CHESSWOOD GROUP LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

DECEMBER 31, 2023

Chesswood Group Limited is a Toronto, Canada based holding company whose subsidiaries engage in the business of specialty finance (including equipment finance throughout North America and vehicle finance and legal sector finance in Canada), as well as the origination and management of private credit alternatives for North American investors. Our shares trade on the Toronto Stock Exchange (under the symbol 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, www.WaypointInvestmentPartners.com and www.EasyLegal.ca.

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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 2023 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, by calling Chesswood at 416-386-3099, at www.sedarplus.ca 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, 2023

TO OUR SHAREHOLDERS

Review of 2023 Operating Results

Chesswood recorded an IFRS net loss of $32.8 million and generated $3.8 million of free cash flow for the year ended December 31, 2023 (loss per fully diluted share of $1.65 and free cash flow per fully diluted share of $0.18). The decline in net income compared to the previous year was mainly due to an impairment charge against goodwill and intangibles in the fourth quarter of 2023, elevated loss provisions and higher average interest costs. Free cash flow for the full year was impacted by greater charge-off levels and lower net interest margins.

Higher loss provisions throughout the year were recorded due to elevated receivables delinquency levels. Credit weakness remains predominantly concentrated in the U.S. long-haul transportation sector, where industry fundamentals were poor throughout 2023. The long-haul sector has gone through one of its deepest downturns in decades, following the surge in demand experienced during COVID. Many lenders (including our operating companies) have significantly reduced lending to the sector due to its poor performance. We will continue to sit on the sidelines and observe the market until there are better opportunities to re-engage with vendors in this category.

The net investment in finance receivables before allowance for expected credit losses declined during the year, ending at $2.1 billion, down from $2.4 billion in 2022. We expect the portfolio to stabilize once credit performance normalizes and there is visibility that delinquency levels are moderating. Until then, we are prioritizing balance sheet liquidity and utilizing our off-balance sheet conduits to fund originations. Across our network, origination levels remain healthy, although at lower levels due to higher interest rates and the associated reduction for lease and loan demand.

Personnel expenses were down compared to 2022 while general and administrative expenses increased by $8.0 million to $53.8 million. Beginning in Q3 2023, we undertook an aggressive cost savings initiative, largely aimed at headcount, to reduce operating expenses. While portfolio losses and interest rates remain elevated, we continue to look for additional savings and efficiencies in our operations. With a full year of portfolio weakness, elevated charge-offs, and pricing adjustment in the rearview mirror, one of our focuses is maintaining expenses at adequate levels ahead of a potential recovery.

Operating results in the Canadian market continue to demonstrate relative strength compared to the U.S. market. The Canadian market has proven more resilient despite higher rates, and general performance has been more consistent with past periods. As a result, profitability in this segment remains good. Delinquency levels have risen compared to the beginning of 2023, an expected result of changing towards higher yielding products. Origination volumes have moderated in certain areas of the market but have grown considerably in others. We continue to take a cautious view given the increasing evidence of economic weakness in Canada. We have, therefore, responded by further raising credit standards and reducing overall origination volumes.

Like many other financial services companies, 2023 has been a challenging year for Chesswood. Despite this difficult environment, Chesswood generated $3.8 million in free cash flow. We remain focused on managing liquidity in the context of the current market environment and ensuring our team is focused on servicing and collecting our loan portfolio.

A closer look at Chesswood's receivables portfolio reveals that much of the stress experienced in 2023 is from our 2022 loan vintage. This is similar to the experience of other lenders, and coincided with the rise in interest rates that began in the second half of that year. Our accelerated pace of originations in that period, as we launched new programs with vendors, further added to this exposure.

As we entered 2024, we were excited to announce that we have begun funding the new joint venture company Wafra created with us. Wafra significantly impacted our off-balance sheet program and provides Chesswood with visibility for substantial increases in scale as well as the ability to evaluate new business opportunities. Along with many of our peers, Chesswood had been looking for its partner to help facilitate growth and take advantage of new funding paradigms impacting the specialty finance industry.

Strategic Review Announcement

On January 22, 2024, we announced that our board of directors had created a special committee to undertake a review of strategic alternatives to maximize value for Chesswood's shareholders. The last four years have included several challenges, most notably COVID in 2020 and the rapid increase in interest rates beginning in 2022. Although these events have posed challenges for Chesswood to navigate, our businesses have grown considerably, and we have diversified into new asset classes and established relationships with new funding partners.

The lending paradigm has also changed over this timeframe - not only from the perspective of investors who now perceive Chesswood's business as being more akin to an asset manager but also from the perspective of "Mainstreet" borrowers. Purchasing goods and services for cash has become a "thing of the past". Customers are no longer asking for cash discounts, but instead inquiring into the monthly payment options for the goods and services they desire. This societal change is all the more significant when considering the future of alternative lending.

Likely driven in part by proposed U.S. bank regulatory changes, the banking system appears to be regressing back to its roots of providing traditional banking services and exiting segments that produce undesired volatility in their operations – shaking the confidence of depositors. This trend appears firmly intact, with results including that specialty lenders continue to move towards the asset management model.

Although these trends have accelerated in recent years, it is important to remember Chesswood's 20-year history of successful transition as a public company. Over this period, the company has navigated several market challenges, including conversion from an income trust, the great financial crisis, COVID and several additional market downturns while still returning more than $186 million to shareholders, largely through dividends. As at December 31, 2023, the Company's total market capitalization is only $162 million.

The board will review strategic options for Chesswood's business with an aim to maximize value for our shareholders, while management and the board continue to seek optimal positioning for future success.

Sincerely,

Ryan Marr
President & CEO

Chesswood Group Limited

FOR THE YEAR ENDED DECEMBER 31, 2023

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, 2023. This MD&A should be read in conjunction with the 2023 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"). This MD&A is dated March 14, 2024.

Additional information relating to the Company, including its Annual Information Form, is available: on SEDAR PLUS at www.sedarplus.ca; 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, 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 (and policies of law societies and analogous governing bodies) of the rates and methods the Company uses in financing and collecting on our leases or loans; increasingly stringent interpretation and enforcement of laws related to dealers and advisors and its 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 business equipment or a motor vehicle; and general economic and business conditions (including the military conflicts in Ukraine and the Middle East, and inflation and recession concerns), which could impact equipment purchases, investment decisions and the need for home renovation and legal sector financing. 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.sedarplus.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 measures that are not in accordance with Generally Accepted Accounting Principles ("GAAP") 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 to determine compliance with financial covenants and calculate 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 provides information that is even more relevant given the businesses that 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 (loss), 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 the removal of other non-cash or non-recurring items such as (i) non-cash gain (loss) on financial instruments 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 the Company's financial reporting users.

"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 "Consolidated results of operations for the years ended December 31, 2023 and 2022" and "Consolidated results of operations for the three months ended December 31, 2023 and 2022" sections of the MD&A for reconciliations of Adjusted Net Income (Loss).

"Adjusted Operating Income (Loss)" is Operating Income (Loss) as presented in the consolidated statements of income (loss), adjusted to exclude the amortization of intangible assets and the change in allowance for ECL. Adjusted Operating Income (Loss) is intended to reflect the recurring income from the Company's businesses. Amortization of intangible assets, which includes the expense related to broker relationships, trade names and software, is a function of acquisitions. 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 the 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. It reflects our creditor-approved formulas for Adjusted EBITDA and Free Cash Flow that drive our Maximum Permitted Dividends (as defined below), both relevant measures for the Company's financial reporting users.

"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, 2023 and 2022" and "Results of operations for the three months ended December 31, 2023 and 2022" sections of this MD&A for reconciliations of Adjusted Net Income (Loss) and Adjusted Return on Equity.

"Free Cash Flow" or "FCF" is Adjusted EBITDA less maintenance capital expenditures, the 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 that 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 Company's resilience 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 a measure of the cash flow produced by the Company's businesses in a period. It is also management's view that the measure reduces the impact of significant non-cash charges and recoveries that do not reflect the actual cash flows of the businesses, and can vary considerably in amount 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, 2023, Chesswood's operations were conducted through three wholly owned subsidiaries in the United States and six operating subsidiaries in Canada (four 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", and together with Pawnee, the "U.S. Equipment Financing Segment"), 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", or the "Canadian Equipment Financing Segment"), which provides commercial equipment financing and loans to small and medium-sized businesses across Canada;

- Vault Home Credit Corporation ("Vault Home", or the "Canadian Consumer Financing Segment"), which provides home improvement and other consumer financing solutions in Canada;

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

- Rifco National Auto Finance Corporation ("Rifco", or the "Canadian Auto Financing Segment"), which provides consumer financing for motor vehicle purchasers across Canada except for Quebec; and

- 1000390232 Ontario Inc ("Easy Legal"), which provides specialized financing solutions to the Canadian legal industry.

Easy Legal, a subsidiary of the Company, acquired the operating business of Easy Legal Finance Inc. on February 13, 2023.

On a consolidated basis, the Company had 409 employees as at December 31, 2023 (476 employees as at December 31, 2022).

CONSOLIDATED RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

U.S. dollar results for the year ended December 31, 2023, were converted at an exchange rate of 1.3497, which was the average exchange rate for the year (year ended December 31, 2022 - 1.3013). Separate information on our operating segments and their respective results of operations follow this section on our consolidated results of operations.

Financial Highlights:

- Total originations of $1.2 billion[(1)] for the year ended December 31, 2023, a decrease of 31.4% (from $1.7 billion[(1)]) from the prior year due to tightened credit standards and higher loan pricing.
- During the year ended December 31, 2023, the Company continued entering into new agreements with investment managers and financial institutions for the non-recourse sale of leases and loans in exchange for fees. During the year ended December 31, 2023, $454.9 million of U.S. and Canadian finance receivables were sold under such arrangements (year ended December 31, 2022 - $270.1 million).
- Bishop Holdings LLC, a limited liability company established by a third-party investor and Chesswood, will invest in equipment leases and loans originated by the U.S. Equipment Financing Segment, targeting $1 billion in total acquisitions.
- Positive 2023 Free Cash Flow of $3.8 million. Elevated general and administrative expenses occurred in the fourth quarter of 2023 due to the Wafra transaction closure.

(1) Origination volumes include contracts that were originated by the operating entities and sold to investment managers and financial institutions.

Summary of Financial Results and Key Measures

($ thousands, except per share and % figures)	Year ended December 31, 2023	2022
Revenue	$ 316,372	$ 276,365
Net revenue	105,293	158,671
Operating income (loss)	(37,736)	45,643
Income (loss) before income taxes	(37,077)	44,179
Income tax expense (recovery)	(4,277)	13,763
Net income (loss)	(32,800)	30,416
Basic earnings (loss) per share (1)	$ (1.65)	$ 1.63
Diluted earnings (loss) per share (1)	(1.65)	1.47
Total assets	2,214,799	2,534,196
Long-term liabilities	1,982,597	2,259,996
Other Data		
Adjusted Operating Income (Loss) (2)	$ 2,568	$ 74,840
EBITDA (2)	114,275	121,758
Adjusted EBITDA (2)	3,960	72,356
Free Cash Flow(2)	3,845	51,715
Free Cash Flow per diluted share(2)	0.18	2.47
Return on Equity (3)	(15.8)%	14.6 %
Dividends declared (4)	8,850	9,284
Dividends declared per share (5)	0.44	0.46

(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 (Loss), EBITDA, Adjusted EBITDA and Free Cash Flow are non-GAAP measures. See "Non-GAAP Measures" above for the definitions.
(3) Return on equity is the current year's net income (loss) divided by the average of total Equity (as at December 31, 2023, and December 31, 2022), as presented on the consolidated statements of financial position.
(4) Includes dividends on Exchangeable Securities (non-controlling interest, as described below under "Statement of Financial Position") and special warrants.
(5) Dividends declared on common shares, Exchangeable Securities and special warrants.

The Company reported a consolidated net loss of $32.8 million for the year ended December 31, 2023, compared to consolidated net income of $30.4 million recorded in the prior year, a decrease of $63.2 million. The decrease is mainly the result of the increased interest expenses and higher provisions for credit losses, both due to the current economic conditions. In addition, there were increases in general and administrative expenses, as well as the recognition of impairment losses on intangible assets and goodwill. These factors were partially offset by increased revenues and lower personnel expenses.

Interest expense increased by $50.5 million for the year ended December 31, 2023, compared to the prior year due to a rise in interest rates and the average debt outstanding which increased by $308.1 million. Net charge-offs increased by $55.0 million (to $72.5 million) as customers continue to be impacted by current market conditions. The change in allowance for ECL compared to the prior year decreased by $12.1 million (to $14.6 million) which slightly offset net charge-offs as the expectation of a poor 2023 economic period was mainly captured in the 2022 allowance for ECL model. The allowance for ECL was further increased in 2023 to reflect a more conservative outlook in the ECL model due to continued market uncertainties. Overall, the provision for credit losses increased by $42.8 million. In addition, there was an increase in general and administrative expenses of $8.0 million, mainly due to greater recovery costs that were incurred collecting on the higher net charge-offs, IT related expenses and costs related to servicing a larger portfolio.

In Q4 2023, the Company assessed its intangible assets and goodwill as part of its annual impairment assessment for the year ended December 31, 2023, and an impairment loss of $22.9 million was incurred on the U.S. Equipment Financing Segment's goodwill and indefinite life trade name, and the Canadian Equipment Financing Segment's indefinite life trade name and finite life broker relationships. The U.S. Equipment Financing Segment's impairments are the result of increased costs of funding, which have affected the general business climate and levels of economic activity. In the Canadian Equipment Financing Segment, the intangibles of Blue Chip Leasing Corporation ("Blue Chip") have been fully impaired as its portfolio has become insignificant due to the successful amalgamation with Vault Credit.

The higher expenses were partially offset by higher revenues as total revenues increased by $40.0 million ($25.8 million in interest revenue and $14.2 million in ancillary revenue) compared to the prior year. The increase in revenue was mainly due to a larger portfolio of leases and loans as average finance receivables (after allowance for ECL) increased by $296.7 million compared to prior year. The increase in ancillary revenue was also due to the fees charged for the sale and servicing of assets under management. In addition to increases in revenue, there was also a decrease in personnel expenses of $1.2 million compared to the prior year as cost controls instituted during the latter half of the year were realized.

Return on Equity decreased for the year ended December 31, 2023, to (15.8)% from 14.6% during the prior year, primarily due to the decrease in net income.

	Year ended	
($ thousands)	December 31, 2023	December 31, 2022
Net income (loss)	$ (32,800)	$ 30,416
Average equity	207,697	208,194
Return on equity	(15.8)%	14.6 %

Adjusted Return on Equity decreased for the year ended December 31, 2023, to (4.5)% from 17.7% during the prior year, primarily due to the decrease in Adjusted Net Income (Loss).

	Year ended	
($ thousands)	December 31, 2023	December 31, 2022
Net income (loss)	$ (32,800)	$ 30,416
Business combination "day 2" provision(1)	—	7,166
Goodwill and intangible asset impairment(2)	22,676	—
Adjusted Net Income (Loss) (3)	(10,124)	37,582
Average equity, including adjustments	222,618	211,777
Adjusted Return on Equity(3)	(4.5)%	17.7 %

(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) Total goodwill and intangible asset impairment was $22.9 million. The impairment loss was adjusted by $0.2 million for deferred taxes related to definite life intangible assets held by the Canadian Equipment Financing Segment.

(3) Adjusted Return on Equity and Adjusted Net Income (Loss) 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, amortization and impairment of intangible assets, and impairment of goodwill - referred to below as Adjusted Operating Income (Loss). In management's opinion, this measure provides users with a more meaningful comparison of the Company's operating results year over year, as it eliminates the often large swing in results due to IFRS 9 - the non-cash change in allowance for ECL.

Average FX rate	1.3497	1.3013	
	Year ended December 31,		
($ thousands)	2023	2022	Change
Revenue	$ 316,372	$ 276,365	$ 40,007
Interest expense	(123,921)	(73,379)	(50,542)
Net charge-offs	(72,525)	(17,553)	(54,972)
	119,926	185,433	(65,507)
Personnel expenses	(61,771)	(63,005)	1,234
General and administrative expenses	(53,827)	(45,823)	(8,004)
Depreciation	(1,760)	(1,765)	5
Adjusted Operating Income (Loss) *(1)*	2,568	74,840	(72,272)
Increase in allowance for ECL	(14,633)	(26,762)	12,129
Goodwill and intangible asset impairment	(22,886)	—	(22,886)
Amortization	(2,785)	(2,435)	(350)
Operating income (loss)	(37,736)	45,643	(83,379)
Unrealized gain (loss) on foreign exchange	659	(1,464)	2,123
Income (loss) before income taxes	(37,077)	44,179	(81,256)
Income tax recovery (expense)	4,277	(13,763)	18,040
Net income (loss)	$ (32,800)	$ 30,416	$ (63,216)

(1) Adjusted Operating Income (Loss) is a non-GAAP measure. See "Non-GAAP Measures" above for the definition.

The provision for taxes for the consolidated entity during the year ended December 31, 2023, was a recovery of $4.3 million compared to an expense of $13.8 million in the prior year. The decrease in tax expense is primarily driven by the Company's net loss in the year compared to net income in the prior year. The effective tax rate differs from the Canadian statutory tax rate due to permanent differences between accounting and taxable income.

CONSOLIDATED RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2023 AND 2022

Summary of Financial Results and Key Measures

As at and for the quarter ended	2022				2023			
($ thousands, except per share figures)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	$ 57,250	$ 68,985	$ 73,054	$ 77,076	$ 81,143	$ 80,457	$ 80,013	$ 74,759
Net revenue	28,497	43,635	46,686	39,853	32,204	35,115	27,115	10,859
Operating income (loss)	2,718	16,074	16,573	10,278	1,312	1,542	1,343	(41,933)
Income (loss) before income taxes	2,777	15,561	16,024	9,817	1,568	1,379	690	(40,714)
Income tax expense (recovery)	1,098	5,910	3,728	3,027	611	(468)	580	(5,000)
Net income (loss)	1,679	9,651	12,296	6,790	957	1,847	110	(35,714)
Basic earnings (loss) per share (1)	$ 0.10	$ 0.52	$ 0.64	$ 0.36	$ 0.06	$ 0.11	$ 0.01	$ (1.80)
Diluted earnings (loss) per share (1)	0.09	0.46	0.58	0.33	0.06	0.10	0.01	(1.80)
Total assets	2,048,228	2,261,242	2,471,723	2,534,196	2,531,879	2,433,870	2,379,020	2,214,799
Long-term liabilities	1,813,968	2,002,186	2,191,422	2,259,996	2,256,204	2,171,831	2,113,339	1,982,597
Other Data								
Adjusted Operating Income (Loss) (2)	$ 20,382	$ 20,980	$ 20,775	$ 12,703	$ 7,079	$ 1,698	$ 5,521	$ (11,730)
EBITDA (2)	15,888	33,719	34,445	37,706	33,644	31,216	33,973	15,442
Adjusted EBITDA (2)	19,893	23,087	16,737	12,819	7,897	(201)	6,865	(10,601)
Free Cash Flow(2)	15,208	15,745	11,956	8,806	5,729	365	5,329	(7,578)
Free Cash Flow per diluted share(2)	0.73	0.75	0.57	0.42	0.28	0.02	0.26	(0.38)
Return on Equity (3)	3.5 %	19.3 %	22.6 %	11.9 %	1.7 %	3.3 %	0.2 %	(69.2)%
Dividends declared (4)	2,009	2,424	2,436	2,414	3,014	3,016	2,214	606
Dividends declared per share (5)	0.10	0.12	0.12	0.12	0.15	0.15	0.11	0.03

(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 (Loss), EBITDA, Adjusted EBITDA, and Free Cash Flow are non-GAAP measures. See "Non-GAAP Measures" above for the definitions.
(3) Return on equity is the quarter's net income (loss) annualized (multiplied by four) divided by the quarterly average of total Equity (December 31, 2023, and September 30, 2023), as presented on the consolidated statements of financial position.
(4) Includes dividends on Exchangeable Securities (non-controlling interest, as described below under "Statement of Financial Position") and special warrants.
(5) Dividends declared on common shares, Exchangeable Securities and special warrants.

As noted above, separate information on our operating segments and their respective results of operations follow information on our consolidated results of operations.

The Company reported a consolidated net loss of $35.7 million for the three months ended December 31, 2023, compared to net income of $6.8 million for the same period of the prior year, a decrease of $42.5 million. The decrease was caused by increased interest expenses and provisions for credit losses as well as decreased revenues and the impairment of intangible assets and goodwill.

Despite a $169.2 million decrease in average debt outstanding, rising interest rates resulted in higher costs of funding, which caused a $5.3 million increase in interest expense. The operating entities also had an increase in net charge-offs of $16.6 million as a result of higher delinquencies due to current market conditions. The change in allowance for ECL compared to the same quarter in the prior year increased by $4.8 million (to $6.6 million). The allowance for ECL was further increased during the fourth quarter of 2023 to reflect a more conservative outlook in the ECL model due to continued market uncertainties. As a result, the provision for credit losses increased by $21.4 million. The Company also experienced a decrease in interest revenue of $2.3 million compared to the same period in the prior year as average finance receivables (after allowance for ECL) decreased by $188.6 million.

The Company assessed its intangible assets and goodwill as part of its annual impairment assessment for the year ended December 31, 2023, and an impairment loss of $22.9 million was incurred on the U.S. Equipment Financing Segment's indefinite life trade names and goodwill, and the Canadian Equipment Financing Segment's indefinite life trade names and finite life broker relationships. The U.S. Equipment Financing Segment's impairments are the result of increased costs of funding, which has affected the general business climate and levels of economic activity. In the Canadian Equipment Financing Segment, the intangibles of Blue Chip have been fully impaired as its portfolio has become insignificant due to the successful amalgamation with Vault Credit.

Return on equity decreased for the three months ended December 31, 2023, to (69.2)% from 11.9% during same period in the prior year, primarily due to the decrease in net income.

