

**Rifco Inc.**

Condensed Consolidated Interim Financial Statements (unaudited)  
For the three months ended June 30, 2019 and 2018

# Rifco Inc.

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For the three months ended June 30, 2019 and 2018

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

(in thousands of dollars)

As At

		<b>June 30,</b>	<b>March 31,</b>
		<b>2019</b>	<b>2019</b>
	<b>Notes</b>	<b>\$</b>	<b>\$</b>
<b>ASSETS</b>			
Cash	15	2,074	3,204
Finance receivables - net	4, 15	221,080	219,238
Other receivables and prepaid expenses	15	1,134	951
Income taxes receivable		626	626
Property and equipment		716	752
Right of use asset	3	1,238	-
Software		449	507
Deferred income tax asset	5	4,905	4,867
<b>Total Assets</b>		<b>232,222</b>	<b>230,145</b>
<b>LIABILITIES AND EQUITY</b>			
Accounts payable and accruals	10	8,488	9,300
Bank borrowings	6, 10, 15	37,443	43,870
Unsecured debentures	7, 10, 14, 15	12,165	12,390
Term debt	8, 10, 15	5,870	7,227
Securitization debt	9, 10, 15	137,287	128,634
Lease liabilities	3, 10	1,770	-
<b>Total Liabilities</b>		<b>203,023</b>	<b>201,421</b>
<b>Equity</b>			
Share capital	11	7,614	7,614
Contributed surplus	11	3,943	3,868
Retained earnings		17,642	17,242
<b>Total Equity</b>		<b>29,199</b>	<b>28,724</b>
<b>Total Liabilities and Equity</b>		<b>232,222</b>	<b>230,145</b>

Subsequent events

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

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

(in thousands of dollars, except per share amounts)

For the three month periods ended June 30, 2019 and 2018

	Notes	June 30, 2019 \$	June 30, 2018 \$
Financial revenue		9,885	10,011
Financial expense	14	2,827	2,777
<b>Net financial income before impairment and credit losses</b>		<b>7,058</b>	<b>7,234</b>
Provision for impairment and credit losses	4	3,921	6,901
<b>Net financial income before operating expenses</b>		<b>3,137</b>	<b>333</b>
<b>Operating expenses</b>			
Wages and benefits	14	1,956	1,985
Professional fees		66	118
Office and general	13	544	701
Stock based compensation	11, 14	75	85
Depreciation and amortization		134	47
<b>Total operating expenses</b>		<b>2,775</b>	<b>2,936</b>
<b>Net income (loss) before taxes</b>		<b>362</b>	<b>(2,603)</b>
<b>Current income tax recovery</b>	5	-	949
<b>Deferred income tax recovery</b>	5	38	954
<b>Total income tax recovery</b>		<b>38</b>	<b>1,903</b>
<b>Net income (loss) and comprehensive income (loss) for the period attributable to equity holders</b>		<b>400</b>	<b>(700)</b>
<b>Net earnings (loss) per common share</b>			
Basic	12	\$ 0.019	\$ (0.032)
Diluted	12	\$ 0.019	\$ (0.032)

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

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

(in thousands of dollars)

For the three months ended June 30, 2018

	Notes	Share Capital \$	Contributed Surplus \$	Retained Earnings \$	Total Equity \$
As at March 31, 2018		7,614	3,593	22,742	33,949
Adjustment to opening retained earnings due to IFRS 9		-	-	(3,993)	(3,993)
Net loss and comprehensive loss for the period		-	-	(700)	(700)
Stock based compensation	11	-	85	-	85
<b>As at June 30, 2018</b>		<b>7,614</b>	<b>3,678</b>	<b>18,049</b>	<b>29,341</b>

	Notes	Share Capital \$	Contributed Surplus \$	Retained Earnings \$	Total Equity \$
For the three months ended June 30, 2019					
As at March 31, 2019		7,614	3,868	17,242	28,724
Net income and comprehensive income for the period		-	-	400	400
Stock based compensation	11	-	75	-	75
<b>As at June 30, 2019</b>		<b>7,614</b>	<b>3,943</b>	<b>17,642</b>	<b>29,199</b>

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

**Rifco Inc.****Consolidated Interim Statements of Cash Flows (unaudited)**

(in thousands of dollars)

For the three months periods ended June 30, 2019 and 2018

Notes	June 30, 2019 \$	June 30, 2018 \$
<b>Operating activities</b>		
Total net income (loss) for the period	400	(700)
Adjustments for:		
Depreciation and amortization	134	47
Increase in provision for impairment	4 193	2,147
Stock based compensation	11, 14 75	85
Tax recovery	5 (38)	(1,903)
Financial expense	2,827	2,777
Amortization of origination and financing costs	921	987
Cash flows from operating activities before the following:	4,512	3,440
Funds advanced on finance receivables	(29,814)	(50,623)
Principal collections of finance receivables	25,001	25,229
Credit losses net of recoveries	4 3,246	4,297
Income taxes received	-	1,502
Interest paid	(2,407)	(2,784)
Origination costs and discounts - net	(1,311)	4,112
Financing Costs paid	(83)	(107)
Other receivables, payables and prepaid expenses	(471)	1,235
<b>Net cash flows used in operating activities</b>	<b>(1,327)</b>	<b>(13,699)</b>
<b>Investing activity</b>		
Purchase of property and equipment	-	(369)
<b>Net cash flows used in investing activities</b>	<b>-</b>	<b>(369)</b>
<b>Financing activities</b>		
Repayments of bank borrowings	6 (28,958)	(20,899)
Advances from bank borrowings	6 22,484	18,361
Repayments of unsecured debentures	7 (1,450)	(375)
Advances from unsecured debentures	7 1,225	4,530
Repayments of term debt	8 (1,366)	-
Advances from term debt	8 -	16,039
Repayments of securitization debt	9 (25,553)	(24,895)
Advances from securitization debt	9 33,848	24,368
Repayments of lease liability	3 (33)	-
<b>Net cash flows from financing activities</b>	<b>197</b>	<b>17,129</b>
(Decrease) increase in cash	(1,130)	3,061
Cash, beginning of period	3,204	1,922
Cash, end of the period	2,074	4,983

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

# Rifco Inc.

## Notes to the Consolidated Interim Financial Statements

For the three months ended June 30, 2019 and 2018

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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

The unaudited Condensed Consolidated Interim Financial Statements (Interim Financial Statements) of the Company have been prepared in compliance with International Accounting Standards (“IAS”) 34 Interim Financial Reporting (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”) and adopted by the Chartered Professional Accountants of Canada (“CPA”). Accordingly, certain information and footnote disclosure normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed and, therefore, these Interim Financial Statements should be read in conjunction with the annual audited consolidated financial statements for the fiscal year ended March 31, 2019.

These Interim Financial Statements for the three months ended June 30, 2019 and 2018 (including comparatives) were approved and authorized for issue by the Board of Directors on August 20, 2019.

#### Basis of presentation

These Interim Financial Statements include the financial information 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 Interim Financial Statements are stated in Canadian dollars, which is the functional currency of the Company, and have been prepared on a historical cost basis, except for certain financial assets and liabilities which are measured at fair value.

#### Use of estimates and judgments

The preparation of the 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. New accounting standards and interpretations adopted

#### IFRS 16 Leases

IFRS 16 supersedes IAS 17, Leases (“IAS 17”), IFRIC 4, Determining whether an Arrangement contains a Lease, SIC-15, Operating Leases-Incentives and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. 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.

