

Cliffside Capital Ltd.
Management Discussion and Analysis

For the Three Month and Nine Month Period Ended September 30, 2016

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CLIFFSIDE CAPITAL LTD.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

The following management discussion and analysis (“MD&A”) of the results of the operations and financial position of Cliffside Capital Ltd. (the “Company”) prepared as of September 30, 2016 and approved by the Board of Directors on November 24, 2016, should be read in conjunction with the Company’s unaudited interim financial statements and notes thereto for the nine months ended September 30, 2016, 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.sedar.com. No AIF is required to be filed.

Nature of the Business and Incorporation

The Company was incorporated under the Business Corporations Act (Ontario) on October 22, 2013 and was initially classified as a Capital Pool Company under the terms of the TSX Venture Exchange (the “Exchange”). The Company completed its Qualifying Transaction (“QT”) on July 1, 2016 and on July 6, 2016 received the Final Exchange Bulletin issued by the Exchange and thereafter started trading on the Exchange under the symbol CEP.

CAL LP, a limited partnership, was formed on February 22, 2016 in the Province of Ontario by CAL GP Inc. (“CAL GP”) and AutoCapital Canada Management Inc. (“ACCMI”), an entity associated with the Company. CAL LP was formed to engage in the business of investing in retail sales contracts backed by automobiles as collateral that are originated by ACCMI. CAL GP, a wholly owned subsidiary of ACCMI, acts as the general partner for CAL LP.

The Company completed its QT effective July 1, 2016, resulting in the Company acquiring an 85-per-cent interest in CAL LP from ACCMI for aggregate proceeds of \$3 million. At that time, CAL LP held automobile retail sales contracts originated and serviced by ACCMI with principal outstanding of approximately \$3.2 million.

The Company’s focus is to invest in loans and other similar financial assets from third parties which have specialized expertise and proven track records in originating and servicing these types of assets. The Company’s current assets are primarily its 85-per-cent interest in CAL LP as well as cash on hand.

The Company’s registered office is located at Suite 200, 11 Church Street, Toronto, M5E 1W1.

Financial Highlights

Select Operating Results

	For the 3 months ended		For the 9 months ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
	\$	\$	\$	\$
Income from limited partnership	23,561	-	23,561	-
Total income	23,762	882	24,913	8,396
Management fees	14,970	-	14,970	-
Other expenses	26,674	15,768	37,338	114,544
Total expenses	41,644	15,768	52,308	114,544
Loss before income taxes	(17,882)	(14,886)	(27,395)	(106,148)
Provision for recovery of income taxes	38,137	-	38,137	-
Net income (loss) after taxes	20,255	(14,886)	10,742	(106,148)
Basic and diluted earnings (loss) per share	0.00	(0.00)	0.00	(0.00)

For the three months and nine months ended September 30, 2016, the Company recorded its 85-per-cent share of the income earned by CAL LP in the amount of \$23,561 for the post-QT period of July 1, 2016 to September 30, 2016.

On July 1, 2016, the Company entered into an agreement with LC Asset Management Corporation (see Related Party Transactions section). Pursuant to this agreement, the Company incurred management fees of \$14,970 for the three months and nine months ended September 30, 2016.

Other expenses are comprised of professional fees of \$22,375 and general and administrative expenses of \$4,299 for the three months ended September 30, 2016, and \$32,808 and \$4,530, respectively, for the nine months ended September 30, 2016. Other expenses for the nine months ended September 30, 2015 include non-cash stock based compensation of \$55,000.

During the three months ended September 30, 2016, the Company recognized a deferred tax asset and corresponding income tax recovery of \$38,137 representing the estimated recovery of future income taxes.

