Cliffside Capital Ltd.
Management Discussion and Analysis

For the three and six months ended June 30, 2020

Management Discussion and Analysis

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CLIFFSIDE CAPITAL LTD.
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020

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, 2020 and approved by the Board of Directors on August 11, 2020, 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, 2020, prepared in accordance with International Financial Reporting Standards (IFRS). All monetary amounts are expressed in Canadian dollars.

Forward-Looking Disclaimer

Certain statements contained in this MD&A constitute forward-looking statements which reflect the Company's current expectations and projections about future results. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results and developments are likely to differ, the potential impact of the COVID-19 pandemic on the Partnerships operations and the ability to mitigate such impact, which may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such forward-looking statements are based on a number of assumptions that may prove to be incorrect. While the Company anticipates that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements except as required by applicable law. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Company.

Additional Information

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

Nature of the Business

The Company is in the business of investing in the growing non-bank financial services market with a strategy to generate revenue as a passive investor in receivables and other similar assets, across various asset classes. Currently, the Company holds investments in two limited partnerships, CAL LP and ACC LP III (the "Partnerships"). The Partnerships acquire receivables in the non-prime automobile financing market originated in Canada. These receivables are originated and administered by CanCap Management Inc. ("CCMI") which is a leading consumer finance company that manages the entire lifecycle of receivables from credit adjudication through to contract administration, customer service, default management and post charge-off recoveries. Non-prime refers to consumers who typically would not qualify for traditional bank financing. This market is heavily weighted to used vehicle sales. As of June 30, 2020, it is also estimated that approximately 30% of Canadians do not qualify for financing through traditional sources. If credit quality can be bucketed into A through D grades, A is dominated by the banks, and D is a fragmented deep sub-prime market. The Partnerships acquire receivables from CCMI that are primarily in the B and C grades.

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

Operational Highlights

For the three months ended June 30, 2020, the Company recorded net income of $1.2 million compared to net loss of $0.2 million for the same quarter prior year. The increase in net income was primarily due to decline in provision for credit losses as a result of lower initial provision on declining stage 1 receivables, lower delinquency as of the quarter end and higher net interest income.

For the six months ended June 30, 2020, the Company recorded net loss of $0.3 million compared to a similar net loss for the same period prior year. However, the Company recorded higher net interest income of $0.9 million during the six months ended June 30, 2020, whereas there was a one-time gain of $0.8 million in the corresponding period prior year, described in financial highlights below. The provision for credit losses included in the reported net losses for three months and six months ended June 30, 2020 was $0.6 million and $4.0 million, respectively.

The Company recorded lower losses for the period which were the result of several different factors. The partnerships have acquired a total of $240 million in receivables over a relatively short period of time and the actual losses are experienced more predominantly in the first half of the life of the loans. The outstanding portfolio has stabilized at approx. $120 million bringing IFRS 9 provisions and management's forecast of losses over the life closer into balance. IFRS 9 requires an earlier recognition of losses on a portion of otherwise performing receivables which has a larger impact during significant periods of growth. For the three months ended June 30, 2020 the Partnerships did not acquire new receivables.

Finance receivables of $19.7 million, including capitalized transaction costs, were acquired during the six months ended June 30, 2020. The portfolio balance decreased $8.4 million, or 6.4%, from December 31, 2019, to $122.2 million. The acquisition of receivables during the six months ended June 30, 2020 was financed through the Partnerships' securitization facilities with their respective funders, for aggregate securitization proceeds of $21.0 million.

During the six months ended June 30, 2020, the Company further invested $0.8 million and CCMI invested its proportionate share of $0.3 million into the Partnerships. These additional investments will allow the Partnerships to continue to acquire new finance receivables and grow total assets.

During the first quarter of current year, there was a global outbreak of COVID-19, a pandemic. The spread of COVID-19 has had disruptive effects across Canada including travel restrictions, business closures or disruptions, social distancing, quarantine measures put in place by various levels of governments to fight the virus. These restrictions caused significant financial market disruptions and led to job losses. Canadian governments, at all levels, initiated and implemented various economic relief programmes to help alleviate the significant adverse impact caused by restrictions on people and businesses. As the restrictions and other measures taken have helped in containing the virus, Canadian governments have started to ease the restrictions, allowing economic and social activities to return in a phased manner. While various economic relief programmes for individuals and businesses are still in place, they are planned to be phased out in a gradual manner over the next several months.

As a result, at this time, the full impact of the COVID-19 outbreak on the Partnerships is unknown as this will depend on time it would take for the economic activities and employment level to return to their pre-COVID-19 levels. The future developments are uncertain and cannot be predicted with any degree of confidence. These material uncertainties may cast significant doubt on the ability of the Partnerships to continue as going concerns. These uncertainties may impact the timing and amount of collections relating to finance receivables, repossession of collateral and its valuation. While these uncertainties may impact the Partnerships, they are not expected to impact the Company's ability to continue as a going concern, including its ability to pursue new investment opportunities, separate from the Partnerships, as it owns an interest in each of the Partnerships on a non-recourse basis.