	Three months ended	
($ thousands)	December 31, 2023	December 31, 2022
Net income (loss)	$ (35,714)	$ 6,790
Annualized	x 4	x 4
Average equity	206,500	227,593
Return on equity	(69.2)%	11.9 %

Adjusted Return on Equity decreased for the three months ended December 31, 2023, to (22.7)% from 11.9% during the prior year. This was primarily due to decreases in Adjusted Net Income (Loss).

	Year ended	
($ thousands)	December 31, 2023	December 31, 2022
Net income (loss)	$ (35,714)	$ 6,790
Goodwill and intangible asset impairment(1)	22,676	—
Adjusted Net Income (Loss) (2)	(13,038)	6,790
Annualized	x 4	x 4
Average equity, including adjustments	217,838	227,593
Adjusted Return on Equity(2)	(22.7)%	11.9 %

(1) Total goodwill and intangible asset impairment was $22.9 million. The impairment loss was adjusted by $0.2 million for deferred taxes related to definite life intangible assets held by the Canadian Equipment Financing Segment.
(2) Adjusted Return on Equity and Adjusted Net Income (Loss) 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, amortization and impairment of intangible assets, and impairment of goodwill - referred to below as Adjusted Operating Income (Loss). 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.

	Three months ended December 31,		
($ thousands)	2023	2022	Change
Revenue	$ 74,759	$ 77,076	$ (2,317)
Interest expense	(32,192)	(26,875)	(5,317)
Net charge-offs	(25,099)	(8,514)	(16,585)
	17,468	41,687	(24,219)
Personnel expenses	(15,603)	(15,528)	(75)
General and administrative expenses	(13,225)	(13,033)	(192)
Depreciation	(370)	(423)	53
Adjusted Operating Income (Loss) [(1)]	(11,730)	12,703	(24,433)
Increase in allowance for ECL	(6,609)	(1,834)	(4,775)
Goodwill and intangible asset impairment	(22,886)	—	(22,886)
Amortization	(708)	(591)	(117)
Operating income (loss)	(41,933)	10,278	(52,211)
Unrealized gain (loss) on foreign exchange	1,219	(461)	1,680
Income (loss) before income taxes	(40,714)	9,817	(50,531)
Income tax recovery (expense)	5,000	(3,027)	8,027
Net income (loss)	$ (35,714)	$ 6,790	$ (42,504)

(1) Adjusted Operating Income (Loss) is a non-GAAP measure. See "Non-GAAP Measures" above for the definition.

The provision for taxes for the consolidated entity during the three months ended December 31, 2023, was a recovery of $5.0 million compared to an expense of $3.0 million in the same period in the prior year. The decrease in tax expense of $8.0 million is driven by the net loss incurred in the three months ended December 31, 2023, compared to the same period in the prior year. The effective tax rate differs from the Canadian statutory tax rate due to permanent differences between accounting and taxable income.

($ thousands)	**U.S. Equipment Financing**	**Canadian Equipment Financing**	**Canadian Consumer Financing**	**Canadian Auto Financing**	**Asset Manage-ment**	**Corporate - Canada**	**Total**
	Three months ended December 31, 2023						
Interest revenue on finance leases and loans	$ 31,823	$ 16,841	$ 2,128	$ 11,861	$ —	$ 400	$ 63,053
Ancillary finance and other fee income	4,305	5,957	212	624	435	173	11,706
Interest expense	(18,095)	(9,019)	(1,621)	(3,683)	226	—	(32,192)
Provision for credit losses	(21,953)	(2,969)	18	(6,781)	—	(23)	(31,708)
Net revenue (expense)	**(3,920)**	**10,810**	**737**	**2,021**	**661**	**550**	**10,859**
Personnel expenses	4,412	5,765	413	2,071	506	1,677	14,844
Share-based compensation expense	211	19	—	80	—	449	759
General and administrative expenses	6,018	3,206	448	1,621	794	1,138	13,225
Goodwill and intangible asset impairment	21,805	1,081	—	—	—	—	22,886
Depreciation	177	110	3	78	2	—	370
Amortization	—	544	29	45	23	67	708
Operating income (loss)	**(36,543)**	**85**	**(156)**	**(1,874)**	**(664)**	**(2,781)**	**(41,933)**
Unrealized gain (loss) on foreign exchange	—	116	—	—	(3)	1,106	1,219
Income (loss) before income taxes	**(36,543)**	**201**	**(156)**	**(1,874)**	**(667)**	**(1,675)**	**(40,714)**
Income tax expense (recovery)	(4,024)	213	(65)	(448)	(221)	(455)	(5,000)
Net income (loss)	**$ (32,519)**	**$ (12)**	**$ (91)**	**$ (1,426)**	**$ (446)**	**$ (1,220)**	**$ (35,714)**
Property and equipment expenditures	$ (38)	$ (32)	$ (64)	$ (13)	$ —	$ —	$ (147)

	Three months ended December 31, 2022						
($ thousands)	**U.S. Equipment Financing**	**Canadian Equipment Financing**	**Canadian Consumer Financing**	**Canadian Auto Financing**	**Asset Manage-ment**	**Corporate - Canada**	**Total**
Interest revenue on leases and loans	$ 34,806	$ 19,030	$ 726	$ 10,839	$ —	$ —	$ 65,401
Ancillary finance and other fee income	5,678	3,490	128	467	1,912	—	11,675
Interest expense	(16,064)	(9,303)	—	(2,813)	107	1,198	(26,875)
Provision for credit losses	(5,213)	(3,162)	(25)	(1,948)	—	—	(10,348)
Net revenue	**19,207**	**10,055**	**829**	**6,545**	**2,019**	**1,198**	39,853
Personnel expenses	6,604	4,573	259	1,953	356	892	14,637
Share-based compensation expense	311	20	—	—	—	560	891
General and administrative expenses	5,855	3,996	296	1,747	341	798	13,033
Depreciation	294	105	3	89	2	(70)	423
Amortization	—	548	12	46	(15)	—	591
Operating income (loss)	**6,143**	**813**	**259**	**2,710**	**1,335**	**(982)**	10,278
Unrealized gain (loss) on foreign exchange	—	132	—	—	1	(594)	(461)
Income (loss) before income tax	**6,143**	**945**	**259**	**2,710**	**1,336**	**(1,576)**	9,817
Income tax expense (recovery)	1,602	1,529	(69)	633	248	(916)	3,027
Net income (loss)	**$ 4,541**	**$ (584)**	**$ 328**	**$ 2,077**	**$ 1,088**	**$ (660)**	**$ 6,790**
Property and equipment expenditures	$ (411)	$ (12)	$ —	$ —	$ —	$ —	$ (423)

U.S. EQUIPMENT FINANCING SEGMENT

The Company's largest operations are conducted by Pawnee, which, together with Tandem, accounted for 48% of consolidated revenue for the year ended December 31, 2023. As at December 31, 2023, the U.S. Equipment Financing Segment employed 102 employees (158 employees as at December 31, 2022).

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. Pawnee's prime originations represented greater than 60% of its new originations during the year ended December 31, 2023.

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 underwriting and portfolio management activities, resulting in a higher level of throughput efficiency.

As at December 31, 2023, Pawnee's and Tandem's portfolios respectively represented 64% and 36%, 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. Tandem's ability to address each 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 in 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. Pawnee and Tandem are managed by a highly experienced senior leadership team to guide their 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, 2023, the U.S. Equipment Financing Segment's portfolio of 23,469 leases and loans, representing US$962.3 million in gross finance receivables (excluding residual receivable), was diversified, with:

- Over 113 equipment categories, with the five largest - construction, aesthetic skin care, auto repair, restaurant and audio/video production - accounting for an aggregate of 33.8% 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 13.9% and 12.2%, respectively);
- The largest broker (excluding Tandem) accounting for 5.5% of gross lease and loan receivables, and the 10 largest (excluding Tandem) accounting for an aggregate of 18.6%; and
- Tandem's vendor channel originations accounting for 36.4% 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 102 employees as at December 31, 2023, of which approximately 41 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 more than 120 years in the equipment finance industry, and the core of 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 37 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 2022	June 30 2022	Sep 30 2022	Dec 31 2022	Mar 31 2023	June 30 2023	Sep 30 2023	Dec 31 2023
Number of leases and loans outstanding (#)	24,209	24,266	24,246	24,756	24,585	23,790	23,612	23,469
Gross lease and loan receivables (“GLR”) (1)(2)	$1,102,395	$1,131,304	$1,133,736	$1,162,115	$1,140,121	$1,076,052	$1,020,358	$962,308
Residual receivables	$18,751	$18,325	$17,819	$17,859	$17,953	$17,908	$17,808	$17,631
Net investment in leases and loans receivables ("Net Finance Receivables" or "NFR"), before allowance (3)	$947,695	$976,381	$980,906	$1,004,286	$986,844	$935,429	$891,072	$842,854
Security deposits ("SD") (nominal value)(4)	$3,171	$3,012	$2,624	$2,373	$1,802	$1,651	$1,164	$949
Allowance for ECL	$16,383	$17,676	$18,866	$20,284	$24,086	$24,175	$26,577	$30,788
Allowance for ECL as % of NFR net of SD	1.73%	1.82%	1.94%	2.02%	2.45%	2.59%	2.99%	3.66%
Over 31 days delinquency (% of GLR) (5)	1.01%	0.88%	1.36%	1.99%	2.79%	3.14%	4.21%	4.74%
Net charge-offs (recoveries) for the three months ended	$(543)	$1,150	$1,473	$2,484	$5,533	$8,282	$7,686	$11,971
Provision for credit losses for the three months ended	$2,296	$2,443	$2,663	$3,902	$9,335	$8,371	$10,088	$16,182

Notes:

1. (1) Excludes residual receivables
2. (2) As at December 31, 2023, approximately 64% of U.S. GLR (excluding residuals) were in the prime market segment
3. (3) Excludes unearned income for interest on security deposits
4. (4) Excludes adjustment for discounting security deposits
5. (5) Over 31 days delinquency includes non-accrual GLR

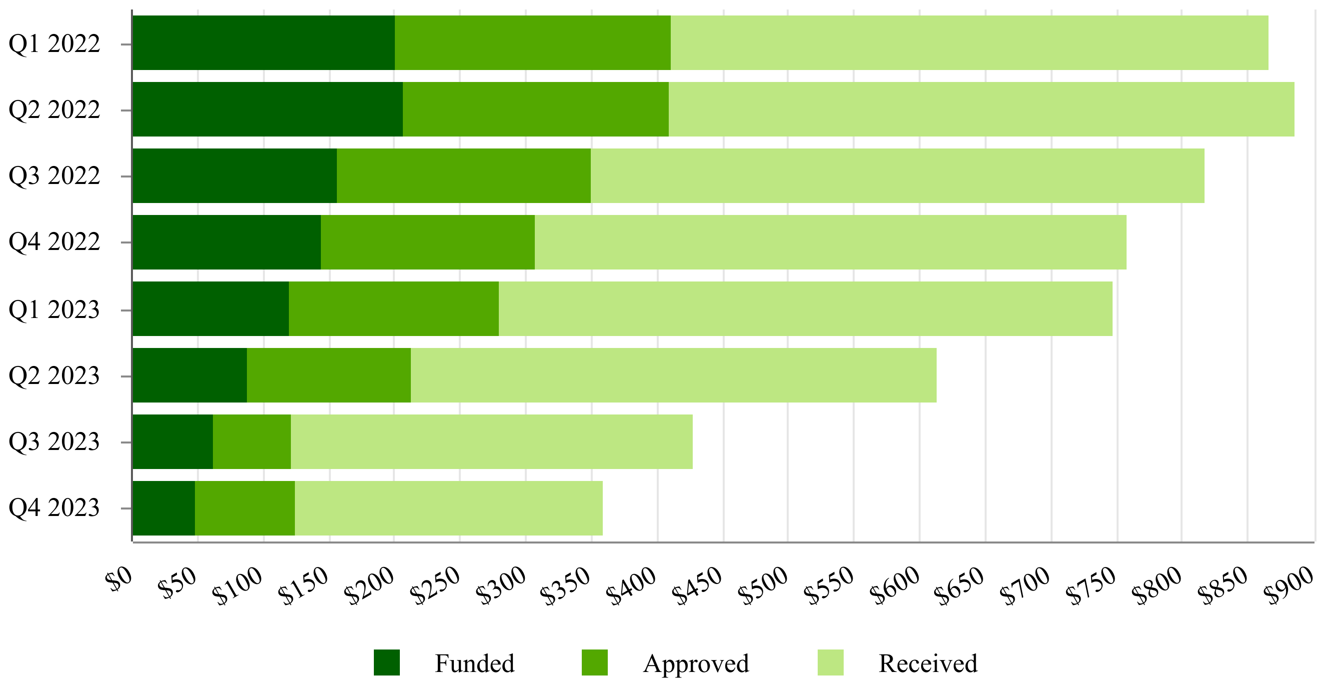
U.S. Equipment Financing Segment Net Finance Receivable Aging Analysis

(US$ thousands)	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total
As at December 31, 2023	$ 766,756	$ 36,802	$ 14,378	$ 5,962	$ 18,848	$ 842,746
As at December 31, 2022	$ 958,544	$ 26,878	$ 8,687	$ 2,926	$ 7,043	$ 1,004,078

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

(US$ thousands)	December 31 2023
0-1 year	$ 381,424
1-2 years	282,219
2-3 years	200,287
3-4 years	93,559
4-5 years	21,943
Over 5 years	507
Total minimum payments	$ 979,939

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 through sales 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's financing of the customer’s 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 the U.S. Equipment Financing Segment's approach to doing business in its market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of applicants.

Results for the years ended December 31, 2023 and 2022

The following table is a summary of select metrics and results for the U.S. Equipment Financing Segment for the years ended December 31, 2023, and December 31, 2022:

Average FX Rate	1.3497	1.3013
	Year ended	
($ thousands)	December 31, 2023	December 31, 2022
Interest revenue on finance leases and loans	$131,887	$130,353
Operating income (loss)	(45,204)	39,836
Finance receivables, net of allowance for ECL	1,076,254	1,332,452
Originations	432,063	923,349
Interest revenue yield	10.5%	10.6%
Net charge-offs as a percentage of finance receivables (before allowance for ECL)	3.6%	0.5%

For the year ended December 31, 2023, the U.S. Equipment Financing Segment's interest revenue on leases and loans totalled $131.9 million, an increase of $1.5 million when compared to the prior year. This is because there was a 1.1% increase in the average net investment in finance receivables (before allowance for ECL) to $1.3 billion, an increase of $13.2 million. These increases were primarily due to the increase in the FX rate as the average rate increased from $1.3013 to 1.3497. In the absence of FX, interest revenue in U.S. dollars decreased by US$2.5 million (to US$97.7 million) when compared to the prior year due to a decrease in the interest revenue yield of 0.1% and a decrease in the size of the portfolio. This is because there was a 1.5% decrease in the average U.S. net investment in finance receivables (before allowance for ECL) to US$932.1 million, a decrease of US$14.3 million. The reduction in overall yield was due to the sale of current year higher yielding originations to our off-balance sheet collaborators, managed by Chesswood Capital Management USA Inc., to generate recurring fee-based revenue.

U.S. Equipment Financing Segment	Year ended	
(US$ thousands)	December 31, 2023	December 31, 2022
Interest revenue on finance leases and loans	$ 97,716	$ 100,171
Average NFR, before allowance	932,097	946,388
Interest revenue yield	10.5 %	10.6 %

Ancillary finance and other fee income was $20.2 million for the year ended December 31, 2023, a decrease of $0.3 million when compared to the prior year. The decrease was driven by lower originations and lower off-balance sheet sales offset by higher servicing fees on finance receivables that were sold during 2023 and 2022.

The U.S. Equipment Financing Segment's interest expense was $71.6 million for the year ended December 31, 2023, an increase of $24.7 million when compared to the prior year. This was primarily due to higher effective interest rates (including amortization of origination costs) on the segment's facilities as a result of rising interest rates in the market. In addition, the increase in interest expense was driven by a $14.6 million increase in average debt outstanding year over year. In the absence of FX, the increase in interest expense was US$17.0 million while average U.S. dollar debt outstanding decreased by $7.5 million.

Net charge-offs for the year ended December 31, 2023 increased by $39.2 million (US$28.9 million) compared to the prior year. The U.S. Equipment Financing Segment's actual net charge-offs were 3.6% of average finance receivables (before allowance for ECL), compared to 0.5% during the prior year. In addition, the change in allowance for ECL increased by $5.4 million (US$3.8 million) when compared to the prior year. The increases in net charge-offs and the change in allowance for ECL were a result of poor economic conditions increasing delinquencies in the year and the Company's conservative outlook on the next 12 months based on current macroeconomic factors when compared to the prior year. This is reflected in the U.S. Equipment Financing Segment's average 31 days past due delinquency increasing to 3.4% for the year ended December 31, 2023 compared to 1.2% during the prior year.

As a result, the U.S. Equipment Financing Segment's provision for credit losses increased by $44.6 million (US$32.7 million) for the year ended December 31, 2023, when compared to the prior year.

U.S. Equipment Financing Segment	Year ended	
(US$ thousands)	December 31, 2023	December 31, 2022
Impact of loan book growth	$ (3,284)	$ 2,991
Impact of change in provision rate during the year	13,788	3,749
Change in allowance for ECL	10,504	6,740
Net charge-offs	33,472	4,564
Provision for credit losses	43,976	11,304
Average NFR, before allowance	932,097	946,388
Net charge-offs (annualized) as a percentage of finance receivables	3.6 %	0.5 %

The U.S. Equipment Financing Segment's personnel expenses including share based compensation was $21.2 million for the year ended December 31, 2023. This was a decrease of $5.7 million when compared to the prior year, primarily due to having an average of 27 fewer staff during the year ended December 31, 2023. General and administrative expenses for the year ended December 31, 2023, increased by $0.8 million compared to the prior year due to an increase in collection costs.

During the year ended December 31, 2023, the U.S. segment had an operating loss of $45.2 million compared with operating income of $39.8 million in 2022 mainly due to higher costs of funding, an increased provision for credit losses, and impairment recognized on the segment's goodwill and intangible assets. This was partially offset by increased revenues and lower personnel expenses.

Results for the three months ended December 31, 2023 and 2022

The U.S. Equipment Financing Segment's interest revenue on leases and loans totaled $31.8 million for the three months ended December 31, 2023. Interest revenue decreased by $3.0 million when compared to the same period in the prior year due to a 14.2% decrease in average net investment in finance receivables (before allowance for ECL) to $1.2 billion as a result of continued off-balance sheet sales and lower originations. As a result, net investment in leases and loans (before allowance for ECL) as at December 31, 2023, was $243.0 million lower than as at December 31, 2022. In the absence of FX, the U.S. Equipment Financing Segment's interest revenue on leases and loans totaled US$23.4 million for the three months ended December 31, 2023. Interest revenue decreased US$2.3 million when compared to the same period in the prior year due to a 12.7% decrease in the average U.S. dollar net investment in finance receivables (before allowance for ECL) to US$867.0 million. As a result, net investment in leases and loans (before allowance for ECL) as at December 31, 2023, was US$161.4 million lower than as at December 31, 2022. The average yield earned during the three months ended December 31, 2023, increased by 0.4% compared with the same period in the prior year (to 10.8%). The overall yield increased as the segment adjusted its products for increased costs of funding partially offset by the sale of current year higher yielding originations to our off-balance sheet collaborators, managed by Chesswood Capital Management USA Inc., to generate recurring fee-based revenue.

U.S. Equipment Financing Segment	Three months ended	
(US$ thousands)	December 31, 2023	December 31, 2022
Interest revenue on finance leases and loans	$ 23,357	$ 25,687
Annualized	x 4	x 4
Average NFR, before allowance	866,963	992,596
Interest revenue yield	10.8 %	10.4 %

Ancillary finance and other fee income was $4.3 million for the three months ended December 31, 2023, compared to the $5.7 million earned during the same period in the prior year. The decrease was driven by lower volumes of finance receivables sold during the three months ended December 31, 2023, compared to the same period in the prior year.

The U.S. Equipment Financing Segment's interest expense was $18.1 million (US$13.3 million) for the three months ended December 31, 2023, an increase of $2.0 million (US$1.3 million) compared to the same period in the prior year. This was a result of higher average interest rates on borrowed funds throughout the period partially offset by a $199.3 million (US $134.6 million) decrease in average debt outstanding compared to the same period in the prior year.

During the three months ended December 31, 2023, the U.S. Equipment Financing Segment's provision for credit losses increased by $16.7 million (US$12.3 million) when compared to the same period in the prior year. This was due to an increase in net charge-offs of $12.9 million (US$9.5 million) as a result of higher delinquencies throughout the year and an increase in the change in allowance for ECL of $3.8 million (US$2.8 million) compared to the same period in the prior year. The increase in change in allowance for ECL is due to an increase in the provision rates to reflect a more conservative outlook for the U.S. markets compared to the same period in the prior year. The U.S. Equipment Financing Segment's 31 days past due delinquency at December 31, 2023, increased to 4.74% compared to 1.99% as at December 31, 2022.

U.S. Equipment Financing Segment	Three months ended	
(US$ thousands)	December 31, 2023	December 31, 2022
Impact of loan book growth	$ (1,003)	$ 465
Impact of change in provision rate during the period	5,214	953
Change in allowance for ECL	4,211	1,418
Net charge-offs	11,971	2,484
Provision for credit losses	16,182	3,902
Average NFR, before allowance	866,963	992,596
Net charge-offs (annualized, x4) as a percentage of finance receivables	5.5 %	1.0 %

Personnel expenses including share based compensation in the U.S. Equipment Financing Segment were $4.6 million (US$3.4 million for the three months ended December 31, 2023). This was a decrease of $2.3 million (US$1.7 million) compared to the same period in the prior year due to a decrease of 54 in the average number of staff during the period. General and administrative expenses remained relatively flat compared to the same period in the prior year.

During the three months ended December 31, 2023, the U.S. Equipment Financing Segment had an operating loss of $36.5 million compared with an operating income of $6.1 million for the same period in 2022 mainly due to decreased revenues, a higher provision for credit losses, increased interest expenses, and impairment charges recognized on the segment's goodwill and intangible assets, partially offset by a decrease in personnel expenses.

