

**Rifco Inc.**  
Condensed Consolidated Interim Financial Statements  
For the six months ended September 30, 2014

**Rifco Inc.**  
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For the six month period ended September 30, 2014

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**Rifco Inc.****Condensed Consolidated Interim Statements of Financial Position**

(Expressed in Canadian Dollars)

|  |            | September 30,<br>2014 | March 31,<br>2014  |
|--|------------|-----------------------|--------------------|
|  | Notes      | \$                    | \$                 |
| <b>ASSETS</b>                          |            |                       |                    |
| Cash                                   | 18         | 2,786,372             | 2,804,378          |
| Finance receivables - net              | 5, 9, 18   | 240,568,573           | 202,821,496        |
| Other receivables and prepaid expenses | 18         | 492,378               | 785,679            |
| Property and equipment - net           | 6          | 622,805               | 424,908            |
| Deferred income tax asset              | 7          | 6,678,000             | 4,388,000          |
| <b>Total Assets</b>                    |            | <b>251,148,128</b>    | <b>211,224,461</b> |
| <b>LIABILITIES AND EQUITY</b>          |            |                       |                    |
| Bank borrowing                         | 8, 18      | 78,248,649            | 83,453,536         |
| Securitization debt                    | 9, 18      | 133,825,268           | 96,835,881         |
| Unsecured debentures                   | 10, 16, 18 | 9,615,000             | 7,995,000          |
| Income taxes payable                   |            | 2,458,890             | 967,221            |
| Accounts payable and accruals          | 11, 18     | 5,438,581             | 3,885,238          |
| <b>Total Liabilities</b>               |            | <b>229,586,388</b>    | <b>193,136,876</b> |
| <b>Equity</b>                          |            |                       |                    |
| Share capital                          | 12         | 7,133,425             | 6,843,302          |
| Contributed surplus                    | 12         | 2,291,633             | 2,052,245          |
| Retained earnings                      |            | 12,136,682            | 9,192,038          |
| <b>Total Equity</b>                    |            | <b>21,561,740</b>     | <b>18,087,585</b>  |
| <b>Total Liabilities and Equity</b>    |            | <b>251,148,128</b>    | <b>211,224,461</b> |
| Commitments                            | 20         |                       |                    |
| Post-reporting date events             | 21         |                       |                    |

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

# Rifco Inc.

## Condensed Consolidated Interim Statements of Comprehensive Income

(Expressed in Canadian Dollars)

For the six month period ended September 30, 2014 and 2013

|  | Notes      | Three months ended |                    | Six months ended   |                    |
|--|------------|--------------------|--------------------|--------------------|--------------------|
|  |            | September 30, 2014 | September 30, 2013 | September 30, 2014 | September 30, 2013 |
|  |            | \$                 | \$                 | \$                 | \$                 |
| <b>Financial revenue</b>   |            |                    |                    |                    |                    |
| Interest income  |            | 9,583,805          | 7,413,820          | 18,302,910         | 14,294,617         |
| Administration and other fees  |            | 160,926            | 125,013            | 298,159            | 238,544            |
| <b>Total financial revenue</b>   |            | <b>9,744,731</b>   | <b>7,538,833</b>   | <b>18,601,069</b>  | <b>14,533,161</b>  |
| <b>Financial expense</b>   |            |                    |                    |                    |                    |
| Interest expense   | 16         | 2,580,445          | 2,193,305          | 4,962,218          | 4,269,058          |
| <b>Total financial expense</b>   |            | <b>2,580,445</b>   | <b>2,193,305</b>   | <b>4,962,218</b>   | <b>4,269,058</b>   |
| <b>Net financial income before provision for impairment</b>                                    |            | <b>7,164,286</b>   | <b>5,345,528</b>   | <b>13,638,851</b>  | <b>10,264,103</b>  |
| Provision for impairment and credit losses   | 5          | 2,922,736          | 1,818,354          | 5,479,471          | 3,106,200          |
| <b>Net financial income before operating expenses</b>  |            | <b>4,241,550</b>   | <b>3,527,174</b>   | <b>8,159,380</b>   | <b>7,157,903</b>   |
| <b>Operating expenses</b>  |            |                    |                    |                    |                    |
| Wages and benefits   | 16         | 1,315,025          | 989,582            | 2,588,200          | 1,946,947          |
| Professional fees  |            | 69,559             | 94,277             | 140,860            | 205,394            |
| Office and general   |            | 481,248            | 409,990            | 1,016,436          | 750,228            |
| Stock based compensation   | 12, 13, 16 | 181,223            | 104,567            | 324,061            | 181,591            |
| Depreciation and amortization  | 6          | 53,749             | 16,607             | 86,179             | 30,084             |
| <b>Total operating expenses</b>  |            | <b>2,100,804</b>   | <b>1,615,023</b>   | <b>4,155,736</b>   | <b>3,114,244</b>   |
| <b>Income before taxes</b>   |            | <b>2,140,746</b>   | <b>1,912,151</b>   | <b>4,003,644</b>   | <b>4,043,659</b>   |
| Current income tax (expense) recovery  | 7          | (1,665,000)        | 385,000            | (3,349,000)        | (994,000)          |
| Deferred income tax recovery (expense)   | 7          | 1,099,000          | (890,000)          | 2,290,000          | (76,000)           |
| <b>Total income tax expense</b>  |            | <b>(566,000)</b>   | <b>(505,000)</b>   | <b>(1,059,000)</b> | <b>(1,070,000)</b> |
| <b>Total net income and comprehensive income for the period attributable to equity holders</b> |            | <b>1,574,746</b>   | <b>1,407,151</b>   | <b>2,944,644</b>   | <b>2,973,659</b>   |
| <b>Net earnings per common share</b>   |            |                    |                    |                    |                    |
| Basic  | 15         | \$ 0.075           | \$ 0.067           | \$ 0.140           | \$ 0.143           |
| Diluted  | 15         | \$ 0.072           | \$ 0.065           | \$ 0.136           | \$ 0.138           |

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

**Rifco Inc.****Condensed Consolidated Interim Statements of Changes in Equity**

(Expressed in Canadian Dollars)

For the six month period ended September 30, 2014 and 2013

|  | Notes             | Share Capital<br>\$ | Contributed<br>Surplus<br>\$ | Retained Earnings<br>\$ | Total<br>Equity<br>\$ |
|--|-------------------|---------------------|------------------------------|-------------------------|-----------------------|
| As at March 31, 2013                       |                   | 6,362,414           | 1,797,379                    | 2,813,955               | 10,973,748            |
| Total comprehensive income for the period  |                   | -                   | -                            | 2,973,659               | 2,973,659             |
| Exercise of options                        |                   | 201,212             | (53,359)                     | -                       | 147,853               |
| Issued under employee share ownership plan |                   | 110,143             | -                            | -                       | 110,143               |
| Stock based compensation                   | <b>12, 13, 15</b> | -                   | 181,591                      | -                       | 181,591               |
| <b>As at September 30, 2013</b>            |                   | <b>6,673,769</b>    | <b>1,925,611</b>             | <b>5,787,614</b>        | <b>14,386,994</b>     |
| As at March 31, 2014                       |                   | 6,843,302           | 2,052,245                    | 9,192,038               | 18,087,585            |
| Total comprehensive income for the period  |                   | -                   | -                            | 2,944,644               | 2,944,644             |
| Exercise of options                        |                   | 290,123             | (84,673)                     | -                       | 205,450               |
| Issued under employee share ownership plan |                   | -                   | -                            | -                       | -                     |
| Stock based compensation                   | <b>12, 13, 15</b> | -                   | 324,061                      | -                       | 324,061               |
| <b>As at September 30, 2014</b>            |                   | <b>7,133,425</b>    | <b>2,291,633</b>             | <b>12,136,682</b>       | <b>21,561,740</b>     |

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

**Rifco Inc.****Condensed Consolidated Interim Statements of Cash Flows**

(Expressed in Canadian Dollars)

For the six month period ended September 30, 2014 and 2013

|   | Notes | For the three months ended |                       | For the six months ended |                       |
|---|-------|----------------------------|-----------------------|--------------------------|-----------------------|
|   |       | September 30,<br>2014      | September 30,<br>2013 | September 30,<br>2014    | September 30,<br>2013 |
|   |       | \$                         | \$                    | \$                       | \$                    |
| <b>Operating activities</b>   |       |                            |                       |                          |                       |
| Total net income for the period                                     |       | 1,574,746                  | 1,407,151             | 2,944,644                | 2,973,659             |
| Add (deduct) items not affecting cash:                              |       |                            |                       |                          |                       |
| Depreciation and amortization                                       | 6     | 53,749                     | 16,607                | 86,179                   | 30,084                |
| Increase to provision for impairment<br>and credit losses           | 5     | 525,270                    | 452,549               | 1,415,718                | 569,305               |
| Stock based compensation  | 12    | 181,223                    | 104,567               | 324,061                  | 181,591               |
| (Deferred income tax recovery)                                      | 7     | (1,099,000)                | 890,000               | (2,290,000)              | 76,000                |
| Current income tax expense  | 7     | 1,665,000                  | (385,000)             | 3,349,000                | 994,000               |
| Amortization of origination costs                                   |       | 736,667                    | 542,372               | 1,439,942                | 1,012,948             |
| Amortization of transaction costs for bank borrowing                | 8     | 45,144                     | 40,978                | 90,288                   | 84,733                |
| Loss on disposal of property and equipment                          |       | -                          | -                     | -                        | 300                   |
| Funds from operations before changes in non cash items and<br>taxes |       | 3,682,799                  | 3,069,224             | 7,359,832                | 5,922,620             |
| Change in accrued interest earned on finance receivables            |       | (92,779)                   | 154,893               | (191,497)                | 26,803                |
| Changes in non cash working capital                                 |       | 1,150,777                  | (136,584)             | 1,846,644                | 757,972               |
| Income taxes paid   |       | (534,254)                  | 947,921               | (1,857,331)              | 934,142               |
| <b>Net cash flows from operating activities</b>                     |       | 4,206,543                  | 4,035,454             | 7,157,648                | 7,641,537             |
| <b>Investing activities</b>   |       |                            |                       |                          |                       |
| (Funds advanced on finance receivables)                             |       | (42,642,677)               | (29,224,212)          | (85,504,353)             | (60,918,422)          |
| Principal collections of finance receivables                        |       | 24,420,092                 | 18,410,792            | 47,590,684               | 35,423,850            |
| (Origination costs)   |       | (1,202,555)                | (917,556)             | (2,497,571)              | (1,931,766)           |
| (Purchase of property and equipment)                                | 6     | (256,843)                  | (60,133)              | (284,075)                | (70,183)              |
| <b>Net cash flows from investing activities</b>                     |       | (19,681,983)               | (11,791,109)          | (40,695,315)             | (27,496,521)          |
| <b>Financing activities</b>   |       |                            |                       |                          |                       |
| (Repayments of bank borrowing)                                      |       | (38,775,725)               | (5,316,773)           | (70,229,832)             | (31,422,434)          |
| Advances from bank borrowing  |       | 31,832,617                 | 24,521,682            | 64,934,656               | 49,087,154            |
| Proceeds from securitization debt                                   |       | 42,069,990                 | 8,712,363             | 84,252,907               | 42,290,095            |
| (Repayments of securitization debt)                                 |       | (22,094,690)               | (19,292,927)          | (47,263,520)             | (40,356,647)          |
| Issuance of common shares   |       | 205,450                    | 196,821               | 205,450                  | 257,996               |
| Proceeds from unsecured debentures                                  |       | 1,115,000                  | 40,000                | 1,830,000                | 170,000               |
| (Repayments of unsecured debentures)                                |       | -                          | (40,000)              | (210,000)                | (170,000)             |
| <b>Net cash flows from financing activities</b>                     |       | 14,352,642                 | 8,821,166             | 33,519,661               | 19,856,164            |
| Increase (decrease) in cash   |       | (1,122,798)                | 1,065,511             | (18,006)                 | 1,180                 |
| Cash, beginning of period   |       | 3,909,170                  | 2,614,227             | 2,804,378                | 3,678,558             |
| <b>Cash, end of period</b>  |       | 2,786,372                  | 3,679,738             | 2,786,372                | 3,679,738             |

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

## **Rifco Inc.**

# **Notes to the Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

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### **1. Incorporation and operations**

Rifco Inc. (“Rifco” or the “Company”) operating through its wholly owned subsidiary Rifco National Auto Finance Corporation is engaged in vehicle finance. The Company shares are traded on the TSX Venture Exchange under the symbol “RFC”. The Company currently provides non-traditional vehicle financing to motorists through a growing network of select new and used vehicle retailers. The Company operates in all provinces except Quebec. The Company, and its subsidiary, are incorporated under the laws of Alberta. The Company’s registered office is Suite 500, 5000 Gaetz Ave, Red Deer, Alberta, T4N 6C2.

### **2. Basis of preparation**

#### **Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with IAS-34 ‘Interim Financial Reporting’. They do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended March 31, 2014.

These condensed consolidated interim financial statements were approved by the board of directors November 12, 2014.

#### **Basis of presentation**

These condensed consolidated interim financial statements are stated in Canadian dollars, and in all material respects, follow the same accounting policies and method of applications as the annual audited consolidated financial statements of the preceding fiscal year, except as outlined in note 4.

These condensed consolidated interim financial statements include the financial statements of Rifco Inc. and Rifco National Auto Finance Corporation, a 100% owned subsidiary.

#### **Use of estimates and judgments**

The preparation of condensed consolidated interim financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgments, estimates and assumptions in applying the Company’s accounting policies and the reported amounts of assets, liabilities, equity, income and expenses. Actual results may differ from the estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company’s accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended March 31, 2014.

### **3. Summary of significant accounting policies**

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards, and follow the same accounting policies and procedure as reported in the Company’s most recent annual financial statements for the year ended March 31, 2014, except as outlined in note 4.

## **Rifco Inc.**

# **Notes to the Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

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## **4. New accounting standards and interpretations**

### **Offsetting financial assets and financial liabilities (Amendments to IAS 32)**

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32's criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- that some gross settlement systems may be considered equivalent to net settlement.

The adoption of this amendment did not have an impact on the Company's results of operations, financial position and disclosures.

### **New accounting standards and interpretations not yet adopted**

#### **IFRS 9 'Financial Instruments'**

The IASB recently released IFRS 9 'Financial Instruments' (2014), representing the completion of its project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new 'expected credit loss' model for the impairment of financial assets. IFRS 9 also provides new guidance on the application of hedge accounting.

The Company's management have yet to assess the impact of IFRS 9 on these condensed consolidated interim financial statements. The new standard is required to be applied for annual reporting periods beginning on or after January 1, 2018.

#### **IFRS 15 'Revenue from Contracts with Customers'**

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. IFRS 15 is effective for reporting periods beginning on or after January 1, 2017. The Company's management have not yet assessed the impact of IFRS 15 on these condensed consolidated interim financial statements.