Select Statement of Financial Position and Cash Flow Summary

	As at and for the period ended	
	Sep 30, 2016	Dec 31, 2015
	\$	\$
Cash	1,192,932	4,641,361
Investment in limited partnership	3,399,758	-
Total shareholders' equity	4,595,732	4,584,990
Total cash flow from operating activities	(72,232)	(79,194)

The Company invested \$3,000,000 in an 85-per-cent interest in CAL LP on July 1, 2016 and incurred expenses of \$376,197 in transaction costs at that time, and recognized its 85-per-cent share of the income earned by CAL LP in the amount of \$23,561 for the post-QT period of July 1, 2016 to September 30, 2016.

Total cash flow from operating activities for the nine months ended September 30, 2016 consists primarily of professional fees and general and administrative expenses.

Investment in CAL LP

The Company's primary asset is its 85-per-cent interest in CAL LP, a partnership which holds a diversified portfolio of retail sales contracts backed by automobiles as collateral that are originated and serviced by ACCMI. CAL LP's operating decisions are made by its general partner, CAL GP, which is a wholly owned subsidiary of ACCMI. Hence, ACCMI has the ability to direct the relevant activities of CAL LP, and is considered to control CAL LP for accounting purposes. Accordingly, despite the Company's 85-per-cent interest in CAL LP, the Company's investment is accounted for under the equity method in accordance with IAS 28.

Separate unaudited interim financial statements for CAL LP have been filed on SEDAR.com and should be read in conjunction with this MD&A.

CAL LP's Financial Highlights

CAL LP's select operating results are summarized below:

	For the 3 months ended Sep 30, 2016	For the period from Feb 22 to Sep 30, 2016
	\$	\$
Interest income	110,986	272,410
Total income	121,534	296,237
Provision for credit losses	51,068	81,642
Total expenses	93,815	277,602
Net income	27,719	18,635
Cliffside's share of net income - 85%	23,561	23,561

CAL LP generated total income of \$121,534 for the three months ended September 30, 2016 and \$296,237 for the period from inception to September 30, 2016. This primarily consists of interest income earned on ownership interest in finance receivables as well as other income related to administration and ancillary fees.

The provision for credit losses is established first by evaluating the portfolio for specific indications of impairment and applying loss estimates, net of recoveries, based on the severity of the delinquency with receivables greater than 90 days past due being fully provided for.

On July 1, 2016 with the proceeds from the completion of the QT, CAL LP repaid the bank borrowing facility used to finance the receivables during the pre-QT period and incurred interest expense of \$54,607.

Total expenses for the three months ended September 30, 2016 include, in addition to the provision for credit losses of \$51,068, deferred purchase price expense of \$30,736 and general and administrative expenses of \$12,011.

Total expenses for the period from inception to September 30, 2016 include, in addition to the provision for credit losses of \$81,642 and interest expense of \$54,607, deferred purchase price expense of \$75,276, general and administrative expenses of \$27,664 and one-time costs incurred to set-up and complete the QT of \$38,413.

CAL LP recorded net income for the three months ended September 30, 2016 of \$27,719 of which, 85-per-cent, or \$23,561 is recorded in the Company's financial statements. For the period from inception to September 30, 2016, CAL LP earned income of \$18,635 after taking into account one-time expenses incurred in relation to the QT as explained above.

CAL LP's select statement of financial position and cash flow summary are summarized below:

	<u>As at September 30, 2016</u>	<u>For the period from Feb 22 to Sep 30, 2016</u>
	\$	\$
Cash	625,836	
Ownership interest in finance receivables	3,199,146	
Partnership equity	3,548,057	
Total cash flow from operating activities		618,736

CAL LP had cash of \$625,836 as at September 30, 2016 primarily from the receipt of contractually scheduled payments from customers related to the automobile finance receivables. The ownership interest in automobile finance receivables of \$3,199,146 primarily represents the outstanding principal balance and accrued fees owing from customers net of an estimated allowance for credit losses, as well as capitalized transaction costs associated with the purchase of the automobile finance receivables which are amortized into income using the effective interest method.

Partnership equity represents Cliffside's 85-per-cent ownership interest of \$3,000,000, ACCMI's 15-per-cent ownership interest of \$529,412, CAL GP's general partner contribution of \$10, and net income of \$18,635 earned during the period from inception to September 30, 2016.

