, 2018, the Company recognized income tax (recovery) expense of ($97,028) and $79,926 respectively as compared to income tax expense of $58,966 and $17,444 during the three and six months ended June 30, 2017 respectively.

For the three and six months ended June 30, 2018, the Company reported non-controlling interest of ($85,242) and $67,383 respectively. For the three and six months ended June 30, 2017, the Company reported non-controlling interest of $21,550 and $27,396 respectively.

For the three and six months ended June 30, 2018, the Company reported net income (loss) attributable to shareholders of ($303,210) and $34,961 respectively. For the three and six months ended June 30, 2017, the Company reported net income (loss) attributable to shareholders of ($47,983) and ($355,210) respectively.

Select Statement of Cash Flow Summary

	For the six months ended	
	Jun 30, 2018	**Jun 30, 2017**
	$	**$**
Cash (used in) provided by operating activities	(21,857,879)	(34,833,550)
Cash (used in) provided by investing activities	-	874,521
Cash (used in) provided by financing activities	22,671,976	38,932,753
Increase (decrease) in cash during period	**814,097**	**4,973,724**

Total cash used in operating activities for the six months ended June 30, 2018 consisted primarily of acquisition of finance receivables of $38,908,827 offset by positive cash flows generated from collections and changes in deferred purchase price payable. Total cash used in operating activities for the six months ended June 30, 2017 consists primarily of acquisition of finance receivables of $51,591,858, offset by positive cash flows generated from collections, changes in deferred purchase price payable and working capital amounts.

No cash was generated by investing activities for the six months ended June 30, 2018. For the six months ended June 30, 2017, the amount represents the cash acquired on acquisition of control of the Partnerships.

The cash generated from financing activities for the six months ended June 30, 2018 and June 30, 2017 represents the financing of operating activities, primarily the acquisition of finance receivables through securitization debt, net of holdbacks and repayments. The Company did not declare or pay any dividends during the period.

Non-IFRS Measures

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

- **Gross yield** - Total interest income and other income, excluding amortization of capitalized costs for the period, divided by average finance receivables for the same period, annualized.

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

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

The Company's primary assets are the finance receivables which are secured by collateral charges on motor vehicles. As such, key performance indicators for the assets in the Partnerships for the prior four quarters are reported below. Note, there is no meaningful comparative information for the same periods in the prior year.

	CAL LP				**ACC LP III**			
	Q2 2018	**Q1 2018**	**Q4 2017**	**Q3 2017**	**Q2 2018**	**Q1 2018**	**Q4 2017**	**Q3 2017**
Gross yield	17.38%	16.44%	16.52%	15.94%	16.32%	16.76%	16.83%	16.19%
Delinquency rate	2.37%	3.07%	2.11%	1.17%	2.89%	2.69%	2.19%	1.54%

Certain comparative information above has been reclassified to conform with the current presentation.

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

Management expects delinquency rates to be in the range of 3.5% to 4% once the portfolios mature. As such, as the Partnerships continue to acquire more finance receivables, management expects the delinquency rate will continue to trend towards this expectation.

Overall portfolio performance and delinquency rates for the Partnerships are as expected based on the size and age of the portfolios.

Liquidity and Capital Resources

The Partnerships have $4,382,225 in cash as of June 30, 2018. This cash is used to service principal and interest on the securitization debt as well as to continue to acquire and securitize finance receivables and meet working capital requirements. The Partnerships use cash flow budgeting processes to monitor cash requirements which allows them to better manage their liquidity. The Partnerships have access to funding facilities which have availability of $61 million at June 30, 2018. As the Partnerships continue to acquire more finance receivables and generate positive cash flows, they will distribute some of their cumulative earnings to their limited partners.

Through a combination of two private placements and the Company's initial public offering ("IPO"), the Company raised gross proceeds of $5 million from the issuance of common shares. These proceeds were largely invested in the Partnerships during 2016 leaving the Company with approximately $159,358 of cash on hand at June 30, 2018. Management considers cash on hand, together with earnings to be distributed by the Partnerships, to be sufficient to meet the Company's working capital requirements.

Share Capital

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

	Shares	**Amount ($)**
Ending balance, December 31, 2016	55,000,000	4,735,791
Issuance of common shares	-	-
Ending balance, June 30, 2017	**55,000,000**	**4,735,791**
Ending balance, December 31, 2017	55,550,000	4,790,791
Issuance of common shares	-	-
Ending balance, June 30, 2018	**55,550,000**	**4,790,791**

The basic and diluted weighted average shares outstanding for the six months ended June 30, 2018 and 2017 were 55,550,000 and 55,000,000 respectively. The diluted weighted average shares outstanding excludes the effect of stock options issued and outstanding for the three months and six months ended June 30, 2018 and 2017 as they are considered antidilutive as the Company incurred losses attributable to shareholders for the periods.

Escrowed Shares

34,250,000 of the 45,000,000 common shares of the Company issued in 2014 prior to the IPO were deposited with the escrow agent under an escrow agreement (the "Escrowed Shares"). As of June 30, 2018, 15,412,501 shares remain under escrow and an additional 15-per-cent of the original number of Escrowed Shares will be released every July and January such that all Escrowed Shares will be released by July 2019.