CANADIAN EQUIPMENT FINANCING SEGMENT

On April 30, 2021, Blue Chip (then 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, CHW/Vault Holdco Corp. (the "Canadian Holdco"), of which Chesswood now 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. 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 (of which, as noted above, Chesswood owns 51% and exercises control).

During the year ended December 31, 2023, $268.7 million of finance receivables were sold to VCOF SPV I Inc., a corporation controlled by Daniel Wittlin, the Chief Executive Officer of Vault Credit and a Director of Chesswood. The segment earned $1.8 million of fee revenue for the three months ended December 31, 2023, and $5.3 million for the year ended December 31, 2023, from the sale and servicing of the receivables.

The Canadian Equipment Financing Segment accounted for 30% of the Company's consolidated revenue for the year ended December 31, 2023. 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 151 full-time equivalent employees as at December 31, 2023 (179 employees as at December 31, 2022).

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 seeks to prudently increase its average loan amount while still maintaining its focus on portfolio stratification and industry leading service levels.

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, 2023, the Canadian Equipment Financing Segment's gross finance receivables portfolio of $682.0 million, consisting of 26,737 leases and loans, was well diversified. Its diversification is as follows:

- Ontario represented 43.6% of net finance receivables, Alberta represented 15.7% and 40.7% were from other provinces/territories;
- The five largest equipment categories by volume - construction equipment, industrial, trucks and trailers, medical and dental equipment and agriculture - accounted for an aggregate of 75.2% of net finance receivables;
- Of its network of more than 60 originators, the largest originator by dollar volume during 2023 accounted for 33.0% of originations; and
- The four largest brokers by dollars financed accounted for an aggregate of approximately 64.3% of originations during 2023.

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.

CANADIAN EQUIPMENT FINANCING PORTFOLIO METRICS

Canadian Equipment Financing Segment Finance Receivable Portfolio Statistics[3]

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

	Mar 31 2022	June 30 2022	Sep 30 2022	Dec 31 2022	Mar 31 2023	June 30 2023	Sep 30 2023	Dec 31 2023
Number of leases and loans outstanding (#)	24,379	27,074	29,032	30,720	30,499	29,110	28,562	26,737
Gross lease and loan receivables ("GLR") [1]	$513,510	$650,528	$746,194	$817,932	$806,421	$760,827	$741,653	$681,983
Residual receivables [2]	$8,212	$11,080	$12,948	$14,967	$15,300	$15,262	$15,577	$15,560
Net finance receivables ("NFR"), before allowance	$470,001	$592,908	$677,911	$740,363	$729,793	$687,524	$659,208	$608,647
Allowance for ECL	$6,347	$7,968	$8,845	$9,979	$9,677	$8,691	$8,252	$7,749
Allowance for ECL as % of NFR	1.35%	1.34%	1.30%	1.35%	1.33%	1.26%	1.25%	1.27%
Over 31 days delinquency (% of NFR)	0.45%	0.46%	0.61%	0.61%	0.99%	1.51%	1.99%	1.55%
Net charge-offs (recoveries) for the three months ended	$603	$982	$1,313	$2,028	$1,813	$2,227	$3,376	$3,472
Provision for credit losses for the three months ended	$1,736	$2,603	$2,190	$3,162	$1,511	$1,241	$2,937	$2,969

Notes:
(1) Excludes residual receivables
(2) Residuals include guaranteed and unguaranteed purchase options. As at December 31, 2023, 99% of the residuals are purchase options contractually obligated to be exercised
(3) Historical figures are exclusive of Vault Home and Easy Legal. Vault Home is now reported in the "Canadian Consumer Financing Segment" section of this MD&A. Easy Legal is now reported in the "Corporate - Canada Segment".

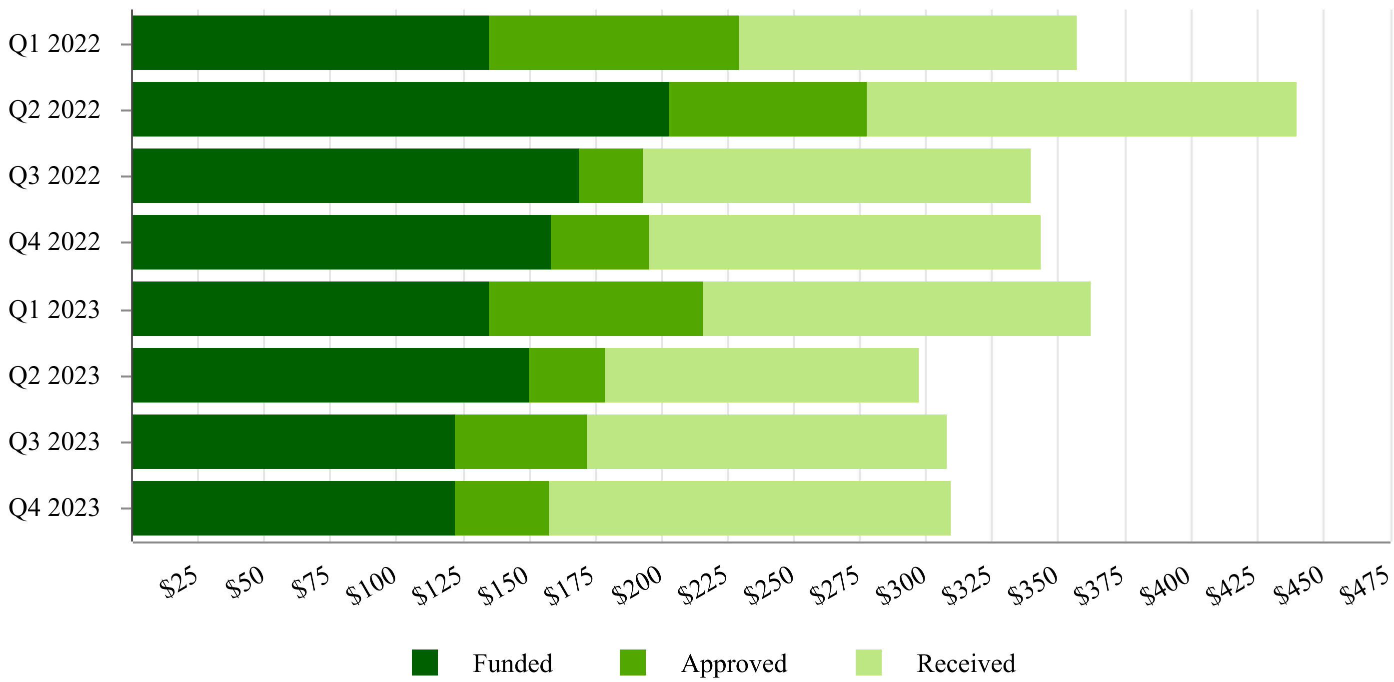
Canadian Equipment Financing Segment Net Finance Receivable Aging Analysis

($ thousands)	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total
As at December 31, 2023	$ 592,461	$ 6,736	$ 4,519	$ 2,447	$ 2,484	$ 608,647
As at December 31, 2022	$ 729,195	$ 5,164	$ 2,994	$ 1,619	$ 1,391	$ 740,363

Canadian Equipment Financing Segment Minimum Scheduled Collection of Finance Receivables

($ thousands)	As at December 31, 2023
0-1 year	$ 272,030
1-2 years	193,501
2-3 years	135,878
3-4 years	69,740
4-5 years	22,572
Over 5 years	3,822
Total minimum payments	$ 697,543

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



The volumes table above includes information on contracts that were originated by the Canadian Equipment Financing Segment and sold to investors.

“Received” reflects all applications 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 approved applications that become actual lease or loan transactions through the segment's financing of the customer's 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 the Canadian Equipment Financing Segment's approach to doing business in its market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of applicants.

Results for the years ended December 31, 2023 and 2022

The following table is a summary of select metrics and results for the Canadian Equipment Financing Segment for the years ended December 31, 2023, and December 31, 2022:

Canadian Equipment Financing Segment	Year ended	
($ thousands)	December 31, 2023	December 31, 2022
Interest revenue on finance leases and loans	$ 74,124	$ 60,681
Operating income	7,438	4,986
Finance receivables, net of allowance for ECL	600,898	730,384
Originations	510,156	638,902
Interest revenue yield	10.8 %	10.5 %
Net charge-offs as a percentage of finance receivables (before allowance for ECL)	1.6 %	0.9 %

During the year ended December 31, 2023, the Canadian Equipment Financing Segment generated revenue of $95.3 million ($74.1 million interest revenue and $21.2 million ancillary finance and other fee income), compared to $72.8 million ($60.7 million interest revenue and $12.1 million ancillary finance and other fee income) during the prior year, an increase of $22.5 million, or 30.9%. The Canadian Equipment Financing Segment's average net investment in finance receivables (before allowance for ECL) increased by approximately $109.4 million for the year ended December 31, 2023, compared to the prior year, largely due to its continued expansion in Canadian markets. In addition, the average number of finance receivable contracts outstanding increased by 2,360 for the year ended December 31, 2023, compared to the prior year. During the year ended December 31, 2023, the interest revenue yield earned on the Canadian Equipment Financing Segment's average net finance receivables (before allowance for ECL) was 10.8%, which increased from 10.5% from the prior year as the segment adjusts its products for increased costs of funding. The segment facilitated the sale of $268.7 million of finance receivables to VCOF SPV I Inc. during the year ended December 31, 2023. These sales earned $5.3 million for the year ended December 31, 2023, increasing ancillary finance and other fee income.

Canadian Equipment Financing Segment	Year ended	
($ thousands)	December 31, 2023	December 31, 2022
Interest revenue on finance leases and loans	$ 74,124	$ 60,681
Average NFR, before allowance	685,107	575,677
Interest revenue yield	10.8 %	10.5 %

The Canadian Equipment Financing Segment's provision for credit losses was $8.7 million for the year ended December 31, 2023. This was a decrease of $1.0 million when compared to the prior year despite greater charge-offs of $6.0 million as a result of higher delinquencies. There was a decrease in the change in allowance for ECL of $7.0 million mainly as a result of a decrease in the segment's finance receivables due to off-balance sheet sales and lower originations.

Canadian Equipment Financing Segment	Year ended	
($ thousands)	December 31, 2023	December 31, 2022
Impact of loan book growth	$ (1,776)	$ 4,494
Impact of change in provision rate during the year	(454)	271
Change in allowance for ECL	(2,230)	4,765
Net charge-offs	10,888	4,926
Provision for credit losses	8,658	9,691
Average NFR, before allowance	685,107	575,677
Net charge-offs (annualized) as a percentage of finance receivables (before allowance for ECL)	1.6 %	0.9 %

The Canadian Equipment Financing Segment's interest expense was $37.5 million for the year ended December 31, 2023. This increased by $13.8 million from the prior year due to higher average debt outstanding (increased by approximately $95.0 million) and a higher cost of funds on securitization facilities.

The Canadian Equipment Financing Segment's personnel expenses including share based compensation were $21.3 million for the year ended December 31, 2023, an increase of $3.3 million when compared to the prior year. The average number of employees increased by eight during the year ended December 31, 2023, compared to the prior year. Cost cutting measures were implemented in the latter half of the year and have not been fully realized for the year ended December 31, 2023. During the first half of the year, more employees were needed to accommodate the larger average portfolio and the segment's continued expansion in Canadian markets. The increase in general and administrative expenses of $3.0 million (to $16.6 million) is a function of the segment's technology upgrades and other operating costs.

The Canadian Equipment Financing Segment's operating income totalled $7.4 million for the year ended December 31, 2023, compared to operating income of $5.0 million for the prior year, an increase of $2.4 million, primarily due to increased revenues and a lower provision for credit losses offset partially by higher interest, personnel, and general and administrative expenses.

Results for the three months ended December 31, 2023 and 2022

During the three months ended December 31, 2023, the Canadian Equipment Financing Segment generated revenue of $22.8 million ($16.8 million interest revenue and $6.0 million ancillary finance and other fee income), an increase of $0.3 million ($2.2 million decrease in interest revenue offset by a $2.5 million increase in ancillary finance and other fee income) when compared to the same period in the prior year. The Canadian Equipment Financing Segment's average net investment in finance receivables (before allowance for ECL) decreased by approximately $75.2 million for the three months ended December 31, 2023, compared to the same period in the prior year. In addition, the average number of finance receivable contracts outstanding decreased by 2,227 during the three months ended December 31, 2023, compared to the same period in the prior year. Although the segment is adjusting its products for increased costs of funding, the average annualized interest revenue yield earned on the Canadian Equipment Financing Segment's net finance receivables decreased by 0.1% for the three months ended December 31, 2023, when compared to the same period in the prior year. This is due to the sale of current year higher yielding originations to off-balance sheet collaborators to generate recurring fee-based revenue. These sales also resulted in the reduction of higher-yielding products with greater credit risk. The segment also facilitated the sale of $83.6 million of finance receivables to VCOF SPV I Inc. during the three months ended December 31, 2023. The segment earned $1.8 million for the three months ended December 31, 2023, related to these sales, increasing ancillary finance and other fee income.

Canadian Equipment Financing Segment	Three months ended	
($ thousands)	December 31, 2023	December 31, 2022
Interest revenue on finance leases and loans	$ 16,841	$ 19,030
Annualized	x 4	x 4
Average NFR, before allowance	633,927	709,137
Interest revenue yield	10.6 %	10.7 %

The Canadian Equipment Financing Segment's provision for credit losses was $3.0 million for the three months ended December 31, 2023. This was decrease of $0.2 million compared to the same period in prior year. The change in the provision for credit losses was the result of a decrease in the change in allowance for ECL of $1.6 million offset by an increase in net charge-offs of $1.4 million. The higher net charge-offs were the result of higher delinquencies compared to the same period in the prior year as the average over 31 days of delinquency increased by 1.2%. Change in allowance for ECL decreased due to a decrease in the size of the portfolio partially offset by a greater provision rate applied to reflect a more conservative outlook.

Canadian Equipment Financing Segment	Three months ended	
($ thousands)	December 31, 2023	December 31, 2022
Impact of loan book growth	$ (682)	$ 1,043
Impact of change in provision rate during the year	179	91
Change in allowance for ECL	(503)	1,134
Net charge-offs	3,472	2,028
Provision for credit losses	2,969	3,162
Average NFR, before allowance	633,927	709,137
Net charge-offs (annualized, x4) as a percentage of finance receivables	2.2 %	1.1 %

The Canadian Equipment Financing Segment's interest expense was $9.0 million for the three months ended December 31, 2023. This was a decrease of $0.3 million compared to the same period in the prior year due to a decrease in the average borrowings of $57.3 million compared to the prior year, offset by year-over-year increases in interest rates.

The Canadian Equipment Financing Segment's personnel expenses including share based compensation were $5.8 million for the three months ended December 31, 2023, an increase of $1.2 million compared to the same period in the prior year. General and administrative expenses in the three months decreased by $0.8 million compared to the same period in the prior year due to decreases in IT related expenses and other operating expenses.

Overall, the Canadian Equipment Financing Segment's operating income totalled $0.1 million for the three months ended December 31, 2023, an decrease of $0.7 million compared to the same period in the prior year due to impairment recognized on the segment's intangible assets.

CANADIAN CONSUMER FINANCING SEGMENT

On September 14, 2021, Chesswood Holdings Ltd. acquired a number of common shares of Vault Home that constituted 51% of the 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. 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.

During Q4 2023, $35.4 million of finance receivables were sold to VCOF SPV I Inc., a corporation controlled by Daniel Wittlin, the Chief Executive Officer of Vault Credit, and a Director of Chesswood. The segment earned insignificant fee revenues from the sales for the three months ended December 31, 2023.

The Canadian Consumer Financing Segment accounted for 2% of the Company's consolidated revenue for the year ended December 31, 2023. This segment's portfolio risk is mitigated by its primarily prime loan book, as well as diversification across geographies and loan collateral types. The Canadian Consumer Financing Segment had 15 full-time equivalent employees as at December 31, 2023 (10 employees as at December 31, 2022).

CANADIAN CONSUMER FINANCING PORTFOLIO METRICS

Canadian Consumer Financing Segment Finance Receivable Portfolio Statistics

(in $ thousands except # of loans and %)

	Mar 31 2023	June 30 2023	Sep 30 2023	Dec 31 2023
Number of loans outstanding (#)	3,342	4,373	5,436	4,542
Gross loan receivables (“GLR”)	$61,897	$84,246	$110,071	$83,526
Net finance receivables ("NFR"), before allowance	$45,393	$62,697	$83,700	$65,062
Allowance for ECL	$117	$164	$219	$168
Allowance for ECL as % of NFR	0.26%	0.26%	0.26%	0.26%
Over 31 days delinquency (% of NFR)	0.10%	0.27%	0.46%	0.80%
Net charge-offs (recoveries) for the three months ended	$48	$(3)	$23	$33
Provision for credit losses for the three months ended	$93	$44	$78	$(18)

Notes:
(1) The year ended December 31, 2022 was an inaugural year for Vault Home, and results are not disclosed in the table above as it was immaterial to the Company.

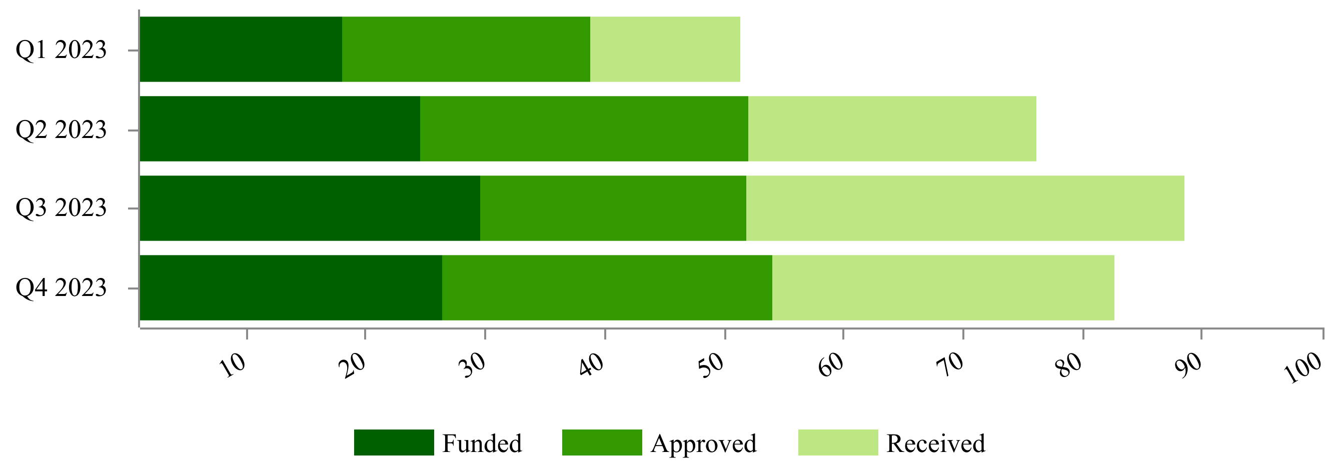
Canadian Consumer Financing Segment Net Finance Receivable Aging Analysis

($ thousands)	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total
As at December 31, 2023	$ 64,210	$ 333	$ 161	$ 158	$ 200	$ 65,062
As at December 31, 2022	$ 31,667	$ 105	$ 37	$ 17	$ 14	$ 31,840

Canadian Consumer Financing Segment Minimum Scheduled Collection of Finance Receivables

($ thousands)	December 31, 2023
0-1 year	$ 20,545
1-2 years	22,956
2-3 years	8,503
3-4 years	8,772
4-5 years	12,016
Over 5 years	10,734
Total minimum payments	$ 83,526

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



The volumes table above includes information on contracts that were originated by the Canadian Consumer Financing Segment and sold to investors.

"Received" reflects all applications received by the Canadian Consumer 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 loan transactions through the segment's financing of the customer's purchase. Management regularly reviews loan application, approval and origination volumes for trends that may indicate changes in the economic or competitive landscape and that may necessitate adjustments in the Canadian Consumer Financing Segment's approach to doing business in its market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of applicants.

Results for the years ended December 31, 2023 and 2022

The following table is a summary of select metrics and results for the Canadian Consumer Financing Segment for the years ended December 31, 2023, and December 31, 2022.

Canadian Consumer Financing Segment	Year ended	
($ thousands)	December 31, 2023	December 31, 2022
Interest revenue on finance leases and loans	$ 5,919	$ 1,289
Operating loss	(1,687)	(1,392)
Finance receivables, net of allowance for ECL	64,894	31,770
Originations	98,979	36,676
Interest revenue yield	10.3 %	10.5 %
Net charge-offs as a percentage of finance receivables (before allowance for ECL)	0.2 %	— %

The Canadian Consumer Financing Segment generated revenue of $6.6 million ($5.9 million interest revenue and $0.7 million ancillary finance and other fee income) during the year ended December 31, 2023, compared to $1.5 million ($1.3 million interest revenue and $0.2 million ancillary finance and other fee income) in the prior year, an increase of $5.1 million, or 340%. The Canadian Consumer Financing Segment's average net investment in finance receivables (before allowance for ECL) increased by approximately $45.4 million for the year ended December 31, 2023, compared to the prior year largely due to the segment's continued expansion in Canadian markets. In addition, the average number of finance receivable contracts outstanding increased by 3,029 for the year ended December 31, 2023 compared to the prior year. During the year ended December 31, 2023, the interest revenue yield earned on the Canadian Consumer Financing Segment's net finance receivables decreased by 0.2% as the entity built its portfolio in 2022 and 2023, resulting in fluctuating yields month over month.

Canadian Consumer Financing Segment	Year ended	
($ thousands)	December 31, 2023	December 31, 2022
Interest revenue on finance leases and loans	$ 5,919	$ 1,289
Average NFR, before allowance	57,738	12,292
Interest revenue yield	10.3 %	10.5 %

The Canadian Consumer Financing Segment's interest expense increased by $4.2 million due to higher average debt outstanding and a higher cost of funds on securitization facilities.

