Rifco Inc.

Condensed Consolidated Interim Financial Statements (unaudited)

For the three and nine months ended December 31, 2019 and 2018

Rifco Inc.
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Rifco Inc.
Consolidated Interim Statements of Financial Position (unaudited)
(in thousands of dollars)

As At

	Notes	December 31, 2019 $	March 31, 2019 $
ASSETS			
Cash	15	2,278	3,204
Finance receivables - net	4, 15	222,418	219,238
Other receivables and prepaid expenses	15	898	951
Income taxes receivable		3,772	626
Property and equipment		642	752
Right of use asset	3	1,158	-
Software		311	507
Deferred income tax asset	5	1,604	4,867
Total Assets		**233,081**	**230,145**
LIABILITIES AND EQUITY			
Accounts payable and accruals	10	10,604	9,300
Bank borrowings	6, 10, 15	14,909	43,870
Unsecured debentures	7, 10, 14, 15	11,996	12,390
Term debt	8, 10, 15	-	7,227
Securitization debt	9, 10, 15	164,804	128,634
Lease liabilities	3, 10	1,717	-
Total Liabilities		**204,030**	**201,421**
Equity			
Share capital	11	7,614	7,614
Contributed surplus	11	4,046	3,868
Retained earnings		17,391	17,242
Total Equity		**29,051**	**28,724**
Total Liabilities and Equity		**233,081**	**230,145**

Subsequent events 18

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)

	Notes	For the three months ended December 31, 2019 $	December 31, 2018 $	For the nine months ended December 31, 2019 $	December 31, 2018 $
Financial revenue		9,819	10,194	29,630	31,152
Financial expense	14	2,798	2,953	8,438	8,803
Net financial income before impairment and credit losses		**7,021**	**7,241**	**21,192**	**22,349**
Provision for impairment and credit losses	4	3,725	3,314	12,617	14,287
Net financial income before operating expenses		**3,296**	**3,927**	**8,575**	**8,062**
Operating expenses					
Wages and benefits	14	2,068	2,030	5,792	6,242
Professional fees		90	163	269	403
Office and general	13	538	1,304	1,610	2,777
Stock based compensation	11, 14	44	70	178	239
Depreciation and amortization		158	77	457	196
Total operating expenses		**2,898**	**3,644**	**8,306**	**9,857**
Net income (loss) before taxes		**398**	**283**	**269**	**(1,795)**
Current income tax recovery	5	152	1,303	152	2,812
Deferred income tax expense	5	(365)	(1,404)	(272)	(2,405)
Total income tax (expense) recovery		**(213)**	**(101)**	**(120)**	**407**
Net income (loss) and comprehensive income (loss) for the period attributable to equity holders		**185**	**182**	**149**	**(1,388)**
Net earnings (loss) per common share					
Basic	12	$ 0.009	$ 0.008	$ 0.007	$ (0.064)
Diluted	12	$ 0.009	$ 0.008	$ 0.007	$ (0.064)

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 nine months ended December 31, 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		-	-	(3,994)	(3,994)
Net loss and comprehensive loss for the period		-	-	(1,388)	(1,388)
Stock based compensation	11	-	239	-	239
As at December 31, 2018		**7,614**	**3,832**	**17,360**	**28,806**

For the nine months ended December 31, 2019	Notes	Share Capital $	Contributed Surplus $	Retained Earnings $	Total Equity $
As at March 31, 2019		7,614	3,868	17,242	28,724
Net income and comprehensive income for the period		-	-	149	149
Stock based compensation	11	-	178	-	178
As at December 31, 2019		**7,614**	**4,046**	**17,391**	**29,051**

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 and nine months periods ended December 31, 2019 and 2018

	Notes	For the three months ended December 31, 2019 $	For the three months ended December 31, 2018 $	For the nine months ended December 31, 2019 $	For the nine months ended December 31, 2018 $
Operating activities					
Net income (loss) and comprehensive income (loss) for the period attributable to equity holders		185	182	149	(1,388)
Adjustments for:					
Depreciation and amortization		158	77	457	196
(Decrease) increase in provision for impairment	4	(602)	(612)	189	1,646
Stock based compensation	11, 14	44	70	178	239
Tax expense (recovery)	5	213	101	120	(407)
Financial expense		2,798	2,953	8,438	8,803
Interest paid		(2,827)	(2,974)	(8,467)	(8,824)
Financing costs		(132)	(105)	(281)	(267)
Amortization of origination and financing costs		879	876	2,694	2,780
Cash flows from operating activities before the following:		716	568	3,477	2,778
Funds advanced on finance receivables	4	(27,155)	(21,276)	(84,305)	(91,193)
Principal collections of finance receivables		22,762	25,702	71,467	78,387
Credit losses net of recoveries	4	3,824	3,341	11,017	11,049
Income taxes (paid) received		(3)	-	(3)	1,502
Origination costs and discounts - net		(1,204)	(1,379)	(3,983)	749
Other receivables, payables and prepaid expenses		1,002	640	1,911	(287)
Net cash flows (used in) from operating activities		(58)	7,596	(419)	2,985
Investing activity					
Purchase of property and equipment		-	(17)	-	(108)
Purchase of software		(29)	(144)	(29)	(474)
Net cash flows used in investing activities		(29)	(161)	(29)	(582)
Financing activities					
Repayments of bank borrowings	6	(39,839)	(11,972)	(96,616)	(51,578)
Net advances from bank borrowings	6	21,132	15,052	67,607	50,781
Repayments of unsecured debentures	7	(820)	(510)	(2,270)	(885)
Advances from unsecured debentures	7	500	265	1,875	5,395
Repayments of term debt	8	(4,637)	(2,250)	(7,269)	(7,271)
Advances from term debt	8	-	-	-	16,039
Repayments of securitization debt	9	(25,170)	(22,062)	(72,187)	(66,447)
Advances from securitization debt	9	48,140	13,411	108,470	53,253
Repayments of lease liability	3	(27)	-	(87)	-
Net cash flows used in financing activities		(721)	(8,066)	(477)	(713)
(Decrease) increase in cash		(808)	(631)	(925)	1,690
Cash, beginning of period		3,086	4,243	3,204	1,922
Cash, end of the period		2,278	3,612	2,279	3,612

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

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 and nine months ended December 31, 2019 and 2018 were approved and authorized for issue by the Board of Directors on February 18, 2020.

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

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.

	April 1, 2019
($, 000's)	
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 statements 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.

($, 000's)	
Operating lease commitments disclosed as at March 31, 2019	2,005
Discounted using the incremental borrowing rate as at April 1, 2019	(201)
Lease liability recognized as of April 1, 2019	1,804

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 December 31, 2019 and March 31, 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.

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

	December 31, 2019	**March 31, 2019**
($, 000's)		
Next 12 months	77,495	77,170
13 to 24 months	72,895	72,579
35 to 36 months	66,400	65,778
37 to 48 months	56,519	56,230
49 to 60 months	42,300	41,648
61 months and over	33,833	30,248
Gross finance receivables	**349,442**	**343,653**
Less unearned interest	(124,022)	(119,233)
Loan receivables	225,420	224,420
Accrued interest and fees	4,936	4,115
Finance receivables	**230,356**	**228,535**
Unamortized origination costs	5,845	5,663
Unamortized discounts	(2,487)	(3,853)
Less provision for impairment	(11,296)	(11,107)
Finance receivables – net	**222,418**	**219,238**

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:

	December 31, 2019		**March 31, 2019**	
($,000's except %)				
Current	218,107	94.68%	216,059	94.54%
31 – 60 days	7,066	3.07%	7,877	3.45%
61 – 90 days	3,195	1.39%	3,341	1.46%
> 90 days	1,988	0.86%	1,258	0.55%
Finance receivables	**230,356**	**100.00%**	**228,535**	**100.00%**

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

	December 31, 2019	**March 31, 2019**
($, 000's)		
Near-prime	200,622	194,141
Non-prime	24,798	30,279
Loan receivables	**225,420**	**224,420**

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 December 31, 2019, there were $11.4M (March 31, 2019 - $14.4M) of finance receivables, constituting 5.0% (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.

