CHESSWOOD GROUP LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

DECEMBER 31, 2022

Chesswood Group Limited is a holding company whose subsidiaries engage in the business of specialty finance (including equipment finance throughout North America, and vehicle finance in Canada), as well as the origination and management of private credit alternatives for North American investors. Based in Toronto, Canada, the firm is publicly traded on the Toronto Stock Exchange (TSX: CHW).

To learn more about Chesswood Group Limited, visit www.ChesswoodGroup.com. The websites of Chesswood Group Limited's operating businesses are: www.PawneeLeasing.com, www.TandemFinance.com, www.VaultCredit.com, www.VaultPay.ca, www.Rifco.net, and www.WaypointInvestmentPartners.com.

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This Annual Report is intended to provide shareholders and other interested persons with selected information concerning Chesswood. For further information, shareholders and other interested persons should consult Chesswood's other disclosure documents, such as its Annual Information Form and quarterly reports. Copies of Chesswood's continuous disclosure documents can be obtained at www.chesswoodgroup.com, by email to investorrelations@chesswoodgroup.com, or by calling Chesswood at 416-386-3099, at www.sedar.com, or from Investor Relations at the addresses shown at the end of this Annual Report. Readers should also review the notes further in this Annual Report, in the section titled Management's Discussion and Analysis, concerning the use of Non-GAAP Measures and Forward-Looking Statements, which apply to the entirety of this Annual Report.

All figures mentioned in this Annual Report are in Canadian dollars, unless otherwise noted.

FOR THE YEAR ENDED DECEMBER 31, 2022

TO OUR SHAREHOLDERS

2022 Year in Review

Chesswood Group achieved strong financial results for the 2022 fiscal year. Combined origination volumes for our U.S. and Canadian businesses grew 85% to $1.7 billion. Average finance receivables of $1.9 billion generated net income, after adjusting for the "day 2" provision from the Rifco acquisition, of $37.6 million, or $1.81 per fully diluted share (free cash flow of $2.47 per fully diluted share). We ended the year with net lease and loan receivables nearing $2.5 billion. Given the approximate average term of the existing portfolio as well as new originations by our subsidiaries, the portfolio is on track to grow substantially over the next several years.

The adjusted return on average equity for the full year was 17.7%. The rapid increase in interest rates in the second half of 2022 weighed on operating margins in the final quarter of the year. In our equipment and consumer finance businesses (excluding auto), application approvals are provided 30 – 60 days in advance of funding. Furthermore, an additional 30 days is required to season the loans and prepare them for securitization (fixed rate, matched term financing). Our pricing lagged in respect to these large rate adjustments and will not settle until Q1 of 2023.

According to central banks, policy rates are now approaching levels consistent with achieving their objective of bringing inflation back in-line with policy targets. Today, fixed income markets are pricing modest increases in policy interest rates going forward. Therefore, we expect net interest margins to return to normal as new loans are funded and securitized. While this near-term margin impact is disappointing, our team has made considerable progress strengthening the portfolio and achieving greater scale in our operations. We are confident with the outlook for the profitability and earnings power of the portfolio as the term structure of interest rates returns to more normal levels.

Financial Highlights	2017	2018	2019	2020	2021	2022
(C$000)						
Average Equity	$159,558	$162,358	$160,089	$148,750	$164,399	$208,194
Revenue	$95,324	$110,586	$126,975	$117,056	$138,083	$276,365
Net income	$25,431	$22,885	$12,691	$(8,525)	$31,169	$30,416
Free Cash Flow	$29,617	$25,403	$22,361	$19,606	$33,573	51,715
Adjusted Return on Average Shareholders' Equity	15.9%	14.1%	7.9%	(5.7)%	19.0%	17.7%
FCF Return on Average Shareholders’ Equity	18.6%	15.6%	14.0%	13.2%	20.4%	25%

General and administrative expenses increased 73% year over year due to the acquisition of Rifco in early 2022 and increased staff counts required to process larger origination volumes. At the end of the year, Chesswood’s operating divisions employed approximately 460 people compared to almost 300 at December 31, 2021, an increase of almost 60%. Similarly, the number of individual leases and loans increased 60% to 72,163 contracts. Many costs associated with lease or loan origination are recognized upfront versus the interest revenue which is recognized over time. These costs include underwriting, funding, and loss provisioning.

In addition, Chesswood’s operating entities undertook significant spending associated with upgrading the front and back-end technology systems responsible for client interaction (loan applications), portfolio monitoring and accounting. These new systems will allow us to continue scaling our business effectively while providing us with operating leverage as our portfolio continues to grow. This spend was significant throughout the year (more than $7 million). We have a few more quarters of system upgrade implementation as we complete user acceptance testing, but ultimately believe a significant portion of these costs will be one time in nature.

Funding Updates

Our U.S. team completed a US$346.6 Asset-Backed Securitization "ABS" issuance that was broadly marketed in Q2 2022 and completed Q3 2022. The timing of this coincided with the Federal Reserve’s aggressive move to contain inflation through higher interest rates. In anticipation of elevated credit spread volatility, our team decided to move up our planned ABS issuance to avoid potential funding market disruptions that we expected in the back half of the year from more restrictive policy interest rates. As a result, the all-in cost of this issuance was 6% - a substantial premium to our previous transactions.

In addition, the team exercised the accordion feature of our corporate revolver along with other enhancements to further bolster liquidity amid capital market uncertainty. By the end of 2022, all our funding facilities had been amended or renewed in an effort to potentially better insulate us from for a more difficult environment in 2023.

We chose to close these transactions and amendments to enhance our liquidity position for the second half of 2022 and the start of 2023. Admittedly, fixed income markets appear to have stabilized at year-end in contrast to prior expectations. We remain cautious on economic conditions and believe our conservatism will be rewarded.

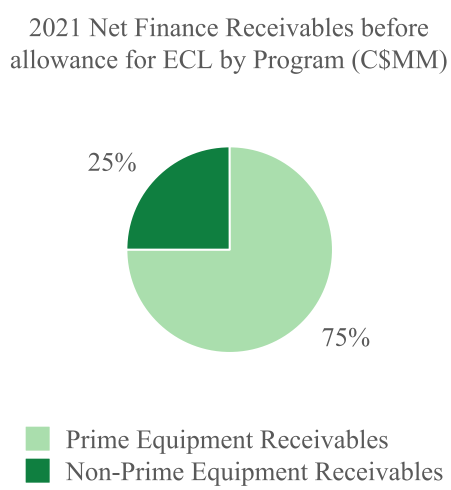
Our asset management arm now has two credit funds offering exposure to leases and loans originated by both our Canadian and the U.S. businesses. Although still early, initial reception has been encouraging. We have a variety of arrangements continuing to invest in the product. Investor returns have been strong and compare favorably to alternative credit products in the market (public or private). We have high expectations for the success of these products in 2023.

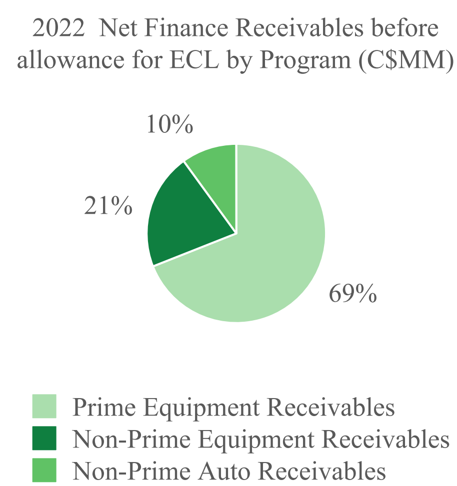
On the institutional side, we have had a strong start to 2023 with the announcement of Värde Partners (Värde) as our next funding arrangement. Värde Partners has significant experience in a variety of specialty finance verticals and we are excited to work with them as we continue to grow our overall portfolio.

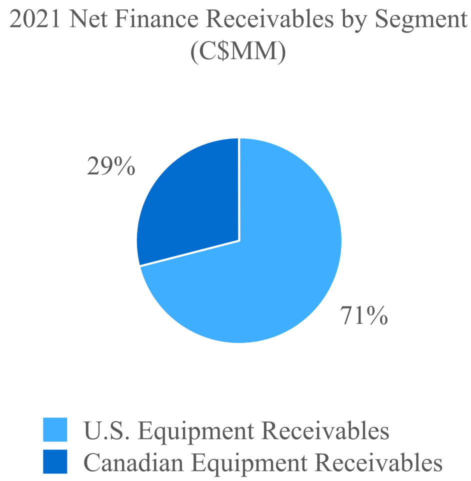
Asset Diversification & Acquisitions

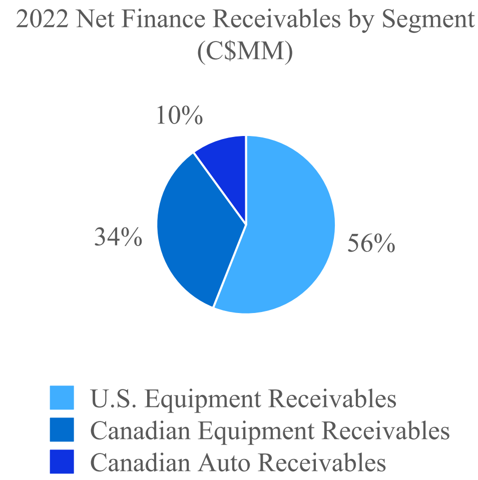
Chesswood spent much of 2022 integrating the operations of RIFCO and launching Vault Home. Both operating entities leverage the existing treasury management function at Chesswood and benefit from strong management teams with significant tenure and industry experience. RIFCO in particular had an excellent year of profitability and has made strides in new markets. We are excited to have these teams as part of Chesswood and look forward to their continuous success in 2023.

We continue to look for opportunities to further diversify our portfolio in 2023, while maintaining focus on enhancing our value proposition to customers and investors.









Conclusion: Credit & Risk

Delinquency trends toward the end of 2022 were on the rise. Across most asset classes that we track; commercial equipment, sub prime auto and unsecured consumer loans were all showing increased delinquency levels and losses. While the absolute level of these metrics remains in line with historical averages, the trend is reason enough to be cautious. We continued to build reserves throughout the year in anticipation of rising delinquency upon normalization of credit conditions. Our teams have tightened standards in certain asset categories where we historically see strain in weak economic environments.

In other areas of our business, we are beginning to see competition decline, leading us to originate better credit at premium rates. This trend is also recent, and we are therefore taking a balanced view of the markets until more definitive data is revealed.

It is often said that forecasting is a bad business – since predicting the future is impossible. Sticking to business fundamentals, which in our case is focusing on consistent underwriting standards, in addition to strong collection and servicing processes, remains the best way to manage risk. Our team has "been here before" and has strong operating processes that have proven to be effective in challenging environments.

As a result of this experience, we remain focused on a strategic vision – to maintain profitable portfolio growth that is diversified across a variety of asset classes. Our origination volumes continue to support this objective, and our team works hard to ensure we have capital solutions for different credit and asset profiles.

I want to thank all of Chesswood's employees for their efforts in 2022, and look forward to what almost certainly will be, an exciting 2023.

Sincerely,

Ryan Marr
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (this "MD&A") is provided to enable readers to assess the financial condition and results of operations of Chesswood Group Limited ("Chesswood" or the "Company") as at and for the three months and year ended December 31, 2022. This MD&A should be read in conjunction with the 2022 audited consolidated financial statements and accompanying notes of the Company. Unless otherwise indicated, all financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), and all amounts are expressed in Canadian dollars, unless specifically noted otherwise. This MD&A is dated March 16, 2023.

Additional information relating to the Company, including its Annual Information Form, is available: on SEDAR at www.sedar.com; at the www.chesswoodgroup.com website; by email to investorrelations@chesswoodgroup.com; or by calling Chesswood at 416-386-3099.

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FORWARD-LOOKING STATEMENTS

In this document and in other documents filed with Canadian regulatory authorities or in other communications, the Company may from time to time make written or oral forward-looking statements within the meaning of applicable securities legislation. Forward-looking statements include, but are not limited to, statements regarding the Company's business plan and financial objectives. The forward-looking statements contained in this MD&A are used to assist readers in obtaining a better understanding of the Company's financial position and the results of operations as at and for the periods ended on the dates presented and may not be appropriate for other purposes.

Forward-looking statements typically use the conditional, as well as words such as prospect, believe, estimate, forecast, project, expect, anticipate, plan, may, should, could and would, or the negative of these terms, variations thereof or similar terminology. By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. The Company operates in a dynamic environment that involves various risks and uncertainties, many of which are beyond its control, and which could have an effect on the Company's business, revenues, operating results, cash flow, financial condition and prospects. It is therefore possible that the forecasts, projections, and other forward-looking statements will not be achieved or will prove to be inaccurate. Although the Company believes the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct.

The Company cautions readers against placing undue reliance on forward-looking statements when making decisions, as actual results could differ considerably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various factors. Among others, these factors include: continuing access to required financing; continuing access to products that allow the Company and its subsidiaries to hedge exposure to changes in interest rates; risks of increasing default rates on leases, loans and advances; the adequacy of the Company's provisions for credit losses; increasing competition (including, without limitation, more aggressive risk pricing by competitors, financing options provided by manufacturers, and investment products offered by competitors of Chesswood Capital Management); increased governmental regulation of the rates and methods we use in financing and collecting on our leases or loans; and increasingly stringent interpretation and enforcement of laws related to dealers and advisors and their products and compensation; dependence on key personnel; disruption of business models due to the emergence of new technologies; fluctuations in the Canadian dollar and U.S. dollar exchange rate; factors that impact on the decision to acquire a motor vehicle; and general economic and business conditions (including the military conflict in Ukraine, and inflation and recession concerns), which could impact equipment purchase and investment decisions. The Company further cautions that the foregoing list of factors is not exhaustive.

For more information on the risks, uncertainties and assumptions that would cause the Company's actual results to differ from current expectations, please also refer to "Risk Factors" in this MD&A and in the Company's Annual Information Form, as well as to other public filings of the Company available at www.sedar.com.

The Company does not undertake to update any forward-looking statements, whether oral or written, made by itself or on its behalf, except to the extent required by securities regulation.

NON-GAAP MEASURES

This MD&A refers to certain non-Generally Accepted Accounting Principles ("GAAP") measures as supplementary information and to assist in assessing the Company's financial performance. These measures are based primarily on the significant banking and lending agreements of the Company and its subsidiaries for the purposes of determination of compliance with financial covenants as well as calculation of permitted dividends and cash available for purchases of shares under the Company's normal course issuer bid.

Management believes EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss), and Adjusted Return on Equity, as defined below, are useful measures in evaluating the performance of the Company. EBITDA is a well-understood non-GAAP measure; however, Adjusted EBITDA, Adjusted Net Income (Loss), and Adjusted Return on Equity provide information that is even more relevant given the businesses in which the Company operates. These measures are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, these measures and the other non-GAAP measures listed may not be comparable to similarly labelled measures presented by other companies. Readers are cautioned that EBITDA, Adjusted EBITDA, Adjusted Net Income (Loss), Adjusted Return on Equity, and the other non-GAAP measures listed should not be construed as an alternative to net income determined in accordance with GAAP as indicators of performance, or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

"EBITDA" is Net Income (Loss) as presented in the consolidated statements of income, adjusted to exclude interest expense, income taxes, depreciation and amortization, and goodwill and intangible asset impairment. EBITDA is included in one of the Company's significant bank agreements where it is used for financial covenant purposes.

"Adjusted EBITDA" is EBITDA as further adjusted for inclusion of interest on debt facilities as a deduction from net income (loss), and further removal of other non-cash or non-recurring items such as (i) non-cash gain (loss) on interest rate derivatives and investments, (ii) non-cash unrealized gain (loss) on foreign exchange, (iii) non-cash share-based compensation expense, (iv) non-cash change in finance receivable allowance for expected credit losses ("ECL"), (v) restructuring and other transaction costs, and (vi) any unusual and material one-time gains or expenses. Adjusted EBITDA is a measure of performance defined in one of the Company's significant bank agreements and is the basis for the Company's Free Cash Flow (as defined below) calculation. Adjusted EBITDA is therefore included as a non-GAAP measure that is relevant for a wider audience of users of the Company's financial reporting.

"Adjusted Fully Diluted Earnings per Share ("EPS")" is a non-GAAP measure representing Adjusted Net Income (Loss) attributable to common shareholders divided by total diluted shares.

	December 31, 2022
Weighted average basic shares	17,540,296
Weighted average basic shares & Exchangeable Securities(1)	19,018,833
% attributable to parent	92.2 %

(1) Exchangeable Securities are (non-controlling interest, as described below under "Statement of Financial Position").

($ thousands, except share count and adjusted fully diluted EPS)	Year ended December 31, 2022
Net income attributable to common shareholders	28,548
Parent portion of business combination initial allowance on a purchased portfolio (7,166(1) x 92.2%)	6,607
Adjusted net income attributable to common shareholders	35,155
Weighted average fully diluted shares	19,417,729
Adjusted fully diluted EPS	1.81

(1) The total provision for credit losses booked on the acquired Rifco portfolio was $9.3 million. This provision was tax adjusted using Alberta's statutory rate of 23% to determine the adjustment to net income.

"Adjusted Net Income (Loss)" is Net Income (Loss) as presented in the consolidated statements of income adjusted for one-time non-recurring items. See the "Results of operations for the years ended December 31, 2022 and 2021" and "Results of operations for the three months ended December 31, 2022 and 2021" sections of this MD&A for reconciliations of Adjusted Net Income (Loss).

"Adjusted Operating Income" is Operating Income (Loss) as presented in the consolidated statements of income, adjusted to exclude amortization of intangible assets and the change in allowance for ECL. Adjusted Operating Income is intended to reflect the recurring income from the Company's businesses. Amortization of intangible assets, which includes the expense related to broker relationships and non-compete clauses, is a function of acquisitions. The cost of maintaining the broker relationships after acquisition, being internally generated intangible assets, cannot be measured and is therefore not recognized as an asset, meaning that once these acquisition-related intangibles have been fully amortized they are not replenished, and the amortization expense will cease. The change in the allowance for ECL can be calculated from continuity of the allowance for ECL in Note 6(c) - *Finance Receivables* in the audited consolidated financial statements as the difference between the provision for credit losses and the net charge-offs during a period. The change in allowance for ECL is a non-cash item and reflects our creditor approved formulas for Adjusted EBITDA and Free Cash Flow that drives our Maximum Permitted Dividends (as defined below), both relevant measures for users of the Company's financial reporting.

"Adjusted Return on Equity" is a non-GAAP ratio representing Adjusted Net Income (Loss) divided by average equity as presented in the consolidated statements of financial position. See the "Results of operations for the years ended December 31, 2022 and 2021" and "Results of operations for the three months ended December 31, 2022 and 2021" sections of this MD&A for reconciliations of Adjusted Return on Equity.

"Free Cash Flow" or "FCF" is Adjusted EBITDA less maintenance capital expenditures, tax effect of the non-cash change in the allowance for ECL and tax expense. Cash receives significant attention from primary users of financial reporting. Free Cash Flow provides an indication of the cash the Company generates which is available for servicing and repaying debt, investing for future growth, and providing dividends to our shareholders. The FCF measure provides information relevant to assessing the resilience of the Company to shocks and the ability to act on opportunities. Free Cash Flow is a calculation that reflects the agreement with one of the Company's significant lenders as to a measure of the cash flow produced by the Company's businesses in a period. It is also management's view that the measure significantly reduces the impact of large non-cash charges and/or recoveries that do not reflect actual cash flows of the businesses, and can vary greatly in amounts from period to period.

See the "EBITDA, Adjusted EBITDA, Free Cash Flow, Maximum Permitted Dividends" section of this MD&A for a reconciliation of Free Cash Flow to Net Income (Loss).

"Free Cash Flow per diluted share" is FCF divided by the weighted average number of shares outstanding during the period for income attributable to common shares and Exchangeable Securities (as defined below in the "Statement of Financial Position" section) on a fully diluted basis.

"FCF L4PQ" is calculated monthly as required by the terms of the Company's revolving credit facility using the published results for the four immediately preceding quarters and is the basis for the Maximum Permitted Dividends.

"Maximum Permitted Dividends" for a month is defined (consistent with the definitions included in one of the Company's significant bank agreements) as 1/12 of 90% of the FCF L4PQ and is the maximum total amount of cash that can be distributed as dividends and paid for purchases of shares under the Company's normal course issuer bid. This measure is useful for investors to assess the potential future returns from an investment in the Company and the risk of the dividend component of those returns becoming constrained.

COMPANY OVERVIEW

As at December 31, 2022, Chesswood's operations were conducted through three wholly owned subsidiaries in the United States and four operating subsidiaries in Canada (two of which are wholly owned):

- Pawnee Leasing Corporation ("Pawnee"), which finances micro and small-ticket commercial equipment for small and medium-sized businesses in the U.S. through the third-party broker channel;

- Tandem Finance Inc. ("Tandem"), which sources micro and small-ticket commercial equipment originations to small and medium-sized businesses through the equipment vendor channel in the U.S.;

- Vault Credit Corporation ("Vault Credit"), which provides commercial equipment financing and loans to small and medium-sized businesses across Canada;

- Vault Home Credit Corporation ("Vault Home"), which provides home improvement and other consumer financing solutions in Canada;

- Waypoint Investment Partners Inc. ("Waypoint") and Chesswood Capital Management USA Inc. ("CCM USA"), which provide private credit alternatives to investors seeking exposure to lease and loan receivables, including those originated by Chesswood subsidiaries; and

- Rifco National Auto Finance Corporation ("Rifco"), which provides consumer financing for motor vehicle loans across Canada except for Quebec.

On a consolidated basis, the Company had 476 employees as at December 31, 2022 (299 employees as at December 31, 2021).

U.S. EQUIPMENT FINANCING SEGMENT

Pawnee and Tandem are together referred to in this MD&A as the "U.S. Equipment Financing Segment".

The Company's largest operations are conducted by Pawnee, which, together with Tandem, accounted for 55% of consolidated revenue for the year ended December 31, 2022. As at December 31, 2022, the U.S. Equipment Financing Segment employed 158 full-time equivalent employees (153 employees as at December 31, 2021).

Established in 1982, and located in Fort Collins, Colorado, Pawnee specializes in providing equipment financing (generally up to US$350,000) to small and medium-sized businesses in the U.S., with a wide range of credit profiles from start-up entrepreneurs to more established businesses, in prime and non-prime market segments, through a network of hundreds of equipment finance broker firms (also referred to as the "third-party market" or "third-party channel").

Pawnee defines “start-up” businesses as those with less than two years of operating history. Start-up businesses do not fall into traditional credit categories because of their lack of business credit history. “B” credit businesses are those with two or more years of operating history that have some unique aspect to their overall credit profile such that they are not afforded an "A" rated credit score, and/or that the business owner(s) do not have an "A" rated personal or business/commercial credit history. “C” rated businesses have a credit profile that is weaker than “B” credit businesses. Pawnee limits the transaction size for non-prime businesses as one measure of risk mitigation.

These non-prime market niches are not usually served by most conventional financing sources, as they have a generally higher risk profile. To manage the incremental risk associated with financing businesses in these niches, Pawnee’s management has built a stringent operating model that has historically enabled Pawnee to achieve higher net margins than many typical finance companies.

Pawnee’s brokers predominantly originate prime (with "A" credit score) equipment finance transactions versus “B”, "C", and “Start-up” rated customers. Pawnee’s reliability, ease of service, focus on the broker-channel business and offering of competitive products has made Pawnee a top tier funding partner to its brokers relative to its competitors for prime originations. Given the sheer size of the market opportunity, prime originations represent greater than 75% of new originations, and these volumes are expected to continue to grow as Pawnee’s prime credit products further penetrate Pawnee’s broad broker network.

Tandem offers equipment financing for small and medium-sized businesses of all credit profiles through equipment manufacturers, distributors and dealers in the U.S. (the "vendor market" or "vendor channel"). Annual originations in the vendor small-ticket market are estimated to be at least eight times larger than the third-party small-ticket market. In addition to the overall size of opportunity afforded in the vendor vs. third-party originations channel, the vendor originations channel provides the lessor/lender the opportunity to directly negotiate and partner with the equipment manufacturer or their distribution channel to enhance the financing offerings through the inclusion of lender risk mitigation, customer rate subsidy, and formal equipment remarketing arrangements. This channel also provides preferential access to all of the manufacturers' customer financing requests. Tandem's operations have heightened levels of control, direct access and influence with the equipment sales organization and their customers in the application process, vendor ongoing assistance in collections, and direct vendor originations. This provides Tandem the ability to make meaningful impacts in the underwriting and portfolio management activities, resulting in a higher level of throughput efficiency and, to date, reduced portfolio charge-offs.

As at December 31, 2022, Pawnee's and Tandem’s portfolios respectively represented 62% and 38% of Chesswood's overall receivables portfolio in the U.S.

Tandem leverages the expertise of Pawnee’s operating team and takes a diversified portfolio approach with teams organized across various industry segments such as, commercial transportation, construction, healthcare, light industrial and franchise segments. Tandem’s ability to address the equipment supplier’s wide range of end user credit profiles through a single process is a unique value proposition that improves the customer financing experience. Tandem focuses its development efforts on equipment manufacturers seeking to improve their equipment financing experience at the point of sale. The vendor channel generally has a longer business development and sales cycle than the third-party channel. As a result, equipment vendors and distributors generally form long-term partnerships with funding partners, documented on long-term program agreements, which are expected to result in programs that generate originations and revenues over many years.

Tandem is supported by Pawnee's credit, documentation, collection and administrative departments, which provide "back-office" support to Tandem. Tandem is managed by a highly experienced senior leadership team to guide its ongoing growth strategy.

Key Aspects of Business Model

Management believes the U.S. Equipment Financing Segment's long track-record of success is attributable to several key aspects of its business model, including:

- Credit underwriting parameters designed to mitigate and appropriately price for risk;
- A relationship-driven approach to origination through both a well-established and trained network of reputable broker firms, as well as tenured vendor channel sales representatives soliciting customer relationships through targeted equipment dealers, manufacturers and vendors;
- Portfolio diversification across geographies, industries, equipment classes, brokers, vendors, equipment cost, and credit classes;
- Risk management resources that include credit analyst reviews of all applications, a proprietary credit scorecard to guide consistent analysis and decision-making, and effectively price for risk; a dedicated and efficient servicing and collection effort; utilization of program and transactional risk mitigation to include risk sharing with equipment vendors and borrower down payments; and
- Tenured, experienced and proven senior management teams.

These five aspects are discussed in greater detail below.

1. Asset quality at the U.S. Equipment Financing Segment begins with underwriting parameters that define a careful approach to doing business and mitigating risk:

- Generally, the U.S. Equipment Financing Segment finances equipment that is fundamental to the core operations of the lessee/borrower's business, reflecting management's view that payments on "business essential" equipment are among the least susceptible to default, except in the case of business failure;
- The U.S. Equipment Financing Segment operates only in select market segments, excluding certain industries considered higher risk;
- Generally, the personal guarantee of at least the major shareholder(s)/owner(s) or all owners are obtained, with acceptable personal credit profiles a prerequisite for credit approval. For very tenured, usually larger businesses, "corp-only" consideration may be granted;
- Business owners are routinely interviewed for verification purposes prior to the commencement of the lease or loan, with site inspections conducted for financings as low as US$15,000 (US$100,000 for A-rated credits); and
- All scheduled payments for non-prime financings, as well as a majority of prime financings, are paid by direct debit from the lessee's/borrower's account, allowing the U.S. Equipment Financing Segment's collection team to take immediate action on delinquencies.

2. The U.S. Equipment Financing Segment originates finance receivables through a network of hundreds of broker firms across the U.S., with a relationship-driven approach and service capabilities that have distinguished the U.S. Equipment Financing Segment as a first-choice funder. In addition, through Tandem, originations are developed by experienced equipment finance professionals directly or through manufacturer engaged equipment financing program relationships and endorsed referrals from Tandem's dealer, manufacturer and vendor arrangements.

Broker risk management begins with the selection and training of broker firms and their staff. Broker principals must have an acceptable personal credit profile, industry references, and preferably a minimum one-year track record in the equipment finance industry. Most of the Company's larger brokers have been doing business with Pawnee for a decade or more. Vendor risk management is accomplished through the specific, pre-identified vendor-channel market segments, and subsequent development of vendor agreements with individual vendors that provide Tandem with first-right-of-refusal, loss pools, vendor remarketing and finance subsidies, among other revenue enhancing and loss mitigation strategies.

The U.S. Equipment Financing Segment's service-driven focus strengthens the relationships with its customers, brokers and vendors, helping to support and expand origination volumes. It has become a funder of choice as a result of its unique underwriting capabilities that improve efficiency and save time for its brokers and vendors' customers, such as consistent credit decisions, higher approval rates, rapid response time, customized online portals (for application submissions, tracking of lease and loan status, documentation, and more) and one-stop shopping for all credit classes, the latter of which serves as a distinct, competitive advantage for both Pawnee and Tandem.

3. The U.S. Equipment Financing Segment's portfolio of leases and loans is well diversified across geography, equipment types, industries, brokers, vendors, equipment cost, and credit classes.

As at December 31, 2022, the U.S. Equipment Financing Segment's portfolio of 24,756 leases and loans, representing US$1.2 billion in gross finance receivables (excluding residual receivable), was diversified, with:

- Over 108 equipment categories, with the five largest - construction, auto repair, restaurant, aesthetic skin care, and medical - accounting for an aggregate of 29.9% of the total number of active leases and loans;
- Over 243 industry segments, with no industry representing more than 9.9% of the number of active financings;
- No lessee/borrower accounting for more than 0.07% of the total finance receivable balance;
- 50 U.S. states, with no state representing more than 10.0% of the number of total active leases and loans (with the exception of California and Texas, which represented 14.1% and 12.4%, respectively);
- The largest broker (excluding Tandem) accounting for 4.7% of gross lease and loan receivables, and the 10 largest (excluding Tandem) accounting for an aggregate of 26.4%; and
- Tandem's vendor channel originations accounting for 39.1% of gross receivables.

Portfolio diversification is maintained, and rebalanced as necessary, through management's regular review of the U.S. Equipment Financing Segment's portfolio performance for trends that may indicate changes in the economic or competitive landscape that may necessitate adjustments in the U.S. Equipment Financing Segment's approach to doing business in specific ticket sizes, credit products, market segments or asset categories. Significant changes in these and other metrics may result in a detailed review of data, including (among others) specific vendors, brokers, industry or equipment type, equipment cost, product mix and/or geographic areas.

4. Risk management resources include a credit analyst's personal review of all applications, a proprietary credit scorecard to guide consistent decision-making and effective pricing for risk, efficient servicing and collection processes, and other risk management tools.

The U.S. Equipment Financing Segment's credit process is not the automated scoring procedure typical of high volume equipment finance companies, although it does use a significant amount of automation, technology and data for efficiencies and to assist its analysts. Its success in correctly pricing selected creditworthy businesses is based on a model that engages both human expertise and technology to meet clearly defined standards for asset quality in an efficient manner. A credit analyst personally reviews all applications and completes a proprietary scorecard designed to ensure all analysts are consistent in their credit reviews and to provide guidance in reaching thorough credit decisions, including appropriate pricing.

Additionally, analysts are available to directly assist brokers and vendor-channel sales members submitting applications and personally communicate credit decisions, including information on how to improve the likelihood of approval, such as obtaining a business owner's personal credit information and/or guarantee.

Given the importance of limiting defaults to the greatest extent possible, the U.S. Equipment Financing Segment emphasizes the employment and retention of experienced personnel, and clearly delineated collection and portfolio servicing processes.

- The U.S. Equipment Financing Segment had 158 full-time equivalent employees as at December 31, 2022, of which approximately 36 were engaged in the collection and servicing processes. Collection and servicing activities are structured to systematically and quickly resolve delinquent leases and loans whenever possible, mitigate losses, and collect post-default recovery dollars.
- Because of the U.S. Equipment Financing Segment's requirement that most lease and loan payments be made by direct debit, it can immediately recognize a delinquent account when a direct debit payment is not received on the required due date.

- Generally, when a payment falls 31 days past due, or earlier if investigation reveals an underlying issue at the borrower/lessee level, the account is referred to the appropriate negotiation, repossession/remarketing, bankruptcy or legal specialist on the U.S. Equipment Financing Segment's Advanced Collection Team. Through a combination of collecting payments, soliciting broker and vendor remediation assistance, issuing forbearances, repossessing and selling financed equipment, initiating lawsuits and negotiating settlements, there is typically remediation of a higher percentage of past due accounts.
- After 154 days of delinquency, or earlier if the U.S. Equipment Financing Segment deems the account uncollectible, the debt is written off. However, collection efforts continue when prospects for recovery through a personal guarantor, sale of equipment or other remedy warrant. Otherwise, the account is normally assigned to an independent collection agency for further collection efforts, where the primary sources of recovery include payments on restructured accounts, settlements with guarantors, equipment sales, litigation, and bankruptcy court distributions.

Risk management tools and processes are continually monitored and improved to address changes in portfolio performance and in the equipment finance industry, and periodically assessed by outside professionals with statistical expertise.

The U.S. Equipment Financing Segment's static pool loss analysis measures finance receivable loss performance by identifying a finite pool of transactions and segmenting it into quarterly or annual vintages according to origination date. Performance by vendors, brokers, geographic area, equipment type, industry, transaction size, and product type are among the characteristics examined in these analyses. Under-performing portfolio segments are further examined to identify areas for underwriting adjustment and/or a change in funding guidelines or for other identifiable causes on which corrective action can be taken.

5. A tenured senior management team

The U.S. Equipment Financing Segment's five-member senior management team has a combined 120 years in the equipment finance industry, and the Pawnee leadership team has been together for over 20 years. The U.S. Equipment Financing Segment's President was directly responsible for building out its broker network and credit underwriting in the segment's earlier years, and continues to play an important role in both of these areas. Tandem's President, has been in the vendor-channel equipment finance industry for over 36 years and is highly experienced in equipment finance sales leadership and organization-building.

U.S. EQUIPMENT FINANCING PORTFOLIO METRICS

U.S. Equipment Financing Segment Finance Receivable Portfolio Statistics

(in US$ thousands except # of leases/loans and %)

	Mar 31 2021	June 30 2021	Sep 30 2021	Dec 31 2021	Mar 31 2022	June 30 2022	Sep 30 2022	Dec 31 2022
Number of leases and loans outstanding (#)	17,870	19,042	20,552	22,396	24,209	24,266	24,246	24,756
Gross lease and loan receivables (“GLR”) (1)(2)	$632,262	$709,461	$809,317	$956,936	$1,102,395	$1,131,304	$1,133,736	$1,162,115
Residual receivables	$17,268	$17,595	$17,965	$18,323	$18,751	$18,325	$17,819	$17,859
Net investment in leases and loans receivables ("Net Finance Receivables" or "NFR"), before allowance (3)	$547,204	$611,603	$696,041	$822,671	$947,695	$976,381	$980,906	$1,004,286
Security deposits ("SD") (nominal value)(4)	$5,323	$4,643	$4,124	$3,577	$3,171	$3,012	$2,624	$2,373
Allowance for ECL	$13,499	$12,125	$12,599	$13,544	$16,383	$17,676	$18,866	$20,284
Allowance for ECL as % of NFR net of SD	2.49%	2.00%	1.82%	1.65%	1.73%	1.82%	1.94%	2.02%
Over 31 days delinquency (% of GLR) (5)	1.07%	0.87%	0.80%	0.94%	1.01%	0.88%	1.36%	1.99%
Net charge-offs (recoveries) for the three months ended	$3,816	$(709)	$(1,224)	$(663)	$(543)	$1,150	$1,473	$2,484
Provision for credit losses for the three months ended	$761	$(2,083)	$(748)	$282	$2,296	$2,443	$2,663	$3,902

Notes:
(1) Excludes residual receivables
(2) As at December 31, 2022, approximately 63% of U.S. GLR (excluding residuals) were in the prime market segment
(3) Excludes unearned income for interest on security deposits
(4) Excludes adjustment for discounting security deposits
(5) Over 31-days delinquency includes non-accrual GLR

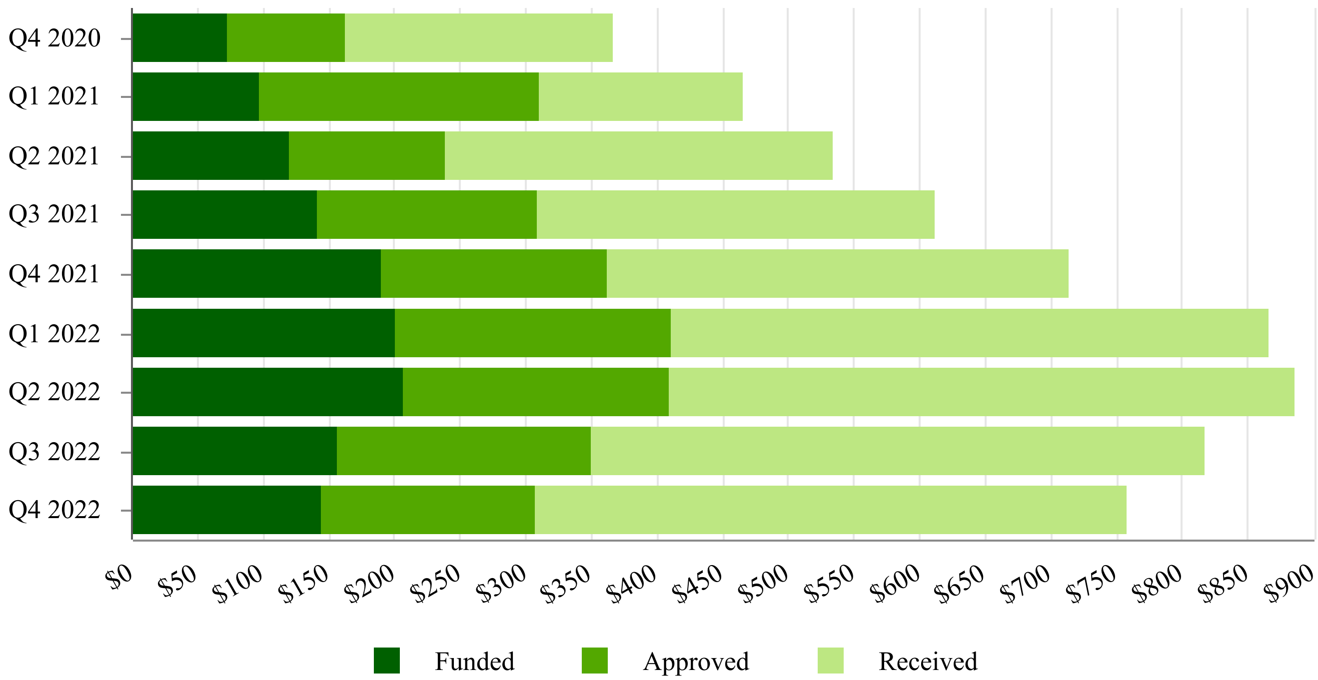
U.S. Equipment Financing Segment Net Finance Receivable Aging Analysis

(US$ thousands)	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total
As at December 31, 2022	$ 958,544	$ 26,878	$ 8,687	$ 2,926	$ 7,043	$ 1,004,078
As at December 31, 2021	$ 810,698	$ 7,790	$ 2,174	$ 542	$ 1,393	$ 822,597

U.S. Equipment Financing Segment Minimum Scheduled Collection of Finance Receivables

(US$ thousands)	December 31, 2022
0-1 year	$ 394,090
1-2 years	322,164
2-3 years	245,772
3-4 years	162,665
4-5 years	52,297
Over 5 years	2,986
Total minimum payments	$ 1,179,974

U.S. Equipment Financing Segment Lease and Loan Application, Approval and Origination Volumes *(in US$ millions)*



The volumes table above includes information on contracts that were originated by the U.S. Equipment Financing Segment and sold to third-party investors which was facilitated by CCM USA.