Total cash flow from operating activities for the period from inception to September 30, 2016 primarily consists of receipt of contractually scheduled payments from customers related to the automobile finance receivables.

Non-IFRS Measures

The Company prepares its audited annual financial statements and unaudited condensed interim 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 origination costs, divided by the 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 the period divided by the total outstanding principal balance of all receivables at the end of the period.

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 asset is its investment in CAL LP. As such, key performance indicators for CAL LP as at and for the three months ended September 30, 2016 are as follows:

Gross yield	17.85%
Delinquency rate	4.17%

CAL LP's portfolio of automobile backed receivables has a strong gross yield which contributes favourably to net earnings. Overall portfolio performance and delinquency rates are as expected.

Liquidity and Capital Resources

Through a combination of two private placements and the Company's initial public offering ("IPO"), the Company raised gross proceeds of \$5 million from issuance of common shares. On July 1, 2016, the Company completed its QT and invested \$3 million of the proceeds raised in CAL LP, and paid \$376,197 in transaction costs to close the QT. As at September 30, 2016, the Company had remaining cash on hand of \$1,192,932. Management believes this is sufficient to meet the Company's working capital requirements.

Share Capital

The Company is authorized to issue an unlimited number of common shares. Through a combination of two private placements and the IPO, which included the issuance of 10,000,000 shares at \$0.05 per share and 45,000,000 shares at \$0.10 per share, the Company raised gross proceeds of \$5 million and incurred cumulative expenses of \$337,835 (other than non-cash compensation expense and net of working capital changes). The Company's common shares began trading on the Exchange on April 17, 2014.

Issued and outstanding common shares as of September 30, 2016 are as follows:

	Number	Amount
Balance, September 30, 2016	55,000,000	\$ 4,662,165

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 "Escrow Agreement"). The Escrowed Shares were not to be released until the Exchange issued the Final Exchange Bulletin.

The Final Exchange Bulletin was released on July 6, 2016 at which time 10-per-cent or 3,425,000, of the original number of all Escrowed Shares were released. An additional 15-per-cent will be released on the dates 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the issuance of the Final Exchange Bulletin so that all Escrowed Shares will have been released three years after the date of the release of the Final Exchange Bulletin.

Issued and outstanding escrowed shares as of September 30, 2016 are as follows:

	Number
Balance, September 30, 2016	30,825,000

Incentive Stock Options

On completion of the IPO, the Company granted 5,500,000 incentive stock options to its directors and officers to purchase an aggregate of up to 10-per-cent of the issued and outstanding common shares of the Company at a price of \$0.10 per common share, exercisable for a period of ten years from the grant date. In addition, as part of the compensation to the Agent, the Company issued 1,000,000 options exercisable for 24 months from the date of issue at the exercise price of \$0.10 per share.

Issued and outstanding stock options as of September 30, 2016 are 3,850,000 after expiry of 1,650,000 of directors' options and 1,000,000 of the Agent's options. All of the stock options were fully vested upon issuance and the fair value thereof recorded immediately in earnings as compensation expense. The aggregate stock options were valued at \$665,000 using the Black-Scholes option pricing model using the following assumptions:

Expected life	2 - 10 years
Risk free rate	1.07% - 2.07%
Expected dividend yield	0%
Expected volatility	100%

Business Outlook

CAL LP's near term objective is to grow its portfolio by investing in newly originated non-prime automobile receivables by entering into financing arrangements with banks and/or other third parties. This will allow the Company to leverage its capital and build a portfolio that generates positive margins while maintaining an acceptable level of portfolio risk.

As part of the QT, the Company undertook to complete another investment of at least \$250,000 within 6 months of the Final Exchange Bulletin. Management is evaluating several options and expects to complete a second transaction within the prescribed time period.