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

For the nine months ended December 31, 2018	**Stage 1 (performing)**	**Stage 2 (under performing)**	**Stage 3 (credit impaired)**	**Total**
		Provision carrying amount		
($, 000's)				
Provision for impairment as at April 1, 2018	7,218	1,041	1,342	9,601
Provision on loans originated, at time of origination	2,338	-	-	2,338
Provision for impairment on portfolio acquisition	1,518	7	435	1,960
Change in provision for impairment, after origination or acquisition	(3,275)	(480)	1,103	(2,652)
Provision for impairment as at December 31, 2018	**7,799**	**568**	**2,880**	**11,247**

For the nine months ended December 31, 2019	**Stage 1 (performing)**	**Stage 2 (under performing)**	**Stage 3 (credit impaired)**	**Total**
		Provision carrying amount		
($, 000's)				
Provision for impairment as at March 31, 2019	7,712	632	2,763	11,107
Provision on loans originated, at time of origination	2,926	-	-	2,926
Change in provision for impairment, after origination	(3,157)	(136)	556	(2,737)
Provision for impairment as at December 31, 2019	**7,481**	**496**	**3,319**	**11,296**

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:

	For the three months ended		**For the nine months ended**	
	December 31, 2019	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**
($, 000's)				
Provision for impairment at end of period	11,296	11,247	11,296	11,247
Provision for impairment at beginning of period	11,898	11,859	11,107	9,601
(Decrease) Increase in provision for impairment	**(602)**	**(612)**	**189**	**1,646**
Credit losses net of recoveries for the period	3,824	3,347	11,017	11,104
Repossession and recovery costs for the period	503	579	1,411	1,537
Provision for impairment and credit losses for the period	**3,725**	**3,314**	**12,617**	**14,287**

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

	Loans Receivable			
	Stage 1 (performing)	Stage 2 (under performing)	Stage 3 (credit impaired)	Total
($, 000's)				
Balances as at April 1, 2018	**213,226**	**14,132**	**2,039**	**229,397**
Originated	86,602	-	-	86,602
Loans purchased	24,084	68	662	24,814
Payments, recoveries & other adjustments	(111,744)	(3,578)	25,778	(89,544)
Transfer to (from):				
Stage 1 (performing) [1]	(4,751)	4,751	-	-
Stage 2 (under performing) [1]	4,257	(7,219)	2,962	-
Stage 3 (credit impaired)	77	29	(106)	-
Charge offs	-	-	(26,849)	(26,849)
Balances as at March 31, 2019	**211,751**	**8,183**	**4,486**	**224,420**
Originated	84,305	-	-	84,305
Payments, recoveries & other adjustments	(74,709)	(4,876)	16,184	(63,401)
Transfer to (from):				
Stage 1 (performing)	(11,215)	11,215	-	-
Stage 2 (under performing)	2,332	(7,618)	5,285	-
Stage 3 (credit impaired)	373	188	(561)	-
Charge offs	-	-	(19,904)	(19,904)
Loan receivables as at December 31, 2019	**212,837**	**7,092**	**5,490**	**225,420**

[1] Presentation has been adjusted

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.

5. Income taxes

Net deferred income tax assets are comprised of the following:

	December 31, 2019	March 31, 2019
($, 000's)		
Deferred income tax assets		
Provision for impairment	1,472	1,470
Loss carry forward	63	3,396
Other	80	171
	1,615	5,037
Deferred income tax liabilities		
Property and equipment	11	170
	11	170
Net deferred income tax asset	**1,604**	**4,867**

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

	December 31, 2019	December 31, 2018
($, 000's)		
Income (Loss) before taxes	269	(1,795)
Statutory income tax rate	26.33%	27.00%
Income tax expense (recovery)	71	(485)
Loss carry forward utilized	(18)	-
Non-deductible expenses for tax purposes	67	78
Income tax expense (recovery)	**120**	**(407)**
Effective income tax rate	44.6%	22.7%
Allocation of expense (recovery)		
Current	(152)	(2,812)
Deferred	272	2,405
Income tax expense (recovery)	**120**	**(407)**

6. Bank borrowings

Bank borrowings is comprised of two credit facilities.

The Company has a syndicated secured committed revolving credit facility of $50.00M with Wells Fargo Corporation Canada (Wells Fargo) and ATB Corporate Financial Services (ATB) (registered senior debt holders). The facility had 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 brought the Company back in compliance with a retrospective waiver to June 30, 2019. As of December 31, 2019 and 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, 2020. Both of the letters of credit form part of the $50.00M 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.

($, 000's)	
At March 31, 2018 - Bank borrowing	**45,484**
Advances from bank borrowings	64,537
Repayments of bank borrowings	(66,151)
At March 31, 2019 - Bank borrowing	**43,870**
Advances from bank borrowings	67,655
Repayments of bank borrowings	(96,616)
At December 31, 2019 - Bank borrowing	**14,909**

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

($, 000's)	
At March 31, 2018 - Deferred financing costs	**91**
Amount of deferred financing costs expensed in the period	(96)
Additional deferred financing costs incurred in the period	68
At March 31, 2019 - Deferred financing costs	**63**
Amount of deferred financing costs expensed in the period	(58)
Additional deferred financing costs incurred in the period	10
At December 31, 2019 - Deferred financing costs	**15**

7. Unsecured debentures

Unsecured debentures are non-retractable by the noteholder within the specific terms. Maturity dates vary from February 1, 2020 to December 1, 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 December 31, 2019, March 31, 2019 and throughout the periods, the Company was in compliance with all covenants.

A summary of unsecured debenture activity is as follows:

($, 000's)	
At March 31, 2018 - Unsecured debentures	**8,270**
Debentures matured	(2,465)
Debentures renewed	1,080
New debentures	5,505
At March 31, 2019 - Unsecured debentures	**12,390**
Debentures matured	(3,220)
Debentures renewed	951
New debentures	1,875
At December 31, 2019 - Unsecured debentures	**11,996**

	December 31, 2019	March 31, 2019
($, 000's)		
5.5% debentures outstanding	-	200
6.5% debentures outstanding	1,385	80
7.5% debentures outstanding	3,390	3,365
8.5% debentures outstanding	1,645	1,620
9.5% debentures outstanding	5,576	4,125
12.0% debentures outstanding	-	3,000
Unsecured debentures	**11,996**	**12,390**
Portion issued to related parties (note 14)	3,110	3,260

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 was floating tied to CDOR. The loan was not re-advanceable, had a term of 4 years, expiring May 2022, and had principal payments which were linked to the balances of the underlying receivables owned by Rifco Trust and pledged as collateral.

The loan had 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 December 31, 2019 and throughout the periods, the Company was in compliance with all covenants.

On December 20, 2019 the term debt was paid in full.

($, 000's)	
At March 31, 2018 - Term debt	**-**
Advances from term loan	16,039
(Repayments of term loan)	(8,812)
At March 31, 2019 - Term debt	**7,227**
(Repayments of term loan)	(7,227)
At December 31, 2019 - Term debt	**-**

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

($, 000's)	
At March 31, 2018 - Deferred financing costs	**-**
Deferred financing costs incurred in the period	80
Amount of deferred financing costs expensed in the period	(38)
At March 31, 2019 - Deferred financing costs	**42**
Amount of deferred financing costs expensed in the period	(42)
At December 31, 2019 - Deferred financing costs	**-**

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 December 31, 2019 amounted to $175.37M (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.

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 December 31, 2019, March 31, 2019 and throughout the periods, the Company was in compliance with all covenants.

($, 000's)	
At March 31, 2018 - Securitization debt	**146,940**
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
At March 31, 2019 - Securitization debt	**128,634**
Gross sale proceeds from securitizers	108,470
(Repayments to securitizers)	(65,873)
(Additions to securitization holdback)	(9,277)
Received from securitization holdback	2,963
Securitization costs incurred in the period	(271)
Securitization costs expensed in the period	158
At December 31, 2019 - Securitization debt	**164,804**

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

($, 000's)	
At March 31, 2018 - Unamortized securitization costs	**281**
Securitization costs incurred in the period	169
Securitization costs expensed in the period	(211)
At March 31, 2019 - Unamortized securitization costs	**239**
Securitization costs incurred in the period	271
Securitization costs expensed in the period	(158)
At December 31, 2019 - Unamortized securitization costs	**352**

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 December 31, 2019 the total cash holdbacks held by the securitizers amounted to $10.56M (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 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.