Issued and outstanding Escrowed Shares are as follows:

	Shares
Ending balance, December 31, 2016	30,825,000
Released	(5,137,499)
Ending balance, June 30, 2017	**25,687,501**
Ending balance, December 31, 2017	20,550,001
Released	(5,137,500)
Ending balance, June 30, 2018	**15,412,501**

Incentive Stock Options

Issued and outstanding stock options at June 30, 2018 were 5,500,000, of which, 4,600,000 were exercisable. During the three months ended June 30, 2018, the Company announced a change in the Chief Executive Officer effective May 22, 2018. As a result, there were 500,000 unvested stock options which were forfeited on May 22, 2018. In addition, the Company granted 1,700,000 stock options to directors and officers on June 21, 2018, of which 800,000 vested immediately and the fair value was recorded in earnings during the three months ended June 30, 2018 as stock-based compensation expense. The remaining 900,000 stock options will vest over the next three years. The newly granted stock options expire five years from the grant date.

Business Outlook

During the three months ended June 30, 2018, CAL LP completed a renewal of its funding facility with a Canadian life insurance company providing it access to a new $50 million in funding. Since the renewal, CAL LP has utilized $9 million of its facility, leaving $41 million available. Additionally, ACC LP III renewed its facility with a Schedule 1 Bank in December 2017 and has since used $30 million, leaving $20 million available. In total, the Partnerships have access to funding facilities which have outstanding availability of $61 million at June 30, 2018. The available funding will increase the Partnerships acquisition capacity and provide for further growth in assets and returns.

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

Below are financial highlights of the Partnerships as at June 30, 2018 and December 31, 2017 and for the three and six months ended June 30, 2018.

	As at Jun 30, 2018		As at Dec, 2017	
Select Statement of Financial Position	**CAL LP**	**ACC LP III**	**CAL LP**	**ACC LP III**
	$	**$**	**$**	**$**
Cash	2,088,438	2,293,788	1,903,297	1,567,598
Finance receivables - net	37,863,385	45,445,686	29,959,764	31,941,952
Total assets	40,019,846	47,822,506	31,986,611	33,533,769
Securitization debt	34,798,273	44,552,212	26,567,921	30,110,588
Total liabilities	36,403,656	46,637,641	28,294,163	32,012,565
Partnership equity	3,616,190	1,184,865	3,692,448	1,521,204

	For the 3 months ended Jun 30, 2018		For the 6 months ended Jun 30, 2018	
Select Operating Results	**CAL LP**	**ACC LP III**	**CAL LP**	**ACC LP III**
	$	**$**	**$**	**$**
Net interest income	788,771	1,011,961	1,538,456	1,814,176
Total income	812,273	1,114,957	1,997,792	2,318,603
Interest expense	397,948	585,993	768,181	1,035,659
Provision for credit losses	382,247	774,484	832,592	1,100,528
Total expenses	843,062	1,393,352	1,720,939	2,193,229
Net income	(30,789)	(278,395)	276,853	125,374

Summary of Quarterly Results

	For the period ended							
	2018		2017				2016	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	$	$	$	$	$	$	$	$
Total income	1,927,676	2,389,625	1,462,585	1,016,285	505,701	239,075	32,329.25	23,522
Total expenses	2,413,156	1,721,875	1,477,946	1,027,412	473,168	587,823	77,521.25	41,404
Income (loss) before taxes	(485,480)	667,750	(15,361)	(11,127)	32,533	(348,748)	(45,192)	(17,882)
Recovery of (provision for) income taxes	97,028	(176,954)	-	2,948	(58,966)	41,522	31,583	38,137
Net income (loss) after taxes	(388,452)	490,796	(15,361)	(8,179)	(26,433)	(307,226)	(13,609)	20,255
Basic and diluted loss per share	(0.01)	0.01	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)	0.00

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

Operations began in Q3 2016 upon completion of the QT with the Company's investment in CAL LP and grew in Q4 2016 with the Company's investment in ACC LP III. During Q1 2017, the Company began consolidating its interest in the Partnerships resulting in the recognition on a line-by-line basis of the revenues and expenses of the Partnerships, and to recording a loss on acquisition of control of $376,197. Excluding this loss on acquisition of control, Q1 2017 was the Company's first period of generating positive earnings before taxes. Q2 2017 was the first quarter the Company utilized securitization facilities under both Partnerships resulting in increased income and growth in earnings before taxes. In Q3 and Q4 2017, the Partnerships continued acquiring and securitizing finance receivables and generating interest income. Q1 2018, the Company recorded net income before taxes of $667,750, which includes a one-time gain of $795,332 related to the re-measurement of the Partnerships' deferred purchase price payable as a result of renegotiating terms with CCMI. Net income after taxes amounts to $490,796 of which, $338,171 is attributable to shareholders. In Q2 2018, the Company recorded net loss before taxes of $485,480, primarily due to an increase in provision for credit losses of $404,492 and $119,339 of stock-based compensation expense. Net losses after taxes amounts to $388,452 of which $303,210 is attributable to shareholders.

Related Party Transactions

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

	June 30, 2018	Dec 31, 2017
Assets		
Finance receivable - net (note a)	85,542,303	62,425,033
Other Assets (note b)	147,349	59,113
Liabilities		
Accounts payable and accrued liabilities (note c)	16,141	38,301
Deferred purchase price payable (note d)	3,653,377	3,530,029

	For the three months ended		For the six months ended	
	Jun 30, 2018	Jun 30, 2017	Jun 30, 2018	Jun 30, 2017
Income and expenses				
Other income (note e)	82,511	-	877,843	-
Management fees (note f)	16,141	16,865	31,820	34,745
Stock-based compensation (note g)	119,339	-	119,339	-

The Company has related party relationships with the below entities.