Financial Highlights

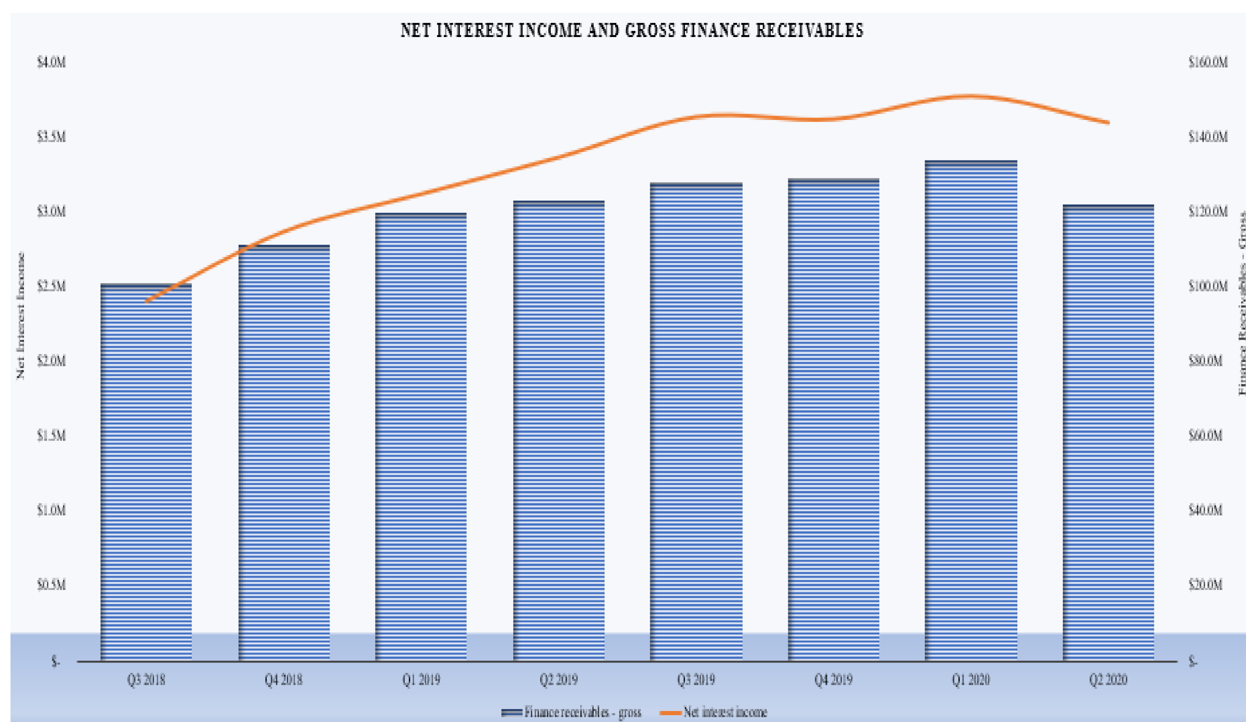
Select Operating Results

	For the three months ended		For the six months ended	
	June 30, 2020	**June 30, 2019**	**June 30, 2020**	**June 30, 2019**
	$	**$**	**$**	**$**
Net interest income	3,594,653	3,361,677	7,367,463	6,477,947
Other income	46,706	80,392	132,770	994,945
Total income	3,641,359	3,442,069	7,500,233	7,472,892
Interest expense	1,776,428	1,841,785	3,652,130	3,558,275
Net financial revenue before credit losses	1,864,931	1,600,284	3,848,103	3,914,617
Provision for credit losses	596,248	1,644,540	3,967,956	3,773,551
Management fees	15,681	23,373	32,221	40,577
Other expenses	101,191	102,012	175,135	362,245
Total expenses	713,120	1,769,925	4,175,312	4,176,373
Net income (loss) before taxes	1,151,811	(169,641)	(327,209)	(261,756)
(Recovery of) provision for income taxes	-	(17,845)	-	6,428
Net income (loss) after taxes	1,151,811	(151,796)	(327,209)	(268,184)
Non-controlling interest	249,884	(42,296)	(74,920)	(19,163)
Net income (loss) attributable to shareholders	**901,927**	**(109,500)**	**(252,289)**	**(249,021)**
Basic and diluted earnings per share	0.01	0.00	0.00	0.00

Net interest income is interest income earned on finance receivables, net of amortization of capitalized costs. For the three and six months ended June 30, 2020, the Company recorded interest income of $5,201,227 and $10,599,804, respectively, offset by amortization of capitalized costs of $1,606,574 and $3,232,341, respectively. For the three and six months ended June 30, 2019, the Company recorded interest income of $5,053,058 and $9,732,076, respectively, offset by amortization of capitalized costs of $1,691,381 and $3,254,129, respectively.

Other income represents ancillary fees earned on the finance receivables. For the six months ended June 30, 2019, the Company recorded a one-time gain related to the remeasurement of the deferred purchase price payable of $831,409.

The growth in net interest income and associated finance receivables can be seen in the below chart.



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, 2020 was $1,776,428 and $3,652,130, respectively, and $1,841,785 and $3,558,275 for the three and six months ended June 30, 2019, respectively. Each tranche of securitization debt has a fixed rate of interest. The weighted average interest rate on the new securitization debt was 4.73% for the six months ended June 30, 2020 and there was no new securitization debt obtained during the three months ended June 30, 2020. The weighted average interest rate was 5.03% and 5.17% for the three and six months ended June 30, 2019, respectively.

Net financial revenue before credit losses has grown to $1,864,931 for the three months ended June 30, 2020, a 16.54% increase from the same period in prior year. Net financial revenue before credit losses excluding the one-time gain of $831,409 has grown to $3,848,103 for the six months ended June 30, 2020, a 24.81% increase from the same period in prior year. The period-over-period increase is consistent with the growth in average finance receivables for the comparative periods.

The provision for credit losses for the three and six months ended June 30, 2020 was $596,248 and $3,967,956, respectively compared to $1,644,540 and $3,773,551, respectively for the three and six months ended June 30, 2019. The decline in provision for credit losses between three-month comparative periods, was due to lower initial provision on declining stage 1 receivables and lower delinquency compared to first quarter 2019. Management closely monitors the shape and timing of the credit loss curve.

The Company incurred management fees of $15,681 and $32,221 for the three and six months ended June 30, 2020, and $23,373 and $40,577 for the three and six months ended June 30, 2019, pursuant to a management agreement with LC Asset Management Corporation (refer to Related Party Transactions section).

Other expenses amounted to $101,191 and $175,135 for the three and six months ended June 30, 2020, respectively. For the three months ended June 30, 2020, other expenses consisted of stock-based compensation of $41,023, professional fees of $33,349, and general and administrative expenses of $26,819. For the six months ended June 30, 2020 other expenses consisted of stock-based compensation of $41,023, professional fees of $79,774 and

general and administrative expenses of $54,338. Other expenses amounted to $102,012 and $362,245 for the three and six months ended June 30, 2019, respectively. For the three months ended June 30, 2019 other expenses consisted of one-time stock-based compensation of $44,752, professional fees of $34,941 and general and administrative expenses of $22,319. For the six months ended June 30, 2019 other expenses consisted of one-time stock-based compensation of $259,937 professional fees of $57,678 and general and administrative expenses of $44,630.

For the three and six months ended June 30, 2020, the Company reported non-controlling interest income of $249,884 and non-controlling interest loss of $74,920, respectively and non-controlling interest loss of $42,296 and $19,163, respectively, for the three and six months ended June 30, 2019, which reflects the portion of the partnership income or loss for each period that was allocated to the other partners.

For the three and six months ended June 30, 2020, the Company reported net income attributable to shareholders of $901,927 and loss of $252,289, respectively. For the three and six months ended June 30, 2019, the Company reported net loss attributable to shareholders of $109,500 and $249,021, respectively.

Select Statement of Financial Position

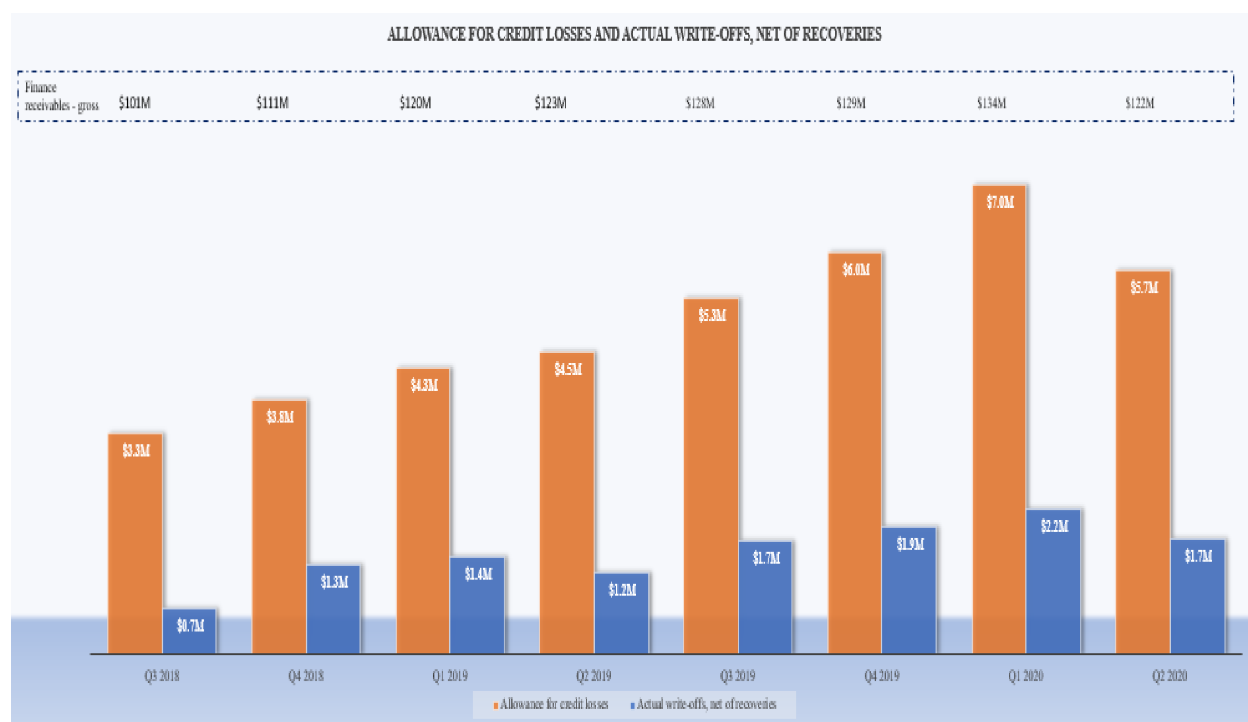
As at	**June 30, 2020**	**Dec 31, 2019**
	$	**$**
Cash	5,008,426	6,541,314
Finance receivables - net	122,236,999	130,651,989
Other assets	191,571	189,146
Total assets	**127,436,996**	**137,382,449**
Securitization debt	117,687,496	127,229,073
Deferred purchase price payable	4,378,891	4,721,183
Other liabilities	126,836	172,911
Total liabilities	122,193,223	132,123,167
Equity attributable to shareholders	3,993,692	4,204,958
Non-controlling interest	1,250,081	1,054,324
Total liabilities and equity	**127,436,996**	**137,382,449**