**Rifco Inc.****Notes to the Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

**5. Finance receivables – net**

Finance receivables – net consists of vehicle purchase loans, which generally have initial terms of 24 to 84 months with fixed rates of interest. The Company's experience has shown that a portion of contracts will be paid in full prior to the loan maturity date. Accordingly, the maturities of finance receivables shown in the table below are not to be regarded as a forecast of future cash collections. Loan payments, including principal and interest due under finance receivables are as follows:

|   | <b>September 30,<br/>2014</b> | <b>March 31,<br/>2014</b> |
|---|-------------------------------|---------------------------|
|   | <b>\$</b>                     | <b>\$</b>                 |
| 2015  | 76,563,088                    | 65,665,418                |
| 2016  | 72,749,706                    | 62,043,514                |
| 2017  | 67,003,111                    | 56,762,526                |
| 2018  | 58,561,401                    | 48,726,190                |
| 2019  | 51,884,801                    | 36,871,564                |
| 2020  | 22,383,155                    | 21,948,269                |
| 2021 and subsequent years                       | 8,572,338                     | 6,786,608                 |
| Gross finance receivables                       | 357,717,600                   | 298,804,089               |
| Less unearned interest                          | (121,714,894)                 | (100,715,052)             |
| Accrued interest                                | 1,717,938                     | 1,526,441                 |
| Finance receivables                             | 237,720,644                   | 199,615,478               |
| Unamortized origination costs                   | 7,137,525                     | 6,079,896                 |
| Less provision for impairment and credit losses | (4,289,596)                   | (2,873,878)               |
| Finance receivables - net                       | 240,568,573                   | 202,821,496               |

Finance receivables are secured by motor vehicle collateral and registered with the applicable provincial personal property registry.

A summary of the change in the provision for impairment and credit losses are as follows:

|  | <b>Three months ending</b>    |                               | <b>Six months ending</b>      |                               |
|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
|  | <b>September 30,<br/>2014</b> | <b>September 30,<br/>2013</b> | <b>September 30,<br/>2014</b> | <b>September 30,<br/>2013</b> |
| Credit losses net of recoveries for the period               | (2,180,254)                   | (1,252,230)                   | (3,684,061)                   | (2,333,286)                   |
| Repossession and recovery costs for the period               | (217,212)                     | (113,575)                     | (379,692)                     | (203,609)                     |
| Provision for impairment and credit losses<br>for the period | 2,922,736                     | 1,818,354                     | 5,479,471                     | 3,106,200                     |
| Change in provision for impairment                           | 525,270                       | 452,549                       | 1,415,718                     | 569,305                       |

**Rifco Inc.****Notes to the Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

**5. Finance receivables – net (continued)**

A summary of provision for impairment is as follows:

|   | Three months ending   |                       | Six months ending     |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2014 | September 30,<br>2013 | September 30,<br>2014 | September 30,<br>2013 |
| Provision for impairment from prior period                | 3,764,326             | 2,393,274             | 2,873,878             | 2,276,518             |
| Provision for impairment for current period               | (4,289,596)           | (2,845,823)           | (4,289,596)           | (2,845,823)           |
| Change in provision for impairment                        | (525,270)             | (452,549)             | (1,415,718)           | (569,305)             |
| Credit losses net of recoveries for the period            | (2,180,254)           | (1,252,230)           | (3,684,061)           | (2,333,286)           |
| Repossession and recovery costs for the period            | (217,212)             | (113,575)             | (379,692)             | (203,609)             |
| Provision for impairment and credit losses for the period | (2,922,736)           | (1,818,354)           | (5,479,471)           | (3,106,200)           |

The aging analysis of finance receivables and their respective provisions for impairment are as follows:

| September 30, 2014                   | Current<br>\$ | 11 - 30    | 31 - 60    | 61              | Total Finance<br>Receivables<br>\$ |
|--------------------------------------|---------------|------------|------------|-----------------|------------------------------------|
|                                      |               | Days<br>\$ | Days<br>\$ | Days plus<br>\$ |                                    |
| Amount of finance receivables        | 214,319,082   | 13,758,627 | 6,467,902  | 3,175,033       | 237,720,644                        |
| Percent of total finance receivables | 90.15%        | 5.79%      | 2.72%      | 1.34%           | 100.00%                            |
| Collective provision for impairment  | 857,277       | -          | -          | -               | 857,277                            |
| Specific provision for impairment    | 122,008       | 687,931    | 1,034,864  | 1,587,516       | 3,432,319                          |
| Total provision for impairment       |               |            |            |                 | 4,289,596                          |
| Past due but not impaired            |               | 13,070,696 | 5,433,038  | 1,587,517       |                                    |
| Provision for impairment rate        | 0.40%         | 5%         | 16%        | 50%             | 1.80%                              |

| March 31, 2014                       | Current<br>\$ | 11 - 30    | 31 - 60    | 61              | Total Finance<br>Receivables<br>\$ |
|--------------------------------------|---------------|------------|------------|-----------------|------------------------------------|
|                                      |               | Days<br>\$ | Days<br>\$ | Days plus<br>\$ |                                    |
| Amount of finance receivables        | 183,291,497   | 10,138,996 | 4,290,385  | 1,894,600       | 199,615,478                        |
| Percent of total finance receivables | 91.82%        | 5.08%      | 2.15%      | 0.95%           | 100.00%                            |
| Collective provision for impairment  | 733,166       | -          | -          | -               | 733,166                            |
| Specific provision for impairment    | -             | 506,950    | 686,462    | 947,300         | 2,140,712                          |
| Total provision for impairment       |               |            |            |                 | 2,873,878                          |
| Past due but not impaired            |               | 9,632,046  | 3,603,923  | 947,300         |                                    |
| Provision for impairment rate        | 0.40%         | 5%         | 16%        | 50%             | 1.44%                              |

Loans over 90 days in arrears, for which the Company has not successfully repossessed its security, are reported as a credit loss against the provision for impairment.

The Company has recorded an impairment provision on a portion of past due and current loans. Loan amounts reported as past due but not impaired, are the residual value net of loans after specific impairment.

**Rifco Inc.****Notes to the Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

**6. Property and equipment – net**

During the six months ended September 30, 2014, the Company acquired total property and equipment amounting to \$284,075 (September 30, 2013 - \$70,183) and the depreciation for the six month period ended is \$86,179 (September 30, 2013 - \$30,084). The net book value as at September 30, 2014 amounts to \$622,805 (March 31, 2014 - \$424,908).

**7. Income taxes**

Net deferred income tax assets are comprised of the following:

|  | <b>September 30<br/>2014</b> | <b>March 31<br/>2014</b> |
|--|------------------------------|--------------------------|
|  | \$                           | \$                       |
| <b>Deferred income tax assets</b>              |                              |                          |
| Securitized loans and provision for impairment | 8,700,000                    | 6,175,000                |
| Other  | 28,000                       | 21,000                   |
|  | <b>8,728,000</b>             | <b>6,196,000</b>         |
| <b>Deferred income tax liabilities</b>         |                              |                          |
| Holdback on securitization                     | 2,042,000                    | 1,795,000                |
| Property and equipment                         | 8,000                        | 13,000                   |
|  | <b>2,050,000</b>             | <b>1,808,000</b>         |
| <b>Net deferred income tax asset</b>           | <b>6,678,000</b>             | <b>4,388,000</b>         |

Reconciliation between the tax expense and the accounting profit multiplied by the federal and provincial tax rates for the period ended September 30, 2014 and September 30, 2013 is as follows:

|  | <b>September 30,<br/>2014</b> | <b>September 30,<br/>2013</b> |
|--|-------------------------------|-------------------------------|
|  | \$                            | \$                            |
| <b>Income before taxes</b>               | 4,003,644                     | 4,043,659                     |
| Statutory income tax rate                | 25.00%                        | 25.00%                        |
| Income tax expense                       | 1,000,911                     | 1,010,910                     |
| Non-deductible expenses for tax purposes | 58,089                        | 59,090                        |
| Income tax                               | 1,059,000                     | 1,070,000                     |
| Effective income tax rate                | 26.45%                        | 26.46%                        |
| Allocation of expense (recovery)         |                               |                               |
| Current                                  | 3,349,000                     | 994,000                       |
| Deferred                                 | (2,290,000)                   | 76,000                        |
|  | <b>1,059,000</b>              | <b>1,070,000</b>              |

## **Rifco Inc.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

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#### **8. Bank borrowing**

The Company has a secured revolving credit facility of \$100M with Wells Fargo Corporation Canada and ATB Corporate Financial Services (registered senior debt lenders). The facility has a November 2015 term renewal date. The Company has provided a general security agreement over all assets of the Company. The bank borrowing balance as at September 30, 2014 was \$78,248,649 (March 31, 2014 - \$83,453,536) which is net of unamortized transaction costs of \$195,625 (March 31, 2014 - \$285,913), being amortized over the term of the facility. The financing transaction cost amortized for the period amounted to \$90,288 (September 30, 2013 - \$84,733). The Company must meet certain financial covenants, and as at September 30, 2014, and throughout the period, the Company was in compliance with all covenants.

On April 1, 2014, the Company provided a letter of credit to Securcor Trust for \$3M, which forms part of \$100M syndicated secured revolving credit facility. The letter of credit has an expiry date of April 1, 2015.

#### **9. Securitization**

##### **Securitization Debt**

Securitization debt represents funding secured by finance receivables, which consist of finance receivables composed of principal and interest sold directly to the Securitizers (the Company securitizes its finance receivables with Securcor Trust, Aviator Trust, and Mountain View Credit Union (referred to collectively as the "Securitizers")). As the current securitization of finance receivables under the various Securitizers does not qualify for de-recognition under IFRS, the net proceeds received through securitization of these finance receivables are recorded as securitization debt on the condensed consolidated interim statements of financial position. The total amount of securitization debt outstanding (including the cash holdbacks) as at September 30, 2014 amounted to \$149.01M (March 31, 2014 - \$110.05M).

The securitization debts are recorded at amortized cost using the effective interest rate method. Interest expense is allocated over the expected term of the borrowing by applying the effective interest rate to the carrying amount of the debts. The effective interest rate is the discount rate that exactly discounts estimated future cash out flows and proceeds over the expected life of the debts. Transaction costs, premiums, or discounts are applied to the carrying amount of the debts.

Securitization debts are reduced on a monthly basis by scheduled payments relative to amounts collected from securitized finance receivables during the month. Tranches of securitization debt have fixed maturities, fixed interest rates, and fixed repayment schedules based on the underlying pledged securitized finance receivables. Securitization debt is non-recourse to the Company.

The Company must meet certain financial covenants, and as at September 30, 2014, and throughout the period, the Company was in compliance with all covenants.

**Rifco Inc.****Notes to the Condensed Consolidated Interim Financial Statements**

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Six months ended September 30, 2014

**9. Securitization (continued)**

|  | \$           |
|--|--------------|
| <b>At March 31, 2013- Securitization debt</b>      | 92,788,697   |
| Gross sale proceeds from securitizers              | 68,939,067   |
| (Repayments to securitizers)                       | (70,112,454) |
| (Additions to securitization holdback)             | (5,866,164)  |
| Received from securitization holdback              | 11,181,915   |
| (Unamortized securitization cost)                  | (95,180)     |
| <b>At March 31, 2014 - Securitization debt</b>     | 96,835,881   |
| Gross sale proceeds from securitizers              | 76,919,567   |
| (Repayments to securitizers)                       | (41,636,196) |
| (Additions to securitization holdback)             | (5,526,651)  |
| Received from securitization holdback              | 7,333,340    |
| (Unamortized securitization cost)                  | (100,673)    |
| <b>At September 30, 2014 - Securitization debt</b> | 133,825,268  |

The change for unamortized securitization costs for the period is as follows:

|  | \$       |
|--|----------|
| Securitization costs incurred for the period     | 175,244  |
| Amount of securitization costs expensed          | (74,571) |
| Net addition to unamortized costs for the period | 100,673  |
| At March 31, 2014                                | 169,180  |
| <b>At September 30, 2014</b>                     | 269,853  |

The Company expects to fund a percentage of its loan growth through loan securitization. The Company intends to sell finance receivables to third party Securitizers, in which the Company is not a beneficiary, in order to provide increasing cash resources for loan originations. The Company records cash received from the sale as a financial liability and continues to recognize 100% of the finance receivables.

Upon completion of a sale, servicing of the finance receivables remains the Company's responsibility. The third party Securitizers retain a portion of the proceeds, the "holdback", to reduce their exposure to potential credit losses. The total of the holdback and finance receivables over collateralization is the Company's maximum exposure to impaired loans that have been securitized. The holdback is netted against the securitized debt and is not disclosed separately on the condensed consolidated interim statement of financial position.

**Securitized Finance Receivables**

Once the finance receivables are securitized, the Company assigns the underlying finance receivables to the Securitizers. Under the terms of the securitization agreements, the Company is responsible for advancing all scheduled or received principal and interest payments to the Securitizers depending on the facility.

In these securitization transactions the Company retains prepayment risk. Credit loss risk related to the assigned finance receivables is limited to the cash holdback and finance receivables over collateralization. Due to retention of these risks, assigned finance receivables are not derecognized, and the securitization proceeds are accounted for as

## Rifco Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

#### 9. Securitization (continued)

securitization debt. To protect against the risk of prepayment and credit losses, some Securitizers maintain, in trust, a cash holdback account. The Securitizers have recourse to draw down on the cash holdback balance held by the Securitizers in the event of individual finance receivables default or prepayment. As at September 30, 2014 the total cash holdbacks held by the Securitizers amounted to \$11.41M (March 31, 2014 - \$13.22M).

#### Finance receivables pledged as collateral

As at September 30, 2014 the carrying value of the Company's finance receivables securitized and pledged as collateral for associated liabilities was \$111.82M (March 31, 2014 - \$84.91M). These finance receivables were included in finance receivables on the condensed consolidated interim statements of financial position.

Finance receivables used in securitization activities are pledged against the associated securitization debt. As a requirement of the securitization agreements, the Company assigns, transfers, and sets over to the Securitizers, all of its rights, title, and interest in the specified finance receivables. If the Company fails to make timely payment under the securitization agreement, the Securitizers may take direct control of the finance receivables and assign loan management to a back-up servicer. The Company's liability pertaining to securitization will be extinguished. The Company's risk of loss is limited to the cash holdback account and finance receivable over collateralization.

#### 10. Unsecured debentures

Unsecured debentures amounting to \$9.62M (March 31, 2014 - \$7.99M) issued by the Company are non-redeemable to the note holder within the specific terms. Maturity dates vary from October 1, 2014 to March 1, 2018 and bear monthly interest expense at annual rates of 7.0%, 8.0%, and 9.0%. The debentures are subordinated in favour of the registered senior debt lenders. During the period, total unsecured debentures amounting to \$1.18M matured of which \$0.97M were rolled over and new debentures amounting to \$1.83M were issued for terms ranging between 2 and 3.5 years. The Company must meet certain financial covenants and report to the debenture holders on a quarterly basis. As at September 30, 2014 and throughout the period, the Company was in compliance with all covenants.

Summary of debenture balance is as follows:

|   | September 30,<br>2014<br>\$ | March 31,<br>2014<br>\$ |
|---|-----------------------------|-------------------------|
| 7% debentures outstanding                                 | 1,585,000                   | 1,710,000               |
| 8% debentures outstanding                                 | 4,180,000                   | 1,500,000               |
| 9% debentures outstanding                                 | 3,850,000                   | 3,850,000               |
| 10% debentures outstanding                                | -                           | 935,000                 |
| Unsecured debentures, at year end                         | 9,615,000                   | 7,995,000               |
| Portion issued to related parties at period end (Note 16) | 2,355,000                   | 2,075,000               |

**Rifco Inc.****Notes to the Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

**10. Unsecured debentures (continued)**

The unsecured debentures mature as follows:

|                        | September 30,<br>2014<br>\$ | March 31,<br>2014<br>\$ |
|------------------------|-----------------------------|-------------------------|
| Less than 12 months    | 980,000                     | 1,165,000               |
| 12 - 24 months         | 3,110,000                   | 1,930,000               |
| Greater than 24 months | 5,525,000                   | 4,900,000               |
|                        | 9,615,000                   | 7,995,000               |

**11. Accounts payable and accruals**

|                                       | September 30,<br>2014<br>\$ | March 31,<br>2014<br>\$ |
|---------------------------------------|-----------------------------|-------------------------|
| Payable to securitizers               | 4,344,413                   | 2,867,937               |
| Accounts payable and accrued expenses | 1,094,168                   | 1,017,301               |
|                                       | 5,438,581                   | 3,885,238               |

Accounts payable are non-interest bearing and are normally settled on 30 day terms. Payables to securitizers are normally settled within 30 days.

