For the period ended June 30, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three months ended June 30, 2021 and 2020 (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 August 24, 2021.

The interim financial statements of Rifco Inc. (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).

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

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 before tax measure, along with related adjusted sub-totals. Adjusted Net Income before tax Per Common Share, Adjusted Return Pre-Tax on Adjusted Equity Ratio and Adjusted Return Pre-Tax on Earning Assets Ratios are presented where Adjusted Net Income is used in the calculation in place of Net Income. Adjusted Operating expenses do not include expenses associated with the Strategic review process. **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 built on a foundation of trust, respect, empowerment, accountability and passion which are exhibited by each and every member of the Rifco team, as we collaboratively pursue our collective vision and do so in a manner that is consistent with our purpose.

Rifco's operations are currently through its sole, wholly owned subsidiary, Rifco National Auto Finance Corporation (RNAF). RNAF operates with a purpose to help its clients obtain a safe and reliable vehicle by providing alternative finance solutions. RNAF currently distributes its alternative finance products indirectly through select automotive dealer partners.

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 $1.2 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.

The Company funds its originated finance receivables through its own equity, 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.

COVID-19

The COVID-19 pandemic and associated lockdowns and government interventions are a continuously evolving situation without historical precedent for comparison and prediction purposes.

Rifco was identified as an essential service in Alberta and has remained operational since the start of the pandemic.

The Company has undertaken a number of initiatives:

- Rifco's entire team has been operationally tested to work from home with full access to all necessary systems and tools;
- Implemented extraordinary cleaning and hygiene practices, signage, and supplies;
- Reduced office, workspace and meeting room density limits;
- Reduced its human resources expenses;
- Credit tightening, increased proof of income thresholds, prohibited lending to borrowers employed in certain industries and tightened business rules deliberately reduced originations; and
- Adapted existing payment deferral and modification tools to accommodate affected borrowers.

Rifco's increased credit restrictions and documentation requirements had a meaningful impact on prior year origination levels.

In the quarter ended March 31, 2020, the company increased its provision for loan losses associated with otherwise unimpaired loans. The Company has maintained elevated provision ratios for unimpaired loans. To date, delinquency and loan losses have not increased versus the pre-COVID periods.

While many financial services providers offered 6-months 'no-payment' loan deferrals, Rifco focused on 1 to 3 months 'reduced-payment' deferrals. The COVID deferrals and loan payment modifications that were initially granted, are now resolved. At the April 2020 peak, 10.9% of our loans were in some degree of payment deferral for the month. At the end of the current quarter, only 1.5% of accounts are in some sort of temporary modified payment arrangement, a level comparable to what was observed prior to COVID. Most of the accounts that did receive COVID deferrals, received them early in the prior fiscal year, and are now reporting as having full scheduled payments due. As such, these accounts are either paying as scheduled, or are reported as delinquent.

Market Perspective

The majority of Canadians finance their vehicle purchases. A significant portion of Canadians require near-prime or non-prime financing for these purchases.

Rifco's major competitors include three large Canadian financial institutions 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.

Results of Operations

The results of operations and cash flows for the period ended June 30, 2021 are presented in accordance with IFRS except for the adjusted line items.

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

	As at		
	Jun 30, 2021	Mar 31, 2021	Jun 30, 2020
($,000's except ratios)			
Finance receivables	205,024	197,789	215,069
Total assets	207,707	201,874	220,871
Total liabilities	181,923	178,399	192,967
Adjusted Equity [1,2]	35,782	34,279	38,311
Equity [2]	25,784	23,475	27,904
Delinquency Rate	2.85%	2.74%	1.91%

	For the three months ended	
	Jun 30, 2021	Jun 30, 2020
($,000's except per share and ratios)		
Financial revenue	8,450	9,047
Credit losses	1,929	2,934
Credit Spread	6,521	6,113
Adjusted Operating Expenses [1]	2,497	2,626
Adjusted Net Income before Taxes [1]	1,823	827
Net income before taxes	2,961	2,653
Adjusted Net Income before Taxes per Common Share - Basic [1]	$0.084	$0.038
Adjusted Net Income before Taxes per Common Share - Diluted [1]	$0.084	$0.038
Net income per common share - Basic	$0.105	$0.084
Net income per common share - Diluted	$0.105	$0.084
Originations	31,772	7,532
Average loan receivables	195,667	216,988
Net Portfolio Yield	17.27%	16.68%
Credit Loss Rate	3.95%	5.40%
Credit Spread Rate	13.32%	11.28%
Financial Expense Ratio	4.50%	4.90%
Adjusted Operating Expense Ratio [1]	5.10%	4.84%
Adjusted Return Pre-Tax On Adjusted Equity [1,2]	20.82%	8.75%

[1] See the section "Description of Non-IFRS Measures" for these definitions
[2] Equity ratios and figures were impacted by a dividend of $7.6M paid to shareholders on December 7, 2020.

Adjusted Net Income before Taxes, for the quarter, was $1.8M, which is $1.0M higher than the comparable quarter's $0.8M and $0.7M higher than the preceding quarter's $1.1M. Adjusted Net Income before Taxes removes the effect of the non-cash forward-looking provisions and the strategic review process expenses from net income before tax. Adjusted Net Income before Taxes includes the actual credit losses incurred in the period and is the measure that management uses to evaluate the performance of the Company as it removes the volatility associated with the effect of estimates, assumptions and the prior year's strategic review expenses.

Net income before tax, for the quarter, increased by $0.3M to $3.0M from $2.7M in the comparable quarter and increased $2.1M from a net income before tax of $0.9M in the preceding quarter. The current quarter was positively impacted by the reduction in loan loss provisions associated with an improving outlook.

Credit Spread is one of the most important measures used by management to evaluate the performance of the loan receivables over a period. The Credit Spread Rate increased 204 basis points in the current quarter when compared to the comparable quarter, increasing from 11.28% to 13.32%. The Credit Spread rate increased 98 basis points from preceding quarter's rate of 12.34%. Credit Spread has been positively impacted by improved results from the new custom credit model and pricing model.

Credit losses, including costs and net of recoveries, for the quarter, decreased by 34.25% from $2.9M, in the comparable quarter, to $1.9M in the current quarter and decreased by $0.3M from $2.3M in the preceding quarter. The annualized Credit Loss Rate, for the quarter, decreased by 145 basis points to 3.95% from 5.40%, in the comparable quarter and decreased by 69 basis points from 4.64%, in the preceding quarter.

The Financial Expense Ratio, for the quarter, decreased by 40 basis points from 4.90% in the comparable quarter to 4.50% and decreased 14 basis points from 4.64% in the preceding quarter. In addition to the current low interest rate environment, the treasury reorganization previously announced February 2020 continues to contribute to an improved overall cost of borrowing.

The Delinquency Rate increased by 94 basis points to 2.85% from 1.91%, in the comparable quarter. Government support programs for those impacted by COVID-19 had a strong initial impact on the Company's Delinquency Rate and the current quarter is still well below historical norms.

Adjusted Operating Expenses decreased 4.91% from $2.6M in the comparable quarter to $2.5M, and decreased by 6.34% from $2.7M in the preceding quarter. The Adjusted Operating Expense Ratio increased 26 basis points to 5.10% from 4.84% in the comparable quarter and decreased 39 basis points from 5.49% in the preceding quarter. The increased Adjusted Operating Expense Ratio over the comparable quarter was driven primarily by the declining average loan receivables balance and decrease from the prior quarter was driven by the transition costs associated with the severance of the former CEO and costs incurred by the Concerned Shareholders Group in the prior quarter.