The Company had cash of $96,746 at June 30, 2020 and the Partnerships held $4,911,680 for a consolidated total of $5,008,426. At December 31, 2019, the Company had cash of $909,957 and the Partnerships held $5,631,357 for a consolidated total of $6,541,314. The decrease in the Company's cash in 2020 is primarily due to additional investment of $0.8 million into the Partnerships. 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. The Partnerships make payments to the funders on the securitization debt on the first business day of the following month, and therefore, hold a large cash balance at the end of every month.

Finance receivables consist of retail sales contracts which had initial terms of 12 to 84 months at time of origination and bear fixed rates of interest ranging from 9% to 27%. All finance receivables are secured by collateral charges on the motor vehicles financed. The balance of $122,236,999 at June 30, 2020 represents the outstanding principal balance and accrued interest and fees owing from customers, as well as capitalized transaction costs, net of administration fees associated with the purchase of the finance receivables of $6,123,547, and net of estimated allowance for credit losses of $5,720,192. The allowance for credit losses as at June 30, 2020 includes an estimate for higher expected credit losses resulting from economic disruptions caused by COVID-19. In the current economic environment resulting from COVID-19, the IFRS 9 model in isolation may not capture all the uncertainty as well as the impact of the public support programs by the governments. Therefore, management has applied significant expert credit judgment in the determination of the allowance for credit losses. The balance of $130,651,989 at December 31, 2019 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 $7,317,134 and net of estimated allowance for credit losses of $5,992,281.

The allowance for credit losses represents 4.47% of the gross finance receivables outstanding at June 30, 2020, compared to 4.39% at December 31, 2019. Under IFRS 9, an allowance for expected credit losses ("ECL") over the next twelve-months is required to be set up immediately on acquisition of new finance receivables, even though little or no income may have been recognized on such new receivables. This results in the early recognition of future credit losses on otherwise performing finance receivables. The below chart outlines the relationship between finance receivables and allowance for ECL. As the finance receivables continue to grow, the allowance for ECL is also growing while the actual credit losses represent the losses that have been realized during the period.



Other assets as at June 30, 2020 primarily include amounts due from related parties in the normal course of operations of $164,057, which were settled subsequently (refer to Related Party Transactions section). Other assets at December 31, 2019 primarily include amounts due from related parties of $160,648, which were settled subsequently.

As at June 30, 2020, securitization debt of $117,687,496 was outstanding which is net of a cash holdback held in trust by the funders of $11,943,383. As at December 31, 2019, securitization debt of $127,229,073 was outstanding which is net of a cash holdback held in trust by the funders of $15,541,843. 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.

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 at June 30, 2020, the deferred purchase price payable to CCMI amounts to $4,378,891, of which $2,450,650 is estimated to be due within one year. As at December 31, 2019, the deferred purchase price payable to CCMI amounts to $4,721,183 of which $2,433,930 is estimated to be due within one year.

Other liabilities as at June 30, 2020 and December 31, 2019 consist primarily of trade payables and accruals.

Equity attributable to shareholders decreased from $4,204,958 at December 31, 2019 to $3,993,692 at June 30, 2020, due to net loss attributable to shareholders $252,289 for the six months ended June 30, 2020, offset by an increase to Contributed surplus for stock-based compensation of $41,023.

Non-controlling interest increased from $1,054,324 at December 31, 2019 to $1,250,081 at June 30, 2020, due to proportionate share of net loss of $74,920, offset by additional capital investment in the Partnerships by non-controlling party of $270,677, representing CCMI's portion of the 15% and 40% of CAL LP and ACC LP III, respectively that it owns.

Select Statement of Cash Flow Summary

	For the six months ended	
	June 30, 2020	**June 30, 2019**
	$	$
Cash provided by (used in) operating activities	7,738,012	(11,603,696)
Cash (used in) provided by financing activities	(9,270,900)	15,013,532
(Decrease) increase in cash during period	**(1,532,888)**	**3,409,836**

Total cash used in operating activities for the six months ended June 30, 2020 consisted primarily of acquisition of finance receivables of $19,654,281 offset by positive cash flows generated from collections. Total cash used in operating activities for the six months ended June 30, 2019 consisted primarily of acquisition of finance receivables of $38,769,071, offset by positive cash flows generated from collections.

The cash generated from financing activities for the six months ended June 30, 2020 and June 30, 2019 represents the financing of operating activities, primarily the acquisition of finance receivables through securitization debt, net of holdbacks and repayments, and investment by non-controlling entity. The Company did not declare or pay any dividends during either 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** - Income excluding amortization of capitalized costs and one-time gain related to the remeasurement of the deferred purchase price payable, 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 are reported below.

	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018	Q3 2018
Gross yield	16.45%	16.75%	16.53%	16.43%	16.74%	17.06%	16.72%	16.38%
Delinquency rate	4.09%	5.51%	5.34%	4.83%	3.61%	3.55%	3.78%	3.68%

The Company's portfolios of retail sales contracts, during the past eight quarters, have produced consistent and strong gross yields, which contribute favourably to net earnings. The Company's gross yields are consistent quarter over quarter.

With the portfolio being more seasoned, management expects the delinquency rate to be in the range of 4.5% to 5.5%. The delinquency rate for current quarter is below the low end of the range due to relief provided by the Canadian government to eligible unemployed individuals in the form of periodic cash payments under Canada Emergency Response Benefit (CERB) programme to help alleviate the hardships caused by significant restrictions put in place to deal with COVID-19 and selective extensions processed by the Partnerships to its borrowers who were facing genuine and temporary hardships. Management expects delinquency rate to return to within its expected range once the CERB ends and the normal economic activities resume, commencing Q4 2020. The Partnerships processed a higher number of extensions during the first month of current quarter. However, those declined significantly in the following months. Currently, the extensions being processed are even lower than pre-COVID levels. In addition to the impact of seasonality, management closely monitors and measures key indicators such as returned payments, customer contact rates, and promises to pay.

Business Outlook

The funding facilities entered into by the Partnerships renew annually and, for the current year, provide access to $100.0 million of securitization funding. As at June 30, 2020, $46.9 million has been used and $53.1 million remains available for utilization until the next renewals in Q3 and Q4 of 2020.