The Company has lease contracts for its head office premises and related parking spaces. Before the adoption of IFRS 16, the Company classified each of these leases (as lessee) at the inception date as an operating lease under IAS 17. As such, the leased

# Rifco Inc.

## Notes to the Consolidated Financial Statements

For the three months ended June 30, 2019 and 2018

property was not capitalized, and the lease payments were recognized as rent expense in the consolidated interim statements of comprehensive income (loss) on a straight-line basis over the lease term.

Upon adoption of IFRS 16, the Company reviewed these and all other leases. IFRS 16 provides specific exemptions for short-term leases and small value leases and the accounting for those leases did not change. Only the premises and parking leases were determined to be impacted by IFRS 16.

In accordance with IFRS 16, using a modified retrospective adoption on April 1, 2019, the Company recognized right-of-use assets and lease liabilities for the leases for the premises and parking spaces. The right-of-use assets recognized as at April 1, 2019 (date of adoption) is the net carrying amount for the remaining lease payments less any lease incentives received. The lease liabilities were recognized based on the present value of the remaining lease payments as at April 1, 2019, discounted using the incremental borrowing rate on leases at the date of initial application. The incremental borrowing rate used was 4.95%. The difference between the right-of-use asset, and lease liabilities recognized at the date of initial application and the residual amounts written off in accounts payable and accruals related to the difference between the IAS 17 straight-line lease expense and related cash flows were immaterial.

The Company has the option, under its parking and premises leases to extend the terms of the lease for additional terms of one to ten years. The Company applied judgement in considering all relevant factors in evaluating whether it is reasonably certain to exercise the option to renew in determining the lease term to be capitalized.

The following table summarizes the transition adjustment required to adopt IFRS 16 as at April 1, 2019.

	<b>April 1, 2019</b>
<b>(\$, 000's)</b>	
Accounts payable and accruals	525
Right of use asset	1,279
Lease liabilities	(1,804)
	-

The net effect of adopting IFRS 16 on the consolidated interim statement of comprehensive income (loss) is to decrease office and general expense while increasing depreciation and amortization expense and financial expenses with an insignificant impact on net income. The adoption of IFRS 16 increases the assets and liabilities of the Company, by extension increasing the leverage of the Company. The adoption of IFRS 16 has no impact on the cash flows of the Company.

#### **4. 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 June 30, 2019 include the impact of the portfolio purchase discussed in Note 16. 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.

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## Notes to the Consolidated Financial Statements

For the three months ended June 30, 2019 and 2018

Contractual loan payments, including principal and interest due under finance receivables in 12-month increments are as follows:

	June 30, 2019	March 31, 2019
<b>(\$, 000's)</b>		
Next 12 months	77,175	77,170
13 to 24 months	72,696	72,579
35 to 36 months	65,969	65,778
37 to 48 months	56,460	56,230
49 to 60 months	41,938	41,648
61 months and over	32,407	30,248
<b>Gross finance receivables</b>	<b>346,645</b>	<b>343,653</b>
Less unearned interest	(120,775)	(119,233)
<b>Loan receivables</b>	<b>225,870</b>	<b>224,420</b>
Accrued interest and fees	4,231	4,115
<b>Finance receivables</b>	<b>230,101</b>	<b>228,535</b>
Unamortized origination costs	5,685	5,663
Unamortized discounts	(3,407)	(3,853)
Less provision for impairment	(11,299)	(11,107)
<b>Finance receivables – net</b>	<b>221,080</b>	<b>219,238</b>

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:

	June 30, 2019		March 31, 2019	
<b>(\$,000's except %)</b>				
Current	217,016	94.32%	216,059	94.54%
31 – 60 days	8,196	3.56%	7,877	3.45%
61 – 90 days	3,614	1.57%	3,341	1.46%
> 90 days	1,275	0.55%	1,258	0.55%
<b>Finance receivables</b>	<b>230,101</b>	<b>100.00%</b>	<b>228,535</b>	<b>100.00%</b>

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

	Provision carrying amount			Total
	Stage 1 (performing)	Stage 2 (under performing)	Stage 3 (credit impaired)	
<b>(\$, 000's)</b>				
<b>Provision for impairment as at April 1, 2018</b>	<b>7,218</b>	<b>1,041</b>	<b>1,342</b>	<b>9,601</b>
Provision on loans originated, at time of origination	3,138	-	-	3,138
Provision for impairment on portfolio acquisition	1,518	7	435	1,960
Change in provision for impairment, after origination or acquisition	(4,162)	(416)	986	(3,592)
<b>Provision for impairment as at March 31, 2019</b>	<b>7,712</b>	<b>632</b>	<b>2,763</b>	<b>11,107</b>
Provision on loans originated, at time of origination	997	-	-	997
Change in provision for impairment, after origination	(995)	47	143	(805)
<b>Provision for impairment as at June 30, 2019</b>	<b>7,714</b>	<b>679</b>	<b>2,906</b>	<b>11,299</b>

# Rifco Inc.

## Notes to the Consolidated Financial Statements

For the three months ended June 30, 2019 and 2018

The provision for impairment and credit losses includes the impact of the previously acquired loan portfolio discussed in Note 16. Upon acquisition of the portfolio, a charge for impairment was recorded reflecting future expected credit losses as required by IFRS. The breakdown of the provision for impairment and credit losses for the period is as follows:

	Three months ending	
	June 30, 2019	June 30, 2018
<b>(\$, 000's)</b>		
Provision for impairment at end of period	11,299	11,748
Provision for impairment at beginning of period	11,107	9,601
<b>Increase in provision for impairment</b>	<b>192</b>	<b>2,147</b>
Credit losses net of recoveries for the period	3,246	4,291
Repossession and recovery costs for the period	483	463
<b>Provision for impairment and credit losses for the period</b>	<b>3,921</b>	<b>6,901</b>

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

	Loans Receivable			Total
	Stage 1 (performing)	Stage 2 (under performing)	Stage 3 (credit impaired)	
<b>(\$, 000's)</b>				
<b>Balances as at April 1, 2018</b>	<b>213,226</b>	<b>14,132</b>	<b>2,039</b>	<b>229,397</b>
Originated	86,602			86,602
Loans purchased	24,084	68	662	24,814
Payments & other adjustments	(111,744)	(3,578)	25,778	(89,544)
Transfer to (from):				
Stage 1 (performing)	(4,751)	2,520	2,231	
Stage 2 (under performing)	4,257	(4,988)	731	
Stage 3 (credit impaired)	77	29	(106)	
Charge offs	-	-	(26,849)	(26,849)
<b>Balances as at March 31, 2019</b>	<b>211,751</b>	<b>8,183</b>	<b>4,486</b>	<b>224,420</b>
Originated	29,814	-	-	29,814
Payments & other adjustments	(22,533)	(2,598)	3,141	(21,990)
Transfer to (from):				
Stage 1 (performing)	(10,038)	6,722	3,316	
Stage 2 (under performing)	2,838	(3,860)	1,022	
Stage 3 (credit impaired)	520	234	(754)	
Charge offs	-	-	(6,374)	(6,374)
<b>Loan receivables as at June 30, 2019</b>	<b>212,352</b>	<b>8,681</b>	<b>4,837</b>	<b>225,870</b>

Charge offs are the principal value of loans charged off before considering recoveries and associated costs. Loans over 120 days past due are reported as a credit loss against the provision for impairment balance.

# Rifco Inc.

## Notes to the Consolidated Financial Statements

For the three months ended June 30, 2019 and 2018

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

	June 30, 2019	March 31, 2019
<b>(\$, 000's)</b>		
Near-prime	198,759	194,141
Non-prime	27,111	30,279
<b>Loan receivables</b>	<b>225,870</b>	<b>224,420</b>

The Company sometimes modifies the terms of loans provided to customers due to renegotiations, or for distressed loans, with a view of maximizing recovery. Such modification activities include extended payment term arrangements, interest rate adjustments and payment forgiveness. Modification policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

As at June 30, 2019, there were \$13,347,000 (March 31, 2019 - \$14,391,000) of finance receivables, constituting 5.8% (March 31, 2019 – 6.3%) of the total balance, that have been modified such that the cash flow of those loans has been significantly (>10%) impacted.