**12. Share capital and contributed surplus****A) Authorized shares**

Unlimited number of Common shares, no par value

Unlimited number of Preferred shares, no par value

The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series to determine the designation, rights, privileges and conditions attached to the shares of each series.

**B) Issued and outstanding**

| Common Shares                 | September 30, 2014 |           | March 31, 2014 |           |
|-------------------------------|--------------------|-----------|----------------|-----------|
|                               | Shares             | \$        | Shares         | \$        |
| Opening balance, April 1      | 21,027,483         | 6,843,302 | 20,762,396     | 6,362,414 |
| Stock options exercised       | 140,000            | 290,123   | 239,552        | 370,745   |
| Employee share ownership plan | -                  | -         | 25,535         | 110,143   |
| Closing balance               | 21,167,483         | 7,133,425 | 21,027,483     | 6,843,302 |

**Rifco Inc.****Notes to the Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

**12. Share capital and contributed surplus (continued)****Contributed surplus**

The contributed surplus reserve is used to recognize the fair value of stock options granted to employees, including key management personnel, as part of their remuneration. When stock options are subsequently exercised, the fair value of such stock options in contributed surplus is credited to share capital.

|  | September 30,<br>2014<br>\$ | March 31,<br>2014<br>\$ |
|--|-----------------------------|-------------------------|
| Opening balance                                  | 2,052,245                   | 1,797,379               |
| Transfer to share capital on exercise of options | (84,673)                    | (115,319)               |
| From the vesting of stock based compensation     | 324,061                     | 370,185                 |
| Closing balance                                  | 2,291,633                   | 2,052,245               |

**13. Stock based compensation****Stock option plan**

The Company has a stock option plan under which directors, officers, employees and consultants of the Company and its subsidiary are eligible to receive stock options. The aggregate number of shares to be issued upon exercise of all options granted under the plan shall not exceed 10% of the issued shares of the Company at the time of granting the options. The maximum number of common shares optioned to any optionee shall not exceed 5% of the outstanding common shares of the Company. Options granted under the plan generally have a term of five years but may not exceed ten years and vest at terms to be determined by the directors at the time of grant. The exercise price of each option shall be determined by the directors at time of grant but shall not be less than the price permitted by the policy or policies of the stock exchange(s) on which the Company's common shares are then listed.

During the six month period, the Company issued 487,000 options to officers and directors (March 31, 2014 - 380,000 options to officers and directors).

|                                    | September 30, 2014   |   | March 31, 2014       |   |
|------------------------------------|----------------------|---|----------------------|---|
|                                    | Number of<br>options | Weighted<br>average<br>exercise price<br>\$ | Number of<br>options | Weighted<br>average<br>exercise price<br>\$ |
| Outstanding at beginning of period | 1,183,334            | 2.25  | 1,042,886            | 1.19  |
| Granted                            | 487,000              | 5.85  | 380,000              | 4.40  |
| (Exercised)                        | (140,000)            | 1.47  | (239,552)            | 1.07  |
| Outstanding at end of period       | 1,530,334            | 3.47  | 1,183,334            | 2.25  |
| Exercisable at end of period       | 758,334              | 1.58  | 648,332              | 1.08  |



**Rifco Inc.****Notes to the Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

**13. Stock based compensation (continued)**

The total outstanding number of options are 7.23% (March 31, 2014 - 5.63%) of the number of shares outstanding at the six month period ended.

A summary of the status of the Company's stock options outstanding at September 30, 2014 is as follows:

| <b>Date issued</b> | <b># Granted and outstanding</b> | <b># Vested</b> | <b>Exercise price</b> | <b>Expiry date</b> |
|--------------------|----------------------------------|-----------------|-----------------------|--------------------|
| 12-Jul-10          | 180,000                          | 180,000         | 0.42                  | 12-Jul-15          |
| 5-Jul-11           | 160,000                          | 160,000         | 0.97                  | 5-Jul-16           |
| 11-Jul-11          | 65,000                           | 65,000          | 1.00                  | 11-Jul-16          |
| 2-May-12           | 25,000                           | 25,000          | 1.29                  | 2-May-17           |
| 6-Jul-12           | 233,334                          | 233,334         | 1.95                  | 6-Jul-17           |
| 19-Jun-13          | 380,000                          | 95,000          | 4.40                  | 19-Jun-18          |
| 18-Jun-14          | 487,000                          | -               | 5.85                  | 18-Jun-19          |
| <b>Total</b>       | <b>1,530,334</b>                 | <b>758,334</b>  |                       |                    |

The Company recognized a stock based compensation expense of \$324,061 during the period ended September 30, 2014 (September 30, 2013 - \$181,591). The Company uses the fair value method of accounting for stock based compensation to employees and directors. The compensation cost for options granted is determined based on the estimated fair value of the stock options at the time of the grant using the Black-Scholes option pricing model and is amortized over the vesting period with an offset to contributed surplus. When options are exercised, the corresponding contributed surplus and the proceeds received by the Company are credited to share capital. The weighted average remaining life of the options outstanding is 3.24 years.

|                          | <b>September 30,<br/>2014</b> | <b>March 31,<br/>2014</b> |
|--------------------------|-------------------------------|---------------------------|
| Fair value at grant date | \$ 2.19                       | \$ 1.72                   |
| Exercise price           | \$ 5.85                       | \$ 4.40                   |
| Stock price              | \$ 5.85                       | \$ 4.40                   |
| Risk free interest rate  | 1.31%                         | 1.35%                     |
| Expected lives (years)   | 3.98                          | 3.98                      |
| Expected volatility      | 47%                           | 49%                       |
| Dividend yield           | -                             | -                         |
| Forfeiture estimate      | 6.7%                          | 5.7%                      |

Expected volatility is based on historical data of the Company.

Options are granted with a 5 year life with full vesting ranging up to 48 months.

The weighted average share price at the date of exercise for share options exercised for the six month period ended September 30, 2014 is \$6.10 (September 30, 2013 - \$5.04).

## Rifco Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

#### 14. Employee share ownership plan

The Company initiated an employee share ownership plan (“the ESOP”), effective February 1, 2013. The plan aligns the interests of employees with other shareholders and will assist the Company with employee recruitment and retention. Participation in the ESOP is voluntary and all employees that have been employed for at least 3 months are eligible to participate.

Employees can contribute to the ESOP monthly up to a maximum of 10% of their gross annual earnings. The Company matches 50% of the employee contribution. Shares purchased with Company’s contribution vest in 12 months, whereas the employee contribution vest immediately. If the unrestricted shares are sold before one year, the employee may no longer be able to participate in the plan for a period of an additional one year from the date of termination of the employee’s participation in the plan.

Effective September 1, 2013 the shares for ESOP are purchased through the facilities of an exchange and are no longer issued from the treasury of the Company. The number of shares purchased for the month depends upon the trading price of the shares at the time of purchase and the total amount of contribution from both the Company and employees.

At six month period ended September 30, 2014 the Company contributed a total of \$52,583 (September 30, 2013 - \$49,306) to the ESOP.

#### 15. Earnings per share (“EPS”)

The calculation of basic earnings per share for the six months ended September 30, 2014, was based on the profit available to common shareholders of \$2,944,644 (September 30, 2013 – \$2,973,659), and a weighted average number of common shares outstanding of 21,076,445 (September 30, 2013 – 20,842,032). The calculation of the diluted income per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the income per share. The dilutive effect of outstanding options (which are in the money) and their equivalents is reflected in diluted earnings per share by determining the number of shares that could have been acquired at fair value (determined as the period weighted average market share price of the Company’s shares) based on the intrinsic monetary value of the exercise rights attached to outstanding share options. Weighted average number of common shares is calculated as follows:

|   | Three months ending   |                       | Six months ending     |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2014 | September 30,<br>2013 | September 30,<br>2014 | September 30,<br>2013 |
|   | Shares                | Shares                | Shares                | Shares                |
| Weighted average number of shares outstanding   | 21,124,874            | 20,899,864            | 21,076,445            | 20,842,032            |
| Effect of potential dilutive securities due to stock options                                  | 622,986               | 696,976               | 619,894               | 716,149               |
| Weighted average number of shares outstanding for use in determining diluted income per share | 21,747,860            | 21,596,840            | 21,696,339            | 21,558,181            |

## Rifco Inc.

### Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

#### 16. Related party disclosures

During the period, related parties were holders of unsecured debentures in the Company. The terms offered to related parties for the unsecured debentures are identical to those offered to non-related party debenture holders.

At period end, the total held by related parties is \$2.36M (March 31, 2014 - \$2.08M). None of the related parties are officers or directors. The related parties are comprised of relatives of certain officers and employees of the Company who currently hold \$1.10M (March 31, 2014 - \$1.07M) in debentures with varying terms. In addition, \$1.26M (March 31, 2014 - \$1.01M) in debentures with varying terms is held by relatives and companies related to a non-management insider. These transactions are in the normal course of business and consideration established and agreed to by the related parties is at arm's length. Total interest paid to related parties in the period was \$0.09M (September 30, 2013 - \$0.11M).

#### Compensation of key management personnel

The remuneration of key management personnel which includes executives during the period ended was as follows:

|                                 | September 30,<br>2014 | September 30,<br>2013 |
|---------------------------------|-----------------------|-----------------------|
|                                 | \$                    | \$                    |
| Compensation, including bonuses | 552,164               | 486,618               |
| Stock based compensation        | 232,106               | 117,032               |
| Total                           | 784,270               | 603,650               |

The Company has three independent directors. Each independent director receives an annual retainer of \$20,000 and an additional \$5,000 for Chairman of the Board and \$3,000 for Committee Chairman positions held. Independent directors received meeting fees of \$750 per day and reimbursement of normal travel expenses. The fees paid to independent directors totaled \$44,500 (September 30, 2013 - \$35,500) in addition to normal itemized expense reimbursement. During the period the Company granted 487,000 stock options to key management and independent directors. The stock based compensation expense for the independent directors during the period was \$89,726 (September 30, 2013 - \$58,050)

#### 17. Capital management

The Company's capital is comprised of bank borrowing, securitization debt, unsecured debentures and equity in order to fund the origination of vehicle finance receivables. The condensed consolidated interim financial statements do not include all capital management information and disclosures as required in the annual consolidated financial statements, they should be read in conjunction with the Company's annual consolidated financial statements as at March 31, 2014.

#### 18. Financial instruments and risk management

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements and how the fair value of financial instruments is measured.

**Rifco Inc.****Notes to the Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

**18. Financial instruments and risk management (continued)****Fair values**

Fair value represents the price at which a financial instrument could be exchanged in an orderly market, in an arm's length transaction between knowledgeable and willing parties who are under no compulsion to act. The Company classifies the financial instruments that are carried on the consolidated interim financial statements at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

The following table provides an analysis of the financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in the active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| Financial Instrument<br>Classification     | Fair<br>value<br>level | September 30, 2014      |                  | March 31, 2014          |                  |
|--|------------------------|-------------------------|------------------|-------------------------|------------------|
|  |                        | Carrying<br>value<br>\$ | Fair value<br>\$ | Carrying<br>value<br>\$ | Fair value<br>\$ |
| <b>Fair value through profit and loss:</b> |                        |                         |                  |                         |                  |
| Cash                                       | (1)                    | 2,786,372               | 2,786,372        | 2,804,378               | 2,804,378        |
| <b>Loans and receivables:</b>              |                        |                         |                  |                         |                  |
| Finance receivables - net                  | (3)                    | 240,568,573             | (A)              | 202,821,496             | (A)              |
| Other receivables                          | (1)                    | 169,147                 | 169,147          | 187,020                 | 187,020          |
| <b>Other financial liabilities:</b>        |                        |                         |                  |                         |                  |
| Bank borrowing                             | (1)                    | 78,248,649              | 78,444,274       | 83,453,536              | 83,739,449       |
| Securitization debt                        | (2) (B)                | 133,825,268             | 134,446,599      | 96,835,881              | 97,651,703       |
| Unsecured debentures                       | (2) (C)                | 9,615,000               | 9,936,864        | 7,995,000               | 8,154,559        |
| Accounts payable and accruals              | (1)                    | 5,438,581               | 5,438,581        | 3,885,238               | 3,885,238        |

A) The fair value of finance receivables is calculated by discounting the estimated future cash flows of the portfolio at rates commensurate with the underlying risk of assets, net of a provision for impaired loans, prepayment losses, servicing costs and fees to securitize at the condensed consolidated interim statements of financial position dates. Management's estimate of fair value is presented as a range of the values. Currently, there is not an organized market for valuing the loan portfolio. The change in discount rate ranges reflects increases or decreases in securitization pricing and provisioning.

**Rifco Inc.****Notes to the Condensed Consolidated Interim Financial Statements**

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Six months ended September 30, 2014

**18. Financial instruments and risk management (continued)**

|             | September 30, 2014 |             | March 31, 2014 |             |
|-------------|--------------------|-------------|----------------|-------------|
|             | Discount rate      | Fair value  | Discount rate  | Fair value  |
| Upper value | 6.71%              | 303,870,490 | 5.54%          | 263,459,979 |
| Lower value | 9.71%              | 283,994,849 | 8.54%          | 246,741,196 |

- B) The fair value of securitization debt is determined based on an internal valuation model which factors in the time value of money, expected future impaired loans and prepayment rates.
- C) The fair value of unsecured debenture is determined based on an internal valuation model which factors in discount rates and future cash flows.

**Risk management**

The Company is exposed to risks of varying degrees of significance, which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to these risks. The principal financial risks to which the Company is exposed are described below:

**Credit risk**

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

The Company generates indirect auto loans through franchise and independent dealerships in Canada. The target borrowers are of a 'less than prime credit grade', meaning they typically would not be approved for financing at prime rates. These customers may have had credit related problems, less than adequate credit history, or may be purchasing a vehicle that falls outside of prime auto lending guidelines.

For the Company, credit risk arises principally through the Company's finance receivables. Risk exists that the Company's borrowers' actual default rates exceed business model expectations. The Company is at risk of loss of principal and earned interest income. In the segment that the Company operates, some delinquency, impairment of loans, and ultimate credit loss is expected.

The Company manages credit risk in the following ways:

**Dealership relationships**

The Company believes that, as an indirect lender, the role of the dealership is integral in risk assessment and risk reduction for individual applications. The Company's credit analysts rely on information compiled and communicated by the dealer and as such, a level of trust is required in extending credit on indirect loan applications. It is the Company's philosophy that trust is best established within a relationship based on principles of partnership, fairness, equity, and transparency. It has been the Company's experience that credit performance can vary widely between originating dealerships. It is among the Company's most important principles of underwriting that only trustworthy dealers who share the Company's philosophy be permitted to submit credit applications. In evaluating potential originating-dealerships, each dealer has submitted to a detailed due diligence process including review of a

## **Rifco Inc.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

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#### **18. Financial instruments and risk management (continued)**

detailed dealer profile, financial information, license checks, credit checks, inventory evaluations and one or more 'site visits'. The Company and its dealers are bound by an agreement, which gives the Company certain charge back remedies.

