

**Rifco Inc.**

Consolidated Interim Financial Statements (unaudited)

For the three and six months ended September 30, 2018 and 2017

# **Rifco Inc.**

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For the three and six months ended September 30, 2018 and 2017

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**Rifco Inc.****Consolidated Interim Statements of Financial Position (unaudited)**

(Expressed in Canadian Dollars)

As At

		<b>September 30,</b>	<b>March 31,</b>
		<b>2018</b>	<b>2018</b>
	<b>Notes</b>	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>			
Cash	19	4,243,243	1,921,897
Finance receivables - net	5, 12, 19	230,316,346	232,374,932
Other receivables and prepaid expenses		1,636,896	765,891
Income taxes receivable		1,526,065	1,518,896
Property and equipment	6	1,118,878	817,055
Deferred income tax asset	7	4,363,000	3,887,000
<b>Total Assets</b>		<b>243,204,428</b>	<b>241,285,671</b>
<b>LIABILITIES AND EQUITY</b>			
Accounts payable and accruals	8, 19	6,586,359	6,643,229
Bank borrowings	9, 19	41,661,477	45,483,818
Unsecured debentures	10, 17, 19	13,025,000	8,270,000
Term debt	11, 19	10,969,116	-
Securitization debt	12, 19	142,407,322	146,939,509
<b>Total Liabilities</b>		<b>214,649,274</b>	<b>207,336,556</b>
<b>Equity</b>			
Share capital	13	7,614,470	7,614,470
Contributed surplus	13	3,762,348	3,593,274
Retained earnings		17,178,336	22,741,371
<b>Total Equity</b>		<b>28,555,154</b>	<b>33,949,115</b>
<b>Total Liabilities and Equity</b>		<b>243,204,428</b>	<b>241,285,671</b>
Commitments	21		
Subsequent events	22		

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

**Rifco Inc.****Consolidated Interim Statements of Comprehensive Income (unaudited)**

(Expressed in Canadian Dollars)

	Notes	Three months ended		Six months ended	
		September 30, 2018 \$	September 30, 2017 \$	September 30, 2018 \$	September 30, 2017 \$
Financial revenue		10,947,080	8,607,234	20,957,809	16,965,185
Financial expense	17	3,073,699	2,364,311	5,850,371	4,602,277
<b>Net financial income before impairment and credit losses</b>		<b>7,873,381</b>	<b>6,242,923</b>	<b>15,107,438</b>	<b>12,362,908</b>
Provision for impairment and credit losses	5	4,072,439	3,291,996	10,973,206	6,885,225
<b>Net financial income before operating expenses</b>		<b>3,800,942</b>	<b>2,950,927</b>	<b>4,134,232</b>	<b>5,477,683</b>
<b>Operating expenses</b>					
Wages and benefits	17	2,227,786	1,730,145	4,212,382	3,615,655
Professional fees		122,083	137,994	240,239	266,187
Office and general		769,374	660,799	1,471,112	1,268,185
Stock based compensation	13, 14, 17	83,818	25,869	169,074	117,315
Depreciation and amortization	6	72,412	53,073	119,299	111,488
<b>Total operating expenses</b>		<b>3,275,473</b>	<b>2,607,880</b>	<b>6,212,106</b>	<b>5,378,830</b>
<b>Net income (loss) before taxes</b>		<b>525,469</b>	<b>343,047</b>	<b>(2,077,874)</b>	<b>98,853</b>
<b>Current income tax recovery</b>	7	<b>560,000</b>	<b>134,000</b>	<b>1,509,000</b>	<b>230,000</b>
<b>Deferred income tax expense</b>	7	<b>(1,955,000)</b>	<b>(239,000)</b>	<b>(1,001,000)</b>	<b>(296,000)</b>
<b>Total income tax (expense) recovery</b>		<b>(1,395,000)</b>	<b>(105,000)</b>	<b>508,000</b>	<b>(66,000)</b>
<b>Net income (loss) and comprehensive income (loss) for the period attributable to equity holders</b>		<b>(869,531)</b>	<b>238,047</b>	<b>(1,569,874)</b>	<b>32,853</b>
<b>Net earnings (loss) per common share</b>					
Basic	15	\$ (0.040)	\$ 0.011	\$ (0.073)	\$ 0.002
Diluted	15	\$ (0.040)	\$ 0.011	\$ (0.073)	\$ 0.002

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

**Rifco Inc.****Consolidated Interim Statements of Changes in Equity (unaudited)**

(Expressed in Canadian Dollars)

For the six months ended September 30, 2017

	Notes	Share Capital \$	Contributed Surplus \$	Retained Earnings \$	Total Equity \$
As at March 31, 2017		7,614,470	3,327,250	22,588,748	33,530,468
Total comprehensive loss for the period		-	-	32,853	32,853
Stock based compensation	13, 14	-	117,315	-	117,315
<b>As at September 30, 2017</b>		<b>7,614,470</b>	<b>3,444,565</b>	<b>22,621,601</b>	<b>33,680,636</b>

For the six months ended September 30, 2018

	Notes	Share Capital \$	Contributed Surplus \$	Retained Earnings \$	Total Equity \$
As at March 31, 2018		7,614,470	3,593,274	22,741,371	33,949,115
Adjustment to opening retained earnings due to IFRS 9	4			(3,993,161)	(3,993,161)
Total comprehensive loss for the period		-	-	(1,569,874)	(1,569,874)
Stock based compensation	13, 14	-	169,074	-	169,074
<b>As at September 30, 2018</b>		<b>7,614,470</b>	<b>3,762,348</b>	<b>17,178,336</b>	<b>28,555,154</b>

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

## Rifco Inc.

### Consolidated Interim Statements of Cash Flows (unaudited)

(Expressed in Canadian Dollars)

For the three and six month periods ended September 30, 2018 and 2017

	Notes	For the three months ended		For the six months ended	
		September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
		\$	\$	\$	\$
<b>Operating activities</b>					
Total income (loss) for the period		(869,531)	238,047	(1,569,874)	32,853
Adjustments for					
Depreciation and amortization	6	72,412	53,073	119,299	111,488
Provision for impairment	5	111,315	(359,550)	2,258,124	256,458
Stock based compensation	13, 14, 17	83,818	25,869	169,074	117,315
Deferred income tax expense	7	1,955,000	239,000	1,001,000	296,000
Interest expense		3,073,699	2,364,311	5,850,371	4,602,277
Cash interest paid		(3,078,431)	(2,322,130)	(5,847,724)	(4,566,927)
Current income tax recovery	7	(560,000)	(134,000)	(1,509,000)	(230,000)
Amortization of origination costs		824,066	871,832	1,726,330	1,700,906
Transaction costs paid	11	(20,049)	-	(66,829)	-
Amortization of transaction costs for bank borrowings	9	27,304	22,617	54,608	45,234
Amortization of transaction costs for term loan	11	12,932	-	17,772	-
Cash flows from operating activities before the following:		1,632,535	999,069	2,203,151	2,365,604
Funds advanced on finance receivables		(19,294,631)	(27,796,570)	(69,911,217)	(57,229,072)
Principal collections of finance receivables		27,451,106	21,807,393	52,678,540	43,216,151
Credit losses net of recoveries	5	3,417,345	3,268,256	7,708,373	5,884,036
Origination costs and discounts - net		(1,983,620)	(368,553)	2,128,274	(1,071,626)
Income taxes received (paid)		-	(235,461)	1,501,831	(645,730)
Other	16	(2,162,641)	1,860,117	(927,875)	(405,905)
<b>Net cash flows from operating activities</b>		<b>9,060,094</b>	<b>(465,749)</b>	<b>(4,618,923)</b>	<b>(7,886,542)</b>
<b>Investing activity</b>					
Purchase of property and equipment	6	(52,056)	(11,254)	(421,120)	(20,380)
<b>Net cash flows used in investing activities</b>		<b>(52,056)</b>	<b>(11,254)</b>	<b>(421,120)</b>	<b>(20,380)</b>
<b>Financing activities</b>					
Repayments of bank borrowings	9	(20,706,531)	(30,957,302)	(44,989,012)	(50,958,251)
Advances from bank borrowings	9	19,367,556	19,920,973	41,128,554	43,380,503
Proceeds from securitization debt		18,959,914	35,817,264	43,473,023	59,011,752
Repayments of securitization debt		(22,947,733)	(23,586,511)	(48,024,349)	(45,451,114)
Proceeds from unsecured debentures	10	600,000	-	5,130,000	440,000
Repayments of unsecured debentures	10	-	(200,000)	(375,000)	(510,000)
Advance from term loan	11	-	-	16,039,047	-
Repayments of term loan	11	(5,020,874)	-	(5,020,874)	-
<b>Net cash flows from financing activities</b>		<b>(9,747,668)</b>	<b>994,424</b>	<b>7,361,389</b>	<b>5,912,890</b>
Increase (decrease) in cash		(739,630)	517,421	2,321,346	(1,994,032)
Cash, beginning of year		4,982,873	813,737	1,921,897	3,325,190
<b>Cash, end of the period</b>		<b>4,243,243</b>	<b>1,331,158</b>	<b>4,243,243</b>	<b>1,331,158</b>

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

# **Rifco Inc.**

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

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

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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 financing. 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 in Canada except Quebec. The Company, and its subsidiary, are incorporated under the laws of Alberta. The Company’s registered office is Suite 702, 4909 49 Street, Red Deer, Alberta, T4N 1V1.

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

#### **Statement of compliance**

These Consolidated Interim Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations of the IFRS Interpretations Committee (IFRIC).

These Consolidated Interim Financial Statements for the three and six months ended September 30, 2018 (including comparatives) were approved and authorized for issue by the Board of Directors on November 26, 2018.

#### **Basis of presentation**

These financial statements include the financial statements of Rifco Inc., Rifco National Auto Finance Corporation, a 100% owned subsidiary and Rifco Trust, a special-purpose, bankruptcy-remote charitable trust, set up for financing of receivables, where Rifco maintains control over the servicing of the receivables and retains financial interest in the residual returns of the receivables.

These Consolidated Interim Financial Statements are stated in Canadian dollars, which is the functional currency of the Company, its wholly owned subsidiary, and Rifco Trust, and have been prepared on a historical cost basis, except for certain financial assets and liabilities which are measured at fair value, as summarized in Note 3.

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

The preparation of 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.

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

These 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, 2018 except where noted in Note 4 below.

# Rifco Inc.

## Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

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### 4. New accounting standards and interpretations

#### New accounting standards and interpretations adopted

##### IFRS 9 'Financial Instruments'

Effective April 1, 2018, IFRS 9 *Financial Instruments* ("IFRS 9") was adopted and replaced IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). The adoption of IFRS 9 does not require restatement of comparative prior financial statements except in limited circumstances. The Company made the decision not to restate comparative period financial information and has recognized any measurement differences between the previous carrying amounts and the new carrying amounts on April 1, 2018 through an adjustment to opening retained earnings.

IFRS 9 replaces the existing incurred loss model with an expected credit loss model, requiring a recognition of losses that are expected in the future and loan loss provisioning against distressed as well as performing and current loans.

##### Classification and measurement

All financial assets are classified at initial recognition as: i) fair value through profit or loss ("FVTPL"), ii) amortized cost, iii) debt financial instruments measured at fair value through other comprehensive income ("FVOCI"), iv) equity financial instruments designated as FVOCI, or v) financial instruments designated as FVTPL, based on the contractual cash flow characteristics of the financial assets and the business model under which the financial assets are managed.

Financial assets are required to be reclassified when, and only when, the business model under which they are managed has changed. All reclassifications are applied prospectively from the reclassification date.

The IFRS 9 classification and measurement model requires that all debt instrument financial assets that do not meet a "solely payment of principal and interest" ("SPPI") test, including those that contain embedded derivatives, be classified at initial recognition as FVTPL. For debt instrument financial assets that meet the SPPI test, classification at initial recognition is determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "held for trading" or "fair value" basis are classified as FVTPL. Debt instruments that are managed on a "hold to collect and for sale" basis are classified as FVOCI for debt. Debt instruments that are managed on a "hold to collect" basis are classified as amortized cost.

Consistent with IAS 39, and except for cash which is FVTPL, all financial assets held by the Company under IFRS 9 are initially measured at fair value and subsequently measured at amortized cost. There were no material changes to the carrying values of financial instruments as a result of the transition to the classification and measurement requirements of IFRS 9. The classification and measurement of financial liabilities remain essentially unchanged from the IAS 39 requirements, except that changes in the fair value of liabilities designated at FVTPL using the fair value option (FVO) which are attributable to changes in own credit risk are presented in other comprehensive income (OCI), rather than profit and loss.

Under IFRS 9, the Company is required to apply an expected credit loss (ECL) model, where a provision for credit losses is recorded for losses that are expected to transpire in future years even if no loss event has occurred as at the balance sheet date. The Company is required to assess and segment its loan portfolio into performing (Stage 1), underperforming (Stage 2) and non-performing (Stage 3) categories as at each date of the statement of financial position.

Stage 1 – For performing loans, the Company is required to record an allowance for loan losses equal to the expected losses on that group of loans over the ensuing twelve months.

Stage 2 – Loans are categorized as underperforming if there has been a significant increase in credit risk. A significant increase in credit risk may be observed through delinquency, existence of active payment arrangements, specific events, localized economic factors, or other identifiable factors. For under-performing loans, the Company is required to record an allowance for loan losses equal to the expected losses on those groups of loans over their remaining life.



# Rifco Inc.

## Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

### 4. New accounting standards and interpretations (continued)

Stage 3 – Loans are categorized as nonperforming if there is objective evidence that such loans will likely charge off in the future which we have determined to be when loans are delinquent for greater than 90 days, or the underlying collateral is in process of being repossessed, or other identifiable factor. For non-performing loans, the Company is required to record an allowance for loan losses equal to the expected losses on those groups of loans over their remaining life. In addition, the Company is expected to adjust the accrued interest to the net realizable value.