Summary of Quarterly Results

	For the period ended							
	2016			2015				2014
	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$
Total income	23,762	569	582	582	882	2,914	4,600	7,917
Total expenses	41,644	7,839	2,824	3,213	15,768	26,312	72,464	(44,803)
Income (loss) before taxes	(17,882)	(7,270)	(2,242)	(2,631)	(14,886)	(23,398)	(67,864)	52,720
Provision for recovery of income taxes	38,137	-	-	-	-	-	-	-
Net income (loss) after taxes	20,255	(7,270)	(2,242)	(2,631)	(14,886)	(23,398)	(67,864)	52,720
Basic and diluted loss per share	0.00	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	0.00

Related Party Transactions

The following is a summary of the related party transactions that took place during the period:

- Certain costs incurred during 2015 and the 6 months ended June 30, 2016 prior to the completion of the QT, aggregating to \$23,888 have been paid by a director and current Control Person of the Company.
- During the quarter, the Company reimbursed CAL LP for expenses related to the QT of \$23,730.
- The Company entered into a management agreement with LC Asset Management Corporation (the “Manager”) dated as of July 1, 2016 to provide investment advice and manage the operations of the Company. The Manager and ACCMI are considered related parties to the Company, as a result of significant common ownership. In addition, the CEO of the Company is also the CEO of the Manager and holds the position of Chief Corporate Development Officer at ACCMI. The Company pays the Manager a fee of 1.25-per-cent annually of the Company’s gross assets and a potential performance bonus subject to the financial performance of the Company. The total amount payable for the period ended September 30, 2016 is \$14,970 and is accrued in the Company’s financial statements.

Changes in Accounting Policies Including Initial Adoption

There are pending changes to IFRS which are not yet effective for the period ended September 30, 2016 which have not been applied in the preparation of the financial statements. The Company is currently considering the impact that these standard changes will have on the financial statements. The standards issued or amended but not yet effective at September 30, 2016 include the following:

Financial Instruments

The final version of IFRS 9, “Financial Instruments” (“IFRS 9”), was issued by the IASB in July 2014 and will replace IAS 39, “Financial Instruments: Recognition and Measurement”. IFRS 9 introduces a model for classification and measurement, a single forward-looking ‘expected loss’ impairment model and a substantially reformed approach to hedge accounting. The new single principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of an entity’s own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. The entity’s own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. Lastly, a third measurement category for financial assets – “fair value through other comprehensive income” will exist. IFRS 9 is effective for annual

periods beginning on or after January 1, 2018; however, it is available for early adoption. Management is currently evaluating the impact of adopting this standard on the financial statements.

Risks and Uncertainties

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

Liquidity Risks

Liquidity risk is the risk that the Company cannot meet its financial obligations associated with financial liabilities in full. The primary source of liquidity is net operating income, which is 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 is used to fund additional operating and other expenses and retire debt obligations, if any, at their maturity.

Credit Risk

Credit Risk arises from the possibility that debtors 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. As of the date of these financial statements the Company's sole debtor is the Toronto Dominion Bank, for interest owed on deposits. In addition, the Company is indirectly exposed to potential credit losses through its investment in CAL LP from a failure by a customer or other counterparty to make payments according to contractual terms. Although credit risk is a significant impact on retail receivables, CAL LP mitigates this risk by ensuring it has a first priority perfected security interest in the related financed automobiles. Therefore the Company does not believe it is currently exposed to any significant credit risk.

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 Company is not currently exposed to significant interest rate risk as it does not have any interest bearing financial assets or financial liabilities.

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

The company's financial instruments include cash held, account receivables, and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values due to their short term nature.

Trading and Share Statistics

	2016*	2015
Average Monthly Trading Volume	38,070	61,200
Share Price		
High	0.15	0.105
Low	0.06	0.065
Close	0.125	0.065
Outstanding Shares	55,000,000	55,000,000

* Trading in the Company's shares was halted on Feb 23, 2016 and resumed on completion of the QT with effect on July 7, 2016 under the symbol CEP. Statistics represent period from January 1 to February 22, 2016 as well as July 7 to September 30, 2016.