The Canadian Consumer Financing Segment's provision for credit loss increased by $0.1 million for the year ended December 31, 2023, compared to the prior year due charge-offs of $0.1 million.

Canadian Consumer Financing Segment	Year ended			
($ thousands)	December 31, 2023		December 31, 2022	
Impact of loan book growth	$	75	$	70
Impact of change in provision rate during the year		21		—
Change in allowance for ECL		96		70
Net charge-offs		101		—
Provision for credit losses		197		70
Average NFR, before allowance		57,738		12,292
Net charge-offs as a percentage of finance receivables		0.2 %		—

The Canadian Consumer Financing Segment's personnel expense was $1.5 million for the year ended December 31, 2023. This increased by $0.5 million from the prior year, and was primarily due to an average increase of five employees during the year ended December 31, 2023, to accommodate the larger portfolio and the segment's continued expansion in Canadian markets.

General and administrative expense was $1.5 million for the year ended December 31, 2023. This increased by $0.4 million from $1.1 million in the prior year, and was the result of costs related to increased originations and servicing a larger average portfolio size during the year.

The Canadian Consumer Financing Segment's operating loss totalled $1.7 million for the year ended December 31, 2023, compared to an operating loss of $1.4 million in the prior year, an increased loss of $0.3 million. This was the result of increases in interest expense, general and administrative expense and personnel expense offset by increased interest revenue.

Results for the three months ended December 31, 2023 and 2022:

The Canadian Consumer Financing Segment generated revenue of $2.3 million ($2.1 million interest revenue and $0.2 million ancillary finance and other fee income) during the three months ended December 31, 2023, an increase of $1.5 million ($1.4 million increase in interest revenue and a $0.1 million increase in ancillary finance and other fee income) from the same period in the prior year. The Canadian Consumer Financing Segment's average net investment in finance receivables (before allowance for ECL) increased approximately $49.4 million for the three months ended December 31, 2023, compared to the same period in the prior year. In addition, the average number of finance receivable contracts outstanding increased by 3,015 in the quarter ended December 31, 2023, compared to the same period in the prior year. The average annualized interest revenue yield earned on the Canadian Consumer Financing Segment's average net finance receivables (before allowance for ECL) decreased (to 11.4%) as the entity was building its portfolio in 2022 and 2023, resulting in fluctuating yields month over month.

Canadian Consumer Financing Segment	Three months ended			
($ thousands)	December 31, 2023		December 31, 2022	
Interest revenue on finance leases and loans	$	2,128	$	726
Annualized		x 4		x 4
Average NFR, before allowance		74,381		24,959
Interest revenue yield		11.4 %		11.6 %

The Canadian Consumer Financing Segment's provision for credit losses remained relatively constant compared to the same period in the prior year.

Canadian Consumer Financing Segment	Three months ended	
($ thousands)	December 31, 2023	December 31, 2022
Impact of loan book growth	$ (42)	$ 37
Impact of change in provision rate during the period	(9)	(10)
Change in allowance for ECL	(51)	27
Net charge-offs (recoveries)	33	—
Provision for credit losses	(18)	27
Average NFR, before allowance	74,381	24,959
Net charge-offs (annualized, x4) as a percentage of finance receivables	0.2 %	— %

The Canadian Consumer Financing Segment's interest expense increased by $1.6 million. This was due to an increase in average debt outstanding when compared to the same period in the prior year.

The Canadian Consumer Financing Segment's personnel expenses and general and administrative expenses were both $0.4 million for this period. Together, the expenses increased by $0.3 million compared to the same period in the prior year.

Overall, the Canadian Consumer Financing Segment's operating loss totalled $0.2 million for the three months ended December 31, 2023, compared to operating income of $0.3 million in the same period in the prior year. The decrease in operating income was the result of increased interest expense offset by increased revenues.

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 acquisition of Rifco enabled the Company to enter into the automotive financing market.

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

The Canadian Auto Financing Segment accounted for 15% of the Company's consolidated revenue for the year ended December 31, 2023. The segment's portfolio risk is mitigated by its diversification across geographies, vehicle types, dealers and credit classes. The segment had 108 full-time equivalent employees as at December 31, 2023 (107 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 continuing 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, 2023, the Canadian Equipment Financing Segment's gross finance receivables portfolio of $423.5 million, consisting of 19,644 loans, was well diversified:

- Nearly 93% of receivables are near-prime credit, with the remainder being non-prime credit. Geographical distribution includes 70% in Western Canada and 30% in Eastern Canada.
- No individual dealership makes up more than 2.7% 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.
- 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	Mar 31 2023	June 30 2023	Sep 30 2023	Dec 31 2023
Number of loans outstanding (#)	11,994	12,506	12,916	14,234	15,143	16,505	17,325	19,644
Gross loan receivables ("GLR")	$336,330	$348,729	$356,167	$370,838	$398,187	$411,123	$414,864	$423,522
Refundable application fees	$3,667	$3,866	$3,964	$4,128	$4,319	$4,495	$4,538	$4,694
Net finance receivables ("NFR"), before allowance	$217,110	$224,907	$231,198	$242,810	$254,102	$262,841	$264,703	$275,030
Allowance for ECL	$12,341	$13,359	$14,425	$13,158	$13,380	$13,624	$14,142	$15,571
Allowance for ECL as % of NFR	5.68%	5.94%	6.24%	5.42%	5.27%	5.18%	5.34%	5.66%
Over 31 days delinquency (% of NFR)	5.28%	7.25%	6.31%	5.48%	6.16%	5.66%	6.01%	6.33%
Net charge-offs (recoveries) for the three months ended	$(322)	$1,463	$2,332	$3,215	$3,530	$3,878	$3,600	$5,352
Provision for credit losses for the three months ended	$12,019(1)	$2,481	$3,398	$1,948	$3,752	$4,122	$4,118	$6,781

(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 15, 2022. Otherwise, the provision for credit losses for the three months ended March 31, 2022, would have been $2.7 million.

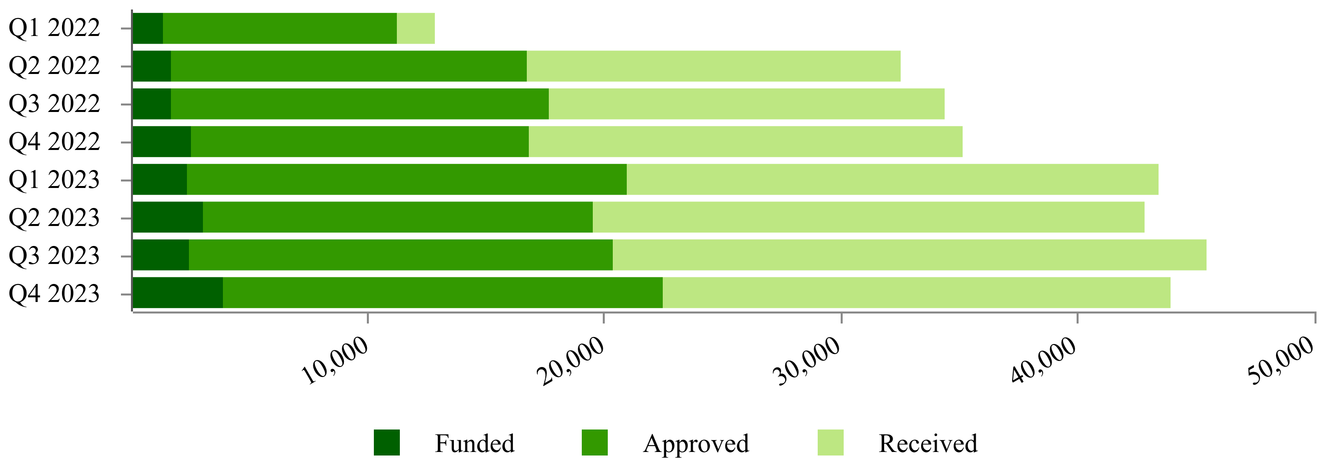
Canadian Auto Financing Segment Finance Receivable Aging Analysis

($ thousands)	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total
As at December 31, 2023	$ 226,783	$ 30,833	$ 9,770	$ 4,038	$ 3,606	$ 275,030
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, 2023
0-1 year	$ 92,543
1-2 years	87,151
2-3 years	77,626
3-4 years	62,945
4-5 years	51,190
Over 5 years	52,067
Total minimum payments	$ 423,522

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



The volumes table above includes information on contracts that were originated by the Canadian Auto Financing Segment and sold to investors.

“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 approved applications that become actual loan transactions through the segment's financing of the customer’s auto purchase. Management regularly reviews 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 the Canadian Auto Finanicng Segment's market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of applicants. Applications prior to the acquisition of Rifco on January 15, 2022, are not included.

Results for the year ended December 31, 2023 and 2022

The following table is a summary of select metrics and results for the Canadian Auto Financing Segment for the years ended December 31, 2023, and December 31, 2022 :

($ thousands)	Year ended December 31, 2023	 December 31, 2022
Interest revenue on finance leases and loans	$ 45,333	40,300
Operating income (loss)	643	(549)
Finance receivables, net of allowance for ECL	259,459	229,652
Originations	146,339	132,913
Interest revenue yield	17.4 %	17.9 %
Net charge-offs as a percentage of finance receivables (before allowance for ECL)	6.3 %	3.0 %

During the year ended December 31, 2023, the Canadian Auto Financing Segment generated revenue of $48.5 million ($45.3 million interest revenue and $3.2 million ancillary finance and other fee income) compared to $41.9 million ($40.3 million interest revenue and $1.6 million ancillary finance and other fee income) during the prior year, an increase of $6.6 million. This was due to an increase in the portfolio as the segment's average net investment in finance receivables (before allowance for ECL) of $35.3 million compared to the prior year partially offset by a decrease in the interest yield. The annual interest revenue yield earned on the Canadian Auto Financing Segment's net finance receivables during the year ended December 31, 2023, was 17.4%, a decrease of 0.5% compared to 17.9% during the prior year.

Canadian Auto Financing Segment *($ thousands)*	Year Ended December 31, 2023	 December 31, 2022
Interest revenue on finance leases and loans	$ 45,333	$ 40,300
Average NFR, before allowance	259,897	224,575
Interest revenue yield	17.4 %	17.9 %

The Canadian Auto Financing Segment's interest expense was $13.6 million during the year ended December 31, 2023, an increase of $3.8 million compared to the prior year. This was due to an increase in interest rates and an increase in average borrowings outstanding of approximately $24.3 million when compared to the prior year.

The Canadian Auto Financing Segment's provision for credit losses was $18.8 million for the year ended December 31, 2023, a decrease of $1.1 million compared to the prior year. The change was mainly driven by a decrease in the change in allowance for ECL of $10.7 million offset by an increase in net charge-offs of $9.7 million. The decrease in the change in allowance for ECL is mainly related to the impact of the one-time "day 2" provision of $9.3 million recognized on the acquisition of Rifco in 2022. The charge-offs were mainly driven by increased delinquencies as a result of the current economic environment. This is reflected in the Canadian Auto Financing Segment's average 31 days past due delinquency increasing to 5.9% for the year ended December 31, 2023, compared to 6.1% in the prior year.

Canadian Auto Financing Segment	Year ended	
($ thousands)	December 31, 2023	December 31, 2022
Impact of loan book growth	$ 1,746	$ 1,491
Impact of change in provision rate during the year	667	2,361
Business combination	—	9,306
Change in allowance for ECL	2,413	13,158
Net charge-offs	16,360	6,688
Provision for credit losses	18,773	19,846
Average NFR, before allowance	259,897	224,575
Net charge-offs as a percentage of finance receivables	6.3 %	3.0 %

The Canadian Auto Financing Segment's personnel expenses including share based compensation were $8.6 million for the year ended December 31, 2023, an increase of $1.5 million compared to the prior year. This is due to an increase of six in the average number of employees and market-related wage inflation. General and administrative expenses for the year ended December 31, 2023, were $6.4 million, an increase of $1.2 million compared to the prior year due to increases in collection and origination expenses.

Overall, the Canadian Auto Financing Segment's operating income totalled $0.6 million during the year ended December 31, 2023, compared to a loss of $0.5 million during the prior year. The increase is due to the absence of the change in allowance for ECL relating to the one-time "day 2" provision of $9.3 million noted above, offset by higher net charge-offs.

Results for the three months ended December 31, 2023 and 2023

During the three months ended December 31, 2023, the Canadian Auto Financing Segment generated revenue of $12.5 million ($11.9 million interest revenue and $0.6 million ancillary finance and other fee income) compared to $11.3 million ($10.8 million interest revenue and $0.5 million ancillary finance and other fee income) during the same period in the prior year. The segment's average net investment in finance receivables (before allowance for ECL) was $269.9 million for the three months ended December 31, 2023, compared to $237.0 million during the same period in the prior year, an increase of $32.9 million. The annualized interest revenue yield earned on the Canadian Auto Financing segment's net finance receivables was 17.6% during the period, a decrease of 0.7% compared to the same period in the prior year.

Canadian Auto Financing Segment	Three months ended	
($ thousands)	December 31, 2023	December 31, 2022
Interest revenue on finance leases and loans	$ 11,861	$ 10,839
Annualized	x 4	x 4
Average NFR, before allowance	269,867	237,004
Interest revenue yield	17.6 %	18.3 %

During the three months ended December 31, 2023, the Canadian Auto Financing Segment's interest expense was $3.7 million compared to $2.8 million in the same period in the prior year. The increase of $0.9 million is due to an increase in interest rates and an increase in average debt outstanding of approximately $31.6 million during the three months ended December 31, 2023.

The Canadian Auto Financing Segment's provision for credit losses were $6.8 million for the three months ended December 31, 2023, an increase of $4.8 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 net charge-offs of $2.1 million and an increase in the change in allowance for ECL of $2.7 million. The change in allowance for ECL increased due to provision rates as management maintains a conservative outlook for the automobile lending industry for the next 12 months. The Canadian Auto Financing Segment's 31 days past due delinquency at December 31, 2023, increased to 6.3%% compared to 5.5% as at December 31, 2022.

Canadian Auto Financing Segment	Three months ended	
($ thousands)	December 31, 2023	December 31, 2022
Impact of loan book growth	$ 558	$ 517
Impact of change in provision rate during the period	871	(1,784)
Change in allowance for ECL	1,429	(1,267)
Net charge-offs	5,352	3,215
Provision for credit losses	6,781	1,948
Average NFR, before allowance	269,867	237,004
Net charge-offs (annualized, x4) as a percentage of finance receivables	7.9 %	5.4 %

The Canadian Auto Financing Segment's personnel expenses and general and administrative expenses remained relatively flat for the three months ended December 31, 2023, compared to the same period in the prior year.

Overall, the Canadian Auto Financing Segment's operating loss totaled $1.9 million for the three months ended December 31, 2023, a decrease of $4.6 million compared to the same period in the prior year. The decreased operating income was mainly due to the increased provision for credit losses and interest expense partially offset by higher revenues.

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 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, Portfolio Manager and Exempt Market Dealer in several Canadian provinces.

Since launch, the Asset Management Segment has entered into multiple agreements with investors, whereby investment entities would acquire loan and lease receivables originated by Chesswood's operating subsidiaries that meet the requirements for derecognition under IFRS 9. Under these agreements, the Asset Management Segment charges fees to the investors for the delivery and management of these receivables. The funds from these arrangements enable Chesswood's subsidiaries to continue growing originations alongside market demand by providing off-balance sheet funding and associated fee-based revenue to Chesswood, augmenting Chesswood's existing on-balance sheet facilities.

The Asset Management Segment accounted for 3% of consolidated revenue for the year ended December 31, 2023. The segment had seven full-time equivalent employees as at December 31, 2023 (nine full-time employees as at December 31, 2022).

During the year ended December 31, 2023, the Asset Management Segment facilitated finance receivable sales under agreements with investment managers and financial institutions for $150.8 million (December 31, 2022 - $270.1 million). The sales were non-recourse for leases and loans originated by various Chesswood subsidiaries. The segment recognized total revenues of $10.5 million for the year ended December 31, 2023, compared with $9.3 million generated in the prior year. 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. Overall, the Asset Management Segment's operating income was $7.0 million during the year ended December 31, 2023, compared with $5.3 million recorded in the prior year.

For the three months ended December 31, 2023, the Asset Management Segment generated $0.4 million of revenue from fees charged compared to $1.9 million generated in the prior year. The segment facilitated the sale of $1.9 million of receivables during the three months ended December 31, 2023 (December 31, 2022 - $45.2 million). The Asset Management Segment's operating loss was $0.7 million for the three months ended December 31, 2023, compared to an operating income of $1.3 million in the same period in 2022.

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				2022				2023
($ thousands)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net income (loss)	$ 1,679	$ 9,651	$ 12,296	$ 6,790	$ 957	$ 1,847	$ 110	$(35,714)
Interest expense	12,087	17,133	17,284	26,875	30,957	28,661	32,111	32,192
Income tax expense (recovery)	1,098	5,910	3,728	3,027	611	(468)	580	(5,000)
Goodwill and intangible asset impairment	—	—	—	—	—	—	—	22,886
Amortization and depreciation	1,024	1,025	1,137	1,014	1,119	1,176	1,172	1,078
EBITDA (1)	15,888	33,719	34,445	37,706	33,644	31,216	33,973	15,442
Interest expense	(12,087)	(17,133)	(17,284)	(26,875)	(30,957)	(28,661)	(32,111)	(32,192)
Non-cash revaluation of option liability	(1,572)	608	(5,590)	(1,198)	(169)	(3,239)	—	—
Non-cash change in finance receivables allowance for ECL(2)	17,073	4,313	3,542	1,834	5,108	(556)	3,472	6,609
Share-based compensation expense	650	1,067	1,075	891	527	876	878	759
Unrealized loss (gain) on foreign exchange	(59)	513	549	461	(256)	163	653	(1,219)
Adjusted EBITDA (1)(2)	19,893	23,087	16,737	12,819	7,897	(201)	6,865	(10,601)
Maintenance capital expenditures	(196)	(265)	(26)	(423)	(202)	(75)	(69)	(147)
Income tax impact of non-cash change in allowance for ECL(2)	(3,391)	(1,167)	(1,027)	(563)	(1,355)	173	(887)	(1,830)
Income tax (expense) recovery	(1,098)	(5,910)	(3,728)	(3,027)	(611)	468	(580)	5,000
Free Cash Flow (FCF)(1)(2)	$ 15,208	$ 15,745	$ 11,956	$ 8,806	$ 5,729	$ 365	$ 5,329	$ (7,578)
FCF per diluted share	$ 0.73	$ 0.75	$ 0.57	$ 0.42	$ 0.28	$ 0.02	$ 0.26	($0.38)
FCF L4PQ divided by 4 (1)(3)	$ 8,393	$ 11,256	$ 13,156	$ 13,599	$ 12,929	$ 10,559	$ 6,714	$ 5,057
Maximum Permitted Dividends (1)(3)	$ 7,553	$ 10,130	$ 11,841	$ 12,239	$ 11,636	$ 9,503	$ 6,043	$ 4,551
Dividends declared (4)	$ 2,009	$ 2,425	$ 2,436	$ 2,414	$ 3,014	$ 3,016	$ 2,214	$ 606

(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" in this MD&A 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 include 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 Company's compliance with the terms of its 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. The FCF L4PQ, in any one quarter, is the basis for the monthly Maximum Permitted Dividends in that quarter (1/12 of 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 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. On September 18, 2023, the Company announced a decrease to its dividend per share to $0.01 per month (or $0.12 per year) effective September 29, 2023. On January 22, 2024, the Company announced a suspension of the monthly dividend. See "Liquidity and Capital Resources - Dividends to Shareholders" below.

STATEMENT OF FINANCIAL POSITION

The total consolidated assets of the Company as at December 31, 2023, were $2.2 billion, a decrease of $319.4 million from December 31, 2022. The U.S. dollar exchange rate on December 31, 2023, was 1.3255, compared to 1.3544 as at December 31, 2022. The decrease in the foreign exchange rate represents a decrease of $30.6 million in assets.

Cash totalled $13.0 million as at December 31, 2023, an increase of $4.9 million from December 31, 2022. 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. See the "Liquidity and Capital Resources" section of this MD&A for a discussion of cash movements during the years ended December 31, 2023 and 2022.

Restricted funds represent cash reserves and cash in collection accounts. Cash reserves are held in trust as security for the U.S. Equipment Financing Segment, Canadian Equipment Financing Segment, Canadian Consumer Financing Segment and Canadian Auto Financing Segment secured borrowings. Cash collection accounts are required by lenders of certain financial assets that can only be used to repay these debts on specific dates. The 'cash in collections accounts' is applied to the outstanding borrowings in the following month. See Note 9(f) - *Borrowings* in the audited consolidated financial statements for further details.

Other assets totalled $24.2 million as at December 31, 2023, an increase of $15.6 million from December 31, 2022. The year over year change is mainly related to a $2.8 million increase in sales taxes receivables, a $1.8 million increase related to Easy Legal (which was acquired in 2023), and the recognition of an interest-only strip receivable of $3.1 million related to the non-recourse sale of finance receivables earned at the time of sale pertaining to fees earned for managing the financial assets over the life of the derecognized finance receivables.

The Company had current tax receivables of $7.0 million, an increase from $2.3 million as at December 31, 2022, as the installments certain segments paid to tax authorities exceeded the current tax expense incurred during the year ended December 31, 2023.

Net finance receivables consist of the following:

Period-end FX rate	1.3255	1.3544
($ thousands)	December 31, 2023	December 31, 2022
U.S. equipment finance receivables	**$ 1,076,254**	$ 1,332,452
Canadian equipment finance receivables	**600,898**	$ 730,384
Canadian automotive finance receivables	**259,459**	229,652
Canadian consumer finance receivables	**64,894**	$ 31,770
Corporate finance receivables	**10,210**	6,000
	$ 2,011,715	$ 2,330,258

($ thousands)	December 31, 2023	December 31, 2022
Opening gross finance receivables	**$ 2,839,733**	$ 1,678,952
Gross loan originations	**1,192,217**	1,737,840
Gross loans acquired from business combination	**—**	329,270
Principal payments, collections from sale of assets and adjustments	**(1,430,419)**	(873,868)
Charge-offs	**(87,647)**	(32,461)
Ending gross finance receivables	**$ 2,513,884**	$ 2,839,733

Net finance receivables decreased by $318.5 million, or 13.7%, during the year ended December 31, 2023. The decrease in the foreign exchange rate compared to December 31, 2022, decreased the U.S. finance receivables by $28.4 million. The decrease in net finance receivables was mainly driven by off-balance sheet sales, lower originations and greater charge-offs. During the year ended December 31, 2023, $454.9 million of U.S. and Canadian finance receivables were sold under such arrangements.