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

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

  Note a) Amounts include gross finance receivables purchased from ACC LP, excluding allowance for credit losses.
  Note b) Other assets include amounts due from ACC LP and CCMI related to normal course customer collections. The balances were settled subsequently after the respective periods end.
  Note c) Included in the balance was $22,769 due to ACC LP II and CCMI as of December 31, 2017. There were no such amounts due to ACC LP II and CCMI as of June 30, 2018. Amounts due to ACC LP II and CCMI related to normal course operating expenses. The amounts were settled subsequently after the respective periods end.
  Note d) Amounts due to CCMI that are deferred and payable over the life of the underlying retail sales contracts.
  Note e) Amounts represent the impact of one-time remeasurement of the deferred purchase price payable.

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

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

  Note c) Included in the balance was $16,141 management fees payable to the Manager as of June 30, 2018 (December 31, 2017 of $15,532) which were settled subsequently after the respective periods end.
  Note f) Management fees to the Manager incurred during the period.

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

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

  Note g) Stock-based compensation for key management personnel with a fair value of $119,339 was expensed during the six months ended June 30, 2018 (2017 - $nil).

Changes in Accounting Policies Including Initial Adoption

Standards issued but not yet effective

There is a pending change to IFRS which is not yet effective for the period ended June 30, 2018 which has not been applied in the preparation of the consolidated financial statements. The standard issued or amended but not yet effective at June 30, 2018 is:

<u>IFRIC 23 *'Uncertainty over Income Tax Treatments'*</u>

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

Adoption of new accounting policies

<u>*IFRS 9 'Financial Instruments'*</u>

The Company adopted IFRS 9 "Financial Instruments" on January 1, 2018. The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. Any adjustments to carrying amounts of financial assets or liabilities are recognized at the beginning of the current reporting period, with the difference recognized in opening retained earnings. The following table provides a breakdown of the impact of the transition from IAS 39 to IFRS 9 to the Consolidated Statement of Financial Position:

	As at January 1, 2018 under IAS 39	**Impact of Adoption of IFRS 9**	**As at January 1, 2018 under IFRS 9**
	$	**$**	**$**
Finance receivables - net	61,901,716	(814,822)	61,086,894
Deferred income taxes	128,850	142,985	271,836
Cumulative deficit	1,102,239	476,146	1,578,385
Non-controlling interest	(1,154,642)	195,691	(958,951)

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

Risks and Uncertainties

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

Liquidity Risk

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The primary sources of liquidity for the Company are from cash raised from equity financing and future distributions from the Partnerships, which would be used to finance working capital and capital expenditure requirements, and to meet the Company's financial obligations associated with financial liabilities. Additional sources of liquidity are debt and equity financing, which may be used to fund additional operating and other expenses and retire debt obligations, if any, at their maturity. The Partnerships' financial obligations related to the finance receivables are non-recourse to the Company.

The primary source of liquidity for the Partnerships is cash flows from the collection of finance receivables. As at June 30, 2018, the undiscounted cash flows arising from the finance receivables, excluding transaction costs, are as follows:

	Within 1 year	In 1 to 3 years	In 4 to 5 years	Greater than 5 years	Total
	$	$	$	$	$
Total receivables	23,889,209	45,921,580	37,318,369	10,750,215	117,879,373

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

	Within 1 year	In 1 to 3 years	In 4 to 5 years	Greater than 5 years	Total
	$	$	$	$	$
Securitization debt	17,561,230	31,479,425	24,523,436	5,786,394	79,350,485
Deferred purchase price payable	1,846,653	1,499,029	302,151	5,544	3,653,377
Accounts payable and accrued liabilities	92,475	-	-	-	92,475
	19,500,358	32,978,454	24,825,587	5,791,938	83,096,337

The amounts reported for securitization debt are based on contractual maturities. However, the debt may be due earlier if the corresponding finance receivables run-off sooner. Accordingly, the maturities 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 fulfil 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, risk of fraud, and the circumstances of individual obligors. The maximum exposure to the finance receivables is represented by the carrying amount thereof. Although credit risk has a significant impact on retail receivables, it is mitigated by the Partnerships having a first priority perfected security interest in the related financed vehicles. In the case of obligor defaults, the value of the repossessed collateral provides a source of protection. Every reasonable effort is made to follow-up on delinquent accounts and to keep accounts current and repossession is considered only as a last resort. A repossessed vehicle is sold and proceeds are applied to the amount owing on the account. As such, the Partnerships are also exposed to fluctuations in used vehicle prices.

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

Market Risk

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

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

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 significant transactions denominated in foreign currency and therefore is not currently exposed to significant foreign 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 not exposed to other price risk.

Counterparty Risk

The Company and Partnerships are exposed to counterparty risk through their relationship with CCMI and their funders. CCMI is responsible for presenting retail sales contracts to the Partnerships that meet the Company's investment criteria. There is a risk that CCMI may not be able to present contracts that are acceptable to the Company and the Partnerships would have to find a new source of originations. Additionally, the Partnerships are exposed to the risk that the funders may cease securitizing retail sales contracts in which case the Partnerships would have to find other sources of financing.

Fair Values

The Company's financial instruments include cash, finance receivables, other assets, securitization debt, deferred purchase price payable, and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values as the balances are either recorded at amortized cost using the effective interest method, or have a short-term nature.

Trading and Share Statistics

Below are details of the Company's share price for the six months ended June 30, 2018 and for the twelve months ended December 31, 2017.

For the period ended	Jun 30, 2018	Dec 31, 2017
Average monthly trading volume	213,089	154,063
Share price		
High	0.30	0.20
Low	0.08	0.07
Close	0.25	0.16
Outstanding shares	55,550,000	55,550,000

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

For the three and six months ended June 30, 2018

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 interim financial statements, they must be accompanied by a notice indicating that the condensed interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim 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 interim 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.