The Company posted Originations for the current quarter of $31.8M which is an increase of 321.83% over the comparable period which had Originations of $7.5M. This increase is primarily due to consumer trends and the internal restrictions on credit quality imposed by the Company in the comparable quarter due to the uncertain impact of the COVID-19 pandemic and associated public health restrictions. Originations increased by 54.35% from $20.6M in the preceding quarter.

Total financial revenue decreased 6.60% to $8.5M from $9.0M in the comparable quarter, due to the decrease of the average portfolio size as principal reductions exceeded originations during the prior year. Total financial revenue decreased by 2.55% from $8.2M, in the preceding quarter.

Comparative Results for the Period

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

	For the three months ended			
	Jun 30, 2021		Jun 30, 2020	
		% of loan receivables		% of loan receivables
($,000's except ratios)				
Average Loan Receivables for the Period	195,667		216,988	
Financial revenue	8,450	17.27%	9,047	16.68%
Credit losses	1,929	3.95%	2,934	5.40%
Credit Spread	**6,521**	**13.32%**	**6,113**	**11.28%**
Financial expenses	2,201	4.50%	2,660	4.90%
Adjusted Net Financial Income before Operating Expenses[1]	**4,320**	**8.82%**	**3,453**	**6.38%**
Adjusted Operating expenses [1]	2,497	5.10%	2,626	4.84%
Adjusted Net Income before Taxes [1]	**1,823**	**3.72%**	**827**	**1.54%**
Strategic review process	-	0.00%	482	0.89%
Decrease in provision for impairment	1,138	2.33%	1,344	2.48%
Net income before taxes	**2,961**	**6.05%**	**2,653**	**4.91%**
Income tax expense	(674)	(1.38%)	(843)	(1.55%)
Net income	**2,287**	**4.67%**	**1,810**	**3.36%**
Adjusted Net Income before Taxes per Common Share: [1]				
Basic	$0.084		$0.038	
Diluted	$0.084		$0.038	
Net income per common share:				
Basic	$0.105		$0.084	
Diluted	$0.105		$0.084	

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

Financial Revenue

	For the three months ended			
	Jun 30, 2021		Jun 30, 2020	
		% of loan receivables		% of loan receivables
($,000's except ratios)				
Average Loan Receivables for the Period	195,667		216,988	
Interest income	8,462	17.30%	8,917	16.44%
Discount income	497	1.02%	539	0.99%
Fee income	285	0.58%	297	0.55%
Gross Financial Revenue	**9,244**	**18.90%**	**9,753**	**17.98%**
Loan origination and acquisition costs	(794)	(1.63%)	(706)	(1.30%)
Financial revenue	**8,450**	**17.27%**	**9,047**	**16.68%**

Gross Portfolio Yield is comprised of the interest income, amortized discount income, and fees earned before expensing the amortization of origination costs. Gross Portfolio Yield increased by 92 basis points from 17.98% in the comparative quarter to 18.90% in the current quarter. Gross Portfolio Yield increased 41 basis points from 18.49%, in the preceding quarter.

Net Portfolio Yield increased by 59 basis points for the quarter from 16.68% in the prior quarter to 17.27% in the current quarter. Net Portfolio Yield during the quarter increased 29 basis points from 16.98% in the preceding quarter.

Total financial revenue decreased 6.60% to $8.5M from $9.0M in the comparable quarter, due to the decrease of the average portfolio size as principal reductions exceeded originations during prior year. Total financial revenue decreased by 2.55% from $8.2M, in the preceding quarter.

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.

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. The amortization of origination expenses increased by 12.46% from $0.7M in the comparative quarter to $0.8M. The rate as a percentage of average loan receivables increased by 33 basis points from 1.30% to 1.63%, in the current quarter.

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 and the quantum of credit losses is most informatively viewed relative to financial revenue. 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. The custom credit model was implemented November 1, 2018. The custom credit model now accounts for 73% of the loan portfolio as at June 30, 2021 (67% - March 31, 2021). Rifco management focuses on achieving an attractive threshold Credit Spread Rate, rather than targeting a specific loss rate.

	For the three months ended			
	Jun 30, 2021		Jun 30, 2020	
		% of loan receivables		% of loan receivables
($,000's except ratios)				
Average Loan Receivables for the Period	195,667		216,988	
Credit losses - net of recoveries	1,652	3.38%	2,639	4.86%
Repossession and recovery costs	277	0.57%	295	0.54%
Total Credit Losses	**1,929**	**3.95%**	**2,934**	**5.40%**

Credit losses, including costs and net of recoveries, for the quarter, decreased by 34.25% from $2.9M in the comparable quarter to $1.9M in the current quarter and decreased by $0.3M from $2.3M in the preceding quarter. The annualized Credit Loss Rate, for the quarter, decreased by 145 basis points to 3.95% from 5.40%, in the comparable quarter and decreased by 69 basis points from 4.64%, in the preceding quarter. While credit underwriting associated with the new custom credit model and improved collections and recovery procedures have had a positive impact on credit losses, the credit loss rate has also benefited from COVID-19 government support programs for affected borrowers.

The Delinquency Rate increased by 94 basis points to 2.85% from 1.91% in the comparable quarter. The Delinquency Rate increased by 11 basis points from 2.74% as at March 31, 2021. Government support programs for those impacted by COVID-19 had a strong initial impact on the Company's Delinquency Rate and the current quarter is still well below historical norms.

While many financial services providers offered 6-months 'no-payment' loan deferrals, Rifco focused on 1 to 3 months 'reduced-payment' deferrals. The COVID deferrals and loan payment modifications that were initially granted, are now resolved. At the April 2020 peak, 10.9% of our loans were in some degree of payment deferral for the month. At the end of the current quarter, only 1.5% of accounts are in some sort of temporary modified payment arrangement, a level comparable to what was observed prior to COVID. Most of the accounts that did receive COVID deferrals, received them early in the prior fiscal year, and are now reporting as having full scheduled payments due. As such, these accounts are either paying as scheduled, or are reported as delinquent.

Credit Loss Policy

The Company maintains a corresponding credit loss policy for its most severely delinquent finance receivables. Specifically, and on a monthly basis, finance receivables are allocated as credit losses when they either exceed 120 days or are deemed to be otherwise uncollectable. Credit loss balances are continually pursued either through Rifco's employed collectors or through third-party collection agency services. Recoveries are applied accordingly.

Credit Spread

	For the three months ended			
	Jun 30, 2021		Jun 30, 2020	
		% of loan receivables		% of loan receivables
($,000's except ratios)				
Average Loan Receivables for the Period	195,667		216,988	
Financial revenue	8,450	17.27%	9,047	16.68%
Credit losses	1,929	3.95%	2,934	5.40%
Credit Spread	**6,521**	**13.32%**	**6,113**	**11.28%**

Credit Spread is one of the most important measures used by management to evaluate the performance of the loan receivables over a period. The Credit Spread Rate increased 204 basis points in the current quarter when compared to the comparable quarter, increasing from 11.28% to 13.32%. The Credit Spread rate increased 98 basis points from preceding quarter's rate of 12.34%. Credit Spread has been positively impacted by improved results from the new custom credit model and pricing model.