	December 31, 2019		**March 31, 2019**	
($, 000's except %)				
Finance receivables – securitized	154,328	67.00%	121,754	53.28%
Finance receivables – securitized over collateralization	20,322	8.82%	17,174	7.51%
Finance receivables – sold to Rifco Trust	-	0.00%	13,156	5.76%
Finance receivables – owned	55,706	24.18%	76,451	33.45%
Finance receivables	**230,356**	**100.00%**	**228,535**	**100.00%**

Securitized finance receivables

Once the finance receivables are securitized, the Company assigns the underlying finance receivables to the securitizers. Under the terms of the securitization agreements, the Company is responsible for advancing all scheduled or received principal and a portion of the interest payments to the securitizers depending on the facility. Servicing of the finance receivables remains the Company's responsibility. In these securitization transactions, the Company retains prepayment risk. The cash holdback and over collateralization is the Company's maximum exposure to credit losses on securitized finance receivables. Due to retention of these risks, assigned finance receivables are not derecognized, and the securitization proceeds are accounted for as securitization debt.

Finance receivables pledged as collateral

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. Contractual repayments

	Less than one year	1 to 3 years	4 to 5 years	Over 5 years	Total
(000's)					
Accounts payable and accruals	10,604	-	-	-	10,604
Bank borrowings [(1)]	14,923	-	-	-	14,923
Unsecured debentures [(2)]	3,598	5,371	5,578	-	14,547
Securitization debt [(3)]	50,489	81,604	43,017	8,001	183,111
Lease liabilities[(4)]	243	513	607	690	2,053
	79,857	**87,488**	**49,202**	**8,691**	**225,238**

(1) Bank borrowings is before unamortized transaction costs.
(2) Unsecured debentures are presented with the interest expense due in the corresponding year.
(3) 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.
(4) Lease liabilities is presented as total stream of payments.

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**

	December 31, 2019		March 31, 2019	
	Shares	$	Shares	$
(000's)				
Opening balance	21,597	7,614	21,597	7,614
Stock options exercised	-	-	-	-
Closing balance	**21,597**	**7,614**	**21,597**	**7,614**

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.

	December 31, 2019	March 31, 2019
($, 000's)		
Opening balance	3,868	3,593
Stock based compensation	178	275
Closing balance	**4,046**	**3,868**

12. Earnings per share ("EPS")

The calculation of the diluted income per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the income per share. The dilutive effect of outstanding options (which are in the money) and their equivalents is reflected in diluted earnings per share by determining the number of shares that could have been acquired at fair value (determined as the period weighted average market share price of the Company's shares) based on the intrinsic monetary value of the exercise rights attached to outstanding share options.

Weighted average number of common shares is calculated as follows:

	Three months ending		Nine months ending	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
($, 000's)				
Weighted average number of shares outstanding	21,597	21,597	21,597	21,597
Effect of potential dilutive securities due to stock options	-	-	-	-
Weighted average number of shares outstanding for use in determining diluted income per share	**21,597**	**21,597**	**21,597**	**21,597**
Net income (loss) and comprehensive income (loss) for the period attributable to equity holders	**185**	**182**	**149**	**(1,388)**

13. Office and general expenses

	For the three months ended		For the nine months ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
($, 000's)				
Technology and communication	224	257	676	782
Office rent	70	117	211	343
Training and recruiting	20	105	25	227
Promotional and subscriptions	31	96	119	280
Travel	91	174	254	430
Other	102	555	325	715
Total office and general	**538**	**1,304**	**1,610**	**2,777**

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 $3.11M (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 $1.84M (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.

	For the three months ended		For the nine months ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
($, 000's)				
Total interest paid to related parties	64	75	188	197

Compensation of key management personnel

The Company has four executive officers who are considered key management personnel. The remuneration of these officers for the period ended was as follows:

	For the three months ended		For the nine months ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
($, 000's)				
Compensation, including bonuses	287	187	662	558
Stock based compensation	34	37	119	129
Total	**321**	**224**	**781**	**687**
Number of stock options granted	-	-	280	263

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.

	For the three months ended		For the nine months ended	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
($, 000's)				
Fees	25	20	86	72
Stock based compensation	13	28	55	97
Total	**38**	**48**	**141**	**169**
Number of stock options granted	-	-	-	246

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		December 31, 2019		March 31, 2019	
			Carrying value	Fair value	Carrying value	Fair value
(000's)						
Assets measured at amortized cost:						
Cash	(1)		2,278	2,278	3,204	3,204
Finance receivables – net	(3)	(A)	222,418	222,418	219,238	233,837
Other receivables	(1)		177	177	240	240
Liabilities measured at amortized cost:						
Bank borrowings	(1)		14,909	14,923	43,870	43,932
Unsecured debentures	(3)	(B)	11,996	11,181	12,390	12,561
Term debt	(2)		-	-	7,227	7,269
Securitization debt	(1)	(C)	164,804	164,037	128,634	128,041

A) As of March 31, 2019, the fair value of finance receivables was appropriately 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 credit losses, provision for prepayment losses, and servicing costs. However, the offer by CanCap Group Inc. to acquire all of the issued and outstanding shares of Rifco (note 18) provides an implied market value of Rifco's finance receivables. Therefore, Rifco has revised the fair value calculation of its receivables as of December 31, 2019 to align with that implied market value, after considering transaction costs and other relevant factors.
B) The fair value of unsecured debentures 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 was 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 4.

17. Reclassification

The following change was made to the comparative figure

a) 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 Events

On February 3, 2020 Rifco Inc. announced that they had entered into a definitive arrangement agreement pursuant to which CanCap Group Inc. would acquire all of the issued and outstanding common shares of Rifco. The agreement is subject to approval of 66 2/3% of the votes to be cast by Rifco shareholders at a special meeting of Rifco shareholders on April 3, 2020. The Company's securitization agreements with Securcor Trust and the Canadian Schedule I Chartered Bank contain change of control provisions. Waivers for these provisions have been obtained.

On February 4, 2020 the Company announced it had reorganized its funding relationships resulting in a new $20M warehouse facility from a Canadian Schedule I Chartered Bank with an improved advance rate and slightly higher interest rate than the existing banking syndicate facility, which was paid out on January 30, 2020. To pay out the facility, Rifco securitized a $29M tranche of loans receivable through its existing Canadian Schedule I Chartered Bank securitization facility, which resulted in a better advance rate and approximately 160bps reduction in costs of funds when compared to the banking syndicate facility. The Canadian Schedule I Charted Bank warehouse facility does not have an EBITDA Interest Coverage Ratio covenant.

In the previous quarter, the Company submitted an amended 2018 tax return relating to the change in tax basis of securitization transactions. Subsequent to quarter end, the Company received the notice of reassessment for 2018. Taxes recoverable from the loss carry backs were moved from deferred income tax asset to income taxes receivable as at December 31, 2019. Refunds totalling $3.8M were received in February 2020.

For the period ended December 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the unaudited consolidated interim financial statements for the three and nine months ended December 31, 2019 and 2018 (consolidated interim financial statements) 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 February 18, 2020.

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. 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. 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, as are other terms as defined in the Glossary of Other terms and Measures.

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 $1.1 billion.

Strategic Perspective

As market conditions dictate, management makes strategic decisions to exploit various segments of the credit spectrum. The anticipated Credit Spread, or the difference between expected yield and forecasted net credit losses, is the most important piece

of information in making these decisions. The analysis and forecasting of the Credit Spread Rate allows management to target those credit segments which have the highest returns.