Condensed Interim Consolidated Financial Statements **Page**

(in Canadian dollars)

As at	**Jun 30, 2018**	**Dec 31, 2017**
	$	**$**
	(unaudited)	(audited)
Assets		
Cash	4,541,583	3,727,486
Finance receivables - net (note 3)	83,309,071	61,901,716
Deferred income taxes (note 6)	191,909	128,850
Other assets	158,481	163,294
Total assets	**88,201,044**	**65,921,346**
Liabilities		
Accounts payable and accrued liabilities	92,475	157,947
Deferred purchase price payable (note 7)	3,653,377	3,530,029
Securitization debt (note 8)	79,350,485	56,678,509
Total liabilities	83,096,337	60,366,485
Equity (note 9)		
Share capital	4,790,791	4,790,791
Contributed surplus	831,006	711,667
Cumulative deficit	(1,543,424)	(1,102,239)
Equity attributable to shareholders	4,078,373	4,400,219
Non-controlling interest (note 10)	1,026,334	1,154,642
Total equity	5,104,707	5,554,861
Total liabilities and equity	**88,201,044**	**65,921,346**

Approved on behalf of the Board

"Michael Stein" (signed)
Michael Stein

"Stephen Malone" (signed)
Stephen Malone

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

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

(unaudited)	For the three months ended Jun 30, 2018	Jun 30, 2017	For the six months ended Jun 30, 2018	Jun 30, 2017
Income while investments equity accounted				
Income from limited partnerships	-	-	-	51,617
Income while investments consolidated				
Net interest income (note 4)	1,800,732	469,233	3,352,632	646,035
Other income (note 5)	126,944	36,468	964,669	47,124
Total income	1,927,676	505,701	4,317,301	744,776
Financial expenses				
Interest expense (note 8)	983,941	262,502	1,803,840	362,745
Net financial revenue before credit losses	943,735	243,199	2,513,461	382,031
Provision for credit losses (note 3)	1,156,731	125,587	1,933,120	190,216
Net financial income (loss)	(212,996)	117,612	580,341	191,815
Operating expenses				
Management fees (note 14)	16,141	16,865	31,820	34,745
Stock-based compensation	119,339	-	119,339	-
General and administrative	137,004	68,214	246,912	91,243
Total expenses	272,484	85,079	398,071	125,988
Net income (loss) before undernoted loss and income taxes	**(485,480)**	**32,533**	**182,270**	**65,827**
Loss on acquisition of control	-	-	-	376,197
Net income (loss) before income taxes	**(485,480)**	**32,533**	**182,270**	**(310,370)**
Provision for (recovery of) income taxes (note 6) - deferred	(97,028)	58,966	79,926	17,444
Net income (loss) and comprehensive income (loss)	**(388,452)**	**(26,433)**	**102,344**	**(327,814)**
Net income (loss) attributable to shareholders	(303,210)	(47,983)	34,961	(355,210)
Net income (loss) attributable to non-controlling interest (note 10)	(85,242)	21,550	67,383	27,396
Net income (loss) and comprehensive income (loss)	**(388,452)**	**(26,433)**	**102,344**	**(327,814)**
Earnings (loss) per share attributable to shareholders				
Basic and diluted (note 11)	(0.01)	(0.00)	0.00	(0.01)

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

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

(unaudited)	Share Capital	Contributed Surplus	Cumulative Deficit	Non-Controlling Interest	Total
Balance, December 31, 2016	4,735,791	688,333	(745,041)	-	4,679,083
Net income (loss) and comprehensive income (loss) for the period	-	-	(355,210)	27,396	(327,814)
Non-controlling interest	-	-	-	1,124,354	1,124,354
Balance, June 30, 2017	**4,735,791**	**688,333**	**(1,100,251)**	**1,151,750**	**5,475,623**
Balance, December 31, 2017	4,790,791	711,667	(1,102,239)	1,154,642	5,554,861
IFRS 9 transition impact (note 2)	-	-	(476,146)	(195,691)	(671,837)
Stock based compensation	-	119,339	-	-	119,339
Net income (loss) and comprehensive income (loss) for the period	-	-	34,961	67,383	102,344
Balance, June 30, 2018	**4,790,791**	**831,006**	**(1,543,424)**	**1,026,334**	**5,104,707**

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

(in Canadian dollars)

(unaudited)	For the six months ended Jun 30, 2018	Jun 30, 2017
	$	**$**
Operating activities		
Net income (loss) and comprehensive income (loss)	102,344	(327,814)
Adjustments for non-cash items:		
Loss on acquisition of control	-	376,197
Provision for (recovery of) income taxes	79,926	17,444
Provision for credit losses	1,933,120	190,216
Amortization of capitalized costs	1,993,010	426,970
Stock-based compensation	119,339	-
Income from limited partnerships	-	(51,617)
Change in accrued interest receivable	66,354	125,620
Change in working capital	(60,659)	4,791,000
Acquisition of finance receivables	(38,908,827)	(51,591,858)
Collections on finance receivables	12,694,166	8,393,587
Change in deferred purchase price payable	123,348	2,816,705
Cash (used in) provided by operating activities	**(21,857,879)**	**(34,833,550)**
Investing activities		
Cash acquired on change in control	-	893,271
Distributions to non-controlling interests	-	(18,750)
Cash (used in) provided by investing activities	-	**874,521**
Financing activities		
Proceeds from securitization debt, net of holdback	36,404,139	40,586,906
Repayments of securitization debt	(13,732,163)	(1,654,153)
Cash provided by financing activities	**22,671,976**	**38,932,753**
Increase (decrease) in cash during period	814,097	4,973,724
Cash, beginning of period	3,727,486	716,009
Cash, end of period	**4,541,583**	**5,689,733**

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

1. Nature of Organization

Description of the business

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

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

Approval of consolidated financial statements

The financial statements were approved by the Company's Board of Directors and authorized for issue on August 22, 2018.