### 5. Income taxes

Net deferred income tax assets are comprised of the following:

	June 30, 2019	March 31, 2019
<b>(\$, 000's)</b>		
<b>Deferred income tax assets</b>		
Provision for impairment	1,516	1,470
Loss carry forward	3,337	3,396
Other	79	171
	4,932	5,037
<b>Deferred income tax liabilities</b>		
Property and equipment	27	170
	27	
<b>Net deferred income tax asset</b>	<b>4,905</b>	<b>4,867</b>

# Rifco Inc.

## Notes to the Consolidated Financial Statements

For the three months ended June 30, 2019 and 2018

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

	June 30, 2019	June 30, 2018
<b>(\$, 000's)</b>		
Income (loss) before taxes	362	(2,603)
Statutory income tax rate	27.00%	27.00%
Income tax expense (recovery)	98	(703)
Non-deductible expenses for tax purposes	(136)	(1,200)
<b>Income tax recovery</b>	<b>(38)</b>	<b>(1,903)</b>
Effective income tax rate	-10.5%	73.1%
Allocation of expense (recovery)		
Current	-	(949)
Deferred	(38)	(954)
<b>Income tax recovery</b>	<b>(38)</b>	<b>(1,903)</b>

### 6. Bank borrowings

Bank borrowings is comprised of two credit facilities.

The Company has a syndicated secured committed revolving credit facility of \$65.00M with Wells Fargo Corporation Canada (Wells Fargo) and ATB Corporate Financial Services (ATB) (registered senior debt holders). The facility has a February 17, 2020 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.

As at June 30, 2019 the Company was not in compliance with its EBITDA covenant. The company was in active communication with Wells Fargo and obtained a restructured agreement on August 6, 2019 with a reduction in the EBITDA covenant requirement that brings the Company back in compliance with a retrospective waiver to June 30, 2019 (Note 18). As of March 31, 2019, the Company was in compliance with all financial covenants.

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, 2020. 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, 2019. Both of the letters of credit form part of the \$65.00M syndicated secured revolving credit facility.

The Company has a revolving credit facility with Mountain View Credit Union of \$2.50M that is 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 and is due on demand.

<b>(\$, 000's)</b>	
<b>At March 31, 2018 - Bank borrowing</b>	<b>45,484</b>
Advances from bank borrowings	64,537
Repayments of bank borrowings	(66,151)
<b>At March 31, 2019 - Bank borrowing</b>	<b>43,870</b>
Advances from bank borrowings	22,484
Repayments of bank borrowings	(28,911)
<b>At June 30, 2019 - Bank borrowing</b>	<b>37,443</b>

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## Notes to the Consolidated Financial Statements

For the three months ended June 30, 2019 and 2018

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

(\$, 000's)	
<b>At March 31, 2018 - Deferred financing costs</b>	<b>91</b>
Amount of deferred financing costs expensed in the period	(96)
Additional deferred financing costs incurred in the period	68
<b>At March 31, 2019 - Deferred financing costs</b>	<b>63</b>
Amount of deferred financing costs expensed in the period	-
Additional deferred financing costs incurred in the period	(17)
<b>At June 30, 2019 - Deferred financing costs</b>	<b>46</b>

### 7. Unsecured debentures

Unsecured debentures are non-retractable by the noteholder within the specific terms. Maturity dates vary from November 1, 2019 to May 31, 2024 and bear interest on a monthly basis. The unsecured debentures are subordinated in favour of the registered senior debt holders. The Company must meet certain financial covenants and report to the unsecured debenture holders on a quarterly basis. As at June 30, 2019, March 31, 2019 and throughout the period, the Company was in compliance with all covenants.

A summary of unsecured debenture activity is as follows:

(\$, 000's)	
<b>At March 31, 2018 - Unsecured debentures</b>	<b>8,270</b>
Debentures matured	(2,465)
Debentures renewed	1,080
New debentures	5,505
<b>At March 31, 2019 - Unsecured debentures</b>	<b>12,390</b>
Debentures matured	(2,050)
Debentures renewed	600
New debentures	1,225
<b>At June 30, 2019 - Unsecured debentures</b>	<b>12,165</b>

	June 30, 2019	March 31, 2019
(\$, 000's)		
5.5% debentures outstanding	-	200
6.5% debentures outstanding	1,080	80
7.5% debentures outstanding	3,365	3,365
8.5% debentures outstanding	1,620	1,620
9.5% debentures outstanding	4,950	4,125
12.0% debentures outstanding	1,150	3,000
<b>Unsecured debentures</b>	<b>12,165</b>	<b>12,390</b>
Portion issued to related parties	2,660	3,260

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## Notes to the Consolidated Financial Statements

For the three months ended June 30, 2019 and 2018

### 8. Term debt

Term debt to Rifco Trust for the portfolio acquisition discussed in Note 16 was provided by funds managed by Ares Management L.P. The interest rate on the term debt is floating 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 Rifco Trust and pledged as collateral.

The loan has certain covenants related to the performance of the receivables held by Rifco Trust as well as covenants related to maximum leverage of Rifco as the servicer of the receivables. As at June 30, 2019, March 31, 2019 and throughout the period, the Company was in compliance with all covenants.

(\$, 000's)	
<b>At March 31, 2018 - Term Debt</b>	-
Advances from term loan	16,039
(Repayments of term loan)	(8,812)
<b>At March 31, 2019 - Term Debt</b>	<b>7,227</b>
(Repayments of term loan)	(1,357)
<b>At June 30, 2019 - Term Debt</b>	<b>5,870</b>

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

(\$, 000's)	
<b>At March 31, 2018 - Deferred financing costs</b>	-
Amount of deferred financing costs expensed in the period	(38)
Deferred financing costs incurred in the period	80
<b>At March 31, 2019 - Deferred financing costs</b>	<b>42</b>
Amount of deferred financing costs expensed in the period	(9)
<b>At June 30, 2019 - Deferred financing costs</b>	<b>33</b>

### 9. 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 interim statements of financial position.

The total amount of securitization debt outstanding (excluding the cash holdbacks) as at June 30, 2019 amounted to \$148.47M (March 31, 2019 - \$134.35M).

The securitization debt is recorded at amortized cost using the effective interest 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 Financial Statements

For the three months ended June 30, 2019 and 2018

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.

As at June 30, 2019, March 31, 2019 and throughout the period, the Company was in compliance with all covenants.

(\$, 000's)	
<b>At March 31, 2018 - Securitization debt</b>	<b>146,940</b>
Gross sale proceeds from securitizers	69,067
(Repayments to securitizers)	(87,843)
(Additions to securitization holdback)	(5,600)
Received from securitization holdback	6,028
Securitization costs incurred in the period	(169)
Securitization costs expensed in the period	211
<b>At March 31, 2019 - Securitization debt</b>	<b>128,634</b>
Gross sale proceeds from securitizers	32,745
(Repayments to securitizers)	(21,840)
(Additions to securitization holdback)	(3,324)
Received from securitization holdback	1,103
Securitization costs incurred in the period	(83)
Securitization costs expensed in the period	52
<b>At June 30, 2019 - Securitization debt</b>	<b>137,287</b>

The change in deferred financing costs for securitized debt for the period is as follows:

(\$, 000's)	
<b>At March 31, 2018 - Unamortized securitization costs</b>	<b>281</b>
Securitization costs incurred in the period	169
Securitization costs expensed in the period	(211)
<b>At March 31, 2019 - Unamortized securitization costs</b>	<b>239</b>
Securitization costs incurred in the period	83
Securitization costs expensed in the period	(52)
<b>At June 30, 2019 - Unamortized securitization costs</b>	<b>270</b>

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

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 interim statements of financial position. As at June 30, 2019 the total cash holdbacks held by the securitizers amounted to \$7.94M (March 31, 2019 - \$5.71M).