"Received" reflects all applications for equipment financing received by the U.S. Equipment Financing Segment, "Approved" are those received applications that receive an approval by the U.S. Equipment Financing Segment credit department, and "Funded" refers to previously approved applications that become actual lease or loan transactions through the U.S. Equipment Financing Segment financing of the customers' equipment purchase or lease. Management regularly reviews lease and loan application, approval and origination volumes for trends that may indicate changes in the economic or competitive landscape and that may necessitate adjustments in its approach to doing business in its market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of applicants.

CANADIAN EQUIPMENT FINANCING SEGMENT

Vault Credit and Vault Home are together referred to in this MD&A as the "Canadian Equipment Financing Segment".

On April 30, 2021, Blue Chip Leasing Corporation ("Blue Chip") (a subsidiary of the company), was merged with its primary competitor in the Canadian equipment finance sector, Vault Credit. The merger was achieved through the sales of each of Blue Chip and Vault Credit into a newly formed subsidiary of Chesswood (the "Canadian Holdco") in which Chesswood owns 51%. Chesswood exercised control of Blue Chip and Vault Credit through the board of directors of the Canadian Holdco. The change of ownership interest in Blue Chip as a result of the merger was a common control reorganization accounted for at consolidated book value. The Canadian Holdco is managed by Vault Credit's senior management team and the integration and alignment of its processes and controls with that of Chesswood was complete as of December 31, 2021. Figures for our Canadian operations shown in this MD&A and our Financial Statements for any period prior to the merger only reflect Blue Chip. Vault Credit figures are only accounted for the period following the merger.

On October 1, 2022, Blue Chip and Vault Credit were amalgamated. The amalgamated corporation, which continues to use the Vault Credit Corporation name, remains a wholly owned subsidiary of the Canadian Holdco (in which, as noted above, Chesswood owns 51% and exercises control).

On September 14, 2021, Chesswood Holdings Ltd. acquired a number of common shares of Vault Home which constitutes 51% of the currently outstanding common shares for a subscription price of $1.0 million and a commitment to provide an aggregate of $1.5 million of capital contributions upon the request of the Vault Home board of directors (which was fully advanced in November 2021). Vault Home is incorporated in Ontario and had not yet earned revenue as at the date of acquisition. The Company exercises control over Vault Home through the ability to control the decisions of Vault Home’s board of directors, through a priority vote, related to those activities that are most relevant to determining returns. Subsequent to the acquisition, integration and alignment of Vault Home's processes and controls with that of Chesswood was completed as of December 31, 2021. Vault Home has enabled the Company to expand into the consumer financing industry.

The Canadian Equipment Financing Segment accounted for 27% of the Company's consolidated revenue for the year ended December 31, 2022. This segment's portfolio risk is mitigated by its diversification across geographies, industries, equipment types, equipment cost, vendors, brokers, and credit classes. The Canadian Equipment Financing Segment had 189 full-time equivalent employees as at December 31, 2022 (137 employees as at December 31, 2021).

Key Aspects of Business Model

Management believes the Canadian Equipment Financing Segment's track record of success is attributable to several key aspects of its business model, including:

- Strong originations by targeting small and medium-sized businesses across Canada;
- Portfolio diversification across geographies, industries, equipment classes, origination source, vendors, equipment cost, and credit classes;
- Risk management resources that include credit analyst reviews of all applications, a proprietary credit scorecard to guide consistent analysis and decision-making, and effectively price for risk; and a dedicated and efficient servicing and collection effort; and
- Strong negotiations securing a competitive cost of funds.

1. The Canadian Equipment Financing Segment has successfully generated originations and earnings by filling a market void created by the tendency of Canadian bank competitors to have slower processes and a preference to finance larger-ticket equipment, and by the Canadian Equipment Financing Segment’s nimbleness in addressing customer needs as an efficient and consistent funding source.

- The Canadian Equipment Financing Segment's value proposition to equipment leasing originators is relationship and service based, with fast and predictable credit decision-making and the convenience of one-stop shopping for commercial equipment financing needs across all credit classes.
- Enhanced by a customized software system, the Canadian Equipment Financing Segment has a digitized application, approval and funding process designed to speed up credit decisions and automate the preparation of secure documents to meet market demand for rapid funding and customer service excellence.
- The Canadian Equipment Financing Segment also has the expertise in financial analysis and detailed documentation to meet the underwriting requirements of both small and mid-ticket market segments. The Canadian Equipment Financing Segment is intended to prudently increase its average loan amount while still maintaining its focus on portfolio stratification and industry leading service levels as its equipment leasing portfolio continues to grow.

2. The Canadian Equipment Financing Segment’s portfolio risk is mitigated by its diversification across geography, origination sources, industry, equipment type, equipment cost and credit classes.

As at December 31, 2022, the Canadian Equipment Financing Segment's gross finance receivables portfolio of $849.7 million, consisting of 33,173 leases and loans, was well diversified. Vault Credit, comprises a majority of the portfolio. Its diversification is as follows:

- Ontario represented 43.7% of net finance receivables, Alberta represented 15.9% and 40.4% were from other provinces/territories;
- The five largest equipment categories by volume - construction equipment, industrial, trucks and trailers, miscellaneous equipment, and machine tools - accounted for an aggregate of 61.2% of net finance receivables;
- Of its network of more than 60 originators, the largest originator by dollar volume during 2022 accounted for 26.7% of originations; and
- The four largest brokers by dollars financed accounted for an aggregate of approximately 62.8% of originations during 2022.

3. Effective risk management has made the Canadian Equipment Financing Segment a solid performer in its markets throughout business cycles.

- The Canadian Equipment Financing Segment has a focus on thorough credit analysis, consistent decision-making, risk-based pricing, careful originator selection and education, a strong collection effort, and management’s continual evaluation of portfolio performance against key performance indicators.

4. The Canadian Equipment Financing Segment’s performance has been enhanced by its success in negotiating a competitive cost of funds.

- The majority of the Canadian Equipment Financing Segment’s leases and loans are financed by securitization and bulk lease financing facilities, whereby it sells or assigns the future payment stream of a tranche of leases/loans, on a discounted basis, to a third-party such as a life insurance company or bank. A small percentage of the proceeds is held back in a loss reserve pool or supported by the Canadian Equipment Financing Segment through letters of credit in favour of the funders.
- The Canadian Equipment Financing Segment’s multiple funding partners have rigorous monitoring and audit processes, including thorough initial portfolio reviews, site visits, file audits to validate credit decisions, documentation accuracy and security perfection, and monthly compliance certificates attesting to the correctness of portfolio and financial statistics.
- The Canadian Equipment Financing Segment also uses Chesswood's revolving credit facility to provide operational and warehouse funding.
- The Canadian Equipment Financing Segment recognizes its revenue over the full term of its finance receivables and not through "gain-on-sale" accounting.

CANADIAN EQUIPMENT FINANCING PORTFOLIO METRICS

Canadian Equipment Financing Segment Finance Receivable Portfolio Statistics

(in $ thousands except # of leases/loans and %)

	Mar 31 2021	June 30 2021	Sep 30 2021	Dec 31 2021	Mar 31 2022	June 30 2022	Sep 30 2022	Dec 31 2022
Number of leases and loans outstanding (#)	9,759	20,310	21,441	22,696	24,622	27,811	30,527	33,173
Gross lease and loan receivables (“GLR”) (1)	$120,762	$331,375	$377,054	$434,983	$516,081	$658,783	$764,271	$849,772
Residual receivables (2)	$105	$5,988	$6,798	$7,537	$8,212	$11,080	$12,948	$14,967
Net finance receivables ("NFR"), before allowance	$108,591	$300,726	$343,668	$397,915	$472,573	$601,163	$695,988	$772,205
Allowance for ECL	$2,715	$4,229	$5,472	$5,216	$6,360	$7,995	$8,892	$10,051
Allowance for ECL as % of NFR	2.50%	1.41%	1.59%	1.31%	1.35%	1.33%	1.28%	1.30%
Over 31 days delinquency (% of NFR)	0.63%	0.27%	0.44%	0.24%	0.49%	0.46%	0.54%	0.77%
Net charge-offs (recoveries) for the three months ended	$71	($29)	$104	$355	$603	$982	$1,313	$2,028
Provision for credit losses for the three months ended	($433)	$1,400	$1,362	$99	$1,741	$2,617	$2,216	$3,187

Notes:
(1) Excludes residual receivables
(2) Residuals include guaranteed and unguaranteed purchase options. As at December 31, 2022, 98% of the residuals are purchase options contractually obligated to be exercised

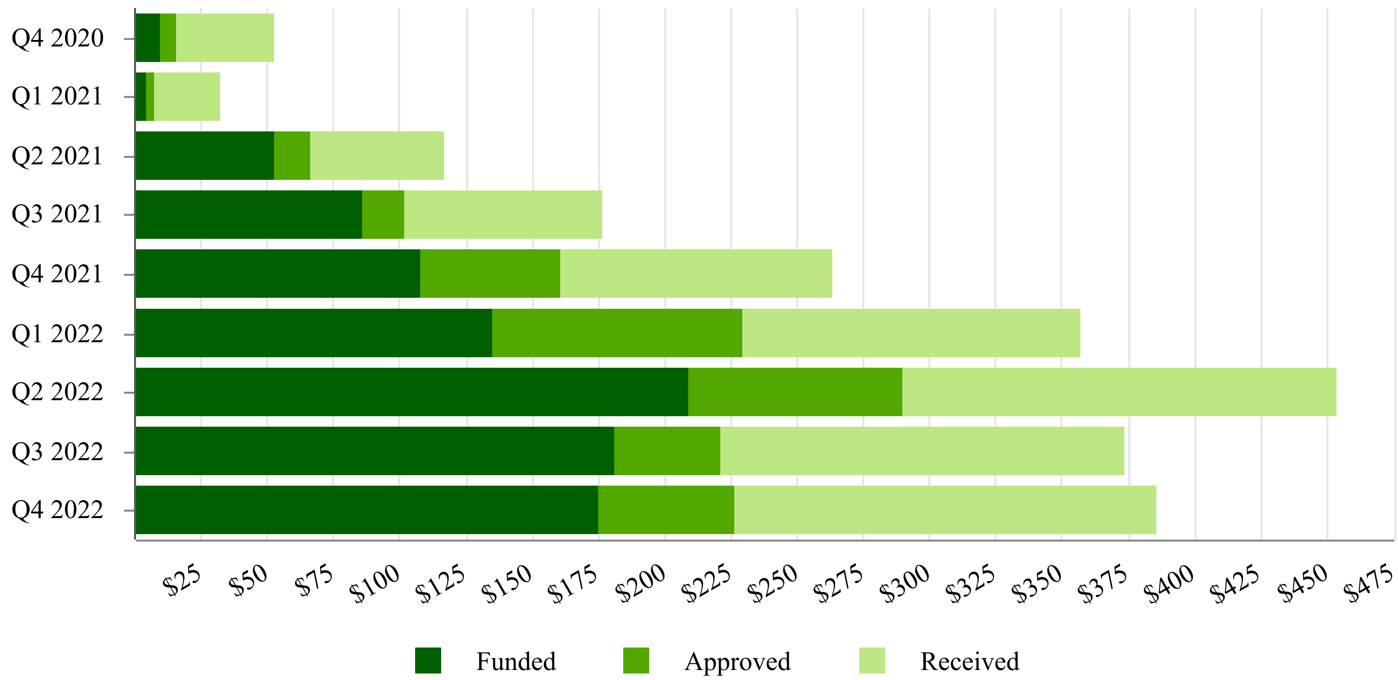
Canadian Equipment Financing Segment Net Finance Receivable Aging Analysis

($ thousands)	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total
As at December 31, 2022	$ 761,037	$ 5,164	$ 2,994	$ 1,619	$ 1,391	$ 772,205
As at December 31, 2021	$ 394,240	$ 2,682	$ 548	$ 356	$ 89	$ 397,915

Canadian Equipment Financing Segment Minimum Scheduled Collection of Finance Receivables

($ thousands)	December 31, 2022
0-1 year	$ 322,992
1-2 years	210,852
2-3 years	156,685
3-4 years	104,034
4-5 years	50,620
Over 5 years	19,556
Total minimum payments	$ 864,739

Canadian Equipment Financing Segment Lease and Loan Application, Approval and Origination Volume *(in $ millions)*



"Received" reflects all applications for equipment financing received by the Canadian Equipment Financing Segment, "Approved" are those received applications that receive an approval by the segment's credit department and "Funded" refers to previously approved applications that become actual lease or loan transactions through the segment's financing of the customers' equipment purchase or lease. Management regularly reviews lease and loan application, approval and origination volumes for trends that may indicate changes in the economic or competitive landscape and that may necessitate adjustments in its approach to doing business in its market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of applicants. Applications for Vault Credit prior to May 1, 2021, and for Vault Home prior to September 15, 2021 are not included.

CANADIAN AUTO FINANCING SEGMENT

Rifco is referred to in this MD&A as the "Canadian Auto Financing Segment".

On January 14, 2022, Chesswood completed its indirect acquisition of Rifco, through the acquisition of 100% of the outstanding shares of Rifco Inc. Total consideration was $28.1 million. Rifco Inc. shareholders elected for approximately 25% of the consideration to be paid out in Chesswood common shares and the remainder in cash. This resulted in a total of 498,605 Chesswood common shares being issued and $21.0 million paid out in cash. The integration and alignment of its processes and controls with that of Chesswood was complete as of December 31, 2022.

Rifco is based out of Red Deer, Alberta, and operates in all provinces in Canada except Quebec.

The acquisition of Rifco increased the Company's gross receivables portfolio in Canada by approximately $329.3 million (based on gross contractual receivable amounts as at January 14, 2022) and enabled the Company to enter into the automotive financing market.

The Canadian Auto Financing Segment accounted for 15% of consolidated revenue for the year ended December 31, 2022. The segment's portfolio risk is mitigated by its diversification across geographies, vehicle types, dealers, and credit classes. The segment had 107 full-time equivalent employees as at December 31, 2022.

Rifco operates with a purpose to help its clients obtain a vehicle by providing alternative finance solutions. It currently offers its alternative finance products indirectly through select automotive dealer partners. Rifco is focused on being the best alternative auto finance company and seeks to create sustainable long-term competitive advantages through personalized partnerships with dealers, innovative products, the use of industry-leading data and analytics, and leading collections practices.

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 control a large portion of the near-prime ("B" & "C" credit) market in Canada. In addition, a number of mid-sized and smaller operators compete across near-prime and non-prime credit markets.

Key Aspects of Business Model

Management believes the Canadian Auto Financing Segment's track record of success is attributable to several key aspects of its business model, including:

- Leading credit adjudication platform providing real-time automated credit decisions based on data-driven analytical credit and pricing models;
- Portfolio diversification across geographies, dealerships, and credit classes;
- Risk management programs monitoring the portfolio and dealer base for signs of distress to allow for quick remediation; and
- Strong negotiations securing a competitive cost of funds.

1. The Canadian Auto Financing Segment has successfully generated originations and earnings by providing real-time automated credit decisions based on data-driven credit and pricing models.

- The Canadian Auto Financing Segment's value proposition to car dealers is relationship and service based, with automated and nearly instantaneous credit decision-making.
- Enhanced by a leading loan origination software platform, the Canadian Auto Financing Segment has a rigid matrix of authority and business rules to complement its credit decisions allowing for consistent, competitive, accurate, and fast communication with dealers.

2. The Canadian Auto Financing Segment's portfolio risk is mitigated by its diversification across geography, dealerships, and credit classes.

As at December 31, 2022, the Canadian Equipment Financing Segment's gross finance receivables portfolio of $370.8 million, consisting of 14,234 loans, was well diversified:

- Nearly 78% of receivables are near-prime credit, with the remainder being non-prime credit. Geographical distribution includes 73% in Western Canada and 27% in Eastern Canada.
- No individual dealership makes up more than 2.5% of the overall portfolio balance.
- The portfolio consists of a mature cross section of both franchise and independent dealerships.

3. Effective risk management has made the Canadian Auto Financing Segment a solid performer in its markets throughout business cycles.

- The Canadian Auto Financing Segment consistently applies business rules to its credit adjudication to allow for consistent performance and meaningful data.
- Credit segment and dealership performance and profitability are routinely monitored to look for early warning signs of distress to allow for early intervention.
- In addition, the Canadian Auto Financing Segment incorporates a final audit process, including a welcome call with each borrower prior to funding a loan.
- Technology and process enables collections and recoveries team to implement continuous improvement building on the Canadian Auto Financing Segment's competitive advantage.

CANADIAN AUTO FINANCING PORTFOLIO METRICS

Canadian Auto Financing Segment Finance Receivable Portfolio Statistics

(in $ thousands except # of loans and %)

	Mar 31 2022	June 30 2022	Sep 30 2022	Dec 31 2022
Number of loans outstanding (#)	11,994	12,506	12,916	14,234
Gross loan receivables (“GLR”)	$336,330	$348,729	$356,167	$370,838
Refundable application fees	$3,667	$3,866	$3,964	$4,128
Net finance receivables ("NFR"), before allowance	$217,110	$224,907	$231,198	$242,810
Allowance for ECL	$12,341	$13,359	$14,425	$13,158
Allowance for ECL as % of NFR	5.68%	5.94%	6.24%	5.42%
Over 31 days delinquency (% of NFR)	5.28%	7.25%	6.31%	5.48%
Net charge-offs (recoveries) for the three months ended	$(322)	$1,463	$2,332	$3,215
Provision for credit losses for the three months ended	$12,019(1)	$2,481	$3,398	$1,948

(1) As a result of acquiring a 100% ownership interest in Rifco in the first quarter of 2022, a $9.3 million provision for credit losses was required to be taken on the loans related to originations before January 14, 2022. Otherwise, the provision for credit losses for the three months ended March 31, 2022 would have been $2.7 million.

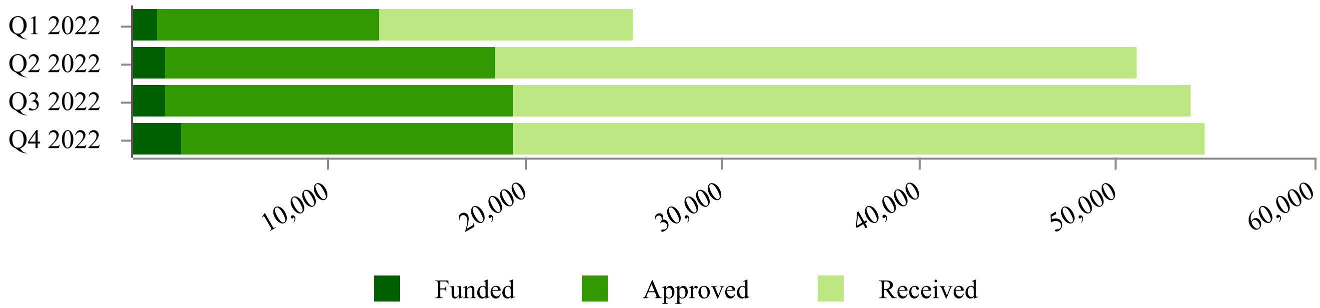
Canadian Auto Financing Segment Finance Receivable Aging Analysis

($ thousands)	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total
As at December 31, 2022	$ 196,555	$ 31,909	$ 9,017	$ 3,199	$ 2,130	$ 242,810

Canadian Auto Financing Segment Minimum Scheduled Collection of Finance Receivables

($ thousands)	December 31, 2022
0-1 year	$ 80,340
1-2 years	75,422
2-3 years	67,979
3-4 years	56,826
4-5 years	46,111
Over 5 years	44,160
Total minimum payments	$ 370,838

Canadian Auto Financing Segment Loan Application, Approval and Origination Volume *(in # of loans)*



"Received" reflects all applications for auto financing received by the Canadian Auto Financing Segment, "Approved" are those received applications that receive an approval by the Segment's credit department and "Funded" refers to previously approved applications that become actual lease or loan transactions through the Segment's financing of the customers' auto purchase or lease. Management regularly reviews lease and loan application, approval and origination volumes for trends that may indicate changes in the economic or competitive landscape and that may necessitate adjustments in its approach to doing business in its market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of applicants. Applications prior to January 14, 2022 are not included.

ASSET MANAGEMENT SEGMENT

CCM and CCM USA are referred to in this MD&A as the "Asset Management Segment".

Chesswood's asset management operations offer investment products to clients, including providing private credit alternatives to investors seeking exposure to lease and loan receivables originated by Chesswood subsidiaries.

On May 25, 2022, CCM acquired Waypoint, a Toronto-based investment fund and private client investment manager. The acquisition of Waypoint provides CCM with an integrated platform to structure and distribute private credit solutions to Canadian investors alongside Waypoint's growing suite of alternative investment funds. The consideration for the acquisition included the payment of $1.6 million and the issuance of 150,983 Chesswood common shares. Waypoint is a member of the Portfolio Management Association of Canada and is registered as an Investment Fund Manager, Advisor and Exempt Market Dealer in several Canadian provinces.

On March 16, 2022, Chesswood announced that CCM USA had entered into a forward flow purchase agreement with a third-party institutional investor, whereby investment entities managed by the third-party would acquire up to US$400 million of small ticket equipment loan and lease receivables. The loan and lease receivables are originated by Chesswood's subsidiaries Pawnee and Tandem. In exchange for the delivery and management of these receivables, Chesswood's Asset Management Segment charges fees to the third-party. The funds from this arrangement enable Chesswood's subsidiaries to continue growing originations alongside market demand by providing off-balance sheet funding and associated fee-based revenue to Chesswood, that augment Chesswood's existing on-balance sheet facilities.

The Asset Management Segment accounted for 3% of consolidated revenue for the year ended December 31, 2022. The segment had 9 full-time equivalent employees as at December 31, 2022.

US$199.4 million of Chesswood subsidiary originated finance receivables were sold under agreements with investment managers and financial institutions for the non-recourse sale of equipment leases and loans during the year ended December 31, 2022 and the segment recognized a total revenue of $9.3 million for the year ended December 31, 2022.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

U.S. dollar results for the year ended December 31, 2022 were converted at an exchange rate of 1.3013, which was the average exchange rate for the year (year ended December 31, 2021 - 1.2535).

Financial Highlights

- The successful acquisition of Rifco on January 14, 2022 has allowed the Company to establish its Canadian Auto Financing Segment. Subsequent to the acquisition, Rifco contributed total originations of $132.9 million for the year.
- On January 14, 2022, Chesswood renegotiated its revolving credit facility to allow borrowings of up to US$300 million. Chesswood exercised the accordion feature under this revolving credit facility in Q4 2022, which expanded its capacity further to US$386.7 million. This credit facility is secured by the Company's (and most of its subsidiaries') assets, contains covenants, including maintaining leverage and interest coverage ratios, and expires on January 14, 2025.
- Both the U.S. and Canadian Equipment Financing Segments continued to experience strong originations, with total originations of $1.6 billion[(1)], an increase of 71.2% from the prior year.
- CCM USA entered into agreements with investment managers and financial institutions for the non-recourse sale of the U.S. Equipment Financing Segment's equipment leases and loans during the year ended December 31, 2022 in exchange for fees. During the year ended December 31, 2022, US$199.4 million of finance receivables were delivered.
- On August 15, 2022, the U.S. Equipment Financing Segment completed a US$346.6 million asset-backed securitization that is collateralized by receivables from Pawnee's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay down Pawnee's warehouse line and Chesswood's revolving credit facility. The effective interest rate was approximately 5.85% (including amortization of origination costs).
- Chesswood achieved a return on equity of 14.6%[(2)] for the year ended December 31, 2022. Following the acquisition of Rifco, a provision of $9.3 million was booked on the loans indirectly acquired through the acquisition. Without this one-time "day 2" provision for credit losses, Chesswood's return on equity for the year ended December 31, 2022 would have been 17.7%[(3)] (year ended December 31, 2021 - 19.0%).

(1) Origination volumes include contracts which were originated by the U.S. Equipment Financing Segment and sold to third-party investment managers and financial institutions

(2) Return on equity is the current year's Net Income (Loss) divided by the yearly average of total Equity, as presented on the consolidated statements of financial position

(3) Refer to calculation below. Adjusted Return on Equity is a non-GAAP measure. See “Non-GAAP Measures” above for the definitions

Summary of Financial Results and Key Measures

($ thousands, except per share figures)	Year ended December 31, 2022	2021
Revenue	$ 276,365	$ 138,083
Net revenue	158,671	106,224
Operating income	45,643	41,061
Income before income taxes	44,179	42,071
Income tax expense	13,763	10,902
Net income	30,416	31,169
Basic earnings per share (1)	$ 1.63	$ 1.75
Diluted earnings per share (1)	1.47	1.59
Total assets	2,534,196	1,602,583
Long-term liabilities	2,259,996	1,382,837
Other Data		
Adjusted Operating Income (2)	$ 74,840	$ 41,010
EBITDA (2)	121,758	76,642
Adjusted EBITDA (2)	72,536	44,920
Free Cash Flow(2)	51,715	33,573
Free Cash Flow per diluted share(2)	2.47	1.72
Return on Equity (5)	14.6 %	19.0 %
Dividends declared (3)	9,284	6,143
Dividends declared per share (4)	0.46	0.32
Segment Financials		
U.S. Equipment Financing Segment interest revenue	$ 130,353	$ 94,220
U.S. Equipment Financing Segment operating income	39,836	42,933
Canadian Equipment Financing Segment interest revenue	61,970	25,892
Canadian Equipment Financing Segment operating income	3,594	4,513
Canadian Auto Financing Segment interest revenue	40,300	N/A
Canadian Auto Financing Segment operating income (loss)	(549)	N/A
Asset Management Segment ancillary finance and other fee income	9,281	N/A
Asset Management Segment operating income	5,295	N/A
Portfolio Metrics		
U.S. Equipment Financing Segment finance receivables	$ 1,332,452	$ 1,025,561
U.S. Equipment Financing Segment originations	923,349	694,699
U.S. Equipment Financing Segment interest revenue yield	10.6 %	11.8 %
U.S. Equipment Financing Segment net charge-offs as a percentage of finance receivables (before allowance for ECL)	0.5 %	0.2 %
Canadian Equipment Financing Segment finance receivables	$ 762,154	$ 392,699
Canadian Equipment Financing Segment originations	675,578	239,335
Canadian Equipment Financing Segment interest revenue yield	10.5 %	10.2 %
Canadian Equipment Financing Segment net charge-offs as a percentage of finance receivables (before allowance for ECL)	0.8 %	0.2 %

Canadian Auto Financing Segment finance receivables	$ 229,652	N/A
Canadian Auto Financing Segment originations	132,913	N/A
Canadian Auto Financing Segment interest revenue yield	17.9 %	N/A
Canadian Auto Financing Segment net charge-offs as a percentage of finance receivables (before allowance for ECL)	3.0 %	N/A

(1) Based on weighted average number of common shares outstanding (basic and diluted, respectively) during the year for income attributable to common shareholders.

(2) Adjusted Operating Income, EBITDA, Adjusted EBITDA, and Free Cash Flow are non-GAAP measures. See "Non-GAAP Measures" above for the definitions.

(3) Includes dividends on Exchangeable Securities (non-controlling interest, as described below under "Statement of Financial Position") and special warrants.

(4) Dividends declared on common shares, Exchangeable Securities, and special warrants.

(5) Return on equity is the current year's Net Income divided by the average of total Equity (as at December 31), as presented on the consolidated statements of financial position.

The Company reported consolidated net income of $30.4 million for the year ended December 31, 2022, compared to consolidated net income of $31.2 million recorded in 2021, a decrease of $0.8 million. In Q1 2022, the Company was required to recognize the full provision for credit loss on the acquired Rifco sub-prime auto loan portfolio. As a result, the full $9.3 million (tax adjusted $7.2 million) provision on the acquired loans related to originations before January 14, 2022 was recognized in the consolidated 2022 net income. Without the provision, consolidated net income would have been $37.6 million, an increase of $6.4 million over 2021. The $6.4 million is a result of higher originations increasing revenue by $138.3 million offset by corresponding increases in interest from market conditions and greater operating costs driven by volume. Net charge-offs increased by $15.5 million and there was a significant increase in the non-cash change in allowance for ECL of $28.6 million ($19.3 million excluding the Rifco "day 2" provision) to account for uncertainties in the economic environment and global events as well as a growing portfolio. In addition, there was an increase in personnel and general and administrative expenses of $46.6 million, and a higher income tax expense of $2.9 million for the year ended December 31, 2022, compared to in 2021.

Return on equity decreased for the year ended December 31, 2022 by 4.4% compared to 2021, primarily due to net income staying stagnant as a result of recognizing the full $9.3 million provision for credit loss on the acquired Rifco sub-prime auto loan portfolio, as described above. The decrease was also caused by an increase in average equity in 2022 of $43.8 million. The increase in average equity is mainly related to the equity issuances from the Rifco and Waypoint acquisitions and the exercise of special warrants, restricted share units ("RSUs"), and options.

	Year ended	
($ thousands)	**December 31, 2022**	December 31, 2021
Net income (loss)	$ 30,416	$ 31,169
Average equity	208,194	164,399
Return on equity	14.6 %	19.0 %

If the full $9.3 million (tax adjusted $7.2 million) provision on the acquired loans related to originations by Rifco before January 14, 2022 was not recognized in the consolidated 2022 net income, the Return on Equity would have only decreased by 1.3%, to 17.7%, for the year ended December 31, 2022. Refer to the table below:

	Year ended	
($ thousands)	December 31, 2022	December 31, 2021
Net income	$ 30,416	$ 31,169
Business combination "day 2" provision(1)	7,166	—
Adjusted net income (2)	37,582	31,169
Average equity, excluding "day 2" provision(1)	211,777	164,399
Adjusted return on equity(2)	17.7 %	19.0 %

(1) The total provision for credit losses booked on the acquired Rifco portfolio was $9.3 million. This provision was tax adjusted using Alberta's statutory rate of 23% to determine the adjustment to net income.

(2) Adjusted Return on Equity and Adjusted Net Income are non-GAAP measures. See "Non-GAAP Measures" above for the definitions.

The table below is primarily provided to illustrate the results of operations for Chesswood before any change to the non-cash allowance for ECL and amortization of intangible assets - referred to below as Adjusted Operating Income. In management's opinion, this measure provides users with a more meaningful comparison of our operating results from period to period as it eliminates the often large swing in results due to IFRS 9 - the non-cash change in allowance for ECL.

Average FX rate	1.3013	1.2535	
	Year ended December 31,		
($ thousands)	2022	2021	Change
Revenue	$ 276,365	$ 138,083	$ 138,282
Interest expense	(73,379)	(31,671)	(41,708)
Net charge-offs	(17,553)	(2,028)	(15,525)
	185,433	104,384	81,049
Personnel expenses	(63,005)	(35,813)	(27,192)
General and administrative expenses	(45,823)	(26,450)	(19,373)
Depreciation	(1,765)	(1,111)	(654)
Adjusted operating income(1)	74,840	41,010	33,830
Decrease (increase) in allowance for ECL	(26,762)	1,840	(28,602)
Amortization	(2,435)	(1,789)	(646)
Operating income	45,643	41,061	4,582
Gain on interest rate derivative	—	344	(344)
Unrealized gain (loss) on foreign exchange	(1,464)	666	(2,130)
Income before income tax	44,179	42,071	2,108
Income tax expense	(13,763)	(10,902)	(2,861)
Net income	$ 30,416	$ 31,169	$ (753)

(1) Adjusted Operating Income is a non-GAAP measures. See "Non-GAAP Measures" above for the definitions.

The U.S. Equipment Financing Segment's interest revenue on leases and loans totalled $130.4 million, an increase of $36.1 million year-over-year. The increase was caused by a 49.0% increase in the average net investment in finance receivables (before allowance for ECL) to US$946.4 million, an increase of US$311.3 million from the prior year resulting from continuously growing originations. The impact of the portfolio growth was bolstered by a year-over-year 6.8% increase in the year-end foreign exchange closing rate. This was offset by a 1.2% decrease in the interest revenue yield during the year. The decrease in overall yield percentage was due to the continuing growth of the Tandem portfolio, which has a slightly lower yield.

(US$ thousands)	Year ended December 31, 2022	Year ended December 31, 2021
Interest revenue on finance leases and loans	$ 100,171	$ 75,166
Average NFR, before allowance	946,388	635,100
Interest revenue yield	10.6 %	11.8 %

Ancillary finance and other fee income increased by $9.4 million year-over-year and was positively impacted by foreign exchange. The increase was primarily driven by higher originations as well as fees and gains on finance receivables that were sold during the year ended December 31, 2022.

The U.S. Equipment Financing Segment's interest expense increased by $22.6 million compared to the prior year. The increase in interest expense was driven primarily by a $425.9 million increase in average debt outstanding throughout the year. In addition, the balance was impacted by an increase in foreign exchange and a higher effective interest rate (including amortization of origination costs) on the segment's facilities as a result of rising interest rates in the market.

Net charge-offs were US$3.3 million higher than the prior year. During the year ended December 31, 2022, the U.S. Equipment Financing Segment's actual net charge-offs were 0.5% of average finance receivables (before allowance for ECL) compared to 0.2% in the prior year. There was an increase to the change in allowance for ECL of US$9.7 million due to a growing portfolio and uncertain market conditions. As a result, the U.S. Equipment Financing Segment's provision for credit losses increased by $16.9 million (US$ 13.1 million) for the year ended December 31, 2022, compared to the prior year. The increase in the provision was also driven by delinquencies. The U.S. Equipment Financing Segment's average 31 days past due delinquency for the year ended December 31, 2022 increased by 0.1% year-over-year.

(US$ thousands)	Year ended December 31, 2022	Year ended December 31, 2021
Impact of loan book growth	$ 2,991	$ 10,806
Impact of change in provision rate during the period	3,749	(13,814)
Change in allowance for ECL	6,740	(3,008)
Net charge-offs	4,564	1,220
Provision for credit losses	11,304	(1,788)
Average NFR, before allowance	946,388	635,100
Net charge-offs as a percentage of finance receivables	0.5 %	0.2 %

The U.S. Equipment Financing Segment's personnel expenses increased by $5.7 million year-over-year, primarily due to having an average of 24 more staff during the year ended December 31, 2022 compared to the prior year and market driven wage inflation. The increase in personnel expenses was partially offset by a $1.1 million decrease in share-based-compensation due to the vesting schedule of restricted share units issued to the segment's personnel in the fourth quarter of 2021.

During the year ended December 31, 2022, the operating income from the U.S. Equipment Financing Segment's operations decreased by $3.1 million compared with the prior year, mainly due to increased interest expense supporting a growing portfolio, a higher provision for credit losses, lower interest revenue yield, and increased personnel and other expenses. This was partially offset by a higher average NFR, before allowance.

The Canadian Equipment Financing Segment generated revenue of $74.3 million ($62.0 million interest revenue and $12.3 million ancillary finance and other fee income) during the year ended December 31, 2022 compared to $32.8 million ($25.9 million interest revenue and $6.9 million ancillary finance and other fee income) in the prior year, an increase of $41.5 million, or 126%. The Canadian Equipment Financing Segment's average net investment in finance receivables (before allowance for ECL) increased approximately $333.6 million for the year ended December 31, 2022, compared to the prior year, largely due to Vault Credit's continued expansion in the Canadian equipment leasing market. Vault Home also saw an increase in net investment in finance receivables (before allowance for ECL) of $31.1 million since the prior year. In addition, the average number of finance receivable contracts outstanding increased by 10,812 for the year ended December 31, 2022 compared to the prior year. During the year ended December 31, 2022, the interest revenue yield earned on the Canadian Equipment Financing Segment's net finance receivables was 10.5%, an increase from 10.2% in the prior year.