2. Summary of Significant Accounting Policies

Basis of presentation

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

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

Statement of compliance

These interim financial statements have been prepared by management in accordance with IAS 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB").

Certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed. The accounting policies followed in these interim financial statements are consistent with those of the Company's audited annual financial statements for the year ended December 31, 2017, except for the changes to the accounting for financial instruments resulting from the adoption of IFRS 9, "Financial Instruments". Changes in accounting policies resulting from the adoption of IFRS 9 as of January 1, 2018 are described below under *Impairment of financial assets*.

Basis of consolidation

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

Use of estimates and judgments

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

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

Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. Financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding at June 30, 2018:

Type	**Classification**
Finance receivables - net	Loans and receivables
Other assets	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Deferred purchase price payable	Other financial liabilities
Securitization debt	Other financial liabilities

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

a) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method.
b) Deferred purchase price payable consists of two components - a fixed percentage based on the outstanding finance receivables as of the last day of each month, plus an additional amount based on excess annual return on capital (earned by the Partnerships) over a certain threshold. The additional amount is termed a contingent consideration since it is contingent on the Partnerships' future earnings. Both components of deferred purchase price payable are measured by considering any changes in conditions and potential financial outcomes compared to what existed at the time of initial recognition and measurement.
c) Other financial liabilities (excluding deferred purchase price payable) are measured at amortized cost using the effective interest method.

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

Financial assets and financial liabilities are offset with the net amount reported on the statement of financial position only when there is a legally enforceable right to offset the recognized amount in all situations and there is an intention to settle on a net basis or the asset and the liability will be settled simultaneously. No amounts have been offset as at June 30, 2018.

Impairment of financial assets

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 ECL is calculated by applying a probability of default, exposure at default, and loss given default to the population of finance receivables under each stage at each reporting date. The ECL model is forward looking and uses reasonable and supportable forecasts of future economic conditions in the determination of significant increases in credit risk and measurement of ECL. The new ECL model results in the earlier recognition of the allowance for credit losses, which is not indicative of a change in the expected recovery value of the underlying finance receivables, but rather a function of extending the allowance to provide for expected future losses for a period greater than previously provided for.

Investments in equity accounted entities

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

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

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

Revenue recognition:

Net interest income

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

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

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

Other income

Other income includes fees charged to obligors for items such as due date changes, past due payments, and non-sufficient funds, all of which are recognized when realized. For the six months ended June 30, 2018, it also included a one-time adjustment related to the remeasurement of the deferred purchase price payable (refer to note 5 for details).

Deferred income taxes

Deferred income taxes are calculated using the asset and liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the statement of financial position are used to calculate deferred income tax liabilities or assets. Deferred income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that substantive enactment occurs. As at June 30, 2018, the Company has recognized a deferred tax asset for the portion of loss carry-forwards and temporary differences it expects to be recoverable as a result of its completion of the QT and investment in the Partnerships.

Stock-based compensation

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

Earnings or loss per share

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

Comprehensive income (loss)

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

Segment reporting

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

Adoption of new accounting policies:

IFRS 9 'Financial Instruments'

The Company adopted IFRS 9 "Financial Instruments" on January 1, 2018. The Company has applied IFRS 9 retrospectively, but has elected not to restate comparative information. Any adjustments to carrying amounts of financial assets or liabilities are recognized at the beginning of the current reporting period, with the difference recognized in opening retained earnings. The following table provides a breakdown of the impact of the transition from IAS 39 to IFRS 9 to the Consolidated Statement of Financial Position:

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

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

Standards issued but not yet effective:

There is a pending change to IFRS which is not yet effective for the period ended June 30, 2018 which has not been applied in the preparation of the consolidated financial statements. The Company is currently considering but has not yet finalized its assessment of the impact that this standard change will have on the financial statements. The standard issued or amended but not yet effective at June 30, 2018 is:

IFRIC 23 'Uncertainty over Income Tax Treatments'

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

3. Finance Receivables

Finance receivables consist of retail sales contracts which had initial terms of 24 to 84 months at time of origination and fixed rates of interest ranging from 9-per-cent to 27-per-cent. All finance receivables are secured by collateral charges on motor vehicles. The Partnerships acquired finance receivables with principal outstanding of $34 million during the six months ended June 30, 2018, of which, $32 million was securitized and the remaining amount was held for securitization in subsequent periods. As at December 31, 2017 the Partnerships had acquired finance receivables with principal outstanding of $65 million, of which, $63 million was securitized during the year and the remaining $2 million was held for securitization in subsequent periods.

The finance receivables can be broken down as follows:

	Jun 30, 2018	Dec 31, 2017
Finance receivables	79,643,334	57,626,178
Add: Transaction costs	7,727,537	6,098,352
Less: Administration fees	(1,828,568)	(1,299,497)
Finance receivables - gross	**85,542,303**	**62,425,033**
Allowance for credit losses	(2,233,232)	(523,317)
Finance receivables – net	**83,309,071**	**61,901,716**

Finance receivables – gross

Outstanding payments, including principal and interest, contractually due under the finance receivables, as well as transaction costs , as at June 30, 2018 and December 31, 2017 are outlined below. Management expects that a portion of the retail sales contracts will be repaid in full prior to the maturity date. Accordingly, the maturities in the table below are not a forecast of future cash collections.