Financial Expenses

	For the three months ended			
	Jun 30, 2021		Jun 30, 2020	
		% of loan receivables		% of loan receivables
($,000's except ratios)				
Average Loan Receivables for the Period	195,667		216,988	
Financial expense	2,201	4.50%	2,660	4.90%

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

Financial expense for the quarter decreased by 17.26% from $2.7M in the comparable quarter to $2.2M in the current quarter and decreased by 2.13% from $2.2M in the prior quarter.

The Financial Expense Ratio, for the quarter, decreased by 40 basis points from 4.90% in the comparable quarter to 4.50% and decreased 14 basis points from 4.64% in the preceding quarter. In addition to the current low interest rate environment, the treasury reorganization previously announced February 2020 continues to contribute to an improved overall cost of borrowing.

Operating Expenses

	For the three months ended			
	Jun 30, 2021		Jun 30, 2020	
		% of loan receivables		% of loan receivables
($,000's except ratios)				
Average Loan Receivables for the Period	195,667		216,988	
Wage and benefits	1,725	3.53%	2,001	3.69%
Professional fees	102	0.21%	43	0.08%
Office and general	534	1.09%	436	0.80%
Stock based compensation	22	0.04%	36	0.07%
Depreciation and amortization	114	0.23%	110	0.20%
Adjusted Operating Expenses	**2,497**	**5.10%**	**2,626**	**4.84%**
Strategic review process	-	0.00%	(482)	(0.89%)
Operating Expenses	**2,497**	**5.10%**	**2,144**	**3.95%**

Adjusted Operating Expenses decreased 4.91% from $2.6M in the comparable quarter to $2.5M, and decreased by 6.34% from $2.7M in the preceding quarter. The Adjusted Operating Expense Ratio increased 26 basis points to 5.10% from 4.84% in the comparative quarter and decreased 39 basis points from 5.49% in the preceding quarter.

The increased Adjusted Operating Expense Ratio over the comparable quarter was driven primarily by the declining average loan receivables balance and the decrease from the prior quarter was driven by the transition costs associated with the severance of the former CEO and costs incurred by the Concerned Shareholders Group in the prior quarter. The strategic review expenses netted in a recovery of $0.5M due to a legal settlement received in the comparable period.

Summary of Quarterly Results

For the fiscal periods ended	2022	2021				2020			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
($,000's except per share & ratios)									
Finance receivables	205,024	197,789	200,290	205,174	215,069	228,959	230,356	229,787	230,101
Total assets	207,707	201,874	201,593	210,406	220,871	228,328	233,081	232,324	232,222
Total liabilities	181,923	178,399	178,827	180,370	192,967	202,270	204,030	203,503	203,023
Adjusted Equity [2]	35,782	34,279	33,408	40,250	38,311	37,321	37,372	37,507	37,449
Shareholders' equity [2]	25,784	23,475	22,766	30,036	27,904	26,058	29,051	28,821	29,199
Book Value Per Share [2]	$1.19	$1.08	$1.05	$1.39	$1.29	$1.21	$1.35	$1.33	$1.35
Adjusted Book Value Per Share [2]	$1.65	$1.58	$1.54	$1.86	$1.77	$1.73	$1.73	$1.74	$1.73
Stock price	$0.96	$0.77	$0.90	$0.94	$0.70	$0.79	$0.85	$0.85	$0.85
For the Period:									
Finance receivables originated	31,772	20,584	17,882	11,261	7,532	24,021	27,155	27,336	29,814
Average loan receivables	195,667	194,058	197,611	204,689	216,988	224,580	225,815	226,248	224,553
Total financial revenue	8,450	8,240	8,584	8,947	9,047	9,744	9,819	9,926	9,885
Adjusted Net Income (Loss) before Taxes	1,823	1,075	711	2,295	827	660	(81)	113	588
Net income (loss) before taxes	2,961	893	208	2,752	2,653	(3,801)	398	(492)	362
Net income (loss)	2,287	700	177	2,103	1,810	(3,030)	185	(437)	400
Adjusted Net Income (Loss) before Taxes per Common Share:									
Basic	$0.084	$0.049	$0.033	$0.106	$0.038	$0.031	$(0.004)	$0.005	$0.027
Diluted	$0.084	$0.049	$0.033	$0.106	$0.038	$0.031	$(0.004)	$0.005	$0.027
Net income (loss) per common share:									
Basic	$0.105	$0.032	$0.008	$0.097	$0.084	$(0.140)	$0.009	$(0.020)	$0.019
Diluted	$0.105	$0.032	$0.008	$0.097	$0.084	$(0.140)	$0.009	$(0.020)	$0.019
Loan Receivable Performance Measures: [1]									
Net Portfolio Yield	17.27%	16.98%	17.38%	17.48%	16.68%	17.35%	17.38%	17.56%	17.60%
Credit Loss Rate	3.95%	4.64%	4.34%	3.24%	5.40%	6.17%	7.66%	7.72%	6.64%
Credit Spread Rate	13.32%	12.34%	13.04%	14.24%	11.28%	11.18%	9.72%	9.84%	10.96%
Delinquency Rate (over 30 days)	2.85%	2.74%	3.97%	3.43%	1.91%	5.55%	5.32%	6.15%	5.69%
Performance Measures: [1]									
Adjusted Efficiency Ratio	29.55%	32.35%	39.64%	28.32%	29.03%	29.90%	28.26%	26.47%	27.73%
Leverage Ratio [2]	5.80	5.89	6.03	5.23	5.77	6.12	6.24	6.19	6.20
Adjusted Return Pre-tax on Adjusted Equity[2]	20.82%	12.71%	7.72%	23.37%	8.75%	7.07%	(0.87%)	1.21%	6.33%
Ratios: [1]									
Financial Expense Ratio	4.50%	4.64%	4.71%	4.80%	4.90%	4.82%	4.96%	4.96%	5.04%
Adjusted Operating Expense Ratio	5.10%	5.49%	6.89%	4.95%	4.84%	5.19%	4.93%	4.63%	4.88%
Adjusted Return Pre-tax on Earning Assets [2]	3.72%	2.21%	1.44%	4.49%	1.54%	1.17%	(0.17%)	0.25%	1.04%

[1] Percentages have been annualized except Efficiency Ratio and Delinquency Rate
[2] Equity ratios and figures were impacted by a dividend of $7.6M paid to shareholders on December 7, 2020.

Asset Review

Finance Receivables

Finance receivables increased by $7.2M from $197.8M at March 31, 2021 to $205.0M at the end of the current quarter.

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 current quarter of $31.8M which is an increase of 321.83% over the comparable period which had Originations of $7.5M. This increase is primarily due to consumer trends and the internal restrictions on credit quality imposed by the Company in the comparable quarter due to the uncertain impact of the COVID-19 pandemic and associated public health restrictions. Originations increased by 54.35% from $20.6M in the preceding quarter.

	As at			
	Jun 30, 2021		Mar 31, 2021	
($,000's)				
Finance receivables - securitized	154,932	75.57%	154,218	77.97%
Finance receivables - securitized (over-collateralization) [1]	20,946	10.21%	20,299	10.26%
Finance receivables - owned	29,146	14.22%	23,272	11.77%
Total	**205,024**	**100.00%**	**197,789**	**100.00%**

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

Average loan receivables for the quarter decreased 9.83% to $195.7M from $217.0M, in the comparable quarter. The decline can be primarily attributed to extremely low origination volumes initially following the outbreak of the COVID-19 pandemic.