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

# Rifco Inc.

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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.

	June 30, 2019		March 31, 2019	
(\$, 000's except %)				
Finance receivables – securitized	129,354	56.22%	121,754	53.28%
Finance receivables – securitized over collateralization	17,005	7.39%	17,174	7.51%
Finance receivables – sold to Rifco Trust	10,330	4.49%	13,156	5.76%
Finance receivables - owned	73,412	31.90%	76,451	33.45%
<b>Finance receivables</b>	<b>230,101</b>	<b>100.00%</b>	<b>228,535</b>	<b>100.00%</b>

### 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

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.

## 10. Liabilities – Aging

	Less than one year	1 to 3 years	4 to 5 years	Over 5 years	Total
(000's)					
Accounts payable and accruals	8,488	-	-	-	8,488
Bank borrowings <sup>(1)</sup>	37,489	-	-	-	37,489
Unsecured debentures <sup>(2)</sup>	2,598	6,059	6,229	-	14,886
Term debt <sup>(3)</sup>	1,392	2,943	1,568	-	5,903
Securitization debt <sup>(4)</sup>	41,981	68,158	35,446	5,555	151,140
Lease liabilities	211	510	583	844	2,148
	<b>92,159</b>	<b>77,670</b>	<b>43,826</b>	<b>6,399</b>	<b>220,054</b>

(1) Bank borrowings is before unamortized transaction costs.

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

(3) Term debt is before unamortized transaction costs.

(4) 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.

# Rifco Inc.

## Notes to the Consolidated Financial Statements

For the three months ended June 30, 2019 and 2018

### 11. 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) Common shares issued and outstanding

	June 30, 2019		March 31, 2019	
	Shares	\$	Shares	\$
<b>(000's)</b>				
Opening balance	21,597	7,614	21,597	7,614
Stock options exercised	-	-	-	-
<b>Closing balance</b>	<b>21,597</b>	<b>7,614</b>	<b>21,597</b>	<b>7,614</b>

#### Contributed surplus

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 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.

	June 30, 2019	March 31, 2019
<b>(\$, 000's)</b>		
Opening balance	3,868	3,593
Stock based compensation	75	275
<b>Closing balance</b>	<b>3,943</b>	<b>3,868</b>

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

The calculation of basic earnings per share for the period ended June 30, 2019, was based on the income attributable to common shareholders of \$400,382 (June 30, 2018 – loss of \$700,343), and a weighted average number of common shares outstanding of 21,597,483 (June 30, 2018 – 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.

# Rifco Inc.

## Notes to the Consolidated Financial Statements

For the three months ended June 30, 2019 and 2018

Weighted average number of common shares is calculated as follows:

	June 30, 2019	March 31, 2019
(\$, 000's)		
Weighted average number of shares outstanding	21,597	21,597
Effect of potential dilutive securities due to stock options	-	-
<b>Weighted average number of shares outstanding for use in determining diluted income per share</b>	<b>21,597</b>	<b>21,597</b>

### 13. Office and general expenses

	June 30, 2019	June 30, 2018
(\$, 000's)		
Technology and communication	181	181
Office rent	70	113
Training and recruiting	5	42
Promotional and subscriptions	56	105
Travel	81	120
Other	151	140
<b>Total office and general</b>	<b>544</b>	<b>701</b>

### 14. Related party disclosures

#### Unsecured Debentures

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

At period end, the total unsecured debentures held by related parties is \$2.66M (March 31, 2019 - \$3.26M). 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 \$1.40M (March 31, 2019 - \$1.75M) in unsecured debentures with varying terms. In addition, \$1.27M (March 31, 2019 - \$1.52M) in unsecured 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 \$0.07M (June 30, 2018 - \$0.05M).

#### Compensation of key management personnel

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

	June 30, 2019	June 30, 2018
(\$, 000's)		
Compensation, including bonuses	187	183
Stock based compensation	46	36
<b>Total</b>	<b>233</b>	<b>219</b>

# Rifco Inc.

## Notes to the Consolidated Financial Statements

For the three months ended June 30, 2019 and 2018

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 \$39,250 (June 30, 2018 - \$26,000) in addition to normal itemized expense reimbursement. The non-cash stock based compensation expense for the non-management directors during the period was \$24,583 (June 30, 2018 - \$45,088). The number of stock options granted to non-management directors during the period was nil (June 30, 2018 - 87,500). The number of stock options granted to key management during the period was 280,000 (June 30, 2018 - 263,250).

### 15. Financial instruments

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 Interim 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 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).

	Fair value level	June 30, 2019		March 31, 2019	
		Carrying value	Fair value	Carrying value	Fair value
<b>(000's)</b>					
<b>Assets measured at amortized cost:</b>					
Cash	(1)	2,074	2,074	3,204	3,204
Finance receivables – net	(3) (A)	221,080	236,084	219,238	233,837
Other receivables	(1)	243	243	240	240
<b>Liabilities measured at amortized cost:</b>					
Bank borrowings	(1)	37,443	37,489	43,870	43,932
Unsecured debentures	(3) (B)	12,165	12,342	12,390	12,561
Term debt	(2)	5,870	5,903	7,227	7,269
Securitization debt	(1) (C)	137,287	136,693	128,634	128,041

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 interim statements of financial position dates. Currently, there is not an organized market for valuing the loan portfolio.

# Rifco Inc.

## Notes to the Consolidated Financial Statements

For the three months ended June 30, 2019 and 2018

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- B) The fair value of unsecured debenture is determined based on an internal valuation model which factors in discount rates and future cash flows.
- C) 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.

### 16. 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.

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 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.

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 6.

### 17. Reclassification

The following changes were made to the comparative figures

- a) Consolidated interim statements of comprehensive income (loss)
  - i. Administration, discount and other fees were incorporated into financial revenue
- b) Consolidated interim statements of cash flows
  - i. Transaction costs paid and amortized have been reclassified from operating activities section to the financing activities section and consolidated into the repayments of the applicable borrowings and debt

### 18. Subsequent event

On August 6, 2019 the Company received an amendment on its bank borrowings facility with Wells Fargo and ATB Financial. The modification amends the required EBITDA level from 1.25 to 1.10 and brings the Company onside from a covenant perspective with a retroactive waiver to June 30, 2019. The facility is reduced in size from \$65 million to \$50 million, which should allow the Company to reduce unutilized fees while retaining the accordion feature to \$100 million, allowing the Company to retain its capacity to grow.



**For the period ended June 30, 2019**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

The following discussion should be read in conjunction with the unaudited consolidated interim financial statements (consolidated interim financial statements) for the quarter ended June 30, 2019 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 August 20, 2019.

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

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 (MD&A) 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 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, descriptions have 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 provider 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 \$1 billion.

## 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, securitization and the issuance of unsecured debentures. 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.