The key inputs in the modelling of ECL allowances are as follows:

- The estimated probability of default (PD) over the given time horizon;
- The estimated loss given default (LGD) in the case where a default occurs;
- The estimated exposure at default (EAD) at a future default date; and
- Forward-looking information (FLIs) used to assess how future losses may differ from previously experienced losses

The ECL is calculated based on the probability weighted expected cash collected shortfall against the carrying value of the loan and considers reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions that may impact the credit profile of the loans. Forward-looking information is considered when determining significant changes in credit risk and measuring expected credit losses. Within the Company's portfolio, the most highly correlated variable indicating a significant change in credit risk is provincially weighted-average unemployment rates.

The adoption of IFRS 9 does not impact the ultimate net charge-off rate of the Company's finance receivable portfolio, which is driven by borrowers' credit profile and behavior. The Company will continue to write off loans over 90 days past due, for which the Company has not successfully repossessed its security and loans over 120 days in the remaining cases. IFRS 9 only changes the timing of the accounting recognition of loan losses.

Likewise, the cash flows used in and generated by the Company's finance receivables are not impacted by the adoption of IFRS 9 as any change in the estimated allowance for loan losses is a non-cash item.

The provisions applied through IFRS 9, and ultimate carrying value of finance receivables, are not a reflection of the actual economic value of the loan portfolio, but rather, a calculation of the acquisition cost minus future expected losses with no recognition of inherent value or future revenue.

The following table summarizes the Transition Adjustment required to adopt IFRS 9 as at April 1, 2018 as well as a reconciliation of the Company's closing allowances for credit losses in accordance with IAS 39, as at March 31, 2018 and the opening allowance for credit losses in accordance with IFRS 9, as at April 1, 2018.

	<b>Transition Adjustment</b>
Provision for Impairment under IFRS 9	9,601,388
Provision for Impairment under IAS 39	4,131,227
Difference	5,470,161
Change in Opening Deferred Tax Asset	(1,477,000)
Change to Opening Retained Earnings	(3,993,161)

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

On April 1, 2018, the Company adopted and applied IFRS 15 *Revenue from Contracts with Customers* ("IFRS 16"), which establishes principles for recognizing revenues based on a five-step model which is applied to all contracts with customers. The new standard did not result in any financial adjustments to the Company's interim consolidated financial statements, nor

## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

#### 4. New accounting standards and interpretations (continued)

any material changes to the Company's revenue recognition policies. The adoption of IFRS 15 resulted in a presentation change to the financial revenue section of the consolidated statement of comprehensive income. Administration, discount and other fees were incorporated into interest revenue.

The Company's revenue is comprised of interest income. Interest income includes contractual interest received from customers with yield adjustments made for amortization of direct origination costs and commissions, accretion of discount income, and fee income.

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

##### IFRS 16 'Leases'

IFRS 16 eliminates the distinction between operating and finance leases for lessees bringing most leases on-balance sheet under a single model. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 Revenue from contracts with customers, has also been applied. Management is currently assessing the impact of IFRS 16 on its financial statements.

#### 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. Finance receivables - net for September 30, 2018 include the impact of the portfolio purchase discussed in note 23. 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. Contractual loan payments, including principal and interest due under finance receivables in 12-month increments are as follows:

	September 30, 2018 \$	March 31, 2018 \$
Next 12 months	81,155,637	75,237,376
13 to 24 months	76,561,351	71,061,388
25 to 36 months	69,868,400	64,971,750
37 to 48 months	60,305,513	56,271,773
49 to 60 months	46,240,483	44,973,917
61 months and over	34,314,404	36,675,521
Gross finance receivables	368,445,788	349,191,725
Less unearned interest	(130,160,360)	(119,795,122)
Loan receivables	238,285,428	229,396,603
Accrued interest and fees	3,988,565	3,353,087
Finance receivables	242,273,993	232,749,690
Unamortized origination costs	5,790,206	6,154,026
Unamortized discounts	(5,888,341)	(2,397,557)
Less provision for impairment	(11,859,512)	(4,131,227)
Finance receivables - net	230,316,346	232,374,932

## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

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

Gross finance receivables include all scheduled payments of principal and interest to be made by the customer. Finance receivables are secured by motor vehicle collateral and registered with the applicable provincial personal property registry.

The aging analysis of finance receivables is as follows:

	September 30, 2018		March 31, 2018	
	\$	% of total	\$	% of total
Current	229,705,837	94.82%	217,769,818	93.56%
31-60 Days	8,485,733	3.50%	9,241,502	3.97%
61-90 Days	3,228,033	1.33%	4,539,187	1.95%
>90 Days	854,390	0.35%	1,199,183	0.52%
Total	242,273,993	100.00%	232,749,690	100.00%

A summary of the changes in provision for impairment by stage is as follows:

	IFRS 9 carrying amount			
	Stage 1	Stage 2	Stage 3	Total
	(performing)	(under performing)	(non-performing)	
	\$	\$	\$	\$
Provision for impairment as at April 1, 2018	7,218,206	1,041,278	1,341,904	9,601,388
Provision on loans originated, at time of Origination	1,588,207	-	-	1,588,207
Provision for impairment on portfolio acquisition	1,518,451	7,342	434,601	1,960,394
Change in provision for impairment, after origination or acquisition	(2,162,525)	(436,477)	1,308,525	(1,290,477)
Provision for impairment as at September 30, 2018	8,162,339	612,143	3,085,030	11,859,512

The provision for impairment and credit losses includes the impact of the recently acquired loan portfolio discussed in Note 23. Upon acquisition of the portfolio, a charge for impairment was recorded reflecting future expected credit losses as required by IFRS 9. The breakdown of the provision for impairment and credit losses for the period is as follows:

	Three months ended		Six months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	\$	\$	\$	\$
Provision for impairment at end of period	11,859,512	4,445,572	11,859,512	4,445,572
Provision for impairment at beginning of period	11,748,197	4,805,122	9,601,388	4,189,114
Increase (decrease) in provision for impairment	111,315	(359,550)	2,258,124	256,458
Credit losses net of recoveries for the period	3,417,345	3,268,256	7,708,373	5,884,036
Repossession and recovery costs for the period	543,779	383,290	1,006,709	744,731
Provision for impairment and credit losses for the period	4,072,439	3,291,996	10,973,206	6,885,225

## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

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

An analysis of the changes in the classification of loan receivables is as follows:

	Loans Receivable			Total
	Stage 1	Stage 2	Stage 3	
	(performing)	(under performing)	(non-performing)	
	\$	\$	\$	\$
Balances as at April 1, 2018	213,225,548	14,132,363	2,038,692	229,396,603
Originated	45,103,271	-	-	45,103,271
Loans purchased	24,083,968	68,426	662,151	24,814,545
Less payments and other adjustments	(50,100,169)	753,710	2,659,368	(46,687,090)
Transfers to (from):				-
Stage 1 (Performing)	(8,889,318)	5,334,996	3,554,321	-
Stage 2 (Under-Performing)	5,531,153	(6,317,555)	786,402	-
Stage 3 (Non-Performing)	202,672	35,775	(238,447)	-
Less charge offs	(3,599,578)	(6,005,303)	(4,737,020)	(14,341,901)
Balance as at September 30, 2018	225,557,547	8,002,413	4,725,468	238,285,428

Charge offs are the principal value of loans charged off before considering recoveries and associated costs. Loans over 90 days past due, for which the Company has not successfully repossessed its security, and loans over 120 days past due are reported as a credit loss against the provision for impairment balance.

The following table outlines the internal credit grading at time of origination or acquisition of loan receivables.

	September 30, 2018	March 31, 2018
	\$	\$
Near-prime	198,019,482	209,425,153
Non-prime	40,265,946	19,971,450
Loan receivables	238,285,428	229,396,603

#### 6. Property and equipment

During the six months ended September 30, 2018, the Company acquired total property and equipment amounting to \$421,120 (September 30, 2017 - \$20,380) and the depreciation for the period was \$119,299 (September 30, 2017 - \$111,488). The net book value as at September 30, 2018 amounted to \$1,118,878 (March 31, 2018 - \$817,055).

## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

#### 7. Income taxes

Net deferred income tax assets are comprised of the following:

	September 30, 2018 \$	March 31, 2018 \$
<b>Deferred income tax assets</b>		
Securitized loans and provision for impairment	5,573,000	5,325,000
Other	166,000	154,000
	5,739,000	5,479,000
<b>Deferred income tax liabilities</b>		
Holdback on securitization	1,244,000	1,472,000
Property and equipment	132,000	120,000
	1,376,000	1,592,000
<b>Net deferred income tax asset</b>	4,363,000	3,887,000

Reconciliation between the tax expense and the accounting profit multiplied by the federal and provincial tax rates is as follows:

	September 30, 2018 \$	September 30, 2017 \$
<b>Income (loss) before taxes</b>	(2,077,874)	98,853
Statutory income tax rate	27.00%	27.00%
Income tax recovery	(561,026)	26,690
Non-deductible items for tax purposes	53,026	39,310
Income tax	(508,000)	66,000
Effective income tax rate	24.45%	66.77%
Allocation of expense (recovery)		
Current	(1,509,000)	(230,000)
Deferred	1,001,000	296,000
Income tax	(508,000)	66,000

#### 8. Accounts payable and accruals

	September 30, 2018 \$	March 31, 2018 \$
Payable to securitizers	2,436,523	4,009,612
Accounts payable and accrued expenses	4,149,836	2,633,617
	6,586,359	6,643,229

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

## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

#### 9. Bank borrowings

Bank borrowings is comprised of two credit facilities.

The Company has a syndicated secured committed revolving credit facility of \$100.00M with Wells Fargo Corporation Canada (Wells Fargo) and ATB Corporate Financial Services (ATB) (registered senior debt holders). The facility has a February 2019 term renewal date. The Company has provided a general security agreement over all the assets of the Company. The Company must meet certain financial covenants and as at September 30, 2018, there was a breach of a covenant.

The application of IFRS 9's forward-looking expected credit loss rules on the June 4, 2018 acquired portfolio (see Note 23), in advance of any revenue generated, and independent of any value assessment of the portfolio, required an expense of \$2.0M which was recorded in the period and impacted reported net income. Due to the application of this new accounting standard, the net income derived EBITDA covenant based on September 30, 2018 results is not compliant. In advance of the portfolio acquisition, Rifco was in open and positive communication with Wells Fargo regarding the projected IFRS 9 accounting impact of the portfolio acquisition on Net Income and related covenants. No changes to funding availability have been experienced as a result of the EBITDA covenant.

Subsequent to year end, the facility was renewed and extended (see Note 22). The renewal changes the formula for calculating the EBITDA covenant to remove the effect of the portfolio acquisition. As of the date of the renewal, the Company is in compliance with all covenants.

The Company has a revolving credit facility with Mountain View Credit Union of \$2.50M (subordinated to registered senior debt holders). The Company has provided a general security agreement covering all Company assets that is subordinated to the registered senior debt holders. The facility does not have any expiry date.

The Company has a letter of credit to Securcor Trust for \$3.00M in return for cash released from its cash holdback. The letter of credit has an expiry date of April 1, 2019. The Company also has a letter of credit to a Canadian Schedule I Chartered Bank for \$2.00M in return for cash released from its cash holdback. The letter of credit has an expiry date of December 8, 2018. Both of the letters of credit form part of the \$100.00M syndicated secured revolving credit facility.

	\$
<b>At March 31, 2017 - Bank borrowing</b>	59,732,172
Advances from bank borrowings	79,306,802
(Repayments of bank borrowings)	(93,629,998)
Deferred financing costs expensed in the year	99,842
Deferred financing costs incurred in the year	(25,000)
<b>At March 31, 2018 - Bank borrowing</b>	45,483,818
Advances from bank borrowings	41,128,554
(Repayments of bank borrowings)	(45,005,503)
Deferred financing costs expensed in the period	54,608
<b>At September 30, 2018 - Bank borrowing</b>	41,661,477

The change for deferred financing costs for bank borrowing for the period is as follows:

	\$
Deferred financing costs at March 31, 2018	91,015
Amount of deferred financing costs expensed in the period	(54,608)
Additional deferred financing costs incurred in the period	-
<b>At September 30, 2018</b>	36,407

## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

#### 10. Unsecured debentures

Unsecured debentures are non-retractable by the noteholder within the specific terms. Maturity dates vary from October 1, 2018 to September 1, 2023 and bear interest on a monthly basis. The debentures are subordinated in favour of the registered senior debt holders. The Company must meet certain financial covenants and report to the debenture holders on a quarterly basis. As at September 30, 2018 and throughout the period, the Company was in compliance with all covenants.

A summary of debenture activity is as follows:

	\$
<b>At March 31, 2017 - Unsecured debentures</b>	8,520,000
Debentures matured	(4,575,000)
Debentures renewed	3,375,000
New debentures	950,000
<b>At March 31, 2018 - Unsecured debentures</b>	8,270,000
Debentures matured	(925,000)
Debentures renewed	550,000
New debentures	5,130,000
<b>At September 30, 2018 - Unsecured debentures</b>	13,025,000

	September 30, 2018 \$	March 31, 2018 \$
5.5% debentures outstanding	200,000	200,000
6.5% debentures outstanding	60,000	60,000
7.5% debentures outstanding	3,285,000	3,255,000
8.0% debentures outstanding	1,040,000	1,865,000
8.5% debentures outstanding	1,620,000	1,620,000
9.5% debentures outstanding	3,320,000	1,270,000
12.0% debentures outstanding	3,500,000	-
<b>Unsecured debentures, at period end</b>	<b>13,025,000</b>	<b>8,270,000</b>
Portion issued to related parties at period end (Note 17)	3,310,000	1,915,000

The unsecured debentures mature as follows:

	September 30, 2018 \$	March 31, 2018 \$
Less than 12 months	3,590,000	1,865,000
12 - 24 months	1,650,000	200,000
Greater than 24 months	7,785,000	6,205,000
	<b>13,025,000</b>	<b>8,270,000</b>

## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

#### 11. Term debt

Term debt to Rifco Trust for the portfolio acquisition discussed in Note 23 was provided by funds managed by Ares Management L.P. The interest rate on the term debt is floating rate tied to CDOR. The loan is not re-advanceable, has a term of 4 years, and has principal payments which are linked to the balances of the underlying receivables owned by the trust and pledged as collateral.