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 period end, the total cash holdback was $16.6M compared to $17.0M as of the prior period end. During the period, the Company received cash holdback releases of $2.2M compared to $2.1M, in the comparable quarter.

Funds in the cash holdback are restricted cash as they are subject to a number of predetermined formulas and financial covenants. Cash releases increase the Company's working capital position.

The cash holdback and over-collateralization is the Company's theoretical maximum exposure to credit losses on securitized finance receivables. However, management is of the opinion that in typical circumstances the entirety of the credit losses will be borne by the Company.

Each of the Company's securitization facilities feature loan over-collateralization. The ratio of over-collateralization is between 5% and 20%, resulting in a fraction of the finance receivables payment stream being securitized. As payments are collected from borrowers, the Company is obligated to remit a portion of each payment to the securitizer. The remaining collected payments are retained by the Company.

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

The following table shows the effect that the total cash holdback has on the securitized debt.

	As at	
	Jun 30, 2021	**Mar 31, 2021**
($,000's)		
Total securitized debt	175,212	173,337
Total cash holdback	(16,631)	(17,038)
Securitized debt	**158,581**	**156,299**

Deferred Income Tax Asset

The Company's Deferred Income Tax Asset consists primarily of the temporary timing difference arising from the non-deductible portion of the provision for impairment and credit losses. Taxable income is calculated using actual loan losses and does not consider forward-looking provisions on non-specific loans.

Provision for Impairment

The provision for impairment 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. The provision for impairment 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 provision for impairment as any change in the estimated allowance for loan losses is a non-cash item.

The provision for impairment 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 of the loan portfolio.

Determining the provision for impairment required overlaying the COVID-19 effects and the related factors such as: the duration of the lock-down conditions, the effectiveness and duration of government relief programs, amongst other factors, are especially uncertain. As the COVID-19 pandemic is a rapidly evolving situation, the scenarios applied, and results obtained could be especially susceptible to volatility.

	For the three months ended	
	Jun 30, 2021	**Jun 30, 2020**
($,000's)		
Credit losses net of recoveries for the period	1,652	2,639
Repossession and recovery costs for the period	277	295
Provision for impairment and credit losses for the period	(791)	(1,590)
Decrease in provision for impairment	**1,138**	**1,344**

The decrease in the provision for impairment and credit loss for the period is due to the increased weighting placed on the base and upside scenarios and increased openness of the economy and effectiveness of COVID-19 vaccines offset by concerns of virus variants, future waves of the COVID-19 virus and an uncertain risk of inflation.

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 totaling $12.5M and three securitization facilities totaling $137.5M. The Company's combined credit facilities total $150.0M of which there was $58.6M in remaining capacity at period end. While this represents the currently available capacity, the annually renewing nature of two of the securitization facilities, and our 15-year history of successfully obtaining these renewals suggests actual future availability may be much higher.

Facility Availability Summary

As at Jun 30, 2021	Limit	Utilized	Available	Renewal Date
($,000's)				
Bank Borrowing - Connect First Credit Union Ltd.	2,500	-	2,500	Non-Expiring
Bank Borrowing - Canadian Schedule 1 Chartered Bank	10,000	2	9,998	30-Jan-22
Securitization - Securcor Trust [1,4]	50,000	34,636	15,364	31-Jul-21
Securitization - Connect First Credit Union Ltd. [2]	47,500	41,589	5,911	Non-Expiring
Securitization - Canadian Schedule 1 Chartered Bank	40,000	15,199	24,801	30-Jan-22
Total active facilities	**150,000**	**91,426**	**58,574**	
Non-readvanceable facilities [3]	96,256	96,256	-	
Total	**246,256**	**187,682**	**58,574**	

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

[2] Revolving Securitization Facility.

[3] Reported as the Securitized Debt that is now removed from facility utilization. Amounts are not readvanceable.

[4] Subsequent to period end, an extension was received to the Securcor Trust facility providing a new renewal date of September 30, 2021. The extension was intended to provide time to resolve the management buyout proposal announced on August 10, 2021, before a full annual renewal is completed.

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) securitization, (iii) bank borrowing, (iv) unsecured debentures, and (v) equity. The Company's primary use of cash is the funding of finance receivables and the funding of working capital.

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.

Rifco's increased loan loss provision in quarter four of fiscal 2020 relating to the uncertainty created by the COVID-19 pandemic created a covenant violation with its funders relating to EBITDA, despite being a non-cash forward-looking estimate. Subsequent to March 31, 2020, a renewal of the facility of comparable size and terms was obtained. The facility no longer has an EBITDA covenant. The Company is in compliance with all covenants under the new facility.

Total Debt to Tangible Net Worth Ratio	As at	
No greater than 10.0x	**Jun 30, 2021**	**Mar 31, 2021**
($,000's except ratios)		
Total Debt	171,845	168,256
Tangible Net Worth	35,591	33,335
Total Debt to Tangible Net Worth Ratio	4.83	5.05

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

Bank Borrowing

Bank borrowings is comprised of two credit facilities.

The Company has a revolving credit facility with Connect First Credit Union Ltd. of $2.5M. 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. The amount drawn on this facility at period end was Nil.

The Company has a revolving credit facility with a Canadian Schedule I Chartered Bank for $10.0M. This facility functions as a warehouse facility and finances the capital cost of an originated loan less one month's payment for up to 90 days. After 90 days, the Company must either securitize the loan with the Canadian Schedule I Chartered Bank or another approved financial institution. The facility has a January 30, 2022 renewal date. The amount drawn on this facility at period end was $0.0M.

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 April 2021 and February 2026. The Company has been successful in renewing or replacing maturing unsecured debentures in the past.

Unsecured debentures issued and outstanding decreased by $0.1M from $10.1M at the prior period end to $10.1M.

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 $50.0M and has a $34.6M utilization for the current quarter. Rifco has a 15-year history of successfully renewing its annual securitization facilities.

The Company's securitization facility with a Canadian Schedule I Charter Bank facility had $15.2M utilization for the current quarter. This facility has an annual expected utilization of $40.0M and a renewal date of January 30, 2022.

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 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 being forced to remit the full payment stream from over collateralized loans.

As at June 30, 2021, the Company was in compliance with all covenants. As at March 31, 2020 the Company was not in compliance with its EBITDA covenant with respect to securitization debt due to the significant increase in loan loss provisioning in anticipation of the impact of COVID-19. Subsequent to March 31, 2020, a renewal of the facility was obtained. The facility no longer has an EBITDA covenant. The new covenants were applied retroactively to March 31, 2020. The Company is in compliance with all covenants under the new facility.

The Company maintains a revolving $47.5M securitization facility with Connect First Credit Union Ltd. The securitization facility includes three additional Alberta Credit Unions, with Connect First Credit Union Ltd. The facility has no expiry date. The facility has a fixed limit of $47.5M and was utilized to $41.6M at June 30, 2021.

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

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

If required, the Company's liquidity can be positively impacted by securitizing owned finance receivables. Owned finance receivables have increased by $5.9M to $29.1M at June 30, 2021 from $23.3M at March 31, 2021. Securitization of finance receivables would typically contribute net cash proceeds at the time of the transaction.