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

Liquidity and Capital Resources

The Partnerships have $4,911,680 in cash as of June 30, 2020. 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 $53.1 million as at June 30, 2020. As the Partnerships continue to acquire more finance receivables and generate positive cash flows, they may distribute some of their cumulative earnings to their limited partners.

Through a combination of two private placements in 2013 and 2014, the Company's initial public offering ("IPO") in 2014, and the Rights offering capital raise in 2019, the Company has raised gross proceeds of $8.1 million from the issuance of common shares. These proceeds were invested in the Partnerships in 2016, 2019 and Q1 2020 leaving the Company with approximately $0.1 million of cash on hand at June 30, 2020.

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, 2018	56,075,000	4,848,291
Issuance of common shares	18,691,667	2,999,426
Ending balance, June 30, 2019	**74,766,667**	**7,847,717**
Ending balance, December 31, 2019	74,766,667	7,632,532
Issuance of common shares, net of issuance costs	-	-
Ending balance, June 30, 2020	**74,766,667**	**7,632,532**

The basic and diluted weighted average shares outstanding for the six months ended June 30, 2020 were 74,766,667. The basic and diluted weighted average shares outstanding for the six months ended June 30, 2019 were 66,608,426. The diluted weighted average shares outstanding excludes the effect of stock options and warrants issued and outstanding for the six months ended June 30, 2020 and 2019 as they are considered antidilutive.

During the six months ended June 30, 2019, the Company conducted a Rights offering and issued 18,691,667 shares for gross proceeds of $3.1 million. After deducting transaction cost of $0.1 million, an amount of $3.0 million was added to share capital, of which, $1.6 million was invested in CAL LP and $1.2 million was invested in ACC LP III.

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”). The last remaining escrowed shares were released on July 8, 2019.

Incentive Stock Options and Warrants

Issued and outstanding stock options and warrants at June 30, 2020 were 7,097,000, of which, 6,822,000 were exercisable. The Company granted 1,700,000 stock options to directors and officers on June 21, 2018, of which a total of 1,375,000 have vested since the grant date, 275,000 vested in the three months ended June 30, 2020, and the fair value was recorded in earnings as stock-based compensation expense. Out of the 1,700,000 stock options granted, 50,000 of unvested stock options were forfeited, 25,000 of vested stock options expired, and the remaining 275,000 will vest in June 2021. The newly granted stock options expire five years from the grant date.

As part of the Rights offering in 2019, the Company granted stock warrants to the individuals who provided a guarantee to fund the offering. As a result, 2,197,000 warrants were issued on March 26, 2019. These warrants vested immediately. The warrants issued were considered as a direct issuance costs of the Rights offering and were recorded in earnings as stock-based compensation expense. These warrants can be exercised (one warrant for one common share) at any time during three years from the date of issue at a price of $0.22 per share.

Summary of Quarterly Results

Below is a summary of operating results for the past eight quarters:

	2020		2019				2018	
	Q2 $	Q1 $	Q4 $	Q3 $	Q2 $	Q1 $	Q4 $	Q3 $
Finance receivables-gross	127,957,191	140,822,754	136,644,270	135,073,664	130,460,333	127,605,156	118,651,605	108,832,321
Total Income	3,641,359	3,858,874	3,700,052	3,646,936	3,442,069	4,030,823	2,931,450	2,458,967
Total Expenses	2,489,548	5,337,894	4,736,532	4,451,463	3,611,710	4,122,938	3,725,908	3,151,940
Income (loss) before taxes	1,151,811	(1,479,020)	(1,036,480)	(804,527)	(169,641)	(92,115)	(794,458)	(692,973)
Provision for (recovery of) income taxes	-	-	682,943	(193,086)	(17,845)	24,273	(120,738)	(183,637)
Net income (loss) after taxes	1,151,811	(1,479,020)	(1,719,423)	(611,441)	(151,796)	(116,388)	(673,720)	(509,336)
Basic and diluted income (loss) per share	0.01	(0.01)	(0.02)	(0.01)	0.00	0.00	(0.01)	(0.01)

Related Party Transactions

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

	June 30, 2020	Dec 31, 2019
	$	$
Assets		
Finance receivable - gross (note a)	127,957,191	136,644,270
Other assets (note b)	164,057	160,648
Liabilities		
Accounts payable and accrued liabilities (note e)	32,275	19,236
Deferred purchase price payable (note c)	4,378,891	4,721,183

	For the three months ended		For the six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	$	$	$	$
Income and expenses				
Other income (note d)	-	-	-	831,409
Management fees (note f)	15,681	23,373	32,221	40,577
Stock-based compensation (note g)	41,023	44,752	41,023	259,937

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 2019, the Partnerships negotiated change to the deferred purchase price of retail sales contracts. This resulted in a reduction to the fixed percentage price and the removal of the contingent component of the deferred purchase price. 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 these parties are listed as follows:

Note a) Amounts represent gross outstanding finance receivables purchased from ACC LP. During the period, the Company acquired $19.7 million of finance receivables including transactions costs from ACC LP.

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 Company's quarter end.

Note c) Amounts due to CCMI that are deferred and payable over the life of the underlying retail sales contracts.

Note d) Amounts represent the impact of one-time remeasurement of the deferred purchase price payable resulting from the negotiated new terms with CCMI.

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

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

Note e) Included in the balance was $32,221 management fees payable to the Manager as of June 30, 2020 (December 31, 2019 - $18,836).

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

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

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

Note g) Stock-based compensation was issued during the six months ended June 30, 2020 with a fair value of $41,023 (2019 - $259,937).

Risks and Uncertainties

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

Liquidity Risk

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

The primary source of liquidity for the Partnerships is cash flows from the collection of finance receivables. As at June 30, 2020, the undiscounted cash flows arising from the finance receivables, excluding transaction costs, are as follows:

	Within 1 year	Greater than 1 to 3 years	Greater than 3 to 5 years	Greater than 5 years	Total
Total receivables	40,602,696	73,546,766	48,561,781	9,869,741	172,580,984

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

	Within 1 year	Greater than 1 to 3 years	Greater than 3 to 5 years	Greater than 5 years	Total
Securitization debt	36,288,523	58,378,549	33,320,970	4,993,270	132,981,312
Deferred purchase price payable	2,450,650	1,673,612	252,143	2,486	4,378,891
Accounts payable and accrued liabilities	126,836	-	-	-	126,836
	38,866,009	60,052,161	33,573,113	4,995,756	137,487,039

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

Credit Risk

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

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

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

Market Risk

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

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with

some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk. The finance receivables are subject to fixed interest rates and are carried at amortized cost, such that there is no re-measurement of carrying amount as market interest rates fluctuate. Securitization debt is subject to fixed rates of interest 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. The Partnerships are not currently utilizing their revolving lines of credit.

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

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

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

Counterparty Risk

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

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 cash, other assets, deferred purchase price payable, and accounts payable and accrued liabilities are not significantly different from their fair values due to their short-term nature.

Trading and Share Statistics

Below are details of the Company's share price for the six months ended June 30, 2020 and for the twelve months ended December 31, 2019.

For the period ended	**June 30, 2020**	**Dec 31, 2019**
Average monthly trading volume	27,172	79,714
Share price		
High	0.08	0.30
Low	0.08	0.10
Close	0.08	0.14
Outstanding shares	74,766,667	74,766,667

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

For the three and six months ended June 30, 2020

Notice to reader pursuant to National Instrument 51-102

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed 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.