Management Update

On August 3, 2016 the company announced the appointment of Fern Glowinsky as the Chief Executive Officer effective September 6, 2016 to replace Mr. Mark Newman. Ms. Glowinsky has also joined the Board of Directors of the Company.

Cliffside Capital Ltd.
Condensed Interim Financial Statements
(Unaudited)

For the Three Month and Nine Month Period Ended September 30, 2016

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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 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 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.

Cliffside Capital Ltd.
Statement of Financial Position
(Unaudited)

As at	Sep 30, 2016	Dec 31, 2015
	\$	\$
Assets		
Cash	1,192,932	4,641,361
Investment in limited partnership (note 4)	3,399,758	-
Other assets	38,198	193
Total assets	4,630,888	4,641,554
Liabilities		
Accounts payable and accrued liabilities	35,156	56,564
Shareholders' Equity (note 5)		
Share capital	4,662,165	4,662,165
Contributed surplus	665,000	665,000
Cumulative deficit	(731,433)	(742,175)
Total shareholders' equity	4,595,732	4,584,990
Total liabilities and shareholders' equity	4,630,888	4,641,554

Approved on behalf of the Board



Michael Stein



Fern Glowinsky

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

Cliffside Capital Ltd.
Statements of Changes in Shareholders' Equity
(Unaudited)

	Share Capital	Contributed Surplus	Deficit	Total
	\$	\$	\$	\$
Balance, December 31, 2014	4,662,165	610,000	(613,269)	4,658,896
Stock based compensation	-	55,000	-	55,000
Net loss and comprehensive loss for the period	-	-	(106,148)	(106,148)
Balance, September 30, 2015	4,662,165	665,000	(719,417)	4,607,748
 Balance, December 31, 2015	 4,662,165	 665,000	 (742,175)	 4,584,990
Stock based compensation	-	-	-	-
Net income and comprehensive income for the period	-	-	10,742	10,742
Balance, September 30, 2016	4,662,165	665,000	(731,433)	4,595,732

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

Cliffside Capital Ltd.
Statement of Net Income (Loss) and Comprehensive Income (Loss)
(Unaudited)

	For the three months ended		For the nine months ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
	\$	\$	\$	\$
Income				
Income from limited partnership	23,561	-	23,561	-
Interest and other income	201	882	1,352	8,396
Total income	23,762	882	24,913	8,396
Expenses				
Management fees (note 9)	14,970	-	14,970	-
General and administration	26,674	15,768	37,338	59,544
Stock-based compensation (note 5)	-	-	-	55,000
Total expenses	41,644	15,768	52,308	114,544
Net loss and comprehensive loss before taxes	(17,882)	(14,886)	(27,395)	(106,148)
Provision for recovery of income taxes	38,137	-	38,137	-
Net income (loss) and comprehensive income (loss)	20,255	(14,886)	10,742	(106,148)
Earnings (loss) per share (\$)				
Basic and diluted (note 6)	0.00	(0.00)	0.00	(0.00)
Weighted average number of outstanding common shares				
Basic and diluted (note 6)	54,347,826	45,000,000	48,138,686	45,000,000

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

Cliffside Capital Ltd.
Statements of Cash Flows
(Unaudited)

	For the three months ended		For the nine months ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
	\$	\$	\$	\$
Operating activities				
Net income (loss) and comprehensive income (loss)	20,255	(14,886)	10,742	(106,148)
Change in working capital	88,941	(13,620)	(21,276)	(24,847)
Income from limited partnership	(23,561)	-	(23,561)	-
Provision for recovery of income taxes	(38,137)	-	(38,137)	-
Non-cash compensation expense	-	-	-	55,000
Cash (used in) provided by operating activities	47,498	(28,506)	(72,232)	(75,995)
Investing activities				
Investment in limited partnership	(3,000,000)	-	(3,000,000)	-
Transaction costs to acquire investment	(376,197)	-	(376,197)	-
Cash (used in) provided by investing activities	(3,376,197)	-	(3,376,197)	-
Increase (decrease) in cash during period	(3,328,699)	(28,506)	(3,448,429)	(75,995)
Cash, beginning of period	4,521,631	4,673,066	4,641,361	4,720,555
Cash, end of period	1,192,932	4,644,560	1,192,932	4,644,560

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

1. Nature of organization

Description of the business

Cliffside Capital Ltd. (the “Company”) was incorporated under the *Business Corporations Act* (Ontario) on October 22, 2013 with the intent to being classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the “Exchange”) corporate finance manual.