The difference between the term debt balance and the ultimate cash collected on the underlying receivables is returned to the Company over time in the form of deferred purchase price.

The loan has certain covenants related to the performance of the receivables held by the trust as well as covenants related to maximum leverage of Rifco as the servicer of the receivables.

	\$
<b>At March 31, 2018 - Term loan</b>	-
Advances from term loan	16,039,047
(Repayments of term loan)	(5,020,874)
Deferred financing costs expensed in the period	17,772
Deferred financing costs incurred in the period	(66,829)
<b>At September 30, 2018 - Term loan</b>	<b>10,969,116</b>

The deferred financing costs for the term debt for the period is as follows:

	\$
Deferred financing costs at March 31, 2018	-
Amount of deferred financing costs expensed in the period	(17,772)
Additional deferred financing costs incurred in the period	66,829
<b>At September 30, 2018</b>	<b>49,057</b>

#### 12. Securitization

##### Securitization debt

The Company expects to fund a percentage of its loan growth through loan securitization. The Company sells finance receivables to third party securitizers, in which the Company is not a beneficiary, in order to provide cash resources for loan originations. Securitization debt represents funding secured by finance receivables composed of principal and interest sold directly to the securitizers (the Company securitizes its finance receivables with Securcor Trust, a Canadian Schedule I Chartered Bank, and Mountain View Credit Union (referred to collectively as the "securitizers"). As the securitization of finance receivables 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 consolidated statements of financial position.

The Securcor Trust facility has an annual renewal. During the quarter, the facility was renewed with substantially the same terms and conditions as the previous facility with the next renewal date on July 31, 2019.

The total amount of securitization debt outstanding (excluding the cash holdbacks) as at September 30, 2018 amounted to \$147.46M (March 31, 2018 - \$153.08M).

The securitization debt is 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.



## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

#### 12. Securitization (continued)

Securitization debt is reduced on a monthly basis by scheduled payments and prepayments 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, 2018, there were certain breaches of covenant. The application of IFRS 9's forward-looking expected credit loss rules on the June 4, 2018 acquired portfolio (see Note 23), in advance of any revenue generated, and independent of any value assessment of the portfolio, required an expense of \$2.0M which was recorded in the period and impacted reported net income. Due to the application of this new accounting standard, the net income derived EBITDA covenant based on September 30, 2018 results is not compliant. In advance of the portfolio acquisition, Rifco was in open and positive communication with its funders regarding the projected IFRS 9 accounting impact of the portfolio acquisition on Net Income and related covenants. No changes to funding availability have been experienced as a result of the EBITDA covenant. Waivers have been received from securitizers that have EBITDA covenants.

The Company is also not in compliance with a monthly trigger regarding the 3-month rolling loan loss ratio for one of the Company's securitization facilities. As a result, the funder had temporarily halted the acceptance of new securitization tranches and the completion of scheduled cash holdback releases. The Company is in productive dialogue with the funder and has received waiver of this covenant through the reporting period ending September 30, 2018. This impacts \$3.8M of securitization funding.

	\$
<b>At March 31, 2017 - Securitization debt</b>	130,708,345
Gross sale proceeds from securitizers	101,891,022
(Repayments to securitizers)	(84,038,396)
(Additions to securitization holdback)	(7,905,878)
Received from securitization holdback	6,322,021
Securization costs incurred in the year	(229,863)
(Unamortized securitization cost)	192,258
<b>At March 31, 2018 - Securitization debt</b>	146,939,509
Gross sale proceeds from securitizers	39,842,637
(Repayments to securitizers)	(45,476,891)
(Additions to securitization holdback)	(2,538,474)
Received from securitization holdback	3,630,385
Securization costs incurred in the period	(95,184)
Securization costs expensed in the period	105,340
<b>At September 30, 2018 - Securitization debt</b>	142,407,322

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

	\$
Unamortized securitization costs at March 31, 2018	280,907
Amount of securitization costs incurred in the period	95,184
Amount of securitization costs expensed in the period	(105,340)
<b>At September 30, 2018</b>	270,751

Securitization facilities call for a combination of cash holdback and finance receivables over collateralization from the purchase price of finance receivables sold to securitizers.

## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

#### 12. Securitization (continued)

To protect against the risk of prepayment and credit losses, the 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. The amount of cash holdback is determined at the time of sale based on average loan terms, credit grades, and over collateralization. The holdback is netted against the securitized debt and is not disclosed separately on the consolidated statements of financial position. As at September 30, 2018 the total cash holdbacks held by the securitizers amounted to \$5.05M (March 31, 2018 - \$6.14M).

Each of the Company's securitization facilities operates with a loan over collateralization feature which ranges from 5% to 20%. Utilizing an over collateralization component allows for a lower level of the cash holdback. The cash holdback and over collateralization is the Company's maximum exposure to credit losses on securitized finance receivables. However, management is of the opinion that in typical circumstances the entirety of the credit losses will be borne by the Company.

	September 30, 2018		March 31, 2018	
	\$	%	\$	%
Finance receivables - securitized	129,884,331	53.61%	133,131,453	57.20%
Finance receivables - securitized over collateralization	18,784,542	7.75%	19,082,069	8.20%
Finance receivables - sold to Rifco Trust	19,154,879	7.91%	-	0.00%
Finance receivables - owned	74,450,241	30.73%	80,536,168	34.60%
Finance receivables	242,273,993	100.00%	232,749,690	100.00%

#### 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 a portion of the interest payments to the securitizers depending on the facility. Servicing of the finance receivables remains the Company's responsibility. In these securitization transactions, the Company retains prepayment risk. The cash holdback and over collateralization is the Company's maximum exposure to credit losses on securitized finance receivables. Due to retention of these risks, assigned finance receivables are not derecognized, and the securitization proceeds are accounted for as securitization debt.

#### Finance receivables pledged as collateral

The carrying value of the Company's finance receivables securitized and finance receivables securitized over collateralization pledged as collateral for associated liabilities were included in finance receivables on the consolidated 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.

## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

#### 13. 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, 2018		March 31, 2018	
	Shares	\$	Shares	\$
Opening balance	21,597,483	7,614,470	21,597,483	7,614,470
Stock options exercised	-	-	-	-
Closing balance	21,597,483	7,614,470	21,597,483	7,614,470

##### 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, 2018	March 31, 2018
	\$	\$
Opening balance	3,593,274	3,327,250
From the vesting of stock based compensation	169,074	266,024
Closing balance	3,762,348	3,593,274

#### 14. 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 period, the Company issued 509,175 options to officers, employees, directors or consultants (September 30, 2017 – 440,000).

## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

#### 14. Stock-based compensation (continued)

	September 30, 2018		September 30, 2017	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at beginning of year	1,634,000	3.11	1,575,334	3.67
Granted	509,175	1.27	440,000	1.45
(Expired)	(284,000)	1.72	(233,334)	1.95
(Forfeited)	-		(248,000)	4.09
Outstanding at end of period	1,859,175	2.41	1,534,000	3.22
Exercisable at end of period	787,500	3.79	759,000	4.36

The total outstanding number of options is 8.61% of the number of shares outstanding at September 30, 2018 (September 30, 2017 – 7.10%).

A summary of the status of the Company's stock options outstanding at September 30, 2018 is as follows:

Date issued	# Granted and outstanding	# Vested	Exercise price	Expiry date
18-Jun-14	405,000	405,000	5.85	18-Jun-19
16-Feb-16	30,000	22,500	1.13	16-Feb-21
8-Jul-16	70,000	52,500	1.69	8-Jul-21
15-Aug-16	180,000	135,000	1.62	15-Aug-21
3-Jan-17	125,000	62,500	1.94	3-Jan-22
30-Aug-17	440,000	110,000	1.45	30-Aug-22
20-Nov-17	100,000	-	1.37	20-Nov-22
27-Jun-18	350,800	-	1.26	27-Jun-23
27-Jul-18	158,375	-	1.29	27-Jul-23
Total	1,859,175	787,500		

The Company recognized a stock-based compensation expense of \$169,074 during the period ending September 30, 2018 (September 30, 2017 - \$117,315). 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. Vesting occurs 25 percent per year on the agreements anniversary date. 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 is 3.25 years.

## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

#### 14. Stock-based compensation (continued)

The following table presents the assumptions applied in valuing stock-based compensation for the period.

	September 30, 2018	September 30, 2017
Fair value at grant date	\$ 0.56	\$ 0.65
Exercise price	\$ 1.25	\$ 1.45
Stock price	\$ 1.25	\$ 1.45
Risk free interest rate	2.02%	1.50%
Expected lives (years)	3.98	3.98
Expected volatility	57.61%	57.43%
Dividend yield	-	-
Forfeiture estimate	5.59%	4.96%

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.

There were no share options exercised for the periods ended September 30, 2018 and September 30, 2017.

#### 15. Earnings per share ("EPS")

The calculation of basic earnings per share for the period ended September 30, 2018, was based on the loss available to common shareholders of \$1,569,874 (September 30, 2017 – income of \$32,853), and a weighted average number of common shares outstanding of 21,597,483 (September 30, 2017 – 21,597,483). 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, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	Shares	Shares	Shares	Shares
Weighted average number of shares outstanding	21,597,483	21,597,483	21,597,483	21,597,483
Effect of potential dilutive securities due to stock options	-	6,212	-	6,170
Weighted average number of shares outstanding for use in determining diluted income per share	21,597,483	21,603,695	21,597,483	21,603,653

## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

#### 16. Changes in non-cash working capital from operating activities

	September 30, 2018	March 31, 2018
	\$	\$
Other receivables and prepaid expenses	(871,005)	33,861
Accounts payable and accruals	(56,870)	1,075,982
	(927,875)	1,109,843

#### 17. Related party disclosures

##### 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 party debenture holders.

At period end, the total debentures held by related parties is \$3.31M (March 31, 2018 - \$1.92M). 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 \$1.75M (March 31, 2018 - \$0.88M) in debentures with varying terms. In addition, \$1.57M (March 31, 2018 - \$1.04M) 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 \$0.12M (September 30, 2017 - \$0.09M).

##### Compensation of key management personnel

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

	September 30, 2018	September 30, 2017
	\$	\$
Compensation, including bonuses	370,429	466,801
Stock based compensation	91,296	55,259
Total	461,725	522,060

Remuneration of key management personnel for September 30, 2017 includes severance paid to a departing executive. The Company has six directors, four of which are independent. Each director, other than the CEO, receives an annual retainer of \$13,333 and an additional \$3,333 for Chairman of the Board and \$2,000 for Committee Chairman positions held. Non-management directors receive meeting fees of \$500 per day and reimbursement of normal travel expenses. The fees paid to non-management directors totaled \$51,640 (September 30, 2017 - \$47,499) in addition to normal itemized expense reimbursement. The non-cash stock based compensation expense for the non-management directors during the period was \$68,589 (September 30, 2017 - \$36,809). The number of stock options granted to non-management directors during the period was 245,875 (September 30, 2017 - 212,500). The non-cash stock based compensation expense for key management during the period was \$35,886 (September 30, 2017 - \$58,096). The number of stock options granted to key management during the period was 263,300 (September 30, 2017 - 227,500).

The CEO is also a director but does not receive any additional compensation for services rendered in such capacity.

# Rifco Inc.

## Notes to the Consolidated Interim Financial Statements

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For the six months ended September 30, 2018 and 2017

### 18. Capital management

The Company's capital is comprised of bank borrowing, securitization debt, unsecured debentures, term debt and equity in order to fund the origination of vehicle finance receivables. The consolidated interim financial statements do not include all capital management information and disclosures as required in the annual Consolidated Financial Statements, and they should be read in conjunction with the Company's annual Consolidated Financial Statements as at March 31, 2018.

The Company's debt is subject to a number of covenants and restrictions including the requirement to meet certain financial ratios and financial condition tests.

### 19. 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.

#### 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 Classification	Fair value level	September 30, 2018		March 31, 2018	
		Carrying value	Fair value	Carrying value	Fair value
		\$	\$	\$	\$
<b>Fair value through profit and loss:</b>					
Cash	(1)	4,243,243	4,243,243	1,921,897	1,921,897
<b>Amortized Cost:</b>					
Finance receivables - net	(3) (A)	230,316,346	250,149,186	232,374,932	235,454,143
Other receivables	(1)	567,800	567,800	304,327	304,327
Bank borrowings	(1)	41,661,477	41,697,883	45,483,818	45,574,832
Securitization debt	(2) (B)	142,407,322	141,152,000	146,939,509	145,522,334
Unsecured debentures	(2) (C)	13,025,000	13,186,033	8,270,000	8,483,226
Accounts payable and accruals	(1)	6,586,359	6,586,359	6,643,229	6,643,229
Term debt	(1)	10,969,116	11,018,174	-	-

## **Rifco Inc.**

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

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

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

- 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, provision for prepayment losses, servicing costs at the consolidated statements of financial position dates. Currently, there is not an organized market for valuing the loan portfolio. In the current period, management made significant changes to the assumptions used in this estimate. Management believes this to be a better estimate of the fair value. The comparable period has also been updated to the revised methodology.
- B) The fair value of securitization debt is determined based on an internal valuation model which factors in the discount rate, 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 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.



## **Rifco Inc.**

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

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

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

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 Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

#### 19. Financial instruments and risk management (continued)

<b>March 31, 2018</b>	<b>Western Canada</b>	<b>Eastern Canada</b>	<b>Total</b>
Finance receivables <sup>(1)</sup>	\$ 138,996,024	\$ 93,753,666	\$ 232,749,690
Percentage of finance receivables	60%	40%	100%

  

<b>September 30, 2018</b>	<b>Western Canada</b>	<b>Eastern Canada</b>	<b>Total</b>
Finance receivables <sup>(1)</sup>	\$ 149,795,202	\$ 92,478,791	\$ 242,273,993
Percentage of finance receivables	62%	38%	100%

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

Note that geographic concentration levels were impacted by the portfolio acquisition described in Note 23.