The Company originated $31.8M in finance receivables in the period and securitized $24.8M in loan principal representing 78.0% of originations.

The Company is in regular contact with all of its funders and remains optimistic regarding the availability of bank borrowing facilities and securitized facilities through the current fiscal quarter and beyond. The Company manages origination rates, credit facilities, and Net Financing Margin in order to maximize liquidity and maintain acceptable profitability. The interest rates and credit facility limits currently being received are expected to allow for profitable growth.

Cash flow measurements

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

Modified Funds Flow from Operations

	For the three months ended	
	Jun 30, 2021	**Jun 30, 2020**
($,000's except per share)		
Net cash flows (used in) from operating activities	(4,477)	12,695
Funds advanced on finance receivables	31,772	7,532
Principal collections of finance receivables	(22,886)	(18,783)
Credit losses net of recoveries	(1,652)	(2,639)
Income taxes paid	2	-
Origination costs and discounts - net	1,022	604
Settlement received	-	1,500
Other receivables, payables and prepaid expenses	(1,266)	1,125
Modified Funds Flow From Operations	**2,515**	**2,034**
Weighted average number of common shares	21,750	21,597
Modified Funds Flow From Operations per share	**$ 0.12**	**$ 0.09**

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

Modified Funds Flow from Operations was $2.5M in the current quarter, a 23.65% increase from $2.0M in the comparable quarter. Modified Funds Flow from Operations of $0.12 per share for the quarter, compared with $0.09 per share in the comparable quarter.

Equity

	As at	
	Jun 30, 2021	Mar 31, 2021
($,000's except per share)		
Adjusted Equity	35,782	34,279
Less: Provision for impairment - after tax [1]	9,998	10,804
Equity	**25,784**	**23,475**
Shares outstanding	21,750	21,597
Adjusted Book Value per Share	$1.65	$1.58
Book value per share	$1.19	$1.08

[1] Average tax rate of 23.00% assumed constant for life of provision for impairment for Jun 30, 2021. Average tax rate of 23.50% assumed constant for life of provision for impairment for Mar 31, 2021.

Equity increased to $25.8M from $23.5M at March 31, 2021. Adjusted Equity increased by $1.5M to $35.8M from $34.3M. Adjusted Book Value Per Share increased to $1.65 from $1.58 at March 31, 2021.

Leverage Measurements

	As at	
	Jun 30, 2021	Mar 31, 2021
($,000's except ratio)		
Total assets	207,707	201,874
Adjusted Equity	35,782	34,279
Leverage Ratio	**5.80**	**5.89**

The Leverage Ratio has decreased from 5.89 at March 31, 2021 to 5.80. The decrease is due to strong earnings offset by an increase in assets driven by strong Originations.

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)	Payments due by period Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total
Accounts payable and accruals	10,624	-	-	-	10,624
Income taxes payable	1,174	-	-	-	1,174
Bank borrowings	2	-	-	-	2
Unsecured debentures [1]	1,670	7,045	1,375	-	10,090
Securitization debt [2]	55,137	114,716	24,468	2,022	196,343
Lease liabilities [3]	256	583	631	213	1,683
Purchase obligations [4]	348	47	-	-	395
Total contractual obligations	**69,211**	**122,391**	**26,474**	**2,235**	**220,311**

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

[2] 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.

[3] Lease liabilities is presented as total stream of payments.

[4] 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 June 30, 2021, the Company has four executive officers that receive regular employment income (including bonuses). On December 11, 2020 the previous CEO resigned from the Company and was replaced. The total amount paid to the four executive officers during the period was $0.2M which is a decrease of $0.0M from the $0.2M paid in the comparable period. Executive officers also receive certain approved itemized expense reimbursement.

On December 11, 2020, the number of directors was reduced from six directors, five of which were independent, to four directors, three of which are independent. The unvested stock options of the exiting directors were cancelled and vested stock options' expiry dates were revised to 90 days from the date of the directors' resignations.

Prior to December 11, 2020, each non-management director received 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 received meeting fees of $500 per day or $250 per day for virtual meetings and reimbursement of normal travel expenses.

After December 11, 2020, each non-management director receives $25,000 annually and the chair receives an additional $5,000 annually. Should any special committees be struck, committee members will receive an additional $20,000 monthly for the period the special committee is functioning.

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

Related Party Balances and Transactions

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

At period end, the total debentures held by related parties was $1.7M (March 31, 2021 - $1.7M). The related parties are comprised of directors and relatives of certain officers and employees of the Company who currently hold $1.7M (March 31, 2021 - $1.7M) in debentures with varying terms. These transactions are in the normal course of business and consideration established and agreed to by the related parties is at arm's length.

The Company has made several payments to a company owned or controlled by the CEO. Payments include reimbursement of customary employment expenses, rent and vehicle allowance.

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 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; or
- 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.

The lockdowns associated with the COVID-19 pandemic have significantly impacted automobile sales non-prime consumers and have therefore decreased Rifco loan originations with the most noticeable impact beginning in April 2020. While the current circumstances have largely normalized, future waves of the virus could foreseeably impact the timing and values obtained in vehicle liquidation.

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 period.

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

The 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 net worth ratio, a maximum debt to tangible net worth ratio and a maximum delinquency and Credit Loss Rate and a Marginal Asset Test covenant. 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 net worth, 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 marketplace 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; and
- 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; or
- 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 minimal 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 Efficiency Ratio – Adjusted Operating Expenses divided by financial revenue reported as an annualized percentage.

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

Adjusted Net Income Before Taxes – Income before taxes adjusted for non-cash change in provision for impairment and expenses related to the Strategic review process.

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 Before Tax Per Common Share – Adjusted Net Income Before Taxes divided by average common shares outstanding.

Adjusted Operating Expenses – Operating expenses less expenses associated with the Strategic review process

Adjusted Operating Expense Ratio – Adjusted Operating Expenses as a percentage of average loan receivables.

Adjusted Return Pre-tax on Adjusted Equity – Adjusted Net Income Before Taxes as a percent of average Adjusted Equity.

Adjusted Return Pre-tax on Earning Assets – Adjusted Net Income Before Taxes 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 average 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.

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 Adjusted 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 loan 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 plus unsecured debentures minus intangible assets (including unamortized leasehold improvements), amounts due by officers, subsidiaries and/or related parties.

Total Debt – Total bank debt, accounts payable and accruals, income taxes payable and securitization debt.