	Year ended	
($ thousands)	December 31, 2022	December 31, 2021
Interest revenue	$ 61,970	$ 25,892
Average NFR, before allowance	587,970	254,397
Interest revenue yield	10.5 %	10.2 %

The Canadian Equipment Financing Segment's interest expense increased by $16.4 million due to higher average debt outstanding (increased by approximately $252.6 million) and a higher cost of funds on securitization facilities.

The Canadian Equipment Financing Segment's provision for credit loss increased by $7.3 million for the year ended December 31, 2022 compared to the prior year as a result of greater charge-offs and an increase in the change in allowance for ECL to accommodate a significantly larger portfolio in an uncertain market, as evidenced by an increase in actual net charge-offs.

	Year ended	
($ thousands)	December 31, 2022	December 31, 2021
Impact of loan book growth	$ 4,912	$ 7,514
Impact of change in provision rate during the year	(77)	(5,587)
Change in allowance for ECL	4,835	1,927
Net charge-offs	4,926	501
Provision for credit losses	9,761	2,428
Average NFR, before allowance	587,970	254,397
Net charge-offs as a percentage of finance receivables	0.8 %	0.2 %

The Canadian Equipment Financing Segment's operating income totalled $3.6 million for the year ended December 31, 2022, compared to $4.5 million in the prior year, a decrease of $0.9 million, primarily due to a higher provision for credit losses, interest expense, personnel expenses, and general and administrative expenses partially offset by increases in interest revenue and ancillary finance and other fee income. The increase in personnel expenses of $9.5 million was primarily due to an average increase of 91 employees during the year ended December 31, 2022 compared to the prior year, and the segment's continued expansion into the Canadian equipment leasing market. The increase in general and administrative expenses of $8.6 million is a function of increased originations, the segment's technology upgrades, and dividend payments to the non-controlling shareholders of $3.3 million.

The Canadian Auto Financing Segment generated revenue of $41.9 million ($40.3 million interest revenue and $1.6 million ancillary finance and other fee income) since Rifco's acquisition on January 14, 2022. The segment's net investment in finance receivables before allowance was $242.8 million as at December 31, 2022.

The annual interest revenue yield earned on the Canadian Auto Financing Segment's net finance receivables was 17.9% since Rifco's acquisition on January 14, 2022. The Canadian Auto Financing Segment's interest expense was $9.8 million, due to approximately $207.3 million in average borrowings outstanding from the time of the Rifco acquisition.

Canadian Auto Financing Segment *($ thousands)*		Year ended December 31, 2022
Interest revenue	$	40,300
Average NFR, before allowance		224,575
Interest revenue yield		17.9 %

The Canadian Auto Financing Segment's provision for credit losses was $19.8 million for the year ended December 31, 2022. A large portion of the provision stems from the requirement to recognize the full $9.3 million provision on loans related to originations before January 14, 2022, indirectly acquired through the Rifco acquisition, in the consolidated 2022 net income on the day following the acquisition. Without this, the total provision would have been $10.5 million.

Canadian Auto Financing Segment *($ thousands)*		Year ended December 31, 2022
Impact of loan book growth	$	1,491
Impact of change in provision rate during the period		2,361
Business combination		9,306
Change in allowance for ECL		13,158
Net charge-offs		6,688
Provision for credit losses		19,846
Average NFR, before allowance		224,575
Net charge-offs as a percentage of finance receivables		3.0 %

The Canadian Auto Financing Segment's personnel expenses were $7.1 million for the year ended December 31, 2022. General and administrative expenses for the year ended December 31, 2022 were $5.2 million, which relate to collection, marketing, and other operating costs.

Overall, the Canadian Auto Financing Segment's operating loss totalled $0.5 million in the year ended December 31, 2022. The main driver of the operating loss was the $9.3 million provision for credit losses related to the acquisition of Rifco. Without this, the segment would have generated an operating income of $8.8 million.

For the year ended December 31, 2022, the Asset Management Segment generated $9.3 million of revenue from fees charged on the US$199.4 million of finance receivables sold. The income was partially offset by other expenses related to setting up the initial agreements between CCM USA and its clients as well as personnel costs. The results of operations of Waypoint are not yet material for the year ended December 31, 2022.

The provision for taxes for the consolidated entity during the year ended December 31, 2022 was an expense of $13.8 million compared to an expense of $10.9 million in the same period in the prior year. The increase of $2.9 million is primarily driven by the Company's increased income from its growing business portfolio and higher non-deductible expenses generated. The effective tax rate differs from the Canadian statutory tax rate due to permanent differences between accounting and taxable income.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2022 AND 2021

U.S. dollar results for the three months ended December 31, 2022, were converted at an exchange rate of 1.3578 which was the average exchange rate for Q4 2022 (Q4 2021 - 1.2600).

Summary of Financial Results and Key Measures

As at and for the quarter ended				2021				2022
($ thousands, except per share figures)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	$ 26,309	$ 30,524	$ 37,007	$ 44,243	$ 57,250	$ 68,985	$ 73,054	$ 77,076
Net Revenue	19,954	23,926	27,752	34.592	28,497	43,635	46,686	39,853
Operating income	8,879	10,610	11,000	10.572	2,718	16,074	16,573	10,278
Income before income tax	8,979	11,036	12,335	9.721	2,777	15,561	16,024	9,817
Income tax expense	2,666	3,224	3,187	1.825	1,098	5,910	3,728	3,027
Net income	6,313	7,812	9,148	7.896	1,679	9,651	12,296	6,790
Basic earnings per share (1)	$ 0.36	$ 0.43	$ 0.49	$ 0.46	$ 0.10	$ 0.52	$ 0.64	$ 0.36
Diluted earnings per share (1)	0.35	0.40	0.45	0.40	0.09	0.46	0.58	0.33
Total assets	866,822	1,186,802	1,389,932	1,602,582	2,048,228	2,261,242	2,471,723	2,534,196
Long-term liabilities	706,069	993,714	1,182,797	1,382,837	1,813,968	2,002,186	2,191,422	2,259,996
Other Data								
Adjusted operating income (2)	$ 4,773	$ 10,819	$ 13,376	$ 12,042	$ 20,382	$ 20,980	$ 20,775	$ 12,703
EBITDA (2)	15,445	19,397	22,006	19,794	15,888	33,719	34,445	37,706
Adjusted EBITDA (2)	5,266	11,324	13,992	14,338	19,893	23,087	16,737	12,819
Free Cash Flow (2)	3,756	8,143	10,188	11,486	15,208	15,745	11,956	8,806
Free Cash Flow per diluted share (2)	0.21	0.42	0.51	0.56	0.73	0.75	0.57	0.42
Return on Equity (5)	17.8 %	20.0 %	20.9 %	17.1 %	3.5 %	19.3 %	22.6 %	11.9 %
Dividends declared (3)	1,055	1,566	1,766	1,756	2,009	2,425	2,436	2,414
Dividends declared per share (4)	0.06	0.08	0.09	0.09	0.10	0.12	0.12	0.12
Segment Financials								
U.S. Equipment Financing Segment interest revenue	$20,597	$21,623	$24,279	$27,721	$30,614	$32,495	$32,438	$34,806
U.S. Equipment Financing Segment operating income	8,509	11,947	12,601	9,876	11,700	13,620	8,373	6,143
Canadian Equipment Financing Segment interest revenue	2,322	5,439	7,887	10,244	11,015	13,999	17,200	19,756
Canadian Equipment Financing Segment operating income	1,602	147	418	2,346	1,460	326	736	1,072
Canadian Auto Financing Segment interest revenue	n/a	n/a	n/a	n/a	8,282	10,631	10,548	10,839
Canadian Auto Financing Segment operating income (loss)	n/a	n/a	n/a	n/a	(8,230)	3,146	1,825	2,710
Asset Management Segment ancillary finance and other fee income	n/a	n/a	n/a	n/a	66	3,290	4,013	1,912
Asset Management Segment operating income (loss)	n/a	n/a	n/a	n/a	(648)	2,153	2,455	1,335
Portfolio Metrics								
U.S. Equipment Financing Segment finance receivables	$670,742	$742,628	$870,449	$1,025,561	$1,163,557	$1,235,144	$1,318,264	$1,332,452
U.S. Equipment Financing Segment originations	128,791	147,670	178,613	239,625	254,732	264,285	205,448	198,884
U.S. Equipment Financing Segment interest revenue yield	12.5 %	12.0 %	11.9 %	11.7 %	10.9 %	10.6 %	10.3 %	10.8 %

U.S. Equipment Financing Segment net charge-offs as a percentage of finance receivables (before allowance for ECL)	2.9 %	(0.5)%	(0.7)%	(0.3)%	(0.2)%	0.5 %	0.6 %	1.0 %
Canadian Equipment Financing Segment finance receivables	$112,169	$313,076	$357,379	$392,699	$466,213	$593,149	$687,096	$762,154
Canadian Equipment Financing Segment originations	4,707	49,748	83,325	101,555	128,687	203,375	174,466	169,050
Canadian Equipment Financing Segment interest revenue yield	8.1 %	10.6 %	9.8 %	11.1 %	10.1 %	10.4 %	10.6 %	10.8 %
Canadian Equipment Financing Segment net charge-offs as a percentage of finance receivables (before allowance for ECL)	0.2 %	(0.1)%	0.1 %	0.4 %	0.6 %	0.7 %	0.8 %	1.1 %
Canadian Auto Financing Segment finance receivables	n/a	n/a	n/a	n/a	$ 204,769	$ 211,544	$ 216,773	$ 229,652
Canadian Auto Financing Segment originations	n/a	n/a	n/a	n/a	28,115	35,406	33,054	36,338
Canadian Auto Financing Segment interest revenue yield	n/a	n/a	n/a	n/a	15.5 %	19.2 %	18.5 %	18.3 %
Canadian Auto Financing Segment net charge-offs as a percentage of finance receivables (before allowance for ECL)	n/a	n/a	n/a	n/a	(0.6)%	2.6 %	4.1 %	5.4 %

(1) Based on weighted average number of common shares outstanding (basic and diluted, respectively) during the period for income attributable to common shareholders.
(2) Adjusted Operating Income, EBITDA, Adjusted EBITDA, and Free Cash Flow are non-GAAP measures. See “Non-GAAP Measures” above for the definitions.
(3) Includes dividends on Exchangeable Securities (non-controlling interest, as described below under "Statement of Financial Position") and special warrants.
(4) Dividends declared on common shares, Exchangeable Securities, and special warrants.
(5) Quarterly return on equity is the current quarter Net Income annualized (multiplied by four) divided by the quarterly average of total Equity (September 30 and December 31), as presented on the consolidated statements of financial position.

The Company reported consolidated net income of $6.8 million for the three months ended December 31, 2022, compared to $7.9 million in the same period of 2021, a decrease of $1.1 million quarter-over-quarter. The decrease was caused by increased net charge-offs and provision rates in 2022 as a result of market uncertainties. This is evidenced by increased net-charge offs of $9.0 million compared to the prior year period and an increase in the non-cash change in allowance for ECL of $0.9 million. The increased interest expense in the quarter of $17.7 million compared to the same period in 2021 was due to a higher debt outstanding balance and cost of funds, which decreased net income. The increases in expenses were partially offset by the acquisition of Rifco in 2022, which contributed a net income of $2.1 million for the three months ended December 31, 2022 . In addition, the Asset Management Segment also contributed net income of $1.1 million during the same period. Further, strong originations and an increased portfolio resulted in an increase in revenue of $32.8 million compared to the same period of 2021.

Return on equity decreased for the three months ended December 31, 2022 by 5.2% compared to the same period in 2021, primarily due to the decrease in net income and the increase in average equity related to share issuances on the acquisition of Rifco and Waypoint and the exercise of special warrants, RSUs and options.

	Three months ended	
($ thousands)	December 31, 2022	December 31, 2021
Net income (loss)	$ 6,790	$ 7,896
Annualized	x 4	x 4
Average equity	227,593	184,179
Return on equity	11.9 %	17.1 %

The table below is primarily provided in order to illustrate the results of operations for Chesswood before any change to the non-cash allowance for ECL, and amortization of intangible assets - referred to below as Adjusted Operating Income. In management's opinion, this measure provides readers with a meaningful comparison of our operating results from period to period as it eliminates the often-large swings in results due to IFRS 9 - the non-cash change in allowance for ECL.

Average FX rate	1.3578	1.2603	
	Three months ended December 31,		
($ thousands)	2022	2021	Change
Revenue	$ 77,076	$ 44,243	$ 32,833
Interest expense	(26,875)	(9,202)	(17,673)
Net recoveries (charge-offs)	(8,514)	472	(8,986)
	41,687	35,513	6,174
Personnel	(15,528)	(14,207)	(1,321)
General and administrative expenses	(13,033)	(8,942)	(4,091)
Depreciation	(423)	(322)	(101)
Adjusted operating income(1)	12,703	12,042	661
Increase in allowance for ECL	(1,834)	(921)	(913)
Amortization	(591)	(549)	(42)
Operating income	10,278	10,572	(294)
Unrealized loss on foreign exchange	(461)	(851)	390
Income before income tax	9,817	9,721	96
Income tax expense	(3,027)	(1,825)	(1,202)
Net income	$ 6,790	$ 7,896	$ (1,106)

(1) Adjusted Operating Income is a non-GAAP measures. See "Non-GAAP Measures" above for the definitions.

The U.S. Equipment Financing Segment's interest revenue on leases and loans totalled $34.8 million, an increase of $7.1 million year-over-year for the three month period. This was a result of a 30.7% increase in average net investment in finance receivables (before allowance for ECL) to US$992.6 million, an increase of US$233.2 million for the three months ended December 31, 2022 compared to the same period in the prior year, caused by continuously growing originations. As a result, the December 31, 2022 net investment in leases and loans (before allowance for ECL) was US$181.6 million higher than as at December 31, 2021. The average yield earned during the period decreased by 0.9% (10.8% compared to 11.7% in the same period in the prior year). The decrease in overall yield percentage was due to the continuing growth of the Tandem portfolio, which has a slightly lower yield.

U.S. Equipment Financing Segment	Three months ended	
(US$ thousands)	December 31, 2022	December 31, 2021
Interest revenue on finance leases and loans	$ 26,746	$ 22,115
Annualized	x 4	x 4
Average NFR, before allowance	$ 992,596	$ 759,356
Interest revenue yield	10.8 %	11.7 %

Ancillary finance and other fee income increased by $2.3 million period-over-period, mainly related to an increase in originations.

The U.S. Equipment Financing Segment's interest expense increased by $8.7 million for the three months ended December 31, 2022 compared to the same period in the prior year as a result of higher average interest rates and an increase in borrowed funds throughout the period ($417.8 million higher in average borrowings compared to the same period in 2021).

The U.S. Equipment Financing Segment's provision for credit losses increased by US$3.6 million for the three months ended December 31, 2022 compared to the same period in the prior year due to an increase in charge-offs of US$3.1 million and a US$ 0.5 million increase in allowance for ECL compared to the same quarter in the prior year to account for market uncertainties and higher delinquencies. The U.S. Equipment Financing Segment's 31 days past due delinquency at December 31, 2022 increased by 1.0% compared to December 31, 2021.

U.S. Equipment Financing Segment	Three months ended	
(US$ thousands)	December 31, 2022	December 31, 2021
Impact of loan book growth	$ 465	$ 4,214
Impact of change in provision rate during the period	953	(3,269)
Change in allowance for ECL	1,418	945
Net charge-offs (recoveries)	2,484	(663)
Provision for credit losses	3,902	282
Average NFR, before allowance	992,596	759,356
Net charge-offs (annualized, x4) as a percentage of finance receivables	1.0 %	(0.3)%

Personnel expenses in the U.S. Equipment Financing Segment increased by $0.9 million compared to the same period in the prior year due to an increase in the average number of staff by 11 during the three months ended December 31, 2022. However, there was a significant decrease in share-based compensation expense of $2.0 million related to the vesting schedule of issued restricted share units. The U.S. Equipment Financing Segment's general and administrative expenses also increased by $0.6 million, mainly related to expenses driven by higher origination volumes (e.g. credit reports) and increased collection costs as a result of managing a larger portfolio.

During the three months ended December 31, 2022, the operating income from the U.S. Equipment Financing Segment's operations decreased by $3.7 million compared with the same period in the prior year, mainly due to a higher provision for credit losses, interest, personnel expenses, and other expenses. These were partially offset by lower share-based compensation expense and a higher average NFR, before allowance, which increased revenues earned.

The Canadian Equipment Financing Segment generated revenue of $23.4 million ($19.8 million interest revenue and $3.6 million ancillary finance and other fee income) during the three months ended December 31, 2022, an increase of $10.2 million ($9.5 million interest revenue and $0.7 million ancillary finance and other fee income) from the same period in the prior year. The Canadian Equipment Financing Segment's average net investment in finance receivables (before allowance for ECL) increased approximately $363.3 million for the three months ended December 31, 2022, compared to the same period in the prior year. In addition, the average number of finance receivable contracts outstanding increased by 9,781 in the quarter ended December 31, 2022 compared to the same period in the prior year. The average annualized interest revenue yield earned on the Canadian Equipment Financing Segment's net finance receivables decreased by 0.3%, to 10.8%, during the period compared to the same period in the prior year.

Canadian Equipment Financing Segment	Three months ended	
($ thousands)	December 31, 2022	December 31, 2021
Interest revenue	$ 19,756	$ 10,244
Annualized	x 4	x 4
Average NFR, before allowance	734,097	370,792
Interest revenue yield	10.8 %	11.1 %

The Canadian Equipment Financing Segment's provision for credit losses increased by $3.1 million compared to the same period in the prior year. The change in the provision for credit losses was the result of an increase in the change in allowance for ECL of $1.4 million and an increase in net charge-offs of $1.7 million.

Canadian Equipment Financing Segment	Three months ended	
($ thousands)	December 31, 2022	December 31, 2021
Impact of loan book growth	$ 1,056	$ 1,468
Impact of change in provision rate during the period	103	(1,724)
Change in allowance for ECL	1,159	(256)
Net charge-offs (recoveries)	2,028	355
Provision for credit losses	3,187	99
Average NFR, before allowance	734,097	370,792
Net charge-offs (annualized, x4) as a percentage of finance receivables	1.1 %	0.4 %

The Canadian Equipment Financing Segment's interest expense increased by $6.7 million due to approximately $250.0 million higher average debt outstanding.

The Canadian Equipment Financing Segment's personnel expenses were $4.8 million, unchanged from the same period in the prior year. The increase in general and administrative expenses of $1.8 million was a function of increased originations, the segment's technology upgrades, and dividend declaration to the non-controlling shareholders of $1.0 million.

Overall, the Canadian Equipment Financing Segment's operating income totalled $1.1 million for the three months ended December 31, 2022, compared to $2.3 million in the same period in the prior year. The decreased operating income was the result of increased provision for credit losses, interest, and other expenses partially offset by higher revenue levels. The main drivers of the expenses were related to the segment's continued expansion into the Canadian equipment leasing market during the three months ended December 31, 2022.

The Canadian Auto Financing Segment generated revenue of $11.3 million ($10.8 million interest revenue and $0.5 million ancillary finance and other fee income) during the three months ended December 31, 2022. The Segment's average net investment in finance receivables was $237.0 million for the three months ended December 31, 2022. The annualized interest revenue yield earned on the Canadian Auto Financing Segment's net finance receivables was 18.3% during the period.

Canadian Auto Financing Segment ($ thousands)		Three months ended December 31, 2022
Interest revenue	$	10,839
Annualized		x 4
Average NFR, before allowance		237,004
Interest revenue yield		18.3 %

The Canadian Auto Financing Segment's interest expense was $2.8 million due to approximately $208.0 million in average debt outstanding during the three months ended December 31, 2022.

The Canadian Auto Financing Segment's provision for credit losses was $1.9 million for the three months ended December 31, 2022. Rifco's over 31 days delinquency has decreased by 0.8%, to 5.5%, since September 30, 2022.

Canadian Auto Financing Segment ($ thousands)		Three months ended December 31, 2022
Impact of loan book growth	$	517
Impact of change in provision rate during the period		(1,784)
Change in allowance for ECL		(1,267)
Net charge-offs		3,215
Provision for credit losses		1,948
Average NFR, before allowance		237,004
Net charge-offs (annualized, x4) as a percentage of finance receivables		5.4 %

The Canadian Auto Financing Segment's personnel expenses were $2.0 million for the three months ended December 31, 2022. General and administrative expenses for the three months ended December 31, 2022 were $1.7 million, which relates to collection, marketing, and other operating costs.

Overall, the Canadian Auto Financing Segment's operating income totalled $2.7 million for the three months ended December 31, 2022.

For the three months ended December 31, 2022, the Asset Management Segment generated $2.0 million of revenue from fees charged on the US$35.1 million of receivables sold. The revenue was partially offset by personnel costs and other expenses. The results of operations of Waypoint were not yet material to the Company’s consolidated results for the three months ended December 31, 2022.

The provision for taxes for the consolidated entity during the three months ended December 31, 2022 was an expense of $3.0 million compared to an expense of $1.8 million in the same period in the prior year. The increase of $1.2 million is primarily driven by higher non-deductible expenses generated in the quarter. The effective tax rate differs from the Canadian statutory tax rate due to permanent differences between accounting and taxable income.

($ thousands)	Three months ended December 31, 2022					
	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Auto Financing	Asset Management	Corporate - Canada	Total
Interest revenue on finance leases and loans	$ 34,806	$ 19,756	$ 10,839	$ —	$ —	$ 65,401
Ancillary finance and other fee income	5,678	3,618	467	1,912	—	11,675
Interest expense	(16,064)	(9,303)	(2,813)	107	1,198	(26,875)
Provision for credit losses	(5,213)	(3,187)	(1,948)	—	—	(10,348)
Net revenue	**19,207**	**10,884**	**6,545**	**2,019**	**1,198**	**39,853**
Personnel expenses	6,604	4,832	1,953	356	892	14,637
Share-based compensation expense	311	20	—	—	560	891
General and administrative expenses	5,855	4,292	1,747	341	798	13,033
Depreciation	294	108	89	2	(70)	423
Amortization	—	560	46	(15)	—	591
Operating income (loss)	**6,143**	**1,072**	**2,710**	**1,335**	**(982)**	**10,278**
Unrealized gain (loss) on foreign exchange	—	132	—	1	(594)	(461)
Income before income tax	**6,143**	**1,204**	**2,710**	**1,336**	**(1,576)**	**9,817**
Income tax expense (recovery)	1,602	1,460	633	248	(916)	3,027
Net income (loss)	**$ 4,541**	**$ (256)**	**$ 2,077**	**$ 1,088**	**$ (660)**	**$ 6,790**
Property and equipment expenditures	$ 411	$ 12	$ —	$ —	$ —	$ 423

($ thousands)	Three months ended December 31, 2021			
	U.S. Equipment Financing	**Canadian Equipment Financing**	**Corporate - Canada**	**Total**
Interest revenue on leases and loans	$ 27,721	$ 10,244	$ —	$ 37,965
Ancillary finance and other fee income	3,384	2,894	—	6,278
Interest expense	(7,369)	(2,632)	799	(9,202)
Provision for credit losses	(350)	(99)	—	(449)
Net revenue	**23,386**	**10,407**	**799**	**34,592**
Personnel expenses	5,686	4,930	872	11,488
Share-based compensation expense	2,345	(5)	379	2,719
General and administrative expenses	5,257	2,487	1,198	8,942
Depreciation	222	100	—	322
Amortization	—	549	—	549
Operating income (loss)	**9,876**	**2,346**	**(1,650)**	**10,572**
Unrealized gain (loss) on foreign exchange	—	111	(962)	(851)
Income (loss) before income tax	**9,876**	**2,457**	**(2,612)**	**9,721**
Income tax expense (recovery)	2,045	202	(422)	1,825
Net income (loss)	**$ 7,831**	**$ 2,255**	**$ (2,190)**	**$ 7,896**
Property and equipment expenditures	$ 678	$ 93	$ —	$ 771

EBITDA, ADJUSTED EBITDA, FREE CASH FLOW, MAXIMUM PERMITTED DIVIDENDS (1)

Free Cash Flow is a calculation that reflects the agreement with one of Chesswood's significant lenders as to a measure of the cash flow produced by the businesses in a period, as well as management's view that the measure eliminates often significant non-cash charges and/or recoveries that do not reflect actual cash flows of the businesses, and can vary greatly in amounts from period to period.

For the quarter ended				2021				2022
($ thousands)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net income	$ 6,313	$ 7,812	$ 9,148	$ 7,896	$ 1,679	$ 9,651	$ 12,296	$ 6,790
Interest expense	5,895	7,739	8,835	9,202	12,087	17,133	17,284	26,875
Income tax expense	2,666	3,224	3,187	1,825	1,098	5,910	3,728	3,027
Amortization and depreciation	571	622	836	871	1,024	1,025	1,137	1,014
EBITDA (1)	15,445	19,397	22,006	19,794	15,888	33,719	34,445	37,706
Interest expense	(5,895)	(7,739)	(8,835)	(9,202)	(12,087)	(17,133)	(17,284)	(26,875)
Non-cash revaluation of option liability	—	—	—	(745)	(1,572)	608	(5,590)	(1,198)
Non-cash change in finance receivables allowance for ECL(2)	(4,439)	(152)	1,830	921	17,073	4,313	3,542	1,834
Share-based compensation expense	255	244	326	2,719	650	1,067	1,075	891
Unrealized (gain) loss on foreign exchange	26	(294)	(1,249)	851	(59)	513	549	461
Gain on interest rate derivative	(126)	(132)	(86)	—	—	—	—	—
Adjusted EBITDA (1)(2)	5,266	11,324	13,992	14,338	19,893	23,087	16,737	12,819
Maintenance capital expenditures	(40)	(79)	(112)	(771)	(196)	(265)	(26)	(423)
Income tax impact of non-cash change in allowance for ECL(2)	1,196	122	(505)	(256)	(3,391)	(1,167)	(1,027)	(563)
Income tax (expense) recovery	(2,666)	(3,224)	(3,187)	(1,825)	(1,098)	(5,910)	(3,728)	(3,027)
Free Cash Flow(1)(2)	$ 3,756	$ 8,143	$ 10,188	$ 11,486	$ 15,208	$ 15,745	$ 11,956	$ 8,806
FCF per diluted share	$ 0.21	$ 0.42	$ 0.51	$ 0.56	$ 0.73	$ 0.75	$ 0.57	$ 0.42
FCF L4PQ divided by 4 (1)(3)	$ 4,743	$ 4,820	$ 5,498	$ 7,256	$ 8,393	$ 11,256	$ 13,156	$ 13,599
Maximum Permitted Dividends (1)(3)	$ 4,268	$ 4,338	$ 4,948	$ 6,530	$ 7,553	$ 10,130	$ 11,841	$ 12,239
Dividends declared (4)	$ 1,055	$ 1,566	$ 1,766	$ 1,756	$ 2,009	$ 2,425	$ 2,436	$ 2,414

(1) EBITDA, Adjusted EBITDA, Free Cash Flow, FCF L4PQ (Free Cash Flow for the last four published quarters) and Maximum Permitted Dividends are non-GAAP measures. See "Non-GAAP Measures" above for the definitions.
(2) The formulas for Adjusted EBITDA and Free Cash Flow adjust for the non-cash change in finance receivables' allowance for ECL included in the provisions for credit losses in the income statement as well as the related tax effect of this non-cash change. Adjusted EBITDA and Free Cash Flow includes only the actual net credit losses incurred in the quarter. Management believes that this change enhances the usefulness of Adjusted EBITDA and Free Cash Flow as performance measures and is a more appropriate method of calculation as it removes the volatility associated with the effect of estimates and assumptions for a non-cash item and reflects the compliance with the terms of Chesswood's main corporate credit facility.
(3) The FCF L4PQ is calculated on a monthly basis as required by the terms of Chesswood's revolving credit facility. This calculation uses Chesswood's most recent four quarters' published results, divided by twelve. The FCF L4PQ, in any one quarter, is the basis for the Maximum Permitted Dividends in that quarter (90% of FCF L4PQ) and will not include the FCF for the currently published quarter as they are released/published after the final month of the respective reporting period.
(4) Includes dividends on Exchangeable Securities (non-controlling interest, as described below under "Statement of Financial Position") and Special Warrants.

On March 9, 2022, the Company announced a 33% monthly dividend increase to $0.04 per share ($0.48 per share annualized), effective March 31, 2022. On November 7, 2022, the Company announced a further increase to its dividend per share to $0.05 per month (or $0.60 per year), effective January 31, 2023. See "Liquidity and Capital Resources - Dividends to Shareholders" below.

STATEMENT OF FINANCIAL POSITION

The total consolidated assets of the Company as at December 31, 2022 were $2.5 billion, an increase of $0.9 billion from December 31, 2021. The U.S. dollar exchange rate on December 31, 2022 was 1.3544, compared to 1.2678 as at December 31, 2021. The increase in the foreign exchange rate represents an increase of $76.4 million in assets.

Cash totalled $8.1 million as at December 31, 2022, a decrease of $4.3 million from December 31, 2021. The Company's objective is to maintain low cash balances, investing any excess cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. Please see the "Liquidity and Capital Resources" section of this MD&A for a discussion of cash movements during the years ended December 31, 2022 and 2021.

Restricted funds represent cash reserve accounts which are held in trust as security for the U.S. Equipment Financing Segment, Canadian Equipment Financing Segment, and Canadian Auto Financing Segment secured borrowings and cash collection accounts required by their lenders of certain financial assets that can only be used to repay these debts on specific dates. The 'cash in collections accounts' will be applied to the outstanding borrowings in the following month. See Note 10(e) - *Borrowings* in the audited consolidated financial statements for further details.

Other assets totalled $8.6 million as at December 31, 2022, an increase of $2.6 million from December 31, 2021. The Auto Financing and Asset Management Segments acquired in 2022, contributed $2.0 million of other assets.

The Company had current tax receivables of $2.3 million as the installments certain segments paid to tax authorities exceeded the current tax expense incurred during the year ended December 31, 2022.

Net Finance receivables consist of the following:

Period end FX rate	1.3544	1.2678
($ thousands)	December 31, 2022	December 31, 2021
U.S. equipment finance receivables	**$ 1,332,452**	$ 1,025,561
Canadian equipment finance receivables	**762,154**	392,699
Canadian automotive finance receivables	**229,652**	—
Corporate finance receivables	**6,000**	—
	$ 2,330,258	$ 1,418,260

($ thousands)	December 31, 2022	December 31, 2021
Opening gross finance receivables	**$ 1,678,952**	$ 890,418
Gross loan originations	**1,737,840**	934,034
Gross loans acquired from business combination	**329,270**	194,018
Principal payments, collections from sale of assets and adjustments	**(873,868)**	(323,800)
Charge-offs	**(32,461)**	(15,718)
Ending gross finance receivables	**$ 2,839,733**	$ 1,678,952

Finance receivables saw an increase of $912.0 million, or 64.3%, during the year ended December 31, 2022. In U.S. dollars, the U.S. Equipment Financing Segment's net finance receivables before allowances increased by US$181.6 million and the increase in the foreign exchange rate compared to December 31, 2021 increased finance receivables by $70.1 million since December 31, 2021, thus reflecting an increase in U.S. based net finance receivables of $306.9 million since December 31,

2021. The Canadian Equipment Financing Segment's net finance receivables increased by $369.5 million during the year ended December 31, 2022.

Subsequent to the Company's update of the fair value of the finance receivables, the Canadian Auto Financing Segment's finance receivables were valued at $206.9 million as at January 14, 2022 (the date of the Rifco acquisition), before allowance for ECL. Following the provision for credit losses of $9.3 million recognized the day after the Rifco acquisition ("day 2"), finance receivables totalled $197.6 million. Since then, the finance receivables increased by $32.1 million (to $229.7 million) as at December 31, 2022.

The $2.3 billion in finance receivables is net of $50.7 million (or 2.2%) in allowance for ECL compared to $22.4 million (or 1.6%) in allowance for ECL as at December 31, 2021. A portion of the $28.3 million increase in allowance for ECL is related to the acquisition of Rifco, which resulted in a $9.3 million credit loss provision being booked on "day 2", as well as increasing provisions across all subsidiaries as a result of growing originations and uncertainties during global events.

The Company's finance receivables are separated into two distinct categories, equipment lease and loan receivables, and auto loan receivables. Both categories comprise of a large number of homogenous receivables, with relatively small balances. Thus, the evaluation of ECL is performed separately on the two categories. Within the subsets, ECL is assessed collectively for the portfolio.

The measurement of expected credit losses and the assessment of 'significant increase' (per IFRS 9) in credit risk considers information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information also requires judgment when calculating the ECL. The Company's allowance for ECL was determined as at December 31, 2022 as follows:

($ thousands)	December 31, 2022	December 31, 2021
Opening allowance for ECL	**$ 22,393**	$ 24,363
Net recoveries (charge-offs)	**(17,553)**	(2,028)
Provision for credit losses	**44,315**	188
Foreign exchange	**1,525**	(130)
Ending allowance for ECL	**$ 50,680**	$ 22,393
Finance receivables	**$ 2,330,258**	$ 1,418,260
Allowance for ECL as a percentage of finance receivables	**2.2 %**	1.6 %

The U.S. Equipment Financing Segment charges off leases and loans when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted. A high percentage of charge-offs are recognized before the subject leases/loans reach 154 days contractually past due. Vault Credit charges off leases and loans on an individual basis when there is no realistic prospect of recovery. Rifco charges off loans when they become 120 days contractually past due. Many finance receivables that are charged-off are subject to collection efforts, with future recoveries possible. Charge-offs are recognized net of recoveries.

The Company's deferred tax assets increased by $1.9 million to $7.2 million as Rifco contributed $2.1 million of deferred tax assets (with a majority of the balance from the "day 2" loss provision), and the Corporate segment generated an additional $2.1 million of deferred tax assets based on temporary tax difference creations and non-capital loss carryforwards. This was mainly offset by the Canadian Equipment Financing Segment as subsequent to the amalgamation between Vault Credit and Blue Chip, Blue Chip's deferred tax asset was netted with Vault Credit's deferred tax liability.

Intangible assets totalled $27.5 million as at December 31, 2022 compared to $26.9 million as at December 31, 2021. The $0.6 million increase is mainly related to intangible assets acquired on the acquisitions of Rifco and Waypoint of an aggregate of $2.1 million, offset by amortization of $2.4 million, (refer to Note 7 - *Intangible Assets* in the audited consolidated financial statements for more detail). The significant intangible assets of broker relationships and trade names do not require any outlay of cash to be maintained, as the creation of lease and loan receivables does not require an outlay of cash, other than commissions, which are separately expensed over the terms of the lease and loan receivables.

Goodwill totalled $48.1 million as at December 31, 2022, compared to $43.1 million as at December 31, 2021. The increase was primarily due to goodwill obtained through the acquisitions of Rifco and Waypoint of an aggregate of $4.0 million. See Note 8 - *Goodwill* in the audited consolidated financial statements for more detail.

Accounts payable and other liabilities totalled $43.9 million as at December 31, 2022, compared to $29.0 million as at December 31, 2021, an increase of $14.9 million. The main driver of this increase was due to the acquisition of Rifco. Rifco contributed $6.8 million in accounts payable and accrued liabilities mainly due to Rifco's statutory requirement to refund application fees to borrowers in the event a loan is prepaid. As at December 31, 2022, the refundable liability totalled $4.1 million. There was also an increase of $5.7 million of vendor payables as a result of increased originations in both equipment financing segments. The remainder was mainly related to an increase in accruals related to payroll and operating costs as a result of increased originations.

As at December 31, 2022, the Company had a current tax payable balance of $1.9 million. The Asset Management Segment currently holds a majority of the balance as a result of a greater tax accrual on increased profit.

During the year ended December 31, 2022, there was a net decrease in the option liability established during the merger of Blue Chip and Vault Credit of $7.8 million as a result of a decrease in the underlying net assets used to value the liability. See Note 25 - *Business Combinations* to the audited consolidated financial statements for further detail on the option liability.

Borrowings totalled $2.2 billion as at December 31, 2022 compared to $1.3 billion as at December 31, 2021, an increase of $0.9 billion net of deferred financing costs. The increase is primarily a function of the increased originations and inclusion of Rifco. Rifco contributed $199.5 million in debt at the time of acquisition, which has since increased by $16.3 million, to $215.8 million, as at December 31, 2022. The U.S. Equipment Financing Segment's US dollar debt is further increased by US$178.9 million, the Canadian Equipment Financing Segment's debt increased by $271.3 million, and the drawdown under Chesswood Credit Facility increased by $103.9 million since December 31, 2021.

The $2.9 million (December 31, 2021 - $4.4 million) in customer security deposits relates to security deposits predominantly held by the U.S. Equipment Financing Segment. Historically, the U.S. Equipment Financing Segment's non-prime contracts typically required that the lessees/borrowers provide one or two payments as security deposit (not advance payments), which are held for the full term of the lease/loan and then returned or applied to the purchase option of the equipment at the lessee's/borrower's request, unless the contract is in default (in which case the deposit is applied against the receivable). Beginning in January 2019, the U.S. Equipment Financing Segment discontinued requiring security deposits due to changing market conditions and now require advance payments (first and last months).

Deferred tax liabilities as at December 31, 2022 totalled $26.9 million compared to $27.1 million as at December 31, 2021, a decrease of $1.2 million. Taxes are provided for using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the subsidiaries' assets and liabilities and their corresponding tax basis.

As at December 31, 2022, there were 17,619,661 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of $125.7 million. A total of 498,605 common shares were issued as part of the consideration for the Rifco acquisition on January 14, 2022 and 150,983 common shares were issued as part of the consideration for the Waypoint acquisition on May 25, 2022. In addition, during the year ended December 31, 2022, 192,100 RSUs were exercised, 123,389 options were exercised, and 533,332 special warrants were automatically exercised.