	Jun 30, 2018	Dec 31, 2017
Within 1 year	23,889,209	16,661,247
In 1 to 3 years	45,921,580	32,182,933
In 4 to 5 years	37,318,369	26,973,923
Greater than 5 years	10,750,215	6,890,282
Total receivables	117,879,373	82,708,385
Less: Unearned interest	(38,236,039)	(25,082,207)
Total receivables, net of unearned interest	79,643,334	57,626,178
Add: Transaction costs, net of administration fees	5,898,969	4,798,855
Finance receivables - gross	**85,542,303**	**62,425,033**

Allowance for credit losses

The following illustrates the aging of the finance receivables, excluding transaction costs, net of administration fees, as at June 30, 2018:

	Current	31 - 60 Days Past Due	61 - 90 Days Past Due	91+ Days Past Due	Total
Total receivables, net of unearned interest	77,565,215	1,210,538	332,892	534,689	79,643,334
% of total finance receivables	97.4%	1.5%	0.4%	0.7%	100.0%

The following illustrates the aging of the finance receivables, excluding transaction costs, net of administration fees, as at December 31, 2017:

	Current	31 - 60 Days Past Due	61 - 90 Days Past Due	91+ Days Past Due	Total
Total receivables, net of unearned interest	56,373,963	775,442	299,302	177,471	57,626,178
% of total finance receivables	97.8%	1.3%	0.5%	0.3%	100.0%

The Partnerships' allowance for credit losses as at June 30, 2018 and December 31, 2017 can be broken down as follows:

	Jun 30, 2018	Dec 31, 2017
Allowance for credit losses, beginning of year	523,317	25,916
IFRS 9 transition impact	814,822	-
Additional allowance for period	1,933,120	939,093
Write-offs, net of recoveries	(1,038,027)	(441,692)
Allowance for credit losses, end of period	**2,233,232**	**523,317**

4. Net Interest Income

Interest income represents interest earned on the finance receivables. The amount is presented net of amortization of capitalized costs associated with originating and purchasing the underlying retail sales contracts. Below is a breakdown of the amounts for the three and six months ended June 30, 2018 and 2017:

	For the three months ended		For the six months ended	
	Jun 30, 2018	Jun 30, 2017	Jun 30, 2018	Jun 30, 2017
Interest income	2,876,727	796,363	5,345,642	1,111,220
Amortization of capitalized costs	(1,075,995)	(327,130)	(1,993,010)	(465,185)
Net interest income	**1,800,732**	**469,233**	**3,352,632**	**646,035**

The amortization of capitalized costs includes amortization of origination costs of $304,103 and $569,517 for the three and six months ended June 30, 2018, respectively (2017 - $80,078 and $106,472, 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 $771,892 and $1,423,493 for the three and six months ended June 30, 2018, respectively (2017 - $247,052 and $320,498, respectively).

5. Other Income

The breakdown of other income is as follows:

	For the three months ended		For the six months ended	
	Jun 30, 2018	Jun 30, 2017	Jun 30, 2018	Jun 30, 2017
Deferred purchase price remeasurement	82,511	-	877,843	-
Fees and other charges	44,433	36,468	86,826	47,124
Other income	**126,944**	**36,468**	**964,669**	**47,124**

Included in other income for the three and six months ended June 30, 2018 is the impact of a one-time remeasurement of the deferred purchase price payable (refer to note 7 for details) as well as the change in fair value of the contingent component of the deferred purchase price.

6. Deferred Income Taxes

A reconciliation of deferred tax assets is as follows:

	Jun 30, 2018	Dec 31, 2017
Balance, beginning of year	128,850	143,346
IFRS 9 transition impact	142,985	-

Recognized in net income	(79,926)	(14,496)
Total deferred income taxes	**191,909**	**128,850**

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

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) is provided below:

	For the three months ended		**For the six months ended**	
	Jun 30, 2018	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2017**
Net income (loss) before taxes	(485,480)	32,533	182,270	(310,370)
Applicable tax rate	26.5%	26.5%	26.5%	26.5%
Expected provision for (recovery of) income taxes at applicable tax rate	(128,652)	8,621	48,302	(82,248)
Increase (decrease) in recovery resulting from:				
Expenses not deductible for tax	31,624	50,345	31,624	99,692
Total provision for (recovery of) income taxes	**(97,028)**	**58,966**	**79,926**	**17,444**

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

7. Deferred Purchase Price Payable

The Partnerships purchase retail sales contracts from CCMI, a related party (refer to note 14), on a fully serviced basis. A component of the purchase price for the purchased receivables is deferred and payable to CCMI over the life of the related finance receivables. A breakdown of the amount owing at June 30, 2018 and December 31, 2017 is provided below:

	Jun 30, 2018	**Dec 31, 2017**
Due within 1 year	1,846,653	1,771,760
Due greater than 1 year	1,806,724	1,758,269
Total deferred purchase price payable	**3,653,377**	**3,530,029**

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

The Partnerships continue to measure and record the estimated fair value of the contingent component of the deferred purchase price payable. The contingent component of the deferred purchase price payable is $nil as of June 30, 2018 (December 31, 2017 - $nil).

CCMI continues to administer the contracts on behalf of the Partnerships who pay a deferred purchase price to CCMI based on the outstanding finance receivables balance at the end of every month. The total amount payable at the time the Partnerships purchase the receivables is calculated as the present value of these estimated future cash payments, and is capitalized within transaction costs under finance receivables. Accordingly, every month, as the associated finance receivables continue to remain outstanding, a portion of the deferred purchase price becomes due and payable. The liability is paid monthly with a total of $1,564,000 paid by the Partnerships to CCMI for the six months ended June 30, 2018 (twelve months ended December 31, 2017 - $2,298,501).