Rifco Inc.
Condensed Consolidated Interim Financial Statements (unaudited)
For the three months ended June 30, 2021 and 2020

Rifco Inc.
Table of Contents

For the three months ended June 30, 2021 and 2020

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

As At

	Notes	June 30, 2021 $	March 31, 2021 $
ASSETS			
Cash	13	8,516	10,925
Finance receivables - net	3, 7, 13	196,006	187,363
Other receivables and prepaid expenses		375	515
Property and equipment		506	527
Right of use asset		915	956
Software		214	172
Deferred income tax asset	4	1,175	1,416
Total Assets		**207,707**	**201,874**
LIABILITIES AND EQUITY			
Accounts payable and accruals	8	10,624	9,703
Income taxes payable	8	1,174	743
Bank borrowings	5, 8, 13	2	2
Unsecured debentures	6, 8, 12, 13	10,080	10,144
Securitization debt	7, 8, 13	158,581	156,299
Lease liabilities	8	1,462	1,508
Total Liabilities		**181,923**	**178,399**
Equity			
Share capital	9	7,870	7,870
Contributed surplus	9	4,078	4,056
Retained earnings		13,836	11,549
Total Equity		**25,784**	**23,475**
Total Liabilities and Equity		**207,707**	**201,874**

Subsequent events 14

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

Rifco Inc.
Consolidated Statements of Comprehensive Income
(in thousands of Canadian dollars, except per share amounts)

For the three month periods ended June 30, 2021 and 2020

	Notes	June 30, 2021 $	June 30, 2020 $
Financial revenue		8,450	9,047
Financial expense		2,201	2,660
Net financial income before impairment and credit losses		**6,249**	**6,387**
Provision for impairment and credit losses	3	791	1,590
Net financial income before operating expenses		**5,458**	**4,797**
Operating expenses			
Wages and benefits	12	1,725	2,001
Professional fees		102	43
Office and general	11	534	436
Stock based compensation	9, 12	22	36
Depreciation and amortization		114	110
Strategic review process		-	(482)
Total operating expenses		**2,497**	**2,144**
Net income before taxes		**2,961**	**2,653**
Current income tax expense	4	(433)	(405)
Deferred income tax expense	4	(241)	(438)
Total income tax expense		**(674)**	**(843)**
Net income and comprehensive income for the period attributable to equity holders		**2,287**	**1,810**
Net income per common share			
Basic	10	$0.105	$ 0.084
Diluted	10	$0.105	$ 0.084

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 Canadian dollars)

For the three months ended June 30, 2020	**Notes**	**Share Capital $**	**Contributed Surplus $**	**Retained Earnings $**	**Total Equity $**
As at March 31, 2020		7,614	4,084	14,360	26,058
Net income and comprehensive income for the period		-	-	1,810	1,810
Stock based compensation	9	-	36	-	36
As at June 30, 2020		**7,614**	**4,120**	**16,170**	**27,904**

For the three months ended June 30, 2021	**Notes**	**Share Capital $**	**Contributed Surplus $**	**Retained Earnings $**	**Total Equity $**
As at March 31, 2021		7,870	4,056	11,549	23,475
Net income and comprehensive income for the period		-	-	2,287	2,287
Stock based compensation	9	-	22	-	22
As at June 30, 2021		**7,870**	**4,078**	**13,836**	**25,784**

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 Canadian dollars)

For the three months periods ended June 30, 2021 and 2020

	Notes	June 30, 2021 $	June 30, 2020 $
Operating activities			
Net income and comprehensive income for the period attributable to equity holders		2,287	1,810
Adjustments for:			
Depreciation and amortization		114	110
Decrease in provision for impairment	3	(1,138)	(1,344)
Stock based compensation	9, 12	22	36
Income tax expense	4	674	843
Financial expense		2,201	2,660
Interest paid		(2,404)	(2,803)
Financing costs		(45)	(35)
Amortization of origination and financing costs		804	757
Cash flows from operating activities before the following:		2,515	2,034
Funds advanced on finance receivables		(31,772)	(7,532)
Principal collections of finance receivables		22,886	18,783
Credit losses net of recoveries	3	1,652	2,639
Income taxes paid		(2)	-
Origination costs and discounts - net		(1,022)	(604)
Settlement received		-	(1,500)
Other receivables, payables and prepaid expenses		1,266	(1,125)
Net cash flows (used in) from operating activities		(4,477)	12,695
Investing activity			
Purchase of property and equipment		(7)	-
Purchase of software		(88)	-
Net cash flows used in investing activities		(95)	-
Financing activities			
Repayments of bank borrowings	5	(2,408)	(1,431)
Net advances from bank borrowings	5	2,408	43
Repayments of unsecured debentures	6	(415)	-
Advances from unsecured debentures	6	350	-
Repayments of securitization debt	7	(26,121)	(23,656)
Advances from securitization debt	7	28,395	16,780
Repayments of lease liability		(46)	(44)
Net cash flows from (used in) financing activities		2,163	(8,308)
(Decrease) increase in cash		(2,409)	4,387
Cash, beginning of period		10,925	6,039
Cash, end of the period		8,516	10,426

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 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 financial statements for the fiscal year ended March 31, 2021.

These Interim Financial Statements for the three months ended June 30, 2021 and 2020 were approved and authorized for issue by the Board of Directors on August 24, 2021.

Basis of presentation

These Interim Financial Statements include the financial information of Rifco Inc., and Rifco National Auto Finance Corporation, a 100% owned subsidiary.

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. Finance receivables – net

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

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

Finance receivables - net

	June 30, 2021	March 31, 2021
($, 000's)		
Next 12 months	71,462	69,904
13 to 24 months	66,486	65,005
25 to 36 months	58,983	57,562
37 to 48 months	48,825	47,246
49 to 60 months	35,857	34,114
61 months and over	28,471	24,383
Gross finance receivables	310,084	298,214
Less unearned interest	(109,685)	(105,155)
Loan receivables	200,399	193,059
Accrued interest and fees	4,625	4,730
Finance receivables	**205,024**	**197,789**
Unamortized origination costs	5,347	5,170
Unamortized discounts	(1,381)	(1,474)
Less provision for impairment	(12,984)	(14,122)
Finance receivables - net	**196,006**	**187,363**

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

The aging analysis of finance receivables is as follows:

	June 30, 2021		March 31, 2021	
($, 000's except %)				
Current	199,176	97.15%	192,373	97.26%
31 – 60 Days	3,836	1.87%	3,596	1.82%
61 – 90 Days	1,411	0.69%	1,228	0.62%
> 90 Days	601	0.29%	592	0.30%
Finance receivables	**205,024**	**100.00%**	**197,789**	**100.00%**

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

	June 30, 2021	March 31, 2021
($, 000's)		
Near-prime	180,919	172,647
Non-prime	19,480	20,412
Loan receivables	**200,399**	**193,059**

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. While in modification, the loans appear current and continue to accrue interest. Any loan that is currently under modification is classified as Stage 2 (under performing) or Stage 3 (credit impaired).

As at June 30, 2021, there were $4.5M (March 31, 2021 – $5.0M) of finance receivables, constituting 2.2% (March 31, 2021 – 2.5%) of the total balance, that have been modified such that the cash flow of those loans has been significantly (>10%) impacted. Of the loans in permanent modification, 61.04% are in Stage 1 (March 31, 2021 – 93.71%).

The COVID-19 pandemic required a significant variation from normal loan modification volumes. Management authorized the use of existing payment arrangement programs designed to help a borrower transition from employment income to government assistance and back to employment income by providing temporary partial and full deferrals of payments for up to three months. Management believes this program provided the best net present value of cash flows possible. While these COVID-19 payment arrangement options were available towards the very end of the 2020 fiscal year, only a nominal amount were granted prior to that year end. The payment arrangements were largely granted in the first quarter of fiscal year 2021. As of June 30, 2021, Rifco had 1.5% (March 31, 2021 – 3.3%) of its accounts in a temporary payment deferral. In general, these loan modifications do not have a significant impact (>10%) on the cash flow of the loan due to the short-term nature of these modifications.