#### *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 depreciation in value partially corresponds with the declining 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.

#### *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, 2018, 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:

	<b>Less than one year</b>	<b>1- 2 years</b>	<b>After 2 years</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Gross finance receivables as at September 30, 2017	37,904,624	73,126,145	240,999,744	352,030,513
Gross finance receivables as at September 30, 2018	81,155,637	76,561,351	210,728,800	368,445,788

## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

#### 19. Financial instruments and risk management (continued)

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. Bank borrowings are committed, revolving facilities and subject to renewal. The securitization debt with Securcor Trust and a Canadian Schedule I Chartered Bank are annual committed facilities and future renewals are independent of previous facilities. The Mountain View Credit Union securitization facility is a revolving facility with no maturity date.

Failure to renew these facilities is a liquidity risk. Management has historically been able to negotiate renewal of these facilities as they come due. Management expects that any actual capital shortfall would be met with additional unsecured debentures or an issuance of common shares.

As at September 30, 2018, the Company's financial obligations are due as follows:

	Less than one year	1- 2 years	After 2 years	Total
	\$	\$	\$	\$
Bank borrowings <sup>(3)</sup>	41,697,883	-	-	41,697,883
Securitization debt <sup>(1)</sup>	42,716,934	70,014,734	42,378,459	155,110,127
Unsecured debentures <sup>(2)</sup>	4,562,628	2,336,869	8,815,528	15,715,025
Accounts payable and accruals	6,586,359	-	-	6,586,359
Term debt	1,855,418	2,191,716	6,971,040	11,018,174
	97,419,222	74,543,319	58,165,027	230,127,568

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

(2) Unsecured debentures and term debt are presented with the interest expense due in the corresponding year.

(3) Bank borrowings is before unamortized transaction costs.

#### *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 borrowings and term debt bear 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 borrowings and term debt by +/-50 basis point, can have an annual net income impact of +/- \$263,580 (2018 – \$261,477) based on a combined gross borrowing balance of \$52,716,057 as at September 30, 2018 (September 30, 2017 – \$52,295,314).

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 one 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 fixed rate securitization debt resulting from changes in fair value from market fluctuations in interest rates.

## Rifco Inc.

### Notes to the Consolidated Interim Financial Statements

(Expressed in Canadian Dollars)

For the six months ended September 30, 2018 and 2017

#### 19. 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.

##### *Foreign exchange risk*

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

#### 20. Segment reporting

The Company operates in Canada and has one operating segment.

#### 21. Commitments

The Company entered into a 10-year lease commitment for its business premises commencing March 1, 2017 and expiring February 28, 2027.

The Company is responsible for a software hosting commitment with a minimum monthly value of \$19,262. The commitment has a 3-year term that commencing February 1, 2018 and expiring January 31, 2021.

The payment schedules are as follows:

	Less than one year \$	1- 5 years \$	After 5 years \$	Total \$
Rent commitment	168,888	944,115	1,026,515	2,139,518
Software commitment	235,761	324,572	-	560,333

#### 22. Subsequent events

Subsequent to September 30, 2018, the Company renewed and extended its banking facility with Wells Fargo and ATB (see Note 9). The facility will be extended for an additional year with a new maturity date of Feb 17, 2020. The facility size has been decreased from \$100.0M to \$65.0M to correspond with current utilization and to manage the total cost of borrowing and associated stand-by fees. The facility contains an accordion feature allowing the facility to be increased up to \$100M should future originations exceed existing capacity. The terms and conditions of the renewal are broadly comparable to those currently being received.

The Company has a range of financial covenants related to the facility. The EBITDA covenant has been out of compliance since the portfolio acquisition announced on June 4, 2018 due to the impact of forward-looking provisions required by IFRS 9. The facility renewal adjusts the time frame of the EBITDA covenant to exclude the period of the portfolio purchase. As of the renewal date, Rifco is in compliance with all covenants.

#### 23. Portfolio acquisition

On June 4, 2018 the Company announced that it had acquired a \$25M loan portfolio originated by a competing Canadian auto loan corporation. The purchase has been accounted for as an asset acquisition as no continuing originations or existing obligations were acquired or assumed.

## **Rifco Inc.**

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

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#### **23. Portfolio acquisition (continued)**

The acquisition was completed pursuant to a loan purchase and sale agreement dated June 5, 2018 comprised of:

- a) Rifco National Auto Finance Corporation purchased the loans from the seller and immediately sold the loans into Rifco Trust, a special-purpose, bankruptcy-remote charitable trust. Rifco maintains control of the servicing of the assets and receives the residual interest from the trust in the form of deferred purchase price. Rifco Trust is consolidated for accounting purposes.
- b) Principal balance of loans acquired was \$24.8M plus accrued interest and fees
- c) Purchase price calculated on a loan-by-loan basis using a contractual formula that considered delinquency, recency, and other factors to evaluate the collectability of the loans.
- d) Total consideration paid was \$20.2M
- e) Funding raised for the purchase consisted of a \$16.0M term loan to Rifco Trust provided by funds managed by Ares Management L.P. and the issuance of \$4.5M in subordinated debt by Rifco National Auto Finance.
- f) The difference between the acquired finance receivables balance and the purchase price consideration was recorded as an unamortized discount. The unamortized discount is reflected as part of the finance receivables – net balance and will accrete into financial revenue over time on an effective interest rate method as the loan balances reduce.
- g) The Company had been servicing the loans since April 2018 as replacement servicer and is continuing to service the loans.
- h) The seller has given various representations and warranties and Rifco has retained holdback funds as a bond. The funds will be released in stages over the following 12 months. The holdback was recorded in accounts payable and accruals.

Upon acquisition of the portfolio, and under IFRS 9, the Company had to immediately recognize loan loss provisions for expected credit losses. Note that this provision, recorded at acquisition, is not related to, or indicative of, the valuation of the portfolio in any way. The provisions do not consider the discount between the purchase price and the underlying loan balances. For details of the provision, see note 5.



For the period ended September 30, 2018

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

The following discussion should be read in conjunction with the consolidated interim financial statements for the quarter ended September 30, 2018, the consolidated financial statements for the year ended March 31, 2018 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 26, 2018.

The consolidated interim financial statements of Rifco Inc. (Rifco, Company) have been prepared in accordance with International Financial Reporting Standards 34 (IFRS) as issued by the International Accounting Standards Board (IASB) including International Accounting Standards 34, 'Interim Financial Reporting' (IAS 34).

The Company’s website is [www.rifco.net] and all previous public Company filings are available through SEDAR [www.sedar.com].

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## Cautionary Statement

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com). 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, these being loan performance and continued access to capital. All future looking statements are made with the assumption that loans will perform as modelled 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.

## 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. For clarity, specifically defined non-IFRS measures are capitalized throughout this document.

Management believes that some non-IFRS measures are useful for investors to use to evaluate the performance of the Company without certain IFRS requirements that some investors may consider to be unrelated to the underlying economic performance of the Company. **Management uses these non-IFRS measures to evaluate the performance of the Company.**

Specifically, management presents an Adjusted Net Income measure, along with related Adjusted sub-totals to arrive at the Adjusted Net Income. Adjusted Net Income Per Common Share, Adjusted Return on Adjusted Equity ratio and Adjusted Return on Earning Assets ratios are presented where Adjusted Net Income is used in the calculation in place of Net Income. **These measures do not have any standardized meaning under IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.**

**For the Description of Non-IFRS Measures please refer to the section "Description of Non-IFRS Measures".**

## Rifco Overview

Rifco is focused on being the best alternative auto finance through its wholly owned subsidiary Rifco National Auto Finance Corporation. Our mission is to help deserving Canadians own automobiles. Rifco is Canada's largest publicly traded alternative auto finance company.

Rifco seeks to create sustainable long-term competitive advantages through personalized partnerships with dealers, innovative products, the use of industry-leading data and analytics, and leading collections practices. Rifco's corporate culture fosters employees that are highly engaged, innovative, and performance driven.

Rifco is committed to creating value for all stakeholders through profitable growth and predictable credit performance, while pursuing its long-term vision of \$500M in annual loan Originations.

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 \$950 million.

## Strategic Perspective

The Company manages two main strategic risk factors. First, the Company must possess competencies that drive acceptable credit performance. Second, 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. 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 near-prime or non-prime financing for these purchases.

Rifco's major competitors include two large Canadian banks that currently control a large portion of the near-prime ("B" & "C" credit) market in Canada. In addition a number of mid-sized and smaller competitors exist throughout the near-prime and non-prime credit spectrum. Prior competitive behavior, which management had thought to be unprofitable and ultimately unsustainable appears to be negatively impacting some players in the industry. Management is seeing rationalization within the industry as competitors consolidate, sell assets and cease operations.

The Company remains focused on credit quality and deepening relationships with a growing network of loyal dealers. Rifco is enhancing its competitive service advantage through improved convenience of funding, industry leading speed in application adjudication and its Fast Forward 500 loyalty program. Rifco will maintain its disciplined underwriting and focus on quality in this competitive market.

Rifco continues to regularly enroll new dealer partners while working to increase loan Originations with existing loyal dealer partners. Rifco is working actively to develop new initiatives that it expects will positively affect loan Originations while maintaining the Company's focus on loan credit quality.

The Canadian economy has recently been demonstrating a robust GDP growth rate. Inflationary pressures are beginning to be a concern for the Bank of Canada which could lead to further increases in interest rates. However, numerous potential macro-economic shocks could significantly change any forecasts. As well, there remains significant regional disparity with the energy producing regions of Canada underperforming relative to large urban centers. Employment overall is gaining strength, although without commensurate pressures on wages.

## **Key Period-to-Date Performance as Measured Against Annual Targets**

Please note the Company results as reported against the specific fiscal year 2019 objectives released with the 2018 Annual Report:

1. **Achieve Loan Originations of \$120M**  
Loan Originations for the first six months reached \$45.1M. **Progress to target 38%.**
2. **Achieve Finance Receivables of \$250M**  
Finance Receivables at September 30, 2018 are \$242.3M. **97% of target.**
3. **Achieve Credit Spread Rate of 11.40%**  
Year-to-date Credit Spread Rate of 10.30%. **Behind target by 110 basis points.**
4. **Achieve Adjusted Net Income \$5.0M**  
Adjusted Net Income for the first six months is \$0.7M. **Progress to target 14%.**



## Results of Operations

The results of operations and its cash flows for the quarter are presented in accordance with IFRS except for the Adjusted line items.

The Company is reporting the following results over the comparable periods:

	As at		
	Sep 30, 2018	Mar 31, 2018	Sep 30, 2017
<b>(\$,000's except per share and ratios)</b>			
Total Assets	243,204	241,286	243,783
Total Liabilities	214,649	207,337	210,103
Adjusted Equity	37,213	36,965	36,926
Equity	28,555	33,949	33,681

	Three months ended		Six months ended	
	Sep 30, 2018	Sep 30, 2017	Sep 30, 2018	Sep 30, 2017
<b>(\$,000's except per share and ratios)</b>				
Financial Revenue	10,947	8,607	20,959	16,965
Operating Expenses	3,275	2,608	6,212	5,379
Adjusted Total Comprehensive (Loss) Income	(758)	(121)	690	289
Net (Loss) Income	(870)	238	(1,569)	33
Adjusted Net (Loss) Income Per Common Share - Basic	\$ (0.035)	\$ (0.006)	\$ 0.032	\$ 0.013
Adjusted Net (Loss) Income Per Common Share - Diluted	\$ (0.035)	\$ (0.006)	\$ 0.032	\$ 0.013
(Loss) Earnings per share - Basic	\$ (0.040)	\$ 0.011	\$ (0.073)	\$ 0.002
(Loss) Earnings per share - Diluted	\$ (0.040)	\$ 0.011	\$ (0.073)	\$ 0.002
Originations	19,295	27,797	45,104	57,229
Average Loan Receivables	244,613	230,357	237,807	227,795
Delinquency Rate	5.19%	5.97%	5.19%	5.97%
Net Portfolio Yield	17.90%	14.95%	17.62%	14.89%
Credit Losses	3,961	3,651	8,715	6,629
Financial Expense Ratio	5.03%	4.10%	4.92%	4.04%
Annualized Credit Loss Rate	6.48%	6.34%	7.33%	5.82%
Operating Expense Ratio	5.36%	4.53%	5.22%	4.72%
Adjusted Return On Adjusted Equity	(8.07%)	(1.31%)	3.71%	1.57%
Return On Equity	(12.02%)	2.84%	(10.05%)	0.20%

Total financial revenue for the quarter is the largest ever recorded by the Company. Total financial revenue increased by 27.2% to \$10.9M from \$8.6M in the comparable quarter as a result of increases in both Net Portfolio Yield and Loan Receivables. The \$10.9M total financial revenue during the quarter represented an increase of 9.3% from \$10.0M in the preceding quarter. Net Portfolio Yield and Loan Receivables were both positively affected by the purchase of a portfolio of loans at the beginning of June 2018.

Net loss for the quarter was \$0.9M. Adjusted Net Income and Net Income were positively impacted by a 165 basis point improvement in the Credit Loss rate to 6.48% from 8.13% in the preceding quarter. The Credit Loss rate is 14 basis points higher than the 6.34% experienced in the comparable quarter. Total Credit Losses, including costs and net of recoveries, were \$0.3M higher than the comparable quarter, but were \$0.8M lower than the preceding quarter.

The Company posted Originations of \$19.3M, a 25.2% decrease from \$25.8M in the preceding quarter and a 30.6% decrease from \$27.8M in the comparable quarter. Originations slowed during the quarter as Management focused on completing the rollout of a new, industry leading credit model. The new credit model was successfully implemented subsequent to the quarter end.

Average Loan Receivables during the quarter increased by 6.2% to \$244.6M from \$230.4M in the comparable quarter mainly as a result of the purchase of a Loan Receivable portfolio which was included in the entire quarter for the first time since the purchase in June 2018. Average Loan Receivables increased 4.5% from \$234.0M in the preceding quarter. Average Loan Receivables of \$244.6M were second only to the \$247.3M Average Loan Receivables in the fourth quarter of 2015 as the largest Average Loan Receivables in the history of the Company.