In December 2021, the Company's Board of Directors approved the repurchase for cancellation of up to 980,230 of the Company's outstanding common shares for the period commencing January 24, 2022 and ending on January 23, 2023. From January 24, 2022 to December 31, 2022, the Company repurchased 453,612 of its common shares under the normal course issuer bid at an average cost of $12.58 per share. The excess of the purchase price over the average stated value of common shares purchased for cancellation was charged to retained earnings. Decisions regarding the timing of purchases will be based on market conditions and other factors.

In January 2023, the Company's Board of Directors approved the repurchase for cancellation of up to 1,033,781 of the Company’s outstanding common shares for the period commencing January 25, 2023 and ending on January 24, 2024. Subsequent to year-end (up to and including March 7, 2023), the Company has not repurchased shares under the normal course issuer bid.

Additionally, the Company has entered into an automatic share purchase plan with a broker for the purpose of permitting the Company to purchase its common shares under the normal course issuer bid at times when the Company would otherwise not be permitted to trade in its own shares during internal blackout periods, including during regularly scheduled quarterly blackout periods. Such purchases will be determined by the broker in its sole discretion based on parameters the Company has established.

Non-controlling interest consists of 1,274,601 Class B common shares and 203,936 Class C common shares (the "Exchangeable Securities") of Chesswood U.S. Acquisitionco Ltd. (“U.S. Acquisitionco”) issued as partial consideration for the acquisition of Pawnee and are fully exchangeable at any time for the Company's common shares, on a one-for-one basis, for no additional consideration, through a series of steps and entitle the holders to receive the same dividends as the common shares. Attached to the Exchangeable Securities are Special Voting Shares of the Company which provide the holders of the Exchangeable Securities voting equivalency to holders of common shares. Under IFRS, the Exchangeable Securities must be shown as non-controlling interest because they are equity in a subsidiary not attributable, directly or indirectly, to the parent. Their portion of income and dividends is allocated to non-controlling interest. Including the common shares issuable in exchange for the Exchangeable Securities, Chesswood had 19,098,198 common shares outstanding.

As a result of the Blue Chip - Vault Credit merger and prior to the exercise of the option liability, the non-controlling interest in the Canadian Holdco has a right to 49% of the income and distributions of the Canadian Holdco. However, because of the option liability, the non-controlling interest in the Canadian Holdco is not recognized. See Note 25 - *Business Combinations.* Finally, there is a 49% non-controlling interest in Vault Home which is recognized under the non-controlling interest section of shareholders' equity.

Contributed surplus includes the accumulated share-based compensation expensed over the vesting term for options and RSUs unexercised as at December 31, 2022. There were 1,908,050 options and 479,400 RSUs outstanding as at December 31, 2022.

LIQUIDITY AND CAPITAL RESOURCES

The primary sources of cash for the Company and its subsidiaries have been cash flows from operating activities, and borrowings under its and its various subsidiaries' revolvers, warehouses, asset-backed securitizations and bulk lease financing facilities. The primary uses of cash for the Company and its subsidiaries are to fund originations of equipment leases and loans, auto loans, support working capital, long-term debt principal repayments, share repurchases and dividends.

The Company and its subsidiaries were compliant with all covenants as at and through the year ended December 31, 2022.

As at December 31, 2022, the Company had the following facilities:

(a) Chesswood Credit Facility:

(i) In support of its strategic plan, Chesswood exercised the accordion feature under this revolving credit facility in Q4 2022, which expanded its capacity to US$386.7 million from US$300 million previously. The facility is subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility is secured by substantially all of the Company’s (and most of its subsidiaries') assets, contains covenants, including maintaining leverage, interest coverage and delinquency ratios, and expires on January 14, 2025. As at December 31, 2022, the Company was utilizing US$236.1 million (December 31, 2021 - US$153.5 million) of its credit facility and had approximately US$150.6 million in additional borrowings available under the revolving credit facility. Based on average debt levels, the effective interest rate during the year ended December 31, 2022, was 4.91% (year ended December 31, 2021 - 4.50%).

This revolving credit facility allows Chesswood to internally manage the allocation of capital to its financial services businesses in Canada and the United States. The credit facility supports growth in finance receivables, provides for Chesswood's working capital needs and for general corporate purposes. The facility, available in U.S. dollars or Canadian dollars, also improves the Company's financial flexibility by centralizing treasury management and making the provision of capital to individual businesses more efficient. The financing facilities are not intended to directly fund dividends by the Company. Under the facility, the maximum amount of cash dividends and purchases under its normal course issuer bid in respect of a month is 1/12 of 90% of Free Cash Flow (see dividend policy below) for the most recently completed four financial quarters for which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is defined as the consolidated Adjusted EBITDA less maintenance capital expenditures and tax expense, plus or minus the tax effect of non-cash change in the allowance for ECL. Please refer to the definitions of Non-GAAP Measures provided in the MD&A.

(b) U.S. Equipment Financing Segment:

(i) The U.S. Equipment Financing Segment has a credit facility, with a US$150 million annual capacity, with a life insurance company to be renewed annually in October. The funder makes approved advances to the segment on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. The segment maintains certain cash reserves as credit enhancements or provides letters of credit in lieu of cash reserves. The segment retains the servicing of these finance receivables. The balance of this facility as at December 31, 2022 was US$112.8 million (December 31, 2021 - US$95.1 million). Based on average debt levels, the effective interest rate for the year ended December 31, 2022, was 3.91% (including amortization of origination costs) (year ended December 31, 2021 - 3.72%).

(ii) In October 2019, the U.S. Equipment Financing Segment completed a US$254 million asset-backed securitization that has a fixed term and fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay down the U.S. Equipment Financing Segment's previously existing warehouse line and Chesswood's senior revolving credit facility. The balance of this facility as at December 31, 2022 was US$37.2 million (December 31, 2021 - US$83.1 million). Based on average debt levels, the effective interest rate was 3.47% for the year ended December 31, 2022 (including amortization of origination costs) (year ended December 31, 2021 - 3.24%).

(iii) On September 30, 2020, the U.S. Equipment Financing Segment completed a US$183.5 million asset-backed securitization that has a fixed term and fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's previously existing warehouse line, and CapOne facilities, and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at December 31, 2022 was US$45.9 million (December 31, 2021 - US$89.8 million). The effective interest rate was approximately 3.29% for the year ended December 31, 2022 (including amortization of origination costs) (year ended December 31, 2021 - 2.61%).

(iv) On October 22, 2021, the U.S. Equipment Financing Segment completed a US$356.1 million asset-backed securitization that has a fixed term and a fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's warehouse line and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at December 31, 2022, was US$222.0 million (December 31, 2021 - US$333.9 million). The effective interest rate was approximately 1.90% for the year ended December 31, 2022 (including amortization of origination costs) (year ended December 31, 2021 - 2.01%).

(v) On August 15, 2022, the U.S. Equipment Financing Segment completed a US$346.6 million asset-backed securitization that has a fixed term and a fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's warehouse line and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at December 31, 2022, was US$313.1 million (December 31, 2021 - nil). The effective interest rate was approximately 5.85% for the year ended December 31, 2022 since the inception of the facility (including amortization of origination costs) (year ended December 31, 2021 - nil).

(vi) The U.S. Equipment Financing Segment has a US$350 million revolving warehouse loan facility that was established in May 2021 specifically to fund its growing prime and near prime portfolio. The warehouse facility holds the U.S. Equipment Financing Segment's prime receivables before they are securitized and is secured by the U.S. Equipment Financing Segment's assets, and contains covenants, including maintaining leverage, interest coverage, and delinquency ratios. This facility has a revolving period until November 2024 followed by an optional amortizing period for an additional 36 months. As at December 31, 2022, the balance of this facility was US$44.8 million (December 31, 2021 - nil). The effective interest rate for the year ended December 31, 2022 was approximately 3.93% (including amortization of origination costs) (year ended December 31, 2021 - 2.09%).

(vii) The U.S. Equipment Financing Segment entered into arrangements on April 29, 2021 under which an investment fund managed by Waypoint provides loan funding to a special purpose vehicle and thereby receives returns based on the performance of a specific group of finance receivables. The investment fund is structured as a limited partnership with the Company owning the general partnership interest. Waypoint receives fees for managing the investment fund. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. The balance of this facility as at December 31, 2022 was US$30.0 million (December 31, 2021 - US$19.0 million). Based on average debt levels, the effective return provided to the private credit investors for the year ended December 31, 2022 was 14.41% (including amortization of origination costs) (year ended December 31, 2021 - 12.48%).

(viii) As at December 31, 2022, the U.S. Equipment Financing Segment had provided US$4.0 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2021 - US$0.5 million).

(c) Canadian Equipment Financing Segment:

On October 1, 2022, Blue Chip and Vault Credit were amalgamated. The amalgamated corporation, which continues to use the Vault Credit Corporation name, remains a wholly owned subsidiary of the Canadian Holdco (in which, as noted above, Chesswood owns 51% and exercises control).

As at December 31, 2022, Vault Credit had master purchase and servicing agreements with various financial institutions and life insurance companies (referred to collectively as the “Funders”). The Funders make advances to Vault Credit on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. The facilities have limited recourse to other assets in the event that lessees/borrowers fail to make payments when due. Vault Credit either maintains certain cash reserves as credit enhancements or provides letters of credit in return for release of the cash reserves. As at December 31, 2022, Vault Credit continues to service these finance receivables on behalf of the Funders.

(i) As at December 31, 2022, Vault Credit had access to the following committed lines of funding:

- (a) $200 million annual limit from a life insurance company.
- (b) $150 million rolling limit from a financial institution.
- (c) $250 million rolling limit from a bank.
- (d) Approved funding from another financial institution with no annual or rolling limit.

As at December 31, 2022, Vault Credit had $629.2 million (December 31, 2021 - $359.7 million) in securitization and bulk lease financing facilities debt outstanding. Vault Credit had access to at least $363.3 million of additional financing from its securitization partner (December 31, 2021 - $247.5 million).

The interest on the $250 million rolling limit from a bank is floating. All other interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Based on average debt levels, the effective interest rate during the year ended December 31, 2022 was 3.69% for Vault Credit (year ended December 31, 2021 - 2.73%).

(ii) The Canadian Equipment Financing Segment entered into arrangements on December 14, 2021 under which Vault Credit Opportunities Fund ("VCOF") provides loan funding to Vault Credit and thereby receives returns based on the performance of a specific group of finance receivables. The Canadian Equipment Financing Segment receives fees for servicing the portfolio. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. The balance of this facility as at December 31, 2022 was $2.0 million (December 31, 2021 - $2.2 million). VCOF earns a yield equivalent to the interest on the underlying loans.

(iii) As at December 31, 2022, Vault Credit had provided $14.9 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2021 - $3.8 million). Vault Credit must meet certain financial covenants, including leverage ratio, interest coverage ratio, and tangible net worth covenants, to support these securitization and bulk lease financing facilities.

(d) Canadian Auto Financing Segment:

(i) As at December 31, 2022, Rifco had access to the following committed lines of funding:

(a) $60 million annual limit from a life insurance company.
(b) $50 million rolling limit from a financial institution.
(c) Approved funding from another financial institution with no annual or rolling limit.

As at December 31, 2022, Rifco had $208.3 million outstanding on its securitization facilities. Based on average debt levels, the effective interest rate during the year ended December 31, 2022, was 4.48%.

(ii) Unsecured debentures:

Rifco has previously issued unsecured debentures which allow Rifco the right to redeem the debenture in the last year of their terms without penalty. The unsecured debenture holders do not have early retraction rights and have no right to convert into common shares. 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. Rifco was compliant for the reporting period. The unsecured debentures are non-retractable and have maturity dates that go out until August 2026.

As at December 31, 2022, Rifco had $7.5 million in unsecured debentures outstanding. Based on average debt levels, the effective interest rate during the year ended December 31, 2022, was 8.81%.

(iii) As at December 31, 2022, Rifco had provided $5.1 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves.

Cash Sources and Uses

The statement of cash flows, which is compiled using the indirect method, shows cash flows from operating, investing, and financing activities, and the Company's cash at the beginning and end of the period. Cash flows in foreign currencies have been translated at the average exchange rate for the period. Cash flow from operating activities comprises net income adjusted for non-cash items, and changes in operational net assets. IFRS deems changes in finance receivables as operating assets for financial companies. Receipts and payments with respect to tax are included in cash from operating activities. Interest revenue and interest expense are included in operating activities. Cash flow from investing activities comprises payments relating to the acquisition of companies, cash acquired on business combinations, and payments relating to the purchase of property and equipment. Cash flow from financing activities comprises changes in borrowings, payment of dividends, proceeds from stock issues, exercise of stock options, and the purchase and sale of treasury stock.

For the year ended December 31, 2022

During the year ended December 31, 2022, there was an increase in cash and restricted funds of $4.9 million compared to an increase in cash of $44.7 million in the same period in the prior year as a result of the reasons discussed below.

The Company's U.S. and Canadian equipment finance receivables have an average remaining term of approximately 43 and 37 months, respectively, and the Canadian Auto Financing Segment has an expected realized term of approximately 25 months. The U.S. and Canadian equipment finance receivables will generate earnings approximately over the next 43 and 37 months, respectively. The Company's Canadian auto finance receivables expect to generate earnings over the next 25 months. For all segments, only a portion of earnings will be recognized in the current operating period. Chesswood's ability to borrow under its various credit facilities is directly linked to its finance receivable portfolio. The funds borrowed (or repaid) to support the growth (retraction) in the finance receivables is shown under financing activities.

The Company’s operations utilized $591.2 million of cash and restricted funds during the year ended December 31, 2022, compared to $470.0 million cash and restricted funds utilized in the prior year, an increase in utilization of $121.2 million compared to the prior year.

The net cash and restricted funds utilized to fund the growth in finance receivables (funds advanced, recoveries on amounts previously written off, origination costs, security deposits, and principal payments) totalled $720.1 million for the year ended December 31, 2022, compared to the utilization of $546.2 million to prior year, an increase of $173.9 million in cash and restricted funds utilized compared to the prior year.

The Company funded growth in finance receivables from cash from operating activities as well as net borrowings of $614.3 million for the year ended December 31, 2022. In the prior year, the Company funded growth in finance receivables from cash from operating activities and net borrowings of $510.7 million.

During the year ended December 31, 2022, the Company had net tax payments of $19.2 million compared to net tax payments of $12.1 million in the prior year, an increase in cash and restricted funds utilization of $7.1 million compared to the prior year.

Proceeds from the exercise of options were $0.9 million during the year ended December 31, 2022 and cash was utilized to repurchase common shares under the Company's normal course issuer bid for $5.7 million. Analogous amounts for the year ended December 31, 2021, were $5.2 million and $4.9 million, respectively.

The Company paid $8.8 million of dividends to the holders of its common shares and Exchangeable Securities, as well as on its special warrants during the year ended December 31, 2022 compared to $5.6 million paid in the prior year.

Cash and restricted funds used in investing activities were insignificant during the year ended December 31, 2022. The net cash received on acquisition of Rifco is offset by the cash paid for the acquisition of Waypoint and the cash utilized in the purchase of property and equipment. Total cash utilized for investment activities was $0.4 million for the year ended December 31, 2022. In 2021, the $15.9 million investing activity inflow mainly related to cash and restricted cash obtained from the Vault Credit and Vault Home acquisitions.

For the three months ended December 31, 2022

During the three months ended December 31, 2022, there was a decrease in cash and restricted funds of $42.1 million compared to a $18.7 million decrease of cash in the same period in the prior year as a result of the reasons discussed below.

The Company’s operations utilized $122.3 million of cash and restricted funds during the three months ended December 31, 2022, compared to $214.5 million of cash and restricted funds utilized in the same period in the prior year, a decrease in utilization of $92.2 million compared to the same period in the prior year.

The Company funded growth in finance receivables from cash and restricted funds from operating activities (funds advanced, recoveries on amounts previously written off, origination costs, security deposits, and principal payments) of $149.0 million and net borrowings of $90.9 million for the three months ended December 31, 2022. In the same period in the prior year, the Company funded growth in finance receivables using $237.5 million from cash and restricted funds from operating activities and net borrowings of $205.5 million.

During the three months ended December 31, 2022, the Company had net tax payments of $4.7 million compared to net tax payments of $5.4 million in the same period in the prior year, a decrease in cash and restricted funds utilization of $0.7 million compared to the same period in the prior year.

The Company paid $2.6 million for the repurchase of common shares under its normal course issuer bid and paid $2.4 million of dividends to holders of its common shares and Exchangeable Securities, as well as on its special warrants during the three months ended December 31, 2022. The Company paid $0.5 million for the repurchase of common shares and $1.6 million of dividends in the same period in the prior year.

Chesswood expects that current operations and planned capital expenditures for the foreseeable future of its subsidiaries will be financed using funds generated from operations, existing cash, and funds available under existing and/or new credit and financing facilities. Chesswood may require additional funds to finance future originations, acquisitions and support significant internal growth initiatives relating to finance receivable portfolio growth. It will seek such additional funds, if necessary, through public or private equity, debt financings or securitizations from time to time, as market conditions permit.

Financial Covenants, Restrictions and Events of Default

The Company and its operating subsidiaries are subject to bank and/or funder covenants. The Company was compliant with all of its covenants on all facilities as at December 31, 2022.

The Company's ability to access funding at competitive rates through various economic cycles enables it to maintain the liquidity necessary to manage its businesses. This ability to continue to access funding at competitive rates is an important condition to its future success.

The Company's secured borrowing agreement and its subsidiaries' warehousing, asset-backed securitization, securitizations, and bulk lease financing facility agreements have financial covenants and other restrictions which must be met in order to obtain continued funding.

Advances on the Chesswood revolving credit facility may be drawn at any time, subject to compliance with borrowing base calculations and required representations and warranties. As at December 31, 2022, US$150.6 million was available under the US$386.7 million facility (utilizing US$236.1 million), which included US$18.8 million of letters of credit.

Dividends to Shareholders

On March 9, 2022, the Company announced a 33% monthly dividend increase to $0.04 per share ($0.48 per share annualized), effective for the dividend for March 2022 (paid in April). On November 7, 2022, the Company announced a further increase to its dividend per share to $0.05 per month (or $0.60 per year), effective January 31, 2023.

Dividend Policy

The Company's policy has been to pay monthly dividends to shareholders of record on the last business day of each month by the 15th of the following month (or the next business day thereafter if the 15th is not a business day).

Under the Chesswood credit facility, the maximum amount of monthly cash dividends and repurchases under its normal course issuer bid is 1/12 of 90% of Free Cash Flow (as defined under Non-GAAP Measures in this MD&A) for the most recently completed four financial quarters for which Chesswood has publicly filed its consolidated financial statements.

The amount of any dividends payable by Chesswood is at the discretion of its Board of Directors, is evaluated on an ongoing basis, and may be revised subject to business circumstances and expected capital requirements depending on, among other things, Chesswood's earnings, financial requirements for its operating entities, growth opportunities, the satisfaction of applicable solvency tests for the declaration and payment of dividends and other conditions existing from time to time.

Minimum Payments

The following are the contractual payments and maturities of financial liabilities and other commitments as at December 31, 2022 (including interest):

($ thousands)	2023	2024	2025	2026	2027	2028+	Total
Accounts payable and other liabilities	$ 43,871	$ —	$ —	$ —	$ —	$ —	$ 43,871
Premise leases payables (a)	1,148	1,131	810	619	245	54	4,007
Borrowings (b)	780,268	609,042	736,382	201,726	83,514	20,738	2,431,670
Customer security deposits (c)	1,660	372	311	431	266	—	3,040
	826,947	610,545	737,503	202,776	84,025	20,792	2,482,588
Service contracts	2,210	907	860	598	396	396	5,367
Total commitments	$ 829,157	$ 611,452	$ 738,363	$ 203,374	$ 84,421	$ 21,188	$ 2,487,955

a. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2028. The amounts above exclude adjustment for discounting premise leases payable.

b. Borrowings are described in Note 10 - *Borrowings*, and include fixed payments for the U.S. Equipment Financing Segment, Canadian Equipment Financing Segment, and the Canadian Auto Financing Segment securitization facilities, as well as the Canadian Auto Financing Segment's debentures and Chesswood's corporate revolving credit facility which is a line of credit and, as such, the balance can fluctuate. The amounts above include fixed interest payments on the U.S. Equipment Financing Segment's, Vault Credit's, and the Canadian Auto Financing Segment's credit facilities and estimated interest payments on the Canadian Auto Financing Segment's debentures and Chesswood's corporate credit facility. The latter assuming the interest rate, debt balance and foreign exchange rate as at December 31, 2022 remain the same until the expiry date of January 2025. The amount owing under Chesswood's revolving credit facility and the Canadian Auto Financing Segment's debentures are shown in the year of maturity, and all other expected payments for borrowings are based on the underlying finance receivables supporting the borrowings.

c. The Company's experience has shown the actual contractual payment streams will vary depending on a number of variables, including prepayment rates, charge-offs, and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.

Reference should be made to Note 6(b) - *Finance Receivables* of the audited consolidated financial statements for the expected collections of finance receivables over the same time period. Also see Note 10(e) - *Borrowings* for the amount of restricted funds in collections accounts that will be applied to debt in the following month.

The Company has no material liabilities that have not been recognized and presented on the consolidated statements of financial position, other than US$18.8 million in letters of credit.

OUTLOOK

Chesswood has undergone substantial transformation when comparing its scale, sources of funding and diversity of asset exposures to levels three years ago. The operating teams have demonstrated their ability to grow profitably without sacrificing credit standards and operational processes. To ensure we can continue along this path, core technology systems are being upgraded to improve efficiency and provide better risk management across the organization.

We see a long runway to continue building value across our operational platforms. The medium term objective for our team is to achieve a total portfolio size between $4 billion and $6 billion over the next several years. Current origination levels support this objective, and therefore time is the primary variable for us to achieve success.

As we progress further into 2023, the economy is showing signs of distress. While macro economic headlines appear stable, it is evident in the performance of loan portfolios across a variety of industries that delinquencies are trending higher. The lagging effects of higher interest rates appear to be moving through the economic machine. We too are seeing this in our portfolio, and have been increasing provisions as well as ramping up our collections teams.

As pressure on short term rates remains fluid to ever-changing macro-economic data, we have focused on repricing our different products to reflect new market realities. This has taken time and lagged the speed of rising rates. Curve inversion has offered some relief on securitizations, but we will require another quarter before our adjustments to pricing are fully reflected. We expect to see gradual margin improvements as we progress throughout the year, and will adjust pricing further if necessary.

We are excited to announce a new institutional funding arrangement – Värde Partners - at the start of 2023. Värde Partners is a leading global alternative investment firm specializing in credit and credit-related assets. This second forward flow arrangement for Chesswood further validates the appetite for receivables originated by Chesswood operating entities, and represents continued progress on our asset management objectives. As part of the agreement, Värde will provide us with additional off balance sheet funding for our U.S Equipment receivables to support the growth of our overall loan portfolio while diversifying our income sources.

RISK FACTORS

An investment in the Company's common shares entails certain risk factors that should be considered carefully.

Chesswood operates in a dynamic environment that involves various risks and uncertainties, many of which are beyond our control and which could have an effect on our business, revenues, operating results, cash flow and financial condition. Readers should carefully review the risk factors in the Company's Annual Information Form filed with various Canadian securities regulatory authorities through SEDAR (the System for Electronic Document Analysis and Retrieval) at www.sedar.com, a summary of which are set out below.

Deterioration in Economic or Business Conditions; Impact of Significant Events and Circumstances; COVID-19

The results of the Company's subsidiaries may be negatively impacted by various economic factors and business conditions, including the level of economic activity in the markets in which they operate. To the extent that economic activity or business conditions deteriorate, originations may decrease, delinquencies and credit losses may increase and investor confidence could result in less investor interest in products offered by the Asset Management Segment. Delinquencies and credit losses generally increase during economic slowdowns or recessions such as that experienced in the United States from 2008-2013. As our operating companies extend credit primarily to small businesses (and for Rifco and Vault Home, individual consumers), many of their customers may be particularly susceptible to economic slowdowns or recessions, and may be unable to make scheduled lease or loan payments during these periods. Unfavourable economic conditions may also make it more difficult for our operating companies to maintain new origination volumes and the credit quality of new leases and loans at levels previously attained. Unfavourable economic conditions could also increase funding costs or operating cost structures, limit access to credit facilities, securitizations and other capital markets or result in a decision by lenders not to extend further credit.

In addition, the equipment or consumer product finance industries generally may be affected by changes in accounting treatment for leases and loans, and negative publicity with respect to, among other things, fraud or deceptive practices by certain participants in the industry. Greater governmental scrutiny is also a risk, especially as to the tax treatment of certain transaction structures or other aspects of these transactions that, if changed, could result in additional tax, fee or other revenue to that governmental authority. Any of these factors may make leasing or loaning less attractive or diminish the profitability of the existing financing alternatives offered by our operating companies.

In addition to being impacted by factors or conditions in the United States or Canada, political, economic or other significant events or circumstances outside of North America (whether war or political unrest which impact upon the prices of oil and other commodities or otherwise) can ultimately significantly impact upon North American economic conditions which, in turn, could result in the adverse implications described in the first paragraph under this heading. Similarly, natural disasters in any part of the world may directly (through impact on supplies of goods or equipment to our businesses) or indirectly impact Chesswood's operations or results. Further, tariffs or duties imposed by a country could adversely impact upon industries in which companies to which our operating companies have provided financing or seek to provide financing, which may impact Chesswood's operations or results.

Of particular note are the significant potential continuing impact of the COVID-19 pandemic, the military conflict in Ukraine, and the related multinational sanctions, and growing inflation and recession concerns.

Portfolio Delinquencies; Inability to Underwrite Lease and Loan Applications

Pawnee's receivables consist primarily of lease and loan receivables originated under programs designed to serve small and medium-sized, often owner-operated, businesses that have limited access to traditional financing. There is a high degree of risk associated with equipment financing for such parties. A portion of Pawnee's portfolio comprises start-up businesses that have not established business credit or a more established business that has experienced some business or personal credit difficulty at some time in its history. As a result, such leases or loans entail a relatively higher risk and may be expected to experience higher levels of delinquencies and loss levels. Pawnee cannot guarantee that the delinquency and loss levels of its receivables will correspond to the historical levels Pawnee has experienced on its portfolio and there is a risk that delinquencies and losses could increase significantly.

Analogous risks are faced by Tandem, the Canadian Equipment Financing Segment, and Rifco in their businesses.

In addition, since defaulted leases and loans and certain delinquent leases and loans cannot be used as collateral under our financing facilities, higher than anticipated lease and loan defaults and delinquencies could adversely affect our liquidity by reducing the amount of funding available to us under our financing arrangements. Furthermore, increased rates of delinquencies or loss levels could result in adverse changes to the terms of future financing arrangements, including increased interest rates payable to lenders and the imposition of more burdensome covenants and increased credit enhancement requirements.

Dependence on Key Personnel

Our operating companies depend to a large extent upon the abilities and continued efforts of their key operating personnel and senior management teams.

Relationships with Brokers, Dealers, and Other Origination Sources

The U.S. and Canadian operations have formed relationships with hundreds of origination sources, comprised primarily of equipment finance brokerage firms, vendors/distributors (for Rifco, motor vehicle dealerships) and investment product distribution channels. They rely on these relationships to generate applications and originations and to locate investors for investment products offered by the Asset Management Segment. The failure to maintain effective relationships with their brokers and other origination sources or decisions by them to refer transactions to, or to sign contracts with, other financing sources could impede their ability to generate transactions, including in Canada where the subsidiaries get a substantial portion of their origination volumes from a few large equipment brokerage firms and from a limited number of automotive dealerships.

Tandem is forming relationships with origination partners, comprised primarily of equipment dealers. It will rely on the relationships it creates to generate lease and loan applications and originations. Many of these relationships may not be formalized in written agreements, and those that are formalized may be terminable at will. The decision by a significant number of Tandem's origination partners to refer their transactions to other companies would impede Tandem's ability to generate transactions. Analogous risks are faced by Vault Home, Rifco, and the Asset Management Segment.

Risk of Future Legal Proceedings

Our operating companies are threatened from time to time with, or are named as defendants in, or may become subject to, various legal proceedings, fines or penalties in the ordinary course of conducting their respective businesses. A significant judgment or the imposition of a significant fine or penalty on an operating company (or on a company engaged in a similar business, to the extent the operating company operates in a similar manner) could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Interest Rate Fluctuations

The Company and our operating companies are exposed to fluctuations in interest rates under their borrowings. Increases in interest rates (to the extent not mitigated by interest hedging arrangements or fixed rate securitizations) may have a material adverse impact on our businesses, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

The leases and loans are written at fixed interest rates and terms. Generally, the Company finances the activities of its operating companies with both fixed rate and floating rate funds. To the extent the operating companies finance fixed rate leases and loans with floating rate funds, they are exposed to fluctuations in interest rates such that an increase in interest rates could narrow or eliminate the margin between the yield on a lease and loan and the effective interest rate paid by the borrower.

At the customer level, non-prime segments of the micro and small-ticket equipment finance market have historically and typically been, and continue to be, more sensitive to the monthly payment amounts than to the effective rates of interest charged. For interest rate risk sensitivities, please refer to Note 5 - *Financial Risk Management* in the audited consolidated financial statements.

Losses from Leases and Loans; The Risk/Yield Trade-off

Losses from leases and loans in excess of our operating companies' expectations would have a material adverse impact on our businesses, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Changes in economic conditions, the risk characteristics and composition of the portfolio, bankruptcy laws, and other factors could impact our operating companies' actual and projected net credit losses and the related allowance for ECL. Should there be a significant change in the above noted factors, then our operating companies may have to set aside additional reserves which could have a material adverse impact on their respective business, financial condition and results of operations and on the amount of cash available for dividends to our shareholders.

Determining the appropriate level of the allowance is an inherently uncertain process and therefore the determination of this allowance may prove to be inadequate to cover losses in connection with a portfolio of leases and loans. Factors that could lead to the inadequacy of an allowance for ECL may include the inability to appropriately underwrite credit risk of new originations, effectively manage collections, or anticipate adverse changes in the economy or discrete events adversely affecting specific customers, industries or geographic areas.

Financing for higher credit rated lessees and borrowers represents an increasing part of the composition of our equipment leasing and loan portfolios. While it is expected that the losses and allowance for ECL in respect of this part of the portfolios will be lower - commensurate with the prime credit rating of the lessees/borrowers - the spread between the rates that can be charged over our cost of funds is also considerably smaller.

Adverse Events or Legal Determinations in Areas with High Geographic Concentrations of Leases or Loans

If judicial or other governmental rulings or actions or interpretations of laws adverse to the equipment and consumer finance industries in general or to business practices engaged in by our operating companies, or adverse economic conditions or the occurrence of other significant events such as natural disasters and terrorist attacks, were to occur in a geographic region with a high concentration of leases/loans or equipment/vehicles financed from our operating companies, there could be a material adverse impact on our business, financial condition and results of operations, and the amount of cash available for dividends to our shareholders.

"Characterization" Risks

If an applicable court or regulatory authority were to make an adverse finding, or take an adverse action on the basis that a form of lease is not a true lease for commercial law, tax law, or other legal purposes, adverse consequences could result with respect to leases entered into in such form including the loss of preferred creditor status (which would impact the rights to recover on a claim), limitations on finance charges and other fees that can be enforced, and additional federal, state and other (income or sales) taxes payable.

Defenses to Enforcement of a Significant Number of Leases and Loans

Certain defenses and recovery impediments are more common in micro and small-ticket equipment finance transactions (and in particular consumer product finance transactions) than with respect to equipment finance providers in other segments of the equipment finance industry. Management believes that certain of these risks are sufficiently addressed in the existing documentation and related business practices of our operating companies. However, there are other risks that they have not addressed for various reasons, including that certain of these risks are not susceptible to being addressed either at all or without incurring cost inefficiencies or taking other measures deemed unacceptable by management based on a risk-reward assessment. Our operating companies have never experienced any material occurrence of these risks nor have these risks historically had a material adverse impact on them. However, there is no assurance that these risks will not have a material adverse impact on their business, financial condition and results of operations in the future.

Origination, Funding and Administration of Transactions

Our operating companies' origination, funding and transaction administration practices could result in certain vulnerabilities in their enforcement rights. For example, certain leases and loans are assignments of transactions already documented by brokers. Acquiring leases/loans by this “indirect” process subjects our operating companies to various risks, including risks that might arise by reason of the broker’s insolvency, administrative inadequacies or fraudulent practices, as well as any third-party claims against the broker or its rights with respect to the assigned lease or loan. Our operating companies may be subject to risks related to broker or motor vehicle dealer practices, whether or not our operating companies have actual legal responsibility for broker/dealer conduct. Any of these broker/dealer related risks can impair our operating companies’ rights with respect to recovering the rents and/or property under leases and loans.

If the lessee/borrower or broker is the party to whom the vendor of the equipment has agreed to sell the property at the time of its delivery, then under applicable commercial law, the lessee/borrower or broker, as applicable, may be deemed to have acquired title to the property prior to our operating companies having funded the transaction. It has not been their practice to ensure that the title to the leased property has not already passed or to obtain assurances that it is acquiring good title to that property free of liens and other third-party claims. The manner in which our operating companies purchase the equipment is typical in this market segment, especially with respect to similarly situated equipment financing providers. They have not yet faced any meaningful challenge or adverse consequence from this practice, but there can be no assurance that such a challenge or consequence will not occur in the future.

In most circumstances where the equipment is less than US$15,000 (or US$10,000 if for a home business) for Pawnee’s "C" or "Start-up" product and US$50,000 for the “B” product, and US$100,000 for "A", Pawnee’s practice of requiring only a verbal confirmation that the property has been delivered and irrevocably accepted under the subject lease or loan, and/or inspecting the property to confirm the same, could make Pawnee vulnerable to certain defenses. By way of example, Pawnee’s deemed failure to deliver conforming property under the lease or loan documents could be a defense to a lessee/borrower’s “unconditional” obligation to pay the rents and certain other amounts. Pawnee has not suffered any material losses relating to these practices, however, there can be no assurance that it would not in the future.

Analogous risks are faced by Tandem, the Canadian Equipment Financing Segment, and Rifco.

Changes in Governmental Regulations, Licensing and Other Laws and Industry Codes of Practice

Finance companies are subject to laws and regulations relating to extending financing generally and are also members of industry associations (including law societies and analogous governing bodies) which have adopted, among other things, codes of business practice. Laws, regulations and codes of business practice may be adopted with respect to existing leases and loans or the leasing, marketing, selling, pricing, financing and collections processes which might increase the costs of compliance, or require them to alter their respective business, strategy or operations, in a fashion that could hamper the ability to conduct business in the future.

There is increasingly stringent interpretation and enforcement of existing legislation related to registered dealers and advisors and other asset management companies. Regulatory developments may also impact product structures, pricing and compensation.

Licensing Requirements

If an applicable court or regulatory authority were to make an adverse finding or otherwise take adverse action with respect to our operating companies based on their failure to have a finance lender's or other license or registration required in the applicable jurisdiction, our operating companies would have to change business practices and could be subject to financial or other penalties. Further, certain jurisdictions may enact or change administrative practices in respect of licensing requirements for our operating companies or their referring brokers. For example, California requires that referring brokers have a lenders' license, which may impact loan referrals from certain brokers for funding to California residents.

Fees, Rates and Charges

Some of our operating companies' documents require payment of late payment fees, late charge interest, and other charges either relating to the non-payment under, or enforcement, of their leases and loans. It could be determined that these fees and/or the interest rates charged exceed applicable statutory or other legal limits. If the charges are deemed to be punitive and not compensatory, or to have other attributes that are inconsistent with, or in violation of, applicable laws, they could be difficult to enforce. A number of charges payable with respect to equipment finance transactions in the micro and small-ticket equipment finance market have been the subject of litigation by customers against financing parties in the past. Although our subsidiaries are not currently the subject of any such litigation, there can be no assurance that a lessee/borrower or a group of lessees/borrowers will not attempt to bring a lawsuit against our subsidiaries in relation to fees and charges, which our subsidiaries may or may not be successful in defending.

Our operating companies believe that their fee programs are designed and administered so as to comply with legal requirements and are within the range of industry practices in their market segments. Nevertheless, certain attributes of these fees or charges, and their practices, including that their leases and loans typically provide for several different fees and charges resulting in a substantial amount of fee income and the possibility that the fees and charges may exceed actual costs involved or may otherwise be deemed excessive, could attract litigation, including class actions, that would be costly even if our subsidiaries were to prevail and as to which no assurance can be given of their successful defense. In addition to the risk of litigation, fee income is important to our subsidiaries and the failure of our subsidiaries to continue to collect most of these fees could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Insurance

To ensure that the lessor or lender of the leased or financed property suffering a loss receives the related insurance proceeds, the lease or loan also requires that the lessor or lender be named as a loss payee under the requisite casualty coverage. However, each lessee/borrower is ultimately relied upon to obtain and maintain the required coverage for financed property but there is no certainty that they will obtain the requisite coverage either conforming to the requirements of the lease or loan, or at all. Additionally, there are often policy provisions including exclusions, deductibles and other conditions that by their terms, or by reason of a breach, could limit, delay or deny coverage. There can be no assurance that any insurance will protect our operating companies' interests in the financed property, and the failure by the lessee/borrower to obtain insurance or the failure by the operating companies to receive the proceeds from such insurance policies could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Lessor Liability

There is a risk that a lessor, such as the U.S Equipment Financing Segment or Vault Credit, could be deemed liable for harm to persons or property in connection with, among other things, the ownership or leasing of the leased property, or the conduct or responsibilities of the parties to the lease relating to that property. The liability may be contractual (such as warranties regarding the equipment), statutory (such as federal, state or provincial environmental liability) or pursuant to various legal theories (such as negligence). There have been cases in which a lessor has been held responsible for damage caused by leased property without a showing of negligence or wrongdoing on the lessor's part. Even if a lessor ultimately succeeds in defending itself or settling any related litigation, the related costs and any settlement amount could be significant.