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 originated 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 December 31, 2019. The results of operations and cash flows for the periods 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	
	Dec 31, 2019	**Mar 31, 2019**	**Dec 31, 2018**
($, 000's except %)			
Finance receivables	230,356	228,535	234,507
Total assets	233,081	230,145	235,254
Total liabilities	204,030	201,421	206,447
Adjusted Equity [1]	37,372	36,833	37,017
Equity	29,051	28,724	28,807
Delinquency Rate	5.32%	5.46%	5.33%

[1] See the section "Description of Non-IFRS Measures" for these definitions

($, 000's except per share and %)	For the three months ended		For the nine months ended	
	Dec 31, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018
Financial revenue	9,819	10,194	29,630	31,152
Credit losses	4,327	3,926	12,428	12,641
Credit Spread	5,492	6,268	17,202	18,511
Operating expenses	2,898	3,645	8,306	9,857
Adjusted Net (Loss) Income before Taxes[1]	(204)	(330)	458	(149)
Net income (loss) before taxes	398	283	269	(1,795)
Adjusted Net (Loss) Income per Common Share - Basic	$(0.019)	$(0.020)	$0.016	$0.012
Adjusted Net (Loss) Income per Common Share - Diluted	$(0.019)	$(0.020)	$0.016	$0.012
Net income (loss) per common share - Basic	$0.009	$0.008	$0.007	$(0.064)
Net income (loss) per common share - Diluted	$0.009	$0.008	$0.007	$(0.064)
Originations	27,155	21,276	84,305	66,379
Average loan receivables	225,815	233,276	225,538	235,947
Net Portfolio Yield	17.38 %	17.48 %	17.51 %	17.60 %
Credit Loss Rate	7.66 %	6.73 %	7.34 %	7.14 %
Credit Spread Rate	9.72 %	10.75 %	10.17 %	10.46 %
Financial Expense Ratio	4.96 %	5.06 %	4.99 %	4.97 %
Operating Expense Ratio	5.13 %	6.25 %	4.91 %	5.57 %
Adjusted Return on Adjusted Equity[1]	(4.46%)	(4.65%)	1.21 %	0.92 %

[1] See the section "Description of Non-IFRS Measures" for these definitions

The Company posted Originations for the year to date of $84.3M, a 27.0% increase from $66.4M in the prior year to date. Originations of $27.2M for the current quarter are an increase of 27.6% from the comparable quarter and an 0.7% decrease from the preceding quarter.

Near-prime originations increased by $21.0M from $53.6M to $74.6M, a 39.2% increase in the current year to date when compared to the prior year. The near-prime weighted average Contract Interest Rate on the originations increased 110 basis points from 16.37% to 17.47% from the prior year.

Adjusted Income Before Taxes for the year to date of $0.5M is $0.6M higher than the prior year to date. Adjusted Net Loss Before Taxes in the quarter was $0.2M, an improvement of $0.1M from the comparable quarter. Adjusted Net (Loss) Income Before Taxes removes the effect of the non-cash provisions on net income (loss) before tax. Adjusted Net (Loss) 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 for the year to date improved by $2.1M to $0.3M from a net loss before tax of $1.8M in the prior year to date. Net income before tax for the quarter of $0.4M was $0.1M higher than the comparable period.

Credit Spread is one of the most important measure used by management to evaluate the performance of the loan receivables over a period. Credit Spread declined by 7.1% from $18.5M in the comparable year to date to $17.2M in the current year to date. Credit Spread for the quarter declined by 12.4% from the comparable quarter to $5.5M. The Credit Spread Rate decreased by 29 basis points from 10.46% in the comparable year to date to 10.17% in the current year to date. The Credit Spread Rate during the quarter declined by 103 basis points over the comparable quarter and by 12 basis points over the preceding quarter. This recent overall Credit Spread Rate decline is being temporarily impacted as the portfolio of loans purchased in June 2018 rapidly pays down. This portfolio has an exceptionally large Credit Spread Rate due to the very favourable purchase price

paid. Management continues to originate a portfolio of loans that generates a significantly larger Credit Spread Rate than historical results suggest.

Total financial revenue year to date decreased 4.9% to $29.6M from $31.2M in the prior year to date due to the relatively faster run off rate of the portfolio of assets acquired in June 2018. Total financial revenue declined by 3.7% to $9.8M from $10.2M in the comparable quarter and decreased by 1.1% from the preceding quarter.

The near-prime portfolio increased 2.5% from $195.4M in the prior year to $200.3M. Gross Financial Revenue for near-prime loans increased 12.4% from $7.4 in the comparative period to $8.4M. The Gross Portfolio Yield improved 148 basis points for the near-prime portfolio.

Loan receivables increased by $1.0M from $224.4M at March 31, 2019 to $225.4M at current quarter end. Average loan receivables during the quarter decreased 4.4% to $225.8M from $233.3M in the comparable quarter, which included $24.8M of assets from an acquired portfolio.

The Financial Expense Ratio increased year to date by 2 basis points to 4.99%% from 4.97% in the prior year to date. The Financial Expense Ratio decreased by 10 basis points to 4.96% from 5.06% in the comparable quarter. The Financial Expense Ratio remained the same from the prior quarter at 4.96%.

Credit losses, including costs and net of recoveries, for the year to date decreased by 1.7% from $12.6M in the prior year to date to $12.4M in the current period. Credit losses, including costs and net of recoveries, for the quarter increased by 10.2% to $4.3M from $3.9M in the comparable quarter. The annualized Credit Loss Rate for the year to date increased by 20 basis points to 7.34% from 7.14% in the prior year to date. The annualized Credit Loss Rate for the quarter decreased by 6 basis points to 7.66% from 7.72% in the prior quarter.

The Delinquency Rate decreased by 14 basis points to 5.32% from 5.46% at the beginning of the year. The Delinquency Rate decreased 83 basis points from 6.15% in the prior quarter. The Delinquency Rate decreased 1 basis point over the comparable quarter.

Operating expenses continue to decline, both the dollars and as a ratio of average loan receivables. Operating expenses year to date decreased by 15.7% to $8.3M from $9.9M in the prior year to date. Operating expenses during the quarter decreased 20.5% to $2.9M from $3.6M in the comparable quarter. The Operating Expense Ratio decreased by 112basis points to 5.13% compared to 6.25% in the comparable quarter. The Operating Expense Ratio decreased 66 basis points year to date to 4.91% from 5.57% in the prior year to date.

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.

Subsequent to year end, Rifco announced it had reorganized its funding relationships resulting in a new $20M warehouse facility from a Canadian Schedule I Chartered Bank with an improved advance rate and slightly higher interest rate than the existing banking syndicate facility, which was paid out on January 30, 2020. To pay out the facility, Rifco securitized a $29M tranche of loans receivable through its existing Canadian Schedule I Chartered Bank securitization facility, which resulted in a better advance rate and approximately 160bps reduction in costs of funds when compared to the banking syndicate facility.

Rifco also received formal notification from the Canadian Revenue Agency that its proposed change in corporate income tax basis was accepted and the related amendment of the prior year return enabled it to take advantage of loss carrybacks. As such, these amounts, which were formerly recorded as a deferred tax asset, are now classified as income taxes receivable. Refunds totaling $3.8M were received in February 2020.

Rifco has leveraged its recent investments in its loan origination system and new credit model to enhance the automation of its credit decisioning. While all loans are verified prior to funding, approximately 77% of its credit decisioning is automated. This is an increase from 23% in the comparable quarter. Rifco believes that automation will increase the integrity, accuracy, predictability and reliability of decision making, improving ultimate credit spread. This transition also helps Rifco manage its operating expenses while the overall market is experiencing a decline in ultimate booking rates on applications seen.

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 the Period

All income and expense items are measured against the average outstanding loan receivables in the period.