## Results of Operations

The Results of Operations should be read in conjunction with the consolidated interim financial statements for the period ended June 30, 2019. The results of operations and 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		
	Jun 30, 2019	Mar 31, 2019	Jun 30, 2018
<b>(\$,000's)</b>			
Total assets	232,222	230,145	255,303
Total liabilities	203,023	201,421	225,962
Adjusted Equity <sup>1</sup>	37,449	36,833	37,917
Equity	29,199	28,724	29,341
Average loan receivables <sup>2</sup>	224,553	233,633	234,041
Delinquency Rate	5.69%	5.46%	5.26%
Adjusted Return On Adjusted Equity <sup>1,2</sup>	6.38%	(0.00%)	15.45%
Return on equity <sup>2</sup>	5.52%	(5.04%)	(8.85%)

	For the three months ended	
	Jun 30, 2019	Jun 30, 2018
<b>(\$,000's except per share and ratios)</b>		
Financial revenue	9,885	10,011
Credit losses	3,729	4,754
Credit Spread	6,156	5,257
Operating expenses	2,775	2,937
Adjusted Income (Loss) Before Taxes <sup>1,3</sup>	554	(457)
Net income (loss) before taxes	362	(2,604)
Adjusted Net Income Per Common Share - Basic <sup>1,3</sup>	\$ 0.027	\$ 0.067
Adjusted Net Income Per Common Share - Diluted <sup>1,3</sup>	\$ 0.027	\$ 0.067
Earnings (loss) per share - basic	\$ 0.019	\$ (0.032)
Earnings (loss) per share - diluted	\$ 0.019	\$ (0.032)
Originations	29,814	25,809
Net Portfolio Yield	17.60%	17.11%
Credit Loss Rate	6.64%	8.13%
Credit Spread Rate	10.96%	8.98%
Financial Expense Ratio	5.04%	4.75%
Operating Expense Ratio	4.96%	5.02%

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

<sup>2</sup> Jun 30, 2018 and 2019 values based on quarterly values, Mar 31, 2019 values based on annual values.

<sup>3</sup> Jun 30, 2018 impacted by \$1.9M income tax recovery.

The Company posted Originations of \$29.8M, a 47.4% increase from \$20.2M in the preceding quarter and a 15.5% increase from \$25.8M in the comparable quarter. Originations in the quarter are the largest reported since the third quarter of 2015.

Adjusted Income Before Taxes in the quarter was \$0.6M which is an improvement of \$1.0M from the comparable quarter. Adjusted Income Before Taxes removes the effect of the non-cash provisions on net income before tax. 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. Net income before tax improved by \$3.0M to \$0.4M from a net loss before tax of \$2.6M in the comparable quarter.

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 17.1% to \$6.2M from \$5.3M in the comparable quarter despite a 4.1% decline in average loan receivables. The Credit Spread Rate increased by 196 basis points from 9.00% in the comparable quarter to 10.96% in the current quarter. Management continues to originate a portfolio of loans that generates a significantly larger Credit Spread Rate than historical results suggest.

Total financial revenue increased 3.9% from \$9.5M in the preceding quarter. Total financial revenue declined by 1.3% to \$9.9M from \$10.0M in the comparable quarter as the decline in average loan receivables was largely offset by an increase in the Net Portfolio Yield.

Loan receivables increased by \$1.5M from \$224.4M at March 31, 2019 to \$225.9M at current quarter end. Despite strong originations, the average loan receivables during the quarter decreased 4.1% to \$224.6M from \$234.0M in the comparable quarter. Average loan receivables decreased 1.1% from \$227.0M in the preceding quarter. Higher than expected paydowns early in the quarter contributed to this decrease.

The Financial Expense Ratio is effectively unchanged, increasing by 1 basis points to 5.04% from 5.03% in the preceding quarter. The Financial Expense Ratio increased 29 basis points from 4.75% in the comparable quarter.

Credit losses, including costs and net of recoveries, for the quarter decreased by 21.6% from \$4.8M in the comparable quarter to \$3.7M in the current quarter. The annualized Credit Loss Rate decreased by 149 basis points to 6.64% from 8.13% in the comparable quarter. The credit loss rate is 13 basis points higher than the preceding quarter.

The Delinquency Rate increased by 43 basis points to 5.69% from 5.26% in the comparable quarter and an increase of 23 basis points from 5.46% in the preceding quarter.

Operating expenses continue to decline, both the dollars and as a ratio of average loan receivables. Operating expenses decreased by 5.5% to \$2.8M from \$2.9M in the comparable quarter and an decrease of 5.4% from \$2.9M in the preceding quarter. The Operating Expense Ratio decreased by 6 basis points to 4.96% compared to 5.02% in the comparable quarter. The Operating Expense Ratio decreased 21 basis points from 5.17% in the preceding quarter.

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 \$64.5M in facility availability for deployment.

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			
	Jun 30, 2019		Jun 30, 2018	
	% of loan receivables		% of loan receivables	
<b>(\$,000's except ratios and per share)</b>				
Average Loan Receivables for the period	224,553		234,041	
Financial revenue	9,885	17.60%	10,011	17.11%
Credit losses	3,729	6.64%	4,754	8.13%
<b>Credit Spread</b>	<b>6,156</b>	<b>10.96%</b>	<b>5,257</b>	<b>8.98%</b>
Financial expenses	2,827	5.04%	2,777	4.75%
<b>Adjusted Net Financial Income Before Operating Expenses<sup>1</sup></b>	<b>3,329</b>	<b>5.92%</b>	<b>2,480</b>	<b>4.23%</b>
Operating expenses	2,775	4.96%	2,937	5.02%
<b>Adjusted Income (Loss) Before Taxes</b>	<b>554</b>	<b>0.96%</b>	<b>(457)</b>	<b>(0.79%)</b>
Income tax recovery	38	0.08%	1,903	3.25%
<b>Adjusted Net Income<sup>1</sup></b>	<b>592</b>	<b>1.04%</b>	<b>1,446</b>	<b>2.46%</b>
Increase in provision for impairment	192	0.36%	2,147	3.67%
<b>Net income (loss)</b>	<b>400</b>	<b>0.68%</b>	<b>(701)</b>	<b>(1.21%)</b>
Adjusted Net Income Per Common Share				
Basic	\$	0.027	\$	0.067
Diluted	\$	0.027	\$	0.067
Net income (loss) per common share				
Basic	\$	0.019	\$	(0.032)
Diluted	\$	0.019	\$	(0.032)

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

## Financial Revenue

	For the three months ended			
	Jun 30, 2019		Jun 30, 2018	
	% of loan receivables		% of loan receivables	
<b>(\$,000's except ratios)</b>				
Average loan receivables for the period	224,553		234,041	
Interest income	9,235	16.44%	9,620	16.44%
Discount income	1,245	2.20%	1,113	1.90%
Fee income	327	0.60%	226	0.39%
<b>Gross Financial Revenue</b>	<b>10,807</b>	<b>19.24%</b>	<b>10,959</b>	<b>18.73%</b>
Loan origination and acquisition costs	(922)	(1.64%)	(948)	(1.62%)
<b>Financial revenue</b>	<b>9,885</b>	<b>17.60%</b>	<b>10,011</b>	<b>17.11%</b>

Total financial revenue increased 3.9% from \$9.5M in the preceding quarter. Total financial revenue declined by 1.3% to \$9.9M from \$10.0M in the comparable quarter as the decline in average loan receivables was largely offset by an increase in the Net Portfolio Yield.

The majority of loan receivables are comprised of near-prime vehicle purchase loans that are generally priced at risk-adjusted annual interest rates between 10% and 25%. Additionally, the Company has a non-prime 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%. Dealer partners pay a discount fee to the Company which increases the Net Portfolio Yield to the Company.

Gross Portfolio Yield is comprised of the interest, discount, and fees earned before expensing the amortization of origination costs. Gross Portfolio Yield improved by 51 basis points from 18.73% in the comparable quarter to 19.24% in the current quarter due to improvements in discount income and fee income. Net Portfolio Yield continues to improve, increasing by 49 basis points over the comparable quarter to 17.60% and by 83 basis points over the preceding quarter's Net Portfolio Yield of 16.77%.