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Interim Consolidated Statements of Financial Position

(in Canadian dollars)

As at	**June 30, 2020**	**Dec 31, 2019**
	$	$
	(unaudited)	(audited)
Assets		
Cash	5,008,426	6,541,314
Finance receivables - net (note 3)	122,236,999	130,651,989
Other assets	191,571	189,146
Total assets	**127,436,996**	**137,382,449**
Liabilities		
Accounts payable and accrued liabilities	126,836	172,911
Deferred purchase price payable (note 7)	4,378,891	4,721,183
Securitization debt (note 8)	117,687,496	127,229,073
Total liabilities	122,193,223	132,123,167
Equity (note 9)		
Share capital	7,632,532	7,632,532
Contributed surplus	1,131,966	1,090,943
Cumulative deficit	(4,770,806)	(4,518,517)
Equity attributable to shareholders	3,993,692	4,204,958
Non-controlling interest (note 10)	1,250,081	1,054,324
Total equity	5,243,773	5,259,282
Total liabilities and equity	**127,436,996**	**137,382,449**

"Praveen Gupta" (signed)

Praveen Gupta
Chief Financial Officer and
Secretary

"Stephen Malone" (signed)

Stephen Malone
Chief Executive Officer and
Director

The accompanying notes are an integral part of these interim consolidated 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 June 30, 2020	For the three months ended June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
	$	$	$	$
Income				
Net interest income (note 4)	3,594,653	3,361,677	7,367,463	6,477,947
Other income (note 5)	46,706	80,392	132,770	994,945
Total income	3,641,359	3,442,069	7,500,233	7,472,892
Financial expenses				
Interest expense	1,776,428	1,841,785	3,652,130	3,558,275
Net financial revenue before credit losses	1,864,931	1,600,284	3,848,103	3,914,617
Provision for credit losses (note 3)	596,248	1,644,540	3,967,956	3,773,551
Net financial income (loss)	1,268,683	(44,256)	(119,853)	141,066
Operating expenses				
Management fees (note 14)	15,681	23,373	32,221	40,577
Stock-based compensation	41,023	44,752	41,023	259,937
General and administrative	60,168	57,260	134,112	102,308
Total expenses	116,872	125,385	207,356	402,822
Net income (loss) before income taxes	**1,151,811**	**(169,641)**	**(327,209)**	**(261,756)**
(Recovery of) provision for income taxes (note 6) - deferred	-	(17,845)	-	6,428
Net income (loss) and comprehensive income (loss)	**1,151,811**	**(151,796)**	**(327,209)**	**(268,184)**
Net income (loss) attributable to shareholders	901,927	(109,500)	(252,289)	(249,021)
Net income (loss) attributable to non-controlling interest (note 10)	249,884	(42,296)	(74,920)	(19,163)
Net income (loss) and comprehensive income (loss)	**1,151,811**	**(151,796)**	**(327,209)**	**(268,184)**
Earnings per share attributable to shareholders				
Basic and diluted (note 11)	0.01	0.00	0.00	0.00

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

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, 2018	**4,848,291**	**831,006**	**(2,410,043)**	**709,898**	**3,979,152**
Stock-based compensation	-	44,752	-	-	44,752
Shares issuance, net of issuance costs	2,999,426	-	-	-	2,999,426
Investment by non-controlling entity	-	-	-	795,000	795,000
Net loss and comprehensive loss for the period	-	-	(249,021)	(19,163)	(268,184)
Balance, June 30, 2019	**7,847,717**	**875,758**	**(2,659,064)**	**1,485,735**	**7,550,146**
Balance, December 31, 2019	**7,632,532**	**1,090,943**	**(4,518,517)**	**1,054,324**	**5,259,282**
Stock-based compensation	-	41,023	-	-	41,023
Investment by non-controlling entity	-	-	-	270,677	270,677
Net loss and comprehensive loss for the period	-	-	(252,289)	(74,920)	(327,209)
Balance, June 30, 2020	**7,632,532**	**1,131,966**	**(4,770,806)**	**1,250,081**	**5,243,773**

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

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

(unaudited)	For the six months ended June 30, 2020	June 30, 2019
Cash provided by (used in)		
Operating activities	$	$
Net loss and comprehensive loss	(327,209)	(268,184)
Adjustments for non-cash items		
Provision for income taxes	-	6,428
Provision for credit losses	3,967,956	3,773,551
Amortization of capitalized costs	3,232,341	3,254,129
Stock-based compensation	41,023	259,937
Change in accrued interest receivable	21,282	(333,505)
Change in working capital	(48,500)	(3,702)
Acquisition of finance receivables and transaction costs	(19,654,281)	(38,769,071)
Collections on finance receivables	20,847,692	20,906,560
Increase in deferred purchase price payable	1,220,505	1,560,161
Repayment of deferred purchase price payable	(1,562,797)	(1,990,000)
Cash provided by (used in) operating activities	7,738,012	(11,603,696)
Cash provided by investing activities	-	-
Financing activities		
Gross proceeds from securitization debt	21,013,316	41,262,030
Repayments of securitization debt	(34,153,353)	(28,732,360)
Decrease in (additions to) securitization debt cash holdback, net of releases	3,598,460	(1,310,564)
Investment by non-controlling entity	270,677	3,794,426
Cash (used in) provided by financing activities	(9,270,900)	15,013,532
(Decrease) increase in cash during period	(1,532,888)	3,409,836
Cash, beginning of period	6,541,314	5,241,528
Cash, end of period	**5,008,426**	**8,651,364**

The accompanying notes are an integral part of these interim consolidated 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% and 60% 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 interim consolidated financial statements

The financial statements were approved by the Company's Board of Directors and authorized for issue on August 11, 2020.

Other matters

These condensed interim consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") applicable to a going concern which assumes that the Company will be able to continue its operations and will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The financial statements of the Partnerships, which the Company holds investment in, are also prepared on a going concern basis.

During the first quarter of current year, there was a global outbreak of COVID-19, a pandemic. The spread of COVID-19 has had disruptive effects across Canada including travel restrictions, business closures or disruptions, social distancing, quarantine measures put in place by various levels of governments to fight the virus. These restrictions caused significant financial market disruption and led to job losses. Canadian governments, at all levels, initiated and implemented various economic relief programmes to help alleviate the significant adverse impact caused by restrictions on people and businesses. As the restrictions and measures taken have helped in containing the virus, Canadian governments have started to ease the restrictions, allowing economic and social activities to return in a phased manner. While various economic relief programmes for individuals and businesses are still in place but those are planned to be phased out in a gradual manner over the next several months. As a result, at this time, the full impact of the COVID-19 outbreak on the Partnerships is unknown as this will depend on time it would take for the economic activities and employment level to return to their pre-COVID-19 levels.

The future developments are uncertain and cannot be predicted with any degree of confidence. These material uncertainties may cast significant doubt on the ability of the Partnerships to continue as going concerns. These uncertainties may impact the timing and amount of collections relating to finance receivables, repossession of collateral and its valuation. While these uncertainties may impact the Partnerships, they are not expected to impact the Company's ability to continue as a going concern, including its ability to pursue new investment opportunities, separate from the Partnerships, as it owns an interest in each of the Partnerships on a non-recourse basis.

During April 2020, the Partnerships signed accommodation agreements with their securitizers, which provided certain reliefs to the Partnerships with respect to certain terms and conditions in their agreements with them. These accommodation agreements can be revoked at any time as per the terms specified therein.

2 Summary of Significant Accounting Policies

Basis of presentation

These interim 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.