	For the three months ended				For the nine months ended			
	Dec 31, 2019	% of loan receivables	Dec 31, 2018	% of loan receivables	Dec 31, 2019	% of loan receivables	Dec 31, 2018	% of loan receivables
($,000's except % and per share)								
Average loan receivables for the period	225,815		233,276		225,538		235,947	
Financial revenue	9,819	17.38 %	10,194	17.48 %	29,630	17.51 %	31,152	17.60 %
Credit losses	4,327	7.66 %	3,926	6.73 %	12,428	7.34 %	12,641	7.14 %
Credit Spread	**5,492**	**9.72 %**	**6,268**	**10.75 %**	**17,202**	**10.17 %**	**18,511**	**10.46 %**
Financial expenses	2,798	4.96 %	2,953	5.06 %	8,438	4.99 %	8,803	4.97 %
Adjusted Net Financial Income before Operating Expenses[1]	**2,694**	**4.76 %**	**3,315**	**5.69 %**	**8,764**	**5.18 %**	**9,708**	**5.49 %**
Operating expenses	2,898	5.13 %	3,645	6.25 %	8,306	4.91 %	9,857	5.57 %
Adjusted Net (Loss) Income before Taxes	**(204)**	**(0.37%)**	**(330)**	**(0.56%)**	**458**	**0.27 %**	**(149)**	**(0.08%)**
Income tax (expense) recovery	(213)	(0.38%)	(101)	(0.17%)	(120)	(0.07%)	407	0.23 %
Adjusted Net (Loss) Income[1]	**(417)**	**(0.75%)**	**(431)**	**(0.73%)**	**338**	**0.20 %**	**258**	**0.15 %**
(Decrease) increase in provision for impairment	(602)	(1.07%)	(612)	(1.05%)	189	0.11 %	1,646	0.93 %
Net income (loss)	**185**	**0.32 %**	**181**	**0.32 %**	**149**	**0.09 %**	**(1,388)**	**(0.78%)**
Adjusted Net (Loss) Income per Common Share:								
Basic	$(0.019)		$(0.020)		$0.016		$0.012	
Diluted	$(0.019)		$(0.020)		$0.016		$0.012	
Net income (loss) per common share:								
Basic	$0.009		$0.008		$0.007		$(0.064)	
Diluted	$0.009		$0.008		$0.007		$(0.064)	

[1] See the section "Description of Non-IFRS Measures" for these definitions

Financial Revenue

($,000's except %)	For the three months ended				For the nine months ended			
	Dec 31, 2019	% of loan receivables	Dec 31, 2018	% of loan receivables	Dec 31, 2019	% of loan receivables	Dec 31, 2018	% of loan receivables
Average loan receivables for the period	225,815		233,276		225,538		235,947	
Interest income	9,451	16.74 %	9,775	16.76 %	28,136	16.63 %	29,784	16.83 %
Discount income	635	1.12 %	997	1.71 %	2,748	1.62 %	3,227	1.82 %
Fee income	566	1.00 %	289	0.50 %	1,362	0.81 %	849	0.48 %
Gross Financial Revenue	10,652	18.86 %	11,061	18.97 %	32,246	19.06 %	33,860	19.13 %
Loan origination and acquisition costs	(833)	(1.48%)	(867)	(1.49%)	(2,616)	(1.55%)	(2,708)	(1.53%)
Financial revenue	9,819	17.38 %	10,194	17.48 %	29,630	17.51 %	31,152	17.60 %

Financial revenue year to date decreased 4.9% to $29.6M from $31.2M in the prior year to date. Financial revenue declined by 3.7% to $9.8M from $10.2M in the comparable quarter and decreased by 0.1% from the preceding quarter. Despite originating loans at a higher rate than recent history, the financial revenue rate has been dropping due to the rapid run-off rate of the high rate acquired portfolio of loans that was purchased at a significant discount.

($,000's except %)	For the three months ended					
	Dec 31, 2019			Dec 31, 2018		
	Average loan receivables for the period	Gross financial revenue	Gross portfolio yield	Average loan receivables for the period	Gross financial revenue	Gross portfolio yield
Near-prime	200,252	8,363	16.72%	195,424	7,440	15.24%
Non-prime	17,761	1,513	34.08%	20,862	1,836	35.20%
Acquired portfolio	7,802	776	39.80%	16,990	1,785	42.04%
Gross Financial Revenue	**225,815**	**10,652**	**18.86%**	**233,276**	**11,061**	**18.97%**

The near-prime portfolio increased 2.5% from $195.4M in the prior year to $200.3M. Gross Financial Revenue for near-prime loans increased 12.4% from $7.4 in the comparative period to $8.4M. The Gross Portfolio Yield improved 148 basis points for the near-prime portfolio.

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. As the portfolio purchased in June 2018 rapidly pays down, interest and discount income will start to normalize as the purchased portfolio had a significantly higher return and discount rate than Rifco originated loans.

Gross Portfolio Yield is comprised of the interest, discount, and fees earned before expensing the amortization of origination costs. Gross Portfolio Yield declined by 7 basis points year to date from 19.13% in the prior year to date to 19.06% in the current period. Gross Portfolio Yield during the quarter was 18.86%, a 11 basis point decline from 18.97% in the comparable period.

Net Portfolio Yield declined by 9 basis points year to date from 17.60% in the prior year to date to 17.51% in the current period. Net Portfolio Yield during the quarter was 17.38%, a 10 basis point decline from 17.48% in the comparable quarter.

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 4.0% from the comparable quarter, the rate as a percentage of average loan receivables decreased by 1 basis point to 1.48%.

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. Rifco management focuses on achieving attractive threshold Credit Spread Rate, rather than targeting a specific loss rate.

	For the three months ended				For the nine months ended			
	Dec 31, 2019	% of loan receivables	Dec 31, 2018	% of loan receivables	Dec 31, 2019	% of loan receivables	Dec 31, 2018	% of loan receivables
($,000's except %)								
Average loan receivables for the period	225,815		233,276		225,538		235,947	
Credit losses – net of recoveries	3,824	6.77 %	3,341	5.73 %	11,017	6.51 %	11,049	6.24 %
Repossession and recovery costs	503	0.89 %	585	1.00 %	1,411	0.83 %	1,592	0.90 %
Total Credit Losses	**4,327**	**7.66 %**	**3,926**	**6.73 %**	**12,428**	**7.34 %**	**12,641**	**7.14 %**

Credit losses, including costs and net of recoveries, for the year to date decreased by 1.7% from $12.6M in the prior year to date to $12.4M in the current period. Credit losses, including costs and net of recoveries, for the quarter increased by 10.2% to $4.3M from $3.9M in the comparable quarter. The annualized Credit Loss Rate for the year to date increased by 20 basis points to 7.34% from 7.14% in the prior year to date. The annualized Credit Loss Rate for the quarter increased by 93 basis points to 7.66% from 6.73% in the comparable quarter.

The Delinquency Rate decreased by 14 basis points to 5.32% from 5.46% at the beginning of the year. The Delinquency Rate decreased 1 basis point over the comparable 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				For the nine months ended			
	Dec 31, 2019		Dec 31, 2018		Dec 31, 2019		Dec 31, 2018	
		% of loan receivables		% of loan receivables		% of loan receivables		% of loan receivables
($,000's except %)								
Average loan receivables for the period	225,815		233,276		225,538		235,947	
Financial revenue	9,819	17.38 %	10,194	17.48 %	29,630	17.51 %	31,152	17.60 %
Credit losses	4,327	7.66 %	3,926	6.73 %	12,428	7.34 %	12,641	7.14 %
Credit Spread	**5,492**	**9.72 %**	**6,268**	**10.75 %**	**17,202**	**10.17 %**	**18,511**	**10.46 %**

Credit Spread is one of the most important measures used by management to evaluate the performance of the loan receivables over a period. Credit Spread declined by 7.1% from $18.5M in the comparable year to date to $17.2M in the current year to date. Credit Spread for the quarter declined by 12.4% from the comparable quarter to $5.5M. The Credit Spread Rate decreased by 29 basis points from 10.46% in the comparable year to date to 10.17% in the current year to date. The Credit Spread Rate during the quarter declined by 102 basis points over the comparable quarter and by 11 basis points over the preceding quarter. This recent overall Credit Spread Rate decline is being temporarily impacted as the portfolio of loans purchased in June 2018 rapidly pays down. This portfolio has an exceptionally large Credit Spread Rate due to the very favourable purchase price paid. Management continues to originate a portfolio of loans that generates a significantly larger Credit Spread Rate than historical results suggest.