The Company is reporting Adjusted Income Before Taxes of \$0.6M, an increase of \$0.6M from the comparable quarter and an increase of \$1.1M from Adjusted Loss Before Taxes of \$0.5M in the preceding quarter. Adjusted Income Before Taxes removes the effect of both non-cash provisions and taxes on Net Income. Adjusted Income Before Taxes accounts for the actual Credit Losses incurred in the period and is the measure that management uses to evaluate the performance of the Company in the period as it removes the volatility associated with the effect of estimates and assumptions. The Company is reporting Net Loss of \$0.9M, a decrease of \$1.1M from the comparable quarter Net Income of \$0.2M.

Rifco reported Adjusted Net Loss per Share in the quarter of \$0.035, a decrease of \$0.029 from the comparable quarter and a decrease of \$0.102 from the preceding quarters' Net Income per Share of \$0.067.

The Delinquency Rate decreased by 78 basis points to 5.19% from 5.97% in the comparable quarter and a decrease of 7 basis points from 5.26% in the preceding quarter. The Delinquency Rate in the quarter is the lowest since the second quarter of fiscal 2017.

Credit Losses, including costs and net of recoveries, are \$4.0M, a decrease of 16.7% from \$4.8M in the preceding quarter and an increase of 8.5% from \$3.7M in the comparable quarter. Credit losses in the quarter were outside of the Company's modeled results. Increased numbers of voluntarily surrendered vehicles and increased unrecoverable vehicles contributed to poor results in a number of Rifco's credit tiers.

The annualized Credit Loss Rate increased by 14 basis points to 6.48% from 6.34% in the comparable quarter. The Credit Loss Rate decreased by 165 basis points from 8.13% in the preceding quarter.

Gross Portfolio Yield for the quarter at 19.36% is the highest since the first quarter of fiscal 2014. Gross Portfolio Yield increased 284 basis points from 16.52% in the comparable quarter. This is also an increase of 63 basis points from the preceding quarters' 18.73% Gross Portfolio Yield. Net Portfolio Yield of 17.90% is an increase of 296 basis points from the comparable quarter and an increase of 79 basis points from the preceding quarter. Increasing Gross and Net Portfolio Yields were achieved despite the reduction in the Delinquency Rate.

Credit Spread is the most important measure used by Management to evaluate the performance of the Loan Receivables over a period. Credit Spread increased by 41.0% to \$7.0M from \$5.0M in the comparable quarter. Credit Spread Rate increased by 281 basis points from 8.61% in the comparable quarter to 11.42% in the current quarter. Management continues to originate and service a portfolio of loans that generate a significantly larger Credit Spread than historical results suggest.

The Financial Expense Ratio increased 93 basis points to 5.03% compared to 4.10% in the comparable quarter. The Financial Expense Ratio increased 28 basis points from 4.75% in the preceding quarter. Unsecured Debentures increased from \$8.3M at the prior fiscal year end to \$13.0M in the current quarter, a 57% increase.

Operating expenses increased by 25.6% to \$3.3M from \$2.6M in the comparable quarter and an increase of 11.5% from \$2.9M in the prior quarter. The Operating Expense Ratio increased by 83 basis points to 5.36% compared to 4.53% in the comparable quarter. The Operating Expense Ratio increased 34 basis points from 5.02% in the preceding quarter. Operating expenses experienced some increases due to changes in the Loan Servicing and Recoveries division as the Company continues to manage higher than expected Credit Losses. As the Delinquency Rate and Credit Loss Rate improve, the Operating Expense Ratio should return to lower levels.

Rifco is in regular contact with all of its funders and remains optimistic regarding the availability of increasing amounts of Bank Borrowing and Securitized Facilities as needed. The Company currently has \$93.7M in facility availability for deployment.

Modified Funds Flow from Operations represents implicit cash value to shareholders on a periodic basis. Modified Funds Flow from Operations was \$1.6M during the quarter, an increase of \$0.6M from \$1.0M in the comparable quarter. Modified Funds Flow from Operations of \$0.08 per share in the current quarter, is an increase from \$0.05 per share in the comparable period.

The company recorded \$1.4M in income tax expense on \$0.5M in net income before taxes. This compares to \$1.9M in income tax recovery on a net loss before taxes of \$2.6M in the prior quarter. The current period was impacted by timing differences in the deductibility of certain expenses associated with finance receivables. The prior period was impacted by the transition to IFRS 9. The volatility of reported income tax rates are a reflection of the differences between IFRS net income and taxable income. Volatility in tax rates are not an accurate reflection of the underlying business results.

The Company's management is focused on improving its credit performance. Predictable credit performance is imperative to achieving the Company's long-term vision of \$500M in annual loan Originations.

## Comparative Results for Period

All income and expense items are measured against the average outstanding Loan Receivables in the quarter.

	For the three months ended				For the six months ended			
	Sep 30, 2018		Sep 30, 2017		Sep 30, 2018		Sep 30, 2017	
	% of Loan Receivables		% of Loan Receivables		% of Loan Receivables		% of Loan Receivables	
<b>(\$,000's except ratios and per share)</b>								
Average Loan Receivables for the period	244,613		230,357		237,807		227,795	
Financial revenue	10,947	17.90%	8,607	14.95%	20,959	17.63%	16,965	14.89%
Credit Losses	3,961	6.48%	3,651	6.34%	8,715	7.33%	6,629	5.82%
<b>Credit Spread<sup>1</sup></b>	<b>6,986</b>	<b>11.42%</b>	<b>4,956</b>	<b>8.61%</b>	<b>12,244</b>	<b>10.30%</b>	<b>10,336</b>	<b>9.07%</b>
Financial expenses	3,074	5.03%	2,364	4.10%	5,850	4.92%	4,602	4.04%
<b>Adjusted Net Financial Income Before Operating Expenses<sup>1</sup></b>	<b>3,912</b>	<b>6.39%</b>	<b>2,592</b>	<b>4.51%</b>	<b>6,394</b>	<b>5.38%</b>	<b>5,734</b>	<b>5.03%</b>
Operating Expenses	3,275	5.36%	2,608	4.53%	6,212	5.22%	5,379	4.72%
<b>Adjusted Income (loss) Before Taxes<sup>1</sup></b>	<b>637</b>	<b>1.03%</b>	<b>(16)</b>	<b>(0.02%)</b>	<b>182</b>	<b>0.16%</b>	<b>355</b>	<b>0.31%</b>
Income tax (expense) recovery	(1,395)	(2.28%)	(105)	(0.18%)	508	0.43%	(66)	(0.06%)
<b>Adjusted Total Comprehensive (Loss) Income<sup>1</sup></b>	<b>(758)</b>	<b>(1.25%)</b>	<b>(121)</b>	<b>(0.20%)</b>	<b>690</b>	<b>0.59%</b>	<b>289</b>	<b>0.25%</b>
Increase in Provision for Impairment	112	0.18%	(359)	(0.62%)	2,259	1.90%	256	0.22%
<b>Comprehensive (loss) income</b>	<b>(870)</b>	<b>(1.43%)</b>	<b>238</b>	<b>0.42%</b>	<b>(1,569)</b>	<b>(1.31%)</b>	<b>33</b>	<b>0.03%</b>
Adjusted Net (Loss) Income Per Common Share <sup>1</sup>								
Basic	\$ (0.035)		\$ (0.006)		\$ 0.032		\$ 0.013	
Diluted	\$ (0.035)		\$ (0.006)		\$ 0.032		\$ 0.013	
Net (loss) Income per common share								
Basic	\$ (0.040)		\$ 0.011		\$ (0.073)		\$ 0.002	
Diluted	\$ (0.040)		\$ 0.011		\$ (0.073)		\$ 0.002	

<sup>1</sup> See the section "Description of Non-IFRS Measures" for these definitions.

## Financial revenue

	For the three months ended				For the six months ended			
	Sep 30, 2018		Sep 30, 2017		Sep 30, 2018		Sep 30, 2017	
	% of Loan Receivables		% of Loan Receivables		% of Loan Receivables		% of Loan Receivables	
(\$,000's except ratios)								
Average Loan Receivables for the period	244,613		230,357		237,807		227,795	
Interest Income	10,390	16.99%	9,097	15.80%	19,328	16.26%	17,933	15.74%
Discount Income	1,116	1.82%	272	0.47%	2,911	2.45%	504	0.44%
Fee Income	334	0.55%	146	0.25%	560	0.47%	295	0.26%
<b>Gross Financial Revenue</b>	<b>11,840</b>	<b>19.36%</b>	<b>9,515</b>	<b>16.52%</b>	<b>22,799</b>	<b>19.17%</b>	<b>18,732</b>	<b>16.44%</b>
Loan Origination and acquisition costs	(893)	(1.46%)	(908)	(1.58%)	(1,840)	(1.55%)	(1,767)	(1.55%)
<b>Financial revenue</b>	<b>10,947</b>	<b>17.90%</b>	<b>8,607</b>	<b>14.94%</b>	<b>20,959</b>	<b>17.62%</b>	<b>16,965</b>	<b>14.89%</b>

Total financial revenue for the quarter is the largest ever recorded by the Company. Total financial revenue increased by 27.2% to \$10.9M from \$8.6M in the comparable quarter as a result of increases in both Net Portfolio Yield and Loan Receivables. The \$10.9M total financial revenue during the quarter represented an increase of 9.3% from \$10.0M in the preceding quarter. Net Portfolio Yield and Loan Receivables were both positively affected by the purchase of a portfolio of loans at the beginning of June 2018.

Average Loan Receivables during the quarter increased by 6.2% to \$244.6M from \$230.4M in the comparable quarter mainly as a result of the purchase of a Loan Receivable portfolio which was included in the entire quarter for the first time since the purchase in June 2018. Average Loan Receivables increased 4.5% from \$234.0M in the preceding quarter. Average Loan Receivables of \$244.6M were second only to the \$247.3M Average Loan Receivables in the fourth quarter of 2015 as the largest Average Loan Receivables in the history of the Company.

When the Company originates or purchases a Loan Receivable, certain expenses are incurred. The largest of these expenses when a loan is originated is the commission paid to dealers. The Origination expenses are amortized over the life of the Loan Receivable and are netted against Interest Income. The amortization of Origination expenses decreased slightly by 1.7% to \$0.9M from \$0.9M in the comparable quarter.

Gross Portfolio Yield for the quarter at 19.36% is the highest since the first quarter of fiscal 2014. Gross Portfolio Yield is comprised of the interest, discount, and fees earned before expensing the amortization of Origination costs. Gross Portfolio Yield increased 284 basis points from 16.52% in the comparable quarter to 19.36% in the current quarter. This is also an increase of 63 basis points from the preceding quarters' 18.73% Gross Portfolio Yield. Some of the increase in Gross Portfolio Yield is due to the purchase of a relatively higher yielding portfolio of Loan Receivables in June 2018. Yields will be impacted as these purchased loans run down, however current originations are at higher yields than historical originations. Net Portfolio Yield of 17.90% is an increase of 296 basis points from the comparable quarter and an increase of 79 basis points from the preceding quarter.

The majority of Loan Receivables are comprised of vehicle purchase loans that are generally priced at risk-adjusted annual interest rates between 10% and 32%. During the quarter Rifco introduced a fee to its borrowers at the time of Origination of the Loan Receivables. Management expects this fee will have minimal to no impact on the level or originations as all of the Company's competitors charge a similar fee. The Company also collects certain registration fee expenses from borrowers at the time of Originations. The Company collects NSF fees, account change fees, and certain third-party expense fees, as earned, during the servicing of Loan Receivables.

Additionally, the Company has a non-prime ("D credit") lending program that is being offered through limited dealer partners. As part of the program, GPS and starter interrupter devices are required to be installed on each financed vehicle. The program delivers the Company a Net Portfolio Yield between 33% and 44%. The dealer partners pay a discount fee to the Company for each loan in the program which increases the Net Portfolio Yield while not exceeding annual interest rates of 32%. Increased

balances in this program, along with the discount on the purchase of the Acquired Portfolio, is responsible for the Discount Income increasing to \$1.1M in the quarter from \$0.3M in the comparable quarter. Discount Income in the current quarter contributes 1.82% to the Net Portfolio Yield, down 8 basis points from 1.90% in the preceding quarter and up 135 basis points from 0.47% in the comparable quarter of the prior year.

## Credit Losses

Management intends to originate a portfolio of Finance Receivables that will generate Interest Income sufficient to compensate for the underwriting risk and to maintain a positive profit margin. Credit Losses are budgeted as a significant expense. 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.

	For the three months ended				For the six months ended			
	Sep 30, 2018		Sep 30, 2017		Sep 30, 2018		Sep 30, 2017	
	% of Loan		% of Loan		% of Loan		% of Loan	
	Receivables		Receivables		Receivables		Receivables	
<b>(\$,000's except ratios)</b>								
Average Loan Receivables for the period	244,613		230,357		237,807		227,795	
Credit Losses - net of recoveries	3,417	5.59%	3,268	5.67%	7,708	6.48%	5,884	5.17%
Repossession and recovery costs	544	0.89%	383	0.67%	1,007	0.85%	745	0.65%
<b>Total Credit Losses</b>	<b>3,961</b>	<b>6.48%</b>	<b>3,651</b>	<b>6.34%</b>	<b>8,715</b>	<b>7.33%</b>	<b>6,629</b>	<b>5.82%</b>

Credit Losses, including costs and net of recoveries, are \$4.0M, an increase of 8.5% from \$3.7M in the comparable quarter and a decrease of 16.7% from \$4.8M in the preceding quarter.

The Delinquency Rate decreased by 78 basis points to 5.19% from 5.97% in the comparable quarter and a decrease of 7 basis points from 5.26% in the preceding quarter.

## Credit Loss policy

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 90 days in arrears or 120 days in arrears where the Company has gained possession of the vehicle collateral. Credit Loss balances are continually pursued either through Rifco's employed collectors or through third party collection agency services. Recoveries are applied accordingly.