These financial statements have been prepared on a going concern basis and accounting policies followed in these financial statements were consistently applied to all periods presented.

Statement of compliance

The consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of consolidation

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

Controlled entities

The interim consolidated financial statements incorporate the assets and liabilities of all controlled entities of the Company as at June 30, 2020 and December 31, 2019 and the results of all controlled entities for the period ended on June 30, 2020 and June 30, 2019, respectively.

Controlled entities are all entities over which the Company has the power to direct the relevant activities generally accompanying a shareholding of more than one half of the voting rights, exposure, or rights, to variable returns from its involvement with the entity, and the ability to use its power over the entity to affect the amount of returns. Controlled entities are fully consolidated from the date on which control is obtained by the company.

Use of estimates and judgments

The preparation of these interim 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 interim 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

The Company adopted IFRS 9 "Financial Instruments" on January 1, 2018. The following is a summary of classification and measurement of financial instruments outstanding at June 30, 2020 and December 31, 2019 under IFRS 9.

	Classification	**Measurement**
Cash	Assets held to collect	Amortized cost
Finance receivables - net	Assets held to collect	Amortized cost
Other assets	Assets held to collect	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Deferred purchase price payable	Other financial liabilities	Amortized cost
Securitization debt	Other financial liabilities	Amortized cost

Classification and measurement

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

Assets held to collect and other financial liabilities

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

Impairment of finance receivables

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

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

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

Finance receivables are segmented into different stages at each measurement date as below:
Stage 1: any receivable that does not fall under stage 2 and 3 and further segmented by the origination tier
Stage 2: receivable is greater than 30 days and under 91 days past due
Stage 3: any receivable that meets the default definition as follows:

- greater than 90 days past due; or
- collectability is no longer reasonably assured, as a result the collateral has been assigned for repossession

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

Forward- looking information incorporated in the ECL models

The assessment of significant increase in credit risk ("SICR") and the calculation of ECL both consider forward-looking information. The future impact of macroeconomic assumptions is assessed by reviewing historical information. The Company, together with CCMI (a related party), has historical data for over five years, and during this period, management has observed the impact of changes in macroeconomic variables on the receivables. Assumptions monitored include unemployment rates, interest rates and used car prices. The historical performance of these assumptions allows the Company to build its sensitivity tolerance. The Company integrates assessment of SICR using lifetime probability of default ("PD") and forward-looking macroeconomic assumptions in computing the ECL calculation. Based on historical information and sensitivity analyses, generally, macroeconomic assumptions do not have a significant impact on ECL. Notwithstanding the impact, at each measurement date, the Company considers current available relevant macroeconomic assumptions, industry data, and adjustments to the ECL will be made if there is an indication the assumptions are likely to move beyond the range of tolerance. The estimation and application of assumptions requires significant judgment.

Impairment of financial assets other than finance receivables

Financial assets other than finance receivables consist of cash and other assets. The credit risk of these assets is low, as a result, it is impractical to calculate the impairment impact associated with these assets.

Effective interest method

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

Transaction costs

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

Offsetting financial assets and liabilities

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

Derecognition of financial instruments

A financial asset is derecognized when:

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

A financial liability is derecognized when:

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

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

Revenue recognition

Net interest income

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

The obligors' retail sales contract principal amounts include an administrative fee which may become partially rebatable in the event of prepayment prior to the scheduled maturity date of the contract. This amount is amortized into interest income on a daily basis over the term of the retail sales 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, 2019, 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. A deferred income tax asset is recognized to the extent that it is probable that the asset can be recovered. As at June 30, 2020, the Company has not recognized a deferred tax asset for any portion of loss carry-forwards and temporary differences as its recovery is uncertain.

Stock-based compensation

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

Earnings or loss per share

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

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.

3. Finance Receivables

Finance receivables consist of retail sales contracts which had initial terms of 12 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 Partnerships acquired $19.7 million of finance receivables including transaction costs and obtained securitization proceeds of $21.0 million during the six months ended June 30, 2020 (twelve months ended December 31, 2019 - acquired $76.9 million and obtained securitization proceeds of $81.4 million).

The finance receivables can be broken down as follows:

	June 30, 2020	**Dec 31, 2019**
Finance receivables	121,833,644	129,327,136
Add: Transaction costs	8,823,644	10,255,825
Less: Administration fees	(2,700,097)	(2,938,691)
Finance receivables - gross	**127,957,191**	**136,644,270**
Allowance for credit losses	(5,720,192)	(5,992,281)
Finance receivables - net	**122,236,999**	**130,651,989**

Outstanding payments, including principal and interest, contractually due under the finance receivables, as well as transaction costs, as at June 30, 2020 and December 31, 2019 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.

	June 30, 2020	**Dec 31, 2019**
Within 1 year	40,602,696	41,614,891
Greater than 1 to 3 years	73,546,766	76,831,098
Greater than 3 to 5 years	48,561,781	54,871,215
Greater than 5 years	9,869,741	13,405,792
Total receivables	172,580,984	186,722,996
Less: Unearned interest	(50,747,340)	(57,395,860)
Total receivables, net of unearned interest	121,833,644	129,327,136
Add: Transaction costs, net of administration fees	6,123,547	7,317,134
Finance receivables - gross	**127,957,191**	**136,644,270**
Allowance for credit losses	(5,720,192)	(5,992,281)
Finance receivables - net	**122,236,999**	**130,651,989**

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

Finance receivables' maximum exposure and allowance for credit losses by stage as of June 30, 2020 under IFRS 9 are as follows:

Credit risk rating	**Finance receivables by stage**		**Allowance for credit losses**	
Stage 1	113,796,095	95.7%	(3,354,302)	58.5%
Stage 2	2,537,488	2.1%	(958,309)	16.8%
Stage 3	2,556,899	2.2%	(1,407,581)	24.7%
Total maximum exposure by stage	118,890,482	100.0%	(5,720,192)	100.0%
Transactions costs	8,823,644			
Fees and other charges	243,065			
Allowance for credit losses	(5,720,192)			
Finance receivables - net	**122,236,999**			

Finance receivables' maximum exposure and allowance for credit losses by stage as of December 31, 2019 under IFRS 9 are as follows:

Credit risk rating	**Finance receivables by stage**		**Allowance for credit losses**	
Stage 1	119,041,815	94.4%	(2,788,687)	46.5%
Stage 2	3,932,266	3.1%	(1,406,811)	23.5%
Stage 3	3,159,437	2.5%	(1,796,783)	30.0%
Total maximum exposure by stage	126,133,518	100.0%	(5,992,281)	100.0%
Transactions costs	10,255,825			
Fees and other charges	254,927			
Allowance for credit losses	(5,992,281)			
Finance receivables - net	**130,651,989**			

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

The changes in allowance for credit losses between January 1, 2020 to June 30, 2020 are as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Allowance for credit losses, January 1, 2020	**2,788,686**	**1,406,812**	**1,796,783**	**5,992,281**
Transfer				
From stage 1 to 2	(216,773)	216,773	-	-
From stage 2 to 1	1,687,224	(1,687,224)	-	-
From stage 2 to 3	-	(1,547,814)	1,547,814	-
From stage 3 to 2	-	649,279	(649,279)	-
Early termination	(243,391)	(34,753)	(1,165)	(279,309)
New finance receivables purchased, net	472,751	-	-	472,751
Transfer to stage 2	(185,838)	185,838	-	-
Transfer to stage 3	-	(121,511)	121,511	-
Change in PDs/LGDs/EADs	(948,357)	1,890,909	2,831,962	3,774,514
Provision for credit losses for the year	**565,616**	**(448,503)**	**3,850,843**	**3,967,956**
Less: Write-offs, net of recoveries plus collection charges	**-**	**-**	**(4,240,045)**	**(4,240,045)**
Allowance for credit losses, June 30, 2020	**3,354,302**	**958,309**	**1,407,581**	**5,720,192**