Financial Expenses

	For the three months ended				For the nine months ended			
	Dec 31, 2019		Dec 31, 2018		Dec 31, 2019		Dec 31, 2018	
		% of loan receivables		% of loan receivables		% of loan receivables		% of loan receivables
($,000's except %)								
Average loan receivables for the period	225,815		233,276		225,538		235,947	
Financial expense	2,798	4.96 %	2,953	5.06 %	8,438	4.99 %	8,803	4.97 %

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

The Financial Expense Ratio increased year to date by 2 basis points to 4.99% from 4.97% in the prior year to date. The Financial Expense Ratio decreased by 10 basis points to 4.96% from 5.06% in the comparable quarter. The Financial Expense Ratio remained consistent at 4.96% from the preceding quarter.

Operating Expenses

	For the three months ended				For the nine months ended			
	Dec 31, 2019	% of loan receivables	Dec 31, 2018	% of loan receivables	Dec 31, 2019	% of loan receivables	Dec 31, 2018	% of loan receivables
($,000's except %)								
Average loan receivables for the period	225,815		233,276		225,538		235,947	
Wages and benefits	2,068	3.66 %	2,030	3.48 %	5,792	3.42 %	6,242	3.53 %
Professional fees	90	0.16 %	163	0.28 %	269	0.16 %	403	0.23 %
Office and general	538	0.95 %	875	1.50 %	1,610	0.95 %	2,481	1.40 %
GST/HST input taxes	-	-	430	0.74 %	-	-	296	0.17 %
Stock based compensation	44	0.08 %	70	0.12 %	178	0.11 %	239	0.13 %
Depreciation & amortization	158	0.28 %	77	0.13 %	457	0.27 %	196	0.11 %
Total operating expenses	**2,898**	**5.13 %**	**3,645**	**6.25 %**	**8,306**	**4.91 %**	**9,857**	**5.57 %**

Operating expenses continue to decline, in dollars and as a ratio of average loan receivables. Operating expenses year to date decreased by 15.7% to $8.3M from $9.9M in the prior year to date. Operating expenses during the quarter decreased 20.4% to $2.9M from $3.6M in the comparable quarter. The Operating Expense Ratio decreased 66 basis points year to date to 4.91% from 5.57% in the prior year to date. The Operating Expense Ratio decreased 112 basis points during the quarter to 5.13% from 6.25% in the comparable quarter.

The improvement of the Efficiency Ratio from its peak of 35.76% in the third quarter of fiscal year 2019 has levelled out to the current quarter's ratio of 29.51%. This is an increase of 298 basis points from 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.

Approximately $0.2M of the above operating expenses are related to the work associated with the special committee of the Board of Directors resulting in the recently announced offer from CanCap Group Inc.

Summary of Quarterly Results

For the fiscal periods ended	2020			2019				2018	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
($,000's except per share & ratios)									
Finance receivables	230,356	229,787	230,101	228,535	234,507	242,274	253,848	232,750	236,043
Total assets	233,081	232,324	232,222	230,145	235,254	243,204	255,303	241,286	244,998
Total liabilities	204,030	203,503	203,023	201,421	206,447	214,649	225,962	207,337	210,875
Adjusted Equity	37,372	37,507	37,449	36,833	37,017	37,213	37,917	36,965	37,150
Shareholders' equity	29,051	28,821	29,199	28,724	28,807	28,555	29,341	33,949	34,122
Adjusted Book Value Per Share	$ 1.73	$ 1.74	$ 1.73	$ 1.71	$ 1.71	$ 1.72	$ 1.76	$ 1.71	$ 1.72
Stock price	$ 0.85	$ 0.85	$ 0.85	$ 0.90	$ 0.80	$ 1.15	$ 1.25	$ 1.09	$ 1.22
For the Period:									
Finance receivables originated	27,155	27,336	29,814	20,223	21,276	19,295	25,809	21,663	24,883
Average loan receivables	225,815	226,248	224,553	227,008	233,276	244,613	234,041	231,407	232,499
Total financial revenue	9,819	9,926	9,885	9,518	10,194	10,947	10,011	8,766	8,991
Adjusted Net (Loss) Income before Taxes	(204)	107	554	37	(330)	637	(457)	(310)	235
Net income (loss) before taxes	398	(492)	362	177	283	525	(2,604)	(296)	534
Adjusted Net (Loss) Income	(417)	162	592	(258)	(431)	(758)	1,446	(262)	69
Net income (loss)	185	(437)	400	(118)	182	(870)	(701)	(248)	368
Adjusted Net (Loss) Income per Common Share:									
Basic	$ (0.019)	$ 0.007	$ 0.027	$ (0.012)	$ (0.020)	$ (0.035)	$ 0.067	$ (0.012)	$ 0.003
Diluted	$ (0.019)	$ 0.007	$ 0.027	$ (0.012)	$ (0.020)	$ (0.035)	$ 0.067	$ (0.012)	$ 0.003
Net income (loss) per common share:									
Basic	$ 0.009	$ (0.020)	$ 0.019	$ (0.005)	$ 0.008	$ (0.040)	$ (0.032)	$ (0.011)	$ 0.017
Diluted	$ 0.009	$ (0.020)	$ 0.019	$ (0.005)	$ 0.008	$ (0.040)	$ (0.032)	$ (0.011)	$ 0.017
Loan Receivable Performance Measures: [1]									
Net Portfolio Yield	17.38 %	17.56 %	17.60 %	17.41 %	17.48 %	17.90 %	17.11 %	15.15 %	15.47 %
Credit Loss Rate	7.66 %	7.72 %	6.64 %	6.51 %	6.73 %	6.48 %	8.13 %	6.28 %	6.03 %
Credit Spread Rate	9.72 %	9.84 %	10.96 %	10.90 %	10.75 %	11.42 %	8.98 %	8.87 %	9.44 %
Delinquency Rate (over 30 days)	5.32 %	6.15 %	5.69 %	5.46 %	5.33 %	5.19 %	5.26 %	6.44 %	6.01 %
Performance Measures: [1]									
Efficiency Ratio	29.51 %	26.53 %	28.07 %	30.82 %	35.76 %	29.92 %	29.34 %	32.68 %	30.51 %
Leverage Ratio	8.02	8.06	7.95	8.01	8.17	8.52	8.70	7.11	7.18
Adjusted Return on Adjusted Equity [2]	(4.46%)	1.73 %	6.38 %	(2.79%)	(4.65%)	(8.07%)	15.45 %	(2.83%)	0.75 %
Ratios: [1]									
Financial Expense Ratio	4.96 %	4.96 %	5.04 %	5.03 %	5.06 %	5.03 %	4.75 %	4.45 %	4.31 %
Operating Expense Ratio	5.13 %	4.64 %	4.96 %	5.17 %	6.25 %	5.36 %	5.02 %	4.95 %	4.72 %
Adjusted Return on Earning Assets	(0.74%)	0.29 %	1.05 %	(0.45%)	(0.74%)	(1.24%)	2.47 %	(0.45%)	0.12 %

[1] Percentages have been annualized except Efficiency Ratio and Delinquency Rate

[2] Q1 2019 Adjusted Return on Adjusted Equity impacted by $1.9M income tax recovery

Asset Review

Finance Receivables

Finance receivables increased by $1.9M from $228.5M at March 31, 2019 to $230.4M 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 for the year to date of $84.3M, a 27.0% increase from $66.4M in the prior year to date. Originations of $27.2M for the current quarter are an increase of 27.6% from the comparable quarter and an 0.7% decrease from the preceding quarter.

	For the nine months ended			
	Dec 31, 2019		Dec 31, 2018	
($,000's except %)	**Total amount financed**	**Weighted average Contract Interest Rate**	**Total amount financed**	**Weighted average Contract Interest Rate**
Near-prime	74,606	17.47%	53,579	16.37%
Non-prime[1]	9,699	29.17%	12,800	29.33%
Total	**84,305**	**18.82%**	**66,379**	**18.87%**

[1] Percentages have not been adjusted for discount

Near-prime originations increased by $21.0M from $53.6M to $74.6M, a 39.2% increase in the current year to date when compared to the prior year. The near-prime weighted average Contract Interest Rate on the originations increased 110 basis points from 16.37% to 17.47% from the prior year.