The $2.0 billion in finance receivables is net of $64.5 million in allowance for ECL as at December 31, 2023, compared to $50.7 million in allowance for ECL as at December 31, 2022, an increase of $13.8 million. The allowance for ECL as a percentage of finance receivables (before allowance for ECL) increased by 0.9% to reflect a more conservative outlook based on the current and forward-looking macroeconomic factors due to market uncertainties.

The Company's finance receivables are separated into four main distinct categories: U.S. equipment leases and loans, Canadian equipment leases and loans, Canadian consumer loans and Canadian auto loan receivables. Each of the categories is comprised of a large number of homogenous receivables, with relatively small balances. Thus, the evaluation of ECL is performed separately on the categories. Within the subsets, ECL is assessed collectively for the portfolio.

The measurement of allowance for ECL 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 for the years ended December 31, 2023 and December 31, 2022, respectively, were determined as follows:

	For the year ended	
($ thousands)	December 31, 2023	December 31, 2022
Opening allowance for ECL	**$ 50,680**	**$ 22,393**
Net recoveries (charge-offs)	**(72,525)**	**(17,553)**
Provision for credit losses	**87,158**	**44,315**
Foreign exchange	**(841)**	**1,525**
Ending allowance for ECL	**$ 64,472**	**$ 50,680**
Finance receivables	**$ 2,011,715**	**$ 2,330,258**
Allowance for ECL as a percentage of finance receivables (before allowance for ECL)	**3.1 %**	**2.2 %**

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 they become 120 days contractually past due and there is no realistic prospect of recovery. The Canadian Auto Financing Segment 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 $4.8 million, from $7.2 million as at December 31, 2022, to $12.0 million as at December 31, 2023. This was mainly driven by the increase in the corporate deferred tax asset. The deferred tax asset is based on temporary tax differences and non-capital loss carryforwards.

Intangible assets totalled $20.1 million as at December 31, 2023, compared to $27.5 million as at December 31, 2022, a $7.4 million decrease. Easy Legal, acquired $3.5 million of intangible assets (trade names, customer relationships and software), on its purchase of Easy Legal Finance Inc.'s operating business (refer to Note 24 - *Business Combinations* in the audited consolidated financial statements for more detail). This increase was partially offset by amortization of $2.8 million and $8.4 million of impairment losses, which were incurred on the U.S. Equipment Financing Segment's and Canadian Equipment Financing Segment's indefinite life trade names and the Canadian Equipment Financing Segment's finite-life relationships (refer to Note 7 - *Intangible Assets)*. In Q4 2023, the Company assessed its intangible assets as part of its annual impairment assessment for the year ended December 31, 2023. The U.S. Equipment Financing Segment's impairments are the result of increased costs of funding, which have affected the general business climate and levels of economic activity. In the Canadian Equipment Financing Segment, the intangibles of Blue Chip have been fully impaired as the entity's portfolio has become insignificant due to the successful amalgamation with Vault Credit. The remaining 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 $33.5 million as at December 31, 2023, a decrease of $14.6 million compared to December 31, 2022. The decrease was the result of the entity's annual impairment assessment during the fourth quarter of 2023, which identified goodwill impairment in the U.S. Equipment Financing Segment of $14.5 million. The U.S. Equipment Financing Segment's impairment was the result of increased costs of funding, which have affected the general business climate and levels of economic activity. See Note 8 - *Goodwill* in the audited consolidated financial statements for more detail.

Accounts payable and other liabilities totalled $41.9 million as at December 31, 2023, compared to $43.9 million as at December 31, 2022, a decrease of $2.0 million. The main driver of this decrease was lower vendor payables as a result of decreased originations compared to the prior year.

During the year ended December 31, 2023, there was a net decrease of $3.4 million in the option liability established upon the merger of Blue Chip and Vault Credit, as a result of a decrease in the underlying net assets used to value the liability. See Note 2 - *Material Accounting Policy Information* of the audited consolidated financial statements for the year ended December 31, 2023, for further detail on the option liability.

Borrowings totalled $2.0 billion as at December 31, 2023, a decrease of $268.1 million since December 31, 2022. The U.S. Equipment Financing Segment's debt decreased $228.1 million, the Canadian Equipment Financing Segment's debt decreased by $118.4 million, the Canadian Consumer Finance Segment's debt increased by $37.9 million and the Canadian Auto Segment's debt increased by $25.8 million, and the drawdown under the Chesswood revolving credit facility increased by $11.2 million. Deferred financing costs decreased by $3.5 million since December 31, 2022.

Deferred tax liabilities as at December 31, 2023, totalled $23.3 million compared to $26.9 million as at December 31, 2022, a decrease of $3.6 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 bases.

As at December 31, 2023, there were 18,309,104 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of $133.5 million. During the year ended December 31, 2023, 143,611 restricted share units ("RSUs") and 12,500 options were exercised and 533,332 special warrants were automatically exercised.

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. From January 25, 2023, to December 31, 2023, the Company did not repurchase any shares under the normal course issuer bid.

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 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 per share dividends as are paid on 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 19,787,641 common shares outstanding as at December 31, 2023.

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 2 - *Material Accounting Policy Information* of the audited consolidated financial statements for the year ended December 31, 2023. Finally, there is a 49% non-controlling interest in Vault Home that 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, 2023. There were 1,303,050 options and 687,341 RSUs outstanding as at December 31, 2023.

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 and 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 throughout the year ended December 31, 2023.

As at December 31, 2023, the Company had the following facilities:

(a) Chesswood revolving credit facility

On December 12, 2023, the revolving credit facility was amended to US$300 million down from US$386.7 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, fixed charge coverage and delinquency ratios, and expires on January 14, 2025. As at December 31, 2023, the Company was utilizing US$247.2 million (December 31, 2022 - US$236.1 million) of its credit facility and had approximately US$52.8 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, 2023, was 8.74% (including amortization of origination costs) (year ended December 31, 2022 - 4.91%).

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 and provides for Chesswood’s working capital and general corporate needs. 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 facility is 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.

(b) U.S. Equipment Financing Segment

(i) The U.S. Equipment Financing Segment has a credit facility, with a US$120 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, 2023, was US$171.7 million (December 31, 2022 - US$112.8 million). Based on average debt levels, the effective interest rate for the year ended December 31, 2023, was 5.57% (including amortization of origination costs) (year ended December 31, 2022 - 3.91%).

(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. Pawnee repaid the remaining balance fully in June 2023 (December 31, 2022 - US$37.2 million). Based on average debt levels, the effective interest rate was 3.77% for the year ended December 31, 2023 (including amortization of origination costs) (year ended December 31, 2022 - 3.47%).

(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's 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, 2023, was US$20.2 million (December 31, 2022 - US$45.9 million). The effective interest rate was approximately 3.93% for the year ended December 31, 2023 (including amortization of origination costs) (year ended December 31, 2022 - 3.29%).

(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, 2023, was US$133.6 million (December 31, 2022 - US$222.0 million). The effective interest rate was approximately 2.38% for the year ended December 31, 2023 (including amortization of origination costs) (year ended December 31, 2022 - 1.90%).

(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, 2023, was US$218.3 million (December 31, 2022 - US$313.1 million). The effective interest rate was approximately 5.89% for the year ended December 31, 2023 (including amortization of origination costs) (year ended December 31, 2022 - 5.85% since the inception of the facility).

(vi) The U.S. Equipment Financing Segment has a US$250 million revolving warehouse loan facility that was established in May 2021 specifically to fund its growing prime and near-prime portfolio. During the year ended December 31, 2023, Chesswood right-sized the facility based on the expected usage over the next 12 months. The warehouse facility holds the U.S. Equipment Financing Segment's prime receivables before they are securitized and are 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, 2023, the balance of this facility was US$79.6 million (December 31, 2022 - US$44.8 million). The effective interest rate for the year ended December 31, 2023 was approximately 8.25% (including amortization of origination costs) (year ended December 31, 2022 - 3.93%).

(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. The investment fund is structured as a limited partnership with the Company indirectly 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, 2023, was US$28.0 million (December 31, 2022 - US$30.0 million). Based on average debt levels, the effective return provided to the private credit investors for the year ended December 31, 2023, was 13.39% (including amortization of origination costs) (year ended December 31, 2022 - 14.41%).

(viii) As at December 31, 2023, 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 (unchanged from December 31, 2022).

(c) Canadian Equipment Financing Segment

As at December 31, 2023, 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, 2023, Vault Credit continues to service these finance receivables on behalf of the Funders.

(i) As at December 31, 2023, Vault Credit had access to the following lines of funding:
- (a) $300 million rolling limit line from a financial institution.
- (b) Approved funding from another financial institution with no annual or rolling limit.

In February 2024, the $200 million annual limit from a life insurance company, which expired in November 2023, was extended to May 2024.

As at December 31, 2023, Vault Credit had $512.0 million (December 31, 2022 - $629.2 million) in securitization and bulk lease financing facilities debt outstanding. Vault Credit had access to at least $114.2 million of additional financing from its securitization partners (December 31, 2022 - $363.3 million).

The interest rates on the lines of funding noted above 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, 2023, was 5.00% for Vault Credit (year ended December 31, 2022 - 3.69%).

(ii) Vault Credit entered into arrangements on December 14, 2021, under which Vault Credit Opportunities Fund ("VCOF") (an entity controlled by Daniel Wittlin, an officer and director of Vault Credit and Canadian Holdco and a director of Chesswood) 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, 2023, was $0.7 million (December 31, 2022 - $2.0 million). VCOF earns a yield equivalent to the interest on the underlying loans.

(iii) As at December 31, 2023, Vault Credit had provided $8.6 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2022 - $14.9 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 Consumer Financing Segment

(i) In 2023, Vault Home obtained a line of funding with a $80 million annual limit from a life insurance company. As at December 31, 2023, Vault Home had $37.9 million (December 31, 2022 - n/a) in securitizations and bulk lease financing facilities debt outstanding. Vault Home had access to at least $67.9 million of additional financing from its securitization partner (December 31, 2022 - n/a). Based on average debt levels, the interest rate during the year ended December 31, 2023, was 6.37% for Vault Home (year ended December 31, 2022 - n/a).

(ii) As at December 31, 2023, Vault Home had provided $1.0 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2022 - n/a). Vault Home 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.

(e) Canadian Auto Financing Segment

(i) As at December 31, 2023, Rifco had access to the following lines of funding:
(a) $120 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, 2023, Rifco had $237.6 million outstanding on its securitization facilities (December 31, 2022 - $208.3 million). Rifco had access to at least $79.2 million of additional financing from its securitization partners (December 31, 2022 - $38.9 million). Based on average debt levels, the effective interest rate during the year ended December 31, 2023, was 5.41% (including amortization of origination costs) (December 31, 2022 - 4.48% since acquisition).

(ii) Unsecured debentures

Rifco has unsecured debentures which were issued prior to its acquisition by Chesswood that allow Rifco the right to redeem the debentures in the last year of their terms without penalty. The unsecured debenture holders do not have early retraction rights and have no conversion rights. 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 throughout the year ended December 31, 2023. The unsecured debentures have maturity dates that go out until August 2026.

As at December 31, 2023, Rifco had $3.9 million in unsecured debentures outstanding (December 31, 2022 - $7.5 million). Based on average debt levels, the effective interest rate during the year ended December 31, 2023, was 8.08% (December 31, 2022 - 8.81% since acquisition).

(iii) As at December 31, 2023, Rifco had provided $6.6 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2022 - $5.1 million).

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 and restricted funds acquired on business combinations and payments relating to the purchase of property, equipment and software. Cash flow from financing activities comprises changes in borrowings, payment of financing costs, payment of lease obligations, payment of dividends, proceeds from the exercise of stock options and the repurchase of outstanding common shares.

For the year ended December 31, 2023

During the year ended December 31, 2023, there was a decrease in cash and restricted funds of $2.8 million compared to an increase in cash of $4.9 million in the prior year as a result of the reasons discussed below.

The Company's U.S. and Canadian equipment finance receivables both have an average remaining term of approximately 35 months, and the Canadian Auto Financing Segment has an expected realized term of approximately 28 months. The U.S. and Canadian equipment finance receivables will both generate earnings over the next 35 months. The Company's Canadian Auto finance receivables are expected to generate earnings over the next 28 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 receivables portfolio. The funds borrowed (or repaid) to support the growth (retraction) in the finance receivables is shown under Financing Activities.

The Company's operations generated $264.9 million of cash and restricted funds during the year ended December 31, 2023, compared to $591.2 million of cash and restricted funds used in the prior year, an increase in cash generated of $856.1 million compared to the prior year.

The net cash and restricted funds generated to fund the growth in finance receivables (funds advanced, recoveries on amounts previously charged off, origination costs, security deposits and principal payments) totalled $157.1 million for the year ended December 31, 2023, compared to the utilization of $720.1 million in the prior year, an increase of $877.2 million in cash and restricted funds generated.

The Company repaid $249.1 million of borrowings during the year ended December 31, 2023. In the prior year, the Company funded growth in finance receivables from net borrowings of $614.3 million.

During the year ended December 31, 2023, the Company had net tax payments of $7.0 million compared to net tax payments of $19.2 million during the prior year, a decrease in taxes paid of $12.2 million.

Proceeds from the exercise of options were $0.1 million during the year ended December 31, 2023, and no cash was utilized to repurchase common shares under the Company's normal course issuer bid. Analogous amounts for the year ended December 31, 2022, were $0.9 million and $5.7 million, respectively.

The Company paid $9.6 million of dividends to the holders of its common shares, Exchangeable Securities and special warrants during the year ended December 31, 2023, compared to $8.8 million paid in the prior year.

Cash and restricted funds used in investing activities were $4.0 million during the year ended December 31, 2023. This is related to Easy Legal, a subsidiary of the Company, which acquired the operating business of Easy Legal Finance Inc. on February 13, 2023, for $3.5 million. An additional $0.5 million was paid for capital expenditures. For the year ended December 31, 2022, the net cash received on acquisition was $0.5 million as a result of the cash and restricted funds received from the acquisition of Rifco being partially offset by the cash paid for the acquisition of Waypoint. The $0.5 million net cash received on acquisition was further offset by capital expenditures of $0.9 million. As such, the cash used in investing activities was $0.4 million for the year ended December 31, 2022.

Chesswood expects that current operations and planned capital expenditures of its subsidiaries for the foreseeable future 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 and 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 and throughout the year ended December 31, 2023.

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 that 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, 2023, US$52.8 million was available under the US$300.0 million facility (utilizing US$247.2 million), which included US$16.2 million of letters of credit.

Dividends to Shareholders

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. On September 18, 2023, the Company announced a decrease to its dividend per share to $0.01 per month (or $0.12 per year), effective September 29, 2023. On January 22, 2024, the Company announced a suspension of the monthly dividend.

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 and 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 (including interest) as at December 31, 2023:

($ thousands)		2024	2025	2026	2027	2028	2029+	**Total**
Accounts payable and other liabilities		$ 41,851	$ —	$ —	$ —	$ —	$ —	**$ 41,851**
Premise leases payable	*(i)*	1,116	1,129	1,182	888	736	268	**5,319**
Borrowings	*(ii)*	762,907	932,124	319,204	86,075	40,180	3,413	**2,143,903**
Customer security deposits	*(iii)*	515	141	339	236	30	20	**1,281**
		806,389	933,394	320,725	87,199	40,946	3,701	**2,192,354**
Service contracts		4,908	2,875	2,421	1,609	1,560	1,486	**14,859**
Total commitments		$811,297	$936,269	$323,146	$ 88,808	$ 42,506	$ 5,187	**$ 2,207,213**

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 2029. The amounts above exclude adjustments for discounting premise leases payable.

b. Borrowings are described in Note 9 - *Borrowings*, and include fixed payments for the U.S. Equipment Financing Segment, Canadian Equipment Financing Segment, Canadian Consumer Financing Segment and 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, the Canadian Equipment Financing Segment's, the Canadian Consumer Financing Segment'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, 2023, 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.

See Note 6(b) - *Finance Receivables* of the audited consolidated financial statements for the minimum scheduled collections of finance receivables over the same time period. Also see Note 9(f) - *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 audited consolidated statements of financial position as at December 31, 2023, other than US$16.2 million in letters of credit (December 31, 2022 - US$18.8 million).

OUTLOOK

U.S. credit conditions remained weak throughout the fourth quarter of 2023. We have seen these same trends across our peers, who have experienced similar portfolio performance – particularly in the transportation vertical. The first half of 2024 is likely to remain challenging as we continue to work through the 2022 loan vintage. However, we remain optimistic for the latter half of 2024 given the potential tailwinds that could come from lower interest rates and better portfolio performance.

Following year end, we completed our first sale of receivables to the joint venture company which Wafra created with us. This new structure allows Chesswood to allocate capital to the joint venture company, thereby earning returns on equity in addition to fees for assets managed. We expect to continue scaling assets in this joint venture company to at least US$1 billion over the next several years.

As a result of our ongoing emphasis towards asset management, we expect a substantial portion of our originated assets to be held in off-balance sheet structures going forward, thereby enabling us to invest equity with partners or in new opportunities, all while our operating companies receive a steady fee stream.

While we remain cautious on general economic conditions, we have taken the necessary steps to position the company to capitalize on future business opportunities.

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 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 PLUS (the System for Electronic Document Analysis and Retrieval) at www.sedarplus.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 operate, which may impact Chesswood's operations or results.

Of particular note are the significant potential continuing impact of the COVID-19 pandemic, the military conflicts in Ukraine and the Middle East 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 are receivables from start-up businesses that have not established business credit or more established businesses that have experienced some business or personal credit difficulty at some time in their 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, Vault Credit, Vault Home, Easy Legal 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 for Easy Legal, law firms) 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 (and for Easy Legal, a limited number of law firms).

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, Easy Legal and the Asset Management Segment.

Risk of Future Legal Proceedings

Our operating companies are threatened from time to time with, 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 businesses, financial conditions 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 laws 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 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, 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, Vault Credit, Vault Home, Easy Legal 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) that 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 that might increase the costs of compliance, or require them to alter their respective business, strategy or operations, in a fashion that could hamper their 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 its 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 its 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 Vault Credit, Vault Home, Easy Legal 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 the victims 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. Easy Legal faces similar risks with respect to information provided by lawyers and plaintiffs.

Legal Finance Risks

Additional specific risks faced by Easy Legal include (among others) the uncertainty of outcome of cases and uncertainty in the timing of litigation settlement and awards.

Protection of Intellectual Property

Chesswood's operating subsidiaries continually develop and improve their brand recognition and proprietary systems and processes, which are important factors in maintaining a competitive market position. No assurance can be given that competitors will not independently develop substantially similar branding, systems or processes. 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 portfolios 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).

Strategic Review

On January 18, 2024 the Corporation announced that the Board would be undertaking a strategic review to seek to maximize Shareholder value.

The strategic review process, including internal and external discussions and other potential activities, could require management and the Board to temporarily divert attention from other potential endeavors. As well, there can be no assurance that the strategic review will result in any transaction(s) or other strategic changes.

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 management 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 management believes 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 lifetime expected net credit losses is recognized.

The Company's finance receivables are separated into four distinct categories: U.S. equipment leases and loans, Canadian equipment leases and loans, Canadian consumer loans and Canadian auto loan receivables. Each of the categories is 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 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 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 they become 120 days contractually past due and 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 the Company 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, the Canadian Equipment Financing Segment 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 fair value, which is estimated using a discounted cash flow model. The cash flows are derived from budgets for the next four or 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 recoverable amount 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 the 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 bases. 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) the U.S. Equipment Financing Segment and the Canadian Equipment Financing Segment 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, 2023, year

There have been no new standards issued that are effective as of January 1, 2023. The following amendments apply for the first time in 2023, but do not have a significant impact on the audited consolidated financial statements of the Company.

Amendments to IFRS 7, Financial Instruments: Disclosures

The amendments provide clarification on disclosing material accounting policy information regarding the measurement bases for financial instruments.

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates, and Errors

The amendments provide a definition of "accounting estimate" and clarifies the difference between accounting policies and accounting estimates.

Amendments to IAS 12, Income Taxes

The amendments provide clarification on how companies account for deferred taxes that arise on single transactions such as leases and decommissioning obligations.

Amendments to IAS 1, Presentation of Financial Statements, and IFRS Practice Statement 2, Making Materiality Judgements

The amendments provide 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.

New standards, interpretations and amendments issued but not yet effective

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

Amendments to IAS 1, Presentation of Financial Statements
The amendments provide 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 amendments when they become effective.

Amendments to IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures
The amendments provide guidance on accounting for upstream and downstream sales or contribution of assets between an investor and its associate, or joint venture and the associated disclosure requirements. The Company will adopt the amendments when they become effective.

RELATED PARTY TRANSACTIONS

See Note 20 - *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, 2023, 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 were operating effectively as at December 31, 2023.

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, an Internal Control over Financial Reporting ("ICFR") Framework 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, 2023, 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 ICFR and have concluded that the Company's ICFR was operating effectively as at December 31, 2023.

During the quarter ended December 31, 2023, 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.

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 that: (i) 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 Nomination and ESG Committee to better understand Chesswood's current standing.

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

In 2023, Chesswood continued to build on its ESG practices and framework, while putting forth expectations and initiatives throughout the organization to meet their goals amongst the four pillars as outlined below.

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.

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 Auto 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.

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.

To build on this employee related social relationships, Chesswood conducted its inaugural global people survey to all employees of the organization including those at each subsidiary. The people survey was designed to better understand and help pin point areas of high satisfaction and areas of improvement throughout the organization.