Liability for Misuse of Leased Equipment

There is no practical manner to ensure that leased equipment will be used, maintained or caused to comply with applicable law. The U.S Equipment Financing Segment and Vault Credit require their lessees to deliver evidence of compliance with same as a condition to funding but have no assurance that a lessee will take the appropriate actions during the lease term to address any use, maintenance or compliance issues which may arise. A lessee's conduct (or lack thereof) could subject the U.S Equipment Financing Segment or Vault Credit, as applicable, to liability to third parties.

Estimates Relating to Value of Leases and Loans

Based on the particular terms of a lease or loan, equipment/vehicle finance companies estimate the residual value of the financed equipment or vehicle, which is recorded as an asset on its statement of financial position. At the end of the lease or loan term, finance companies seek to realize the recorded residual by selling the equipment or vehicle to the lessee/borrower or in the secondary market or through renewal of the lease by the lessee. The ultimate realization of the recorded residual values depends on numerous factors, including: accurate initial estimate of the residual value; the general market conditions and interest rate environment at the time of expiration of the lease or loan; the cost of comparable new equipment/vehicle; the obsolescence of the equipment/vehicle; any unusual or excessive wear and tear on or damage to the equipment/vehicle; and the effect of any additional or amended government regulations.

If the U.S Equipment Financing Segment, Vault Credit, or the Canadian Auto Financing Segment (in connection with those leases or loans where the lessee or borrower is not obligated to either purchase the equipment/vehicle or guarantee the residual value of the equipment/vehicle at the end of the term of the lease or loan) is unable to accurately estimate or realize the residual values of the equipment/vehicle subject to their leases or loans, the amount of recorded assets on its statement of financial position will have been overstated.

Competition

The business of micro and small-ticket equipment finance in the United States is highly fragmented and competitive. The U.S Equipment Financing Segment focuses some of their lending on the segment of the micro and small-ticket equipment finance market involving start-up businesses that have no established business credit or established businesses that have experienced some credit difficulty in their history that do not meet the credit standards of more traditional financing sources. The U.S Equipment Financing Segment's main competition comes from equipment finance companies, banks, commercial lenders, home equity loans, and credit cards.

As the U.S Equipment Financing Segment expands their suite of products and targets potential lessees/borrowers with better credit scores, it will face competition from more traditional financing sources, including: national, regional and local finance companies; captive finance and equipment finance companies affiliated with major equipment manufacturers; and financial services companies, such as commercial banks, thrifts and credit unions.

Analogous risks are faced by the Canadian Equipment Financing Segment, and Rifco.

Many of the firms and institutions providing financing alternatives are substantially larger than our U.S. and Canadian operations, and have considerably greater financial, technical and marketing resources. Some of them may have a lower cost of funds and access to funding sources that are unavailable to our U.S. and Canadian operations. A lower cost of funds could enable a competitor to offer leases and loans with pricing lower than that of our U.S. and Canadian operations, potentially forcing them to decrease prices or lose origination volume. In addition, some financing sources may have higher risk tolerances or different risk assessments, which could allow them to establish more origination sources and customer relationships to increase their market share.

Further, because there are fewer barriers to entry with respect to the micro, small-ticket, and consumer product finance markets, new competitors could enter these markets at any time, especially if an improvement in the economy leads to a greater ability of small and medium-sized businesses to establish improved levels of creditworthiness.

With the ever advancing improvements in technology, financial-technology ("Fintech") firms have been emerging with new business models, based on new technology that often includes an internet component, for offering financial services to businesses and consumers. It is possible that advancements by Fintech firms could negatively impact the U.S. and Canadian Financing Segments' businesses in a significant manner.

Demand for products offered by the Asset Management Segment depends on, among other things, the ability to deliver strong investment returns, as well as the demand for specific investment products. Since this is a relative as well as an absolute measure, the Asset Management Segment may not perform as well as its peers, or in line with investor expectations. Certain specific investment types may fall out of favour, resulting in reduced interest in the products offered by the Asset Management Segment.

Fraud by Lessees, Borrowers, Vendors or Brokers/Dealers

While our operating companies make every effort to verify the accuracy of information provided to them when making a decision whether to underwrite a lease or loan and have implemented systems and controls to protect against fraud, in a small number of cases, in the past, our operating companies have been a victim of fraud by lessees/borrowers, vendors and brokers or dealers. In cases of fraud, it is difficult and often unlikely that our operating companies will be able to collect amounts owing under a lease or loan or repossess the related property. Our operating companies may be subject to risks related to broker/dealer practices whether or not our operating companies have actual legal responsibility for broker conduct. Increased rates of fraud could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Protection of Intellectual Property

Chesswood's operating subsidiaries continually develop and improve their brand recognition and proprietary systems and processes, which is an important factor in maintaining a competitive market position. No assurance can be given that competitors will not independently develop substantially similar branding, systems or process. Despite the efforts of our operating subsidiaries to protect their proprietary rights, unauthorized parties may attempt to obtain and use information the subsidiaries regard as proprietary. Preventing unauthorized use of such proprietary rights may be difficult, time-consuming and costly, and without any assurance of success.

Failure of Computer and Data Processing Systems

Our operating companies are dependent upon the successful and uninterrupted functioning of their computer and data processing systems. The failure of these systems could interrupt operations or materially impact the ability of our operating companies to originate and service their lease and loan portfolio and broker networks. If sustained or repeated, a system failure could negatively affect these operations. Our operating companies maintain confidential information regarding lessees and borrowers in their computer systems. This infrastructure may be subject to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. A security breach of computer systems could disrupt operations, damage reputation and result in liability.

Security Risks

Despite implementation of network security measures, the infrastructure of our subsidiaries' websites and our management network is potentially vulnerable to computer break-ins and similar disruptive problems.

Risks Related to our Structure and Exchange Rate Fluctuations

The dividends expected to be paid to our shareholders will be denominated in Canadian dollars. However, a significant percentage of our revenues are expected to be derived from the revenues of our U.S. operations, which are received in U.S. dollars. Changes in the value of the U.S. dollar could have a negative impact on our Canadian dollar results, and in turn, on the amount in Canadian dollars available for dividends to our shareholders.

Unpredictability and Volatility of Share Price

A publicly traded company will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which our common shares will trade cannot be predicted. The market price of the common shares could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the common shares as compared to the annual yield on other financial instruments may also influence the price of common shares in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the common shares.

Leverage and Restrictive Covenants

The Company and its subsidiaries have third-party debt service obligations under their respective credit, securitization, and bulk lease financing facilities. The degree to which our subsidiaries are leveraged could have important consequences to our shareholders, including: (i) the ability to obtain additional financing for working capital in the future may be limited; (ii) a portion of the cash flow from the assets of such subsidiaries may be dedicated to the payment of the principal of and interest on their respective indebtedness, thereby reducing funds available for distribution to the Company; and (iii) certain of the respective borrowings of such subsidiaries will be at variable rates of interest, which will expose them to the risk of increased interest rates. The ability of such subsidiaries to make scheduled payments of the principal of or interest on, or to refinance, their indebtedness will depend on their future cash flow, which is subject to their respective assets, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond their control.

Possible Acquisitions

Acquisitions, if they occur, may increase the size of the operations as well as increase the amount of indebtedness that may have to be serviced by Chesswood and its subsidiaries. There is no assurance that such acquisitions can be made on satisfactory terms, or at all. The successful integration and management of acquired businesses involve numerous risks that could adversely affect the growth and profitability of Chesswood and its subsidiaries. There is no assurance that such acquisitions will be successfully integrated.

Restrictions on Potential Growth

The payout by our operating companies of a significant portion of their earnings available for distribution will make additional capital and operating expenditures dependent upon increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of our operating companies and their cash flow.

Canadian Income Tax Matters

The income of the Company's operating companies must be computed in accordance with applicable Canadian, U.S, or foreign tax laws, and the Company is subject to Canadian tax laws, all of which may be changed in a manner that could adversely affect the amount of distributable cash.

United States Income Tax Matters

There can be no assurance that U.S. federal and state income tax laws and administrative policies will not develop or be changed in a manner that adversely affects our shareholders.

Environmental risk

Chesswood and its operating subsidiaries, and their activities, have no direct significant impact on the environment, although there can be no assurance that they will not be the subject of claims in this regard (see for example, "Lessor Liability" above).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Understanding the Company’s accounting policies is essential to understanding the results of operations and financial condition. The preparation of these audited consolidated financial statements requires us to make estimates and judgments that affect reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our audited consolidated financial statements. Estimates are based on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Net Investment in Leases

The leases entered into are considered to be finance leases in nature, based on an evaluation of all the terms and conditions and the determination that substantially all the risks and rewards of legal ownership of the underlying assets have been transferred to the lessee. Interest revenue on finance leases is recognized using the effective interest method. The effective interest method of income recognition applies a constant rate of interest equal to the internal rate of return on the lease.

Allowance for Expected Credit Losses

The carrying value of net investment in leases and loans is net of an allowance for ECL.

Application of the ECL model depends on the following credit stages of the financial assets:

(i) Stage 1 - for new leases and loans recognized and for existing leases or loans that have not experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the net credit losses expected to result from defaults occurring in the next 12 months;

(ii) Stage 2 - for those leases or loans that have experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the net credit losses expected over the remaining life of the lease or loan; and

(iii) Stage 3 - for leases or loans that are considered credit impaired, a loss allowance equal to full life-time expected net credit losses is recognized.

The Company's finance receivables are separated into three distinct categories, U.S. equipment lease and loan, Canadian equipment lease and loan, and Canadian auto loan receivables. Each of the categories are composed of a large number of homogenous receivables, with relatively small balances. Thus, the evaluation of the allowance for ECL is performed separately on the categories. Within the subsets, the ECL is assessed collectively for the portfolios. The equipment lease and loan receivables are further segregated into prime and non-prime.

For Stage 2, the Company considers prime and non-prime leases and loans to have experienced a significant increase in credit risk since initial recognition if they are delinquent for over 30 days or modified within the past 12 months. Non-prime auto loans are also defined as Stage 2 if they are currently in or recently completed a payment arrangement or extension.

For Stage 3, the Company considers equipment leases and loans to be credit impaired if they are delinquent for more than 90 days and for U.S. leases and loans if it's delinquent for more than 60 days. The Company also considers U.S. equipment leases and loans to be credit impaired if the individual leases and loans have had a significant adverse business event. Auto loans are considered credit impaired if they are delinquent for greater than 90 days, the underlying collateral is in process of being repossessed, or there is another identifiable factor.

The measurement of expected credit losses for Stage 1 and the assessment of significant increase in credit risk considers information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions. The Company utilizes loss data applied to recent origination levels along with forward-looking macroeconomic assumptions under the ECL methodology. The estimation and application of forward-looking information also requires judgment.

The U.S. Equipment Financing Segment charges off leases and loans when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted. A high percentage of charge-offs are recognized before the subject leases/loans reach 154 days contractually past due. The Canadian Equipment Financing Segment charges off leases and loans on an individual basis when there is no realistic prospect of recovery. The Canadian Auto Financing Segment charges off loans when they become 120 days contractually past due. Finance receivables that are charged off could still be subject to collection efforts, with future recoveries possible.

The resulting projections of probable net credit losses are inherently uncertain, and as a result we cannot predict with certainty the amount of such losses. Changes in economic conditions, the risk characteristics and composition of the portfolio, bankruptcy laws, and other factors could impact the actual and projected net credit losses and the related allowance for ECL.

The U.S. Equipment Financing Segment, Vault Credit, and the Canadian Auto Financing Segment are entitled to repossess financed equipment or vehicles (subject to statutory regulations) if the borrower defaults on their lease or loan contract. When a lease or loan is charged off, the expected resale value of the related equipment is recorded on the consolidated financial statements so that the total charge-off is net of expected recoveries. Any amounts recovered from the sale of equipment after a charge-off in excess of the expected resale value, are credited to the allowance for ECL when received.

Impairment of Goodwill

Goodwill is evaluated for impairment on an annual basis, or more frequently if certain events or circumstances exist. The Company's impairment test of goodwill is based on the value-in-use which is estimated using a discounted cash flow model. The cash flows are derived from budgets for the next five years, excluding restructuring activities and future investments. Impairment testing is applied on an individual asset basis unless an asset does not generate cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets. None of the Company's non-financial assets generate independent cash inflows and therefore all non-financial assets are allocated to cash generating units ("CGUs") for purposes of assessing impairment.

CGUs are defined as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized when the carrying amount of a CGU exceeds the recoverable amount, which is the greater of the CGU's fair value less cost to sell and its value in use. Fair value is the present value of the estimated future cash flows from the CGU that reflects current market rates and the risks inherent in the business of each CGU. If the recoverable amount of the CGU is less than its carrying amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is allocated to reduce the carrying amount of the assets of the CGU, first to reduce the carrying amount of the CGU's goodwill and then to the other assets of the CGU allocated pro-rata on the basis of the carrying amount of each asset. Other than the cash flow estimates, the fair value is most sensitive to the discount rate used and the growth rate applied beyond the four to five year estimate. Changes in these estimates and assumptions could have a significant impact on the value-in-use and/or goodwill impairment.

Share-based Payments

The Black-Scholes model is used to fair value options issued by the Company. The model requires the use of subjective assumptions, including expected share price volatility. In addition, the options issued have characteristics different from those of traded options so the Black-Scholes option-pricing model may not provide a reliable single measure of the fair value of options issued. Changes in the subjective assumptions can have a material effect on the fair value estimate.

Taxes

Accounting for tax requires the resolution of many complexities and the exercise of significant management judgment, including the following: (a) each of our operating subsidiaries uses the asset and liability method to account for taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. In contrast, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date, (b) Deferred tax assets are only recognized to the extent that they are more than 50% likely to be realized, and (c) Pawnee and Vault Credit account for their lease arrangements as operating leases for tax reporting purposes. This results in temporary differences between financial and tax reporting for which deferred taxes have been provided.

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

New standards effective for the Company's December 31, 2022 year

Reference to the Conceptual Framework – Amendments to IFRS 3
The amendments replace a reference to a previous version of the International Accounting Standards Board's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3, *Business Combinations* to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21, *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. These amendments had no impact on the year-end consolidated financial statements of the Company as there were no contingent assets and liabilities within the scope of these amendments that arose during the period.

IFRS 9, Financial Instruments – Fees in the "10 per cent" Test for Derecognition of Financial Liabilities
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39, *Financial Instruments: Recognition and Measurement*.

These amendments did not have a significant impact on the year-end consolidated financial statements of the Company.

Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets
The amendments were issued in May 2020, and are effective on or after January 1, 2022, with earlier application permitted. The amendments address identifying onerous contracts and specify the cost of fulfilling a contract, which includes all costs directly related to the contract. These include incremental direct costs and allocations of other costs that relate directly to fulfilling the contract. Adoption of these amendments did not have a significant impact on the Company's year-end consolidated financial statements.

Standards issued but not yet effective

Management is currently considering the effect of the following amendments that are issued by the International Accounting Standards Board but that are not yet effective:

(a) Amendments to IFRS 7, *Financial Instruments: Disclosures,* provides clarification on disclosing material accounting policy information regarding the measurement bases for financial instruments. The Company will adopt the amendment when it becomes effective in the Company's December 31, 2023 year.

(b) Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates, and Errors,* provides clarification on the difference between accounting policies and accounting estimates. The Company will adopt the amendment when it becomes effective in the Company's December 31, 2023 year.

(c) Amendments to IAS 12, *Income Taxes,* provides clarification on how companies account for deferred taxes on transactions such as leases and decommissioning obligations. The Company will adopt the amendment when it becomes effective in the Company's December 31, 2023 year.

(d) Amendments to IAS 1, *Presentation of Financial Statements,* and IFRS Practice Statement 2, *Making Materiality Judgments,* provides guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023, with earlier application permitted. Since the amendments to Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Company is currently revisiting its accounting policy information disclosures to ensure consistency with the amended requirements going forward.

(e) Amendments to IAS 1, *Presentation of Financial Statements,* provides clarification on the conditions with which an entity must comply within 12 months after the reporting period affecting the classification of a liability as current or non-current. The Company will adopt the amendment when it becomes effective in the Company's December 31, 2024 year.

RELATED PARTY TRANSACTIONS

See Note 21 - *Related Party Transactions* in the audited consolidated financial statements for the disclosure of key management compensation and other related party transactions.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers"), along with other members of management, have designed, or caused to be designed under their supervision, Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the Company is made known to them by others, particularly during the period in which the annual or interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Certifying Officers have assessed the design effectiveness of the Company's DC&P as at December 31, 2022 and have concluded that the design of the Company's DC&P was effective as at that date.

The Certifying Officers have also evaluated the operating effectiveness of the Company's DC&P and have concluded that the Company's DC&P was operating effectively as at December 31, 2022.

Internal Control over Financial Reporting

The Certifying Officers, along with other members of management, have also designed, or caused to be designed under their supervision, Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes prepared in accordance with IFRS. The Certifying Officers have used the Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to design the Company's ICFR.

The Certifying Officers have assessed the design effectiveness of the Company's ICFR as at December 31, 2022 and have concluded that the design of the Company's ICFR was effective as at that date.

The Certifying Officers have also evaluated the operating effectiveness of the Company's DC&P and have concluded that the Company's DC&P was operating effectively as at December 31, 2022.

During the quarter ended, December 31, 2022, other than the completion of the integration and alignment process of the newly acquired entity discussed below, there has been no significant change in the Company's ICFR that would have materially affected, or would be reasonably likely to materially affect, the Company's ICFR.

Scope of Design

On January 14, 2022, Chesswood completed its acquisition of Rifco Inc. Total consideration was $28.1 million. Rifco shareholders elected for approximately 25% of the consideration to be satisfied in Chesswood common shares and the remainder in cash. This resulted in a total of 498,605 common shares being issued and $21.0 million paid out in cash. For further information, reference should be made to Note 25 – *Business Combinations* – in the audited consolidated financial statements for the year ended December 31, 2022.

Following the acquisition, management of Chesswood commenced the process of integrating and aligning Rifco's controls, policies, and procedures with those of Chesswood. To allow time for completion of this integration and alignment, for the quarters ended March 31, 2022, June 30, 2022, and September 30, 2022, Chesswood availed itself of the scope limitation permitted under section 3.3(1)(b) of National Instrument 52-109 which allows an issuer to limit its design of DC&P and ICFR to exclude controls, policies, and procedures of a business that the issuer acquired not more than 365 days before the end of the fiscal period. Given the completion of the integration and alignment process, the scope limitation discussed above was lifted as of December 31, 2022.

Limitations of an Internal Control System

The Certifying Officers believe that any DC&P or ICFR, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues, including instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) breakdowns could occur because of undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

The design of any system of control is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ENVIRONMENT, SOCIAL & GOVERNANCE

In 2022, Chesswood undertook a thorough examination of Environmental, Social & Governance ("ESG") practices, both at the corporate level and for each subsidiary. The Company worked collaboratively with independent third-party industry leaders, the management team of each subsidiary, and the Board's ESG Committee to better understand Chesswood's current standing and to improve ESG moving forward.

Based on this analysis, Chesswood amended its ESG framework for the entire organization. The new ESG framework is built upon the below four-pillar model of Environmental, Social (Client and Employee focused), and Governance initiatives.

Using this framework as a baseline, Chesswood will develop a balanced scorecard to set objectives for the 2023 fiscal year with the goal of further improving its ESG practices.

ESG Pillars at Chesswood			
Environmental	**Social - Client Focused**	**Social - Employee Focused**	**Governance**
Sustainable corporate and investment practices	Prioritize client satisfaction and equitable lending practices	Prioritize employee satisfaction, maintaining a diverse workforce	Implement and maintain stronger governance practices

Environmental - Sustainable Practices Throughout the Organization

Chesswood is committed to building and maintaining a sustainable environment by enhancing current processes and implementing new initiatives throughout the organization to ensure it is doing its part in making the world a better and greener place.

Through various recycling and energy efficient practices, Chesswood has reduced its in-office environmental footprint, year over year. The Company has eliminated paper contracts. Instead, all leases and loans are completed and stored electronically. Also, each of the operating segments has implemented recycling programs. To address energy consumption, through the utilization of scheduled LED lighting, Chesswood has realized its goals of minimizing its carbon footprint.

Outside of the office, Chesswood's operating companies have encouraged clientele to adopt similar efforts. As of December 31, 2022, 95.4% of the U.S. Equipment Financing Segment's funding was provided to those who meet and practice environmentally positive standards. Furthermore, Chesswood's operating companies will not lend to companies that directly sell, manufacture or promote thermal coal, weapons, or tobacco.

Social - Client Focused - Prioritize Customer Satisfaction and Equitable Lending Practices

Chesswood's operating companies are dedicated to helping their clients work towards a better future by improving their financial health. This includes providing each client with access to credit to help build or re-build their credit history and by rewarding those who maintain their good standing. Providing service to underserved markets allows us to service a client demographic that otherwise would not have access to credit.

Across Canada, we reward clients with excellent credit histories and incentivize others by offering lower interest rates for those who qualify. During times of economic uncertainty, such as COVID-19, Chesswood's operating companies accommodated clients, helping them meet their commitments. For example, the Canadian Automotive Financing Segment performed comprehensive reviews with clients experiencing short-term income aberrations with the goal of helping them maintain good standing even as obstacles such as unforeseen repairs arose.

We are also proud to offer funding to traditionally underserved segments who tend to struggle to obtain funding due to poor or non-existent credit history, such as start-up companies. In 2022, the U.S. Equipment Financing Segment provided over US$15 million in funding to this demographic.

Social - Employee Focused - Prioritize Employee Satisfaction, Maintaining a Diverse Workforce

Chesswood is focused on attracting, developing, and maintaining highly skilled and diverse workforces from local communities, with the goal of building teams capable of understanding, delivering on strategic goals and surpassing client and shareholder expectations. This starts with an equitable and rigorous hiring process. Once onboarded, all employees are trained, provided with benefits, and given the opportunity to continue their growth and education, while delivering value to the business. To stay engaged within the communities in which they operate, Chesswood's operating companies participate in various programs and donate to local charitable causes.

The wellbeing and health of all employees are a priority for the Company. This includes offering all employees benefits including medical, dental, vision, and access to mental health providers. Paid time off, short/long-term disability leaves and flexible working hours (including working from home) are offered to all employees to ensure a balanced lifestyle and increased productivity.

Within their local communities, Chesswood's operating companies endeavour to build stronger local connections and deliver continuous support, even during times of economic uncertainty. In 2022, the Canadian Auto Financing Segment held several charity initiatives including draws, bake sales, employee charitable donations, and a well-attended charity golf tournament. As a result, $52,000 in donations were raised and donated to the Central Alberta Child Advocacy Centre. For 2022, Chesswood donated close to $100,000 to several deserving charities.

Governance - Implement and Maintain Stronger Governance Practices

Chesswood is focused on attracting, developing, and maintaining diverse and inclusive executive teams and board structure, with the goal of deploying and overseeing strong, positive and socially responsible ESG practices.

Chesswood has undertaken several initiatives in this direction in recent years. As a result, 22% of its directors are women and over 50% are independent directors. Last year, the Board’s ESG Committee was created. Chesswood has also appointed directors to various committees to review, monitor and govern various aspects of the business to ensure that inclusive and equitable decisions are created and enforced while considering many different perspectives of those involved.

Across all operating segments, cybersecurity is always a point of emphasis. The Chief Technology Officer is responsible for overseeing all cybersecurity, and information technology initiatives. As a result, Chesswood has implemented an array of effective cybersecurity risk mitigation services across our business. Key elements include advanced intrusion detection systems monitoring every corporate IT asset, endpoint detection and response systems to proactively stop threats, continuous backups of key data to offsite disaster recovery facilities which employ redundancy, and encryption. Multi-factor-authentication is also in place for all employee accounts to ensure system access control is effective. Chesswood team members also receive robust cybersecurity awareness training annually. Ongoing e-mail phishing is tested with all employees to ensure training is effective and that corporate policy is being followed. Weekly cybersecurity risk tips, and training sessions throughout the year keep all employees informed of ever-changing external risks. The Company also executes frequent third-party vulnerability scans and penetration tests on key systems to ensure any potential cyber risks are mitigated.

MARKET FOR SECURITIES

The Company's common shares are traded on the Toronto Stock Exchange under the symbol CHW. The following table summarizes the high and low sales prices of the common shares and the average daily trading volume for each month in the year ended December 31, 2022.

	Common Shares		
	High	Low	Average Daily Volume
January	$14.50	$12.67	11,296
February	$14.55	$13.30	10,860
March	$15.25	$13.07	12,740
April	$15.25	$12.70	12,960
May	$14.54	$12.92	6,495
June	$13.99	$11.84	12,986
July	$12.92	$11.39	4,975
August	$13.60	$11.51	6,227
September	$13.53	$11.75	7,090
October	$12.74	$11.00	6,555
November	$12.00	$10.70	8,632
December	$11.61	$10.74	11,455
	$15.25	$10.70	9,368

Chesswood Group Limited

Consolidated Financial Statements

December 31, 2022

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Chesswood Group Limited (the "Company") and all of the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors (the "Board").

The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards ("IFRS"). These consolidated financial statements include some amounts that are based on best estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the consolidated financial statements. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

The Board is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit and Risk Committee.

The Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers"), along with other members of Management, have designed, or caused to be designed under their supervision, Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the Company is made known to them by others, particularly during the period in which the annual or interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Certifying Officers, along with other members of Management, have also designed, or caused to be designed under their supervision, Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes prepared in accordance with IFRS. The Certifying Officers have used the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") to design the Company's ICFR.

As more fully detailed in the accompanying MD&A, the Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of the Company's DC&P and ICFR as at December 31, 2022 and have concluded that the Company's DC&P and ICFR are effective as at that date.

The Audit and Risk Committee is appointed by the Board and is composed of independent Directors. The Committee meets periodically with Management and the independent external auditors, to discuss disclosure controls and internal control over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities. The Audit and Risk Committee reviews the Company's annual consolidated financial statements, the external auditors' report and other information in the Annual Report, and reports its findings to the Board for consideration by the Board when it approves the consolidated financial statements for issuance to the Shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the independent external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. The Independent Auditor's Report outlines the nature of their examination and their opinion on the consolidated financial statements. Ernst & Young LLP has full and unrestricted access to the Audit and Risk Committee to discuss their audit and related findings as to the integrity of the financial reporting.

(signed) Ryan Marr
President & CEO
March 16, 2023

Independent auditor’s report

To the Shareholders of
Chesswood Group Limited

Opinion

We have audited the consolidated financial statements of **Chesswood Group Limited** and its subsidiaries [the “Company”], which comprise the consolidated statements of financial position as at December 31, 2022, and the consolidated statements of income, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards [“IFRSs”].

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Comparative information

The consolidated financial statements for the year ended December 31, 2021, excluding the adjustments that were applied to reclassify certain comparative information as described in note 26, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on March 9, 2022.

As part of our audit of the consolidated financial statements for the year ended December 31, 2022, we also audited the adjustments described in note 26 that were applied to reclassify certain comparative information presented. In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to reclassify certain comparative information, we were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended December 31, 2021. Accordingly, we do not express an opinion or any other form of assurance on those consolidated financial statements taken as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor’s opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Acquisition of Rifco Inc.	
As more fully described in note 25 to the consolidated financial statements, on January 14, 2022, the Company acquired 100% of the issued and outstanding shares of Rifco Inc. ["Rifco"], for consideration of $28 million. The acquisition was accounted for using the acquisition method. The cost of the acquisition was measured at the fair value of the assets acquired and liabilities assumed. Auditing the acquisition of Rifco was complex and required involvement of valuation specialists and the application of significant auditor judgment due to the subjective nature of estimating the fair value of assets acquired and liabilities assumed. Specifically, the valuation of finance receivables and borrowings, as at the date of acquisition, required the use of management assumptions including the expected future cash flows, interest rates, repayment terms and discount rates which are affected by expectations about future market and economic conditions.	To test the acquisition of Rifco, our audit procedures included, among others: • We reviewed acquisition related agreements to obtain an understanding of the key terms and conditions and to identify the necessary accounting considerations; • We evaluated the reasonableness of the expected future cash flows, interest rates and repayment terms of the finance receivables and borrowings by comparing to historical performance and contractual arrangements • With the assistance of our valuation specialists, we assessed the appropriateness of the Company's model and methodology used to estimate the fair value of the finance receivables and borrowings, including discount rates by benchmarking to comparable market rates; • With the assistance of our valuation specialists, we also performed sensitivity analysis on the repayment terms and discount rates to evaluate the change in fair value of the finance receivables and borrowings that would result from changes in the assumptions; and • We assessed the adequacy of the Company's disclosures in the consolidated financial statements in relation to this matter.

Key audit matter	How our audit addressed the key audit matter
Assessment of impairment of goodwill	
As at December 31, 2022, the Company has goodwill of $48.1 million. Goodwill is tested for impairment at least annually, or any time an indicator of impairment exists. For the purpose of performing the impairment assessment, goodwill has been allocated to each cash generating unit ["CGU"]. Impairment is recognized if the recoverable amount is less than the carrying value of the CGU. The recoverable amount of each CGU is estimated using a discounted cash flow model. The Company discloses significant judgments, estimates and assumptions and the result of their analysis in respect of impairment in notes 2 and 8 to the consolidated financial statements. Auditing management's annual impairment analysis for goodwill of Pawnee and Tandem CGU within the U.S. equipment financing segment and Vault Credit CGU within the Canadian equipment financing segment was complex, given the degree of judgment and subjectivity in evaluating management's estimates and assumptions in determining the recoverable amount of each CGU. Significant assumptions included revenue growth rates, terminal growth rates and discount rates which are affected by expectations about future market and economic conditions.	To test the estimated recoverable amount of each CGU, our audit procedures included, among others: • We assessed the reasonableness of the forecasted cash flows including revenue growth rates by comparing to historical performance. We assessed the historical accuracy of management's estimates on cash flow projections, including the revenue growth rates by comparing management's past projections to actual performance during the year 2022; • With the assistance of our valuation specialists, we assessed the appropriateness of the Company's model and valuation methodology used to estimate the recoverable amount of each CGU; • With the assistance of our valuation specialists, we assessed the selection and application of the terminal growth rates and discount rates by considering the cost of capital of comparable business and other industry factors; • With the assistance of our valuation specialists, we performed sensitivity analysis on the terminal growth rates and discount rates, to evaluate the changes in the recoverable amount of each CGU that would result from changes in the assumptions; and • We assessed the adequacy of the Company's disclosures in the consolidated financial statements in relation to this matter.

Key audit matter	How our audit addressed the key audit matter
Allowance for expected credit losses	
As more fully described in notes 2 and 6 to the consolidated financial statements, the Company has used expected credit loss ["ECL"] models to recognize $50.7 million in allowances for expected credit losses on its consolidated statement of financial position as of December 31, 2022. The ECL is an unbiased and probability-weighted estimate of credit losses expected to occur in the future, which is determined by evaluating a range of possible outcomes incorporating time value of money and reasonable and supportable information about past events, current conditions and future economic forecasts. Auditing the allowance for expected credit losses was complex, involved significant auditor judgement and required the involvement of specialists due to the assumptions, judgments and the interrelationship of these variables in measuring the ECL. Significant assumptions and judgments with respect to the estimation of the allowance for expected credit losses include: i. determination of credit risk when a loan has experienced a significant increase in credit risk ["SICR"] since initial recognition ii. determination of probability of default and loss given default iii. the forecast of forward-looking information for multiple economic scenarios iv. application of expert credit judgment through the use of qualitative adjustments in the calculation of both 12-month and lifetime credit losses	To test the allowance for expected credit losses, our audit procedures, included, among others: • With the assistance of our credit risk specialists, we assessed whether the methodology and assumptions used in models that estimate the ECL are consistent with the requirements of IFRS and industry standards, including the assessment of management's SICR triggers; • We tested, on a sample basis, the appropriateness of the probability of default for both 12-month and lifetime credit losses, by comparing to the Company's historical finance receivables' loss rate; • With the assistance of our credit risk specialists, we evaluated the reasonableness of macroeconomic scenarios used by comparing the information to independent market data and recalculated the effect of these variables on the ECL models; • We tested, on a sample basis, the appropriateness of the loss given default and reasonableness of the expected recoveries by analyzing relevant historical information; • We recalculated the ECL to test the mathematical accuracy of management's models on a sample basis; and • We assessed the adequacy of the Company's disclosures in the consolidated financial statements in relation to this matter.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained the Management Discussion and Analysis and Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is George Prieksaitis.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 16, 2023

To the Shareholders of Chesswood Group Limited

Opinion

We have audited, before the effects of the adjustments to reclassify certain comparative information discussed in Note 26, the consolidated financial statements of Chesswood Group Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

The Group's 2021 consolidated financial statements before the effects of the retrospective adjustments to reclassify certain comparative information discussed in Note 26 are not presented herein.

In our opinion, the 2021 consolidated financial statements, before the effects of the retrospective adjustments to reclassify certain comparative information discussed in Note 26, present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

We were not engaged to audit, review, or apply any procedures to the retrospective adjustments to reclassify certain comparative information discussed in Note 26 to the consolidated financial statements, and accordingly, we do not express an opinion or any other form of assurance about whether such retrospective adjustments are appropriate and have been properly applied. Those retrospective adjustments were audited by other auditors.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- The information, other than the consolidated financial statements and our auditor's report thereon, included in the Annual Report for the year ended December 31, 2021, and
- The information included in the Management's Discussion and Analysis for the year ended December 31, 2021.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Bradley Tagieff.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 9, 2022

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of Canadian dollars)

	Note	**As at December 31, 2022**	As at December 31, 2021
ASSETS			
Cash		**$ 8,120**	$ 12,379
Restricted funds	*10(e)*	**95,356**	86,172
Other assets		**8,573**	5,947
Current tax receivables		**2,314**	—
Finance receivables	*4,6*	**2,330,258**	1,418,260
Deferred tax assets	*12*	**7,237**	5,307
Right-of-use assets, net		**3,826**	2,089
Property and equipment, net		**2,926**	2,348
Intangible assets, net	*7*	**27,473**	26,938
Goodwill	*8*	**48,113**	43,143
TOTAL ASSETS		**$ 2,534,196**	$ 1,602,583
LIABILITIES			
Accounts payable and other liabilities	*9*	**$ 43,871**	$ 28,972
Current tax payables		**1,924**	2,792
Premise leases payable		**4,673**	2,522
Option liability	*25*	**3,808**	11,560
Borrowings	*4, 10*	**2,221,649**	1,337,310
Customer security deposits	*4, 11*	**2,931**	4,362
Deferred tax liabilities	*12*	**26,935**	27,083
		2,305,791	1,414,601
EQUITY			
Common shares	*16*	**125,655**	109,672
Contributed surplus	*18, 25*	**18,413**	23,875
Accumulated other comprehensive income		**21,359**	10,961
Retained earnings		**46,255**	28,815
Total shareholder's equity		**211,682**	173,323
Non-controlling interest	*17, 25*	**16,723**	14,659
		228,405	187,982
TOTAL LIABILITIES AND EQUITY		**$ 2,534,196**	$ 1,602,583

Approved by the Board of Directors

(signed) Edward Sonshine, O. Ont., Q.C.
Chairman, Board of Directors

(signed) Raghunath Davloor
Chairman, Audit and Risk Committee

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(in thousands of Canadian dollars, except per share amounts)

	Note	Year ended December 31, 2022	Year ended December 31, 2021
Finance revenue			
Interest revenue on finance leases and loans		**$ 232,623**	$ 120,112
Ancillary finance and other fee income		**43,742**	17,971
		276,365	138,083
Finance expenses			
Interest expense		**73,379**	31,671
Provision for credit losses	*4,6*	**44,315**	188
		117,694	31,859
Net revenue		**158,671**	106,224
Expenses			
Personnel expenses		**63,005**	35,813
General and administrative expenses		**45,823**	26,450
Depreciation		**1,765**	1,111
Amortization	*7*	**2,435**	1,789
		113,028	65,163
Operating income		**45,643**	41,061
Gain on interest rate derivative	*4*	**—**	344
Unrealized gain (loss) on foreign exchange		**(1,464)**	666
Income before income tax		**44,179**	42,071
Income tax expense	*12*	**13,763**	10,902
Net income for the year		**$ 30,416**	$ 31,169
Attributable to:			
Common shareholders		**$ 28,548**	$ 28,796
Non-controlling interest		**$ 1,868**	$ 2,373
Earnings per share			
Basic (in Canadian dollars)	*20*	**$ 1.63**	$ 1.75
Diluted (in Canadian dollars)	*20*	**$ 1.47**	$ 1.59

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(in thousands of Canadian dollars)

	Year ended December 31, 2022	Year ended December 31, 2021
Net income	**$ 30,416**	$ 31,169
Other comprehensive income (loss) items that may be subsequently reclassified to the consolidated statements of income:		
Unrealized gain (loss) on translation of foreign operations	**11,274**	(841)
Comprehensive income for the year	**$ 41,690**	$ 30,328
Comprehensive income attributable to:		
Common shareholders	**$ 38,946**	$ 28,024
Non-controlling interest	**$ 2,744**	$ 2,304

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(in thousands of Canadian dollars)

	Note	Common shares (# '000s)	Common shares	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interest	2022 Total
Equity - December 31, 2021		**16,575**	**$109,672**	**$ 23,875**	**$ 10,961**	**$ 28,815**	**$ 173,323**	**$ 14,659**	**$187,982**
Net income		**—**	**—**	**—**	**—**	**28,548**	**28,548**	**1,868**	**30,416**
Dividends declared	*19*	**—**	**—**	**—**	**—**	**(8,604)**	**(8,604)**	**(680)**	**(9,284)**
Share-based compensation	*18*	**—**	**—**	**3,683**	**—**	**—**	**3,683**	**—**	**3,683**
Exercise of restricted share units	*18*	**192**	**2,614**	**(2,614)**	**—**	**—**	**—**	**—**	**—**
Exercise of options	*18*	**123**	**1,211**	**(272)**	**—**	**—**	**939**	**—**	**939**
Repurchase of common shares under issuer bid	*16*	**(453)**	**(3,205)**	**—**	**—**	**(2,504)**	**(5,709)**	**—**	**(5,709)**
Unrealized gain on translation of foreign operations		**—**	**—**	**—**	**10,398**	**—**	**10,398**	**876**	**11,274**
Special warrants issued on business combination	*16, 25*	**533**	**6,259**	**(6,259)**	**—**	**—**	**—**	**—**	**—**
Shares issued on business combination	*25*	**650**	**9,104**	**—**	**—**	**—**	**9,104**	**—**	**9,104**
Equity - December 31, 2022		**17,620**	**$125,655**	**$ 18,413**	**$ 21,359**	**$ 46,255**	**$ 211,682**	**$ 16,723**	**$228,405**

	Note	Common shares (# '000s)	Common shares	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interest	2021 Total
Equity - December 31, 2020		16,255	$104,236	$ 5,605	$ 11,733	$ 7,445	$ 129,019	$ 11,797	$140,816
Net income		—	—	—	—	28,796	28,796	2,373	31,169
Dividends declared	*19*	—	—	—	—	(5,670)	(5,670)	(473)	(6,143)
Share-based compensation	*18*	—	—	3,544	—	—	3,544	—	3,544
Exercise of restricted share units	*18*	7	71	(71)	—	—	—	—	—
Exercise of options	*18*	668	6,855	(1,612)	—	—	5,243	—	5,243
Repurchase of common shares under issuer bid	*16*	(488)	(3,157)	—	—	(1,756)	(4,913)	—	(4,913)
Unrealized loss on translation of foreign operations		—	—	—	(772)	—	(772)	(69)	(841)
Acquisition of subsidiary	*25*	—	—	—	—	—	—	1,031	1,031
Special warrants issued on business combination	*16, 25*	—	—	16,409	—	—	16,409	—	16,409
Shares issued on business combination	*25*	133	1,667	—	—	—	1,667	—	1,667
Equity - December 31, 2021		16,575	$109,672	$ 23,875	$ 10,961	$ 28,815	$ 173,323	$ 14,659	$187,982

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
(in thousands of Canadian dollars)

	Note	Year ended December 31, 2022	Year ended December 31, 2021
OPERATING ACTIVITIES			
Net income		**$ 30,416**	$ 31,169
Non-cash items included in net income			
Amortization and depreciation		**4,200**	2,900
Provision for credit losses	*4, 6*	**44,315**	188
Amortization of origination costs		**48,274**	29,141
Income tax expense	*12*	**13,763**	10,902
Other non-cash items	*23*	**3,282**	5,554
		113,834	48,685
Cash from operating activities before change in net operating assets		**144,250**	79,854
Funds advanced on origination of finance receivables		**(1,737,840)**	(934,034)
Origination costs paid on finance receivables		**(71,897)**	(57,074)
Principal collections of finance receivables and cash collections from sale of assets		**1,076,431**	433,983
Recoveries of amounts previously charged off	*6*	**14,908**	13,690
Change in other net operating assets	*23*	**2,189**	5,682
Cash used in operating activities before income taxes		**(571,959)**	(457,899)
Income taxes paid		**(19,228)**	(13,312)
Income tax refund		**18**	1,208
Cash used in operating activities		**(591,169)**	(470,003)
INVESTING ACTIVITIES			
Purchase of property and equipment		**(911)**	(1,003)
Net cash and restricted funds on business combinations	*25*	**468**	16,925
Cash from (used in) investing activities		**(443)**	15,922
FINANCING ACTIVITIES			
Borrowings, net	*23*	**614,345**	510,664
Payment of financing costs	*10*	**(8,111)**	(4,922)
Payment of lease obligations		**(1,017)**	(683)
Proceeds from exercise of options	*18*	**939**	5,243
Repurchase of common shares under issuer bid	*16*	**(5,709)**	(4,913)
Cash dividends paid	*19*	**(8,771)**	(5,571)
Cash from financing activities		**591,676**	499,818
Unrealized foreign exchange gain (loss) on cash		**4,861**	(1,007)
Net increase in cash and restricted funds		**4,925**	44,730
Cash and restricted funds, beginning of year		**98,551**	53,821
Cash and restricted funds, end of year		**$ 103,476**	$ 98,551

Please see notes to the consolidated financial statements.