	As at			
($,000's except %)	**Dec 31, 2019**		**Mar 31, 2019**	
Finance receivables – securitized	154,328	67.00%	121,754	53.28%
Finance receivables – securitized (over collateralization)[1]	20,322	8.82%	17,174	7.51%
Finance receivables – Rifco Trust	-	0.00%	13,156	5.76%
Finance receivables – owned	55,706	24.18%	76,451	33.45%
Total	**230,356**	**100.00%**	**228,535**	**100.00%**

[1] Additional finance receivable collateral is provided as over collateralization security to some securitizers.

Average loan receivables during the quarter decreased 3.2% to $225.8M from $233.3M in the comparable quarter which was unusually high due to the inclusion of an acquired portfolio.

($,000's except %)	As at	
	Dec 31, 2019	Dec 31, 2018
New Credit Model		
Near-prime	87,591	-
Non-prime	8,977	-
Old Credit Model		
Near-prime	116,949	198,897
Non-prime	9,681	19,888
Acquired Porfolio		
Non-prime	7,158	15,722
Total	**230,356**	**234,507**

As the Company originates new loans under the new credit model, it is expected that not only will Gross Portfolio Yield improve but general portfolio results as well.

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 $10.6M compared to $5.7M at year end. During the quarter, the Company received cash holdback releases of $1.7M compared to $1.2M in the same quarter of the prior year. Cash held in the holdback accounts has been reduced by the amounts guaranteed by the letters of credit. As part of its banking reorganization, as detailed in note 18 of the Notes to the consolidated interim financial statements, Rifco cancelled its existing letters of credit January 30, 2020 by sending an equivalent amount of cash to the holdback accounts. 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	
	Dec 31, 2019	Mar 31, 2019
($,000's)		
Total securitization debt	175,366	134,348
Total cash holdback	(10,562)	(5,714)
Securitization debt	**164,804**	**128,634**

Deferred Income Tax Asset

Prior to March 31, 2019 the Company recognized gain on sale events from 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 resulted in the unwinding of temporary timing differences creating a significant tax loss. To avoid having to carry the loss forward to future years, Rifco applied to the Canada Revenue Agency to amend its 2018 return allowing the loss to the be carried back as far as 2015. This has created a significant change in the composition of deferred income tax assets. In prior periods, the company reflected this balance in its deferred income tax asset to reflect uncertainty over whether the prior year amended return would be accepted. Subsequent to quarter end, the Company received the notice of reassessment for the 2018 amendment. Therefore, the taxes recoverable from the loss carrybacks were moved from the deferred income tax asset to income taxes receivable. Refunds totaling $3.8M were received in February 2020.

Provision for Impairment

As detailed in notes 3.e.A, 5.a and 6 of the Notes to the Consolidated Financial Statements for the years ended March 31, 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. 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 three months ended		For the nine months ended	
	Dec 31, 2019	Dec 31, 2018	Dec 31, 2019	Dec 31, 2018
($,000's)				
Credit losses net of recoveries for the period	3,824	3,341	11,017	11,049
Repossession and recovery costs for the period	503	585	1,411	1,592
Provision for impairment and credit losses for the period	(3,725)	(3,314)	(12,617)	(14,287)
Decrease (increase) in provision for impairment	**602**	**612**	**(189)**	**(1,646)**

The impact on net income from the effects of the provision for impairment was to decrease it by $0.2M year to date, as compared to decreasing it by $1.6M in the prior year to date. The provisions applied through IFRS 9 on a portfolio of assets acquired on June 4, 2018 accounted for $2.0M of the $1.6M decrease in the prior year to date.

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 $52.5M and three securitization facilities totaling $147.4M. The Company's combined credit facilities total $205.0M of which there was $57.1M 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 a $16.0M loan made by funds managed by Ares Management L.P., $4.5M of unsecured debentures issued, and cash on hand. On December 20, 2019, the loan managed by Ares Management L.P. was paid in full.

Facility Availability Summary

As at Dec 31, 2019 ($,000's)	Limit	Utilized	Available	Renewal Date
Bank Borrowing – Wells Fargo syndicate [1]	50,000	17,428	32,572	17-Feb-20
Bank Borrowing – Mountain View Credit Union [2]	2,500	2,495	5	Non-Expiring
Securitization – Securcor Trust [3]	50,000	31,284	18,716	31-Aug-20
Securitization – Mountain View Credit Union [4]	47,500	41,666	5,834	Non-Expiring
Securitization – Canadian Schedule I Chartered Bank [5]	49,902	49,902	-	31-Jan-20
Total active facilities	**199,902**	**142,775**	**57,127**	
Non-readvanceable facilities [6]	56,524	56,524	-	
Total	**256,426**	**199,299**	**57,127**	

[1] Utilized includes $5M in letters of credit. Subsequent to year end, this facility was paid back in full and letters of credit were cancelled. Facility is replaced by a new $20M warehouse facility from a Canadian Schedule I Chartered Bank.

[2] Subordinated to Wells Fargo syndicate

[3] Calculated as the sum of Tranches received, does not include repayments, and does not equal Securitized Debt

[4] Revolving Securitization Facility

[5] Facility was renewed subsequent to quarter end with a new expiration date of Jan 31, 2021 and an expected funding capacity of $40M

[6] Reported as the Securitized Debt that is now removed from facility utilization. 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 $57.1M at December 31, 2019 which is sufficient to fund the Company's anticipated near term needs for its existing operations. With the Canadian Schedule I Chartered Bank renewal on January 31, 2020, availability increases to $97.1M.

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.

Total Liabilities to Tangible Net Worth Ratio	As at	
No greater than 8.00x	Dec 31, 2019	Mar 31, 2019
($,000's except ratios)		
Total liabilities	204,030	201,421
Tangible Net Worth	28,960	28,725
Total liabilities to Tangible Net Worth Ratio	7.05	7.01

EBITDA Interest Coverage Ratio	For the periods ending	
	Dec 31, 2019	Mar 31, 2019
($,000's except ratios)		
EBITDA	12,550	10,628
Interest	11,295	8,883
Rolling EBITDA Ratio [1]	1.11 : 1	1.20 : 1

[1] For the period ended Mar 31, 2019, minimum ratio of 1.15 : 1, three quarter used in calculating. For the period ended Dec 31, 2019, minimum ratio of 1.10 : 1, 12 month rolling used in calculating. The new warehouse facility with the Canadian Schedule I Chartered Bank does not have this covenant as part of its requirements.

Bank Borrowing

The Company maintains a bank borrowing (registered secured debt holder) revolving credit facility with a $50M limit. The Company is currently funding its loan Originations through this facility. The bank borrowing limit utilized was $17.4M 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. The restructured agreement amended the required EBITDA level from 1.25 to 1.10 and brought the Company onside from a covenant perspective with a retroactive waiver to June 30, 2019. The facility was reduced in size from $65 million to $50 million, which allowed the Company to reduce financial expense while retaining the feature to expand the facility to $100 million allowing the Company to retain its capacity to grow. As of March 31, 2019, and December 31,2019, the Company was in compliance with all financial covenants. The facility had a February 17, 2020 renewal date. On January 30, 2020, Rifco paid out this facility in full. The facility is replaced by a new warehouse facility with a $20M limit from a Canadian Schedule I Chartered Bank.

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 secured debt holder. The facility does not have any expiry date. The balance utilized on the facility at period ended December 31, 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 February 2020 and December 2024. The Company has been successful in renewing or replacing maturing unsecured debentures in the past.

Unsecured debentures issued and outstanding decreased by $0.4M during the year to date, from $12.4M at March 31, 2019 to $12.0M 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 $31.3M at December 31, 2019.