Within their local communities, Chesswood's operating companies endeavour to build stronger local connections and deliver continuous support, even during times of economic uncertainty.

For 2023, Chesswood donated close to $75,000 to several deserving charities. During 2023, Chesswood held a food drive and devoted a day to compile and bring the food collected to a local food bank. Furthermore, the Canadian Auto Financing Segment continued to hold several charity initiatives including draws, bake sales, employee charitable donations, and a well-attended charity golf tournament. As a result, $68,000 in donations were raised and donated to the Central Alberta Child Advocacy Centre, an increase of 31% from 2022.

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, 14% of its directors are women and over 71% are independent directors. Last year, the Board’s Nomination and 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.

The mandate of the Nomination and ESG Committee includes: "Oversee the Corporation’s program regarding ESG, including its policies, programs, and strategies regarding environmental, social and governance matters significant to the Corporation and the public. This includes matters of environmental significance such as sustainability and compliance with environmental regulations; matters of corporate social responsibility such as criteria for investment, the Corporation’s community development, investment activities and performance, and support of small to mid-sized businesses, charitable organizations and partnerships".

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 businesses. 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 that 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 during the year ended December 31, 2023.

	Common Shares		
	High	Low	Average Daily Volume
January	$11.56	$10.86	10,857
February	$12.00	$10.85	14,058
March	$12.05	$8.51	32,487
April	$9.35	$8.40	14,142
May	$8.65	$7.91	6,445
June	$8.27	$7.66	6,309
July	$8.57	$7.62	24,095
August	$8.37	$6.40	8,159
September	$7.13	$6.46	15,160
October	$7.25	$5.40	7,105
November	$7.05	$5.98	8,436
December	$8.26	$6.99	11,695
	$12.05	$5.40	13,246

Chesswood Group Limited

Consolidated Financial Statements

December 31, 2023

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, 2023 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 14, 2024

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Chesswood Group Limited

Opinion

We have audited the consolidated financial statements of Chesswood Group Limited (the Company), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of income (loss), consolidated statements of other comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial positions of the Company as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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.

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.

	Assessment of impairment of goodwill and indefinite life intangibles
Key Audit Matter	As at December 31, 2023, the Company has goodwill and indefinite life intangibles of $35.3 million. Goodwill and indefinite life intangibles are tested for impairment at least annually, or any time an indicator of impairment exists. For the purpose of performing the impairment assessment, goodwill and indefinite life intangibles have 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. During the year, in Pawnee and Tandem CGU, the Company recognized an impairment in goodwill and indefinite life intangibles of $21.8 million. The Company discloses significant judgments, estimates and assumptions and the result of their analysis in respect of impairment in Note 2, 7, 8 and 23 to the consolidated financial statements. Auditing management's annual impairment analysis for goodwill and indefinite life intangibles of the Pawnee and Tandem CGU within the U.S. Equipment Financing Segment and the 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.
How Our Audit Addressed the Key Audit Matter	To test the estimated recoverable amount of each CGU, our audit procedures included, among others: • We assessed the reasonableness of the forecasted earnings including revenue growth rates by comparing to historical performance and our understanding of the business; 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 businesses and other industry factors; • With the assistance of our valuation specialists, we performed a 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.

	Allowance for expected credit losses
Key Audit Matter	As more fully described in Note 2 and 6 to the consolidated financial statements, the Company has used expected credit loss (ECL) models to recognize $64.5 million in allowance for expected credit losses on its consolidated statement of financial position as of December 31, 2023. 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.
How Our Audit Addressed the Key Audit Matter	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 the Management's Discussion and Analysis and 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 & 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 14, 2024

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2023 AND 2022
(in thousands of Canadian dollars)

	Note	As at December 31, 2023	2022
ASSETS			
Cash		**$ 13,010**	$ 8,120
Restricted funds	*9(f)*	**87,619**	95,356
Other assets		**24,161**	8,573
Current tax receivables		**7,027**	2,314
Finance receivables	*4,6*	**2,011,715**	2,330,258
Deferred tax assets	*11*	**12,046**	7,237
Right-of-use assets, net		**3,510**	3,826
Property and equipment, net		**2,082**	2,926
Intangible assets, net	*7*	**20,084**	27,473
Goodwill	*8*	**33,545**	48,113
TOTAL ASSETS		**$ 2,214,799**	$ 2,534,196
LIABILITIES			
Accounts payable and other liabilities		**$ 41,851**	$ 43,871
Current tax payables		**3,363**	1,924
Premise leases payable		**4,295**	4,673
Option liability		**401**	3,808
Borrowings	*4,9*	**1,953,514**	2,221,649
Customer security deposits	*4,10*	**1,114**	2,931
Deferred tax liabilities	*11*	**23,273**	26,935
		2,027,811	2,305,791
EQUITY			
Common shares	*15*	**133,474**	125,655
Contributed surplus	*17*	**13,756**	18,413
Accumulated other comprehensive income		**18,652**	21,359
Retained earnings		**8,351**	46,255
Total shareholders' equity		**174,233**	211,682
Non-controlling interest	*16*	**12,755**	16,723
		186,988	228,405
TOTAL LIABILITIES AND EQUITY		**$ 2,214,799**	$ 2,534,196

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 (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(in thousands of Canadian dollars, except per share amounts)

	Note	Years ended December 31, 2023	2022
Finance revenue			
Interest revenue on finance leases and loans		**$ 258,410**	$ 232,623
Ancillary finance and other fee income		**57,962**	43,742
		316,372	276,365
Finance expenses			
Interest expense		**123,921**	73,379
Provision for credit losses	*6*	**87,158**	44,315
		211,079	117,694
Net revenue		**105,293**	158,671
Expenses			
Personnel expenses		**61,771**	63,005
General and administrative expenses		**53,827**	45,823
Goodwill and intangible asset impairment	*7,8*	**22,886**	—
Depreciation		**1,760**	1,765
Amortization	*7*	**2,785**	2,435
		143,029	113,028
Operating income (loss)		**(37,736)**	45,643
Unrealized gain (loss) on foreign exchange		**659**	(1,464)
Income (loss) before income taxes		**(37,077)**	44,179
Income tax expense (recovery)	*11*	**(4,277)**	13,763
Net income (loss) for the year		**$ (32,800)**	$ 30,416
Attributable to:			
Common shareholders		**$ (29,705)**	$ 28,548
Non-controlling interest		**$ (3,095)**	$ 1,868
Earnings (loss) per share			
Basic (in Canadian dollars)	*19*	**$ (1.65)**	$ 1.63
Diluted (in Canadian dollars)	*19*	**$ (1.65)**	$ 1.47

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(in thousands of Canadian dollars)

	Years ended December 31,	
	2023	2022
Net income (loss)	**$ (32,800)**	$ 30,416
Other comprehensive income items that may be subsequently reclassified to the consolidated statements of income:		
Unrealized gain (loss) on translation of foreign operations	**(2,929)**	11,274
Comprehensive income (loss) for the year	**$ (35,729)**	$ 41,690
Comprehensive income (loss) attributable to:		
Common shareholders	**$ (32,412)**	$ 38,946
Non-controlling interest	**$ (3,317)**	$ 2,744

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(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	2023 Total
Equity - December 31, 2022		**17,620**	**$125,655**	**$ 18,413**	**$ 21,359**	**$ 46,255**	**$ 211,682**	**$ 16,723**	**$228,405**
Net loss		**—**	**—**	**—**	**—**	**(29,705)**	**(29,705)**	**(3,095)**	**(32,800)**
Dividends declared	*18*	**—**	**—**	**—**	**—**	**(8,199)**	**(8,199)**	**(651)**	**(8,850)**
Share-based compensation expense	*17*	**—**	**—**	**3,040**	**—**	**—**	**3,040**	**—**	**3,040**
Exercise of restricted share units	*17*	**144**	**1,753**	**(1,753)**	**—**	**—**	**—**	**—**	**—**
Exercise of options	*17*	**12**	**134**	**(12)**	**—**	**—**	**122**	**—**	**122**
Unrealized loss on translation of foreign operations		**—**	**—**	**—**	**(2,707)**	**—**	**(2,707)**	**(222)**	**(2,929)**
Special warrants issued on business combination	*15*	**533**	**5,932**	**(5,932)**	**—**	**—**	**—**	**—**	**—**
Equity - December 31, 2023		**18,309**	**$133,474**	**$ 13,756**	**$ 18,652**	**$ 8,351**	**$ 174,233**	**$ 12,755**	**$186,988**

	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	*18*	—	—	—	—	(8,604)	(8,604)	(680)	(9,284)
Share-based compensation expense	*17*	—	—	3,683	—	—	3,683	—	3,683
Exercise of restricted share units	*17*	192	2,614	(2,614)	—	—	—	—	—
Exercise of options	*17*	123	1,211	(272)	—	—	939	—	939
Repurchase of common shares under issuer bid	*15*	(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	*15*	533	6,259	(6,259)	—	—	—	—	—
Shares issued on business combination		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

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(in thousands of Canadian dollars)

	Note	Years ended December 31, 2023	2022
OPERATING ACTIVITIES			
Net income (loss)		**$ (32,800)**	$ 30,416
Non-cash items included in net income (loss)			
Depreciation and amortization		**4,545**	4,200
Goodwill and intangible asset impairment	*7, 8*	**22,886**	—
Provision for credit losses	*6*	**87,158**	44,315
Amortization of origination costs		**48,193**	48,274
Income tax expense (recovery)		**(4,277)**	13,763
Other non-cash items	*22*	**5,531**	3,282
		164,036	113,834
Cash from operating activities before changes in net operating assets		**131,236**	144,250
Funds advanced on origination of finance receivables		**(1,192,217)**	(1,737,840)
Origination costs paid on finance receivables		**(45,290)**	(71,897)
Principal collections of finance receivables and cash collections from sale of assets		**1,381,304**	1,076,431
Recoveries of amounts previously charged off	*6*	**15,122**	14,908
Change in other net operating assets	*22*	**(18,235)**	2,189
Cash from (used in) operations		**271,920**	(571,959)
Income tax paid		**(8,236)**	(19,228)
Income tax refund		**1,225**	18
Cash from (used in) operating activities		**264,909**	(591,169)
INVESTING ACTIVITIES			
Purchase of property, equipment and software		**(493)**	(911)
Cash and restricted funds on business combinations		**—**	23,077
Cash consideration on business combinations	*24*	**(3,500)**	(22,609)
Cash used in investing activities		**(3,993)**	(443)
FINANCING ACTIVITIES			
Borrowings, net	*22*	**(249,084)**	614,345
Payment of financing costs	*9*	**(2,769)**	(8,111)
Payment of lease obligations		**(1,118)**	(1,017)
Proceeds from exercise of options	*17*	**122**	939
Repurchase of common shares under issuer bid	*15*	**—**	(5,709)
Cash dividends paid	*18*	**(9,624)**	(8,771)
Cash from (used in) financing activities		**(262,473)**	591,676
Unrealized foreign exchange gain (loss) on cash		**(1,290)**	4,861
Net increase (decrease) in cash and restricted funds		**(2,847)**	4,925
Cash and restricted funds, beginning of year		**103,476**	98,551
Cash and restricted funds, end of year		**$ 100,629**	$ 103,476

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 21 - *Subsidiaries)*, the Company operates in the following businesses:

- 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. 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"), of which Chesswood owns 51% and exercises control;

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

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

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

- 1000390232 Ontario Inc. ("Easy Legal"), which provides specialized financing solutions to the Canadian legal industry.

The Company's consolidated financial statements were authorized for issue on March 14, 2024, by the Board of Directors.

2. MATERIAL ACCOUNTING POLICY INFORMATION

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 judgments 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 judgments 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 21 - *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 statements of cash flows
Cash consists of bank balances adjusted for items such as deposits in transit and restricted funds.

The consolidated statements of cash flows, which are compiled using the indirect method, show cash flows from operating, investing and financing activities, and the Company's cash and restricted funds at the beginning and end of the year. 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 flows from operating activities comprise net income (loss) adjusted for non-cash items and changes in net operating assets. Receipts and payments with respect to income taxes are included in cash from (used in) operating activities.

Cash flows from investing activities comprise payments relating to business acquisitions and purchases of property, equipment and software, net of cash and restricted funds acquired on business combinations.

Cash flows from financing activities comprise payments of dividends, lease obligations and financing costs, net proceeds from borrowings and the exercise of options, 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 9 - *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 leases and loans 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 asset is transferred if and only if the right to receive the contractual cash flows related to that financial asset is transferred, or the right to receive the cash flows from that financial asset is retained and there is an obligation to pay the cash flows to one or more recipients under a specified arrangement. The transfer of risks and rewards is evaluated by comparing the entity's exposure before and after the transaction, with the variability in the amounts and timing of the net cash flows of the transferred assets. When a financial asset is derecognized, the difference between the consideration received and the carrying amount of the financial asset is recognized in net income or loss. If an entity has transferred and derecognized a financial asset, but retains the right to collect a portion of interest payments as compensation to manage the financial asset, an interest-only strip receivable is recognized.

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 (loss) when the loans are derecognized or impaired.

Financial assets at FVTPL
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 ("FVOCI")
Financial assets that are held to both collect contractual cash flows and for sale are required to be measured at 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 FVTPL
Financial liabilities that are held for trading and standalone 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

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 and loss given default applied to the exposure at default.

The Company's finance receivables are separated into four distinct categories: U.S. equipment leases and loans, Canadian equipment leases and loans, Canadian consumer loans and Canadian auto loan receivables. Each of the categories is 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 they become 120 days contractually past due and there is no realistic prospect of recovery; and
- 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 macroeconomic 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.

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 Pawnee, Blue Chip, and Easy Legal trade names and Waypoint licenses have indefinite lives. As at December 31, 2023, the Blue Chip and Pawnee trade names have been impaired. The Easy Legal and Waypoint 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 5 to 19 years. All computer software is amortized on a scheduled straight-line basis over their estimated useful lives of 2 to 10 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 intangible 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 ("NCIs") in the acquiree. For each business combination, the Company elected to measure the NCIs 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 NCIs 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 goodwill generates independent cash inflows and, therefore, all goodwill is 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. 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 (loss).

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

Business combinations

On April 30, 2021 (the Effective Date), the Company merged its Canadian equipment leasing subsidiary, Blue Chip, with Vault Credit and 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 and the NCI received a 49% ownership. Chesswood also received a call option to acquire the remaining 49% of shares. The Company's call option is valued at 49% of the fair value of the finance receivables less any debt related to the finance receivables of Vault Credit, plus a 5% markup on the date of exercise. The NCI shareholders 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 debt related to the finance receivables of Vault Credit. The transaction resulted, in substance, in a 100% ownership interest at the date of acquisition of Vault Credit (including Blue Chip) with no NCI recognized at that date.

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 at amortized cost for the present value of the amount payable upon exercise of the NCI option. 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 (loss). In addition, any changes in the anticipated purchase price of the NCI will also be recognized through the year-end consolidated statements of income (loss).

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 (loss), with a corresponding increase in contributed surplus over the vesting period.

Earnings (loss) per share

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

Diluted earnings (loss) per share is calculated using the same method as for basic earnings (loss) 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, revenue 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 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.

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, 2023, 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.

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 24 - *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.

Impairment of intangible assets and goodwill
Impairment testing utilizes several assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year. The fair value is 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 value in use is estimated using a discounted cash flow model derived from budgets for the next five years, excluding restructuring activities and future investments. The value in use model also discounts the cash flows using pre-tax discount rate that reflects the risks inherent to the CGU.

The cash flows are derived from forecasts for the next four or five years. Other than the cash flow estimates, the fair value and value in use are most sensitive to the discount rate used and the growth rate applied.

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, with the exception of the Vault Credit CGU, are determined based on their fair value. The Vault Credit CGU recoverable amount is determined based on the value in use. The calculation of recoverable amount incorporates cash flow estimates plus a terminal value and is based on the following key variables:

(i) Achieving key operating metrics and drivers based on management estimates, past history and the current economic outlook, as 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 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 is 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 is applied to each CGU's forecasted cash flows based on the nature of each CGU's business.

The estimation of fair value and value in use 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.

Income taxes
The Company is subject to income tax laws in the various jurisdictions in which 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 estimating of the value of tax benefits that will eventually be realized by the Company, which utilizes several assumptions and includes estimation uncertainties that have a significant risk of resulting in material adjustments to income taxes in future years.

Fair value of share-based compensation
The value of the options granted is determined using the Black-Scholes Option Pricing Model. The model utilizes 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 is 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 is 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 is 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.

Amendments to IFRS 7, Financial Instruments: Disclosures
The amendments provide clarification on disclosing material accounting policy information regarding the measurement bases for financial instruments.

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates, and Errors
The amendments provide a definition of "accounting estimate" that clarify the difference between accounting policies and accounting estimates.

Amendments to IAS 12, Income Taxes
The amendments provide clarification on how companies account for deferred taxes that arise on single transactions such as leases and decommissioning obligations.

Amendments to IAS 1, Presentation of Financial Statements, and IFRS Practice Statement 2, Making Materiality Judgements
The amendments provide 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.

New standards, interpretations and amendments issued but not yet effective

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

Amendments to IAS 1, Presentation of Financial Statements

The amendments provide 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 amendments when they become effective.

Amendments to IFRS 10, Consolidated Financial Statements, and IAS 28, Investments in Associates and Joint Ventures

The amendments provide guidance on accounting for upstream and downstream sales or contribution of assets between an investor and its associate, or joint venture and the associated disclosure requirements. The Company will adopt the amendments when they become effective.

4. FINANCIAL INSTRUMENTS

Categories and measurement hierarchy

The fair values of financial instruments are classified using the IFRS 13, *Fair Value Measurement,* hierarchy as follows:

					December 31, 2023
($ thousands)	Level 1	Level 2	Level 3	Fair value	Carrying value
ASSETS					
Finance receivables *(i)*	**$ —**	**$ —**	**$ 1,994,523**	**$ 1,994,523**	**$ 2,011,715**
LIABILITIES					
Borrowings *(ii)*	**$ —**	**$ —**	**$(1,927,939)**	**$ (1,927,939)**	**$ (1,953,514)**
Customer security deposits *(iii)*	**—**	**(1,114)**	**—**	**(1,114)**	**(1,114)**

					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)

(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.

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

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 period.

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 risk, liquidity risk and market risk. Market risk 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 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 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 ECL 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, 2023, the Company's operations have at least $676.9 million (December 31, 2022 - $1.1 billion) 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 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, 2023, the Company's U.S. and Canadian Equipment Financing Segments' finance receivables both have average remaining terms of approximately 35 months, respectively, and the Canadian Auto Financing Segment has an expected realized term of approximately 28 months. The U.S. and Canadian Equipment Financing Segments' finance receivables will both generate earnings over the next 35 months. The Canadian Auto Financing Segment's finance receivables expect to generate earnings over the next 28 months. For all segments, only a portion of finance receivables will generate net income in the current operating period. The Company's ability to borrow under our various credit facilities is directly linked to its 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 under 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$300 million (December 31, 2022 - US$386.7 million), subject to certain percentages of eligible gross lease receivables, of which US$247.2 million was utilized as at December 31, 2023 (December 31, 2022 - US$236.1 million). On December 12, 2023, the revolving credit facility was amended to USD$300 million. At this time, 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 9 - *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 18 - *Dividends* for all dividends that the Company has paid to investors for the year ended December 31, 2023.

The maturity structure for undiscounted contractual cash flows is presented in Note 12 - *Minimum Payments*. See Note 6(b) - *Finance Receivables* for the expected collections of finance receivables over the same time period. See Note 9(f) - *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 of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risks faced by the Company relate to 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, 2023 and 2022:

	Year ended							
	December 31, 2023				December 31, 2022			
($ thousands)	+100 bps		-100 bps		+100 bps		-100 bps	
Increase (decrease) in interest expense	**$**	**4,369**	**$**	**(4,369)**	$	3,991	$	(3,991)
Increase (decrease) in net income and equity	**$**	**(3,211)**	**$**	**3,211**	$	(2,933)	$	2,933

(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, 2023, cash dividends paid to common shareholders, Exchangeable Securities holders and warrant holders totalled $9.6 million (December 31, 2022 - $8.8 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, 2023 and 2022:

	December 31, 2023		December 31, 2022	
Year-end exchange rate	**$**	**1.33**	$	1.35
U.S.-denominated net assets in U.S. dollars held in Canada ($ thousands)	**$**	**3,259**	$	393
Effect of a 10% increase or decrease in the Canadian/U.S. dollar on U.S- denominated net assets ($ thousands)	**$**	**433**	$	53

6. FINANCE RECEIVABLES

Substantially all of the lease and loan receivables have been pledged as security for amounts borrowed from lenders under various facilities, as described in Note 9 - *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, 2023**		December 31, 2022	
Net investment in leases	**$**	**814,575**	$	899,982
Loan receivables		**937,681**		1,200,624
Auto loan receivables		**259,459**		229,652
Finance receivables	**$**	**2,011,715**	$	2,330,258

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

($ thousands)	**December 31, 2023**	December 31, 2022
Total minimum finance receivables payments *(b)*	**$ 2,474,955**	$ 2,800,578
Residual values of leased equipment *(b)*	**38,929**	39,155
	2,513,884	2,839,733
Unearned income, net of initial direct costs	**(437,697)**	(458,795)
Net investment in finance receivables before allowance for ECL	**2,076,187**	2,380,938
Allowance for ECL *(c)*	**(64,472)**	(50,680)
Net investment in finance receivables	**$ 2,011,715**	$ 2,330,258

(b) Minimum scheduled collections:

The Company's minimum scheduled collection of finance receivables as at December 31, 2023, are presented in the following table:

($ thousands)	Minimum payments
2024	$ 891,202
2025	678,875
2026	488,393
2027	266,001
2028	115,340
2029 and thereafter	74,073
Total minimum payments	$ 2,513,884

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 ECL:

The Company's probability-weighted estimate of ECL using three scenarios (base, upside and downside) was determined as at December 31, 2023, based on forecasts and other information available at that date. When determining the ECL, the Company considers 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, 2023		As at December 31, 2022	
Segment	Macroeconomic factor	Base scenario 12-month forecast	Macroeconomic factor	Base scenario 12-month forecast
Canadian Equipment Financing	Canadian consumer price index - median (18-month lag)	**4.8%**	Canadian GDP growth	0.5%
U.S. Equipment Financing	U.S. housing price index (6-month lag)	**0.0%**	Secured overnight financing rate (6-month lag)	4.6%
	U.S. unemployment rate	**4.2%**	U.S. GDP growth (6-month lag)	1.1%
			U.S. unemployment rate	4.4%
Canadian Auto Financing	2-year note interest rate (6-month lag)	**4.1%**	2-year note interest rate (6-month lag)	3.9%
	Canadian housing price index	**2.0%**	CAD/USD foreign exchange rate	1.33

Historically, an increase in interest rates, the consumer price index, the housing price index or unemployment rate and a decrease in the GDP growth or a weakening Canadian dollar has 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 from the base scenario across all segments would result in an allowance for ECL of $66.1 million as at December 31, 2023 (an increase of $1.6 million).