TABLE OF NOTES

1. NATURE OF BUSINESS

Chesswood Group Limited (the "Company" or "Chesswood") was incorporated under the laws of the Province of Ontario. The Company's head office is located at 1133 Yonge Street, Suite 603, Toronto, ON, M4T 2Y7, and its shares trade on the Toronto Stock Exchange under the symbol CHW.

Through its subsidiaries (ownership interests described in Note 22 - *Subsidiaries)*, the Company operates in the following businesses:

- Pawnee Leasing Corporation ("Pawnee") - micro and small-ticket equipment financing to small and medium-sized businesses in the United States.
- Tandem Finance Inc. ("Tandem") - small-ticket equipment financing originations through equipment vendors and distributors in the United States.
- Vault Credit Corporation ("Vault Credit") - commercial equipment financing and loans to small and medium-sized businesses in Canada.

- Vault Home Credit Corporation ("Vault Home") - home improvement and other consumer financing solutions in Canada.
- Rifco National Auto Finance Corporation ("Rifco") - auto financing for motor vehicle purchasers through dealerships across Canada except for Quebec.
- Waypoint Investment Partners Inc. ("Waypoint"), Chesswood Capital Management USA Inc. ("CCM USA"), and Chesswood Capital Management Inc. ("CCM") - providing private credit alternatives to investors seeking exposure to lease and loan receivables originated by Chesswood subsidiaries.

On October 1, 2022, Blue Chip Leasing Corporation ("Blue Chip") and Vault Credit were amalgamated. The amalgamated corporation, which continues to use the Vault Credit Corporation name, remains a wholly owned subsidiary of CHW/Vault Holdco Corp. ("Canadian Holdco") (in which, Chesswood owns 51% and exercises control).

The Company's consolidated financial statements were authorized for issue on March 16, 2023 by the Board of Directors.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements, including comparatives:

- Have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The term IFRS also includes all International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").
- Have been prepared on the going concern and historical cost bases, except for derivative financial instruments and hybrid financial liabilities designated as at fair value through profit or loss ("FVTPL"), which have been measured at fair value.
- Include the financial statements of the Company and its subsidiaries as noted above.

The preparation of consolidated financial statements, including the application of accounting policies, requires management to make estimates and assumptions using judgment that affect the reported amounts of assets and liabilities, and income and expenses during the reporting period. Estimates and other judgments are continually evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates.

The Company has applied appropriate measurement techniques using reasonable judgment and estimates from the perspective of a market participant to reflect current economic conditions. The impact of these techniques has been reflected in these consolidated financial statements. Changes in the inputs used could materially impact the respective carrying values.

Basis of consolidation

Subsidiaries are consolidated using the acquisition method from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated as long as control is held. The financial statements of all subsidiaries are prepared for the same reporting period as the Company, using uniform accounting policies in accordance with IFRS 10, *Consolidated Financial Statements*. All intra-group balances and items of income and expense resulting from intra-group transactions are eliminated in full. Transaction costs in connection with business combinations are expensed as incurred.

Foreign currency transactions

The financial statements of consolidated entities that are prepared in a foreign currency are translated using the functional currency concept of IAS 21, *The Effects of Changes in Foreign Exchange Rates*. The functional currency of a subsidiary is determined on the basis of the primary economic environment in which it operates and typically corresponds to the local currency.

The reporting currency is the Canadian dollar and the consolidated financial statements are presented in thousands of Canadian dollars, except per share amounts and as otherwise noted. Refer to Note 22 - *Subsidiaries* for additional information on the subsidiaries. Income and expenses of subsidiaries with a different functional currency than the Company's reporting currency are translated in the Company's consolidated financial statements at the average U.S. dollar exchange rate for the reporting period, and assets and liabilities are translated at the closing rate. Exchange differences arising from the translation are recognized in other comprehensive income (loss). Foreign currency payables and receivables in the consolidated statements of financial position are recorded at the transaction date at cost. Exchange gains and losses arising from conversion of monetary assets and liabilities at exchange rates at the end of the reporting period are recognized as income or expense.

Consolidated statement of cash flows
Cash consists of bank balances adjusted for items such as deposits in transit and restricted funds.

The consolidated statement of cash flows, which is compiled using the indirect method, shows cash flows from operating, investing and financing activities, and the Company's cash and restricted funds at the beginning and end of the period. Cash flows in foreign currencies have been translated at the average rate for the period. Exchange rate differences affecting cash items are presented separately in the consolidated statement of cash flows.

Cash flow from operating activities comprises net income adjusted for non-cash items and changes in net operating assets. Receipts and payments with respect to income taxes are included in cash used in operating activities.

Cash flow from investing activities comprises payments relating to business acquisitions and purchase of property and equipment net of cash and restricted funds acquired on business combinations.

Cash flow from financing activities comprises payment of dividends, lease obligations, and financing costs, net proceeds from borrowings, stock issues, and the purchase and sale of treasury stock.

Restricted funds
Restricted funds represent cash reserve accounts that are held in trust as security for secured borrowings (facilities described in Note 10 - *Borrowings*) and cash collection accounts required by the lenders of certain financial assets that can only be used to repay these debts on specific dates. The "cash in collections accounts" will be applied to the outstanding borrowings in the following month.

Revenue recognition
Interest revenue on finance receivables is recognized using the effective interest rate method. Ancillary finance and other fee income is recognized when earned.

Financial instruments
Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are recognized initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at FVTPL, which are measured initially at fair value.

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire or when the asset and substantially all related risks and rewards are transferred. A financial liability is derecognized when it is extinguished, which occurs when it is either discharged, canceled or expires.

Financial assets are categorized for subsequent measurement as follows:

Amortized cost
Financial assets that are held in a business model with the objective of collecting contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI") are measured at amortized cost. The Company's cash, restricted funds, and net investment in leases are measured at amortized cost. Broker commissions related to the origination of finance leases are deferred and recorded as an adjustment to the yield of the net investment in finance leases as part of the effective interest rate. Gains and losses are recognized in the consolidated statements of income when the loans are derecognized or impaired.

Financial assets at fair value through profit or loss
Financial assets that are held for trading and derivative assets are required to be measured at FVTPL. Financial assets that meet certain conditions may be designated at FVTPL upon initial recognition. Upon initial recognition, attributable transaction costs are recognized in net income or loss as incurred. Assets in this category are subsequently measured at fair value with gains or losses recognized in net income or loss.

Fair value through other comprehensive income
Financial assets that are held to both collect contractual cash flows and for sale are required to be measured at fair value through other comprehensive income ("FVOCI"). Other financial assets, provided they are not held for trading and have not been designated as at FVTPL, can be designated as at FVOCI on initial recognition.

Gains and losses are recognized in other comprehensive income (loss) and presented in accumulated other comprehensive income within equity, except for the accretion in value based on the effective interest rate method, impairment losses and foreign exchange differences on monetary assets, which are recognized in net income or loss. Upon initial recognition, attributable transaction costs are recognized in net income or loss as incurred. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income (loss) is reclassified from equity to net income or loss and presented as a reclassification adjustment within other comprehensive income (loss).

Financial liabilities are categorized as follows for subsequent measurement:

Amortized cost
Financial liabilities that are not otherwise measured as at FVTPL or designated at fair value are measured at amortized cost using the effective interest rate method. Any host contract in a hybrid instrument is also measured at amortized cost. Gains and losses are recognized in net income or loss when the liabilities are derecognized. Transaction costs incurred in connection with the issuance of loans and borrowings are capitalized and recorded as a reduction of the carrying amount of the related financial liabilities and amortized using the effective interest rate method.

The Company's financial liabilities measured at amortized cost include borrowings, option liability, accounts payable and other liabilities, premise leases payable, and customer security deposits.

Financial liabilities at fair value through profit or loss
Financial liabilities that are held for trading and stand-alone derivative liabilities are required to be measured at FVTPL. When certain conditions are satisfied, embedded derivatives are required to be separately recognized and measured at fair value with subsequent changes in fair value recognized in net income or loss.

A designation can be made at initial recognition for financial liabilities that include one or more embedded derivatives, provided the host contract is not a financial asset, to measure the entire hybrid instrument at fair value. Where certain criteria are met, for example measurement at amortized cost would create measurement inconsistencies, the financial liability can also be designated at fair value. For such designated financial liabilities, the amount of the change in fair value that relates to changes in the entity's own credit risk is recognized in other comprehensive income (loss) and the remaining amount of the change in fair value is recognized in net income or loss. All contingent consideration payable is also included in this category. Derivative financial instruments that are designated as effective hedge instruments are excluded from this category.

The fair values of financial liabilities are based on changes in observable prices in active markets or by a valuation technique where no market exists. Transaction costs attributable to the issuance of financial liabilities at FVTPL are recognized in net income or loss as incurred.

The categories to which the financial instruments are allocated are:

Financial instrument	Classification
ASSETS	
Cash	Amortized cost
Restricted funds	Amortized cost
Finance receivables	Amortized cost
LIABILITIES	
Accounts payable and other liabilities	Amortized cost
Premise leases payable	Amortized cost
Option liability	Amortized cost
Borrowings	Amortized cost
Customer security deposits	Amortized cost
Interest rate derivative	FVTPL

All financial instruments measured at fair value and for which fair value is disclosed are categorized into one of three hierarchy levels. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

(i) Level 1 Inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

(ii) Level 2 Inputs - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

(iii) Level 3 Inputs - techniques that use inputs that have a significant effect on the recorded fair value for the asset or liability that are not based on observable market data (unobservable inputs).

Carrying amounts are expected to be reasonable approximations of fair value for cash, restricted funds and for financial instruments with short maturities, including accounts payable and other liabilities.

Allowance for expected credit losses

The Company measures allowance for expected credit losses ("ECL") based on an ECL impairment model for all financial instruments except those measured at FVTPL. The model measures ECLs as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument based on the probability of default ("PD") and loss given default ("LGD") applied to the exposure at default.

The Company's finance receivables are separated into three distinct categories: U.S. equipment lease and loan, Canadian equipment lease and loan, and Canadian auto loan receivables. Each of the categories are composed of a large number of homogenous receivables, with relatively small balances. Thus, the evaluation of the ECL is performed separately on the categories. Within the subsets, the ECL is assessed collectively for the portfolios. The equipment lease and loan receivables are further segregated into prime and non-prime.

Application of the model depends on the following credit stages of the financial assets:

(i) Stage 1 - for new leases and loans recognized and for existing leases or loans that have not experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring in the next 12 months;

(ii) Stage 2 - for those leases or loans that have experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected over the remaining life of the lease or loan. The Company considers prime and non-prime leases and loans to have experienced a significant increase in credit risk since initial recognition if they are delinquent for over 30 days or modified within the past 12 months. Non-prime auto loans are also defined as Stage 2 if they are currently in or recently completed a payment arrangement or extension.; and

(iii) Stage 3 - for leases or loans that are considered to be credit-impaired, a loss allowance equal to full lifetime ECLs is recognized. The Company considers equipment leases and loans to be credit impaired if they are delinquent for more than 90 days and for U.S. leases and loans if they are delinquent for more than 60 days. The Company also considers U.S. equipment leases and loans to be credit impaired if the individual leases and loans have had a significant adverse business event. Auto loans are considered credit impaired if they are delinquent for greater than 90 days, the underlying collateral is in process of being repossessed, or there is another identifiable factor.

The Company's write off policy is as follows:

- For U.S. finance receivables: leases and loans that are 154 days contractually past due
- For Canadian finance receivables: leases and loans are considered defaulted on an individual basis when there is no realistic prospect of recovery
- For auto finance receivables: loans that are 120 days contractually past due

Customer security deposits are held for the full term of the lease and then returned or applied to the purchase option of the equipment at the lessee's request, unless the lessee has previously defaulted in which case the deposit is applied against the lease receivable at that time. Past experience suggests that a very high percentage of the customer deposits are applied to the purchase option of the leased equipment at the end of the lease term, or as an offset against outstanding lease receivables.

The Company is entitled to repossess financed equipment or vehicles (subject to statutory regulations) if the borrower defaults on their lease or loan contract. When a lease or loan is charged off, the expected resale value of the related equipment is recorded on the consolidated financial statements so that the total charge-off is net of expected recoveries. Any amounts recovered from the sale of equipment after a charge-off in excess of the expected resale value, are credited to the provision for credit losses when received.

In addition to internal weighted average loss data, the process of estimating ECLs uses the following inputs and assumptions to reflect information about past events, current conditions and forecasts of future conditions that are not already captured in the inputs:

- Recoveries of amounts previously charged off in the last 12 months, as an estimate of recoveries for the next 12 months;
- An estimate of the effects on credit losses in the next 12 months of natural disasters and economic shocks;
- The stage of the business cycle for the industry, which considers macro economic factors; and
- Current delinquency trends of non-accrual and greater than 30 days delinquency rates.

In cases where a borrower experiences financial difficulties, the subsidiaries may grant certain concessionary modifications to the terms and conditions of a lease or loan. Modifications may include payment deferrals, extension of amortization periods, and other modifications intended to minimize the economic loss and to avoid repossession of collateral. The subsidiaries have policies in place to determine the appropriate remediation strategy based on certain conditions. Significant increase in credit risk (Stage 2 categorization) is assessed based on the risk of default at initial recognition of the original asset. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For finance receivables that were modified while having a lifetime ECL, the leases and loans can revert to having 12-month ECL after a period of performance and improvement in the borrower's financial condition.

Derivatives and hedge accounting

The fair values of derivative financial instruments are based on changes in observable prices in active markets or by a valuation technique where no market exists.

Financial instruments accounting requires recognition of the fair value of all derivative instruments on the consolidated statements of financial position as either assets or liabilities. Changes in a derivative's fair value are recognized currently in net income unless specific hedge accounting criteria are met. Gains and losses on derivative hedging instruments must be recorded in either other comprehensive income (loss) or current net income, depending on the nature and designation of the financial instrument.

The Company applies hedge accounting for cash flow hedges under IFRS 9 and the impact at December 31, 2022 was immaterial.

When an effective hedge exists, the change in fair value of the derivative hedging item is recognized in other comprehensive income and subsequently reclassified to net income. Hedge effectiveness is assessed on an ongoing basis until the cash flow hedge is discontinued (the contract is exercised, expires, is terminated, or sold). Should a hedge cease to be effective, any changes in fair value are deemed to be the ineffective portion of the hedge, and are recognized in net income.

Right-of-use assets and premise leases payable
Under IFRS 16, *Leases*, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Included in right-of-use assets and premise leases payable are the Company's leased offices at Pawnee and Tandem, as well as Vault Credit locations. For such agreements, the Company recognizes a right-of-use asset and a lease liability at the lease commencement date. Measurement requires the lease term to be determined which includes optional extension periods only if they are reasonably certain to be exercised. Determining the lease term is judgmental.

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the Company's incremental borrowing rate because the rate implicit in the lease is not known. The right-of-use asset is measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use assets are depreciated over the respective lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. Lease terms range from 1 to 6 years, and the optional extension periods have been excluded. Right-of-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is subsequently accounted for at amortized cost using the effective interest rate method.

The lease liability for the Company's leases will be remeasured in a future period if there is a change in future lease payments arising from a change in the likelihood that extension options or termination options are exercised. A sublet of leased space is treated as a disposal of the associated right-of-use asset with any resulting gain or loss recognized in net income. On remeasuring a lease agreement, a corresponding adjustment is made to the carrying amount of the right-of-use asset.

Property and equipment
Property and equipment are measured at acquisition or purchase cost less scheduled depreciation based on the useful economic lives of the assets. No components (those parts of individual property and equipment assets having different economic lives than the remainder of the asset) have been identified.

Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Asset class	Useful life
Computer hardware	1 - 7 years
Furniture and equipment	1 - 7 years

Intangible assets
Purchased intangible assets are recognized as assets in accordance with IAS 38, *Intangible Assets*, where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase and are subsequently carried at cost less accumulated amortization and, if applicable, accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Management has determined that the Blue Chip and Pawnee trade names have indefinite lives. The broker relationships and Vault Credit trade name are considered to have finite lives and are amortized on a scheduled straight-line basis over their estimated useful lives of 8 to 15 years. All computer software is amortized on a scheduled straight-line basis over their estimated useful lives of 1 to 5 years.

The amortization period and method of amortization for intangible assets with finite lives are reassessed annually. Changes in the useful life or in the pattern of economic benefits derived are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually at the cash-generating unit ("CGU") level and are reviewed annually to determine whether the indefinite life continues to be applicable. Any change from indefinite life to finite life would be accounted for prospectively. CGUs are defined as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

A previously recognized impairment loss for non-financial assets is reversed if there has been a change in the assumptions used to determine the recoverable amount since the previous impairment loss was recognized. The carrying amount after the reversal cannot exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years.

Goodwill
The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Company elected to measure the non-controlling interests in the acquiree at fair value of the acquiree's identifiable net assets. Goodwill is initially measured at cost which represents the excess of the consideration paid and the amount recognized for non-controlling interests held over the net identifiable assets, liabilities and contingent liabilities acquired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment testing is applied on an individual asset basis unless an asset does not generate cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets. None of the Company's non-financial assets generate independent cash inflows and therefore all non-financial assets are allocated to CGUs for purposes of assessing impairment.

Impairment losses are recognized when the carrying amount of a CGU exceeds the recoverable amount, which is the greater of the CGU's fair value less cost to sell and its value-in-use ("VIU"). If the recoverable amount of the CGU is less than its carrying amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is allocated to reduce the carrying amount of the assets of the CGU, first to reduce the carrying amount of the CGU's goodwill and then to the other assets of the CGU allocated pro-rata on the basis of the carrying amount of each asset. Impairment losses of operations are recognized in the consolidated statements of income.

CGUs to which goodwill and intangible assets with indefinite lives have been allocated are tested for impairment annually as at December 31, and all CGUs are tested for impairment more frequently when there is an indication that the CGU may be impaired.

Vault Credit Business combination

In the Vault Credit business combination, the Company obtained a call option on the non-controlling interest ("NCI") and the holders of the NCI have a similar put option on the shares that they hold. Chesswood exercised judgment by applying IAS 32, *Financial Instruments: Presentation*, to recognize a 100% ownership interest in the acquiree. In addition, the Company recognized a financial liability under amortized cost for the present value of the amount payable upon exercise of the NCI option. No NCI was recognized on acquisition, a liability was established for the anticipated purchase price of the NCI, and all dividends paid to the NCI shareholders are recognized as an expense through the year-end consolidated statements of income. In addition, any changes in the anticipated purchase price of the NCI will also be recognized through the year-end consolidated statements of income.

Income taxes
Income taxes are accounted for using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising from investments in subsidiaries that are not expected to reverse in the foreseeable future are not recognized.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income tax expense reflects the mix of taxing jurisdictions in which pre-tax income and losses were recognized.

Share-based compensation plans
The Company issues share options and restricted share units ("RSUs"), which are accounted for as equity-settled awards. The equity instruments granted are measured by reference to the fair value of the options and RSUs using the Black-Scholes Option Pricing Model and fair value of the Company's share price without incorporating dividends, respectively.

The expense associated with the compensation plans is charged to net income, with a corresponding increase in contributed surplus over the vesting period.

Earnings per share
Basic earnings per share is computed by dividing net income for the year by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated using the same method as for basic earnings per share and adjusted for the weighted average number of common shares outstanding during the year to reflect the dilutive impact, if any, of any options, RSUs, or other commitments and instruments assuming they were exercised for that number of common shares calculated by applying the treasury stock method. The treasury stock method assumes that all proceeds received by the Company when options are exercised will be used to purchase common shares at the average market price during the reporting period.

Exercise of judgment and use of accounting estimates and assumptions
The preparation of the Company’s consolidated financial statements in accordance with IFRS requires management to apply a significant degree of judgment in applying the Company’s financial accounting policies and to make certain assumptions and estimates that have a material effect on the reported amounts of assets, liabilities, revenues and expenses.

The assumptions and estimates are based on premises that reflect the facts that are known at any given time. Future economic factors are inherently difficult to predict and are beyond management’s control. If the actual development differs from the assumptions and estimates, the premises used and, if necessary, the carrying amounts for the assets and liabilities in question are adjusted accordingly. The exercise of judgment is based on management’s experience and also on past history. As a result, actual amounts could differ from these estimates.

The fair value of interest rate derivatives, certain assets acquired and consideration paid in business acquisitions are estimated using valuation techniques based on assumptions of, for example, estimated future cash flows, and future interest rate movements. The estimated fair values are sensitive to changes in these assumptions.

(a) Allowance for expected credit losses
ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instruments, based on inputs by credit stage.

Forecasts of future events and conditions are incorporated by using macroeconomic variables. Determining the inputs listed and ECLs requires significant estimation uncertainty. In particular, determining the effects of the economic environment to be layered over the static pool data for the year ended December 31, 2022 to estimate the effect on ECLs at that date–which requires assessing the direction of macroeconomic variables in the forward-looking scenarios amongst other factors–are subject to significant measurement uncertainty. Determining which categories of finance receivables have seen a significant increase in credit risk is also subject to significant judgment.

(b) Business combination and goodwill
Information about critical judgments, assumptions, and estimation uncertainties in applying business combination accounting policies that have the most significant effect on the amounts recognized in the year-end consolidated financial statements are presented in Note 25 - Business Combinations. Critical assumptions include the expected future cash flows, interest rates, repayment terms, and discount rates used in the calculation of the fair value of assets and liabilities on acquisition.

(c) Impairment of intangible assets and goodwill
The impairment testing utilizes several assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year as a result of the fair value being derived from an estimated discounted cash flow model. Fair value is the present value of the estimated future cash flows from the CGU discounted using a rate that reflects current market rates and the risks inherent in the business of each CGU. The cash flows are derived from budgets for the next five years, excluding restructuring activities and future investments. Other than the cash flow estimates, the fair value is most sensitive to the discount rate used and the growth rate applied beyond the five-year estimate.

The Company performs an annual goodwill impairment test. The Company is also required to test its assets for impairment, including goodwill and intangible assets with indefinite lives, between the annual assessments when facts and other circumstances indicate that impairment may have occurred.

The impairment test is performed at the CGU level because none of the Company's non-financial assets generate independent cash inflows. The recoverable amounts of the Company's CGUs were determined based on their fair value. The calculation of fair value incorporated five years of cash flow estimates plus a terminal value and was based on the following key variables:

i) The five years of cash flow estimates were based on achieving key operating metrics and drivers based on management estimates, past history and the current economic outlook, and were approved by Chesswood management. The fair value for the operating segments are most sensitive to assumptions of lease/loan origination volumes driving revenue growth rates, as well as net charge-offs. The cash flow inputs used represent management's current best estimates and are consistent with changes seen in the finance receivable portfolio and with readily available external sources of information.
ii) A terminal value incorporated into the fair value calculation which was estimated by applying a growth rate to the cash flow forecast for the final year. The growth rate reflects the historical average core inflation rate which does not exceed the long-term average growth rate for the industry.
iii) A discount rate was applied to each CGUs' forecasted cash flows based on the nature of each CGU's business.

The estimation of fair value is subject to considerable measurement uncertainty.

If the future were to adversely differ from management's best estimate of key assumptions, including associated cash flows, the Company could potentially experience future material impairment charges in respect of its goodwill and intangible assets.

Refer to Note 7 - *Intangible Assets* and Note 8 - *Goodwill* for additional information.

(d) Income taxes
The Company is subject to income tax laws in the various jurisdictions that it operates in. The tax laws are complex and are potentially subject to different interpretations by the Company and the relevant tax authority. Management's judgment is applied in interpreting the relevant tax laws and estimating the expected timing and the amount of the provision for current and deferred income taxes.

Determining the value of deferred tax assets recognized requires an estimate of the value of tax benefits that will eventually be realized by the Company which utilizes several assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments to income taxes in the future years.

(e) Fair value of share-based compensation
The value of the options granted was determined using the Black-Scholes Option Pricing Model. The model utilized the weighted average share price at grant date, expected volatility, expected life, expected dividend yield, and risk-free interest as inputs to the model.

The risk free rate was based on the Government of Canada benchmark bond yield on the date of grant for a term equal to the expected life of the options. Expected volatility was determined by calculating the historical volatility of the Company's share price over a period equal to the expected life of the options. The expected life was based on the contractual life of the awards and adjusted, based on management's best estimate and historical redemption rates.

The Black-Scholes Option Pricing Model was developed for use in estimating the fair value of traded options, which have no black-out or vesting restrictions and are fully transferable. In addition, the Black-Scholes Option Pricing Model requires the use of subjective assumptions, including the expected stock price volatility. As a result of the Company's Stock Option Plan having characteristics different from those of traded options, and because changes in the subjective assumptions can have a material effect on the fair value estimates, the Black-Scholes Option Pricing Model does not necessarily provide a single measure of the fair value of options granted.

3. NEW ACCOUNTING STANDARDS

New standards, interpretations and amendments adopted by the Company

Adoption of these amendments did not have a significant impact on the Company's year-end consolidated financial statements.

Reference to the Conceptual Framework – Amendments to IFRS 3
The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3, *Business Combinations* to avoid the issue of potential "day 2" gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21, *Levies*, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. These amendments had no impact on the year-end consolidated financial statements of the Company as there were no contingent assets and liabilities within the scope of these amendments that arose during the period.

IFRS 9, Financial Instruments – Fees in the "10 per cent" Test for Derecognition of Financial Liabilities
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39, *Financial Instruments: Recognition and Measurement*.

Amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets
The amendments were issued in May 2020, and are effective on or after January 1, 2022, with earlier application permitted. The amendments address identifying onerous contracts and specify the cost of fulfilling a contract, which includes all costs directly related to the contract. These include incremental direct costs and allocations of other costs that relate directly to fulfilling the contract.

Standards issued but not yet effective

Management is currently considering the effect of the following amendments that are issued by the IASB but that are not yet effective:

(a) Amendments to IFRS 7, *Financial Instruments: Disclosures,* provides clarification on disclosing material accounting policy information regarding the measurement bases for financial instruments. The Company will adopt the amendment when it becomes effective in the Company's December 31, 2023 year.

(b) Amendments to IAS 8, *Accounting Policies, Changes in Accounting Estimates, and Errors,* provides clarification on the difference between accounting policies and accounting estimates. The Company will adopt the amendment when it becomes effective in the Company's December 31, 2023 year.

(c) Amendments to IAS 12, *Income Taxes,* provides clarification on how companies account for deferred taxes on transactions such as leases and decommissioning obligations. The Company will adopt the amendment when it becomes effective in the Company's December 31, 2023 year.

(d) Amendments to IAS 1, *Presentation of Financial Statements,* and IFRS Practice Statement 2, *Making Materiality Judgments,* provides guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after January 1, 2023, with earlier application permitted. Since the amendments to Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Company is currently revisiting its accounting policy information disclosures to ensure consistency with the amended requirements going forward.

(e) Amendments to IAS 1, *Presentation of Financial Statements,* provides clarification on the conditions with which an entity must comply within 12 months after the reporting period affecting the classification of a liability as current or non-current. The Company will adopt the amendment when it becomes effective in the Company's December 31, 2024 year.

4. FINANCIAL INSTRUMENTS

Categories and measurement hierarchy

The fair values of financial instruments are categorized into the following hierarchy levels in accordance with IFRS 13, *Fair Value Measurement*:

					December 31, 2022
($ thousands)	Level 1	Level 2	Level 3	Fair value	Carrying value
ASSETS					
Finance receivables *(i)*	**$ —**	**$ —**	**$ 2,324,830**	**$ 2,324,830**	**$ 2,330,258**
LIABILITIES					
Borrowings *(ii)*	**$ —**	**$ —**	**$(2,183,269)**	**$ (2,183,269)**	**$ (2,221,649)**
Customer security deposits *(iii)*	**—**	**(2,931)**	**—**	**(2,931)**	**(2,931)**

					December 31, 2021
($ thousands)	Level 1	Level 2	Level 3	Fair value	Carrying value
ASSETS					
Finance receivables *(i)*	$ —	$ —	$ 1,460,741	$ 1,460,741	1,418,260
LIABILITIES					
Borrowings *(ii)*	$ —	$ —	$(1,341,442)	$ (1,341,442)	(1,337,310)
Customer security deposits *(iii)*	—	(4,362)	—	(4,362)	(4,362)

Certain prior year amounts have been adjusted to conform with the current year.

i. There is no organized market for the finance receivables. The fair value of the finance receivables is determined by discounting expected cash flows at current market rates.
ii. The fair value of the borrowings is determined by discounting expected cash flows at current market rates for loans with similar terms, conditions and maturities.
iii. There is no organized market for customer security deposits. The carrying value is the amortized cost using the effective interest rate method which approximates fair value because contractual interest rates approximate current market rates.

Transfers between levels are considered to occur on the date that the fair valuation methodology changes. There were no transfers between levels during the current or comparative periods.

The carrying values of all other financial assets and liabilities approximate their fair values.

5. FINANCIAL RISK MANAGEMENT

In the normal course of business, the Company manages risks that arise as a result of its use of financial instruments. These risks include credit, liquidity and market risk. Market risks can include interest rate risk, foreign currency risk and other price risk.

i) Credit risk
Credit risk stems primarily from the potential inability of a customer or counterparty to a financial instrument to meet its contractual obligations. The Company’s maximum exposure to credit risk is represented by the carrying amounts of restricted funds and finance receivables.

The Company’s excess cash is held in accounts with several major Canadian chartered banks and a few U.S. banks with the majority at J.P. Morgan Chase. Management has estimated credit risk with respect to such balances to be nominal and monitors changes in the status of these financial institutions to mitigate potential credit risk.

The U.S. and Canadian Equipment Financing Segments' investments in finance receivables are originated with smaller, often owner-operated businesses, some of whom have limited access to traditional financing. A portion of the U.S. Equipment Financing Segment's lessees and borrowers is either start-up businesses that have not established business credit or more tenured businesses that have experienced some business credit difficulty at some time in their history ("non-prime"). As a result, such leases and loans entail higher credit risk (reflected in higher than expected levels of delinquencies and loss) relative to our prime customers in the prime commercial equipment finance market. The typical Canadian Equipment Financing Segment borrower is a tenured small business with a strong credit profile.

The U.S. and Canadian Equipment Financing Segments' credit risk is mitigated by: funding only "business essential" commercial equipment, where the value of the equipment is generally less than US$350,000, typically obtaining at least the personal guarantee of the majority owners of the lessee/borrower for each lease or loan, and by diversification on a number of levels, including: geographical across the United States and Canada, respectively, type of equipment, vendor, equipment cost, industries in which the segments' lessees/borrowers operate and through the number of lessees/borrowers, none of which is individually significant. Furthermore, the U.S. Equipment Financing Segment’s credit risk in its non-prime portfolio is mitigated by the fact that the standard lease/loan contracts may require that the lessee/borrower provide two months' payments as a security deposit or advance payments, which, in the case of default, is applied against the lease/loan receivable; otherwise the deposit is held for the full term of the lease/loan and is then returned or applied to the purchase option of the equipment at the lessee's option.

The Canadian Auto Financing Segment provides near prime and non-prime financing solutions through selected automotive dealer partners to customers looking to obtain a vehicle. Therefore, the leases and loans entail higher credit risk than the U.S. and Canadian Equipment Financing Segments.

The Canadian Auto Financing Segment's credit risk is mitigated by: accepting loan applications only from approved dealerships; ensuring that applicants meet certain standards before extending credit such as down payment, interest rate, vehicle age and mileage; ensuring all loan applications are reviewed by an experienced credit underwriter employee; ensuring reviewers receive significant training; and having appropriate oversight to ensure compliance with credit policies and procedures.

The subsidiaries are entitled to repossess financed equipment, or vehicles, if the lessee/borrower defaults on their contract in order to minimize any credit losses. When an asset previously accepted as collateral is to be repossessed, it undergoes a process of physical repossession and disposal in accordance with the legal provisions of the relevant market. See Note 6(f) - *Finance Receivables*, for a further discussion on the repossession of collateral.

The finance receivables consist of a large number of homogenous leases and loans, with relatively small balances, and as such, the evaluation of the ECLs is performed collectively for the lease and loan receivable portfolio. More detailed information regarding this methodology and on finance receivables that are considered to be impaired is provided in Note 6 - *Finance Receivables*.

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company's objective is to maintain low cash balances, investing any free cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. As at December 31, 2022, the Company's operations have at least $1.1 billion (December 31, 2021 - $756.4 million) in additional borrowings available under various credit facilities to fund business operations.

The Company's operations and growth are financed through a combination of the cash flows from operations, borrowings under existing credit facilities, and through non-recourse asset-backed bulk lease/loan transactions (often referred to as securitization). Prudent liquidity risk management requires managing and monitoring liquidity on the basis of a rolling cash flow forecast and ensuring adequate committed credit facilities are in place, to the extent possible, to meet funding needs.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, and principal payments) is shown in operating activities in the consolidated statements of cash flows. As at December 31, 2022, the Company's U.S. and Canadian Equipment Financing Segments' finance receivables have an average remaining term of approximately 43 and 37 months, respectively, and the Canadian Auto Financing Segment has an expected realized term of approximately 25 months. The U.S. and Canadian Equipment Financing Segments' finance receivables will generate earnings approximately over the next 43 and 37 months, respectively. The Canadian Auto Financing Segment's finance receivables expect to generate earnings over the next 25 months. For all segments, only a portion of finance receivables will generate net income in the current operating period. Our ability to borrow under our various credit facilities is directly linked to our finance receivable portfolio. The funds borrowed to support the growth in the finance receivables is shown under financing activities in the consolidated statements of cash flows. Presentation of cash outflows for investment in a long-term asset in operating activities and the direct financing thereof under another category (financing activities) results in a "cash used in operating activities" in the current period that is distorted. Management assesses "cash flow from operations by excluding the net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, and principal payments).