When the Company originates a loan 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 paid to dealers. The origination expenses are amortized over the life of the loan receivable and are netted against interest income. While the amortization of origination expenses decreased by 2.7% from the comparable quarter, the rate as a percentage of average loan receivables increased by 2 basis points to 1.64%.

## 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			
	Jun 30, 2019		Jun 30, 2018	
	% of loan receivables		% of loan receivables	
<b>(\$,000's except ratios)</b>				
Average loan receivables for the period	224,553		234,041	
Credit losses - net of recoveries	3,246	5.77%	4,291	7.34%
Repossession and recovery costs	483	0.87%	463	0.79%
<b>Total Credit Losses</b>	<b>3,729</b>	<b>6.64%</b>	<b>4,754</b>	<b>8.13%</b>

Credit losses, including costs and net of recoveries, are \$3.7M, an decrease of 21.6% from \$4.8M in the comparable quarter and an increase of 1.0% from \$3.7M in the preceding quarter.

The Delinquency Rate increased by 43 basis points to 5.69% from 5.26% in the comparable quarter and an increase of 23 basis points from 5.46% 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 120 days or are deemed to be otherwise uncollectable. 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			
	Jun 30, 2019		Jun 30, 2018	
	% of loan receivables		% of loan receivables	
<b>(\$,000's except ratios)</b>				
Average loan receivables for the period	224,553		234,041	
Financial revenue	9,885	17.60%	10,011	17.11%
Credit losses	3,729	6.64%	4,754	8.13%
<b>Credit Spread</b>	<b>6,156</b>	<b>10.96%</b>	<b>5,257</b>	<b>8.98%</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 17.1% to \$6.2M from \$5.3M in the comparable quarter despite a 4.1% decline in average loan receivables. The Credit Spread Rate increased by 198 basis points from 8.98% in the comparable quarter to 10.96% in the current quarter. Management continues to originate and service a portfolio of loans that generates a significantly larger Credit Spread Rate than historical results suggest.

## Financial Expenses

	For the three months ended			
	Jun 30, 2019		Jun 30, 2018	
	% of loan receivables		% of loan receivables	
<b>(\$,000's except ratios)</b>				
Average loan receivables for the period	224,553		234,041	
Financial expense	2,827	5.04%	2,777	4.75%

Financial expense includes interest paid on bank borrowings, securitization debt, and unsecured debentures and fees paid on bank borrowing.

The Financial Expense Ratio is effectively unchanged, increasing by 1 basis point to 5.04% from 5.03% in the preceding quarter. The Financial Expense Ratio increased 29 basis points from 4.75% in the comparable quarter.

## Operating Expenses

	For the three months ended			
	Jun 30, 2019		Jun 30, 2018	
	% of loan receivables		% of loan receivables	
<b>(\$,000's except ratios)</b>				
Average loan receivables for the period	224,553		234,041	
<b>Operating expenses</b>				
Wages and benefits	1,956	3.49%	1,985	3.39%
Professional fees	66	0.12%	118	0.20%
Office and general	544	0.97%	702	1.20%
Stock based compensation	75	0.13%	85	0.15%
Depreciation & amortization	134	0.25%	47	0.08%
<b>Total operating expenses</b>	<b>2,775</b>	<b>4.96%</b>	<b>2,937</b>	<b>5.02%</b>

Operating expenses continue to decline, both the dollars and as a ratio of average loan receivables. Operating expenses decreased by 5.5% to \$2.8M from \$2.9M in the comparable quarter and an decrease of 5.4% from \$2.9M in the preceding quarter. The Operating Expense Ratio decreased by 6 basis points to 4.96% compared to 5.02% in the comparable quarter. The Operating Expense Ratio decreased 21 basis points from 5.17% in the preceding quarter.

Management believes that the Company will see some positive operational leverage when average loan receivables increase due to the positive originations momentum that the Company is currently experiencing. This will be reflected in continued improvement in the Operating Expense Ratio and the Efficiency Ratio over time.

## Summary of Quarterly Results

For the fiscal periods ended	2020		2019			2018			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>(\$,000's except per share &amp; ratios)</b>									
Finance receivables	230,101	228,535	234,507	242,274	253,848	232,750	236,043	235,294	232,573
Total assets	232,222	230,145	235,254	243,204	255,303	241,286	244,998	243,783	242,536
Total liabilities	203,023	201,421	206,447	214,649	225,962	207,337	210,875	210,103	209,119
Adjusted Equity	37,449	36,833	37,017	37,213	37,917	36,965	37,150	36,926	36,924
Shareholders' equity	29,199	28,724	28,807	28,555	29,341	33,949	34,122	33,681	33,417
Adjusted Book Value Per Share	\$ 1.73	\$ 1.71	\$ 1.71	\$ 1.72	\$ 1.76	\$ 1.71	\$ 1.72	\$ 1.71	\$ 1.71
Book Value Per Share	\$ 1.35	\$ 1.33	\$ 1.33	\$ 1.32	\$ 1.36	\$ 1.57	\$ 1.58	\$ 1.56	\$ 1.55
Stock price	\$ 0.85	\$ 0.90	\$ 0.80	\$ 1.15	\$ 1.25	\$ 1.09	\$ 1.22	\$ 1.45	\$ 1.59
<b>For the Period:</b>									
Finance receivables originated	29,814	20,223	21,276	19,295	25,809	21,663	24,883	27,797	29,433
Average loan receivables	224,553	227,008	233,276	244,613	234,041	231,407	232,499	230,357	225,576
Total financial revenue	9,885	9,518	10,194	10,947	10,011	8,766	8,991	8,607	8,358
Adjusted Net Income (loss) before taxes	554	37	(330)	637	(457)	(310)	235	(16)	372
Net income (loss) before taxes	362	177	283	525	(2,604)	(296)	534	343	(244)
Adjusted Net Income (loss)	592	(258)	(431)	(758)	1,446	(262)	69	(121)	410
Net income (loss)	400	(118)	182	(870)	(701)	(248)	368	238	(205)
<b>Adjusted Net Income (loss) per Common Share:</b>									
Basic	\$ 0.027	\$ (0.012)	\$ (0.020)	\$ (0.035)	\$ 0.067	\$ (0.012)	\$ 0.003	\$ (0.006)	\$ 0.019
Diluted	\$ 0.027	\$ (0.012)	\$ (0.020)	\$ (0.035)	\$ 0.067	\$ (0.012)	\$ 0.003	\$ (0.006)	\$ 0.019
<b>Income (loss) per common share:</b>									
Basic	\$ 0.019	\$ (0.005)	\$ 0.008	\$ (0.040)	\$ (0.032)	\$ (0.011)	\$ 0.017	\$ 0.011	\$ (0.010)
Diluted	\$ 0.019	\$ (0.005)	\$ 0.008	\$ (0.040)	\$ (0.032)	\$ (0.011)	\$ 0.017	\$ 0.011	\$ (0.010)
<b>Loan Receivable Performance Measures: <sup>(1)</sup></b>									
Net Portfolio Yield	17.60%	17.41%	17.48%	17.90%	17.11%	15.15%	15.47%	14.95%	14.82%
Credit Loss Rate	6.64%	6.51%	6.73%	6.48%	8.13%	6.28%	6.03%	6.34%	5.28%
Credit Spread Rate	10.96%	10.90%	10.75%	11.42%	8.98%	8.87%	9.44%	8.61%	9.54%
Delinquency Rate (over 30 days)	5.69%	5.46%	5.33%	5.19%	5.26%	6.44%	6.01%	5.97%	5.86%
<b>Performance Measures: <sup>(1)</sup></b>									
Efficiency Ratio	28.07%	30.82%	35.76%	29.92%	29.34%	32.68%	30.51%	30.30%	33.16%
Leverage Ratio	7.95	8.01	8.17	8.52	8.70	7.11	7.18	7.24	7.26
Adjusted Return on Adjusted Equity <sup>(2)</sup>	6.38%	(2.79%)	(4.65%)	(8.07%)	15.45%	(2.83%)	0.75%	(1.31%)	4.46%
Return on equity	5.52%	(1.64%)	2.54%	(12.02%)	(8.85%)	(2.91%)	4.34%	2.84%	(2.45%)
<b>Ratios: <sup>(1)</sup></b>									
Financial Expense Ratio	5.04%	5.03%	5.06%	5.03%	4.75%	4.45%	4.31%	4.10%	3.97%
Operating Expense Ratio	4.96%	5.17%	6.25%	5.36%	5.02%	4.95%	4.72%	4.53%	4.91%
Adjusted Return on Earning Assets	1.05%	(0.45%)	(0.74%)	(1.24%)	2.47%	(0.45%)	0.12%	(0.21%)	0.74%
Return on Earning Assets	0.71%	(0.21%)	0.31%	(1.42%)	(1.20%)	(0.43%)	0.63%	0.41%	(0.35%)