The Company's securitization facility with a Canadian Schedule I Charter Bank facility was utilized to $49.9M at December 31, 2019. This facility has an annual expected utilization of $40.0M and was scheduled for renewal on January 31, 2020. The facility was renewed subsequent to quarter end with a renewal date of January 31, 2021 and an expected utilization of $40M.

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 facility, 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 $41.7M at December 31, 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 $20.8M to $55.7M at December 31, 2019 from $76.5M at March 31, 2019. Securitization of finance receivables would typically contribute net cash proceeds at the time of the transaction.

The Company originated $84.3M in finance receivables year to date and securitized $97.2M in loan principal representing 115.3% 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, the term debt was owed by Rifco Trust, which was set up exclusively to finance the acquired portfolio. The loan was paid in full on December 20, 2019. The loan could not be increased, was not re-advanced and had a term of four years. Principal payments of the loan were 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 had certain covenants related to the performance of the loan

receivables that were purchased with the proceeds of the loan. The Company was in compliance with all of the covenants, and had 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		For the nine months ended	
	Dec 31, 2019	**Dec 31, 2018**	**Dec 31, 2019**	**Dec 31, 2018**
($,000's except per share)				
Net cash flows (used in) from operating activities	(58)	7,596	(419)	2,985
Funds advanced on finance receivables	27,155	21,276	84,305	91,193
Principal collections of finance receivables	(22,762)	(25,702)	(71,467)	(78,387)
Credit losses net of recoveries	(3,824)	(3,341)	(11,017)	(11,049)
Income taxes paid (received)	3	-	3	(1,502)
Origination costs and discounts - net	1,204	1,379	3,983	(749)
Other receivables, payables and prepaid expenses	(1,002)	(640)	(1,911)	287
Modified Funds Flow from Operations	716	568	3,477	2,778
Weighted average number of common shares	21,597	21,597	21,597	21,597
Modified Funds Flow from Operations per share	$0.03	$0.03	$0.16	$0.13

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.

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.

Modified Funds Flow from Operations was $3.5M year to date, a 25.2% increase from $2.8M in the prior year to date. Modified Funds Flow from Operations of $0.16 per share year to date is a $0.03 increase from $0.13 per share in the prior year to date.

Equity

	As at	
	Dec 31, 2019	Mar 31, 2019
($,000's except per share)		
Adjusted Equity	37,372	36,833
Less: Provision for impairment – after tax [1]	8,321	8,109
Equity	**29,051**	**28,724**
Shares outstanding	21,597	21,597
Adjusted Book Value per Share	$1.73	$1.71
Book value per share	$1.35	$1.33

[1] Current weighted average tax rate of 26.33% assumed constant for life of provision for impairment for Dec 31, 2019. Current tax rate of 27% assumed constant for life of provision for impairment for Mar 31, 2019.

Equity increased to $29.1M 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 from $1.33 at year end to $1.35.

Leverage Measurements

	As at	
	Dec 31, 2019	Mar 31, 2019
($,000's except per ratio)		
Total assets	233,081	230,145
Equity	29,051	28,724
Leverage Ratio	8.02	8.01

The Leverage Ratio has increased to 8.02 from 8.01 at year end. Part of the increase is due to the inclusion in total assets of a $1.2M right of use asset related to the leasing of the Company's premises and the associated new accounting standard (IFRS 16) adopted on April 1, 2019, as detailed in note 3 of the Notes to the consolidated interim financial statements.

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.

($,000's)	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total
	Payments due by period				
Securitization debt – undiscounted [1]	50,489	81,604	43,017	8,001	183,111
Unsecured debentures [2]	3,598	5,371	5,578	-	14,547
Lease liability	243	513	607	690	2,053
Purchase obligations [3]	252	21	-	-	273
Total contractual obligations	**54,582**	**87,509**	**49,202**	**8,691**	**199,984**

[1] Securitization debt – undiscounted includes gross repayments of principal and interest less cash holdback

[2] Unsecured debentures – repayments of principal and future interest

[3] Purchase obligations – an agreement to purchase goods or services that is enforceable and legally binding to the Company. The Company's obligations are for its software agreements.

Management and Board of Directors Compensation

As at December 31, 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 year to date was $0.8M which is an increase of $0.1M from $0.7M 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 and non-cash stock based compensation paid to independent directors year to date totaled $0.1M compared to $0.2M compared to the same quarter in the prior year, in addition to normal itemized expense reimbursement.

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 $3.1M (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 $1.8M (March 31, 2019 - $1.8M) in debentures with varying terms. In addition, $1.3M (March 31, 2019 - $1.5M) in debentures with varying terms are 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 $0.1M (December 31, 2018 - $0.1M).

	As at (except Interest Paid)					
	Dec 31, 2019		Mar 31, 2019		Dec 31, 2018	
	Unsecured debenture balance	Interest Paid Year to Date	Unsecured debenture balance	Interest Paid Year	Unsecured debenture balance	Interest Paid Year to Date
Relatives of Chief Financial Officer	100	9	100	10	100	7
Relatives of Chief Marketing Officer	565	40	915	78	915	56
Relatives of Chief Credit Officer	300	20	250	24	250	16
Relatives of Director	880	38	480	34	480	25
Large Shareholder and Relatives	1,265	81	1,515	127	1,515	93
Total	**3,110**	**188**	**3,260**	**273**	**3,260**	**197**

Risk 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 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.

Personnel Risk

Certain Rifco employees are important to its continued success. Senior executive management is not governed by management contracts. If any of these persons would be unable or unwilling to continue in their employment with the Company there could be a material adverse effect on delinquency, default, credit loss rates, originations, and financial results.

Technology Risk

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

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

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

Unforeseen information loss to the Company could occur.

Economic Conditions Risk

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

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

Interest Rate Risk

Although, Rifco's interest rate risk has declined due to its financing strategy of matched funding through securitizations with fixed rates and locked in terms for unsecured debentures, Rifco does maintain its bank borrowing with variable rates.

An increase in interest rates would have an effect on Net Financing Margin through the pricing of securitizations at the time of sale. Generally, an increased rate environment would negatively affect Rifco's business as market conditions may limit the

Company’s ability to increase rates charged. Marginal interest rates could rise to the point where the Company’s business model could be stressed.

Dealer Risk

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

Environmental Risk

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

Description of Non-IFRS Measures

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

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

Adjusted Equity – Shareholders equity plus after tax provision for impairment.

Adjusted Income Before Taxes – Income before taxes adjusted for non-cash change in provision for impairment.

Adjusted Net Income – Net Income adjusted for non-cash change in provision for impairment.

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

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

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

Adjusted Return on Earning Assets – Adjusted Net Income as a percent of average loan receivables.

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

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

Glossary of Other Terms and Measures

Contract Interest Rate – The implicit interest rate that is utilized to calculate the borrower's regularly schedule payment.

Credit Loss Rate – The total of all credit losses, including all repossession and recovery expenses for the period divided into the average loan receivables, expressed as an annualized percentage.

Credit Spread – Total financial revenue less total credit losses.

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

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

Delinquency Rate – Delinquent finance receivables divided by the total finance receivables expressed as a percentage.

Efficiency Ratio – Operating expenses divided by financial revenue reported as an annualized percentage.

Financial Expense Ratio – Financial expenses for the period as a percentage of average loan receivables, annualized.

Gross Portfolio Yield – The sum of interest income, discount income and fee income divided by average loan receivables reported as an annualized percentage.

Gross Financial Revenue – Financial revenue plus amortization of origination costs.

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

Net Financing Margin - Net financing income before impairment divided by average finance receivables reported as an annualized percentage.

Net Portfolio Yield – Financial revenue divided by average loan receivables reported as an annualized percentage.

Operating Expense Ratio – Total operating expenses divided by average finance receivables reported as an annualized percentage.

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

Tangible Net Worth – Total equity less any loss reserve shortfall

New Accounting Standards and Interpretations

New Accounting Standards and Interpretations adopted

IFRS 16 'Leases'

The Company adopted IFRS 16 April 1, 2019. 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.

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 its leases for the premises and parking spaces. 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 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 increased the assets and liabilities of the Company. The adoption of IFRS 16 has no impact on the cash flows of the Company.