8. Securitization Debt

Securitization debt represents funding secured by the finance receivables and sold to the securitizers. For the six months ended June 30, 2018, the Partnerships had securitized finance receivables for securitization proceeds of $39 million which had principal outstanding at time of securitization of $34 million (for the year ended December 31, 2017 – proceeds of $72 million with principal outstanding of $63 million). Securitization debt is recorded at amortized cost using the effective interest method. Each tranche securitized under the facilities has a fixed rate of interest. The weighted average interest rate on the securitization debt is 5.57 per cent and 5.51-per-cent for the three and six months ended June 30, 2018, respectively (2017 - 4.55-per-cent and 4.63 per cent, respectively).

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

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

In accordance with the securitization agreements, the Partnerships transfer all of their rights, title and interest in the securitized finance receivables to the securitizers, and must remit all scheduled or received principal and interest payments to the securitizers. Each securitization transaction has a fixed maturity, interest rate and repayment schedule based on the underlying finance receivables. If the Partnerships fail to meet any covenants under the securitization agreements, the securitizer may take control of the finance receivables and assign a back-up servicer. Under this event, the Partnerships' obligation as it pertains to the securitization debt would be extinguished. As such, the total cash holdback and the finance receivables overcollateralization represent the Partnerships' maximum exposure to their securitized receivables. The securitization debt is non-recourse to the Partnerships.

The securitization debt activity and balance for the six months ended June 30, 2018 and twelve months ended December 31, 2017 is broken down as follows:

	Jun 30, 2018	**Dec 31, 2017**
Securitization debt, opening balance	56,678,509	-
Net proceeds on securitization	39,106,751	72,051,542
Repayments to securitizer	(13,732,163)	(8,854,735)
Additions to cash holdback, net of releases	(2,704,155)	(6,443,712)
Change in unamortized securitization costs	1,543	(74,586)
Securitization debt, ending balance	**79,350,485**	**56,678,509**

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

9. Share Capital

a) Authorized and Issued

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

	Shares	**Amount ($)**
Ending balance, December 31, 2016	55,000,000	4,735,791
Issuance of common shares	-	-
Ending balance, June 30, 2017	**55,000,000**	**4,735,791**
Ending balance, December 31, 2017	55,550,000	4,790,791
Issuance of common shares	-	-
Ending balance, June 30, 2018	**55,550,000**	**4,790,791**

b) Stock Options

Issued and outstanding stock options at June 30, 2018 were 5,500,000, of which, 4,600,000 were exercisable. During the three months ended June 30, 2018, the Company announced a change in the Chief Executive Officer effective May 22, 2018. As a result, there were 500,000 unvested stock options which were forfeited on May 22, 2018. In addition, the Company granted 1,700,000 stock options to directors and officers on June 21, 2018, of which 800,000 vested immediately and the fair value was recorded in earnings during the three months ended June 30, 2018 as stock-based compensation expense. The remaining 900,000 stock options will vest over the next three years. The newly granted stock options expire five years from the grant date. Subsequent to June 30, 2018, 500,000 options were exercised.

d) Escrowed Shares

34,250,000 of the 45,000,000 common shares of the Company issued in 2014 prior to the IPO were deposited with the escrow agent under an escrow agreement (the “Escrowed Shares”). As of June 30, 2018, 15,412,501 shares remain under escrow and an additional 15-per-cent of the original number of Escrowed Shares will be released every July and January such that all Escrowed Shares will be released by July 2019.

Issued and outstanding Escrowed Shares are as follows:

	Shares
Ending balance, December 31, 2016	30,825,000
Released	(5,137,499)
Ending balance, June 30, 2017	**25,687,501**

Ending balance, December 31, 2017	20,550,001
Released	(5,137,500)
Ending balance, June 30, 2018	**15,412,501**

10. Non-Controlling Interest

A breakdown of the non-controlling interest on the statement of financial position as of June 30, 2018 is as follows:

	CAL LP	ACC LP III	TOTAL
Equity invested by third parties in partnerships	529,422	600,010	1,129,432
Non-controlling portion of retained earnings	35,482	8,478	43,960
Non-controlling portion of IFRS 9 transition impact	(43,826)	(151,865)	(195,691)
Non-controlling portion of current period earnings	30,522	36,861	67,383
Non-controlling portion of distributions	(18,750)	-	(18,750)
Total non-controlling interest	**532,850**	**493,484**	**1,026,334**

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

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

Of the non-controlling portion of current period earnings, $67,383 (December 31, 2017 – $30,288 related to the period post acquisition of control) is deducted as non-controlling interest on the statement of net income (loss) and comprehensive income (loss).

11. Earnings (Loss) Per Share

Earnings (loss) per share for the three months and six months ended June 30, 2018 and 2017 were calculated based on the following:

	For the three months ended		For the six months ended	
	Jun 30, 2018	Jun 30, 2017	Jun 30, 2018	Jun 30, 2017
Net income (loss) attributable to shareholders ($)	(303,210)	(47,983)	34,961	(355,210)
Weighted average shares outstanding – basic	55,550,000	55,000,000	55,550,000	55,000,000
Earnings (loss) per share – basic ($)	**(0.01)**	**(0.00)**	**0.00**	**(0.01)**
Net income (loss) attributable to shareholders ($)	(303,210)	(47,983)	34,961	(355,210)
Weighted average shares outstanding – diluted	55,550,000	55,000,000	57,232,927	55,000,000
Earnings (loss) per share – diluted ($)	**(0.01)**	**(0.00)**	**0.00**	**(0.01)**

The diluted weighted average shares outstanding for the three months ended June 30, 2018 and 2017, and for the six months ended June 30, 2017 excludes the effect of stock options issued and outstanding as they are considered antidilutive as the Company incurred a loss for the period.