On June 23, 2016 at an annual and special meeting of the shareholders, the Company received the requisite approvals by its shareholders of the proposed Qualifying Transaction (“the QT”). On July 4, 2016 the Company announced that it had completed its QT effective July 1, 2016.

Further on July 6, 2016 the Exchange granted final acceptance (the “Final Exchange Bulletin”) for the QT and confirmed that with effect from July 7, 2016, the Company will no longer be considered a Capital Pool Company and will restart trading under the symbol CEP.

The Company’s registered office is located at Suite 200, 11 Church Street, Toronto, Ontario M5E 1W1.

Approval of Financial Statements

The financial statements were approved by the Company’s Board of Directors and authorized for issue on November 24, 2016.

2. Qualifying Transaction

CAL LP, a limited partnership, was formed on February 22, 2016 in the Province of Ontario by CAL GP Inc. (“CAL GP”) and AutoCapital Canada Management Inc. (“ACCMI”), an entity associated with the Company (see Note 9). CAL LP was formed to engage in the business of investing in retail sales contracts backed by automobiles as collateral that are originated by ACCMI. CAL GP, a wholly owned subsidiary of ACCMI, acts as the general partner for CAL LP.

On July 4, 2016 the Company completed its QT effective July 1, 2016. The QT resulted in the Company holding an investment of \$3 million in CAL LP through the acquisition of an 85-per-cent limited partnership interest in CAL LP, from ACCMI. At that time, CAL LP held automobile retail sales contracts originated and serviced in Canada with principal outstanding of approximately \$3.2 million.

ACCMI has the ability to direct the relevant activities of CAL LP through its ownership of CAL GP. Accordingly, ACCMI is considered to control CAL LP for accounting purposes. Hence, despite the Company’s 85-per-cent interest in CAL LP, the Company’s investment is accounted for under the equity method in accordance with IAS 28.

Separate unaudited interim financial statements for CAL LP have been filed on SEDAR.com and should be read in conjunction with the notes hereto.

CAL LP’s registered office is located at Suite 200, 11 Church Street, Toronto, Ontario M5E 1W1.

3. Summary of significant accounting policies

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”).

The accounting policies followed in these interim financial statements are consistent with those of Cliffside’s audited annual financial statements for the year ended December 31, 2015. Accordingly, 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 following are the significant accounting policies used in the preparation of these financial statements:

Stock-based Compensation

The Company issues stock-based compensation to directors, officers, employees and non-employees. The fair value of options issued to directors, officers, employees and consultants to the Company is charged to net income (loss) 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.

Use of Estimates and Judgments

The preparation of these 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 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 capitalized transaction costs, accrued liabilities, deferred income taxes and fair value of stock options or other amounts pursuant to the Company's significant accounting policies. Actual results could differ from those estimates.

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 December 31, 2015, the Company had losses carried forward for tax purposes that were not considered recoverable and as such no deferred tax asset had been recognized. As at September 30, 2016, the Company has recognized a deferred tax asset for the portion of loss carryforwards it expects to be recoverable as a result of its completion of the QT and investment in a viable business.

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

Financial Instruments

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 September 30, 2016:

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<u>Type</u>	<u>Classification</u>
Cash	Loans and receivables
Other assets	Loans and receivables
Accounts payable and accrued liabilities	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 measured at amortized cost using the effective interest method.
- b) Other financial liabilities are measured at amortized cost using the effective interest method.