The Company has a corporate credit facility that allows borrowings of up to US$386.7 million (December 31, 2021 - US$300.0 million), subject to certain percentages of eligible gross lease receivables, of which US$236.1 million was utilized as at December 31, 2022, (December 31, 2021 - US$153.5 million). On January 14, 2022, the revolving credit facility was renegotiated. In addition, the Company has several bulk financing lines available to its Canadian business and similar financing for its U.S. prime portfolio. At this time however, management believes that the syndicate of financial institutions that provides Chesswood's credit facility and the banks and life insurance company that provide financing to our subsidiaries are financially viable and will continue to provide the facilities. See Note 10 - *Borrowings* for further information.

Under the corporate credit facility, the maximum cash dividends that the Company can pay in any month is 1/12 of 90% of free cash flow for the most recently completed four financial quarters in which the Company has publicly filed its consolidated financial statements less the cost of any repurchases under normal course issuer bids, if any. See Note 19 - *Dividends* for all dividends that the Company has paid to investors for the year ended December 31, 2022.

The maturity structure for undiscounted contractual cash flows is presented in Note 13 - *Minimum Payments*. See Note 6(b) - *Finance Receivables* for the expected collections of finance receivables over the same time period. See Note 10(e) - *Borrowings,* for the amount of restricted cash in collection accounts that will be applied to debt in the following month.

iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market price risks faced by the Company relate to the interest rates and foreign currency.

a) *Interest rate risk*

The finance receivables are written at fixed effective interest rates. To the extent the Company finances its fixed rate finance receivables with floating rate funds, there is exposure to fluctuations in interest rates such that an increase in interest rates could narrow the margin between the yield on a lease/loan receivable and the interest rate paid by the Company to finance working capital.

The following table presents a sensitivity analysis for a reasonable fluctuation in interest rates and the effect on the financial position and performance as at and for the years ended December 31, 2022 and 2021 :

	Year ended			
	December 31, 2022			
($ thousands)	+100 bps	-100 bps	+100 bps	-100 bps
Increase (decrease) in interest expense	**$ 3,991**	**$ (3,991)**	$ 2,637	$ (2,637)
Increase (decrease) in net income and equity	**$ (2,933)**	**$ 2,933**	$ (1,936)	$ 1,936

b) Foreign currency risk

The Company is exposed to fluctuations in the U.S. dollar exchange rate because significant operating cash inflows are generated in the United States, while dividends are paid to shareholders in Canadian dollars. For the year ended December 31, 2022, cash dividends paid to common shareholders, exchangeable securities holders, and warrant holders totalled $8.8 million (December 31, 2021 - $5.6 million).

The following table presents a sensitivity analysis for a hypothetical fluctuation in U.S. dollar exchange rates and the effect on the financial position and performance as at and for the years ended December 31, 2022 and 2021:

($ thousands)	**December 31, 2022**	December 31, 2021
Year-end exchange rate	**1.3544**	1.2678
U.S. denominated net assets in U.S. dollars held in Canada	**$ 393**	$ 528
Effect of a 10% increase or decrease in the Canadian/U.S. dollar on U.S. denominated net assets	**$ 53**	$ 67

6. FINANCE RECEIVABLES

All lease and loan receivables have been pledged as security for amounts borrowed from lenders under various facilities, as described in Note 10 - *Borrowings*. The lenders have the right to enforce their security interest in the pledged lease and loan receivables if the Company defaults under these facilities. The Company retains significant risks and rewards of ownership, in some cases through consolidated special purpose entities ("SPEs"), and servicing responsibilities of the pledged lease and loan receivables, and therefore continues to recognize them on the consolidated statements of financial position.

($ thousands)	**December 31, 2022**	December 31, 2021
Net investment in leases	**$ 899,982**	$ 587,825
Loan receivables	**1,200,624**	830,435
Auto loan receivables	**229,652**	—
Finance receivables	**$ 2,330,258**	$ 1,418,260

(a) Net investment in finance receivables includes the following:

($ thousands)	**December 31, 2022**	December 31, 2021
Total minimum finance receivables payments *(b)*	**$ 2,800,578**	$ 1,648,185
Residual values of leased equipment	**39,155**	30,767
	2,839,733	1,678,952
Unearned income, net of initial direct costs	**(458,795)**	(238,299)
Net investment in finance receivables before allowance for ECL	**2,380,938**	1,440,653
Allowance for ECL *(c)*	**(50,680)**	(22,393)
Net investment in finance receivables	**$ 2,330,258**	$ 1,418,260

(b) Minimum scheduled collections

The Company's minimum scheduled collection of finance receivables as at December 31, 2022, are presented in the following table:

($ thousands)	Minimum payments
2023	$ 937,088
2024	722,613
2025	557,538
2026	381,174
2027	167,561
2028 and thereafter	73,759
Total minimum payments	$ 2,839,733

The Company's experience has shown that the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the minimum scheduled collections presented above are not to be regarded as a forecast of future cash collections.

(c) Allowance for expected credit losses

The Company's probability-weighted estimate of ECL using three scenarios (base, upside and downside) was determined as at December 31, 2022 based on forecasts and other information available at that date. When determining the ECL, the Company considered forward-looking macroeconomic information. The Company disaggregates its portfolio by segment. The following forward-looking factors were examined for each portfolio:

		As at December 31, 2022
Segment	Macroeconomic factor	Base scenario - 12-month forecast
Canadian Equipment Financing	Canadian GDP Growth	**0.5%**
U.S. Equipment Financing	Secured Overnight Financing Rate	**4.6%**
	U.S. GDP Growth	**1.1%**
	U.S. Unemployment Rate	**4.4%**
Canadian Auto Financing	2 Year Note Interest Rate	**3.9%**
	CAD/USD Foreign Exchange Rate	**1.33**

Historically, an increase in interest rates, an increase in unemployment rates, a decrease in GDP growth, or weakening Canadian dollar have increased charge-offs.

The impact of market uncertainties on the economy, as well as, the timing of recoveries will continue to evolve with the subsequent effect reflected in the measurement of ECLs in future quarters as appropriate. This may add significant volatility to ECL. A 10% increase to the downside scenario across all segments would result in an allowance for ECL of $51.8 million as at December 31, 2022 (an increase of $1.1 million).

The following table shows the net investment in finance receivables before allowance for ECL by credit category:

				As at December 31, 2022
	Stage 1	**Stage 2**	**Stage 3**	**Total**
($ thousands)	**Performing**	**Under-Performing**	**Non-Performing**	
Prime	**$ 1,614,638**	**$ 13,707**	**$ 5,523**	**$ 1,633,868**
Non-prime[1]	**699,568**	**29,083**	**18,419**	**747,070**
Total	**$ 2,314,206**	**$ 42,790**	**$ 23,942**	**$ 2,380,938**

(1) $0.4 million of the Stage 3 non-prime loans relate to credit impaired loans acquired on January 14, 2022 as a part of the Rifco acquisition.

				As at December 31, 2021
	Stage 1	Stage 2	Stage 3	Total
($ thousands)	Performing	Under-Performing	Non-Performing	
Prime	$ 1,069,280	$ 2,674	$ 2,640	$ 1,074,594
Non-prime	359,742	3,459	2,858	366,059
Total	$ 1,429,022	$ 6,133	$ 5,498	$ 1,440,653

The following tables show reconciliations from the opening to the closing balance of the allowance for ECL:

	Year ended December 31, 2022			
	Stage 1	Stage 2	Stage 3	
($ thousands)	Performing	Under-Performing	Non-Performing	Total
Balance, January 1, 2022	$ 13,888	$ 4,460	$ 4,045	$ 22,393
Acquisition of Rifco loans[1]	9,306	—	—	9,306
Transfer to Performing (Stage 1)	5,365	(4,435)	(930)	—
Transfer to Under-Performing (Stage 2)	(2,921)	3,323	(402)	—
Transfer to Non-Performing (Stage 3)	(3,765)	(6,163)	9,928	—
Net remeasurement of loss allowance	(22,693)	13,108	20,172	10,587
New receivables originated	24,422	—	—	24,422
Provision for credit losses	9,714	5,833	28,768	44,315
Charge-offs	—	—	(32,461)	(32,461)
Recoveries of amounts previously charged off	—	—	14,908	14,908
Net charge-offs	—	—	(17,553)	(17,553)
Foreign exchange translation	574	440	511	1,525
Balance, December 31, 2022	$ 24,176	$ 10,733	$ 15,771	$ 50,680

[1]Refer to Note 25 - *Business Combinations*

	Year ended December 31, 2021			
	Stage 1	Stage 2	Stage 3	
($ thousands)	Performing	Under-Performing	Non-Performing	Total
Balance, January 1, 2021	$ 10,832	$ 6,831	$ 6,700	$ 24,363
Acquisition of Vault Credit leases	2,169	—	—	2,169
Transfer to Performing (Stage 1)	2,459	(1,866)	(593)	—
Transfer to Under-Performing (Stage 2)	(358)	798	(440)	—
Transfer to Non-Performing (Stage 3)	(540)	(4,409)	4,949	—
Net remeasurement of loss allowance	(12,982)	3,162	(4,490)	(14,310)
New receivables originated	12,329	—	—	12,329
Provision for credit losses	3,077	(2,315)	(574)	188
Charge-offs	—	—	(15,718)	(15,718)
Recoveries of amounts previously charged off	—	—	13,690	13,690
Net charge-offs	—	—	(2,028)	(2,028)
Foreign exchange translation	(21)	(56)	(53)	(130)
Balance, December 31, 2021	$ 13,888	$ 4,460	$ 4,045	$ 22,393

(d) Finance receivables past due

The following aging represents the total carrying amount of the lease and loan receivables and not just the payments that are past due. The balances presented exclude the $2.9 million (December 31, 2021 - $4.4 million) of security deposits received from lessees/borrowers and the collateral held (including potential proceeds from repossessed equipment, and potential recoveries from personal guarantees) that would offset any charge-offs.

The U.S. Equipment Financing Segment charges off leases and loans when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted. A high percentage of charge-offs are recognized before the subject lease/loan reaches 154 days contractually past due, due to insolvency or non-responsiveness of the lessee or borrower. Vault Credit charges off leases and loans on an individual basis when there is no realistic prospect of recovery. The Canadian Auto Financing Segment, charges off loans when they become 120 days contractually past due. Loan and lease receivables that are charged off during the period are all subject to continued collection efforts.

						As at December 31, 2022
($ thousands)	**Current**	**1-30 days**	**31-60 days**	**61-90 days**	**Over 90 days**	**Total**
Finance receivables	**$ 2,261,844**	**$ 73,477**	**$ 23,776**	**$ 8,781**	**$ 13,060**	**$ 2,380,938**
Credit impaired	**$ 1,032**	**$ 1,860**	**$ 1,590**	**$ 6,492**	**$ 12,968**	**$ 23,942**
Past due but not impaired	**$ —**	**$ 71,617**	**$ 22,186**	**$ 2,289**	**$ 92**	**$ 96,184**

						As at December 31, 2021
($ thousands)	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total
Finance receivables	$ 1,421,895	$ 12,557	$ 3,304	$ 1,043	$ 1,854	$ 1,440,653
Credit impaired	$ 219	$ 399	$ 2,163	$ 687	$ 1,823	$ 5,291
Past due but not impaired	$ —	$ 12,158	$ 1,141	$ 356	$ 31	$ 13,686

(e) Modifications

The net investment in finance receivables that have been modified (in 2022 or prior) and are current as at December 31, 2022 is $77.8 million (December 31, 2021 - $103.7 million). On average, the terms have been modified to extend the contracts by approximately one to three months, depending on the modification. Modified finance receivables as at December 31, 2022 had a total net investment in finance receivable balance of $95.1 million (December 31, 2021 - $109.0 million). The majority of the modifications were related to COVID-19 deferrals. These amounts reflect the net investment in finance receivable balances prior to payments collected since modification, or leases that terminated early after modifications or leases were charged off after modification.

(f) Collateral

The U.S. Equipment Financing Segment, Canadian Equipment Financing Segment, and Canadian Auto Financing Segment are entitled to repossess financed equipment and automobiles (subject to statutory regulations) if the borrower defaults on their lease or loan contract. When a lease or loan is charged off, the expected resale value of the related equipment or automobile is recorded on the consolidated financial statements so that the total charge-off is net of expected recoveries. Any amounts recovered from the sale of equipment or automobile after a charge-off in excess of the expected resale value, are credited to the provision for credit losses when received. During the year ended December 31, 2022, the proceeds from the disposal of repossessed equipment and automobile that were charged off totalled $19.1 million (December 31, 2021 - $3.8 million).

(g) Assets sold to third parties

In 2022, the Company entered into agreements with investment managers and financial institutions for the non-recourse sale of equipment leases and loans in exchange for fees. During the year ended December 31, 2022, US$199.4 million of finance receivables were sold.

7. INTANGIBLE ASSETS

The Company assessed its intangible assets for indicators of impairment for the year ended December 31, 2022. No indicators were identified during the year. Refer to Note 25 - *Business Combinations* for more information regarding the acquisitions during the year.

	Indefinite useful life		Finite useful life			
($ thousands)	Trade names	Licenses	Broker & customer relationships	Trade names	Software	Total
Cost:						
December 31, 2020	$ 7,291	$ —	$ 19,517	$ —	$ —	$ 26,808
Business combinations	—	—	15,700	2,100	37	17,837
Foreign exchange translation	(29)	—	—	—	—	(29)
December 31, 2021	7,262	—	35,217	2,100	37	44,616
Business combinations	—	1,053	727	—	340	2,120
Software	—	—	—	—	382	382
Foreign exchange translation	468	—	—	—	—	468
December 31, 2022	**$ 7,730**	**$ 1,053**	**$ 35,944**	**$ 2,100**	**$ 759**	**$ 47,586**

($ thousands)	Trade names	Licenses	Broker & customer relationships	Trade names	Software	Total
Accumulated amortization:						
December 31, 2020	$ 127	$ —	$ 15,762	$ —	$ —	$ 15,889
Amortization	—	—	1,685	93	11	1,789
December 31, 2021	127	—	17,447	93	11	17,678
Amortization	—	—	2,088	140	207	2,435
December 31, 2022	**$ 127**	**$ —**	**$ 19,535**	**$ 233**	**$ 218**	**$ 20,113**

($ thousands)	Trade names	Licenses	Broker & customer relationships	Trade names	Software	Total
Carrying amount:						
December 31, 2020	$ 7,164	$ —	$ 3,755	$ —	$ —	$ 10,919
December 31, 2021	$ 7,135	$ —	$ 17,770	$ 2,007	$ 26	$ 26,938
December 31, 2022	**$ 7,603**	**$ 1,053**	**$ 16,409**	**$ 1,867**	**$ 541**	**$ 27,473**

The indefinite life trade names were recognized in the acquisitions of Pawnee and Vault Credit and can be renewed annually, at nominal cost and for an indefinite period. The indefinite licenses were recognized in the acquisition of Waypoint. There is no legal limit to the life of these trade names and licenses. The businesses to which these intangible assets relate have established names in the market and, given the stability in the demand for their products and services, management expects to be able to derive economic benefit from these intangible assets for an indefinite period of time and has therefore determined them to be of indefinite life.

The following table shows the carrying amount of indefinite-life intangible assets by CGU as at:

($ thousands)		**December 31, 2022**		December 31, 2021
U.S. Equipment Financing Segment	**$**	**7,315**	$	6,847
Canadian Equipment Financing Segment		**288**		288
Asset Management Segment		**1,053**		—
Total indefinite-life intangible assets	**$**	**8,656**	$	7,135

8. GOODWILL

The Company last performed its annual impairment tests as at December 31, 2022, which identified no impairment. Refer to Note 25 - *Business Combinations* for more information regarding the acquisitions during the year.

Management's key assumptions used for goodwill include the discount rate and growth rate. A sensitivity of the key assumptions indicated there are no reasonably possible changes that could cause the carrying value of the CGUs to exceed its recoverable value.

The growth rate applied to the terminal value was 3%. Management had assessed each CGU's discount rate based on the entity's risks and business cycle stage. The discount rates are as follows:

($ thousands)	**December 31, 2022**	December 31, 2021
U.S. Equipment Financing Segment:		
Pawnee and Tandem CGU	12 %	24 %
Canadian Equipment Financing Segment:		
Vault Credit CGU	25 %	30 %
Vault Home CGU	27 %	N/A
Canadian Auto Financing Segment:		
Rifco CGU	25 %	N/A
Asset Management Segment:		
Waypoint CGU	22 %	N/A

($ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Auto Financing	Asset Management	Total
Cost:					
December 31, 2020	$ 46,180	$ 26,365	$ —	$ —	$ 72,545
Business combinations	—	19,280	—	—	19,280
Foreign exchange translation	(196)	—	—	—	(196)
December 31, 2021	45,984	45,645	—	—	91,629
Business combinations	—	—	1,895	2,143	4,038
Foreign exchange translation	3,142	—	—	—	3,142
December 31, 2022	**$ 49,126**	**$ 45,645**	**$ 1,895**	**$ 2,143**	**$ 98,809**

($ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Auto Financing	Asset Management	Total
Accumulated impairment:					
December 31, 2020	$ 32,487	$ 16,138	$ —	$ —	$ 48,625
Foreign exchange translation	(139)	—	—	—	(139)
December 31, 2021	32,348	16,138	—	—	48,486
Foreign exchange translation	2,210	—	—	—	2,210
December 31, 2022	**$ 34,558**	**$ 16,138**	**$ —**	**$ —**	**$ 50,696**

($ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Auto Financing	Asset Management	Total
Carrying amount:					
December 31, 2020	$ 13,693	$ 10,227	$ —	$ —	$ 23,920
December 31, 2021	$ 13,636	$ 29,507	$ —	$ —	$ 43,143
December 31, 2022	**$ 14,568**	**$ 29,507**	**$ 1,895**	**$ 2,143**	**$ 48,113**

9. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

($ thousands)	**December 31, 2022**	December 31, 2021
Dividend payable	**$ 1,436**	$ 927
Accounts payable	**4,478**	5,218
Sales tax payable	**1,110**	863
Customer deposits and prepayments	**2,432**	2,262
Refundable application fee	**4,128**	—
Vendor payable	**16,028**	10,284
Payroll related payables and accruals	**5,679**	3,310
Accrued expenses and other liabilities	**8,580**	6,108
	$ 43,871	$ 28,972

10. BORROWINGS

The Company and its subsidiaries were compliant with all covenants attached to the following facilities as at December 31, 2022 and throughout the year then ended. Refer to Note 25 - *Business Combinations* for more information regarding the acquisitions during the year.

($ thousands)	Chesswood credit facility *(a)*	Chesswood deferred financing costs	U.S. Equipment Financing Segment credit facilities *(b)*	U.S. Equipment Financing Segment deferred financing costs	Canadian Equipment Financing Segment financing facilities *(c)*	Canadian Auto Financing Segment financing facilities *(d)*	Total
Net as at December 31, 2020	$ 85,297	$ (1,128)	$ 456,581	$ (5,132)	$ 101,202	$ —	$ 636,820
Assumed in business combination	—	—	—	—	188,629	—	188,629
Proceeds or draw-downs	990,122	—	755,294	—	192,975	—	1,938,391
Repayments	(885,830)	—	(418,975)	—	(122,922)	—	(1,427,727)
Payment of financing costs	—	(437)	—	(4,485)	—	—	(4,922)
Amortization of deferred financing costs	—	597	—	3,062	—	—	3,659
Foreign exchange translation	554	—	1,900	6	—	—	2,460
Net as at December 31, 2021	190,143	(968)	794,800	(6,549)	359,884	—	1,337,310
Assumed in business combination	**—**	**—**	**—**	**—**	**—**	**199,451**	**199,451**
Proceeds or draw-downs	**3,221,516**	**—**	**994,804**	**—**	**535,097**	**135,498**	**4,886,915**
Repayments	**(3,127,405)**	**—**	**(762,029)**	**—**	**(263,804)**	**(119,332)**	**(4,272,570)**
Payment of financing costs	**—**	**(3,633)**	**—**	**(4,342)**	**—**	**(136)**	**(8,111)**
Amortization of deferred financing costs	**—**	**1,224**	**—**	**4,075**	**—**	**269**	**5,568**
Foreign exchange translation	**9,794**	**—**	**63,749**	**(457)**	**—**	**—**	**73,086**
Net as at December 31, 2022	**$ 294,048**	**$ (3,377)**	**$1,091,324**	**$ (7,273)**	**$ 631,177**	**$ 215,750**	**$ 2,221,649**

Certain prior year amounts have been reclassified to conform with the current year presentation.

The primary sources of cash for the Company and its subsidiaries have been cash flows from operating activities, and borrowings under its and its various subsidiaries' revolvers, warehouses, asset-backed securitizations and bulk lease financing facilities. The primary uses of cash for the Company and its subsidiaries are to fund originations of equipment leases and loans, auto loans, support working capital, long-term debt principal repayments, share repurchases and dividends.

As at December 31, 2022, the Company had the following facilities:

(a) Chesswood Credit Facility:

(i) In support of its strategic plan, Chesswood exercised the accordion feature under this revolving credit facility in Q4 2022, which expanded its capacity to US$386.7 million from US$300 million previously. The facility is subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility is secured by substantially all of the Company’s (and most of its subsidiaries') assets, contains covenants, including maintaining leverage, interest coverage and delinquency ratios, and expires on January 14, 2025. As at December 31, 2022, the Company was utilizing US$236.1 million (December 31, 2021 - US$153.5 million) of its credit facility and had approximately US$150.6 million in additional borrowings available under the revolving credit facility. Based on average debt levels, the effective interest rate during the year ended December 31, 2022, was 4.91% (year ended December 31, 2021 - 4.50%).

This revolving credit facility allows Chesswood to internally manage the allocation of capital to its financial services businesses in Canada and the United States. The credit facility supports growth in finance receivables, provides for Chesswood's working capital needs and for general corporate purposes. The facility, available in U.S. dollars or Canadian dollars, also improves the Company's financial flexibility by centralizing treasury management and making the provision of capital to individual businesses more efficient. The financing facilities are not intended to directly fund dividends by the Company. Under the facility, the maximum amount of cash dividends and purchases under its normal course issuer bid in respect of a month is 1/12 of 90% of Free Cash Flow (see dividend policy below) for the most recently completed four financial quarters for which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is defined as the consolidated Adjusted EBITDA less maintenance capital expenditures and tax expense, plus or minus the tax effect of non-cash change in the allowance for ECL. Please refer to the definitions of Non-GAAP Measures provided in the MD&A.

(b) U.S. Equipment Financing Segment:

(i) The U.S. Equipment Financing Segment has a credit facility, with a US$150 million annual capacity, with a life insurance company to be renewed annually in October. The funder makes approved advances to the segment on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. The segment maintains certain cash reserves as credit enhancements or provides letters of credit in lieu of cash reserves. The segment retains the servicing of these finance receivables. The balance of this facility as at December 31, 2022 was US$112.8 million (December 31, 2021 - US$95.1 million). Based on average debt levels, the effective interest rate for the year ended December 31, 2022, was 3.91% (including amortization of origination costs) (year ended December 31, 2021 - 3.72%).

(ii) In October 2019, the U.S. Equipment Financing Segment completed a US$254 million asset-backed securitization that has a fixed term and fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay down the U.S. Equipment Financing Segment's previously existing warehouse line and Chesswood's senior revolving credit facility. The balance of this facility as at December 31, 2022 was US$37.2 million (December 31, 2021 - US$83.1 million). Based on average debt levels, the effective interest rate was 3.47% for the year ended December 31, 2022 (including amortization of origination costs) (year ended December 31, 2021 - 3.24%).

(iii) On September 30, 2020, the U.S. Equipment Financing Segment completed a US$183.5 million asset-backed securitization that has a fixed term and fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's previously existing warehouse line, and CapOne facilities, and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at December 31, 2022 was US$45.9 million (December 31, 2021 - US$89.8 million). The effective interest rate was approximately 3.29% for the year ended December 31, 2022 (including amortization of origination costs) (year ended December 31, 2021 - 2.61%).

(iv) On October 22, 2021, the U.S. Equipment Financing Segment completed a US$356.1 million asset-backed securitization that has a fixed term and a fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's warehouse line and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at December 31, 2022, was US$222.0 million (December 31, 2021 - US$333.9 million). The effective interest rate was approximately 1.90% for the year ended December 31, 2022 (including amortization of origination costs) (year ended December 31, 2021 - 2.01%).

(v) On August 15, 2022, the U.S. Equipment Financing Segment completed a US$346.6 million asset-backed securitization that has a fixed term and a fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's warehouse line and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at December 31, 2022, was US$313.1 million (December 31, 2021 - nil). The effective interest rate was approximately 5.85% for the year ended December 31, 2022 since the inception of the facility (including amortization of origination costs) (year ended December 31, 2021 - nil).

(vi) The U.S. Equipment Financing Segment has a US$350 million revolving warehouse loan facility that was established in May 2021 specifically to fund its growing prime and near prime portfolio. The warehouse facility holds the U.S. Equipment Financing Segment's prime receivables before they are securitized and is secured by the U.S. Equipment Financing Segment's assets, and contains covenants, including maintaining leverage, interest coverage, and delinquency ratios. This facility has a revolving period until November 2024 followed by an optional amortizing period for an additional 36 months. As at December 31, 2022, the balance of this facility was US$44.8 million (December 31, 2021 - nil). The effective interest rate for the year ended December 31, 2022 was approximately 3.93% (including amortization of origination costs) (year ended December 31, 2021 - 2.09%).

(vii) The U.S. Equipment Financing Segment entered into arrangements on April 29, 2021 under which an investment fund managed by Waypoint provides loan funding to a special purpose vehicle and thereby receives returns based on the performance of a specific group of finance receivables. The investment fund is structured as a limited partnership with the Company owning the general partnership interest. Waypoint receives fees for managing the investment fund. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. The balance of this facility as at December 31, 2022 was US$30.0 million (December 31, 2021 - US$19.0 million). Based on average debt levels, the effective return provided to the private credit investors for the year ended December 31, 2022 was 14.41% (including amortization of origination costs) (year ended December 31, 2021 - 12.48%).

(viii) As at December 31, 2022, the U.S. Equipment Financing Segment had provided US$4.0 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2021 - US$0.5 million).

(c) Canadian Equipment Financing Segment:

On October 1, 2022, Blue Chip and Vault Credit were amalgamated. The amalgamated corporation, which continues to use the Vault Credit Corporation name, remains a wholly owned subsidiary of the Canadian Holdco (in which, as noted above, Chesswood owns 51% and exercises control).

As at December 31, 2022, Vault Credit had master purchase and servicing agreements with various financial institutions and life insurance companies (referred to collectively as the “Funders”). The Funders make advances to Vault Credit on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. The facilities have limited recourse to other assets in the event that lessees/borrowers fail to make payments when due. Vault Credit either maintains certain cash reserves as credit enhancements or provides letters of credit in return for release of the cash reserves. As at December 31, 2022, Vault Credit continues to service these finance receivables on behalf of the Funders.

(i) As at December 31, 2022, Vault Credit had access to the following committed lines of funding:

(a) $200 million annual limit from a life insurance company.
(b) $150 million rolling limit from a financial institution.
(c) $250 million rolling limit from a bank.
(d) Approved funding from another financial institution with no annual or rolling limit.

As at December 31, 2022, Vault Credit had $629.2 million (December 31, 2021 - $359.7 million) in securitization and bulk lease financing facilities debt outstanding. Vault Credit had access to at least $363.3 million of additional financing from its securitization partner (December 31, 2021 - $247.5 million).

The interest on the $250 million rolling limit from a bank is floating. All other interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Based on average debt levels, the effective interest rate during the year ended December 31, 2022 was 3.69% for Vault Credit (year ended December 31, 2021 - 2.73%).

(ii) The Canadian Equipment Financing Segment entered into arrangements on December 14, 2021 under which Vault Credit Opportunities Fund ("VCOF") provides loan funding to Vault Credit and thereby receives returns based on the performance of a specific group of finance receivables. The Canadian Equipment Financing Segment receives fees for servicing the portfolio. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. The balance of this facility as at December 31, 2022 was $2.0 million (December 31, 2021 - $2.2 million). VCOF earns a yield equivalent to the interest on the underlying loans.

(iii) As at December 31, 2022, Vault Credit had provided $14.9 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2021 - $3.8 million). Vault Credit must meet certain financial covenants, including leverage ratio, interest coverage ratio, and tangible net worth covenants, to support these securitization and bulk lease financing facilities.

(d) Canadian Auto Financing Segment:

(i) As at December 31, 2022, Rifco had access to the following committed lines of funding:
- (a) $60 million annual limit from a life insurance company.
- (b) $50 million rolling limit from a financial institution.
- (c) Approved funding from another financial institution with no annual or rolling limit.

As at December 31, 2022, Rifco had $208.3 million outstanding on its securitization facilities. Based on average debt levels, the effective interest rate during the year ended December 31, 2022, was 4.48%.

(ii) Unsecured debentures:

Rifco has previously issued unsecured debentures which allow Rifco the right to redeem the debenture in the last year of their terms without penalty. The unsecured debenture holders do not have early retraction rights and have no right to convert into common shares. 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. Rifco was compliant for the reporting period. The unsecured debentures are non-retractable and have maturity dates that go out until August 2026.

As at December 31, 2022, Rifco had $7.5 million in unsecured debentures outstanding. Based on average debt levels, the effective interest rate during the year ended December 31, 2022, was 8.81%.

(iii) As at December 31, 2022, Rifco had provided $5.1 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves.

(e) Restricted funds:

($ thousands)		**December 31, 2022**		December 31, 2021
Restricted - cash in collection accounts	**$**	**49,314**	$	47,201
Restricted - cash reserves		**46,042**		38,971
Restricted funds	**$**	**95,356**	$	86,172

11. CUSTOMER SECURITY DEPOSITS

Customer security deposits are held for the full term of the lease and then returned or applied to the purchase option of the equipment at the lessee's request, unless the lessee has previously defaulted in which case the deposit is applied against the lease receivable at that time. Past experience suggests that a very high percentage of the customer deposits are applied to the purchase option of the leased equipment at the end of the lease term, or as an offset against outstanding lease receivables.

($ thousands)	**December 31, 2022**	December 31, 2021
Security deposits that will be utilized within one year	**$ 1,699**	$ 1,873
Security deposits that will be utilized in future years	**1,232**	2,489
	$ 2,931	$ 4,362

12. TAXES

(a) Tax expense consists of the following:

	Year ended	
($ thousands)	**December 31, 2022**	December 31, 2021
Current tax expense	**$ 14,948**	$ 13,849
Deferred tax (recovery) expense	**(1,185)**	(2,947)
Income tax expense	**$ 13,763**	$ 10,902

(b) The table below shows the reconciliation between the income tax expense reported in the consolidated statements of income and income tax expense that would have resulted from applying the combined Canadian Federal and Ontario tax rate of 26.5% (December 31, 2021 - 26.5%) to income before income taxes.

	Year ended	
($ thousands)	**December 31, 2022**	December 31, 2021
Income before income taxes	**$ 44,179**	$ 42,071
Canadian tax rate	**26.5 %**	26.5 %
Theoretical income tax expense	**11,707**	11,149
Tax cost of non-deductible items	**449**	(30)
Unrecognized tax losses, net	**22**	21
Higher tax rates in other jurisdictions	**276**	37
Other	**1,309**	(275)
Income tax expense	**$ 13,763**	$ 10,902

(c) Reconciliation of net deferred tax liabilities:

	Year ended	
($ thousands)	**December 31, 2022**	December 31, 2021
Balance, beginning of year	**$ (21,776)**	$ (20,400)
Deferred recovery expense in the consolidated statements of income	**1,185**	2,947
Business combinations	**1,743**	(4,369)
Foreign exchange translation	**(850)**	46
Net change in net deferred tax liabilities during the year	**2,078**	(1,376)
Balance, end of year	**$ (19,698)**	$ (21,776)

(d) The tax effects of the significant components of temporary differences giving rise to the Company's net deferred tax liabilities are as follows:

($ thousands)	**December 31, 2022**	December 31, 2021
Deferred tax assets:		
Allowance for ECL	**$ 11,526**	$ 4,324
Tax losses carried forward	**30,028**	1,826
Other	**67**	—
Financing costs and accrued liabilities	**135**	721
	41,756	6,871
Deferred tax liabilities:		
Finance receivables	**56,716**	23,333
Intangible assets	**4,738**	5,314
	61,454	28,647
Deferred tax liabilities, net	**$ 19,698**	$ 21,776

Certain prior year amounts have been reclassified to conform with the current year presentation.

The Company has determined that it is probable that all recognized deferred tax assets will be realized through a combination of future reversals of temporary differences and taxable income.

Deferred tax assets are recognized to the extent that realization of the related tax benefit through future taxable income is probable.

As at December 31, 2022, Case Funding Inc. had US$2.2 million (December 31, 2021 - US$2.3 million) in tax losses carried forward that have not been recognized. As at December 31, 2022, Chesswood had $2.5 million (December 31, 2021 - $2.5 million) in capital losses carried forward that have not been recognized.

The Company has not recognized deferred tax liabilities in respect of unremitted net income in foreign subsidiaries, totalling $77.4 million (December 31, 2021 - $41.3 million), as it is not considered probable that this temporary difference will reverse in the foreseeable future.

13. MINIMUM PAYMENTS

The following are the contractual payments and maturities of financial liabilities and other commitments (including interest):

($ thousands)		2023	2024	2025	2026	2027	2028+	Total
Accounts payable and other liabilities		$ 43,871	$ —	$ —	$ —	$ —	$ —	**$ 43,871**
Premise leases payables	*(i)*	1,148	1,131	810	619	245	54	**4,007**
Borrowings	*(ii)*	780,268	609,042	736,382	201,726	83,514	20,738	**2,431,670**
Customer security deposits	*(iii)*	1,660	372	311	431	266	—	**3,040**
		826,947	610,545	737,503	202,776	84,025	20,792	**2,482,588**
Service contracts		2,210	907	860	598	396	396	**5,367**
Total commitments		$829,157	$611,452	$738,363	$203,374	$ 84,421	$ 21,188	**$ 2,487,955**

i. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2028. The amounts above exclude adjustment for discounting premise leases payable.

ii. Borrowings are described in Note 10 - *Borrowings*, and include fixed payments for the U.S. Equipment Financing Segment, Canadian Equipment Financing Segment, and the Canadian Auto Financing Segment securitization facilities, as well as the Canadian Auto Financing Segment's debentures and Chesswood's corporate revolving credit facility which is a line of credit and, as such, the balance can fluctuate. The amounts above include fixed interest payments on the U.S. Equipment Financing Segment's, Vault Credit's, and the Canadian Auto Financing Segment's credit facilities and estimated interest payments on the Canadian Auto Financing Segment's debentures and Chesswood's corporate credit facility. The latter assuming the interest rate, debt balance and foreign exchange rate as at December 31, 2022 remain the same until the expiry date of January 2025. The amount owing under Chesswood's revolving credit facility and the Canadian Auto Financing Segment's debentures are shown in the year of maturity, and all other expected payments for borrowings are based on the underlying finance receivables supporting the borrowings.

iii. The Company's experience has shown the actual contractual payment streams will vary depending on a number of variables, including prepayment rates, charge-offs, and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.

Please see Note 6(b) - *Finance Receivables* of the audited consolidated financial statements for the expected collections of finance receivables over the same time period. Also see Note 10(e) - *Borrowings* for the amount of restricted funds in collections accounts that will be applied to debt in the following month.

The Company has no material liabilities that have not been recognized and presented on the consolidated statements of financial position, other than US$18.8 million in letters of credit.

14. CONTINGENT LIABILITIES

The Company is subject to various claims and legal actions in the normal course of its business, from various customers, suppliers and others. The individual value of each claim and the total value of all claims as at December 31, 2022 and 2021 were not material or possible outflows are considered remote.

15. CAPITAL MANAGEMENT

The Company's capital consists of borrowings and shareholders' equity. The Company's objectives when managing capital are to safeguard the Company's long-term ability to continue as a going concern and to provide adequate returns for shareholders to meet or exceed the targeted return on equity set by the Board of Directors. The Company's share capital is not subject to external restrictions. There have been no changes since the prior year.

The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk profile of the underlying assets. The Company uses various measures including share repurchases through the normal course issuer bid and the amount of dividends paid to shareholders.

Refer to Note 10 - *Borrowings* for further details on the Company's revolving credit facility.

16. COMMON SHARES

As at December 31, 2022, there were 17,619,661 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities) (December 31, 2021 - 16,574,864) with a book value of $125.7 million (December 31, 2021 - $109.7 million).

The Company is authorized to issue an unlimited number of common shares, with no par value. Each common share entitles the holder thereof to receive notice of, to attend, and to one vote at all meetings of the shareholders. The holders of common shares will be entitled to receive any dividends, if, as and when declared by the Company's directors. The shareholders will also be entitled to share equally, share for share, in any distribution of the assets of the Company upon the liquidation, dissolution or winding up of the Company or other distribution of its assets among its shareholders for the purpose of winding up its affairs. Additional information relevant to the common shares, the rights of holders thereof and the operation and conduct of the Company can be found in the Company's Articles and By-Laws, which have been filed under the Company's profile on SEDAR at www.sedar.com.