The Company will only accept applications submitted by approved dealerships. Specific criteria for dealership enrolment must be met.

##### ***Credit adjudication***

The Company maintains certain minimum standards that are required in order to extend credit. Applications that fail to meet these minimum standards will result in an immediate decline.

The Company believes that it can extend credit to applicants with non-traditional credit and obtain acceptable returns for shareholders. Applicants are often people of average income, average employment, who drive average vehicles. In compensation for extending credit in higher risk situations, the Company requires higher than prime interest rates on its auto loans.

The Company does not currently employ computer generated credit approvals or declines. Each application is manually reviewed by an experienced credit underwriter employee. Significant training, oversight, and evaluation of authorized analysts ensure compliance with the Company's credit policies and procedures.

##### ***Credit policies and procedures***

The Company employs a detailed credit policy which is the broad policy for underwriting of its non-traditional auto loans. Within the policy, individual credit programs specify, along with pricing, more restrictive frameworks for granting credit. Individual underwriters are delegated specific authority to grant credit within the policy and within individual programs.

The policy and programs seek to achieve optimal pricing and predictable credit performance for the Company's finance receivable assets. Factors that are assessed during the underwriting process include applicants' credit history, income type and history, current financial ratios, vehicle age and condition, and the structure of the proposed consumer loan including price and down payment.

##### ***Vehicle purchases***

The Company believes that the nature of the vehicles financed at the dealership is material to evaluating the likelihood of successful loan performance. Loan approval terms such as rate, down payment, and interest rates vary, to some degree, based on the age, mileage, and condition of the vehicle financed.

##### ***Concentration***

The Company's portfolio of finance receivables contains thousands of individual consumer obligations that each carries a relatively small proportionate balance.

In the event of significant changes to regional economic situations, geographic concentration may influence ultimate credit performance. The geographic distribution of the Company's loan portfolio is as follows:

**Rifco Inc.****Notes to the Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

**18. Financial instruments and risk management (continued)**

| September 30, 2014                 | Western<br>Canada | Eastern<br>Canada | Total          |
|------------------------------------|-------------------|-------------------|----------------|
| Finance Receivables <sup>(1)</sup> | \$ 163,138,275    | \$ 74,582,369     | \$ 237,720,644 |
| Percentage of Finance Receivables  | 69%               | 31%               | 100%           |
| March 31, 2014                     | Western<br>Canada | Eastern<br>Canada | Total          |
| Finance Receivables <sup>(1)</sup> | \$ 133,423,650    | \$ 66,191,828     | \$ 199,615,478 |
| Percentage of Finance Receivables  | 67%               | 33%               | 100%           |

<sup>(1)</sup> Finance Receivables shown here are before provisions for impairment and unamortized origination costs but include accrued interest.

***Exposure to credit risk***

The Company's maximum exposure to credit risk is represented by the carrying amount for cash, other receivables, and finance receivables. For the Company, collateral risk exists that in the event of borrower default, the realized value of the vehicle security is insufficient to pay off the entire loan without shortfall. In the auto lending industry in Canada, vehicles are typically financed for their retail transaction price and, if seized for default, are liquidated at their wholesale value. In addition, automobiles depreciate over time.

As each automobile loan progresses, the vehicle asset depreciates and the borrower's principal amount owing reduces. The Company does not finance transactions with lump sum residual values or balloon payments. A vehicle's scheduled depreciation in value corresponds with the declining loan principal with the vehicle's value exceeding the loan principal.

In the event of vehicle liquidation, the Company typically has a shortfall (credit loss). Risk exists that the average shortfall rate (loss severity) is greater than anticipated.

The Company has a credit model that assumes the vast majority of vehicle security assets do not need to be realized due to default while managing exposure to loss severity.

***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities, and maintaining credit facilities to ensure it has sufficient available funds to meet current and foreseeable requirements.

As at September 30, 2014, the Company's undiscounted cash flows from finance receivables principal and interest payments (no provision has been made for credit losses or prepayments) are receivable as follows:

**Rifco Inc.****Notes to the Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

**18. Financial instruments and risk management (continued)**

|                           | Less than<br>one year<br>\$ | 1- 2 years<br>\$ | After<br>2 years<br>\$ | Total<br>\$ |
|---------------------------|-----------------------------|------------------|------------------------|-------------|
| Gross finance receivables | 76,563,088                  | 72,749,706       | 208,404,806            | 357,717,600 |

In addition to working capital, the Company utilizes debt and securitization as sources of funds for originating finance receivables. Certain debt providers have a general assignment over corporate assets and require that the Company maintain financial covenants. Failure to maintain these financial covenants could result in cancellation and demand of the debt facilities.

Management believes that its existing credit lines, securitization facilities and operational cash flow are sufficient to meet its business plan. Management expects that any actual capital shortfall would be met with additional unsecured debentures or an issuance of common shares.

As at September 30, 2014, the Company's financial obligations are due as follows:

|                                     | Less than<br>one year<br>\$ | 1- 2 years<br>\$ | After<br>2 years<br>\$ | Total<br>\$ |
|-------------------------------------|-----------------------------|------------------|------------------------|-------------|
| Bank borrowing                      | -                           | 78,444,274       | -                      | 78,444,274  |
| Securitization debt <sup>(1)</sup>  | 36,694,892                  | 34,429,931       | 78,539,303             | 149,664,126 |
| Unsecured debentures <sup>(2)</sup> | 1,712,864                   | 3,703,272        | 5,744,440              | 11,160,576  |
| Accounts payable and accruals       | 5,438,581                   | -                | -                      | 5,438,581   |
|                                     | 43,846,337                  | 116,577,477      | 84,283,743             | 244,707,557 |

(1) Securitization debt is presented as the total stream of payments less the offset of the cash holdback released in the corresponding period. No provisions have been made for credit losses or loan prepayments.

(2) Unsecured Debentures are presented with the interest expense due in the corresponding period.

**Interest rate risk**

Finance receivables, securitization debt and unsecured debentures payable bear interest at a fixed rate and are not subject to interest rate risk, as a result of changes in market rates.

The bank borrowing bears interest at a floating rate. The floating rate debt is subject to interest cash flow risk as the required cash flows to service the debt will fluctuate as a result of changes in market rates. Fluctuation in interest rates on bank borrowing by +/-50 basis point, can impact the net income by +/- \$392,221, for the reporting period based on gross borrowing balance of \$78,444,274 as at September 30, 2014.

Once a new securitization tranche is sold, the discount rate is fixed for the life of the tranche. The premium over benchmark bond rates, for new tranches, on two of the three securitization facilities, are reset quarterly. As a result, the Company is subject to interest rate risk on quarterly market fluctuations in the benchmark bond rates for future tranches of loans to be securitized. The Company is exposed to interest rate price risk on its finance receivables, fixed rate securitization debt and unsecured debentures resulting from changes in fair value from market fluctuations in interest rates.



## **Rifco Inc.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

(Expressed in Canadian Dollars)

Six months ended September 30, 2014

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#### **18. Financial instruments and risk management (continued)**

##### *Counterparty risk*

The Company is susceptible to counterparty risk on their holdback account on securitized loans. The possibility exists that the counterparty will default on its obligation under the securitization agreement and the Company will have no recourse or rights against the assets of the counterparty.

The management believes that the counter party risk is insignificant, as the holdback account on securitized loans are with reputable financial institutions which are federally regulated.

##### *Foreign exchange risk*

The Company does not have significant exposure to foreign currency risk.

#### **19. Segment reporting**

The Company operates in Canada and has one operating segment. The accounting policies of the segment are the same as those described in the summary of significant accounting policies.

#### **20. Commitments**

The Company has entered into a 5 year lease commitment for its business premises commencing December 1, 2011 and expiring November 30, 2016. The Company leased an additional 2,953 sq. ft. of office space commencing June 1, 2014. The monthly payment scheduling will be \$30,509 per month for remainder of 2014 and to \$31,513 for 2015 and 2016.

The Company is party to a software hosting commitment that has fixed fees of \$10,735 per month.

#### **21. Post-reporting date events**

On October 1, 2014, the unsecured debentures were increased by \$1,885,000 to \$11,500,000. The new debentures were issued at 8.0% annual interest rates for terms of 36 or 42 months.

On October 10, 2014, the Company received a new securitization facility from Aviator Trust for \$30 million.

#### **22. Reclassification**

Certain amounts were reclassified in the financial statements to adopt the presentation as at September 30, 2014.



## For the period ended September 30, 2014

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The following discussion should be read in conjunction with the condensed consolidated interim financial statements for the period ended September 30, 2014 and the notes thereto. Historical results should not be taken as indicative of future operations. The information in this report is up-to-date as of November 12, 2014.

The audited consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Additional information is also available on the Company's website [[www.rifco.net](http://www.rifco.net)] and all previous public filings are available through SEDAR [[www.sedar.com](http://www.sedar.com)].

|   |      |  |       |
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## **Cautionary statement**

This Management's Discussion and Analysis report may contain certain forward-looking statements, including statements regarding the business and anticipated financial performance of Rifco Inc. The users of forward-looking statements are cautioned that actual results may vary from the forward-looking information. The Company is subject to material risk factors that could cause actual results to differ materially from the forward looking statements. The Company is subject to two main material risks, that being, loan performance and access to capital. All future looking statements are made with the assumption that loans will continue to perform as they have in the past and that the Company will continue to have access to reasonably priced capital in amounts sufficient to execute its business plan. When future looking statements are made they will be updated within the normal course of quarterly and annual financial statements. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Description of Non-IFRS Measures**

Throughout this Management's Discussion and Analysis (MD&A), management uses terms and ratios which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other issuers; therefore description has been provided in the MD&A. These non-IFRS measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. For clarity, specifically defined non-IFRS measures are capitalized throughout this document.

**For the Description of Non-IFRS Measures please refer to pages 24-27.**

## **Rifco Overview**

Rifco Inc. (Rifco, Company), operating through its subsidiary Rifco National Auto Finance Corporation, is engaged in vehicle finance. Rifco specializes in building long-term partnerships with vehicle dealers by investing time in personalized services through dedicated account managers. Rifco's quick credit decisions, common sense lending, and expedited funding processes provide its dealer's with better financing options and more closed deals.

The Company operates in all provinces except Quebec. The Company and its subsidiary are incorporated under the laws of Alberta with its head office situated in Red Deer, Alberta.

Rifco trades its common shares on the TSX Venture Exchange under the symbol "RFC" and is a tier 1 issuer. Since commencing lending operations in February of 2002, the Company has lent over \$550 million.

## **Strategic Perspective**

The Company manages two main strategic risk factors. Firstly, the Company must possess competencies that drive acceptable credit performance. Secondly, the Company must maintain access to reasonably priced and appropriately structured capital and borrowings in order to fund its lending operations.

Rifco remains steadfast in originating Finance Receivables that it believes can achieve acceptable credit performance levels and profit margins. As margins are affected by funding rates and expected credit performance, the Company adjusts targeted Origination levels, credit requirements, and lending rates while maintaining market continuity. Rifco will not pursue a strategy of seeking to increase its market share at the expense of unsustainable credit performance. Rifco management believes that its Credit Model will continue to produce sustainable loan performance results over normal economic cycles.

The Company funds its Finance Receivables through Bank Borrowing and Securitization. The current low interest rate environment and its growing history of credit performance have helped the Company to lower Interest Expense from its funding sources. These improved rates have had a positive effect on Net Income. Rifco

maintains strong funding relationships, and has been able to receive increased levels of funding capacity as needed.

## Market Perspective

The majority of Canadians finance their vehicle purchases. A significant portion of Canadians will require non-prime financing for these purchases. It is estimated that 30-35% of Canadians cannot qualify for a prime (“A” credit) vehicle loan.

Rifco’s major competitors are two large Canadian banks that currently control a large portion of the non-prime (“B” & “C” credit) market in Canada. Rifco’s market niche has become increasingly competitive as competitors worked to defend their market share. Other smaller entrants have arrived and are seeking to gain market share with the “D” credit space the most crowded. The competitive environment and low benchmark interest rates have led to a reduction in loan pricing industry wide. Rifco intends to maintain the integrity of its credit underwriting. Rifco is enhancing its competitive service advantage through improved convenience of funding, improved borrower payment options and its dealer loyalty program.

Rifco estimates that it currently has less than a 5% share of the national non-prime auto finance market. Rifco has grown its sales force and has increased the rate that new dealer partners are being enrolled. Rifco expects to grow through market share gains.

The Canadian economy is demonstrating a low GDP growth rate. The short and medium term outlook is still uncertain due to the national and global economic environment. Employment has been stable in recent years. Rifco’s Credit Loss Rate is below its long term average but is returning to a more typical range.

Management continues to work to ensure that the Company has the financial resources to meet its targeted growth rate while maintaining profitability.

## Key Period-to-Date Performance Measurement

Please note the Company results as reported against the specific objectives press released on June 11, 2014.

- 1. Achieve record Loan Originations of over \$170 million**  
Loan Originations for the first six months reached \$85.50M, a new record. **Progress to target 50%.**
- 2. Achieve record Finance Receivables of over \$278 million**  
Finance Receivables for the first six months grew to \$237.72M from \$199.62M, a new record. **Progress to target 49%.**
- 3. Achieve record revenue of over \$39.5 million**  
Revenue for the first six months totalled \$18.60M, a new record. **Progress to target 47%.**
- 4. Achieve an annualized write off rate below 3.55%**  
Year to date Annualized Credit Loss Rate of 3.65%. **Off Target.**
- 5. Achieve record earnings per share of \$0.430.**  
Earnings per share for the first six months are \$0.140. **Progress to target 33%.**

## Financial Capacity

Rifco's Origination and Servicing Platform is its most valuable asset. The ability to leverage the Origination and Servicing Platform requires the financial capacity to apply appropriately priced and structured funding.

To fund the Origination of a growing level of Finance Receivables, the Company uses a Bank Borrowing facility of \$100M and Unsecured Debentures (\$9.6M). Unsecured Debentures are generally term agreements for 2, 3, or 4 years with various maturity dates. Maturing debentures are often reissued for successive terms at maturity. At September 30, 2014, the Company had access to \$150M through three Securitization Facilities. The Company's combined credit facilities total \$250M and had remaining capacity of \$70M at quarter end.

Subsequent to the end of the quarter, the Company received a new securitization facility from Aviator Trust for \$30M which increases the quarter end facility capacity from \$70M to \$100M. This replaces a previously authorized \$20M facility which had been 100% utilized. Previously securitized loans are not included in the utilization calculation for the new facility.

From time to time, the Company securitizes loans in order to free up Bank Borrowing capacity.