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.

Investment in limited partnership

The limited partnership is an entity over which the Company has significant influence. 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. This investment is accounted for using the equity method.

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"), distributions by the equity-accounted investment, and other adjustments to the Company's proportionate interest in the investee. The Company determines at each reporting date whether there is any objective evidence that the investment in limited partnership 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

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

Standards issued but not yet effective

There are pending changes to IFRS which are not yet effective for the period ended September 30, 2016 which have not been applied in the preparation of the financial statements. The Company is currently considering the impact that these standard changes will have on the financial statements. The standards issued or amended but not yet effective at September 30, 2016 include the following:

Financial Instruments

The final version of IFRS 9, "Financial Instruments" ("IFRS 9"), was issued by the IASB in July 2014 and will replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 introduces a model for classification and measurement, a single forward-looking 'expected loss' impairment model and a substantially reformed approach to hedge accounting. The new single principle-based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model

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in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of an entity's own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss. The entity's own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments. Lastly, a third measurement category for financial assets – "fair value through other comprehensive income" will exist. IFRS 9 is effective for annual periods beginning on or after January 1, 2018; however, it is available for early adoption. Management is currently evaluating the impact of adopting this standard on the financial statements.

4. Investment in limited partnership

The investment in limited partnership represents the Company's 85-per-cent limited partnership interest in CAL LP partnership units, as well as capitalized transaction costs relating to the completion of the QT, and the Company's share of net income or loss for the post-QT period from July 1, 2016 to September 30, 2016 (see Appendix A for CAL LP's financial statements for the period ended September 30, 2016).

Investment in partnership units	\$ 3,000,000
Transaction costs	<u>376,197</u>
Subtotal	3,376,197
Equity pick up (85%) from investment in CAL LP	<u>23,561</u>
Total investment in limited partnership	\$ 3,399,758

5. 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:

	Number	Amount (\$)
Opening balance, January 1, 2015	55,000,000	4,662,165
Issuance of common shares	-	-
Ending balance, September 30, 2015	<u>55,000,000</u>	<u>4,662,165</u>
Opening balance, January 1, 2016	55,000,000	4,662,165
Issuance of common shares	-	-
Ending balance, September 30, 2016	<u>55,000,000</u>	<u>4,662,165</u>

b) Share Issuance Summary

On October 22, 2013, the Company issued one share at a price of \$0.05 per common share for total proceeds of \$0.05. On December 16, 2013, the Company issued an additional 9,999,999 shares at a price of \$0.05 per common share for total proceeds of \$499,999.95.

On March 26, 2014 the Company closed a non-brokered private placement, pursuant to which the Company sold an aggregate of 35,000,000 Common Shares at \$0.10 per share, for aggregate gross proceeds to the Company of \$3,500,000.

On April 14, 2014 Raymond James Ltd. (the "Agent") subscribed to 10 million shares at a price of \$0.10 per share for aggregate gross proceeds to the Company of \$1 million in relation to the Company's initial public offering ("IPO"). Share issuance costs of \$337,835 are deducted from the gross share capital

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proceeds raised of \$5 million. The Company's common shares began trading on the Exchange on April 17, 2014.

c) Incentive Stock Options

On completion of the IPO, the Company granted 5,500,000 incentive stock options to its directors and officers to purchase an aggregate of up to 10% of the issued and outstanding common shares at a price of \$0.10 per common share, exercisable for a period of ten years from the date granted. In addition, as part of the compensation to the Agent, the Company issued 1,000,000 options exercisable for 24 months from the date of issue at the exercise price of \$0.10.

The stock options were valued at \$665,000 using the Black-Scholes option pricing model using the following assumptions:

Expected life	2 - 10 years
Risk free rate	1.07% - 2.07%
Expected dividend yield	0%
Expected volatility	100%

Issued and outstanding stock options are summarized below:

	Number
Opening balance, January 1, 2015	6,500,000
Options expired	(1,650,000)
Options issued	550,000
Ending balance, September 30, 2015	5,400,000
Opening balance, January 1, 2016	5,400,000
Options expired	(1,550,000)
Options issued	-
Ending balance, September 30, 2016	3,850,000

All of the stock options were fully vested upon issuance and the fair value thereof recorded immediately in earnings as compensation expense.