## Credit Spread

	For the three months ended				For the six months ended			
	Sep 30, 2018		Sep 30, 2017		Sep 30, 2018		Sep 30, 2017	
	% of Loan		% of Loan		% of Loan		% of Loan	
	Receivables		Receivables		Receivables		Receivables	
<b>(\$,000's except ratios)</b>								
Average Loan Receivables for the period	244,613		230,357		237,807		227,795	
Financial revenue	10,947	17.90%	8,607	14.95%	20,959	17.63%	16,965	14.89%
Credit Losses	3,961	6.48%	3,651	6.34%	8,715	7.33%	6,629	5.82%
<b>Credit Spread</b>	<b>6,986</b>	<b>11.42%</b>	<b>4,956</b>	<b>8.61%</b>	<b>12,244</b>	<b>10.30%</b>	<b>10,336</b>	<b>9.07%</b>

Credit Spread is the most important measure used by Management to evaluate the performance of the Loan Receivables over a period. Credit Spread increased by 41.0% to \$7.0M from \$5.0M in the comparable quarter. Credit Spread Rate increased by 281 basis points from 8.61% in the comparable quarter to 11.42% in the current quarter. This increase was due to the increase in the Credit Loss Rate being more than offset by the increase in the Net Portfolio Yield. While a portion of the increase in the Net Portfolio Yield is due to the purchase of a higher yielding portfolio of Loan Receivables in June 2018, Net Portfolio Yield is also being affected by Loan Receivable Originations at higher than historical yields. Management continues to originate and service a portfolio of loans that generate a significantly larger Credit Spread than historical results suggest.

## Financial expenses

	For the three months ended				For the six months ended			
	Sep 30, 2018		Sep 30, 2017		Sep 30, 2018		Sep 30, 2017	
	% of Loan		% of Loan		% of Loan		% of Loan	
	Receivables		Receivables		Receivables		Receivables	
<b>(\$,000's except ratios)</b>								
Average Loan Receivables for the period	244,613		230,357		237,807		227,795	
Interest Expense	3,074	5.03%	2,364	4.10%	5,850	4.92%	4,602	4.04%

Interest Expense includes interest paid on Bank Borrowings, Securitization Debt, and Unsecured Debentures and fees paid on Bank Borrowing.

The Financial Expense Ratio increased 93 basis points to 5.03% compared to 4.10% in the comparable quarter. Increases in associated benchmark rates impacted by the decision of the Bank of Canada to increase the target for the overnight rate impacted the Financial Expense Ratio as seen in the increase of 28 basis points from 4.75% in the preceding quarter. Financial Expense Ratio was also impacted by the term loan and increased debentures used to finance the purchase of the portfolio of Loan Receivables.

## Operating expenses

	For the three months ended				For the six months ended			
	Sep 30, 2018		Sep 30, 2017		Sep 30, 2018		Sep 30, 2017	
	% of Loan		% of Loan		% of Loan		% of Loan	
	Receivables		Receivables		Receivables		Receivables	
<b>(\$,000's except ratios)</b>								
Average Loan Receivables for the period	244,613		230,357		237,807		227,795	
<b>Operating expenses</b>								
Wages and benefits	2,228	3.64%	1,730	3.00%	4,213	3.54%	3,616	3.17%
Professional fees	122	0.20%	138	0.24%	240	0.20%	266	0.23%
Office and general	769	1.26%	661	1.15%	1,471	1.24%	1,268	1.11%
Stock based compensation	84	0.14%	26	0.05%	169	0.14%	117	0.10%
Depreciation & ammortization	72	0.12%	53	0.09%	119	0.10%	112	0.10%
<b>Total Operating expenses</b>	<b>3,275</b>	<b>5.36%</b>	<b>2,608</b>	<b>4.53%</b>	<b>6,212</b>	<b>5.22%</b>	<b>5,379</b>	<b>4.72%</b>

Operating expenses increased by 25.6% to \$3.3M from \$2.6M in the comparable quarter and an increase of 11.5% from \$2.9M in the prior quarter. The Operating Expense Ratio increased by 83 basis points to 5.36% compared to 4.53% in the comparable quarter. The Operating Expense Ratio increased 34 basis points from 5.02% in the preceding quarter. Operating expenses experienced some increases due to changes in the Loan Servicing and Recoveries division as the Company continues to manage higher than expected Credit Losses. As the Delinquency Rate and Credit Loss Rate improve, the Operating Expense Ratio should return to lower levels.

Management believes that ongoing infrastructure investments and benefits of increasing scale will ultimately result in improving operating efficiency. This will be reflected in continued improvement in the Operating Expense Ratio and the Efficiency Ratio over time.



## Interim MD&A – Quarterly Highlights

For the fiscal periods ended	2019		2018				2017		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>(\$,000's except per share &amp; ratios)</b>									
Finance Receivables	242,274	253,848	232,750	236,043	235,294	232,573	227,165	225,129	221,600
Total assets	243,204	255,303	241,286	244,998	243,783	242,536	238,325	236,348	231,605
Total liabilities	214,649	225,962	207,337	210,875	210,103	209,119	204,795	203,686	199,678
Adjusted Equity	37,213	37,917	36,965	37,150	36,926	36,924	36,589	35,952	35,286
Shareholders' equity	28,555	29,341	33,949	34,122	33,681	33,417	33,530	32,662	31,927
Adjusted Book Value Per Share	\$ 1.72	\$ 1.76	\$ 1.71	\$ 1.72	\$ 1.71	\$ 1.71	\$ 1.69	\$ 1.66	\$ 1.64
Book Value Per Share	\$ 1.32	\$ 1.36	\$ 1.57	\$ 1.58	\$ 1.56	\$ 1.55	\$ 1.55	\$ 1.51	\$ 1.48
Stock price	\$ 1.15	\$ 1.25	\$ 1.09	\$ 1.22	\$ 1.45	\$ 1.59	\$ 1.55	\$ 1.65	\$ 1.84
<b>For the Period:</b>									
Finance Receivables originated	19,295	25,809	21,663	24,883	27,797	29,433	24,274	26,063	23,743
Average Loan Receivables	244,613	234,041	231,407	232,499	230,357	225,576	222,912	219,203	218,217
Total financial revenue	10,947	10,011	8,766	8,991	8,607	8,358	8,247	8,369	8,456
Adjusted Net Income (loss) before taxes	637	(457)	(310)	235	(16)	372	744	813	1,017
Net Income (loss) before taxes	525	(2,603)	(296)	534	343	(244)	1,061	908	851
Adjusted Net (loss) Income	(758)	1,446	(262)	69	(121)	410	440	536	750
Net (loss) Income	(870)	(700)	(248)	368	238	(205)	757	631	584
<b>Adjusted Net (loss) Income per Common Share:</b>									
Basic	\$ (0.035)	\$ 0.067	\$ (0.012)	\$ 0.003	\$ (0.006)	\$ 0.019	\$ 0.020	\$ 0.025	\$ 0.035
Diluted	\$ (0.035)	\$ 0.067	\$ (0.012)	\$ 0.003	\$ (0.006)	\$ 0.019	\$ 0.020	\$ 0.025	\$ 0.035
<b>(Loss) Income per Common Share:</b>									
Basic	\$ (0.040)	\$ (0.032)	\$ (0.011)	\$ 0.017	\$ 0.011	\$ (0.010)	\$ 0.035	\$ 0.029	\$ 0.027
Diluted	\$ (0.040)	\$ (0.032)	\$ (0.011)	\$ 0.017	\$ 0.011	\$ (0.010)	\$ 0.035	\$ 0.029	\$ 0.027
<b>Loan Receivable Performance Measures: <sup>(1)</sup></b>									
Net Portfolio Yield	17.90%	17.11%	15.15%	15.47%	14.95%	14.82%	14.59%	15.27%	15.50%
Credit Loss Rate	6.48%	8.13%	6.28%	6.03%	6.34%	5.28%	4.69%	5.40%	5.35%
Credit Spread	11.42%	8.98%	8.87%	9.44%	8.61%	9.54%	9.89%	9.87%	10.15%
Delinquency over 30 days	5.19%	5.26%	6.44%	6.01%	5.97%	5.86%	5.32%	4.97%	5.12%
<b>Performance Measures: <sup>(1)</sup></b>									
Efficiency Ratio	29.92%	29.34%	32.68%	30.51%	30.30%	33.16%	32.09%	28.41%	26.66%
Leverage Ratio	8.52	8.70	7.11	7.18	7.24	7.26	7.11	7.24	7.25
Adjusted Return on Adjusted Equity <sup>(2)</sup>	(8.07%)	15.45%	(2.83%)	0.75%	(1.31%)	4.46%	4.86%	6.02%	8.60%
Return on Equity	(12.02%)	(8.85%)	(2.91%)	4.34%	2.84%	(2.45%)	9.16%	7.81%	7.40%
<b>Ratios: <sup>(1)</sup></b>									
Financial Expense Ratio	5.03%	4.75%	4.45%	4.31%	4.10%	3.97%	4.02%	4.05%	4.16%
Operating Expense Ratio	5.36%	5.02%	4.95%	4.72%	4.53%	4.91%	4.68%	4.34%	4.13%
Adjusted Return on Earning Assets	(1.24%)	2.47%	(0.45%)	0.12%	(0.21%)	0.74%	0.79%	0.98%	1.37%
Return on Earning Assets	(1.42%)	(1.20%)	(0.43%)	0.63%	0.41%	(0.35%)	1.36%	1.15%	1.07%

<sup>(1)</sup> Percentages have been annualized, except Efficiency Ratio and Delinquency over 30 days

<sup>(2)</sup> Q1 2019 Adjusted Return on Adjusted Equity impacted by \$1.9M income tax recovery

## Asset Review

### Finance Receivables

Finance Receivables increased by \$9.5M from \$232.8M at March 31, 2018 to \$242.3M at current quarter end.

The Company originates Finance Receivables from credit 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.

	As at			
	Sep 30, 2018		Mar 31, 2018	
<b>(\$,000's except ratios)</b>				
Finance Receivables - Securitized	129,884	53.61%	133,131	57.20%
Finance Receivables - Securitized (Over Collateralization) <sup>(1)</sup>	18,785	7.75%	19,082	8.20%
Finance receivables - Rifco Trust	19,155	7.91%	-	0.00%
Finance Receivables - Owned	74,450	30.73%	80,536	34.60%
<b>Total</b>	<b>242,274</b>	<b>100.00%</b>	<b>232,749</b>	<b>100.00%</b>

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

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

To protect against the risk of prepayment and credit losses, the 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. 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 reduces the Company's Interest Expense.

At quarter end, the total Cash Holdback was \$5.1M compared to \$6.1M at the prior year end. During the quarter, the Company received Cash Holdback releases of \$1.8M compared to \$1.7M in the preceding quarter and \$2.8M in the same quarter of the prior year. 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 Company's maximum exposure to Credit Losses on Securitized Finance Receivables. However, management is of the opinion that in typical circumstances the entirety of the Credit Losses will be borne by the Company.

Each of the Company's Securitization Facilities feature loan Over Collateralization. The ratio of Over Collateralization is between 5% and 20%, resulting in only a fraction of the Finance Receivables payment stream being Securitized. As payments are collected from borrowers, the Company is obligated to remit a portion of each payment to the Securitizer. The remaining collected payments are retained by the Company.

In the event that the Company breached its facility covenants, or if the Cash Holdback fell below the required percentage (applicable for facilities which have a requirement for cash holdback) of the total debt in the Securitization Facility, the Company would be required to remit the borrowers' entire monthly payment (100%) to the Securitizer. Under this scenario, the Company's share of each borrower's payment would be deposited into a Cash Holdback account until the facility default is resolved.

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

	As at	
	Sep 30, 2018	Mar 31, 2018
<b>(\$,000's)</b>		
Total Securitization Debt	147,457	153,081
Total Cash Holdback	(5,050)	(6,142)
Securitized Debt	142,407	146,939

### Origination costs

When the Company originates a Finance Receivable, certain expenses are incurred. These expenses include commission paid to dealers, security registration, credit reports obtained, internet portal costs, and vehicle valuation reports. The largest of these expenses is the commission payments paid to dealers. The Origination expenses are amortized over the life of the Finance Receivable and are netted against Interest Income.

### Deferred income tax asset

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

### Provision for Impairment

As detailed in note 4 of the Notes to the Consolidated Interim Financial Statements for the three months ended June 30, 2018 the Company adopted IFRS 9 at the beginning of the current fiscal year. IFRS 9 replaces the previous incurred loss model with an expected credit loss model. Prior periods comparative information has not been restated.

The adoption of IFRS 9 does not impact the ultimate net charge-off rate of the Company's finance receivable portfolio, which is driven by borrowers' credit profile and behavior. The Company will continue to write off loans over 90 days past due, for which the Company has not successfully repossessed its security and loans over 120 days in the remaining cases. IFRS 9 only changes the timing of the recognition of loan losses.

Likewise, the cash flows used in and generated by the Company's finance receivables are not impacted by the adoption of IFRS 9 as any change in the estimated allowance for loan losses is a non-cash item.

The provisions applied through IFRS 9, and ultimate carrying value of finance receivables, are not a reflection of the actual economic value of the loan portfolio, but rather, a calculation of the acquisition cost minus future expected losses with no recognition of inherent value or future revenue.

	For the three months ended		For the six months ended	
	Sep 30, 2018	Sep 30, 2017	Sep 30, 2018	Sep 30, 2017
<b>(\$, 000's)</b>				
Credit Losses net of recoveries for the period	4,099	3,268	8,390	5,884
Repossession and recovery costs for the period	544	383	1,007	745
Provision for Impairment and Credit Losses for the period	(4,754)	(3,292)	(11,655)	(6,885)
(Increase) Decrease in Provision for Impairment	(111)	359	(2,258)	(256)

The Provision for Impairment was increased \$0.1M during the period as compared to a reduction of \$0.4M in the comparable period. Of the \$11.9M Provision for Impairment at September 30, 2018, \$8.2M was for assets categorized as Stage 1 which are considered to be performing, as compared to Stage 2 or 3 which are considered non-performing.