12. Capital Management

The Company's capital is comprised of equity and securitization debt. The Company's objectives when managing capital are to safeguard the Company's ability to continue and maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The securitization facilities entered into by the Partnerships provide access to $100 million of funding, renewed annually, and $11 million of revolving financing in order to fund the acquisition of retail sales contracts. The Company has availability of $61 million as at June 30, 2018 under its securitization facilities.

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

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

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

13. Financial Instruments and Risk Management

In the normal course of business, the Company is exposed to certain financial 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 sources of liquidity for the Company are from cash raised from equity financing and future distributions from the Partnerships, which would be used to finance working capital and capital expenditure requirements, and to meet the Company's financial obligations associated with financial liabilities. Additional sources of liquidity are debt and equity financing, which may be used to fund additional operating and other expenses and retire debt obligations, if any, at their maturity. The Partnerships' financial obligations related to the finance receivables are non-recourse to the Company.

The primary source of liquidity for the Partnerships is cash flows from the collection of finance receivables. As at June 30, 2018, the undiscounted cash flows arising from the finance receivables, excluding transaction costs, are as follows:

	Within 1 year	**In 1 to 3 years**	**In 4 to 5 years**	**Greater than 5 years**	**Total**
Total receivables	23,889,209	45,921,580	37,318,369	10,750,215	117,879,373

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

	Within 1 year	**In 1 to 3 years**	**In 4 to 5 years**	**Greater than 5 years**	**Total**
Securitization debt	17,561,230	31,479,425	24,523,436	5,786,394	79,350,485

Deferred purchase price payable	1,846,653	1,499,029	302,151	5,544	3,653,377
Accounts payable and accrued liabilities	92,475	-	-	-	92,475
	19,500,358	32,978,454	24,825,587	5,791,938	83,096,337

The amounts reported for securitization debt are based on contractual maturities. However the debt may be due earlier if the corresponding finance receivables run-off sooner. Accordingly, the maturities 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, risk of fraud, and the circumstances of individual obligors. The maximum exposure to the finance receivables is represented by the carrying amount thereof. Although credit risk has a significant impact on retail receivables, it is mitigated by the Partnerships having a first priority perfected security interest in the related financed vehicles. In the case of obligor defaults, the value of the repossessed collateral provides a source of protection. Every reasonable effort is made to follow-up on delinquent accounts and to keep accounts current and repossession is considered only as a last resort. Refer to note 3 for details on past due accounts as of June 30, 2018. A repossessed vehicle is sold and proceeds are applied to the amount owing on the account. As such, the Partnerships are also exposed to fluctuations in used vehicle prices.

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

Market Risk

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

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

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 significant transactions denominated in foreign currency and therefore is not currently exposed to significant foreign 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 not exposed to other price risk.

Fair Values

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

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

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

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

	Fair Value Level	Carrying Value ($)	Fair Value ($)
Financial assets at amortized cost			
Finance receivables - net	3	83,309,071	83,309,071
Financial liabilities at amortized cost			
Securitization debt	3	79,350,485	79,350,485
Deferred purchase price payable	3	3,653,377	3,653,377

14. Related Party Transactions

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

	June 30, 2018	Dec 31, 2017
Assets		
Finance receivable - net (note a)	85,542,303	62,425,033
Other Assets (note b)	147,349	59,113
Liabilities		
Accounts payable and accrued liabilities (note c)	16,141	38,301
Deferred purchase price payable (note d)	3,653,377	3,530,029

	For the three months ended		For the six months ended	
	Jun 30, 2018	**Jun 30, 2017**	**Jun 30, 2018**	**Jun 30, 2017**
Income and expenses				
Other income (note e)	82,511	-	877,843	-
Management fees (note f)	16,141	16,865	31,820	34,745
Stock-based compensation (note g)	119,339	-	119,339	-

The Company has related party relationships with the below entities.

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

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

  Note a) Amounts include gross finance receivables purchased from ACC LP, excluding allowance for credit losses.
  Note b) Other assets include amounts due from ACC LP and CCMI related to normal course customer collections. The balances were settled subsequently after the respective periods end.
  Note c) Included in the balance was $22,769 due to ACC LP II and CCMI as of December 31, 2017. There were no such amounts due to ACC LP II and CCMI as of June 30, 2018. Amounts due to ACC LP II and CCMI related to normal course operating expenses. The amounts were settled subsequently after the respective periods end.
  Note d) Amounts due to CCMI that are deferred and payable over the life of the underlying retail sales contracts.
  Note e) Amounts represent the impact of one-time remeasurement of the deferred purchase price payable (refer to note 7 for details).

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

  Balances and transactions the Company has with the Manager are listed as follows:
  Note c) Included in the balance was $16,141 management fees payable to the Manager as of June 30, 2018 (December 31, 2017 of $15,532) which were settled subsequently after the respective periods end.
  Note f) Management fees to the Manager incurred during the period.

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

Balances and transactions the Company has with key management personnel are listed as follows:
Note g) Stock-based compensation for key management personnel with a fair value of $119,339 was expensed during the six months ended June 30, 2018 (2017 - $nil). Refer to note 9 for further details.

15. Comparative Financial Statements

Certain comparative information in the Statements of Net Income (Loss) and Comprehensive Income (Loss), Statements of Cash Flow and the relative notes has been reclassified to conform with the current presentation.