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

				As at December 31, 2023
	Stage 1	**Stage 2**	**Stage 3**	**Total**
($ thousands)	**Performing**	**Under-performing**	**Non-performing**	
Prime	**$ 1,370,713**	**$ 19,548**	**$ 15,931**	**$ 1,406,192**
Non-prime	**604,286**	**31,483**	**34,226**	**669,995**
Total	**$ 1,974,999**	**$ 51,031**	**$ 50,157**	**$ 2,076,187**

				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	699,568	29,083	18,419	747,070
Total	$ 2,314,206	$ 42,790	$ 23,942	$ 2,380,938

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

	Year ended December 31, 2023			
	Stage 1	**Stage 2**	**Stage 3**	
($ thousands)	**Performing**	**Under-performing**	**Non-performing**	**Total**
Balance, January 1, 2023	**$ 24,176**	**$ 10,733**	**$ 15,771**	**$ 50,680**
Transfer to performing (Stage 1)	**12,720**	**(7,636)**	**(5,084)**	**—**
Transfer to under-performing (Stage 2)	**(2,563)**	**4,220**	**(1,657)**	**—**
Transfer to non-performing (Stage 3)	**(9,030)**	**(9,833)**	**18,863**	**—**
Net remeasurement of loss allowance	**(14,009)**	**24,250**	**62,033**	**72,274**
New receivables originated	**14,884**	**—**	**—**	**14,884**
Provision for credit losses	**2,002**	**11,001**	**74,155**	**87,158**
Charge-offs	**—**	**—**	**(87,647)**	**(87,647)**
Recoveries of amounts previously charged off	**—**	**—**	**15,122**	**15,122**
Net charge-offs	**—**	**—**	**(72,525)**	**(72,525)**
Foreign exchange translation	**(277)**	**(393)**	**(171)**	**(841)**
Balance, December 31, 2023	**$ 25,901**	**$ 21,341**	**$ 17,230**	**$ 64,472**

	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	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

(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 $1.1 million (December 31, 2022 - $2.9 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. The

Canadian Equipment Financing Segment charges off leases and loans on an individual basis when they become 120 days contractually past due and 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 are all subject to continued collection efforts.

($ thousands)	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total
						As at December 31, 2023
Finance receivables	**$ 1,910,179**	**$ 86,682**	**$ 33,508**	**$ 14,545**	**$ 31,273**	**$ 2,076,187**
Non-performing	**$ 1,516**	**$ 3,074**	**$ 3,315**	**$ 10,979**	**$ 31,273**	**$ 50,157**
Past due but not impaired	**$ —**	**$ 83,608**	**$ 30,193**	**$ 3,566**	**$ —**	**$ 117,367**

($ thousands)	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total
						As at December 31, 2022
Finance receivables	$ 2,261,844	$ 73,477	$ 23,776	$ 8,781	$ 13,060	$ 2,380,938
Non-performing	$ 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

(e) Modifications:

The net investment in finance receivables before allowance for ECL that have been modified and are current have an outstanding balance as at December 31, 2023, of $23.9 million (December 31, 2022 - $77.8 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, 2023, had a total net investment in finance receivables before allowance for ECL balance of $59.4 million (December 31, 2022 - $95.1 million).

(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, 2023, the proceeds from the disposal of repossessed equipment and automobiles that were charged off totalled $30.4 million (December 31, 2022 - $19.1 million).

(g) Assets sold to third parties:

The Company entered into agreements with investment managers and financial institutions to sell its finance receivables at fair market terms in exchange for fees. All finance receivables sold under these agreements meet the criteria for derecognition under IFRS 9, *Financial Instruments* and all are sold without recourse. For the year ended December 31, 2023, the Company sold $454.9 million of finance receivables to investment managers and financial institutions (December 31, 2022 - $270.1 million).

Fees related to the non-recourse sale of the Company's finance receivables are earned at the time of sale, and over the life of the derecognized finance receivables for servicing or managing the financial assets. The Company recognized an interest-only strip receivable of $3.1 million for the year ended December 31, 2023 (December 31, 2022 - n/a). Across all segments, the Company earned $14.9 million in fee income related to these agreements for the year ended December 31, 2023 (December 31, 2022 - $9.3 million).

7. INTANGIBLE ASSETS

The Company assessed its intangible assets for indicators of impairment for the year ended December 31, 2023. During the year, an impairment loss of $8.4 million was incurred on the U.S. Equipment Financing Segment's and Canadian Equipment Financing Segment's indefinite life trade names, and the Canadian Equipment Financing Segment's finite life relationships. The impairment is a result of increased costs of funding, which have affected the general business climate and levels of economic activity. These increases have temporarily compressed Chesswood's net interest margins resulting in an impairment. In the Canadian Equipment Financing Segment, the intangible assets of Blue Chip have been fully impaired as the entity's portfolio has become insignificant due to the successful amalgamation with Vault Credit. Refer to Note 24 - *Business Combinations* for more information regarding the acquisitions made in the current year.

		Indefinite useful life		Finite useful life			
($ thousands)	Note	Trade names	Licenses	Relationships	Trade names	Software	Total
Cost:							
December 31, 2021		$ 7,262	$ —	$ 35,217	$ 2,100	$ 37	$ 44,616
Business combinations		—	1,053	727	—	340	2,120
Additions		—	—	—	—	382	382
Foreign exchange translation		468	—	—	—	—	468
December 31, 2022		7,730	1,053	35,944	2,100	759	47,586
Business combinations	*24*	**663**	**—**	**723**	**—**	**2,114**	**3,500**
Additions	*24*	**—**	**—**	**—**	**—**	**292**	**292**
Foreign exchange translation		**(155)**	**—**	**—**	**—**	**—**	**(155)**
December 31, 2023		**$ 8,238**	**$ 1,053**	**$ 36,667**	**$ 2,100**	**$ 3,165**	**$ 51,223**

	Indefinite useful life		Finite useful life			
($ thousands)	Trade names	Licenses	Relationships	Trade names	Software	Total
Accumulated amortization:						
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
Impairment	**7,576**	**—**	**793**	**—**	**—**	**8,369**
Amortization	**—**	**—**	**2,172**	**140**	**473**	**2,785**
Foreign exchange translation	**(128)**	**—**	**—**	**—**	**—**	**(128)**
December 31, 2023	**$ 7,575**	**$ —**	**$ 22,500**	**$ 373**	**$ 691**	**$ 31,139**

	Indefinite useful life		Finite useful life			
($ thousands)	Trade names	Licenses	Relationships	Trade names	Software	Total
Carrying amount:						
December 31, 2022	$ 7,603	$ 1,053	$ 16,409	$ 1,867	$ 541	$ 27,473
December 31, 2023	**$ 663**	**$ 1,053**	**$ 14,167**	**$ 1,727**	**$ 2,474**	**$ 20,084**

As at December 31, 2023, indefinite life trade names were recognized related to the acquisition of Easy Legal's operating business and indefinite licenses related to the acquisition of Waypoint. The indefinite assets can be renewed annually, at nominal cost or have no legal limit to their life. 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.

8. GOODWILL

The Company last performed its annual impairment tests during the fourth quarter of 2023, which identified goodwill impairment in the Pawnee and Tandem CGU of $14.5 million (December 31, 2022 - n/a). The impairment is a result of increased costs of funding, which have affected the general business climate and levels of economic activity. These increases have temporarily compressed Chesswood's net interest margins resulting in an impairment.

Management's key assumptions used for the goodwill impairment assessment include the finance margin spread used in the cashflow projections, discount rate and terminal growth rate.

Management had assessed each CGU's discount rate based on the entity's risks and business cycle stage. The fair value discount rates are as follows:

($ thousands)	**December 31, 2023**	December 31, 2022
U.S. Equipment Financing Segment:		
Pawnee and Tandem CGU	**14 %**	12 %
Canadian Equipment Financing Segment:		
Vault Credit CGU	**18 %**	25 %
Canadian Consumer Financing Segment:		
Vault Home CGU	**27 %**	27 %
Canadian Auto Financing Segment:		
Rifco CGU	**23 %**	25 %
Asset Management Segment:		
Waypoint CGU	**25 %**	22 %

The Vault Credit CGU's recoverable amount was based on the value in use, therefore, the pre-tax discount rate used by the CGU was 23.4%. The growth rate applied to the terminal value was 3% for each CGU.

For the goodwill in the Vault Credit CGU, a 100 basis point increase in the discount rate, decrease in the terminal growth rate, or decrease in the finance margin spread would result in impairment.

The movement in goodwill during the years ended December 31, 2023 and 2022, is as follows:

($ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Consumer Financing	Canadian Auto Financing	Asset Management	Total
Cost:						
December 31, 2021	$ 45,984	$ 44,218	$ 1,427	$ —	$ —	$ 91,629
Business combinations	—	—	—	1,895	2,143	4,038
Foreign exchange translation	3,142	—	—	—	—	3,142
December 31, 2022	49,126	44,218	1,427	1,895	2,143	98,809
Foreign exchange translation	**(788)**	**—**	**—**	**—**	**—**	**(788)**
December 31, 2023	**$ 48,338**	**$ 44,218**	**$ 1,427**	**$ 1,895**	**$ 2,143**	**$ 98,021**

($ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Consumer Financing	Canadian Auto Financing	Asset Management	Total
Accumulated impairment:						
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
Impairment	**14,517**	**—**	**—**	**—**	**—**	**14,517**
Foreign exchange translation	**(737)**	**—**	**—**	**—**	**—**	**(737)**
December 31, 2023	**$ 48,338**	**$ 16,138**	**$ —**	**$ —**	**$ —**	**$ 64,476**

($ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Consumer Financing	Canadian Auto Financing	Asset Management	Total
Carrying amount:						
December 31, 2022	$ 14,568	$ 28,080	$ 1,427	$ 1,895	$ 2,143	$ 48,113
December 31, 2023	**$ —**	**$ 28,080**	**$ 1,427**	**$ 1,895**	**$ 2,143**	**$ 33,545**

9. BORROWINGS

The Company and its subsidiaries were compliant with all covenants attached to the following facilities as at December 31, 2023, and throughout the year then ended.

($ thousands)	Chesswood revolving 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 Consumer Financing Segment financing facilities *(d)*	Canadian Auto Financing Segment financing facilities *(e)*	Total
Net as at December 31, 2022	$ 294,048	$ (3,377)	$ 1,091,324	$ (7,273)	$ 631,177	$ —	$ 215,750	$ 2,221,649
Proceeds or draw-downs	**3,186,398**	**—**	**297,613**	**—**	**195,695**	**41,947**	**152,045**	**3,873,698**
Repayments	**(3,172,142)**	**—**	**(506,137)**	**—**	**(314,129)**	**(4,031)**	**(126,343)**	**(4,122,782)**
Payment of financing costs	**—**	**(1,794)**	**—**	**(905)**	**—**	**—**	**(70)**	**(2,769)**
Amortization of deferred financing costs	**—**	**2,034**	**—**	**4,084**	**—**	**—**	**139**	**6,257**
Foreign exchange translation	**(3,089)**	**—**	**(19,542)**	**92**	**—**	**—**	**—**	**(22,539)**
Net as at December 31, 2023	**$ 305,215**	**$ (3,137)**	**$ 863,258**	**$ (4,002)**	**$ 512,743**	**$ 37,916**	**$ 241,521**	**$ 1,953,514**

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 and auto loans and to support working capital, long-term debt principal repayments, share repurchases and dividends.

As at December 31, 2023, the Company had the following facilities:

(a) Chesswood revolving credit facility

On December 12, 2023, the revolving credit facility was amended to US$300 million down from US$386.7 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, fixed charge coverage and delinquency ratios, and expires on January 14, 2025. As at December 31, 2023, the Company was utilizing US$247.2 million (December 31, 2022 - US$236.1 million) of its credit facility and had approximately US$52.8 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, 2023, was 8.74% (including amortization of origination costs) (year ended December 31, 2022 - 4.91%).

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 and provides for Chesswood's working capital and general corporate needs. 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 facility is 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.

(b) U.S. Equipment Financing Segment

(i) The U.S. Equipment Financing Segment has a credit facility, with a US$120 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, 2023, was US$171.7 million (December 31, 2022 - US$112.8 million). Based on average debt levels, the effective interest rate for the year ended December 31, 2023, was 5.57% (including amortization of origination costs) (year ended December 31, 2022 - 3.91%).

(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. Pawnee repaid the remaining balance fully in June 2023 (December 31, 2022 - US$37.2 million). Based on average debt levels, the effective interest rate was 3.77% for the year ended December 31, 2023 (including amortization of origination costs) (year ended December 31, 2022 - 3.47%).

(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's 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, 2023, was US$20.2 million (December 31, 2022 - US$45.9 million). The effective interest rate was approximately 3.93% for the year ended December 31, 2023 (including amortization of origination costs) (year ended December 31, 2022 - 3.29%).

(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, 2023, was US$133.6 million (December 31, 2022 - US$222.0 million). The effective interest rate was approximately 2.38% for the year ended December 31, 2023 (including amortization of origination costs) (year ended December 31, 2022 - 1.90%).

(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, 2023, was US$218.3 million (December 31, 2022 - US$313.1 million). The effective interest rate was approximately 5.89% for the year ended December 31, 2023 (including amortization of origination costs) (year ended December 31, 2022 - 5.85% since the inception of the facility).

(vi) The U.S. Equipment Financing Segment has a US$250 million revolving warehouse loan facility that was established in May 2021 specifically to fund its growing prime and near-prime portfolio. During the year ended December 31, 2023 Chesswood right-sized the facility based on the expected usage over the next 12 months. The warehouse facility holds the U.S. Equipment Financing Segment's prime receivables before they are securitized and are 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, 2023, the balance of this facility was US$79.6 million (December 31, 2022 - US$44.8 million). The effective interest rate for the year ended December 31, 2023, was approximately 8.25% (including amortization of origination costs) (year ended December 31, 2022 - 3.93%).

(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. The investment fund is structured as a limited partnership with the Company indirectly 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, 2023, was US$28.0 million (December 31, 2022 - US$30.0 million). Based on average debt levels, the effective return provided to the private credit investors for the year ended December 31, 2023, was 13.39% (including amortization of origination costs) (year ended December 31, 2022 - 14.41%).

(viii) As at December 31, 2023, 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 (unchanged from December 31, 2022).

(c) Canadian Equipment Financing Segment

As at December 31, 2023, 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, 2023, Vault Credit continues to service these finance receivables on behalf of the Funders.

(i) As at December 31, 2023, Vault Credit had access to the following lines of funding:

(a) $300 million rolling limit line from a financial institution.
(b) Approved funding from another financial institution with no annual or rolling limit.

In February 2024, the $200 million annual limit from a life insurance company, which expired in November 2023, was extended to May 2024.

As at December 31, 2023, Vault Credit had $512.0 million (December 31, 2022 - $629.2 million) in securitization and bulk lease financing facilities debt outstanding. Vault Credit had access to at least $114.2 million of additional financing from its securitization partners (December 31, 2022 - $363.3 million).

The interest rates on the lines of funding noted above 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, 2023, was 5.00% for Vault Credit (year ended December 31, 2022 - 3.69%).

(ii) Vault Credit entered into arrangements on December 14, 2021, under which Vault Credit Opportunities Fund ("VCOF") (an entity controlled by Daniel Wittlin, an officer and director of Vault Credit and Canadian Holdco and a director of Chesswood) 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, 2023, was $0.7 million (December 31, 2022 - $2.0 million). VCOF earns a yield equivalent to the interest on the underlying loans.

(iii) As at December 31, 2023, Vault Credit had provided $8.6 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2022 - $14.9 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 Consumer Financing Segment

(i) In 2023, Vault Home obtained a line of funding with a $80 million annual limit from a life insurance company. As at December 31, 2023, Vault Home had $37.9 million (December 31, 2022 - n/a) in securitizations and bulk lease financing facilities debt outstanding. Vault Home had access to at least $67.9 million of additional financing from its securitization partner (December 31, 2022 - n/a). Based on average debt levels, the interest rate during the year ended December 31, 2023, was 6.37% for Vault Home (year ended December 31, 2022 - n/a).

(ii) As at December 31, 2023, Vault Home had provided $1.0 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2022 - n/a). Vault Home 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.

(e) Canadian Auto Financing Segment

(i) As at December 31, 2023, Rifco had access to the following lines of funding:
- (a) $120 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, 2023, Rifco had $237.6 million outstanding on its securitization facilities (December 31, 2022 - $208.3 million). Rifco had access to at least $79.2 million of additional financing from its securitization partners (December 31, 2022 - $38.9 million). Based on average debt levels, the effective interest rate during the year ended December 31, 2023, was 5.41% (including amortization of origination costs) (December 31, 2022 - 4.48% since acquisition).

(ii) Unsecured debentures

Rifco has unsecured debentures which were issued prior to its acquisition by Chesswood that allow Rifco the right to redeem the debentures in the last year of their terms without penalty. The unsecured debenture holders do not have early retraction rights and have no conversion rights. 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 throughout the year ended December 31, 2023. The unsecured debentures have maturity dates that go out until August 2026.

As at December 31, 2023, Rifco had $3.9 million in unsecured debentures outstanding (December 31, 2022 - $7.5 million). Based on average debt levels, the effective interest rate during the year ended December 31, 2023, was 8.08% (December 31, 2022 - 8.81% since acquisition).

(iii) As at December 31, 2023, Rifco had provided $6.6 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2022 - $5.1 million).

(f) Restricted funds

($ thousands)	**December 31, 2023**	December 31, 2022
Restricted - cash in collection accounts	**$ 43,730**	$ 49,314
Restricted - cash reserves	**43,889**	46,042
Restricted funds	**$ 87,619**	$ 95,356

10. 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, 2023**	December 31, 2022
Security deposits that will be utilized within one year	**$ 446**	$ 1,699
Security deposits that will be utilized in future years	**668**	1,232
	$ 1,114	$ 2,931

11. TAXES

(a) Tax expense consists of the following:

	Year ended	
($ thousands)	**December 31, 2023**	December 31, 2022
Current tax expense	**$ 4,556**	$ 14,948
Deferred tax recovery	**(8,833)**	(1,185)
Income tax expense (recovery)	**$ (4,277)**	$ 13,763

(b) The table below shows the reconciliation between the income tax expense (recovery) reported in the consolidated statements of income (loss) and income tax expense that would have resulted from applying the combined Canadian Federal and Ontario tax rate of 26.5% (December 31, 2022 - 26.5%) to income (loss) before income taxes.

	Year ended	
($ thousands)	**December 31, 2023**	December 31, 2022
Income (loss) before income taxes	**$ (37,077)**	$ 44,179
Canadian tax rate	**26.5 %**	26.5 %
Theoretical income tax expense (recovery)	**(9,825)**	11,707
Non-deductible impairment losses	**5,854**	—
Tax cost of non-deductible items	**381**	449
Unrecognized tax losses, net	**49**	22
Higher tax rates in other jurisdictions	**356**	276
Other	**(1,092)**	1,309
Income tax expense (recovery)	**$ (4,277)**	$ 13,763

(c) Reconciliation of net deferred tax liabilities:

	Year ended	
($ thousands)	**December 31, 2023**	December 31, 2022
Balance, beginning of year	**$ (19,698)**	$ (21,776)
Deferred tax recovery in the consolidated statements of income (loss)	**8,833**	1,185
Business combinations	**—**	1,743
Foreign exchange translation	**(362)**	(850)
Net change in net deferred tax liabilities during the year	**8,471**	2,078
Balance, end of year	**$ (11,227)**	$ (19,698)

(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, 2023**	December 31, 2022
Deferred tax assets:		
Allowance for ECL	**$ 13,785**	$ 11,526
Tax losses carried forward	**17,606**	30,028
Other	**—**	67
Financing costs and accrued liabilities	**407**	135
	31,798	41,756
Deferred tax liabilities:		
Finance receivables	**39,073**	56,716
Intangible assets	**3,952**	4,738
	43,025	61,454
Deferred tax liabilities, net	**$ 11,227**	$ 19,698

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, 2023, Case Funding Inc. had US$2.1 million (December 31, 2022 - US$2.2 million) in tax losses carried forward that have not been recognized. As at December 31, 2023, Chesswood had $2.5 million (December 31, 2022 - $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 $73.8 million (December 31, 2022 - $77.4 million), as it is not considered probable that this temporary difference will reverse in the foreseeable future.

12. MINIMUM PAYMENTS

The following are the contractual payments and maturities of financial liabilities and other commitments (including interest) as at December 31, 2023:

($ thousands)		2024	2025	2026	2027	2028	2029+	Total
Accounts payable and other liabilities		$ 41,851	$ —	$ —	$ —	$ —	$ —	**$ 41,851**
Premise leases payable	*(i)*	1,116	1,129	1,182	888	736	268	**5,319**
Borrowings	*(ii)*	762,907	932,124	319,204	86,075	40,180	3,413	**2,143,903**
Customer security deposits	*(iii)*	515	141	339	236	30	20	**1,281**
		806,389	933,394	320,725	87,199	40,946	3,701	**2,192,354**
Service contracts		4,908	2,875	2,421	1,609	1,560	1,486	**14,859**
Total commitments		$811,297	$936,269	$323,146	$ 88,808	$ 42,506	$ 5,187	**$ 2,207,213**

(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 2029. The amounts above exclude adjustments for discounting premise leases payable.