Management determines Securitization transaction levels by weighing a number of factors, some of which are as follows:

- Growth rate of Originations
- Availability of Bank Borrowing margin and working capital to finance current assets
- Securitization pricing in context of other financing alternatives
- Income tax impact by Securitization Facility

## RESULTS OF OPERATIONS

The Results of Operations should be read in conjunction with the condensed consolidated interim financial statements for the period ended September 30, 2014. The results of operations and its cash flows for the period are presented in accordance with IFRS.

|                              | Six months ended   |                    | Twelve months ended |                |
|------------------------------|--------------------|--------------------|---------------------|----------------|
|                              | September 30, 2014 | September 30, 2013 | March 31, 2014      | March 31, 2013 |
| (\$,000's except per share)  |                    |                    |                     |                |
| Revenue                      | 18,601             | 14,533             | 30,260              | 24,005         |
| Net Earnings                 | 2,945              | 2,974              | 6,378               | 4,730          |
| Total Assets                 | 251,148            | 184,346            | 211,224             | 159,912        |
| Total Liabilities            | 229,586            | 169,959            | 193,137             | 148,938        |
| Equity                       | 21,562             | 14,387             | 18,087              | 10,974         |
| Earnings per share - Basic   | \$ 0.140           | \$ 0.143           | \$ 0.305            | \$ 0.233       |
| Earnings per share - Diluted | \$ 0.136           | \$ 0.138           | \$ 0.295            | \$ 0.223       |

The Company is reporting the following results over the prior period:

|   | For the periods ended |                       |                      |
|---|-----------------------|-----------------------|----------------------|
|   | September 30,<br>2014 | September 30,<br>2013 |                      |
| (\$,000's except ratios and per share)      |                       |                       |                      |
| Financial Revenue                           | 9,745                 | 7,539                 | Increased 29%        |
| Net Income                                  | 1,575                 | 1,407                 | Increased 12%        |
| Operating Expenses                          | 2,101                 | 1,615                 | Increased 30%        |
| Originations                                | 42,643                | 29,224                | Increased 46%        |
| Finance Receivables                         | 237,721               | 173,000               | Increased 37%        |
| Credit Losses                               | 2,397                 | 1,366                 | Increased by \$1.03M |
| Gross Portfolio Yield                       | 18.46%                | 19.28%                | Decreased            |
| Net Portfolio Yield                         | 17.16%                | 17.99%                | Decreased            |
| Average Interest Expense                    | 4.80%                 | 5.35%                 | Decreased (Improved) |
| Average (12 month rolling) Credit Loss Rate | 3.56%                 | 3.02%                 | Increased (Worsened) |
| Delinquency Rate                            | 4.06%                 | 4.00%                 | Increased (Worsened) |
| Return on Equity                            | 30.61%                | 41.59%                | Decreased            |
| Operating Expense Ratio                     | 3.70%                 | 3.86%                 | Decreased (Improved) |
| Earnings Per Share                          | \$0.075               | \$0.067               | Increased 12%        |
| Book value per share                        | \$1.02                | \$0.69                | Increased 48%        |

The Company posted Originations of \$42.64M up from \$29.22M, a 46% increase from the comparable quarter. This is the third consecutive quarter with Originations in excess of \$40M which represents a step change from prior quarters.

Origination growth has resulted in a 37% increase in Finance Receivables to \$237.72M from \$173.00M in the comparable quarter. As a result, Financial Revenue has increased by 29% to \$9.75M from \$7.54M.

As the result of a continuing competitive environment in Rifco's lending niche the Company has seen a reduction in Gross Portfolio Yields on new loans granted in recent years. In the quarter, the Gross Portfolio Yield was 18.46%, down from 19.28% in the comparable quarter, but increased from 18.39% from the prior quarter. This is the first quarterly yield increase in many years.

The Average Interest Expense decreased to 4.80% from 5.35% from the same quarter in the prior year but increased slightly from 4.72% in the prior quarter. Further interest rate gains will be achieved with increased Bank Borrowing limits.

The loan Delinquency Rate increased to 4.06% compared to 4.00% from the same quarter in the prior year and increased from 3.98% in the preceding quarter. Management expects the loan Delinquency Rate to fluctuate seasonally between 3.00% and 4.00% during the year. The Delinquency Rate is currently higher than management had internally forecasted.

As was stated in the prior quarterly report, the Delinquency Rates in Q1 were negatively impacted by high staff turnover in the account maintenance and customer service department. Subsequent to the end of Q1, the department staffing returned to the required levels and remains fully staffed, however the average tenure in the

department is shorter than normal. The department is receiving a high level of oversight and strong training processes are in place.

Historically, management has been able to improve the Delinquency Rate through increased oversight and adequate staffing. Management anticipates the Delinquency Rate will improve in ensuing quarters and will positively impact Net Income through reduced Provisioning for Impairment and Credit Losses.

The elevated Delinquency levels in the prior quarter have resulted in an elevated Credit Loss Rate in this quarter. The Credit Loss Rate is currently higher than management had internally forecast.

The Average (12 month rolling) Credit Loss Rate increased to 3.56% from 3.02% in the comparable quarter and has increased from the prior quarter rate of 3.30%. The Annualized Credit Loss Rate for the quarter is 4.13% and 3.65% for six months year to date. These Credit Loss Rates are both above the Company's annual target of 3.55%.

Management has conducted detailed reviews of credit underwriting processes and remains confident that the integrity of Rifco's credit granting policies are being maintained for all credit tiers offered. Management is confident that it has taken the steps needed to correct performance of the account maintenance and customer service department. Management believes that it may see Credit Loss Rates above the internally forecasted level in Q3 followed by improvement in Q4.

Operating Expenses increased to \$2.10M from \$1.62M in the comparable quarter and were up slightly from \$2.06M in the prior quarter. The Operating Expense Ratio declined to 3.70% compared to 3.86% in the prior year and 3.95% in the prior quarter.

The Company has continued to invest in capacity in order to maintain Loan Origination and Finance Receivables growth rates. The current level of growth has required increased staffing. Rifco's total employee count increased to 80 from 68, in the prior quarter, as new employment positions are added to most departments.

In the quarter, and just subsequently, the Company increased its working capital through the addition of \$3.00M in unsecured debentures to \$11.50M from \$8.50M. The debentures were issued at an annual interest rate of 8.0% for terms of 36 or 42 months. Unsecured Debentures are not convertible into common shares.

The Company is in the process of completing a number of infrastructure and expansion projects started in the previous fiscal year. The largest, and most important of these projects, is an upgraded loan management software (LMS) and the resulting data conversion. A substantial amount of preparation and planning resources have been devoted to the LMS project in order to reduce implementation risk and increase employee acceptance of the new software. During the quarter, the intensity and volume of work intensified in preparation of a launch in the third quarter. Management is focused on a successful launch process that will result in only a short term disruption to operations and will quickly improve overall efficiency. During the third quarter, the focus will remain testing, configuration and employee training. An important project milestone was reached subsequent to the quarter. The Company successfully converted the data for its active and historic accounts and began "live" use of the replacement LMS.

Management believes that ongoing infrastructure investments and benefits of increasing scale will ultimately result in improving operating efficiency and will be reflected in continued improvement in Operating and Efficiency Ratios as the Company moves forward.

At quarter end, the progress of key projects is as follows:

- Loan management software upgrades (80%)

- Internal analytics scorecard implementation/upgrade (75% complete)
- Electronic document management (paperless file management) (25% complete)

Management is confident that our yearly specific objectives for record Originations, record Finance Receivables and record Revenue will all be achieved. Due to the sharp, midyear increase in Delinquency, management is no longer confident that the annualized write off rate and earnings per share objectives will be achieved.

Management believes that the current elevated Delinquency and Credit Loss Rate is not systemic. However, the expected improvements in the second half of the year will not be sufficient to meet the Company's annualized write off rate objective for the year.

Management believes that earnings per share growth will continue for the balance of the year but not at a level to allow the Company to meet its specific objective in this regard for the year.

The strategy for the Company remains to grow value by expand its profitable loan origination and servicing platform.



## Comparative Results for Period

The Company's business trends can be best observed in the comparative Net Income results. All income and expense items are measured against the average outstanding Finance Receivables in the period.

|   | Three months periods ended |                             |                       |                             | Six months periods ended |                             |                       |                             |
|---|----------------------------|-----------------------------|-----------------------|-----------------------------|--------------------------|-----------------------------|-----------------------|-----------------------------|
|   | September 30,<br>2014      |                             | September 30,<br>2013 |                             | September 30,<br>2014    |                             | September 30,<br>2013 |                             |
|   | Amount                     | % of Finance<br>Receivables | Amount                | % of Finance<br>Receivables | Amount                   | % of Finance<br>Receivables | Amount                | % of Finance<br>Receivables |
| (\$,000's except ratios and per share)                          |                            |                             |                       |                             |                          |                             |                       |                             |
| Average Finance receivables<br>for the period                   | 227,158                    |                             | 167,620               |                             | 217,523                  |                             | 160,120               |                             |
| <b>Financial revenue</b>  |                            |                             |                       |                             |                          |                             |                       |                             |
| Interest Income   | 9,584                      | 16.88%                      | 7,414                 | 17.69%                      | 18,303                   | 16.83%                      | 14,295                | 17.85%                      |
| Administration and other fees                                   | 161                        | 0.28%                       | 125                   | 0.30%                       | 298                      | 0.27%                       | 239                   | 0.30%                       |
|   | 9,745                      | 17.16%                      | 7,539                 | 17.99%                      | 18,601                   | 17.10%                      | 14,533                | 18.15%                      |
| <b>Financial expenses</b>                                       |                            |                             |                       |                             |                          |                             |                       |                             |
| Interest expenses   | 2,580                      | 4.54%                       | 2,193                 | 5.23%                       | 4,962                    | 4.56%                       | 4,269                 | 5.33%                       |
| <b>Net Financial Income before<br/>Provision For Impairment</b> |                            |                             |                       |                             |                          |                             |                       |                             |
|   | <b>7,164</b>               | <b>12.62%</b>               | <b>5,346</b>          | <b>12.76%</b>               | <b>13,639</b>            | <b>12.54%</b>               | <b>10,264</b>         | <b>12.82%</b>               |
| Provision for Impairment and<br>Credit Losses                   | 2,706                      | 4.77%                       | 1,704                 | 4.07%                       | 5,100                    | 4.69%                       | 2,903                 | 3.63%                       |
| Repossession and recovery<br>costs                              | 217                        | 0.38%                       | 114                   | 0.27%                       | 379                      | 0.35%                       | 203                   | 0.25%                       |
|   | 2,923                      | 5.15%                       | 1,818                 | 4.34%                       | 5,479                    | 5.04%                       | 3,106                 | 3.88%                       |
| <b>Net financial income before<br/>operating expenses</b>       |                            |                             |                       |                             |                          |                             |                       |                             |
|   | <b>4,242</b>               | <b>7.47%</b>                | <b>3,527</b>          | <b>8.42%</b>                | <b>8,159</b>             | <b>7.50%</b>                | <b>7,158</b>          | <b>8.94%</b>                |
| <b>Operating expenses</b>                                       |                            |                             |                       |                             |                          |                             |                       |                             |
| Wages and benefits  | 1,315                      | 2.32%                       | 990                   | 2.36%                       | 2,588                    | 2.38%                       | 1,947                 | 2.43%                       |
| Professional fees   | 70                         | 0.12%                       | 94                    | 0.22%                       | 141                      | 0.13%                       | 205                   | 0.26%                       |
| Office and general  | 481                        | 0.85%                       | 410                   | 0.98%                       | 1,016                    | 0.93%                       | 750                   | 0.94%                       |
| Stock based compensation  | 181                        | 0.32%                       | 105                   | 0.25%                       | 324                      | 0.30%                       | 182                   | 0.23%                       |
| Depreciation and<br>ammortization                               | 54                         | 0.09%                       | 16                    | 0.04%                       | 87                       | 0.08%                       | 30                    | 0.03%                       |
|   | 2,101                      | 3.70%                       | 1,615                 | 3.85%                       | 4,156                    | 3.82%                       | 3,114                 | 3.89%                       |
| <b>Income before taxes</b>                                      |                            |                             |                       |                             |                          |                             |                       |                             |
|   | <b>2,141</b>               | <b>3.77%</b>                | <b>1,912</b>          | <b>4.57%</b>                | <b>4,004</b>             | <b>3.68%</b>                | <b>4,044</b>          | <b>5.05%</b>                |
| Income tax (expense) -<br>current/future                        | (566)                      | (1.00%)                     | (505)                 | (1.20%)                     | (1,059)                  | (0.97%)                     | (1,070)               | (1.34%)                     |
| <b>Total comprehensive income</b>                               |                            |                             |                       |                             |                          |                             |                       |                             |
|   | <b>1,575</b>               | <b>2.77%</b>                | <b>1,407</b>          | <b>3.37%</b>                | <b>2,945</b>             | <b>2.71%</b>                | <b>2,974</b>          | <b>3.71%</b>                |
| Net Income per common share                                     |                            |                             |                       |                             |                          |                             |                       |                             |
| Basic   | 0.075                      |                             | 0.067                 |                             | 0.140                    |                             | 0.143                 |                             |
| Diluted   | 0.072                      |                             | 0.065                 |                             | 0.136                    |                             | 0.138                 |                             |

## Financial Revenue

|   | Three months ended    |                       | Six months ended      |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2014 | September 30,<br>2013 | September 30,<br>2014 | September 30,<br>2013 |
| (\$000's except ratios)                       |                       |                       |                       |                       |
| <b><u>Statement of Financial Position</u></b> |                       |                       |                       |                       |
| Finance Receivables at period end             | 237,721               | 173,000               | 237,721               | 173,000               |
| Average Finance Receivables for the period    | 227,158               | 167,620               | 217,523               | 160,120               |
| Debt outstanding at period end <sup>(1)</sup> | 229,586               | 165,845               | 229,586               | 165,845               |
| Average debt for the period                   | 214,958               | 163,878               | 208,391               | 157,325               |
| Amortization of origination costs             | 737                   | 542                   | 1,440                 | 1,013                 |
| <b><u>Statement of Income</u></b>             |                       |                       |                       |                       |
| Interest Income                               | 9,584                 | 7,414                 | 18,303                | 14,295                |
| Administration and other fees                 | 161                   | 125                   | 298                   | 239                   |
| Gross financing income                        | 9,745                 | 7,539                 | 18,601                | 14,533                |
| Interest expense                              | (2,580)               | (2,193)               | (4,962)               | (4,269)               |
| Net financing income                          | 7,165                 | 5,346                 | 13,639                | 10,264                |
| <b><u>Ratios</u></b>                          |                       |                       |                       |                       |
| Gross Portfolio Yield                         | 18.46%                | 19.28%                | 18.43%                | 19.42%                |
| Average Interest Expense                      | 4.80%                 | 5.35%                 | 4.76%                 | 5.43%                 |

<sup>(1)</sup> Debt includes Bank Borrowing, Securitization Debt and Unsecured Debentures.

The Company continues to grow its Finance Receivables. A 37% increase in its Finance Receivables is reported over from the comparable quarter in the prior year. This growth has resulted in financial revenue increasing to \$9.75M from \$7.54M compared to the same quarter in the prior year, a 29% increase.

The Gross Portfolio Yield is the interest and fees earned before expensing the amortization of Origination costs. Gross Portfolio Yields have reduced to 18.46% from 19.28% from the comparable quarter in the prior year. The Net Portfolio Yield has decreased to 17.16% from 17.99%. Rifco's market niche remains competitive and the competition has resulted in market wide interest yield reductions.

All Finance Receivables are comprised of vehicle purchase loans that are generally priced at risk adjusted annual interest rates between 12% and 28%. Rifco currently does not charge fees to the consumer at the time of Origination of the Finance Receivables. The Company does collect certain registration fee expenses from borrowers at the time of Originations. The Company collects NSF fees, as earned, during the servicing of Finance Receivables.

## **Financial Expenses**

Interest Expense includes all interest paid on Bank Borrowings, Securitization Debt, and Unsecured Debentures and all fees paid on Bank Borrowings. Starting in Q4-14 the Company has reclassified its amortized transaction cost on Bank Borrowings into Financial Expenses from Operating Expenses. Comparable period ratios have been recalculated based on the reclassification. The effective interest rate method is being used to calculate the Interest Expense.