## Financial Capacity, Liability and Liquidity Review

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

To fund the Origination of Finance Receivables, the Company uses two Bank Borrowing facilities of \$102.5M and three Securitization Facilities totaling \$127.5M. The Company's combined credit facilities total \$230.0M of which there was \$93.7M in remaining capacity at quarter end.

### Facility availability summary

as at Sep 30, 2018 (\$, 000's)	Limit	Utilized	Available	Renewal Date
Bank Borrowing - Wells Fargo syndicate <sup>(1)</sup>	100,000	44,204	55,796	17-Feb-19
Bank Borrowing - Mountain View Credit Union <sup>(2)</sup>	2,500	2,494	6	Non-Expiring
Securitization - Securcor Trust <sup>(3)(5)</sup>	50,000	14,603	35,397	31-Jul-19
Securitization - Mountain View Credit Union <sup>(4)</sup>	47,500	45,035	2,465	Non-Expiring
Securitization - Canadian schedule I chartered bank <sup>(5)</sup>	30,000	26,186	-	30-Nov-18
<b>Total active facilities</b>	<b>230,000</b>	<b>132,522</b>	<b>93,664</b>	
<b>Non-readvancable facilities <sup>(6)</sup></b>	<b>80,953</b>	<b>80,953</b>	<b>-</b>	
<b>Total</b>	<b>310,953</b>	<b>213,475</b>	<b>93,664</b>	

<sup>(1)</sup> Utilized includes \$5M in letters of credit.

<sup>(2)</sup> Subordinated to Wells Fargo syndicate.

<sup>(3)</sup> Limit increased during the period. Facility renewed for new allocation of \$50M subsequent to quarter end.

<sup>(4)</sup> Revolving Securitization Facility.

<sup>(5)</sup> Calculated as the sum of Tranches received, does not include repayments, and does not equal Securitization Debt.

<sup>(6)</sup> Reported as the Securitization Debt that is now removed from facility utilization. Includes Term Debt. Amounts are not readvanceable.

The Company manages its liquidity and capital resources by utilizing financial leverage through a diversified and balanced approach. The Company's ability to access funding at competitive rates through various economic cycles, enables it to maintain necessary liquidity and is an important condition to future success.

The Company's primary sources of liquidity are (i) cash flows from operations, (ii) Bank Borrowing, (iii) Securitization, (iv) Unsecured Debentures (v) Term Debt, and (vi) equity. The Company's primary use of cash is the funding of Finance Receivables and the funding of working capital. Management has facility availability for the Company of \$93.7M at September 30, 2018 which is sufficient to fund the Company's anticipated near term needs for its existing operations.

In order to maintain access to liquidity from external sources, certain financial covenants must be maintained. From time to time, and typically at facility renewal, these covenants are subject to negotiation and revision. Management of the Company will, on occasion, take advantage of the good standing relationships it maintains with its funders to arrange for the revision of certain covenants.

Subsequent to the end of the quarter the Wells Fargo syndicate facility was extended for an additional year with a maturity date of Feb. 17, 2020. The facility size has been decreased from \$100M to \$65M to correspond with current utilization and manage the total cost of borrowing and associated stand-by fees. The facility contains an accordion feature allowing the facility to be increased up to \$100M. The terms and conditions of the renewal are broadly comparable to those currently being received.

During the quarter a July 2018 monthly trigger regarding the 3-month rolling loan loss ratio for one of the Company's Securitization Facilities was in excess of the prescribed limit. As a result, the funder had temporarily halted the acceptance of new Securitization tranches and the completion of scheduled Cash Holdback Releases. The Company is in productive dialogue with the funder and has received waiver of this covenant through the reporting period ending November 30, 2018. Renewal of the facility has been rescheduled for November 30, 2018 as the Company and the funder work on addressing the trigger such that funding through the facility, as well as restoration of Cash Holdback Releases. Management expects that changes in the renewal of the facility will reduce the chances of covenant breaches in the future.

The Company has also reviewed all its other borrowing agreements to determine if there are any cross-default consequences of the above breaches and has determined there is no material impact.

<b>Total liabilities to Tangible Net Worth ratio no greater than 8.00x</b>	<b>As at</b>		
	<b>Sep 30, 2018</b>	<b>Mar 31, 2018</b>	<b>Sep 30, 2017</b>
<b>(\$,000's except ratios)</b>			
Total liabilities	214,649	207,337	210,103
Tangible Net Worth	28,555	33,958	33,681
Total liabilities to Tangible Net Worth Ratio	7.52	6.11	6.24

<b>Rolling 4 Quarter EBITDA Interest Coverage ratio minimum of 1:1</b>	<b>For the periods ended</b>		
	<b>Sep 30, 2018</b>	<b>Mar 31, 2018</b>	<b>Sep 30, 2017</b>
<b>(\$,000's except ratios)</b>			
4Q EBITDA	9,639	10,508	11,666
4Q Interest	10,935	9,687	9,063
4Q Rolling EBITDA Ratio	0.88:1	1.08:1	1.29:1

### **Bank Borrowing**

The Company maintains a Bank Borrowing (registered secured debt holder) revolving credit facility with a \$100M limit. The Company is currently funding its loan Originations through this facility. The Bank Borrowing limit utilized was \$44.2M at quarter end. The facility is subject to certain financial and operating covenants. These covenants include a minimum EBITDA interest coverage ratio, a maximum debt to equity ratio, a maximum recourse debt to equity ratio, a credit performance (delinquency and loan losses) threshold, and a maximum total liabilities to Tangible Net Worth ratio. The EBITDA covenant has been out of compliance since the purchase of a portfolio of Loan Receivables in June 2018 due to the impact of forward-looking provisions required by IFRS 9. Subsequent to quarter end, the facility was renewed. The renewal adjusts the time frame of the EBITDA covenant to exclude the period of the portfolio purchase. As of the renewal date, Rifco is in compliance with all covenants.

The Company maintains a Bank Borrowing (registered secured revolving credit) facility with Mountain View Credit Union of \$2.5M. The Company has provided a general security agreement covering all Company assets that is subordinated to the registered senior debt holder. The facility does not have any expiry date. The balance utilized on the facility at period ended September 30, 2018 was \$2.5M.

### **Unsecured Debentures**

The Company issues Unsecured Debentures. Unsecured Debentures allow Rifco the right to redeem 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 allow Rifco certain rights to redeem the debentures upon a change of control of the Company. The Unsecured Debentures have an asset coverage covenant. Non-compliance with this covenant could result in the debenture holders declaring an event of default and requiring all amounts outstanding to be immediately due and payable. The Company was compliant for the reporting period. The Unsecured Debentures are non-retractable with maturity dates that vary between October 2018 and September 2023. The Company has been successful in renewing or replacing maturing Unsecured Debentures in the past.

Unsecured debentures issued and outstanding increased by \$4.7M year-to-date, from \$8.3M at March 31, 2018 to \$13.0M at quarter end. Unsecured debentures with a total principal value of \$4.5M were issued since March 31, 2018 during the year to partially finance the purchase of a portfolio of Loan Receivables.

### **Securitization Facilities**

The Company maintains Securitization Facilities with Securcor Trust and a Canadian Schedule I Charter Bank. The securitization debt with Securcor Trust and a Canadian Schedule I Charter Bank are annual committed facilities and future renewals are independent of previous facilities. The current annual commitment of the Securcor Trust facility is \$50M and

was utilized to \$14.6M at September 30, 2018. Renewal of the Securcor Trust facility occurred during the quarter. The next renewal of the facility is scheduled for July 31, 2019. The annual commitment of the Canadian Schedule I Charter Bank facility is \$30M and was utilized to \$26.2M at September 30, 2018. The Company has been successful in renewing or expanding these Securitization facilities in the past. Subsequent to the end of the quarter, the Company has successfully renewed the \$30M facility with the Canadian Schedule I chartered bank. Renewal of the Canadian Schedule I Charter Bank facility is scheduled for November 30, 2018.

The Securitization Facility with Securcor Trust is subject to certain covenants. These covenants include a maximum debt to tangible net worth ratio, a minimum tangible net worth covenant and a maximum delinquency and Credit Loss ratios. Non-compliance with any of these covenants could result in the Securitizer declaring an event of Default and restricting the Company from selling Finance Receivables into the trust, receiving future releases from the Cash Holdback or be forced to remit the full payment stream from Over Collateralized loans. The application of IFRS 9's forward-looking expected credit loss rules on the Loan Receivable portfolio acquired in June 2018, in advance of any revenue generated, and independent of any value assessment of the portfolio, required an expense of \$2.0M which was recorded in the period and impacted reported net income. Due to the application of this new accounting standard, the net income derived EBITDA covenant based on September 30, 2018 results is not compliant. In advance of the portfolio acquisition, Rifco was in open and positive communication with its funders regarding the projected IFRS 9 accounting impact of the portfolio acquisition on Net Income and related covenants. No changes to funding availability have been experienced as a result of the EBITDA covenant. Waivers have been received from securitizers that have EBITDA covenants.

The Securitization Facility with the Canadian Schedule I Charter Bank is subject to certain covenants. At quarter end, the Company is not in compliance with a monthly trigger regarding the 3-month rolling loan loss ratio. As a result, the funder had temporarily halted the acceptance of new securitization tranches and the completion of scheduled cash holdback releases. The Company is in productive dialogue with the funder and has received waiver of this covenant through the period ending November 30, 2018.

The Company maintains a \$47.5M Securitization Facility with Mountain View Credit Union. The Securitization Facility includes three additional Alberta credit unions, with Mountain View Credit Union acting as the syndication lead. Management believes that the proposed amalgamation of Connect First Credit Union and Mountain View Credit Union will have no adverse effect on the facility nor the relationship with the Company. The facility has no expiry date. The facility has a fixed limit of \$47.5M and was utilized to \$45.0M at quarter end.

The Company regularly securitizes loans in order to free up Bank Borrowing capacity, increase working capital and fix funding rates and terms.

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
- Management of key financial ratios
- Securitization pricing in context of other financing alternatives
- Income tax impact

If required, the Company's liquidity can be positively impacted by securitizing Owned Finance Receivables. Owned Finance Receivables have decreased by \$6.0M to \$74.5M from \$80.5M at March 31, 2018. Securitization of Finance Receivables would typically contribute net cash proceeds at the time of the transaction.

The Company Originated \$19.3M in Finance Receivables during the quarter and Securitized \$22.3M in loan principal representing 116% of Originations. Year-to-date the Company Originated \$45.1M in Finance Receivables and Securitized \$42.9M in loan principal representing 95% of Originations.

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 facilities and Securitized Facilities through the current fiscal period and beyond. Prudently, Management also continuously seeks out and cultivates relationships with potential new funders. The Company manages Origination rates, Credit Facilities, and Net Financial Margin 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.

## Term Debt

In order to partially finance the purchase of a portfolio of Loan Receivables the Company arranged a term loan of \$16.0M provided by funds managed by Ares Management L.P. As outlined in note 11 of the Notes to the Consolidated Interim Financial Statements for the six months ended September 30, 2018 the term debt is held in Rifco Trust, which has been set up exclusively to finance the Acquired Portfolio. The loan cannot be increased, cannot be re-advanced and has a term of four years. Principal payments of the loan are linked to the balances of the Acquired Portfolio. Management expects the Acquired Portfolio to have a run off rate faster than Rifco Originated Loan Receivables. The loan has certain covenants related to the performance of the Loan Receivables that were purchased with the proceeds of the loan. As at September 30, 2018 the balance on the loan has decreased by \$5.0M to \$11.0M.

## Cash flow measurements

The following tables contain non-IFRS measures and therefore should not be considered in isolation or as a substitute for measures prepared and presented in accordance with IFRS.

### Modified Funds Flow from Operations

	For the three months ended		For the six months ended	
	Sep 30, 2018	Sep 30, 2017	Sep 30, 2018	Sep 30, 2017
<b>(\$,000's except per share and number of shares)</b>				
Net cash flows from operating activities	9,060	(466)	(4,619)	(7,887)
Funds advanced on finance receivables	19,295	27,797	69,911	57,229
Principal collections of finance receivables	(26,769)	(21,807)	(51,997)	(43,216)
Credit Losses net of recoveries	(4,099)	(3,268)	(8,390)	(5,884)
Origination costs	1,984	369	(2,128)	1,072
Income taxes	-	235	(1,502)	646
Other receivables and prepaid expenses	2,162	(1,861)	4,619	7,887
Modified Funds Flow From Operations	1,633	999	5,894	9,847
Weighted average number of common shares (000's)	21,597	21,597	21,597	21,597
Modified Funds Flow From Operations per share	\$ 0.08	\$ 0.05	\$ 0.27	\$ 0.46

The Modified Funds Flow from Operations table provides useful information as it is not directly impacted by variability in the level of loan Originations. Modified Funds Flow from Operations represents cash generation for the period excluding activities relating to the Finance Receivables balance.

Modified Funds Flow from Operations represents implicit cash value to shareholders on a periodic basis. Modified Funds Flow from Operations was \$1.6M during the quarter, an increase of \$0.6M from \$1.0M in the comparable quarter. Modified Funds Flow from Operations of \$0.08 per share in the current quarter, is an increase from \$0.05 per share in the comparable period.

## Equity

	As at		
	Sep 30, 2018	Mar 31, 2018	Sep 30, 2017
<b>(\$,000's except per share)</b>			
Adjusted Equity	37,213	36,965	36,926
Less: Provision for Impairment - after tax <sup>(1)</sup>	8,658	3,016	3,245
Equity	28,555	33,949	33,681
Shares Outstanding (000's)	21,597	21,597	21,597
Adjusted Book Value per Share	\$ 1.72	\$ 1.71	\$ 1.71
Book Value per share	\$ 1.32	\$ 1.57	\$ 1.56

<sup>(1)</sup> Current tax rate of 27% assumed constant for life of Provision for Impairment

Equity decreased to \$28.6M from \$33.9M at March 31, 2018. The introduction of IFRS 9 during the fiscal year resulted in a transitional charge to Equity of \$4.0M, which equates to \$0.18 per share. Adjusted Equity increased by \$0.3M to \$37.3M from \$37.0M. Adjusted Book Value Per Share increased by \$0.02 from \$1.71 at year end to \$1.73 at current quarter end. The Book Value Per Share decreased by \$0.25 per share from \$1.57 at year end to \$1.32 at current quarter end.