The changes in allowance for credit losses between January 1, 2019 to December 31, 2019 are as follows:

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Allowance for credit losses, January 1, 2019	**1,926,034**	**1,115,713**	**756,807**	**3,798,554**
Transfer				
From stage 1 to 2	(385,243)	385,243	-	-
From stage 2 to 1	1,449,935	(1,449,935)	-	-
From stage 2 to 3	-	(1,446,117)	1,446,117	-
From stage 3 to 2	-	179,896	(179,896)	-
Early termination	(483,883)	(39,452)	935	(522,400)
New finance receivables purchased, net	1,795,938	-	-	1,795,938
Transfer to stage 2	(288,927)	288,927	-	-
Transfer to stage 3	-	(9,522)	9,522	-
Change in PDs/LGDs/EADs	(1,225,168)	2,382,059	6,846,173	8,003,064
Provision for credit losses for the year	**862,652**	**291,099**	**8,122,851**	**9,276,602**
Less: Write-offs, net of recoveries plus collection charges	**-**	**-**	**(7,082,875)**	**(7,082,875)**
Allowance for credit losses, December 31, 2019	**2,788,686**	**1,406,812**	**1,796,783**	**5,992,281**

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 which is broken down as follows:

	For the three months ended		For the six months ended	
	June 30, 2020	**June 30, 2019**	**June 30, 2020**	**June 30, 2019**
Interest income	5,201,227	5,053,058	10,599,804	9,732,076
Amortization of capitalized costs	(1,606,574)	(1,691,381)	(3,232,341)	(3,254,129)
Net interest income	**3,594,653**	**3,361,677**	**7,367,463**	**6,477,947**

The amortization of capitalized costs includes amortization of origination costs of $470,040 and $943,208 for the three and six months ended June 30, 2020, respectively (2019 - $474,315 and $926,958, 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 $1,136,534 and $2,289,133 for the three and six months ended June 30, 2020, respectively (2019 - $1,217,066 and $2,327,171, respectively).

5. Other Income

The breakdown of other income is as follows:

	For the three months ended		For the six months ended	
	June 30, 2020	**June 30, 2019**	**June 30, 2020**	**June 30, 2019**
Deferred purchase price remeasurement	-	-	-	831,409
Fees and other charges	46,706	80,392	132,770	163,536
Other income	**46,706**	**80,392**	**132,770**	**994,945**

Included in other income for six months ended June 30, 2019 is the impact of a one-time remeasurement of the deferred purchase price payable (refer to note 7 for details).

6. Deferred Income Taxes

The non-capital losses incurred to date are $5.7 million. The Company has not recognized a deferred income tax asset for the cumulative tax losses as of six months ended June 30, 2020 as its recovery is uncertain.

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

	For the three months ended		For the six months ended	
	June 30, 2020	**June 30, 2019**	**June 30, 2020**	**June 30, 2019**
Net earnings (loss) before taxes	1,151,811	(169,641)	(327,209)	(261,756)
Applicable tax rate	26.5%	26.5%	26.5%	26.5%
Expected income tax expense (recovery) at applicable tax rate	305,230	(44,955)	(86,710)	(69,365)
Expense (recovery) resulting from:				
Expenses not deductible for tax	10,871	11,860	10,871	68,884
Non-controlling interest and other items	(45,846)	15,250	27,012	6,909
Permanent tax difference	1,870	-	(13,093)	-
Valuation allowance	(272,125)	-	61,920	-
Total provision for income taxes	**-**	**(17,845)**	**-**	**6,428**

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, 2020 and December 31, 2019 is provided below:

	June 30, 2020	**Dec 31, 2019**
Due within 1 year	2,450,650	2,433,930
Due greater than 1 year	1,928,241	2,287,253
Total deferred purchase price payable	**4,378,891**	**4,721,183**

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 $1,562,797 paid by the Partnerships to CCMI for six months ended June 30, 2020 (twelve months ended December 31, 2019 - $3,998,000).

8. Securitization Debt

Securitization debt represents funding secured by the finance receivables. For the six months ended June 30, 2020, the Partnerships had securitized finance receivables for securitization proceeds of $21.0 million which had principal outstanding, excluding capitalized transaction costs at the time of securitization of $18.2 million (twelve months ended December 31, 2019 – proceeds of $81.4 million with principal outstanding of $70.4 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 Company did not acquire any new finance receivables during the three months ended June 30, 2020 and, therefore, no

additional securitization debt was obtained during the same period. The weighted average interest rate on the securitization debt is 4.73% for the six months ended June 30, 2020 (2019 - 5.03% and 5.17% for the three and six months ended, 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% of the collateral, however they fund less than 100% 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 securitizers may take control of the finance receivables and assign a back-up servicer. Under this event, the Partnerships' obligation as it pertains to the securitization debt would be extinguished. As such, the total cash holdback and the finance receivables overcollateralization represent the Partnerships' maximum exposure to their securitized receivables. The securitization debt is non-recourse to the Partnerships.

The securitization debt activity and balance for six months ended June 30, 2020 and twelve months ended December 31, 2019 is broken down as follows:

	June 30, 2020	**Dec 31, 2019**
Securitization debt, opening balance	127,229,073	111,625,053
Net proceeds on securitization	20,983,729	81,413,613
Repayments to securitizers	(34,153,353)	(63,378,434)
Decrease in (additions to) cash holdback, net of releases	3,598,460	(2,459,294)
Change in unamortized securitization costs	29,587	28,135
Securitization debt, ending balance	**117,687,496**	**127,229,073**

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

Securitization debt, gross

Outstanding payments, including principal and interest, contractually due under the securitization debt, as at June 30, 2020 and December 31, 2019 are outlined below. Management expects that a portion of the securitization debt will be repaid in full prior to the maturity date. Accordingly, the maturities in the table below are not a forecast of future cash payments.

	June 30, 2020	**Dec 31, 2019**
Within 1 year	36,288,523	36,615,492
Greater than 1 to 3 years	58,378,549	61,683,810
Greater than 3 to 5 years	33,320,970	39,224,198
Greater than 5 years	4,993,270	7,842,688
Securitization debt, gross	132,981,312	145,366,188
Less: Unearned interest and unamortized securitization costs	(15,293,816)	(18,137,115)
Securitization debt, ending balance	**117,687,496**	**127,229,073**

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, 2018	56,075,000	4,848,291
Issuance of common shares	18,691,667	2,999,426
Ending balance, June 30, 2019	**74,766,667**	**7,847,717**
Ending balance, December 31, 2019	74,766,667	7,632,532
Issuance of common shares, net of issuance costs	-	-
Ending balance, June 30, 2020	**74,766,667**	**7,632,532**

During the six months ended June 30, 2019, the Company conducted a Rights offering and issued 18,691,667 shares and 2,197,000 warrants for an aggregate gross proceed of $3.1 million. As part of the Rights offering, the Company granted stock warrants to the individuals who provided a guarantee to fund the offering and to subscribe for common shares. After deducting transaction cost of $0.1 million, an amount of $3.0 million was added to share capital, of which, $1.6 million was invested in CAL LP, $1.2 million was invested in ACC LP III.

b) Stock Options and Warrants

Issued and outstanding stock options and warrants at June 30, 2020 were 7,097,000, of which, 6,822,000 were exercisable. The Company granted 1,700,000 stock options to directors and officers on June 21, 2018, of which a total of 1,375,000 have vested since the grant date, 275,000 vested in the three months ended June 30, 2020, and the fair value was recorded in earnings as stock-based compensation expense. Out of the 1,700,000 stock options granted, 50,000 of unvested stock options were forfeited, 25,000 of vested stock options expired, and the remaining 275,000 will vest in June 2021. The newly granted stock options expire five years from the grant date.