The Average Interest Expense is 4.80%, a decrease from 5.35% compared to the same quarter in the prior year. The Company has benefited by funding its loan originations with its larger Bank Borrowing facility and with Securitization facilities at lower effective Interest Expense.

## **Operating expenses**

Operating expenses increased by 30% to \$2.10M from \$1.62M compared to the same quarter in the prior year. The Operating Expense Ratio improved to 3.70% compared to 3.86% in the same quarter in the prior year.

The Company added 22 new full time equivalent employees since the comparable quarter of the prior year. These additions were made in order to accommodate current and future growth. The increased employee count contributed to an increase of 33% in wages and benefits paid.

The office and general expenses increased by 17% which can be attributed to growth in all areas and an increase in the amount of premise square footage leased over the last 12 months.

The Company has a number of infrastructure upgrades that have been underway for some time. These projects have contributed to increased operating expenses during the period.

After year of preparation, the launch of a new loan management software commenced at the beginning of Q3. The incurred project costs to date are approximately \$325K which will be capitalized and amortized commencing in Q3.

Management believes that ongoing infrastructure investments and benefits of increasing scale will ultimately result in improving operating efficiency and will be reflected in continued improvement in Operating and Efficiency Ratios as the Company moves forward.

The following are the current areas of focus that are at various stages of completion:

- Loan management software upgrades (80%)
- Internal analytics scorecard implementation/upgrade (80% complete)
- Electronic document management (paperless file management) (25% complete)

In the quarter, an increase in non-cash expenses is noted (stock based compensation and depreciation and amortization) of 94% to \$235K from \$121K in the comparable quarter.

## Summary of Quarterly Results

| For the periods ended                                      | 2015    |         | 2014    |         |         |         | 2013    |         |         |
|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|
|  | Q2      | Q1      | Q4      | Q3      | Q2      | Q1      | Q4      | Q3      | Q2      |
| <b>(\$,000's except per share &amp; ratios)</b>            |         |         |         |         |         |         |         |         |         |
| Finance Receivables  | 237,721 | 219,405 | 199,615 | 179,093 | 173,000 | 162,342 | 147,533 | 137,644 | 129,092 |
| Total Assets   | 251,148 | 232,929 | 211,224 | 189,859 | 184,346 | 173,528 | 159,912 | 148,101 | 137,333 |
| Total Liabilities  | 229,586 | 213,329 | 193,137 | 173,706 | 169,959 | 160,849 | 148,938 | 138,986 | 129,497 |
| Shareholders' Equity                                       | 21,562  | 19,600  | 18,087  | 16,153  | 14,387  | 12,679  | 10,974  | 9,115   | 7,836   |
| Book Value per Share Outstanding                           | \$ 1.02 | \$ 0.93 | \$ 0.86 | \$ 0.77 | \$ 0.69 | \$ 0.61 | \$ 0.53 | \$ 0.45 | \$ 0.39 |
| Stock Price  | 5.92    | \$ 6.11 | \$ 5.05 | \$ 6.90 | \$ 5.43 | \$ 4.60 | \$ 4.29 | \$ 3.24 | \$ 2.10 |
| <b>For the Period:</b>                                     |         |         |         |         |         |         |         |         |         |
| Finance Receivables Originated                             | 42,643  | 42,862  | 40,025  | 25,277  | 29,224  | 31,694  | 23,927  | 23,180  | 23,102  |
| Total Revenues   | 9,745   | 8,856   | 8,033   | 7,694   | 7,539   | 6,994   | 6,363   | 6,417   | 5,967   |
| Net Income before taxes                                    | 2,141   | 1,863   | 2,322   | 2,313   | 1,912   | 2,132   | 2,015   | 1,659   | 1,381   |
| Net Income   | 1,575   | 1,370   | 1,732   | 1,672   | 1,407   | 1,567   | 1,538   | 1,229   | 988     |
| <b>Income per Common Share:</b>                            |         |         |         |         |         |         |         |         |         |
| Basic  | 0.075   | 0.065   | 0.083   | 0.080   | 0.067   | 0.075   | 0.074   | 0.061   | 0.049   |
| Diluted  | 0.072   | 0.063   | 0.080   | 0.077   | 0.065   | 0.073   | 0.071   | 0.058   | 0.047   |
| <b>Ratios:</b>   |         |         |         |         |         |         |         |         |         |
| Return on Equity <sup>(1)</sup>                            | 30.61%  | 29.08%  | 40.47%  | 43.80%  | 41.59%  | 52.98%  | 61.25%  | 58.00%  | 54.52%  |
| Return on Earning Assets <sup>(1)</sup>                    | 2.77%   | 2.64%   | 3.71%   | 3.82%   | 3.35%   | 4.10%   | 4.36%   | 3.70%   | 3.22%   |
| Leverage Ratio   | 11.65   | 11.88   | 11.68   | 11.75   | 12.81   | 13.69   | 14.57   | 16.25   | 17.53   |
| Financial Leverage Ratio                                   | 10.15   | 10.39   | 10.25   | 10.35   | 11.27   | 12.19   | 12.98   | 14.73   | 16.21   |
| Average Interest Expense <sup>(1)</sup>                    | 4.80%   | 4.72%   | 5.11%   | 5.14%   | 5.28%   | 5.51%   | 5.87%   | 6.24%   | 6.64%   |
| Efficiency Ratio <sup>(1)</sup>                            | 21.56%  | 23.20%  | 22.60%  | 22.30%  | 21.41%  | 21.43%  | 20.98%  | 22.82%  | 22.79%  |
| Operating Expense Ratio <sup>(1)</sup>                     | 3.70%   | 3.95%   | 3.89%   | 3.92%   | 3.86%   | 3.92%   | 3.78%   | 4.41%   | 4.44%   |
| Delinquency over 30 days                                   | 4.06%   | 3.98%   | 3.10%   | 3.63%   | 4.00%   | 3.06%   | 3.01%   | 3.27%   | 3.07%   |
| Average (12 month rolling) Credit Loss Rate <sup>(1)</sup> | 3.56%   | 3.30%   | 3.28%   | 3.17%   | 3.02%   | 2.92%   | 2.72%   | 2.58%   | 2.49%   |

<sup>(1)</sup> Percentages have been annualized

## Asset Review

### *Finance Receivables*

Total assets increased by \$18.22M, or 8%, from \$232.93M at June 30, 2014 to \$251.15M at quarter end. Finance Receivables of \$237.72M have increased by 9% from \$219.41M at June 30, 2014.

The Company originates Finance Receivables from applications submitted by approved dealers. All Finance Receivables are installment loan obligations with a fixed interest rate and term. All Finance Receivables are secured by motor vehicle collateral and are registered with the applicable provincial personal property registry.

|   | For the periods ended |         |                |         |
|---|-----------------------|---------|----------------|---------|
|   | September 30, 2014    |         | March 31, 2014 |         |
| (\$,000's except ratios)  |                       |         |                |         |
| Finance Receivables - Securitized   | 111,822               | 47.04%  | 84,909         | 42.54%  |
| Finance Receivables - Securitized (Over Collateralization) <sup>(1)</sup> | 18,914                | 7.96%   | 12,254         | 6.14%   |
| Finance Receivables - Owned   | 106,984               | 45.00%  | 102,452        | 51.32%  |
| Total   | 237,720               | 100.00% | 199,615        | 100.00% |

<sup>(1)</sup> In some cases, additional Finance Receivable collateral is provided as Over Collateralization security to Securitizers.

At period end, the Company had 12,726 loans of which 69% were in Western Canada and 31% in Eastern Canada. The Company continues to actively enroll selected new and used vehicle dealers and intends to increase its market share. The Company operates in all provinces except Quebec.

### *Cash Holdback and Over Collateralization in Finance Receivables Securitized*

Securitization agreements call for a combination of Cash Holdback and Over Collateralization from the purchase price of Finance Receivables sold to Securitizers. The amount of Cash Holdback is determined at the time of sale based on, average loan terms, credit grades, and Finance Receivable Over Collateralization. In some cases, a Cash Holdback and Finance Receivable Over Collateralization are used. Utilizing an Over Collateralization component allows for a lower level of the Cash Holdback. This effectively reduces the Company's interest cost on each Tranche sale.

While the Cash Holdback is not presented explicitly on the statement of financial position, it still exists. At period end, the total Cash Holdback was \$11.41M compared to \$15.53M in the same quarter of the prior year. During the period, the Company received Cash Holdback releases of \$2.16M compared to \$2.67M in the comparable quarter of the prior year. The Cash Holdback releases have decreased due to lower Cash Holdback levels on Tranche sales and larger Over Collateralization. Funds in the Cash Holdback are restricted cash as they are subject to a number of predetermined formulas and financial covenants. Cash releases increase the Company's working capital position.

The Cash Holdback and Over Collateralization is the maximum exposure for the Company to Credit Losses on Securitized Finance Receivables.

The following table shows the effect that the total Cash Holdback has on the Securitized Debt.

|                           | <b>For the periods ended</b> |                       |
|---------------------------|------------------------------|-----------------------|
|                           | <b>September 30, 2014</b>    | <b>March 31, 2014</b> |
| <b>(\$,000's)</b>         |                              |                       |
| Total Securitization Debt | 145,236                      | 110,054               |
| Total Cash Holdback       | (11,411)                     | (13,218)              |
| Securitized Debt          | 133,825                      | 96,836                |

### ***Origination costs***

When the Company originates a Finance Receivable, certain expenses are incurred which include commission paid to dealers, security registration, credit bureaus, internet portal and vehicle market data charges. The largest of these expenses is the commission payments paid to dealers for referring loans to the Company. The Origination expenses are amortized over the life of the Finance Receivable and are netted against interest income in order to coincide with the timing of revenue recognition.

### ***Deferred income tax asset***

The Securitization of the Finance Receivables does not meet IFRS de-recognition criteria. As such, no gain on sale is recognized under IFRS. However, the Securitization transaction still gives rise to a taxable gain on sale event. The temporary timing difference between IFRS income and taxable income is recognized as an increase in the Company's deferred income tax asset.

### ***Provision for Impairment and Credit Losses***

Rifco is a finance company focused in the non-prime credit niche. Accordingly, Credit Losses are budgeted as a significant expense. Management believes it has originated a portfolio of Finance Receivables that will generate interest income sufficient to compensate underwriting risk and to maintain a positive profit margin. Credit Losses are a trailing indicator of credit quality. The impact of credit underwriting policy may not be fully observed for up to 24 subsequent months.

Rifco uses the 'as incurred' method to determine Impairment of its Finance Receivables.

From time-to-time, Finance Receivables, within Rifco's portfolio, are observed to have decreased in value due to a reduced likelihood of repayment as scheduled. When an event, or a group of events, impacts the scheduled cash flows, such Finance Receivables are deemed to be Impaired. There is no reported Impairment as a result of future looking events. This decrease in value for Impaired Finance Receivables is reported as Provision for Impairment.

The resulting Provision for Impairment decreases the reported value of the impaired loans to equal a reduced present value of the estimated future cash flows. Identification of Finance Receivable Impairment is made on both a collective and specific basis.

Adjustments to the Provision for Impairment are based on observed changes in the Imminent Default Rate and on observed changes in the Default Severity Rate. It is noteworthy that during various stages of the economic cycle, the Company has observed that the Imminent Default Rate has shown significant volatility while the Default Severity Rate has been more consistent.

## Specific Provisioning for Impairment

Rifco's Finance Receivables each carry monthly payment obligations. As a result, the Company receives new information on virtually every Finance Receivable, every month. The ongoing financial capacity and ongoing willingness of the Company's borrowers is communicated, and is best assessed, by their recent payment record of fulfilling their payment obligations. From time-to-time, an individual Finance Receivable, within the Company's portfolio, falls behind on their payment obligation. In these cases, the Company believes that the likelihood of the Finance Receivable being repaid, as scheduled, has decreased. Accordingly, the value of the Finance Receivable has become Impaired.

The Company employs a detailed model in order to determine the Specific Provision for Impairment. In this model, Finance Receivables are allocated into categories based on their days of payments in arrears. For each level of payment days in arrears, estimates of the expected Default Rate and the expected Default Severity Rate are applied.

The following estimates are based on Management's experience using historical results and current trends:

|                                   | Category of Impaired Loans |                          |                            |
|-----------------------------------|----------------------------|--------------------------|----------------------------|
|                                   | 11-30 days<br>in arrears   | 31-60 days<br>in arrears | Over 60 days<br>in arrears |
| Estimate of Imminent Default Rate | 8%                         | 25%                      | 76%                        |
| Estimate of Default Severity Rate | 65%                        | 65%                      | 65%                        |
| Provision for impairment          | 5%                         | 16%                      | 50%                        |

The estimate of Imminent Default Rate is defined as: The probability that a Finance Receivable may default within the subsequent 90 days of the reporting date.

The 11-30 day arrears category of Impaired Finance Receivables contains a large portion of Finance Receivables for which the Company is receiving regular and periodic payments. In some cases, Finance Receivables in this category have had a customer initiated payment due date change of less than 30 days.

The 31-60 day arrears category of Impaired Finance Receivables represents Delinquency, but does contain some Finance Receivables that are actively being paid. Where possible, the Company is seeking additional payments in order to bring the account up to date.

The over 60 day arrears category of Impaired Finance Receivables represents serious Delinquency. Rifco will seek to seize its vehicle security in a large number of these cases.

The most severely Impaired loans are systematically derecognized as assets under the Company's Credit Losses policy. These derecognized Finance Receivables are no longer reported in the various categories of days in arrears, Delinquent, or Impaired loans. Credit Losses are fully expensed.

## Collective Provisioning for Impairment

The credit performance of Rifco's Finance Receivables is affected by the external (macroeconomic) environment within which they exist. The Company believes that, from time-to-time, there are observable changes to this environment that can meaningfully change the likelihood of scheduled repayment for its overall Finance Receivable portfolio or for a sub-set of its Finance Receivable portfolio. In these cases, some or all of the Company's Finance Receivables may have, to a degree, become collectively Impaired.

In determining the Collective Provision for Impairment, the Company seeks to measure changes to the business and economic environment by observing key variables that may affect the repayment of the Company's Finance Receivables. Those variables observed are unemployment rate, inflation, vehicle auction values, consumer borrowing interest rates, and gasoline prices. The Company observes recent changes to these variables.

While the Company believes that the level of Collective Provisioning for Impairment correctly reflects the Impairment of the portfolio due to business and economic factors, the future credit performance of the portfolio may vary significantly from the implied net portfolio value.

A lower Provision for Impairment Rate reflects a decrease in the ratio of Finance Receivables that have a reduced likelihood of scheduled cash flows. A higher Provision for Impairment Rate reflects an increase in the ratio of Finance Receivables that have a reduced likelihood of scheduled cash flows.