(ii) Borrowings are described in Note 9 - *Borrowings*, and include fixed payments for the U.S. Equipment Financing Segment, Canadian Equipment Financing Segment, Canadian Consumer Financing Segment and 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, the Canadian Equipment Financing Segment's, the Canadian Consumer Financing Segment'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, 2023, 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* for the minimum scheduled collections of finance receivables over the same time period. Also see Note 9(f) - *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 as at December 31, 2023, other than US$16.2 million in letters of credit (December 31, 2022 - US$18.8 million).

13. 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, 2023 and 2022 were not material or possible outflows are considered remote.

14. 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 9 - *Borrowings* for further details on the Company's revolving credit facility.

15. COMMON SHARES

As at December 31, 2023, there were 18,309,104 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities) (December 31, 2022 - 17,619,661) with a book value of $133.5 million (December 31, 2022 - $125.7 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 PLUS at www.sedarplus.ca.

(a) Normal course issuer bids

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 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 are 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. From January 25, 2023, to December 31, 2023, the Company did not repurchase any 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

As part of the consideration for the indirect acquisition of Vault Credit, the Company issued a total of 1,466,667 special warrants, each exchangeable for one common share of the Company. The special warrants vest in equal quarterly tranches (which began on December 31, 2021) with the final tranche vesting on June 30, 2024, and are automatically exercised two business days after vesting unless the put or call option on the 49% of interest in Canadian Holdco has been exercised. The special warrants are classified as equity and are measured at fair value under the Black-Scholes Options Pricing Model.

An analysis of the special warrants exercised as at December 31, 2023, is as follows:

	Year ended December 31, 2023	2022
Balance, beginning of year	**933,335**	1,466,667
Exercised	**533,332**	533,332
Balance, end of year	**400,003**	933,335

During the year ended December 31, 2023, on exercise, the accumulated balance in contributed surplus related to the special warrants of $5.9 million was transferred to common share capital (December 31, 2022 - $6.3 million). For the special warrants exercised during the year ended December 31, 2023, the weighted average share price at the date of exercise was $8.86 (December 31, 2022 - $13.59). For the special warrants exercised during the three months ended December 31, 2023, the share price at the date of exercise was $7.05 (December 31, 2022 - $12.40).

On January 3, 2024, the ninth tranche of 133,333 special warrants, which vested on December 31, 2023, were automatically exercised. On exercise, the accumulated balance in contributed surplus related to the special warrants of $1.4 million was transferred to common share capital. For the ninth tranche of special warrants exercised on January 3, 2024, the share price at the date of exercise was $8.01.

16. 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 Chesswood U.S. Acquisition Co Ltd. ("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% (2022 - 99.3%) of the outstanding shares of U.S. Acquisitionco. Dividends paid to Exchangeable Securities holders during the year were $0.7 million (2022 - $0.7 million).

17. 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, 2023. There were 1,303,050 options and 687,341 restricted share units outstanding as at December 31, 2023 (December 31, 2022 - 1,908,050 and 479,400, 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

(in Canadian dollars, except where otherwise indicated)

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.

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

	Year ended December 31,	
	2023	2022
Balance, beginning of year	**1,908,050**	2,041,439
Exercised	**(12,500)**	(123,389)
Expired	**(592,500)**	(10,000)
Balance, end of year	**1,303,050**	1,908,050

During the year ended December 31, 2023, the personnel expenses and contributed surplus relating to option expense was insignificant (December 31, 2022 - $0.1 million). As at December 31, 2023, unrecognized non-cash compensation expense related to the outstanding options was nil (December 31, 2022 - insignificant).

During the year ended December 31, 2023, 12,500 options were exercised (December 31, 2022 - 123,389) for total cash consideration of $0.1 million (December 31, 2022 - $0.9 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, 2023, the weighted average share price at the date of exercise was $11.24 (December 31, 2022 - $13.54) and the weighted average exercise price was $9.68 (December 31, 2022 - $7.53).

As at December 31, 2023, for all options outstanding, the weighted average exercise price is $10.99 (December 31, 2022 - $11.27) and the weighted average remaining contractual life is 3.2 years (December 31, 2022 - 3.2 years). The 1,303,050 options exercisable as at December 31, 2023, have a weighted average exercise price of $10.99 (December 31, 2022 - 1,846,880 options at $11.38).

An analysis of the options outstanding as at December 31, 2023, is as follows:

Range of exercise prices	Weighted average remaining life (in years)	Vested #	Total #
$ 8.01–$ 8.95	**5.86**	**336,490**	**336,490**
$10.17–$10.96	**3.30**	**409,060**	**409,060**
$12.15 –$12.53	**2.06**	**417,500**	**417,500**
$14.12	**0.30**	**140,000**	**140,000**
	3.24	**1,303,050**	**1,303,050**

(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,	
	2023	2022
Balance, beginning of year	**479,400**	479,000
Granted	**359,550**	195,000
Exercised	**(143,611)**	(192,100)
Forfeited	**(7,998)**	(2,500)
Balance, end of year	**687,341**	479,400

During the year ended December 31, 2023, personnel expenses and contributed surplus included $3.0 million (December 31, 2022 - $3.6 million) relating to RSUs.

As at December 31, 2023, unrecognized non-cash compensation expense related to non-vested RSUs was $2.0 million (December 31, 2022 - $2.1 million). The weighted average remaining contractual life for all RSUs outstanding is 8.3 years (December 31, 2022 - 8.9 years).

During the year ended December 31, 2023, 143,611 RSUs were exercised (December 31, 2022 - 192,100). On exercise, the accumulated balance in contributed surplus related to the RSUs of $1.8 million (December 31, 2022 - $2.6 million) was transferred to common share capital. For the RSUs exercised during the year ended December 31, 2023, the weighted average share price at the date of exercise was $8.82 (December 31, 2022 - $14.03).

An analysis of the RSUs outstanding as at December 31, 2023, is as follows:

Grant date	Number of RSUs outstanding	Vested	Expiry date	Value on grant date
November 30, 2020	**16,300**	**16,300**	June 29, 2030	**$ 8.01**
August 5, 2021	**71,556**	**50,244**	August 5, 2031	**$ 11.25**
November 5, 2021	**96,649**	**49,679**	November 5, 2031	**$ 14.27**
March 21, 2022	**112,286**	**56,675**	March 21, 2032	**$ 14.40**
June 28, 2022	**36,000**	**36,000**	June 28, 2032	**$ 12.25**
March 29, 2023	**297,550**	**—**	March 29, 2033	**$ 9.00**
June 28, 2023	**57,000**	**—**	June 28, 2033	**$ 7.90**
	687,341	**208,898**		

18. DIVIDENDS

Under the Chesswood revolving credit facility (see Note 9(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 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 a Non-GAAP measure, which is defined in the MD&A.

The following dividends were declared during the years ended December 31, 2023 and 2022:

($ thousands)	Year ended December 31, 2023	2022
Dividends declared to common shareholders and Exchangeable Securities holders	**$ 8,559**	$ 8,765
Dividends declared to warrant holders	**291**	519
	$ 8,850	$ 9,284

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. On September 18, 2023, the Company announced a decrease to its dividend per share to $0.01 per month (or $0.12 per year) effective September 29, 2023.

The following dividends were paid to common shareholders and Exchangeable Securities holders (included as NCI) during the year ended December 31, 2023:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount *($ thousands)*
December 30, 2022	January 16, 2023	**$ 0.04**	**$ 764**
January 31, 2023	February 15, 2023	**0.05**	**964**
February 28, 2023	March 15, 2023	**0.05**	**965**
March 31, 2023	April 17, 2023	**0.05**	**965**
April 28, 2023	May 15, 2023	**0.05**	**971**
May 31, 2023	June 15, 2023	**0.05**	**971**
June 30, 2023	July 17, 2023	**0.05**	**973**
July 31, 2023	August 15, 2023	**0.05**	**980**
August 31, 2023	September 15, 2023	**0.05**	**980**
September 29, 2023	October 16, 2023	**0.01**	**196**
October 31, 2023	November 15, 2023	**0.01**	**198**
November 30, 2023	December 15, 2023	**0.01**	**198**
		$ 0.47	**$ 9,125**

During the year ended December 31, 2023, dividends of $4.2 million (December 31, 2022 - $3.3 million) were also paid to the NCI of Canadian Holdco. The dividends were recognized through net income on the consolidated statements of income (loss) within general and administrative expenses. 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, 2023, dividends payable of $0.5 million have been accrued on the special warrants (December 31, 2022 - $0.7 million). During the year ended December 31, 2023, $0.5 million in dividends were paid out on the special warrants (December 31, 2022 - $0.2 million).

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

The following dividend was declared but not paid to common shareholders and Exchangeable Securities holders during the year ended December 31, 2023:

Record date	**Payment date**	**Cash dividend per share ($)**	**Total dividend amount** *($ thousands)*
December 29, 2023	January 15, 2024	**$ 0.01**	**$ 198**

19. EARNINGS (LOSS) PER SHARE

	Year ended December 31, 2023	2022
Weighted average number of common shares outstanding	**18,039,997**	17,540,296
Dilutive effect of options	**—**	288,207
Dilutive effect of RSUs	**—**	450,229
Dilutive effect of special warrants	**—**	1,138,997
Weighted average number of common shares outstanding for diluted earnings (loss) per share	**18,039,997**	19,417,729
Options and RSUs excluded from calculation of diluted shares for the period due to their anti-dilutive effect	**2,390,394**	265,000

20. 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:

($ thousands)	Year ended December 31, 2023	2022
Salaries, fees and other employee benefits	**$ 6,027**	$ 6,882
Share-based compensation expense	**1,374**	1,709
Compensation expense of key management	**$ 7,401**	$ 8,591

(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.

The NCI owns the special warrants related to the Vault Credit acquisition. Refer to Note 15(b) - *Common Shares* for further information.

(d) Vault Credit engaged in the following transactions with related parties in the periods 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 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, 2023, were $0.2 million (December 31, 2022 - $0.1 million).

- Wittlin has significant influence over certain brokers within Vault Credit's origination network. The leases obtained from related-party brokers comprise 50% (December 31, 2022 - 48%) of total finance receivables of Vault Credit as at December 31, 2023. The total related-party broker commissions capitalized during the year ended December 31, 2023, was $4.1 million (December 31, 2022 - $12.2 million).
- 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, 2023, was $6.1 million (December 31, 2022 - $5.4 million).
- Wittlin and Trager indirectly control the general partner of VCOF. VCOF is a limited partnership that entered into a securitization arrangement with Vault Credit on December 14, 2021. Total interest expense for the year ended December 31, 2023, was $0.4 million and servicing fee revenue was $0.1 million (December 31, 2022 - $0.3 million interest expense and $0.1 million servicing fee revenue). See Note 9(c)(ii) - *Borrowings*.
- Wittlin controls VCOF SPV I Inc. During the year ended December 31, 2023, Vault Credit and Vault Home respectively sold $268.7 million and $35.4 million (December 31, 2022 - n/a, and n/a) of finance receivables to VCOF SPV I Inc. During the year ended December 31, 2023, total fees earned by Vault Credit were $5.3 million and total fees earned by Vault Home were insignificant.

(e) Wittlin owns 38.3% of the NCI in Vault Home.

(f) Wittlin has significant influence over Vault Credit Inc., which has begun developing Tandem's vendor system. For the year ended December 31, 2023, Tandem paid Vault Credit Inc. $0.9 million (December 31, 2022 - $1.8 million) for software development services.

(g) During the year ended December 31, 2023, 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, 2023, the total unsecured debentures held by related parties was $0.6 million (December 31, 2022 - $0.7 million). Total interest paid for the year ended December 31, 2023, was insignificant (December 31, 2022 - $0.1 million).

(h) An indirect subsidiary of Chesswood is the general partner of the newly launched Chesswood Canadian Asset-Backed Credit Fund LP ("CABCF"), a limited partnership. During the year ended December 31, 2023, Chesswood's operating entities sold $18.0 million of assets to CABCF and earned fee revenue of $0.8 million.

(in Canadian dollars, except where otherwise indicated)

21. 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, 2023	Operating segment	Functional currency
Chesswood Holdings Ltd.	Ontario	100%	Corporate - Canada	CAD
Lease-Win Limited	Ontario	100%	Corporate - Canada	CAD
Case Funding Inc.	Delaware	100%	Corporate - Canada	USD
1000390232 Ontario Inc. (Easy Legal)(3)	Ontario	100%	Corporate - Canada	CAD
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(4)	Ontario	51%	Canadian Equipment Financing	CAD
Vault Home Credit Corporation	Ontario	51%	Canadian Consumer Financing	CAD
Chesswood U.S. Acquisition Co Ltd.	Delaware	100%(2)	U.S. Equipment Financing	USD
Pawnee Leasing Corporation(5)	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	USD
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. Prior to amalgamation, Blue Chip was a wholly owned subsidiary of the Company. The amalgamated corporation, which continues to use the Vault Credit Corporation name, remains a wholly owned subsidiary of Canadian Holdco (of which, as noted above, Chesswood owns 51% and exercises control).

(1) The entity was incorporated in the State of Delaware; however, its principal place of business is Colorado.
(2) 100% ownership of voting shares.
(3) Easy Legal holds a consolidated, wholly owned SPE.
(4) Vault Credit 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 9(c) - *Borrowings.*
(5) 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 9(b) - *Borrowings*.

22. CASH FLOW SUPPLEMENTARY DISCLOSURE

		Year ended December 31,	
($ thousands)	*Note*	**2023**	2022
Non-cash transactions			
Common shares issued for business combinations		**$ —**	$ 9,104
Common shares issued on exercise of RSUs	*17*	**1,753**	2,614
		$ 1,753	$ 11,718
Interest paid		**$ 119,198**	$ 73,238

		Year ended December 31,	
($ thousands)	*Note*	**2023**	2022
Other non-cash items included in net income (loss)			
Share-based compensation expense	*17*	**$ 3,040**	$ 3,683
Amortization of deferred financing costs and debt restructuring	*9*	**6,257**	5,568
Non-cash interest expense on premise leases payable and revaluation of option liability		**(3,107)**	(7,433)
Unrealized loss (gain) on foreign exchange		**(659)**	1,464
		$ 5,531	$ 3,282
Changes in other net operating assets			
Other assets		**(15,798)**	14,832
Accounts payable and other liabilities		**(651)**	(10,982)
Customer security deposits		**(1,786)**	(1,661)
		$ (18,235)	$ 2,189

		Year ended December 31,	
($ thousands)	*Note*	**2023**	2022
Borrowings			
Draw-downs or proceeds	*9*	**$ 3,873,698**	$ 4,886,915
Repayments	*9*	**(4,122,782)**	(4,272,570)
		$ (249,084)	$ 614,345

23. 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 Consumer Financing, Canadian Auto Financing and Asset Management.

Segment information is prepared in conformity with the accounting policies adopted for the Company's consolidated financial statements for the year ended December 31, 2023. 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 income (loss) before income taxes. 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.

Selected information by segment and geographically is as follows:

	Year ended December 31, 2023						
($ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Consumer Financing	Canadian Auto Financing	Asset Manage-ment	Corporate - Canada	Total
Interest revenue on finance leases and loans	$ 131,887	$ 74,124	5,919	$ 45,333	$ —	$ 1,147	$ 258,410
Ancillary finance and other fee income	20,159	21,192	686	3,197	10,461	2,267	57,962
Interest income (expense)	(71,618)	(37,544)	(4,912)	(13,608)	353	3,408	(123,921)
Provision for credit losses	(59,355)	(8,658)	(197)	(18,773)	—	(175)	(87,158)
Net revenue	21,073	49,114	1,496	16,149	10,814	6,647	105,293
Personnel expenses	20,619	21,277	1,545	8,292	1,956	5,042	58,731
Share-based compensation expense	594	63	—	279	—	2,104	3,040
General and administrative expenses	22,255	16,642	1,530	6,443	1,779	5,178	53,827
Goodwill and intangible asset impairment	21,805	1,081	—	—	—	—	22,886
Depreciation	1,004	431	8	312	5	—	1,760
Amortization	—	2,182	100	180	91	232	2,785
Operating income (loss)	(45,204)	7,438	(1,687)	643	6,983	(5,909)	(37,736)
Unrealized gain (loss) on foreign exchange	—	439	—	—	(46)	266	659
Income (loss) before income taxes	(45,204)	7,877	(1,687)	643	6,937	(5,643)	(37,077)
Income tax expense (recovery)	(6,782)	2,173	(513)	121	1,945	(1,221)	(4,277)
Net income (loss)	$ (38,422)	$ 5,704	$ (1,174)	$ 522	$ 4,992	$ (4,422)	$ (32,800)
Total assets	$1,153,606	$ 671,056	$ 69,887	$ 279,513	$ 12,279	$ 28,458	$2,214,799
Total liabilities	$ 901,715	$ 528,859	$ 39,216	$ 250,934	$ 1,563	$ 305,524	$2,027,811
Finance receivables	$1,076,254	$ 600,898	$ 64,894	$ 259,459	$ —	$ 10,210	$2,011,715
Goodwill and intangible assets	$ —	$ 42,716	$ 1,718	$ 2,148	$ 3,779	$ 3,268	$ 53,629
Property and equipment disposal (expenditures)	$ 17	$ (54)	$ (257)	$ (199)	$ —	$ —	$ (493)

	Year ended December 31, 2022						
($ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Consumer Financing	Canadian Auto Financing	Asset Manage-ment	Corporate - Canada	Total
Interest revenue on finance leases and loans	$ 130,353	$ 60,681	$ 1,289	$ 40,300	$ —	$ —	$ 232,623
Ancillary finance and other fee income	20,500	12,073	242	1,646	9,281	—	43,742
Interest income (expense)	(46,964)	(23,707)	(691)	(9,777)	8	7,752	(73,379)
Provision for credit losses	(14,708)	(9,691)	(70)	(19,846)	—	—	(44,315)
Net revenue	89,181	39,356	770	12,323	9,289	7,752	158,671
Personnel expenses	25,614	18,037	1,053	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	13,671	1,082	5,235	1,320	3,050	45,823
Depreciation	970	425	10	356	4	—	1,765
Amortization	—	2,194	17	171	53	—	2,435
Operating income (loss)	39,836	4,986	(1,392)	(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	5,494	(1,392)	(549)	5,336	(4,546)	44,179
Income tax expense (recovery)	11,979	3,137	(397)	(256)	1,363	(2,063)	13,763
Net income (loss)	$ 27,857	$ 2,357	$ (995)	$ (293)	$ 3,973	$ (2,483)	$ 30,416
Total assets	$1,433,620	$ 828,246	$ 8,550	$ 246,596	$ 5,406	$ 11,778	$2,534,196
Total liabilities	$1,135,507	$ 645,030	$ 267	$ 223,666	$ 3,216	$ 298,105	$2,305,791
Finance receivables	$1,332,452	$ 730,384	$ 31,770	$ 229,652	$ —	$ 6,000	$2,330,258
Goodwill and intangible assets	$ 21,880	$ 45,979	$ 1,592	$ 2,265	$ 3,870	$ —	$ 75,586
Property and equipment disposal (expenditures)	$ (434)	$ (371)	$ —	$ (106)	$ —	$ —	$ (911)

24. BUSINESS COMBINATIONS

Easy Legal

On February 13, 2023, 1000390232 Ontario Inc. (Easy Legal), a subsidiary of the Company, acquired the operating business of Easy Legal Finance Inc., a specialty lender focused on providing credit solutions to the legal sector.

The acquisition of Easy Legal Finance Inc.'s operating business 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. Costs related to the acquisition are expensed as incurred. The acquisition of the operating business allows the Company to enter the legal finance industry and expand into a new line of business. Easy Legal is included in the Corporate - Canada Segment.

The Company paid $3.5 million in cash to purchase the operating business. The fair value of the assets and liabilities, including intangible assets that arose on acquisition, were as follows:

($ thousands)		**February 13, 2023**
Assets		
Customer relationships	**$**	**723**
Trade names		**663**
Software		**2,114**
Net assets acquired	**$**	**3,500**

For the period from February 13, 2023, to December 31, 2023, the Company reflected revenues of $2.5 million and net income of $0.2 million related to the operations of Easy Legal.

25. SUBSEQUENT EVENTS

Bishop Holdings LLC - On October 31, 2023, Chesswood announced the establishment of Bishop Holdings LLC, an entity between certain funds managed by Wafra Inc. ("Wafra Funds") and Pawnee. On January 31, 2024, the U.S. Financing Segment closed the first sale of finance receivables to Bishop Holdings LLC. In connection with the formation of Bishop Holdings LLC and the closing of the first sale of receivables, Chesswood has issued to an affiliate of Wafra Funds share purchase warrants (the "Warrants") to purchase 2,083,949 Chesswood common shares. The Warrants are exercisable at CAD$10 per Common Share, can be exercised at the option of the holder on a cashless basis and have certain features to protect the holder from dilution and other material corporate events. A portion of Warrants (1,041,975) vested immediately upon issuance, and the remaining Warrants will vest on a linearly interpolated basis as receivables are purchased by Bishop Holdings LLC.

Chesswood Group Limited

DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors

Edward Sonshine, O.Ont., Q.C.
Director, *Chairperson, Chesswood Group Limited and Chairperson, Nominating and ESG Committee*

Catherine Barbaro
Director
Chairperson, Compensation Committee

Raghunath Davloor
Director
Chairperson, Audit and Risk Committee

Robert Day
Director
Former Chairperson, Pawnee Leasing Corporation

Ryan Marr
Director
President & C.E.O., Chesswood Group Limited

Frederick W. Steiner
Director

Daniel Wittlin
Director
Founder and C.E.O., Vault Credit Corporation

Executive Team

Ryan Marr
President & C.E.O.

Tobias Rajchel
Chief Financial Officer

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