(a) Normal course issuer bids

In November 2020, the Company's Board of Directors approved the repurchase for cancellation of up to 932,296 of the Company's outstanding common shares for the period commencing December 2, 2020 and ending on December 1, 2021. From December 2, 2020 to December 1, 2021, the Company repurchased 488,040 of its shares under the normal course issuer bid at an average cost of $10.06 per share. The excess of the purchase price over the average stated value of common shares purchased for cancellation was charged to retained earnings. Decisions regarding the timing of purchases are based on market conditions and other factors.

In December 2021, the Company's Board of Directors approved the repurchase for cancellation of up to 980,230 of the Company's outstanding common shares for the period commencing January 24, 2022 and ending on January 23, 2023. From January 24, 2022 to December 31, 2022, the Company repurchased 453,612 of its shares under the normal course issuer bid at and average cost of $12.58 per share. The excess of the purchase price over the average stated value of common shares purchased for cancellation was charged to retained earnings. Decisions regarding the timing of purchases will be based on market conditions and other factors.

In January 2023, the Company's Board of Directors approved the repurchase for cancellation of up to 1,033,781 of the Company's outstanding common shares for the period commencing January 25, 2023 and ending on January 24, 2024. Subsequent to year-end (up to and including March 7, 2023), the Company has not repurchased shares under the normal course issuer bid.

Additionally, the Company has entered into an automatic share purchase plan with a broker for the purpose of permitting the Company to purchase its common shares under the normal course issuer bid at such times when the Company would not be permitted to trade in its own shares during internal blackout periods, including during regularly scheduled quarterly blackout periods. Such purchases will be determined by the broker in its sole discretion based on parameters the Company has established.

(in Canadian dollars, except where otherwise indicated)

(b) Special warrants

An analysis of the special warrants exercised as at December 31, 2022 is as follows:

	Year ended December 31, 2022
Balance, beginning of year	**1,466,667**
Exercised	**533,332**
Balance, end of year	**933,335**

Refer to Note 25 - *Business Combinations* for the grant, vesting, and exercise dates of each tranche of special warrants exercised. During the year ended as at December 31, 2022, on exercise, the accumulated balance in contributed surplus related to the special warrants of $6.3 million was transferred to common share capital. The weighted average share price of the warrants exercised was $13.59 for the year ended December 31, 2022 (December 31, 2021 - n/a). For the warrants exercised during the three months ended December 31, 2022, the weighted average share price at the date of exercise was $12.40 (December 31, 2021 - n/a).

On January 4, 2023, the fifth tranche of 133,333 special warrants which vested on December 31, 2022 were automatically exercised. On exercise, the accumulated balance in contributed surplus related to the special warrants of $1.5 million was transferred to common share capital. For the fifth tranche of special warrants exercised on January 4, 2023, the share price on the date of exercise was $11.35.

17. EXCHANGEABLE SECURITIES

As partial consideration for the acquisition of Pawnee in May 2006, 1,274,601 Class B shares and 203,936 Class C shares of U.S. Acquisitionco were issued ("Exchangeable Securities"). The Exchangeable Securities are non-voting shares of U.S. Acquisitionco and are fully exchangeable for common shares of the Company, on a one-for-one basis, for no additional consideration, through a series of steps and entitle the holders to receive the same dividends as the common shares. Attached to the Exchangeable Securities are Special Voting Units of the Company which provide the holders of the Exchangeable Securities voting equivalency to the Company's shareholders. The Exchangeable Securities are reflected as NCI. Under IFRS 10, *Consolidated Financial Statements*, the Exchangeable Securities must be shown as NCI because they are equity in a subsidiary not attributable, directly or indirectly, to the parent even though they have no voting powers in the subsidiary. There are no restrictions to the Company's ability to access or use assets and settle liabilities of U.S. Acquisitionco as a result of the NCI. The NCI share of the Company's consolidated net assets and net income is presented on the consolidated financial statements. These non-voting shares represent 99.3% (2021 - 99.3%) of the outstanding shares of U.S. Acquisitionco. Dividends paid to Exchangeable Securities holders during the year were $0.7 million (2021 - $0.5 million).

18. COMPENSATION PLANS

Contributed surplus includes the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised, as at December 31, 2022. There were 1,908,050 options and 479,400 restricted share units outstanding as at December 31, 2022 (December 31, 2021 - 2,041,439 and 479,000, respectively).

(a) Share options

The options vest 30% at the end of the first year, another 35% at the end of the second year, and the remaining 35% at the end of the third year and expire on the 10th anniversary of the grant date. The options settle in common shares and have an exercise price equal to the fair value of the common shares on the grant date of the options. The cost of options is measured using the Black-Scholes Option Pricing Model and is expensed over the vesting period of each tranche with an increase in contributed surplus.

(in Canadian dollars, except where otherwise indicated)

A summary of changes in the number of options outstanding is as follows:

	Year ended	
	December 31, 2022	December 31, 2021
Balance, beginning of year	**2,041,439**	2,708,939
Granted	**—**	—
Exercised	**(123,389)**	(667,500)
Forfeited	**(10,000)**	—
Balance, end of year	**1,908,050**	2,041,439

During the year ended December 31, 2022, the personnel expenses and contributed surplus relating to option expense was $0.1 million (December 31, 2021 - $0.2 million). As at December 31, 2022, unrecognized non-cash compensation expense related to the outstanding options was insignificant (December 31, 2021 - $0.2 million), which is expected to be recognized over the remaining vesting period.

During the year ended December 31, 2022, 123,389 options were exercised (December 31, 2021 - 667,500) for total cash consideration of $0.9 million (December 31, 2021 - $5.2 million). On exercise, the accumulated amount in contributed surplus related to these exercised options was transferred to common share capital (common share capital was also increased by the cash consideration received upon exercise). For the options exercised during the year ended December 31, 2022, the weighted average share price at the date of exercise was $13.54 (December 31, 2021 - $11.76) and the weighted average exercise price was $7.53 (December 31, 2021 - $7.85).

As at December 31, 2022, the weighted average exercise price is $11.27 (December 31, 2021 - $11.04) and the weighted average remaining contractual life for all options outstanding is 3.16 years (December 31, 2021 - 4.0 years). The 1,846,800 options exercisable as at December 31, 2022 have a weighted average exercise price of $11.38 (December 31, 2021 - 1,864,064 options at $11.30).

An analysis of the options outstanding as at December 31, 2022 is as follows:

Range of exercise prices	Weighted average remaining life (in years)	Vested #	Total #
$ 8.01–$ 8.95	6.43	305,240	366,490
$10.17–$10.96	3.17	611,560	611,560
$12.15 –$12.53	2.21	665,000	665,000
$14.12	1.00	265,000	265,000
	3.16	1,846,800	1,908,050

(b) Restricted share units

Restricted share units ("RSUs") are to be settled by the issue of common shares and expire in 10 years. The vesting period for the remaining unvested RSUs are typically one year from the date of issue or evenly during the three years from the issue date. RSUs granted are in respect of future services and are expensed over the vesting period with an increase in contributed surplus. Compensation cost is measured based on the fair value of the common shares on the grant date of the RSUs. Holders of RSUs are not entitled to dividends before the RSUs are exercised.

(in Canadian dollars, except where otherwise indicated)

A summary of changes in the number of RSUs outstanding is as follows:

	Year ended	
	December 31, 2022	December 31, 2021
Balance, beginning of year	**479,000**	57,000
Granted	**195,000**	429,000
Exercised	**(192,100)**	(7,000)
Forfeited	**(2,500)**	—
Balance, end of year	**479,400**	479,000

During the year ended December 31, 2022, personnel expenses and contributed surplus included \$3.6 million (December 31, 2021 - \$3.3 million) relating to RSUs.

As at December 31, 2022, unrecognized non-cash compensation expense related to non-vested RSUs was \$2.1 million (December 31, 2021 - \$2.9 million). The weighted average remaining contractual life for all RSUs outstanding is 8.9 years (December 31, 2021 - 9.6 years).

During the year ended December 31, 2022, 192,100 RSUs were exercised (December 31, 2021 - 7,000). On exercise, the accumulated balance in contributed surplus related to the RSUs of \$2.6 million (December 31, 2021 - \$0.1 million) was transferred to common share capital. For the RSUs exercised during the year ended December 31, 2022, the weighted average share price at the date of exercise was \$14.03 (December 31, 2021 - \$11.58).

An analysis of the RSUs outstanding as at December 31, 2022, is as follows:

Grant date	Number of RSUs outstanding	Vested	Expiry date	Value on grant date
November 30, 2020	50,000	50,000	June 29, 2030	\$ 8.01
August 5, 2021	86,900	44,276	August 5, 2031	\$ 11.69
November 5, 2021	147,500	49,185	November 5, 2031	\$ 14.27
March 21, 2022	138,000	8,350	March 21, 2032	\$ 14.40
June 28, 2022	57,000	—	June 28, 2032	\$ 12.25
	479,400	151,811		

19. DIVIDENDS

Under the Chesswood revolving credit facility (see Note 10(a) - *Borrowings*), the maximum amount of cash dividends (and/or cost of any repurchases under normal course issuer bids) that the Company can pay in respect of a month is 1/12 of 90% of Free Cash Flow for the most recently completed four financial quarters in which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is defined in the MD&A.

The following dividends were declared during the year ended December 31, 2022:

	Year ended	
	December 31, 2022	December 31, 2021
Dividends declared to common shareholders and exchangeable securities holders	**8,765**	5,758
Dividends declared to warrant holders	**519**	385
	9,284	6,143

The following dividends were paid to common shareholders and exchangeable securities holders (included as NCI) during the year ended December 31, 2022:

Record date	**Payment date**	**Cash dividend per share ($)**	**Total dividend amount** *($ thousands)*
December 31, 2021	January 17, 2022	**$ 0.03**	**$ 542**
January 31, 2022	February 15, 2022	**0.03**	**564**
February 28, 2022	March 15, 2022	**0.03**	**563**
March 31, 2022	April 18, 2022	**0.04**	**748**
April 30, 2022	May 16, 2022	**0.04**	**755**
May 31, 2022	June 15, 2022	**0.04**	**762**
June 30, 2022	July 15, 2022	**0.04**	**764**
July 31, 2022	August 15, 2022	**0.04**	**770**
August 31, 2022	September 15, 2022	**0.04**	**770**
September 30, 2022	October 17, 2022	**0.04**	**768**
October 31, 2022	November 15, 2022	**0.04**	**770**
November 30, 2022	December 15, 2022	**0.04**	**767**
		$ 0.45	**$ 8,543**

During the year ended December 31, 2022, dividends of $3.3 million (December 31, 2021 - $0.8 million) were also paid to the NCI of Canadian Holdco. The dividend was recognized through net income on the consolidated statements of income. Special warrants issued to the NCI for the merger of Vault Credit are entitled to a dividend equivalent prior to the special warrants becoming exercisable, paid on the date of exercise. As at December 31, 2022, dividends payable of $0.7 million has been accrued on the special warrants (December 31, 2021 - $0.4 million). During the year ended December 31, 2022, $0.2 million in dividends were paid out on the special warrants (December 31, 2021 - n/a).

The following dividends were paid to common shareholders and exchangeable securities holders (included as NCI) during the year ended December 31, 2021:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount ($ thousands)
December 31, 2020	January 15, 2021	$ 0.02	$ 355
January 29, 2021	February 16, 2021	0.02	353
February 26, 2021	March 15, 2021	0.02	347
March 31, 2021	April 15, 2021	0.02	350
April 30, 2021	May 17, 2021	0.02	358
May 31, 2021	June 15, 2021	0.03	545
June 30, 2021	July 15, 2021	0.03	546
July 30, 2021	August 16, 2021	0.03	546
August 31, 2021	September 15, 2021	0.03	545
September 30, 2021	October 15, 2021	0.03	543
October 29, 2021	November 15, 2021	0.03	541
November 30, 2021	December 15, 2021	0.03	542
		$ 0.31	$ 5,571

The following dividend was declared but not paid to common shareholders and exchangeable securities holders during the year ended December 31, 2022:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount ($ thousands)
December 30, 2022	January 16, 2023	$ 0.04	$ 764

On November 7, 2022, the Company announced an increase to its dividend per share to $0.05 per month (or $0.60 per year), effective January 31, 2023. The following dividends were declared before the consolidated financial statements were authorized for issue but not recognized during the year ended December 31, 2022:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount ($ thousands)
January 31, 2023	February 15, 2023	$ 0.05	$ 890
February 28, 2023	March 15, 2023	0.05	$ 891
		$ 0.10	$ 1,781

20. EARNINGS PER SHARE

	Year ended	
	December 31, 2022	December 31, 2021
Weighted average number of common shares outstanding	**17,540,296**	16,473,934
Dilutive effect of options	**288,207**	428,963
Dilutive effect of restricted share units	**450,229**	178,340
Dilutive effect of special warrants	**1,138,997**	984,475
Weighted average number of common shares outstanding for diluted earnings per share	**19,417,729**	18,065,712
Options and RSUs excluded from calculation of diluted shares for the period due to their anti-dilutive effect	**265,000**	930,000

21. RELATED PARTY TRANSACTIONS

(a) The Company has no parent or other ultimate controlling party.

(b) The Company's key management consists of the President & Chief Executive Officer, Chief Financial Officer and the Board of Directors.

Key management compensation is as follows:

	Year ended	
($ thousands)	**December 31, 2022**	December 31, 2021
Salaries, fees and other employee benefits	**$ 6,882**	$ 3,197
Share-based compensation	**1,709**	1,028
Compensation expense of key management	**$ 8,591**	$ 4,225

(c) Daniel Wittlin ("Wittlin"), the Chief Executive Officer of Vault Credit and a Company director indirectly owns 64% of the NCI in Canadian Holdco. Rob Trager ("Trager"), the President of Vault Credit, controls an intermediary entity which owns the remaining 36% of the NCI. Through the entity, Trager indirectly owns 5% of the NCI shares.

(d) Vault Credit engaged in the following transactions with related parties in the period subsequent to the Vault Credit business combination:

- Vault Credit signed a sublease commencing on April 30, 2021 for an eight-year term with a company controlled by Wittlin and Trager. The sublease mirrors all the terms of the head lease, which was entered into with an arm's length party, and requires Vault Credit to pay an allocation of the head lease rent based on head count. The sublease is therefore considered to be on fair market value terms. The right-of-use asset and premise lease liability initially recognized on the date of commencement is $0.8 million. In 2022, there were additional modifications and terminations to the lease resulting in net additions of $0.1 million to the premise lease liability. Lease payments paid during the year ended December 31, 2022 were $0.1 million (December 31, 2021 - $0.1 million).
- Wittlin has significant influence over certain brokers within Vault Credit's origination network. The leases obtained from related party brokers comprise 48% (December 31, 2021 - 37%) of total finance receivables of the Canadian Equipment Financing Segment as at December 31, 2022. The total related party broker commissions capitalized during the year ended December 31, 2022 was $12.2 million (December 31, 2021 - $6.1 million). These transactions were conducted at fair market value terms.

- Prior to the merger with Vault Credit, the Canadian Equipment Financing Segment had provided leases to entities over which Wittlin has significant influence. The total capital cost of the leases is $0.5 million (December 31, 2021 - $0.6 million) with a net book value which was insignificant as at December 31, 2022 (December 31, 2021 - $0.2 million). These transactions were conducted at fair market value terms.
- Vault Credit and Vault Home license proprietary leasing software from an entity controlled by Wittlin. Vault Credit and Vault Home pay for the costs of improving and maintaining the software. The total costs expensed by Vault Credit and Vault Home during the year ended December 31, 2022 is $5.4 million (December 31, 2021 - $2.0 million). These transactions were conducted at fair market value terms.
- Wittlin and Trager are indirectly general partners, through controlled entities, of the VCOF, a limited partnership, which Vault Credit had entered into arrangements with on December 14, 2021. Total servicing fee revenue and interest expense for the year ended December 31, 2022 was $0.4 million (December 31, 2021 - n/a). See Note 10 - *Borrowings*.

(e) Wittlin owns 38.3% of the NCI in Vault Home.

(f) Wittlin has significant influence over Vault Credit, which has begun developing Tandem's vendor system. For the year ended December 31, 2022, Tandem paid Vault Credit Inc. $1.8 million (December 31, 2021 - $0.3 million) for software development services. This transaction was conducted at fair market value terms.

(g) During the year ended December 31, 2022, related parties were holders of unsecured debentures in Rifco. The terms offered to related parties for the unsecured debentures are identical to those offered to non-related party unsecured debenture holders. As at December 31, 2022, the total unsecured debentures held by related parties was $0.7 million. Total interest paid during the year was $0.1 million.

(in Canadian dollars, except where otherwise indicated)

22. SUBSIDIARIES

The following table contains a list of the Company's consolidated subsidiaries:

Entity's name	Principal place of business	Ownership as at December 31, 2022	Operating segment	Functional currency
Chesswood Holdings Ltd.	Ontario	100%	Corporate - Canada	CAD
Lease-Win Limited	Ontario	100%	Corporate - Canada	CAD
1000390232 Ontario Inc.	Ontario	100%	Corporate - Canada	CAD
Case Funding Inc.	Delaware	100%	Corporate - Canada	USD
Chesswood Capital Management Inc.	Ontario	100%	Asset Management	CAD
Chesswood Capital Management USA Inc.	Colorado[1]	100%	Asset Management	USD
Waypoint Investment Partners Inc.	Ontario	100%	Asset Management	CAD
Waypoint Private Credit GP Inc.	Ontario	100%	Asset Management	CAD
Waypoint Private Credit Fund LP	Ontario	General partner	Asset Management	CAD
Chesswood Canadian ABS GP Inc.	Ontario	100%	Asset Management	CAD
CHW/Vault Holdco Corp.	Ontario	51%	Canadian Equipment Financing	CAD
Vault Credit Corporation[3]	Ontario	51%	Canadian Equipment Financing	CAD
Vault Home Credit Corporation	Ontario	51%	Canadian Equipment Financing	CAD
Chesswood U.S. Acquisition Co Ltd.	Delaware	100%[2]	U.S. Equipment Financing	USD
Pawnee Leasing Corporation[4]	Colorado	100%	U.S. Equipment Financing	USD
Tandem Finance Inc.	Colorado	100%	U.S. Equipment Financing	USD
Windset Capital Corporation	Delaware	100%	U.S. Equipment Financing	CAD
Rifco Inc.	Alberta	100%	Canadian Auto Financing	CAD
Rifco National Auto Finance Corporation	Alberta	100%	Canadian Auto Financing	CAD

On October 1, 2022, Blue Chip and Vault Credit were amalgamated. The amalgamated corporation, which continues to use the Vault Credit Corporation name, remains a wholly owned subsidiary of the Canadian Holdco (in which, as noted above, Chesswood owns 51% and exercises control).

(1) Chesswood Capital Management USA Inc. was incorporated in the State of Delaware, however, its principal place of business is Colorado.
(2) 100% ownership of voting shares.
(3) Vault holds, through a consolidated, wholly owned SPE, a portfolio of leases and loans that are financed through an arm's length financial institution. See Note 6 - *Finance Receivables* and Note 10(a) - *Borrowings*.
(4) Pawnee holds, through consolidated, wholly owned SPEs, a portfolio of leases and loans that are financed through arm's length financial institutions. See Note 6 - *Finance Receivables* and Note 10(b) - *Borrowings*.

23. CASH FLOW SUPPLEMENTARY DISCLOSURE

($ thousands)	Note	Year ended December 31, 2022	December 31, 2021
Non-cash transactions			
Common shares issued for business combinations	*25*	**$ 9,104**	$ 1,667
Common shares issued on exercise of RSUs	*18*	**2,614**	71
		$ 11,718	$ 1,738
Interest paid		**$ 73,238**	$ 26,804

($ thousands)	Note	Year ended December 31, 2022	December 31, 2021
Other non-cash items included in net income			
Share-based compensation expense	*18*	**$ 3,683**	$ 3,544
Amortization of deferred financing costs and debt restructuring	*10*	**5,568**	3,659
Non-cash interest expense on premise leases payable and revaluation of option liability		**(7,433)**	(639)
Net realized and unrealized gain on interest rate derivative		**—**	(344)
Unrealized loss (gain) on foreign exchange		**1,464**	(666)
		$ 3,282	$ 5,554
Changes in other net operating assets			
Other assets		**14,832**	(1,593)
Accounts payable and other liabilities		**(10,982)**	10,060
Customer security deposits		**(1,661)**	(2,785)
		$ 2,189	$ 5,682

($ thousands)	Note	Year ended December 31, 2022	December 31, 2021
Borrowings			
Draw-downs or proceeds from borrowings	*10*	**$ 4,886,915**	$ 1,938,391
Payments - borrowings	*10*	**(4,272,570)**	(1,427,727)
		$ 614,345	$ 510,664

24. SEGMENT INFORMATION

Segments are identified on the same basis that is used internally to manage and to report on performance, taking into account materiality and the products and services of each segment and the organizational structure of the Company. The Company's operations consist of the following reportable segments: U.S. Equipment Financing, Canadian Equipment Financing, Canadian Auto Financing, and Asset Management.

Segment information is prepared in conformity with the accounting policies adopted for the Company's audited consolidated financial statements for the year ended December 31, 2022. The role of the "chief operating decision maker" with respect to resource allocation and performance assessment is embodied in the position of Chief Executive Officer. The performance of the segments is measured on the basis of net income before income tax. Net assets, which are defined as total segment assets less total segment liabilities, are used as the basis of assessing the allocation of resources. When compared with the last annual consolidated financial statements, there are no differences in the basis of segmentation or in the basis of measuring segment results, other than the acquisition of Rifco in Q1 2022 and the operations of the Asset Management Segment.

Selected information by segment and geographically is as follows:

	Year ended December 31, 2022					
($ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Auto Financing	Asset Management	Corporate - Canada	Total
Interest revenue on finance leases and loans	$ 130,353	$ 61,970	$ 40,300	$ —	$ —	$ 232,623
Ancillary finance and other fee income	20,500	12,315	1,646	9,281	—	43,742
Interest income (expense)	(46,964)	(24,398)	(9,777)	8	7,752	(73,379)
Provision for credit losses	(14,708)	(9,761)	(19,846)	—	—	(44,315)
Net revenue	**89,181**	**40,126**	**12,323**	**9,289**	**7,752**	**158,671**
Personnel expenses	25,614	19,090	7,110	2,617	4,891	59,322
Share-based compensation expense	1,296	43	—	—	2,344	3,683
General and administrative expenses	21,465	14,753	5,235	1,320	3,050	45,823
Depreciation	970	435	356	4	—	1,765
Amortization	—	2,211	171	53	—	2,435
Operating income (loss)	**39,836**	**3,594**	**(549)**	**5,295**	**(2,533)**	**45,643**
Unrealized gain (loss) on foreign exchange	—	508	—	41	(2,013)	(1,464)
Income (loss) before income taxes	**39,836**	**4,102**	**(549)**	**5,336**	**(4,546)**	**44,179**
Income tax expense (recovery)	11,979	2,740	(256)	1,363	(2,063)	13,763
Net income (loss)	**$ 27,857**	**$ 1,362**	**$ (293)**	**$ 3,973**	**$ (2,483)**	**$ 30,416**
Total assets	$ 1,433,620	$ 836,796	$ 246,596	$ 5,406	$ 11,778	$ 2,534,196
Total liabilities	$ 1,135,507	$ 645,297	$ 223,666	$ 3,216	$ 298,105	$ 2,305,791
Finance receivables	$ 1,332,452	$ 762,154	$ 229,652	$ —	$ 6,000	$ 2,330,258
Goodwill and intangible assets	$ 21,880	$ 47,571	$ 2,265	$ 3,870	$ —	$ 75,586
Property and equipment expenditures	$ 434	$ 371	$ 106	$ —	$ —	$ 911

($ thousands)	Year ended December 31, 2021 U.S. Equipment Financing	Canadian Equipment Financing	Corporate - Canada	Total
Interest revenue on finance leases and loans	$ 94,220	$ 25,892	$ —	$ 120,112
Ancillary finance and other fee income	11,053	6,918	—	17,971
Interest income (expense)	(24,397)	(8,019)	745	(31,671)
Provision for credit losses	2,240	(2,428)	—	(188)
Net revenue	**83,116**	**22,363**	**745**	**106,224**
Personnel expenses	19,912	9,619	2,738	32,269
Share-based compensation expense	2,378	—	1,166	3,544
General and administrative expenses	17,047	6,187	3,216	26,450
Depreciation	846	255	10	1,111
Amortization	—	1,789	—	1,789
Operating income (loss)	**42,933**	**4,513**	**(6,385)**	**41,061**
Gain on interest rate derivative	—	—	344	344
Unrealized gain on foreign exchange	—	198	468	666
Income (loss) before income taxes	**42,933**	**4,711**	**(5,573)**	**42,071**
Income tax expense (recovery)	11,076	907	(1,081)	10,902
Net income (loss)	**$ 31,857**	**$ 3,804**	**$ (4,492)**	**$ 31,169**
Total assets	$ 1,118,416	$ 484,627	$ (460)	$ 1,602,583
Total liabilities	$ 835,571	$ 375,192	$ 203,838	$ 1,414,601
Finance receivables	$ 1,025,561	$ 392,699	$ —	$ 1,418,260
Goodwill and intangible assets	$ 20,481	$ 49,600	$ —	$ 70,081
Property and equipment expenditures	$ (717)	$ (286)	$ —	$ (1,003)

25. BUSINESS COMBINATIONS

(a) Rifco Inc.

On January 14, 2022, Chesswood completed its acquisition of Rifco, a provider of consumer auto loans to the sub-prime market in Canada, where the Company acquired 100% of Rifco's outstanding shares.

The acquisition of Rifco was accounted for using the acquisition method, whereby the cost of acquisition is measured as the aggregate of the acquisition-date fair value of consideration transferred. Goodwill is measured as the excess of the aggregate of the acquisition-date fair value of consideration transferred over the net acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Costs related to the acquisition are expensed as incurred.

The acquisition of Rifco allows the Company to enter into the auto loan industry and increase efficiencies with lenders. Rifco is included in the Canadian Auto Financing Segment and the goodwill recognized is included in the Canadian Auto Financing CGU for purposes of goodwill impairment tests.

The consideration for the acquisition included:

($ thousands)	**January 14, 2022**
Shares of the Company[1]	**$ 7,095**
Cash	**21,020**
	$ 28,115

(1) Based on Chesswood share market price on January 14, 2022 of $14.23. Consideration does not include equity issuance costs.

Rifco shareholders elected for approximately 25% of the consideration to be paid out in Chesswood common shares. This resulted in a total of 498,605 shares being issued.

During the second quarter of 2022, the Company updated the estimated fair value of the finance receivables and determined the resulting deferred tax impact as at the date of the merger, which resulted in a $2.4 million reduction to the finance receivables and a $0.5 million increase in deferred tax assets. The net impact to goodwill was $1.9 million.

The fair values of the assets and liabilities, including the goodwill and intangible assets arising on acquisition, were as follows:

($ thousands)	**January 14, 2022**
Assets	
Cash	**$ 5,127**
Restricted funds	**17,807**
Other assets	**1,849**
Finance receivables	**206,850**
Right-of-use assets	**1,081**
Property and equipment	**452**
Intangible assets	**340**
Goodwill	**1,895**
Liabilities	
Accounts payable and other liabilities	**6,508**
Premise leases payable	**1,327**
Borrowings	**199,451**
Net assets acquired	**$ 28,115**

The gross contractual amount of finance receivables was approximately $329.3 million as at January 14, 2022. A provision for credit losses subsequent to acquisition of $9.3 million was recognized.

None of the goodwill is deductible for tax purposes. No impairment on the goodwill has occurred since the date of acquisition. The transaction costs related to the acquisition expensed during the year ended December 31, 2022 were $0.9 million. Total costs of $0.4 million related to the acquisition were expensed in the year ended December 31, 2021.

For the period from January 14, 2022 to December 31, 2022, Rifco contributed $41.9 million to the consolidated revenue and a loss of $0.3 million to the consolidated net income of the Company. Had the business combination occurred at the beginning of the year ended December 31, 2022, the additional contributions of revenue made by Rifco would have been $1.2 million. The additional contribution of net income would have been a loss of $0.2 million.

(b) Waypoint Investment Partners Inc.

On May 25, 2022, CCM acquired 100% of Waypoint, an investment fund and private client investment manager.

The acquisition of Waypoint was accounted for using the acquisition method, whereby the cost of acquisition is measured as the aggregate of the acquisition-date fair value of consideration transferred. Goodwill is measured as the excess of the aggregate of the acquisition-date fair value of consideration transferred over the net acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Costs related to the acquisition are expensed as incurred.

The acquisition of Waypoint provides CCM with an integrated platform to structure and distribute private credit solutions to Canadian investors alongside Waypoint's growing suite of alternative investment funds.

An officer of the Company held a small minority interest in Waypoint, such that the purchase of Waypoint shares from such officer (the value of which was less than 0.2% of the Company's market capitalization) was a related party transaction.

The consideration for the acquisition included:

($ thousands)		**May 25, 2022**
Shares of the Company(1)	**$**	**2,038**
Cash		**1,589**
	$	**3,627**

(1) Based on Chesswood share market price on May 25, 2022 of $13.50. Consideration does not include equity issuance costs.

The fair values of the assets and liabilities, including the goodwill and intangible assets arising on acquisition, were as follows:

($ thousands)		**May 25, 2022**
Assets		
Cash	**$**	**143**
Other assets		**640**
Property and equipment		**11**
Customer relationships		**727**
Licenses		**1,053**
Goodwill		**2,143**
Liabilities		
Accounts payable and other liabilities		**1,090**
Net assets acquired	**$**	**3,627**

None of the goodwill is deductible for tax purposes. No impairment on the goodwill has occurred since the date of acquisition. For the period from May 25, 2022 to December 31, 2022, Waypoint contributed $1.1 million to the consolidated revenue and a loss of $0.5 million to the consolidated net income of the Company. Had the business combination occurred at the beginning of the year ended December 31, 2022, the additional contributions of revenue and net income made by Waypoint would have been $0.9 million and $0.1 million, respectively.

(c) Vault Credit Corporation

On April 30, 2021 (the Effective Date), the Company merged its Canadian equipment leasing subsidiary, Blue Chip, with Vault Credit, a provider of equipment lease and commercial loan financing to small and medium-sized businesses across Canada. Chesswood incorporated a new company, Canadian Holdco, that acquired 100% of the shares of Blue Chip and 2750036 Ontario Inc., Vault Credit's parent company. In return, Chesswood received 51% ownership of Canadian Holdco. Chesswood also received a call option to acquire the remaining 49% of shares. The transaction resulted, in substance, in a 100% ownership interest at the date of acquisition and the full consolidation of Blue Chip and Vault Credit with no NCI recognized at that date. Subsequent to the acquisition and prior to exercise of the option, the NCI has the right to 49% of Canadian Holdco's net income.

The Company acquired control over Vault Credit and continues to exercise control over Blue Chip through the ability to control the decisions of Canadian Holdco's board of directors, through a priority vote, related to those activities that are most relevant to determining returns. The acquisition of Vault Credit was accounted for using the acquisition method, whereby the cost of acquisition is measured as the aggregate of the acquisition-date fair value of consideration transferred. Goodwill is measured as the excess of the aggregate of the acquisition-date fair value of consideration transferred over the net acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Costs related to the acquisition were expensed as incurred.

The ownership interest in Blue Chip was rolled into Canadian Holdco, resulting in a common control reorganization that is accounted for at consolidated book value.

The merger with Vault Credit enables the Company's continued expansion of the Canadian Equipment Financing Segment by removing a competitor and obtaining access to Vault Credit's broker relationships, which is accessed through its proprietary technology license. Vault Credit is included in the Canadian Equipment Financing Segment and the goodwill recognized is included in the Canadian Equipment Financing CGU for purposes of goodwill impairment tests. The results of the Canadian Equipment Financing Segment consist of Blue Chip and the post-acquisition results of Vault Credit. See Note 24 – *Segment Information*.

Recognized goodwill is attributable to synergies from combining both Vault Credit's and the Company's operations and the knowledge and expertise of their leadership teams.

The consideration for the merger included:

($ thousands)			**April 30, 2021**
Shares of the Company	*i*	$	1,667
Special warrants	*ii*		16,409
Option liability	*iii*		12,305
		$	30,381

(*i*) A total of 133,333 common shares of the Company were issued on April 30, 2021.

(*ii*) A total of 1,466,667 special warrants issued, each exchangeable for one common share of the Company for no additional consideration. The special warrants vest in equal quarterly tranches beginning December 31, 2021 with the final tranche vesting on June 30, 2024 and are automatically exercised in two business days of vesting, unless the put or call option on the 49% of common shares has been exercised. The special warrants are classified as equity and were measured at fair value under the Black-Scholes Options Pricing Model.

(*iii*) On exercise of the Company's option, the derivative is payable in cash. The Company holds a call option valued at 49% of the fair values of the finance receivables less any direct debt, plus a 5% markup on the date of exercise. The NCI holders also hold an equivalent put option over the 49% of shares held in Canadian Holdco, where the exercise price is 95% of 49% of the net investment in leases less any direct debt. The option is initially recognized at the value of the put option as the demand liability was the greater of the two option values. The option is subsequently held at amortized cost. Distributions to be made by Canadian Holdco are at the sole discretion of the Canadian Holdco board of directors.

The fair values of the assets and liabilities, including the goodwill and intangible assets arising on consolidation, were as follows:

($ thousands)		**April 30, 2021**
Assets		
Cash	$	2,758
Restricted funds		12,852
Other assets		2,950
Finance receivables		171,781
Right-of-use assets		919
Property and equipment		76
Broker relationships		15,737
Trade name		2,100
Goodwill		17,853
Liabilities		
Accounts payable and other liabilities		2,582
Premise leases payable		922
Borrowings		188,629
Deferred tax liabilities		4,512
Net assets acquired	$	30,381

The gross contractual amount of finance receivables including cash reserves was approximately $194 million as at April 30, 2021. Contractual cash flows not expected to be collected on receivables are not significant. A provision for credit losses subsequent to acquisition of $2.2 million was recognized.

None of the goodwill is deductible for tax purposes. No impairment on the goodwill has occurred since the date of acquisition. The transaction costs related to the acquisition expensed during the year ended December 31, 2021 were $0.6 million.

For the period from May 1, 2021 to December 31, 2021, Vault Credit contributed $21.7 million to the consolidated revenue and $0.4 million to the consolidated net income of the Company. Had the business combination occurred at the beginning of the year ended December 31, 2021, the additional contributions of revenue made by Vault Credit would have been $6.0 million. The additional contribution of net income would have been insignificant to the results of the Company on a consolidated basis.

(d) Vault Home Credit Corporation

On September 14, 2021, Chesswood Holdings Ltd. acquired a number of common shares of Vault Home which comprise 51% of the currently outstanding common shares post acquisition, for a subscription price of $1.0 million, and a commitment to provide an aggregate of $1.5 million of capital contributions upon the request of the Vault Home board of directors. The $1.5 million was advanced in November 2021. Vault Home is incorporated in Ontario and had not yet earned revenue as at the date of acquisition. The Company exercises control over Vault Home through the ability to control the decisions of its board of directors, through a priority vote, related to those activities that are most relevant to determining returns. Vault Home enables the Company to expand into the consumer financing industry. The Company elected to measure the NCI at the proportionate share of identifiable net assets. No intangible assets were recognized on acquisition and goodwill recognized as at September 14, 2021 was $1.4 million.

Vault Home began originations subsequent to the acquisition and is included in the Canadian Equipment Financing Segment. See Note 24 – *Segment Information*. Revenues, net losses, and transaction costs were insignificant prior to the acquisition and for the period from September 14, 2021 to December 31, 2021.

26. ADJUSTMENTS TO COMPARATIVE BALANCES

Certain prior year amounts have been reclassified on the consolidated statements of financial position, the consolidated statements of cash flows, and the notes to the consolidated financial statements to conform with current year presentation. These adjustments are not material.

Reclassification of restricted funds

On the consolidated statements of financial position as at December 31, 2021, $19.1 million was reclassified from finance receivables to restricted funds and the remaining $2.4 million of overcollateralization was reclassified to borrowings. This reclassification impacts the consolidated statements of cash flows and certain prior year note disclosures including Note 10 - *Borrowings,* Note 23 - *Cash Flow Supplementary Disclosure,* Note 24 - *Segment Information,* and Note 25 - *Business Combinations* have been reclassified to present reserves receivable in restricted funds, and overcollateralization on securitized financial contracts in borrowings.

Presentation of restricted funds

To conform with IFRIC agenda decision 12A: *Demand Deposits with Restrictions on Use arising from a Contract with a Third Party,* the Company has changed the presentation of restricted funds in the consolidated statements of cash flows. In prior year, the change in restricted funds was presented in the change in other net operating assets. The current year presentation separately identifies the restricted funds in the opening and ending cash flow balances. Certain prior year amounts have been reclassified in the consolidated statements of cash flows to conform with current year presentation. This resulted in an increase in cash of $29.6 million in operating activities and $14.1 million in investing activities for a net change of $42.6 million (inclusive of unrealized foreign exchange loss on restricted funds) to the consolidated statements of cash flows.

Adjustment to Note 4 - *Financial Instruments*

In Note 4, finance receivables and borrowings were reclassified from level 2 to level 3 investments. The method of valuation has also been adjusted to conform to current year methodology.

Reclassification of Note 12(d) - *Taxes*

In Note 12(d), temporary differences related to leased assets have been netted with finance receivables. Prior year amounts have been reclassified in the note to conform with current year presentation.

Chesswood Group Limited

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Catherine Barbaro
Director

Raghunath Davloor
Director
Chairman, Audit and Risk Committee

Robert Day
Director
Former Chairman, Pawnee Leasing Corporation

Jeff Fields
Director
Chesswood Group Limited & C.E.O., Chesswood Capital Management Inc. and Chesswood Capital Management USA Inc.

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President & C.E.O., Chesswood Group Limited

Annie Ropar
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