The Cash Holdback and Over Collateralization is the maximum exposure for the Company to Credit Losses on Securitized Finance Receivables. The agreements provide for performance based releases of funds, out of the Cash Holdback, over time.

|   | Three months ended |               | Six months ended |               |
|---|--------------------|---------------|------------------|---------------|
|   | September 30,      | September 30, | September 30,    | September 30, |
|   | 2014               | 2013          | 2014             | 2013          |
|   | \$                 | \$            | \$               | \$            |
| (\$, 000's)   |                    |               |                  |               |
| (Credit Losses net of recoveries for the period)          | (2,180)            | (1,252)       | (3,684)          | (2,333)       |
| (Repossession and recovery costs for the period)          | (217)              | (113)         | (380)            | (204)         |
| Provision for Impairment and Credit Losses for the period | 2,922              | 1,819         | 5,479            | 3,106         |
| Increase in Provision for Impairment and Credit Losses    | 525                | 454           | 1,415            | 569           |

|  | For the periods ended |              |
|--|-----------------------|--------------|
|  | Six month             | Twelve month |
|  | September 30,         | March 31,    |
|  | 2014                  | 2014         |
|  | \$                    | \$           |
| (\$, 000's)  |                       |              |
| Provision for Impairment from prior period/year                    | 2,874                 | 2,277        |
| Change in Provision for Impairment period/year                     | 1,415                 | 597          |
| Provision for Impairment and Credit Losses for current period/year | 4,289                 | 2,874        |

### Credit Loss Policy

In addition to Specific Provisioning for Impairment, the Company maintains a corresponding Credit Loss policy for its most severely Delinquent Finance Receivables. Specifically, and on a monthly basis, Finance Receivables are allocated as Credit Losses when they either exceed 120 days in arrears where the Company has gained possession of the vehicle collateral or exceed 90 days in arrears. Credit Loss balances are continually pursued



either through Rifco's employed collectors or through third party collection agency services. Recoveries are applied in accordance with IFRS.

While the Company believes that the level of Specific Provisioning for Impairment correctly reflects the observed Impairment of specific Finance Receivables within the portfolio, the future credit performance of these Finance Receivables may vary significantly from the implied net Finance Receivable value.

### **Credit Performance Trends**

The loan Delinquency Rate increased to 4.06% compared to 4.00% from the same quarter in the prior year and increased from 3.98% in the preceding quarter.

The Provision for Impairment and Credit Losses in the period is \$2.92M, an increase from \$1.82M in the comparable quarter and an increase of \$0.36M from the prior quarter. The increased Credit Loss Rate had a negative effect on Net Income in the period due to an increase in Provisioning for Impairment and Credit Losses.

The reported Delinquency Rate is higher than internally forecasted.

As was stated in the prior quarterly report, the Delinquency Rates in Q1 were negatively impacted by high staff turnover in the account maintenance and customer service department. Subsequent to the end of Q1, the department staffing returned to the required levels and remains fully staffed, however the average tenure in the department is shorter than normal. The department is receiving a high level of oversight and strong training processes are in place.

Historically, management has been able to improve the Delinquency Rate through increased oversight and adequate staffing. Management anticipates the Delinquency Rate will improve in ensuing quarters and will positively impact Net Income through reduced Provisioning for Impairment and Credit Losses.

The elevated Delinquency levels in the prior quarter have resulted in an elevated Credit Loss Rate in this quarter. The Credit Loss Rate is currently higher than management has internally forecast.

The Average (12 month rolling) Credit Loss Rate increased to 3.56% from 3.02% in the comparable quarter and has increased from the prior quarter rate of 3.30%. The Annualized Credit Loss Rate for the quarter is 4.13% and 3.65% for six months year to date. These Credit Loss Rates are both above the Company's annual target of 3.55%.

Management has conducted detailed reviews of credit underwriting processes and remains confident that the integrity of Rifco's credit granting policies are being maintained for all credit tiers offered. Management is confident that it has taken the steps needed to correct performance of the account maintenance and customer service department. Management believes that it may see Credit Loss Rates above internally forecasted level in Q3 followed by improvement in Q4.

Credit Losses, including costs and net of recoveries, are \$2.40M, an increase from \$1.37M from the comparable quarter in the prior year.

### ***Loan Extensions***

Loan extensions are typical in both prime and non-prime consumer lending. Many major lending institutions utilize loan extensions in a variety of ways. In order to enhance customer service, improve customer relationships and retention, improve overall collection results, and increase interest income, it is sometimes desirable to alter a repayment schedule (amortization) part way through an installment agreement.

A loan extension is accomplished by taking a previous or future prescribed payment and adding it to the end of the loan. An extension is a customer earned privilege and the decision to grant an extension always rests with the Company. The Company maintains a principle based policy to govern the granting of extensions. Detailed internal controls monitor adherence to the policy. The amount of loans by dollars receiving extensions granted in each quarter is represented as a percentage of the quarterly average Finance Receivables.

| Loans receiving extensions | For the periods ended |       |       |
|----------------------------|-----------------------|-------|-------|
|                            | 2015                  | 2014  | 2013  |
| Q1                         | 2.02%                 | 2.44% | 0.95% |
| Q2                         | 5.36%                 | 1.76% | 1.73% |
| Q3                         |                       | 3.52% | 1.85% |
| Q4                         |                       | 2.62% | 3.11% |

Extensions are a strong collection tool that improve credit performance and reduce loss severity.

A higher level of loan extensions was used in the quarter. In some cases the first contact to an arrears borrower was delayed and in these cases an extension was often an excellent tool to correct the situation.

Customers requesting extensions must make a minimum payment toward their account as a sign of good faith. The majority of extensions are granted to accounts that are not significantly in arrears.

### **Liability, Liquidity and Capital Resources Review**

The Company maintains a Bank Borrowing (Secured Revolving) facility with a \$100M limit. The Company is currently funding its loan Originations through this facility. The Bank Borrowing balance was \$78.44M at period end. The facility is subject to certain financial and operating covenants and the Company was compliant for the entire period. The facility has a November 2015 renewal date.

Rifco's treasury strategy includes borrowing using Unsecured Debentures. The Average Interest Expense for outstanding debentures is 8.24%, a decrease from 8.38% in the same quarter of prior year. The debentures are non-retractable with maturity dates that vary between October 2014 and March 2018. Unsecured Debentures are subordinated in favor of the Bank Borrowing facility. The Company is complying with certain quarterly financial covenants which have been maintained at all times during the period.

Unsecured Debentures allow Rifco the right to repay the debenture in the last year of the agreement without penalty. The Unsecured Debenture holders do not have early retraction rights and have no right to convert into common shares.

All Unsecured Debentures issued after May 31, 2013, allow Rifco certain rights to repay the debentures upon a change of control of the Company.

The Company maintains an annual \$80M Securitization Facility with Securcor Trust. The facility is subject to Delinquency, Credit Loss, interest coverage, and Cash Holdback requirements. Non-compliance in any of these areas could restrict the Company from selling Finance Receivables into the trust or receiving future releases from the Cash Holdback. The facility was utilized to \$35.49M at quarter end. The expiry date for the facility is April 30, 2015. The facility receives new funds annually and previous Finance Receivables Securitized does not affect the utilization.

The Company maintains a \$50M Securitization Facility with Mountain View Credit Union (MVCU). The Securitization Facility includes three additional Alberta credit unions, with MVCU acting as the syndication lead. The facility has a fixed limit of \$50M and was utilized to \$30.18M at period end.

On January 22, 2014, the Company announced that it had not renewed its Bank West Securitization facility. As per the master agreement signed on August 31, 2009, Rifco will continue to administer the remaining auto loan portfolio. As at September 30, 2014 the net balance owing was \$7.68M. The portfolio balance will naturally reduce as borrower payments are made over the coming periods.

The Company maintains a Securitization Facility for \$20M with Aviator Trust. The facility is subject to Delinquency, Credit Loss, interest coverage, and Cash Holdback requirements. Non-compliance in any of these areas could restrict the Company from selling Finance Receivables into the trust or receiving future releases from the Cash Holdback. The facility is subject to annual renewals with the next renewal date set for October 31, 2014.

Subsequent to the end of the quarter, the Company received a new securitization facility from Aviator Trust for \$30M. This replaces a previously authorized \$20M facility which had been 100% utilized. Previously securitized loans are not included in the utilization calculation for the new facility.

Securitization pricing carries a fixed rate for each of the historical loan Tranches. Historical discount rates have ranged from 4.07% to 8.68%. Due to varying levels of Cash Holdbacks and Over Collateralization for each Securitization Facility, the effective Interest Expense to the Company is higher than the stated discount rates.

The Company Originated \$42.64M in Finance Receivables during the quarter and Securitized \$36.33M in loan principal representing 87% of Originations. Securitization provides the Company with improved liquidity. In the comparable period, the Company Originated \$29.22M and securitized \$5.11M for 17% of Originations.

The Company's objective is to maintain sufficient liquidity, at an acceptable Average Interest Expense, in order to grow Originations at a rate consistent with its financial objectives and strategic plan. The current level of working capital is considered adequate in context of current operations, available credit facilities and the strategic plan of the Company.

If required, the Company's liquidity can be positively impacted by securitizing Owned Finance Receivables. Owned Finance Receivables have grown to \$106.99M, a \$4.54M increase from \$102.45M at March 31, 2014. Securitization of Finance Receivables would typically contribute net cash proceeds at the time of the transaction.

## Debt to Equity Ratio

|   | For the periods ended |                |                    |
|---|-----------------------|----------------|--------------------|
|   | September 30, 2014    | March 31, 2014 | September 30, 2013 |
| (\$,000's except ratios)                        |                       |                |                    |
| Net Bank Borrowing                              | 75,462                | 80,649         | 58,943             |
| Unsecured debentures                            | 9,615                 | 7,995          | 8,500              |
| <b>Total debt excluding Securitization Debt</b> | <b>85,077</b>         | <b>88,644</b>  | <b>67,443</b>      |
| <b>Equity</b>                                   |                       |                |                    |
| Share capital                                   | 7,133                 | 6,843          | 6,674              |
| Contributed surplus                             | 2,292                 | 2,052          | 1,926              |
| Retained Earnings                               | 12,137                | 9,192          | 5,787              |
| <b>Total equity</b>                             | <b>21,562</b>         | <b>18,087</b>  | <b>14,387</b>      |
| Total debt to equity <sup>(1)</sup>             | 3.94:1                | 4.90:1         | 4.69:1             |

<sup>(1)</sup> Total debt, excluding securitization debt divided by total equity.

## Financial Leverage Ratio

|                          | For the periods ended |                |
|--------------------------|-----------------------|----------------|
|                          | September 30, 2014    | March 31, 2014 |
| (\$,000's except ratios) |                       |                |
| Net Bank Borrowing       | 75,462                | 80,649         |
| Securitization Debt      | 133,825               | 96,836         |
| Unsecured Debentures     | 9,615                 | 7,995          |
| <b>Total debt</b>        | <b>218,902</b>        | <b>185,480</b> |
| Equity                   | 21,562                | 18,087         |
| Financial Leverage Ratio | 10.15                 | 10.25          |

## Leverage Ratio

|                          | For the periods ended |                |
|--------------------------|-----------------------|----------------|
|                          | September 30, 2014    | March 31, 2014 |
| (\$,000's except ratios) |                       |                |
| Total Assets             | 251,148               | 211,224        |
| Equity                   | 21,562                | 18,087         |
| Leverage Ratio           | 11.65                 | 11.68          |

Credit markets in Canada are currently stable. The Company is in regular contact with all of its funders and remains optimistic regarding the availability of increasing amounts of Bank Borrowing and Securitized Facilities through the current fiscal period and beyond. The Company manages Origination rates, Credit Facilities, and net financial income in order to maximize liquidity and maintain acceptable profitability. The Interest Expense rates and credit facility limits currently being received are expected to allow for profitable growth.

## Lending Covenants

Under the Bank Borrowing and loan Securitization, the Company has lending covenants. The lending covenants are computed monthly, based on internally generated financial information. As at period end, the Company was in compliance with all Bank Borrowing and Securitization Facilities covenants.

## Contractual Obligations

The following table sets forth short and long-term obligations as at period end and the timing of future payments under those obligations. The obligations include the operating leases for premises, Unsecured Debentures, Securitized Debt and software hosting agreements.

The purchase obligations consist of premises lease commitments, consulting fees and software hosting agreements. Penalties would be incurred if early termination was required.

|   | Payments due by period |               |               |                  | Total          |
|---|------------------------|---------------|---------------|------------------|----------------|
|   | Less than<br>1 year    | 1 to 3 years  | 4 to 5 years  | After 5<br>years |                |
| (\$, 000's)                                       |                        |               |               |                  |                |
| Securitization Debt - Undiscounted <sup>(1)</sup> | 36,695                 | 64,736        | 40,417        | 7,816            | 149,664        |
| Unsecured debentures <sup>(2)</sup>               | 1,713                  | 9,164         | 284           | -                | 11,161         |
| Purchase Obligations <sup>(3)</sup>               | 1,275                  | 787           | -             | -                | 2,062          |
| <b>Total contractual obligations</b>              | <b>39,683</b>          | <b>74,687</b> | <b>40,701</b> | <b>7,816</b>     | <b>162,887</b> |

(1) Securitization Debt - Undiscounted includes gross payments of principal and interest less cash holdback.

(2) Unsecured debentures include principal and the future interest.

(3) Purchase obligations means an agreement to purchase goods or services that is enforceable and legally binding on the Company. All of the Company's obligations are in the area of premises lease and software hosting.

### Management and Board of Directors Compensation

The Company has four executive officers that receive regular employment income (including bonuses). The total amount paid to the four executive officers for the six month period was \$0.55M which is an increase from \$0.49M from comparable period. Executive officers also receive certain approved itemized expense reimbursement.

The Company has three independent directors and each independent director receives an annual retainer of \$20,000 and an additional \$5,000 for Chairman of the Board and \$3,000 for Committee Chairman positions held. Independent directors received meeting fees of \$750 per day and reimbursement of normal itemized travel expenses. The fees paid to independent directors for the six month period ended was \$44,500 in addition to normal itemized expense reimbursement, an increase from \$35,500 in the comparable period.

The CEO and CFO are also directors but do not receive any additional compensation for services rendered in such capacity.

### Related Party Balances and Transactions – Unsecured Debentures

During the period, related parties were holders of Unsecured Debentures in the Company. The terms offered to related parties for the Unsecured Debentures are identical to those offered to non-related debenture holders.

At period end, the total held by related parties is \$2.36M. The related parties are comprised of relatives of certain officers and employees of the Company who currently hold \$1.10M in debentures with varying terms. In addition, \$1.26M in debentures with varying terms is held by relatives and Companies related to a non-management insider.

Interest payments of \$0.9M (September 30, 2013 - \$0.11M) were paid in the period to debenture holders that are related parties. These transactions are in the normal course of business and the consideration established and agreed to by the related parties at arm's length. None of the related party transactions are with officers or directors.

### Equity

Equity increased to \$21.56M compared to \$18.09M at the period ended March 31, 2014. The book value per share increased to \$1.02 per share from \$0.69 when compared to the same quarter in the prior year.

|                           | For the periods ended |                   |                       |
|---------------------------|-----------------------|-------------------|-----------------------|
|                           | September 30,<br>2014 | March 31,<br>2014 | September 30,<br>2013 |
| (\$,000 except per share) |                       |                   |                       |
| Equity                    | 21,562                | 18,087            | 14,387                |
| Shares Outstanding        | 21,167                | 21,027            | 20,951                |
| Book Value per share      | \$ 1.02               | \$ 0.86           | \$ 0.69               |

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. There are 21,167,483 common shares issued and outstanding as at September 30, 2014. The Company has no warrants outstanding. The Company has 1,530,334 options outstanding as at September 30, 2014 with a weighted average exercise price of \$3.47 and expiry dates no later than June 18, 2019. Of the outstanding options, 758,334 are fully vested. These options are exercisable into common shares on a one for one basis.

## Risks Factors and Management

In addition to the other information contained in the Management's Discussion and Analysis, shareholders and prospective investors should give careful consideration to the following factors.