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

<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 \$1.6M from \$228.5M at March 31, 2019 to \$230.1M 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.

The Company posted Originations of \$29.8M, a 47.4% increase from \$20.2M in the preceding quarter and a 15.5% increase from \$25.8M in the comparable quarter. Originations in the quarter are the largest in any quarter since the third quarter of 2015.

	As at			
	Jun 30, 2019		Mar 31, 2019	
<b>(\$,000's except ratios)</b>				
Finance receivables - securitized	129,354	56.22%	121,754	53.28%
Finance receivables - securitized (over collateralization) <sup>(1)</sup>	17,005	7.39%	17,174	7.51%
Finance receivables - Rifco Trust	10,330	4.49%	13,156	5.76%
Finance receivables - owned	73,412	31.90%	76,451	33.45%
<b>Total</b>	<b>230,101</b>	<b>100.00%</b>	<b>228,535</b>	<b>100.00%</b>

<sup>(1)</sup>Additional finance receivable collateral is provided as over collateralization security to some securitizers.

Despite strong originations, the average loan receivables during the quarter decreased 4.1% to \$224.6M from \$234.0M in the comparable quarter. Average loan receivables decreased 1.1% from \$227.0M in the preceding quarter. Higher than expected paydowns early in the quarter contributed to this decrease.

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

When securitizing finance receivables, finance receivable over collateralization is used. In some cases, this is used in combination with cash holdback in order to protect against the risk of prepayment and credit losses. 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. Utilizing an over collateralization component allows for a lower level of the cash holdback. This reduces the Company's financial expense.

At quarter end, the total cash holdback was \$7.9M compared to \$5.7M at year end. During the quarter, the Company received cash holdback releases of \$1.2M compared to \$1.4M 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 theoretical 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 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	
	Jun 30, 2019	Mar 31, 2019
(\$,000's)		
Total securitization debt	145,222	134,348
Total cash holdback	(7,935)	(5,714)
Securitized debt	137,287	128,634

### Deferred Income Tax Asset

Prior to March 31, 2019 the Company recognized gain on sale events for securitization transactions. This temporary timing difference along with other differences between net income and taxable income were recognized as changes to the Company's deferred income tax asset. Since March 31, 2019 the Company has opted to change the tax basis of securitization transactions from gain on sale to IFRS basis. This has resulted in the unwinding of temporary timing differences creating a significant tax loss that will be carried forward. The Company has 20 years to apply this tax loss to future taxable income. This has created a significant change in the composition of deferred income tax assets. The largest deferred tax item is now due to the loss carryforward from this change.

### Provision for Impairment

As detailed in note 4 of the Notes to the Consolidated Interim Financial Statements for the three months ended June 30, 2019 and 2018 the Company adopted IFRS 9 at the beginning of the prior fiscal year. IFRS 9 replaces the previous incurred loss model with an expected credit loss model. Prior periods were IFRS 9 compliant and 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 when they either exceed 120 days or are deemed to be otherwise uncollectable. 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 quarter ended	
	Jun 30, 2019	Jun 30, 2018
(\$, 000's)		
Credit losses net of recoveries for the period	3,246	4,291
Repossession and recovery costs for the period	483	463
Provision for impairment and credit losses for the period	(3,921)	(6,901)
Increase in provision for impairment	(192)	(2,147)

The impact on net income from the effects of the provision for impairment was to decrease it by \$0.2M during the quarter, as compared to decreasing it by \$2.1M in the comparable quarter. The provisions applied through IFRS 9 on a portfolio of assets acquired on June 4, 2018 accounted for \$2.0M of the \$2.1M decrease in the comparable quarter.

## 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 \$67.5M and three securitization facilities totaling \$137.5M. The Company's combined credit facilities total \$205.0M of which there was \$64.5M in remaining capacity at quarter end.

On June 4, 2018, Rifco announced an agreement to acquire a \$24.8M loan receivables portfolio consisting of 1,857 consumer automobile loans. The purchase of the portfolio was financed through a combination of loans made by funds managed by Ares Management L.P. (included in the "Non-readvancable facilities" line in the table below), \$4.5M of unsecured debentures issued, and cash on hand. At quarter end, outstanding loans made by funds managed by Ares Management L.P. were \$5.9M.

### Facility Availability Summary

as at Jun 30, 2019 (\$, 000's)	Limit	Utilized	Available	Renewal Date
Bank Borrowing - Wells Fargo syndicate <sup>(1)</sup>	65,000	39,994	25,006	17-Feb-20
Bank Borrowing - Mountain View Credit Union <sup>(2)</sup>	2,500	2,495	5	Non-Expiring
Securitization - Securcor Trust <sup>(3)</sup>	50,000	39,541	10,459	31-Jul-19
Securitization - Mountain View Credit Union <sup>(4)</sup>	47,500	34,704	12,796	Non-Expiring
Securitization - Canadian Schedule I Chartered Bank	40,000	23,755	16,245	29-Nov-19
<b>Total active facilities</b>	<b>205,000</b>	<b>140,489</b>	<b>64,511</b>	
Non-readvancable facilities <sup>(5)</sup>	51,635	51,635	-	
<b>Total</b>	<b>256,635</b>	<b>192,124</b>	<b>64,511</b>	

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

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

<sup>(3)</sup> Calculated as the sum of Tranches received, does not include repayments, and does not equal Securitization Debt.

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

<sup>(5)</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 \$64.5M at June 30, 2019 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.

<b>Total Liabilities to Tangible Net Worth ratio no greater than 8.00x</b>	<b>As at</b>	
	<b>Jun 30, 2019</b>	<b>Mar 31, 2019</b>
<b>(\$,000's except ratios)</b>		
Total liabilities	203,023	201,421
Tangible Net Worth	29,130	28,725
Total liabilities to Tangible Net Worth Ratio	6.97	7.01

  

<b>EBITDA Interest Coverage ratio minimum of 1:1.25<sup>(1)</sup></b>	<b>For the periods ended</b>	
	<b>Jun 30, 2019</b>	<b>Mar 31, 2019</b>
<b>(\$,000's except ratios)</b>		
EBITDA	14,027	10,628
Interest	11,710	8,883
Rolling EBITDA Ratio <sup>(2)</sup>	1.20:1	1.20:1

<sup>(1)</sup> Minimum ratio of 1:1.25 for period ended Mar 31, 2019.