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

	Provision carrying amount			
	Stage 1 (performing)	**Stage 2 (under performing)**	**Stage 3 (credit impaired)**	**Total**
($, 000's)				
Provision for impairment as at March 31, 2020	**10,423**	**1,000**	**3,797**	**15,220**
Provision on loans originated, at time of origination	408	-	-	408
Change in provision for impairment after origination	(1,582)	1,261	(1,431)	(1,752)
Provision for impairment as at June 30, 2020	**9,249**	**2,261**	**2,366**	**13,876**
As a percent of finance receivables				7.02%
Provision for impairment as at March 31, 2021	**9,916**	**1,133**	**3,073**	**14,122**
Provision on loans originated, at time of origination	1,587	-	-	1,587
Change in provision for impairment after origination	(2,097)	(415)	(213)	(2,725)
Provision for impairment as at June 30, 2021	**9,406**	**718**	**2,860**	**12,984**
As a percent of finance receivables				6.33%

The breakdown of the provision for impairment and credit losses for the period is as follows:

	June 30, 2021	**June 30, 2020**
($, 000's)		
Provision for impairment at end of period	12,984	13,876
Provision for impairment at beginning of period	14,122	15,220
Decrease in provision for impairment	**(1,138)**	**(1,344)**
Credit losses net of recoveries for the period	1,652	2,639
Repossession and recovery costs for the period	277	295
Provision for impairment and credit losses for the period	**791**	**1,590**

Determining the inputs required for the calculation of the expected credit losses (ECLs) requires significant estimation uncertainty. In particular, overlaying the COVID-19 pandemic effects and the related factors such as: the duration and extent of the lock-down conditions, the effectiveness and duration of government relief programs, and the pace of economic recovery, amongst other factors – are especially uncertain. As the COVID-19 pandemic is a continuously evolving situation, the scenarios applied, and results obtained are especially susceptible to volatility.

As at March 31, 2020, the provision was increased due to the unknown future impact of the COVID-19 pandemic. In the current period, the decrease in the provision for impairment is largely due to an increased weighting of the upside and base scenarios due to the increased openness of the economy and effectiveness of COVID-19 vaccines tempered by caution over virus variants and inflation concerns.

The ECL estimate is sensitive to a number of assumptions including the probability weighting of each of the assumed scenarios occurring as well as the probabilities of default and loss given default in each of those scenarios. Management has prepared three scenarios (upside, base, downside). The current provision is calculated with weightings of 20% upside, 55% base, and 25% downside. Had the provision been calculated with the weightings used pre-pandemic (25% upside, 65% base, and 10% downside), the provision would have been $12.2M.

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 March 31, 2020	**208,851**	**9,044**	**5,904**	**223,799**
Originated	57,259	-	-	57,259
Payments & other adjustments	(69,627)	(1,370)	(8,013)	(79,010)
Transfers to (from):				
Stage 1 (performing)	(20,967)	20,967	-	-
Stage 2 (under-performing)	4,464	(21,133)	16,669	-
Stage 3 (non-performing)	689	178	(867)	-
Charge offs (net of recoveries and costs)	-	-	(8,989)	(8,989)
Balances as at March 31, 2021	**180,669**	**7,686**	**4,704**	**193,059**
Originated	31,772	-	-	31,772
Payments & other adjustments	(19,984)	(226)	(2,294)	(22,504)
Transfers to (from):				
Stage 1 (performing)	(5,826)	5,826	-	-
Stage 2 (under-performing)	3,199	(7,724)	4,525	-
Stage 3 (non-performing)	458	78	(536)	-
Charge offs (net of recoveries and costs)	-	-	(1,928)	(1,928)
Loan receivables as at June 30, 2021	**190,288**	**5,640**	**4,471**	**200,399**

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

4. Income taxes

Net deferred income tax assets are comprised of the following:

	June 30, 2021	March 31, 2021
($, 000's)		
Deferred income tax assets		
Provision for impairment	1,164	1,423
Other	122	113
	1,286	**1,536**
Deferred income tax liabilities		
Property and equipment	111	120
	111	**120**
Net deferred income tax asset	**1,175**	**1,416**

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

	June 30, 2021	June 30, 2020
($, 000's except %)		
Net income before taxes	2,961	2,653
Statutory income tax rate	23.00%	25.00%
Income tax expense (recovery)	681	663
Adjustment relating to tax rate decrease	-	187
Non-deductible expenses for tax purposes	6	(7)
Other	(13)	-
Total income tax expense (recovery)	**674**	**843**
Effective income tax rate	22.8%	31.8%
Allocation of expense (recovery)		
Current	433	405
Deferred	241	438
Income tax expense (recovery)	**674**	**843**

5. Bank borrowings

The Company has a revolving credit facility with Connect First Credit Union Ltd. of $2.5M. The Company has provided a general security agreement covering all Company assets. The facility does not have any expiry date and is due on demand.

The Company has a revolving credit facility with a Canadian Schedule I Chartered Bank for $10.0M. This facility functions as a warehouse facility and finances the capital cost of an originated receivable less one month's payment for up to 90 days. After 90 days, the Company must either securitize the receivable with the Canadian Schedule I Chartered Bank or another approved financial institution. The facility has a January 30, 2022 renewal date.

($, 000's)	
At March 31, 2020 - Bank borrowing	**1,384**
Advances from bank borrowings	4,086
Repayments of bank borrowings	(5,468)
At March 31, 2021 - Bank borrowing	**2**
Advances from bank borrowings	2,408
Repayments of bank borrowings	(2,408)
At June 30, 2021 - Bank borrowing	**2**

6. Unsecured debentures

Unsecured debentures are non-retractable by the noteholder within the specific terms. Maturity dates vary from September 1, 2021 to March 1, 2026 and bear interest on a monthly basis. The unsecured debentures are subordinated in favour of registered senior debt holders. The Company must meet certain financial covenants and report to the unsecured debenture holders on a quarterly basis. As at June 30, 2021, March 31, 2021 and throughout the periods then ended, the Company was in compliance with all covenants.

A summary of unsecured debenture activity is as follows:

($, 000's)	
At March 31, 2020 - Unsecured debentures	**11,471**
Debentures matured	(2,680)
Debentures renewed and accrued interest	1,078
New debentures	275
At March 31, 2021 - Unsecured debentures	**10,144**
Debentures matured	(1,135)
Debentures renewed and accrued interest	721
New debentures	350
At June 30, 2021 - Unsecured debentures	**10,080**

	June 30, 2021	**March 31, 2021**
($, 000's)		
6.5% debentures outstanding	1,100	525
7.5% debentures outstanding	775	1,565
8.5% debentures outstanding	1,895	1,645
9.5% debentures outstanding	6,310	6,409
Unsecured debentures	**10,080**	**10,144**
Portion issued to related parties at period end (Note 20)	1,705	1,710

7. Securitization

Securitization debt

The Company expects to fund a large 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 Connect First Credit Union Ltd. (referred to collectively as the "securitizers"). As the securitization of finance receivables does not qualify for de-recognition under IFRS, the net proceeds received through securitization of these finance receivables are recorded as securitization debt on the consolidated statements of financial position.