### *General*

There are trends and factors that may be beyond management's control which affect the Company's operations and business. Such trends and factors include adverse changes in the conditions in the specific markets for Rifco products and services, the conditions in the broader market for vehicle and consumer financing and the conditions in the domestic or global economy generally. Although the Company's performance is affected by the general condition of the economy, not all of its service areas are affected equally. It is not possible for management to accurately predict economic fluctuations and the impact of such fluctuations on the Company's performance.

### *Consumer protection laws and government regulations risk*

Numerous consumer protection laws and related regulations impose substantial requirements upon lenders involved in consumer finance. Also, federal and provincial laws impose restrictions on consumer transactions and require contract disclosures relating to the cost of borrowing and other matters. These requirements impose specific statutory liabilities upon creditors who fail to comply with their provisions. Courts have applied general equitable principles to secured parties pursuing repossession or litigation involving deficiency balances. These equitable principles may have the effect of relieving an obligor from some or all of the legal consequences of default.

Rifco currently operates in an unregulated environment with regards to capital requirements. However, the Criminal Code of Canada imposes a restriction on the cost of borrowing in any lending transaction of 60%. The application of capital requirements or a reduction in the maximum cost of borrowing could impact the Company's ability to operate profitably.

### *Lending risk*

Rifco's Finance Receivables consist primarily of non-traditional loans to borrowers who may have had previous financial difficulties or may not yet have a sufficient credit history. These are borrowers that cannot meet the credit standards required by traditional lenders. There is a higher degree of risk associated with these borrowers. For this reason Rifco charges higher interest rates and expects to experience higher levels of Delinquencies and

Credit Losses than traditional lenders. Rifco cannot guarantee that Delinquency and Credit Loss levels will correspond with historical levels experienced. There is risk that Delinquency Rates and Credit Loss Rates could increase significantly.

Rifco maintains a uniform set of credit standards and a Credit Model to support the credit approval process. Rifco utilizes risk-based pricing through its pricing matrix system to accurately reflect increasing levels of risk. Many applications are approved with a significant number of conditions and many contracts are not funded due to the borrower's inability to comply with approval conditions.

Rifco maintains a proactive position on collection of its Finance Receivables. The Company's systems collect payments electronically which provides for quick notification of Delinquencies. Delinquent borrowers are normally contacted on the same day the Company learns that a payment has not cleared their account. Rifco reports to both credit reporting agencies in order to provide customers with additional motivation to make timely payments.

For each Finance Receivable granted, Rifco obtains a registered charge against the collateral through the Personal Property Security Acts (PPSA) in the applicable province. Any failure to obtain such a registration as contemplated in the PPSA may result in our not perfecting a lien/security interest position in the related financed vehicle and may jeopardize the Company's ability to realize on the collateral.

In addition to the payment performance of the obligor, certain factors may affect the ability to recoup the full amount due on a Finance Receivable include:

- Depreciation, damage or loss of any financed vehicle
- Insufficient or no insurance coverage being maintained
- Fraud or forgery by the persons financing their vehicle
- Fraud by the dealer offering Rifco financing
- Priority liens on financed vehicles
- The application of federal and provincial bankruptcy and insolvency laws,
- Federal or provincial laws may prohibit, limit, or delay repossession and sale of the vehicles to recover losses on defaulted Finance Receivables, as well as limit Rifco's right to sue for any deficiency.

### ***Liquidity risk***

In addition to working capital, Rifco utilizes Bank Borrowing and Securitization as sources of capital for financing contract originations. Certain debt providers have a general assignment over Company assets and require that Rifco maintain certain financial covenants. Failure to maintain these financial covenants could result in the cancellation of the debt facilities.

### ***Competition risk***

Vehicle purchase financing is a highly competitive market place. The companies that compete in this market place on a national level often have significantly more financial, technical and human resources than Rifco. They may have solid reputations with dealers, debt providers, and greater market experience. Competitors are often considerably larger and may be funded at a lower cost than Rifco can currently obtain.

### ***Personnel risk***

Certain Rifco employees are important to its continued success. Senior executive management is not governed by management contracts. Key man insurance is in place for the CEO and CFO. If any of these persons would be

unable or unwilling to continue in their employment with the Company there could be a material adverse effect on our Delinquency, Default, Credit Loss Rates, Originations, and financial results.

### ***Technology risk***

Rifco is dependent upon the successful and uninterrupted functioning of its computer, internet, and data processing systems. The failure of these systems could interrupt operations or materially impact management's ability to originate and service customer accounts. If sustained or repeated, a system failure could negatively affect financial results.

Although Rifco has an extensive disaster recovery plan, which includes:

- Routinely backing up key software applications
- Databases and hardware are subject to strict security controls
- Off-site data backup storage with remote facility set up capabilities

Unforeseen information loss to the Company could occur.

### ***Economic conditions risk***

Rifco is subject to changes in general economic conditions that are beyond its control. During times of economic slowdown or recession Rifco would generally expect to see higher Delinquencies, Defaults, repossessions, and Credit Losses which could result in the following:

- Decreased consumer demand
- Reduced returns on repossessed vehicles
- Delayed timing on repossession sales
- Increase in collection staff to handle higher Delinquency
- Increased operating expenses with potentially no revenue increase
- Sustained poor economic conditions could affect the liquidity of the Company

### ***Interest rate risk***

Although, Rifco's interest rate risk has declined due to its financing strategy of matched funding through Securitizations with fixed rates and locked in terms for Unsecured Debentures, Rifco does maintain its Bank Borrowing with variable rates.

An increase in interest rates would have an effect on Net Financing Margin through the pricing of Securitizations at the time of sale. Generally an increased rate environment would negatively affect Rifco's business as market conditions may limit the Company's ability to increase rates charged. Marginal interest rates could rise to the point where the Company's business model could be stressed.

### ***Dealer risk***

Each dealer is required to sign an agreement outlining the terms of conduct required to enable them to process applications to Rifco. There is no recourse against a dealer for non-performance by the obligor. Rifco maintains a dealer network in all provinces except Quebec. Management monitors portfolio originations, Delinquencies and Credit Losses by dealer on a regular basis. Ongoing negative trends or an indication of misrepresentation by a dealer will result in the relationship being terminated. There is no guarantee that the dealer network will continue to generate referrals at the current rate.

### ***Environmental risk***

Rifco and its activities have no direct impact on the environment.



## **Description of Non-IFRS Measures**

Throughout this MD&A, management uses the following terms and ratios not found in IFRS and which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other issuers, and therefore require definition. These non-IFRS measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS.

**Annualized Credit Loss Rate** – The total of all Credit Losses, including all repossession and recovery expenses for the period divided into the sum of the period's monthly closing Finance Receivables expressed as an annualized percentage.

**Average Interest Expense** – Interest Expense divided by average debt in the period and reported as an annualized percentage.

**Average (12 month rolling) Credit Loss Rate** – The total of all Credit Losses, including all repossession and recovery expenses, for the prior 12 months, divided into the sum of the prior 12 month's closing Finance Receivables expressed as a percentage.

**Bank Borrowing** – Amounts borrowed through the Secured Revolving Credit Facility.

**Book Value per Share** – Total equity divided by the total number of issued and outstanding common shares at the close of the period.

**Cash Holdback** - An amount of cash, subtracted from the purchase price of a Securitization transaction, and held in trust for Rifco. While this cash is Rifco's, its release from the trust is restricted, based on certain credit performance criteria and predetermined ratios. This restricted cash serves to decrease the risk of loss to the Securitizer. Similar to Over Collateralization.

**Cash Holdback Release** – A cash payment from the Securitizer to Rifco based on predetermined credit performance and Cash Holdback ratio requirements. Monthly cash payments to Rifco are prescribed as performance measures are met.

**Collective Provisioning for Impairment** – An amount assigned to reflect observed decreased value of otherwise specifically unimpaired Finance Receivables. The Company believes that, from time-to-time, there are observable changes to the external economic environment that can meaningfully change the likelihood of scheduled repayment for its Finance Receivables portfolio or for a sub-set of its portfolio.

**Credit Loss** – The financial impact of a defaulted loan. Credit Losses are Finance Receivable amounts that are no longer reported as Rifco assets plus collection cost expenses. Credit Losses are the product of Default Rate and Default Severity Rate. Rifco records Credit Losses at the end of each calendar month.

**Credit Model** – The policies and processes that are followed strictly to adjudicate all credit applications that have resulted in predictable Credit Loss results through a full economic cycle.

**Default** - A Finance Receivable that is at least 120 days in arrears at the end of a calendar month or a Finance Receivable that is at least 90 days in arrears and the Company has not seized its security is determined to be a Defaulted Finance Receivable.

**Default Rate** – The Default Rate is the number of Defaulted Finance Receivables in the period divided by the average number of Finance Receivables during the same period. The Default Rate is the frequency of Credit Loss.

**Default Severity Rate** – The financial loss of principal and accrued interest plus collection cost expenses upon Default as a percentage of defaulted Finance Receivables.

**Delinquency Rate** – The delinquent Finance Receivables divided by the total Finance Receivables expressed as a percentage for loans more than 30 days past due.

**Delinquent** – Finance Receivables that are contractually more than 30 days past due.

**Efficiency Ratio** – Operating expenses divided by Financial Revenue reported as an annualized percentage.

**Finance Receivables** – Loan receivables, including accrued interest. Includes both Owned and Securitized Finance Receivables.

**Finance Receivables - net** – Loan receivables, including accrued interest and net of Provision for Impairment and Credit Losses and unamortized origination costs. Includes both Owned and Securitized Finance Receivables.

**Financial Leverage Ratio** – Total Net Bank Debt, Securitization Debt, and Unsecured Debentures (subordinated) divided by equity.

**Gross Portfolio Yield** – Interest income and administration and other fees plus amortization of Origination expenses divided by average Finance Receivables reported as an annualized percentage.

**Gross Revenue** – Financial Revenue plus amortization of Origination costs.

**IFRS** – International Financial Reporting Standards are the accounting standards that govern the Company after April 1, 2011.

**Imminent Default Rate** – The likelihood that a Finance Receivable will Default within the subsequent 90 days.

**Impairment** - When an event, or a group of events, impact the likely scheduled cash flows of Finance Receivables, or a group of Finance Receivables, such Finance Receivables are deemed to have decreased in value and may be deemed Impaired. There is no Impairment as a result of future looking events.

**Interest Expense** – The amount reported as an expense on debt. Interest is calculated as a percentage of the amount of debt for each period of time.

**Interest Income** – Gross portfolio interest less amortization of Origination expenses in the period.

**Leverage Ratio** – Assets divided by equity.

**Net Bank Borrowing** – Bank Borrowing minus cash.

**Net Financial Income before Provisions for Impairment** – Financial Revenue minus all variable Origination expenses and Interest Expense.

**Net Financing Margin** - The Net Financing Income before Provision for Impairment divided by average Finance Receivables reported as an annualized percentage.

**Net Income** – Total comprehensive income for the period/year attributable to equity holders as stated on the Consolidated Statements of Comprehensive Income.

**Net Portfolio Yield** – Interest income and administration and other fees divided by average Finance Receivables reported as an annualized percentage.

**Operating Expense Ratio** – Total operating expenses divided by average Finance Receivables reported as an annualized percentage.

**Originations** – The process of generating a new Finance Receivable.

**Over Collateralization** – An excess amount of Finance Receivables are sold to a Securitizer. While the excess amount of Finance Receivables is legally sold, the excess cash flow from the Finance Receivables is provided back to Rifco under certain credit performance criteria. The excess amount of loans serves to increase the effective safety to the Securitizer similar to Cash Holdback.

**Owned Receivables** – Finance Receivables that have not been securitized.

**Platform (Origination and Servicing Platform)** – The proprietary systems and processes used to originate and service Finance Receivables with predictable credit performance. Also see Credit Model.

**Provision for Impairment** - An expense that is intended to fully reflect the amount of Impairment (reduction in value) observed. Rifco's Provision for Impairment is comprised of both Specific and Collective Provisioning.

**Provision for Impairment Rate** – The percentage applied to aged Finance Receivable categories to provide the required Provision for Impairment.

**Return on Earning Assets** – Is Net Income divided by average Finance Receivables reported as a percentage.

**Return on Equity** – Is Net Income divided by average equity reported as an annualized percentage.

**Securitization** –A transaction where Rifco sells Finance Receivables to a Securitizer. In all Rifco transactions to date, the transactions have specified that Rifco services the Finance Receivables after the sale. These Securitization transactions are accounted for as financings rather than as sales.

**Securitization Debt** – The net amount of discounted outstanding payments or advances from the Securitizer. Funds held in Cash Holdback, Credit Losses, and repayments are subtracted from the total amounts advanced from the Securitizer in order to determine this net amount.

**Securitization Discount Rate** –The percentage return, before costs, that a Securitizer obtains for a given Securitization transaction. This rate is applied to the expected total future cash flows of the sold Finance Receivables in order to determine the purchase price.

**Securitization Effective Rate** – The anticipated total payments to a Securitizer divided by the Securitization Debt expressed as an annual percentage. This rate is greater than the Securitization Discount Rate. The Securitization Effective Rate is the percentage cost for the actual funds received by Rifco. For example if the Securitization Discount Rate was 5.0% and the Cash Holdback rate was 12% the Securitization Effective Rate would be 5.6%. (5.0% x 1.12%).

**Securitizer** – An arm's length purchaser of Finance Receivables via a Securitization transaction. The Securitizer may utilize internal or external trust structures in order to accomplish Securitization transactions.

**Securitization Facility** – Is an agreement with a Securitizer to purchase Finance Receivables. The facility is governed by legal agreements that specify terms, processes, and periodic or revolving purchase amount limits. Most facilities have expiry dates and are subject to annual renewal.

**Secured Revolving Credit Facility** – Lending facility which provides Bank Borrowing.

**Specific Provisioning for Impairment** – A Specific Provision is expensed in order to reflect the decrease in value, as judged by the likelihood of Imminent Default and the likely Default Severity Rate. The number of days delinquent will determine the size of the provision.

**Tranche** –A group of Finance Receivables included in a single package sale to a Securitizer on a specific date.

**Unsecured Debentures** – Funds owed by Rifco under term agreements. Terms are typically 2 to 4 years in length which have fixed annual interest rates are paid interest monthly, are non-redeemable, non-retractable, and are subordinated to Rifco’s senior debt lender.

## **New Accounting Standards and Interpretations**

### **Offsetting financial assets and financial liabilities (Amendments to IAS 32)**

The Amendments to IAS 32 add application guidance to address inconsistencies in applying IAS 32’s criteria for offsetting financial assets and financial liabilities in the following two areas:

- the meaning of ‘currently has a legally enforceable right of set-off’
- that some gross settlement systems may be considered equivalent to net settlement.

The adoption of this amendment did not have an impact on the Company’s results of operations, financial position and disclosures.

## **New Accounting Standards and Interpretations not yet adopted**

### **IFRS 9 ‘Financial Instruments’ (IFRS 9)**

The IASB aims to replace IAS 39 ‘Financial Instruments: Recognition and Measurement’ (IAS 39) in its entirety with IFRS 9. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. On March 7, 2013, IASB presented with an exposure draft dealing with impairments. Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9’s financial asset classification model to address application issues. The Company’s management has yet to assess the impact of this new standard on the Company’s consolidated financial statements. However, management does not expect to implement IFRS 9 until all of its chapters have been published and they can comprehensively assess the impact of all changes.

### **IFRS 15 ‘Revenue from Contracts with Customers’**

IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 ‘Revenue’, IAS 11 ‘Construction Contracts’, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRS, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. IFRS 15 is effective for reporting periods beginning on or after January 1, 2017. The Company’s management have not yet assessed the impact of IFRS 15 on these condensed consolidated interim financial statements.