<sup>(2)</sup> Three quarters used for period ended Mar 31, 2019. Four quarters used for period ended Jun 30, 2019.

### Bank Borrowing

The Company maintains a bank borrowing (registered secured debt holder) revolving credit facility with a \$65M limit. The Company is currently funding its loan Originations through this facility. The bank borrowing limit utilized was \$40.0M 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. 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. As at June 30, 2019 the Company was not in compliance with its EBITDA covenant. The Company was in active communication with Wells Fargo and obtained a restructured agreement on August 6, 2019, subsequent to the quarter end. The restructured agreement amends the required EBITDA level from 1.25 to 1.10 and brings the Company onsite from a covenant perspective with a retroactive waiver to June 30, 2019. The facility is reduced in size from \$65 million to \$50 million, which should allow the Company to reduce financial expense while retaining the accordion feature to \$100 million allowing the Company to retain its capacity to grow. As of March 31, 2019, the Company was in compliance with all financial covenants. The facility has a February 17, 2020 renewal date.

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 June 30, 2019 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 November 2019 and May 2024. The Company has been successful in renewing or replacing maturing unsecured debentures in the past.

Unsecured debentures issued and outstanding decreased by \$0.2M during the quarter, from \$12.4M at March 31, 2019 to \$12.2M at quarter end.

## **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 \$39.5M at June 30, 2019. The next renewal of the facility was scheduled for July 31, 2019, and is currently in process.

The Company's facility with a Canadian Schedule I Charter Bank facility was utilized to \$23.8M at June 30, 2019. This facility has an annual allotment of \$40.0M and is scheduled for renewal on November 29, 2019. The Company has been successful in renewing or expanding these securitization facilities in the past.

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 Company maintains a revolving \$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 recent 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 \$34.7M at June 30, 2019.

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 \$3.0M to \$73.4M at June 30, 2019 from \$76.5M from at March 31, 2019. Securitization of finance receivables would typically contribute net cash proceeds at the time of the transaction.

The Company originated \$29.8M in finance receivables during the quarter and securitized \$28.6 in loan principal representing 96.0% 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 year and beyond. The Company manages origination rates, credit facilities, and Net Financing Margin in order to maximize liquidity and maintain acceptable profitability. The financial 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 8 of the Notes to the Consolidated Interim Financial Statements for the three months ended June 30, 2019 and 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. The Company is in compliance with all of the covenants, and has been in compliance for the existence of the loan.

## 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	
	Jun 30, 2019	Jun 30, 2018
<b>(\$,000's except per share)</b>		
Net cash flows from operating activities	(1,327)	(13,699)
Funds advanced on finance receivables	29,814	50,623
Principal collections of finance receivables	(25,001)	(25,229)
Credit losses net of recoveries	(3,246)	(4,297)
Origination costs and discounts - net	1,311	(4,112)
Income taxes received (paid)	-	(1,502)
Financing costs	2,490	2,891
Other receivables and prepaid expenses	471	(1,235)
<b>Modified Funds Flow From Operations</b>	<b>4,512</b>	<b>3,440</b>
Weighted average number of common shares	21,597	21,597
<b>Modified Funds Flow From Operations per share</b>	<b>\$0.21</b>	<b>\$0.16</b>

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 was \$4.5M during the quarter, a 31.2% increase of \$1.1M from \$3.4M in the comparable quarter. Modified Funds Flow from Operations of \$0.21 per share in the current quarter, is a \$0.05 increase from \$0.16 per share in the comparable period.

## Equity

	As at	
	Jun 30, 2019	Mar 31, 2019
<b>(\$,000's except per share)</b>		
Adjusted Equity	37,449	36,833
Less: Provision for impairment - after tax <sup>(1)</sup>	8,250	8,109
<b>Equity</b>	<b>29,199</b>	<b>28,724</b>
Shares outstanding (000's)	21,597	21,597
Adjusted Book Value per Share	\$1.73	\$1.71
Book Value Per Share	\$1.35	\$1.33

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

Equity increased to \$29.2M from \$28.7M at March 31, 2019. Adjusted Equity increased by \$0.6M to \$37.4M from \$36.8M. 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 increased by \$0.02 per share from \$1.33 at year end to \$1.35 at current quarter end.

## Leverage Measurements

### Leverage Ratio

	As at	
	Jun 30, 2019	Mar 31, 2019
<b>(\$,000's except ratios)</b>		
Total assets	232,222	230,145
Equity	29,199	28,724
Leverage Ratio	7.95	8.01

The Leverage Ratio has decreased to 7.95 from 8.01 at year end. The decrease is due to the increase in equity being relatively larger than the increase in total assets.

## 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 lease liability consists 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	
<b>(\$,000's)</b>					
Securitization debt - undiscounted <sup>(1)</sup>	41,981	68,158	35,446	5,555	151,140
Unsecured debentures <sup>(2)</sup>	2,598	6,059	6,229	-	14,886
Lease liability	211	510	583	844	2,148
Purchase obligations <sup>(3)</sup>	246	146	-	-	392
<b>Total contractual obligations</b>	<b>45,036</b>	<b>74,873</b>	<b>42,258</b>	<b>6,399</b>	<b>168,566</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 software agreements.

## Management and Board of Directors Compensation

As at June 30, 2019, the Company had four executive officers that receive regular employment income (including bonuses). The total amount paid to the four executive officers during the quarter was \$0.23M which is an increase from \$0.22M compared to the same quarter in 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 totaled \$39,250 (June 30, 2018 - \$26,000) in addition to normal itemized expense reimbursement. The non-cash, stock based compensation expense during the quarter for the independent directors during the period was \$24,583 (June 30, 2018 – \$45,088).

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 quarter end, the total debentures held by related parties is \$2.7M (March 31, 2019 - \$3.3M). 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 \$1.4M (March 31, 2019 - \$1.8M) in debentures with varying terms. In addition, \$1.3M (March 31, 2019 - \$1.5M) 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 \$0.07M (June 30, 2018 - \$0.05M).

	Jun 30, 2019		As at (except Interest Paid) Mar 31, 2019		Jun 30, 2018	
	Unsecured debenture balance	Interest Paid Quarter	Unsecured debenture balance	Interest Paid Year	Unsecured debenture balance	Interest Paid Quarter
(\$,000's)						
Relatives of Chief Financial Officer	100	3	100	10	100	1
Relatives of Chief Marketing Officer	565	18	915	78	915	14
Relatives of Chief Credit Officer	250	7	250	24	250	2
Relatives of Director	480	10	480	34	310	6
Large Shareholder and Relatives	1,265	31	1,515	127	1,565	22
<b>Total</b>	<b>2,660</b>	<b>69</b>	<b>3,260</b>	<b>273</b>	<b>3,140</b>	<b>45</b>

## **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 the issuance of unsecured debentures, increasing or decreasing debt or by undertaking other activities, such as new share issuances, as deemed appropriate under the specific circumstances. The Company's liquidity and funding strategies and objectives have not changed significantly from the prior year.

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 leverage ratio, and credit performance (delinquency and loan losses) thresholds. 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 minimum net worth ratio, a maximum debt to tangible net worth ratio and a maximum delinquency and Credit Loss Rate. 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 Canadian Schedule 1 Chartered Bank facility is subject to certain covenants. These covenants include a minimum EBITDA interest coverage ratio, a minimum net worth ratio, a maximum debt to tangible net worth ratio and a maximum delinquency and Credit Loss Rate. 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. Some of 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 sometimes considerably larger and may be funded at a lower cost than Rifco can currently obtain.