The 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 June 30, 2021, the Company was in compliance with all covenants. As at March 31, 2020, the Company was not in compliance with its EBITDA covenant with respect to securitization debt due to the significant increase in loan loss provisioning in anticipation of the impact of COVID-19. Subsequent to March 31, 2020, a renewal of the facility that was not in compliance with covenant was obtained. The EBITDA covenant was removed from the facility. All securitization facilities no longer have an EBITDA covenant. The new covenants were applied retroactively to March 31, 2020.

($, 000's)	
At March 31, 2020 - Securitization debt	**177,567**
Gross sale proceeds from securitizers	75,659
Repayments to securitizers	(98,501)
Additions to securitization holdback	(6,544)
Received from securitization holdback	8,020
Securitization costs incurred in the period	(150)
Securitization costs expensed in the period	248
At March 31, 2021 - Securitization debt	**156,299**
Gross sale proceeds from securitizers	28,395
Repayments to securitizers	(26,528)
Additions to securitization holdback	(1,773)
Received from securitization holdback	2,180
Securitization costs incurred in the period	(45)
Securitization costs expensed in the period	53
At June 30, 2021 - Securitization debt	**158,581**

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

($, 000's)	
At March 31, 2020 - Unamortized securitization costs	**365**
Securitization costs incurred in the period	150
Securitization costs expensed in the period	(248)
At March 31, 2021 - Unamortized securitization costs	**267**
Securitization costs incurred in the period	45
Securitization costs expensed in the period	(53)
At June 30, 2021 - Unamortized securitization costs	**259**

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 statements of financial position. As at June 30, 2021 the total cash holdbacks held by the securitizers amounted to $16.6M (March 31, 2021 - $17.0M).

The total amount of securitization debt outstanding (excluding the cash holdbacks) as at June 30, 2021 amounted to $175.2M (March 31, 2021 - $173.3M).

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 legal exposure to credit losses on securitized finance receivables. However, management is of the opinion that in typical circumstances the entirety of the credit losses will be borne by the Company.

	June 30, 2021		March 31, 2021	
($, 000's except %)				
Finance receivables - securitized	154,932	75.57%	154,218	77.97%
Finance receivables - securitized over collateralization	20,946	10.21%	20,299	10.26%
Finance receivables - owned	29,146	14.22%	23,272	11.77%
Finance receivables	**205,024**	**100.00%**	**197,789**	**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.

8. Contractual obligations

	Less than one year	1 to 3 years	4 to 5 years	Over 5 years	Total
($, 000's)					
Accounts payable and accruals	10,624	-	-	-	10,624
Income taxes payable	1,174	-	-	-	1,174
Bank borrowings (1)	2	-	-	-	2
Unsecured debentures (2)	1,670	7,045	1,375	-	10,090
Securitization debt (3)	55,137	114,716	24,468	2,022	196,343
Lease liabilities (4)	256	583	631	213	1,683
Contractual obligations - June 30, 2021	**68,863**	**122,344**	**26,474**	**2,235**	**219,916**

(1) Bank borrowings are 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 assuming no future credit losses or loan prepayments.
(4) Lease liabilities are presented as total stream of payments.

9. 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. There are no preferred shares outstanding.

b) **Common shares issued and outstanding**

	June 30, 2021 Shares	$	March 31, 2021 Shares	$
(000's)				
Opening balance	21,750	7,870	21,597	7,614
Stock options exercised	-	-	153	256
Closing balance	**21,750**	**7,870**	**21,750**	**7,870**

Contributed surplus

The Company has a stock option plan under which directors, officers, employees and consultants of the Company and its subsidiary are eligible to receive stock options.

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

	June 30, 2021	March 31, 2021
($, 000's)		
Opening balance	4,056	4,084
Transfer to share capital on exercise of options	-	(78)
From the vesting of stock based compensation	22	50
Closing balance	**4,078**	**4,056**

10. Earnings per share ("EPS")

The calculation of the diluted income per share assumes the conversion, exercise or contingent issuance of vested 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:

	June 30, 2021 Shares	June 30, 2020 Shares
(000's)		
Weighted average number of shares outstanding	21,750	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	**21,750**	**21,597**

11. Office and general expenses

	Notes	June 30, 2021	June 30, 2020
($, 000's)			
Technology and communication		303	235
Office rent	12	65	58
Training and recruiting		12	6
Promotional and subscriptions		40	18
Travel		10	25
Other		104	94
Total office and general		**534**	**436**

During the period, the Company received financial support from the Government of Canada in the form of Canada Emergency Wage Subsidy (CEWS) and Canada Emergency Rent Subsidy (CERS). These amounts have been recorded as reductions to wages and office rent respectively. During the period ended June 30, 2021, the total amount received was $0.1M (June 30, 2020 – $Nil).

12. 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 $1.7M (March 31, 2021 - $1.7M). The related parties are comprised of directors and relatives of certain officers of the Company who hold unsecured debentures with varying terms. These transactions are in the normal course of business and consideration established and agreed to by the related parties is at arm's length.

	June 30, 2021	June 30, 2020
($, 000's)		
Total interest paid to related parties	33	59

Compensation of key management personnel

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

	June 30, 2021	June 30, 2020
($, 000's)		
Compensation, including bonuses	172	187
Stock based compensation	11	26
Total	**183**	**213**
Number of stock options granted	-	-

Prior to December 11, 2020, each non-management director received 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 received meeting fees of $500 per day or $250 per day for virtual meetings and reimbursement of normal travel expenses.

After December 11, 2020, each non-management director receives $25,000 annually and the chair receives an additional $5,000 annually. Should any special committees be struck, committee members will receive an additional $20,000 monthly for the period the special committee is functioning.

	June 30, 2021	June 30, 2020
($, 000's)		
Fees	70	23
Stock based compensation	11	13
Total	**81**	**36**
Number of stock options granted	300	-

Payments to related companies

The Company has made several payments to a company owned or controlled by the CEO for reimbursement of customary employment expenses such as office rent.

	June 30, 2021	June 30, 2020
($, 000's)		
Office rent	12	-
Total	**12**	**-**

13. 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 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 financial statements at fair value according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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

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

Financial Instrument Classification	Fair value level		June 30, 2021 Carrying value	Fair value	March 31, 2021 Carrying value	Fair value
($, 000's)						
Assets measured at amortized cost:						
Cash	(1)		8,516	8,516	10,925	10,925
Finance receivables - net	(3)	(A)	196,006	197,279	187,363	187,556
Other receivables	(1)		66	66	105	105
Liabilities measured at amortized cost:						
Bank borrowings	(1)		2	2	2	2
Unsecured debentures	(2)	(B)	10,080	10,357	10,144	9,605
Securitization debt	(3)	(C)	158,581	163,348	156,299	160,524

A) The fair value of finance receivables is estimated by discounting the estimated future cash flows of the portfolio at rates commensurate with the underlying risk of assets, net of a provision for impaired loans, provision for prepayment losses, and servicing costs.
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.

14. Subsequent Events

On August 10, 2021, the Company announced it had received a non-binding proposal from Warren Van Orman, Doug Decksheimer, and Roger Saran, each an officer of the Company, pursuant to which they would, if supported by the Board of Directors of Rifco, acquire all of the issued and outstanding common shares of Rifco for anticipated consideration of $1.15 per share.

On August 6, 2021, the Company received notification that its securitization facility with Securcor Trust had been extended to September 30, 2021. The extension was intended to provide time to resolve the management buyout proposal noted above before a full annual renewal is completed.