As part of the Rights offering in 2019 the Company granted stock warrants to the individuals who provided a guarantee to fund the offering. As a result, 2,197,000 warrants were issued on March 26, 2019 and were recorded in earnings as stock-based compensation expense. These warrants vested immediately and can be exercised (one warrant for one common share) at any time during three years from the date of issue at a price of $0.22 per share.

c) 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”). The last remaining escrowed shares were released on July 8, 2019.

10. Non-Controlling Interest

A breakdown of the non-controlling interest on the statement of financial position as of June 30, 2020 is as follows:

	CAL LP	ACC LP III	TOTAL
Equity invested by third party in partnerships	807,099	1,428,010	2,235,109
Non-controlling portion of retained earnings	(78,256)	(813,102)	(891,358)
Non-controlling portion of current year income (loss)	6,285	(81,205)	(74,920)
Non-controlling portion of distributions	(18,750)	-	(18,750)
Total non-controlling interest	**716,378**	**533,703**	**1,250,081**

An additional $82,677 and $188,000 was invested in CAL LP and ACC LP III respectively by the third-party partners during the six months ended June 30, 2020.

A breakdown of the non-controlling interest on the statement of financial position as of December 31, 2019 is as follows:

	CAL LP	ACC LP III	TOTAL
Equity invested by third parties in partnerships	724,422	1,240,010	1,964,432
Non-controlling portion of retained earnings	(33,820)	(366,964)	(400,784)
Non-controlling portion of current year loss	(44,436)	(446,138)	(490,574)
Non-controlling portion of distributions	(18,750)	-	(18,750)
Total non-controlling interest	**627,416**	**426,908**	**1,054,324**

11. Earnings Per Share

Earnings per share for the six months ended June 30, 2020 and 2019 were calculated based on the following:

	For the three months ended		For the six months ended	
	June 30, 2020	**June 30, 2019**	**June 30, 2020**	**June 30, 2019**
Income (loss) attributable to shareholders ($)	901,927	(109,500)	(252,289)	(249,021)
Weighted average shares outstanding – basic	74,766,667	74,766,667	74,766,667	66,608,426
Earnings per share – basic ($)	**0.01**	**0.00**	**0.00**	**0.00**
Income (loss) attributable to shareholders ($)	901,927	(109,500)	(252,289)	(249,021)
Weighted average shares outstanding – diluted	74,766,667	74,766,667	74,766,667	66,608,426
Earnings per share – diluted ($)	**0.01**	**0.00**	**0.00**	**0.00**

The diluted weighted average shares outstanding for the three and six months ended June 30, 2020 and for the three and six months ended June 30, 2019 excluded the effect of stock options and warrants issued and outstanding as they are considered antidilutive.

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 funding facilities entered into by the Partnerships renew annually and, for the current year, provide access to $100.0 million of securitization funding. As at June 30, 2020, $46.9 million has been used and $53.1 million remains available for utilization until the next renewals in the second half of the year.

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

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

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

13. Financial Instruments and Risk Management

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

Liquidity Risk

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

The primary source of liquidity for the Partnerships is cash flows from the collection of finance receivables. As at June 30, 2020, the undiscounted cash flows arising from the finance receivables, excluding transaction costs, are as follows:

	Within 1 year	Greater than 1 to 3 years	Greater than 3 to 5 years	Greater than 5 years	Total
Total receivables	40,602,696	73,546,766	48,561,781	9,869,741	172,580,984

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

	Within 1 year	Greater than 1 to 3 years	Greater than 3 to 5 years	Greater than 5 years	Total
Securitization debt	36,288,523	58,378,549	33,320,970	4,993,270	132,981,312
Deferred purchase price payable	2,450,650	1,673,612	252,143	2,486	4,378,891
Accounts payable and accrued liabilities	126,836	-	-	-	126,836
	38,866,009	60,052,161	33,573,113	4,995,756	137,487,039

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

Credit Risk

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

The performance of the finance receivables depends on a number of factors, including general economic conditions, unemployment levels, and the circumstances of individual obligors. The maximum exposure to the finance receivables is represented by the carrying amount thereof. Although credit risk has a significant impact on retail receivables, it is mitigated by the Partnerships having a first priority perfected security interest in the related financed vehicles. In the case of obligor defaults, the value of the repossessed collateral provides a source of protection. Every reasonable effort is made to follow-up on delinquent accounts and to keep accounts current and repossession is considered only as a last resort. Refer to note 3 for details on past due accounts as of June 30, 2020. 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. In addition, the receivables are geographically dispersed throughout Canada, the underlying collateral consists of varying vehicle makes, models and types, the underlying obligors of the receivables have varying credit ratings, and the receivables have varying interest rates and terms.

Market Risk

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

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows associated with some financial instruments, known as interest rate cash flow risk, or on the fair value of other financial instruments, known as interest rate price risk. The finance receivables are subject to fixed interest rates and are carried at amortized cost, such that there is no re-measurement of carrying amount as market interest rates fluctuate. Securitization debt is subject to fixed rates of interest 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. The Partnerships are not currently utilizing their revolving lines of credit.

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

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

Counterparty Risk

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

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	122,236,999	122,236,999
Financial liabilities at amortized cost			
Securitization debt	3	117,687,496	117,687,496
Deferred purchase price payable	3	4,378,891	4,378,891

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

14. Related Party Transactions

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

	June 30, 2020	Dec 31, 2019
	$	$
Assets		
Finance receivable - gross (note a)	127,957,191	136,644,270
Other assets (note b)	164,057	160,648
Liabilities		
Accounts payable and accrued liabilities (note e)	32,275	19,236
Deferred purchase price payable (note c)	4,378,891	4,721,183

	For the three months ended		For the six months ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	$	$	$	$
Income and expenses				
Other income (note d)	-	-	-	831,409
Management fees (note f)	15,681	23,373	32,221	40,577
Stock-based compensation (note g)	41,023	44,752	41,023	259,937

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 first quarter of 2019, the Partnerships negotiated change to the deferred purchase price of retail sales contracts. This resulted in a reduction to the fixed percentage price and the removal of the contingent component of the deferred purchase price. 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 notes 3, 4, 5 and 7 for further details.

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

Note a) Amounts represent gross outstanding finance receivables purchased from ACC LP. During the period, the Company acquired $19.7 million of finance receivables including transactions costs from ACC LP.

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 Company's quarter end.

Note c) Amounts due to CCMI that are deferred and payable over the life of the underlying retail sales contracts.

Note d) Amounts represent the impact of one-time remeasurement of the deferred purchase price payable resulting from the negotiated new terms with CCMI (refer to note 5 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% 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 e) Included in the balance was $32,221 management fees payable to the Manager as of June 30, 2020 (December 31, 2019 - $18,836).
Note f) Management fees to the Manager accrued during the period.

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

Balances and transactions the Company has with key management personnel are listed as follows:
Note g) Stock-based compensation was issued during the six months ended June 30, 2020 with a fair value of $41,023 (2019 - $259,937).