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 "Escrow Agreement"). The Escrowed Shares were not to be released until the Exchange issued the Final Exchange Bulletin. The Final Exchange Bulletin was released on July 6, 2016.

On July 6, 2016, 10-per-cent, or 3,425,000, of the original number of all Escrowed Shares were released. An additional 15-per-cent will be released on the dates 6 months, 12 months, 18 months, 24 months, 30 months and 36 months following the issuance of the Final Exchange Bulletin so that all Escrowed Shares will have been released three years after the date of the Final Exchange Bulletin.

6. Earnings (loss) per share

Earnings (loss) per share for the three months and nine months ended September 30, 2016 and September 30, 2015 were calculated based on the following:

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	For the three months ended		For the nine months ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Numerator:				
Net income (loss) - basic and diluted (\$)	20,255	(14,886)	10,742	(106,148)
Denominator:				
Weighted average shares outstanding	54,347,826	45,000,000	48,138,686	45,000,000
Earnings (loss) per share – basic and diluted (\$)	0.00	(0.00)	0.00	(0.00)
Shares outstanding – basic and diluted	55,000,000	55,000,000	55,000,000	55,000,000

As a capital pool company, the 10 million common shares issued in 2013 pursuant to two separate non-brokered private placements comprising a seed round of 10 million common shares at \$0.05 per share were considered contingently returnable and were previously excluded from the weighted average shares outstanding denominator for the calculation of basic and diluted earnings or loss per share. On July 6, 2016 the Exchange granted the Final Exchange Bulletin for the QT and confirmed that effective from July 7, 2016 the Company will no longer be considered a Capital Pool Company. Accordingly with effect from July 6, 2016, these 10 million shares issued in 2013 are no longer considered contingently returnable shares and have been included in the denominator for the weighted average shares outstanding for the calculation of earnings or loss per share.

7. Capital Management

The Company manages its common shares and stock options as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company 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.

8. 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 source of liquidity is from cash raised from equity financing, which is 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.

Credit Risk

Credit risk arises from the possibility that debtors 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. As of the date of these financial statements the Company's sole debtor is the Toronto Dominion Bank for interest receivable on deposits. In addition, the Company is indirectly exposed to potential credit losses through its investment in CAL LP from a failure by a customer or other counterparty to make payments according to contractual terms. Although credit risk is a significant impact on retail receivables, CAL LP mitigates this risk by ensuring it has a first priority perfected security interest in the related financed automobiles. Therefore the Company does not believe it is currently exposed to any significant credit risk.

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 Company is not currently exposed to significant interest rate risk as it does not have any interest bearing financial assets or financial liabilities.

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

Financial instruments include cash held, sundry receivables and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate fair value due to their short term nature.

9. Related Party Transactions

- a) Certain costs incurred during 2015 and the 6 months ended June 30, 2016 prior to the completion of the QT, aggregating to \$23,888 have been paid by a director and current Control Person of the Company.
- b) During the quarter, the Company reimbursed CAL LP for expenses related to the QT of \$23,730.
- c) The Company entered into a management agreement with LC Asset Management Corporation (the "Manager") dated as of July 1, 2016 to provide investment advice and manage the operations of the Company. The Manager and ACCMI are considered related parties to the Company, as a result of significant common ownership. In addition, the CEO of the Company is also the CEO of the Manager and holds the position of Chief Corporate Development Officer at ACCMI. The Company pays the Manager a fee of 1.25-per-cent annually of the Company's gross assets and a potential performance bonus subject to the financial performance of the Company. The total amount payable for the period ended September 30, 2016 is \$14,970 and is accrued in these financial statements.