## Leverage Measurements

### Financial Leverage Ratio

	As at	
	Sep 30, 2018	Mar 31, 2018
<b>(\$,000's except ratios)</b>		
Accounts payable and accruals	6,586	6,643
Bank borrowings	41,661	45,484
Unsecured debentures	13,025	8,270
Term Debt	10,969	-
Securitization debt	142,407	146,940
<b>Total debt</b>	214,648	207,337
Equity	28,555	33,949
Financial Leverage Ratio	7.52	6.11

The Leverage Ratio has increased to 8.52 from 7.11 at year end. The majority of the increase is due to the Equity adjustment of \$(4.0M) due to the introduction of IFRS 9.

### Leverage Ratio

	As at	
	Sep 30, 2018	Mar 31, 2018
<b>(\$,000's except ratios)</b>		
Total assets	243,204	241,286
Equity	28,555	33,949
Leverage Ratio	8.52	7.11



## 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. Penalties would be incurred if early termination was required.

	Payments due by period				Total
	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	
(\$,000's)					
Securitization Debt - Undiscounted <sup>(1)</sup>	42,717	70,015	36,970	5,408	155,110
Unsecured Debentures <sup>(2)</sup>	4,563	5,785	5,368	-	15,716
Purchase Obligations <sup>(3)</sup>	405	768	501	1,027	2,701
<b>Total contractual obligations</b>	<b>47,685</b>	<b>76,568</b>	<b>42,839</b>	<b>6,435</b>	<b>173,527</b>

<sup>(1)</sup> Securitization Debt - Undiscounted includes gross repayments of principal and interest less cash holdback.

<sup>(2)</sup> Unsecured debentures include repayments of principal and future interest.

<sup>(3)</sup> Purchase obligations means an agreement to purchase goods or services that is enforceable and legally binding on the Company. The Company's obligations are for its premises lease and software agreements. Software agreements obligations are in US\$ converted at the Sept 30, 2018 spot exchange rate of 1.2841 Cdn\$/US\$

## Management and Board of Directors Compensation

As at September 30, 2018, the Company had four executive officers that receive regular employment income (including bonuses). The total amount paid to the four executive officers during the year-to-date was \$0.5M compared to \$0.5M in the same period of the prior year. Executive officers also receive certain approved itemized expense reimbursement.

The Company has six directors, four of which are independent. Each director, other than the CEO, receives an annual retainer of \$13,333 and an additional \$3,333 for Chairman of the Board and \$2,000 for Committee Chairman positions held. Non-management directors receive meeting fees of \$500 per day and reimbursement of normal travel expenses. The fees paid to independent directors year-to-date totaled \$0.05M (September 30, 2017 - \$0.05M) in addition to normal itemized expense reimbursement. The non-cash, stock based compensation expense during the year-to-date for the independent directors during the period was \$0.07M (September 30, 2017 - \$0.04M).

The CEO is a director but does not receive any additional compensation for services rendered in such capacity.

## Related Party Balances and Transactions

During the quarter, 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 \$3.31M (March 31, 2018 - \$1.92M). 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 \$1.75M (March 31, 2018 - \$0.88M) in debentures with varying terms. In addition, \$1.57M (March 31, 2018 - \$1.04M) 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 quarter was \$0.12M (September 30, 2017 - \$0.09M).

	As at (except Interest Paid)				
	Sep 30, 2018		Mar 31, 2018	Sep 30, 2017	
	Unsecured debenture balance	Interest Paid 6 months	Unsecured debenture balance	Unsecured debenture balance	Interest Paid 6 months
(\$,000's)					
Relatives of Chief Financial Officer	100	4	-	-	-
Relatives of Chief Marketing Officer	915	35	565	785	30
Relatives of Chief Credit Officer	250	9	-	-	-
Relatives of Director	480	15	310	310	11
Large Shareholder and Relatives	1,565	58	1,040	1,290	48
Total	3,310	121	1,915	2,385	89

## 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**

Consumer protection legislation specifically targeting high rate lenders is being introduced and/or being signed into law in various jurisdictions across Canada. Management is actively monitoring proposed and effective legislation, as well as participating in feedback exercises, primarily through its legal advisors and trade associations. Any legislation currently proposed is not expected to materially impact the Company's operations. 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 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**

Liquidity risk is the risk that the Company's financial condition is adversely affected by an inability to meet funding obligations and support its business growth. The Company manages its capital to maintain its ability to continue as a going concern and to provide adequate returns to shareholders. The capital structure of the Company consists of external debt and shareholders' equity, which comprises issued capital, contributed surplus and retained earnings.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will balance its overall capital structure through new share issuances, increasing or decreasing debt or by undertaking other activities as deemed appropriate under the specific circumstances. The Company's liquidity and funding strategies and objectives have not changed significantly from the prior period.

The Company's Bank Borrowing facility and Securitization Facilities must be negotiated and renewed on a periodic basis. If the Company were unable to renew these facilities, on acceptable terms, when they became due, there could be a material adverse effect on the Company's financial condition, liquidity, and results of operations.

The Bank Borrowing facility is subject to certain financial and operating covenants. These covenants include a minimum EBITDA interest coverage ratio, a maximum debt to equity ratio, a maximum recourse debt to equity ratio, and a credit performance (delinquency and loan losses) threshold. Non-compliance with any of these covenants could result in the bank declaring an event of default and requiring all amounts outstanding to be immediately due and payable.

The Unsecured Debentures have an asset coverage covenant. Non-compliance with this covenant could result in the debenture holders declaring an event of default and requiring all amounts outstanding to be immediately due and payable.

The Securcor Trust Securitization facility is subject to certain covenants. These covenants include a minimum EBITDA interest coverage ratio, a maximum debt to tangible net worth ratio and a maximum delinquency and Credit Loss ratios. Non-compliance with any of these covenants could restrict the Company from selling Finance Receivables into the trust, receiving future releases from the Cash Holdback or be forced to remit the full payment stream from over collateralized loans. The Company is in compliance with all requirements.

The Canadian schedule 1 chartered bank facility is subject to certain covenants. These covenants include a minimum EBITDA interest coverage ratio, a maximum debt to tangible net worth ratio and a maximum delinquency and Credit Loss ratios. Non-compliance with any of these covenants could restrict the Company from selling Finance Receivables into the trust, receiving future releases from the Cash Holdback or be forced to remit the full payment stream from over collateralized loans.

Should the Company Default on any of its facilities or on its Unsecured Debentures, there could be a material adverse effect on the Company's financial condition, liquidity, and results of operations.

### **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. 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 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 significant 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. Management uses these measures to evaluate performance of the Company. These non-IFRS measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS.

**Adjusted Equity** – Shareholders equity plus after tax Provision for Impairment.

**Adjusted Book Value Per Share** – Adjusted Equity divided by the total number of issued and outstanding common shares.

**Adjusted Income Before Taxes** – Income before taxes adjusted for non-cash change in Provision for Impairment. Equivalent to Adjusted Total Comprehensive Income Before Taxes.

**Adjusted Net Income** – Net Income adjusted for non-cash change in Provision for Impairment. Equivalent to Adjusted Total Comprehensive Income.

**Adjusted Net Financial Income Before Operating Expenses** – Net financial income before operating expenses adjusted for non-cash change in Provision for Impairment.

**Adjusted Net Income Per Common Share** – Adjusted Total Comprehensive Income divided by common shares outstanding.

**Adjusted Return on Adjusted Equity** – Adjusted Net Income as a percent of average Adjusted Equity.

**Adjusted Return on Earning Assets** – Adjusted Net Income as a percent of average Loan Receivables.

**Adjusted Total Comprehensive Income** – Total comprehensive income adjusted for non-cash change in Provision for Impairment. Equivalent to Adjusted Net Income.

**Adjusted Total Comprehensive Income Before Taxes** – Total comprehensive income before taxes adjusted for non-cash change in Provision for Impairment. Equivalent to Adjusted Income Before Taxes.

**Average Debt** – Will include Bank Borrowing, Securitization Debt, and Unsecured Debentures, calculated on ending daily balances.

**Bank Borrowing** – Amounts borrowed through the secured revolving credit facility from Wells Fargo syndicate and Mountain View Credit Union subordinated revolving line of credit.

**Book Value Per Share** – Total equity divided by the total number of issued and outstanding common shares.

**Cash Holdback** - An amount of cash, subtracted from the purchase price of a Securitization transaction, held in trust for Rifco. The schedule of 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 payment of the restricted cash 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.

**Covenant Leverage Ratio** - Calculated as total liabilities, excluding Unsecured Debentures and subordinated lines of credit, divided by total equity plus the Unsecured Debentures and subordinated lines of credit less the Minimum Loss Reserve Rate and related party loans, if any.

**Credit Loss** – The financial impact of a defaulted loan. Credit Losses are Finance Receivable amounts that are no longer reported as Rifco assets and the associated 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 Loss Rate** – The total of all Credit Losses, including all repossession and recovery expenses for the period divided into the average Loan Receivables, expressed as an annualized percentage.

**Credit Model** – The policies and processes that are followed in order to adjudicate credit applications with the goal of predictable Credit Losses and attractive Return on Earning Assets.

**Credit Spread** – Total financial revenue less total Credit Losses.

**Credit Spread Rate** – Net Portfolio Yield less Credit Loss Rate.

**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.

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

**Default Severity Rate** – The amount recovered on losses divided by total Credit Loss including recovery and repossession costs.

**Delinquency Rate** – Delinquent Finance Receivables divided by the total Finance Receivables expressed as a percentage.

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

**Discount Income** – Income earned from loans originated or purchased for less than the total Loan Receivable.

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

**Fee Income** – Income earned from administrative and other fees (such as non sufficient funds fees) generated in the servicing of the Loan Receivables.

**Financial Expense Ratio** – Interest Expenses for the period as a percentage of average Loan Receivables, annualized.

**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 Impairment and Credit Losses and unamortized origination costs. Includes both Owned and Securitized Finance Receivables.

**Gross Portfolio Yield** – The sum of Interest Income, Discount Income and Fee Income divided by average Loan Receivables reported as an annualized percentage.

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

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

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

**Interest Expense** – Interest incurred on debt.

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

**Loan Receivables** – Loan Receivables, not including accrued interest. Includes both Owned and Securitized Finance Receivables.

**Leverage Ratio** – Assets divided by equity. This is an important industry standard measurement that can be used to compare Companies and an increasing trend to a higher Leverage Ratio could indicate increasing risk.

**Modified Funds Flow from Operations** – Includes cash generation for the period excluding activities relating to Finance Receivables advanced and collected, origination costs, income taxes and others shown on statement of cash flows in the financial statements.

**Modified Funds Flow from Operations Per Share** – Modified Funds Flow from Operations divided by the total number of issued and outstanding common shares.

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

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

**Net Portfolio Yield** – Financial revenue divided by average Loan 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 that are sold to a Securitizer. While the excess amount of Finance Receivables is legally sold, the excess cash flow from the Finance Receivables is only provided 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** - When an event, or a group of events, impacts 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. Rifco's Provision for Impairment is comprised of both Specific and Collective Provisioning.

**Rifco Trust** - A special-purpose, bankruptcy-remote charitable trust holding the assets of the Acquired Portfolio. Rifco maintains control of the servicing of the assets and receives the residual interest from the trust in the form of deferred purchase price. Rifco Trust is consolidated for accounting purposes.

**Return on Earning Assets** – Net Income divided by average Loan Receivables reported as annualized percentage.

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

**Securitization** –A transaction where Rifco sells certain/select Finance Receivables to a Securitizer. Rifco service the Finance Receivables after the sale transaction. These Securitization transactions are accounted for as financings rather than as sales.

**Securitization Debt** –Amounts owing to Securitizers minus cash Holdbacks.

**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 Facility** – Agreement with a Securitizer to purchase Finance Receivables from the Company. The facility agreements specify the terms, processes, and periodic or revolving purchase amount limits. Certain facilities have expiry dates and are subject to annual renewal.

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



**Tangible Net Worth** – Total Equity less any loss reserve shortfall

**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 3 years in length which have fixed annual interest rates are paid interest monthly, are generally non-redeemable except in the final year of term, non-retractable, and are subordinated to Rifco's Bank Borrowing.

## **New Accounting Standards and Interpretations**

### **New Accounting Standards and Interpretations adopted**

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

IFRS 9 was issued in final form in July 2014 by the IASB and replaces IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single expected loss impairment method to be used, replacing the incurred loss impairment methods in IAS 39. IFRS 9 also includes requirements relating to a new hedge accounting model, which represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions.

#### **IFRS 15 'Revenue from contracts with customers'**

On April 1, 2018, the Company adopted and applied IFRS 15 Revenue from Contracts with Customers, which establishes principles for recognizing revenues based on a five-step model which is applied to all contracts with customers. The new standard did not result in any financial adjustments to the Company's interim consolidated financial statements, nor any material changes to the Company's revenue recognition policies. The adoption of IFRS 15 resulted in a presentation change to the financial revenue section of the consolidated statement of comprehensive income. Administration, discount and other fees were incorporated into interest revenue.

The Company's revenue is comprised of Interest Income. Interest Income includes contractual interest received from customers with yield adjustments made for amortization of direct originations costs and commissions, accretion of Discount Income, and Fee Income.

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

#### **IFRS 16 'Leases'**

In January 2017, the IASB issued a new standard, IFRS 16 Leases ("IFRS 16"). IFRS 16 brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for the Company's interim financial statements for the quarter ended June 30, 2019 (annual March 31, 2020), with earlier adoption permitted if IFRS 15 Revenue from contracts with customers, has also been applied. The Company has not yet determined the potential impact the adoption of IFRS 16 will have on its consolidated financial statements.