# Chesswood Group Limited

## Consolidated Financial Statements

December 31, 2022

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

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

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

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

# Independent auditor's report

To the Shareholders of
**Chesswood Group Limited**

**Opinion**

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

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

**Basis for opinion**

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

**Comparative information**

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

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

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

**Key audit matters**

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

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

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

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Allowance for expected credit losses** | |
| As more fully described in notes 2 and 6 to the consolidated financial statements, the Company has used expected credit loss [“ECL”] models to recognize $50.7 million in allowances for expected credit losses on its consolidated statement of financial position as of December 31, 2022. The ECL is an unbiased and probability-weighted estimate of credit losses expected to occur in the future, which is determined by evaluating a range of possible outcomes incorporating time value of money and reasonable and supportable information about past events, current conditions and future economic forecasts.<br><br>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:<br><br>i. determination of credit risk when a loan has experienced a significant increase in credit risk [“SICR”] since initial recognition<br>ii. determination of probability of default and loss given default<br>iii. the forecast of forward-looking information for multiple economic scenarios<br>iv. application of expert credit judgment through the use of qualitative adjustments in the calculation of both 12-month and lifetime credit losses | To test the allowance for expected credit losses, our audit procedures, included, among others:<br>• 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;<br>• 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;<br>• 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;<br>• We tested, on a sample basis, the appropriateness of the loss given default and reasonableness of the expected recoveries by analyzing relevant historical information;<br>• We recalculated the ECL to test the mathematical accuracy of management’s models on a sample basis; and<br>• We assessed the adequacy of the Company’s disclosures in the consolidated financial statements in relation to this matter. |

**Other information**

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

- Management’s Discussion and Analysis
- Annual Report

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

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

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

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

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

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

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

**Auditor’s responsibilities for the audit of the consolidated financial statements**

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

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

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

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

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

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

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

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 16, 2023

To the Shareholders of Chesswood Group Limited

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

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

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

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

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

**Other Information**
Management is responsible for the other information. The other information comprises:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 9, 2022

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

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

Approved by the Board of Directors

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

(signed) Raghunath Davloor
Chairman, Audit and Risk Committee

*Please see notes to the consolidated financial statements.*

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

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

*Please see notes to the consolidated financial statements.*

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

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

*Please see notes to the consolidated financial statements.*

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

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

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

*Please see notes to the consolidated financial statements.*

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

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

*Please see notes to the consolidated financial statements.*

## TABLE OF NOTES



## 1. NATURE OF BUSINESS

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

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

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

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**
The consolidated financial statements, including comparatives:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial assets are categorized for subsequent measurement as follows:

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

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

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

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

Financial liabilities are categorized as follows for subsequent measurement:

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

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

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

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

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

The categories to which the financial instruments are allocated are:

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

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

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

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

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

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

**Allowance for expected credit losses**

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

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

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

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

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

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

The Company's write off policy is as follows:
- For U.S. finance receivables: leases and loans that are 154 days contractually past due
- For Canadian finance receivables: leases and loans are considered defaulted on an individual basis when there is no realistic prospect of recovery
- For auto finance receivables: loans that are 120 days contractually past due

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

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

In addition to internal weighted average loss data, the process of estimating ECLs uses the following inputs and assumptions to reflect information about past events, current conditions and forecasts of future conditions that are not already captured in the inputs:
- Recoveries of amounts previously charged off in the last 12 months, as an estimate of recoveries for the next 12 months;
- An estimate of the effects on credit losses in the next 12 months of natural disasters and economic shocks;
- The stage of the business cycle for the industry, which considers macro economic factors; and
- Current delinquency trends of non-accrual and greater than 30 days delinquency rates.

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

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

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

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

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

**Right-of-use assets and premise leases payable**

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

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

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

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

**Property and equipment**

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

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

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

**Intangible assets**

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

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

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

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

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

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

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

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

**Vault Credit Business combination**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 3. NEW ACCOUNTING STANDARDS

**New standards, interpretations and amendments adopted by the Company**

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

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

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

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

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

**Standards issued but not yet effective**

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

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

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

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

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

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

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

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

## 4. FINANCIAL INSTRUMENTS

*Categories and measurement hierarchy*

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

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

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

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

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

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

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

## 5. FINANCIAL RISK MANAGEMENT

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

***i) Credit risk***

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

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

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

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

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

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

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

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

***ii) Liquidity risk***

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

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

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

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

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

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

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

***iii) Market risk***

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

a) *Interest rate risk*

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

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

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

*b) Foreign currency risk*

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

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

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

## 6. FINANCE RECEIVABLES

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

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

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

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

(b) Minimum scheduled collections

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

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

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

(c) Allowance for expected credit losses

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

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

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

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

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

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

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

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

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

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

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

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

(d) Finance receivables past due

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

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

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

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

(e) Modifications

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

(f) Collateral

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

(g) Assets sold to third parties

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

## 7. INTANGIBLE ASSETS

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

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

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

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

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

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

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

## 8. GOODWILL

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

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

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

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

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

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

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

## 9. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

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

## 10. BORROWINGS

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

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

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

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

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

(a) Chesswood Credit Facility:

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

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

(b) U.S. Equipment Financing Segment:

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

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

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

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

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

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

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

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

(c) Canadian Equipment Financing Segment:

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

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

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

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

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

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

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

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

(d) Canadian Auto Financing Segment:

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

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

(ii) Unsecured debentures:

Rifco has previously issued unsecured debentures which allow Rifco the right to redeem the debenture in the last year of their terms without penalty. The unsecured debenture holders do not have early retraction rights and have no right to convert into common shares. The unsecured debentures have an asset coverage covenant. Non-compliance with this covenant could result in the debenture holders declaring an event of default and requiring all amounts outstanding to be immediately due and payable. Rifco was compliant for the reporting period. The unsecured debentures are non-retractable and have maturity dates that go out until August 2026.

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

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

(e) Restricted funds:

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

## 11. CUSTOMER SECURITY DEPOSITS

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

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

## 12. TAXES

(a) Tax expense consists of the following:

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

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

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

(c) Reconciliation of net deferred tax liabilities:

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

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

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

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

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

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

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

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

## 13. MINIMUM PAYMENTS

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

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

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

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

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

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

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

## 14. CONTINGENT LIABILITIES

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

## 15. CAPITAL MANAGEMENT

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

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

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

## 16. COMMON SHARES

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

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

(a) Normal course issuer bids

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

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

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

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

(*in Canadian dollars, except where otherwise indicated)*

(b) Special warrants

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

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

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

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

## 17. EXCHANGEABLE SECURITIES

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

## 18. COMPENSATION PLANS

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

**(a) Share options**

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

*(in Canadian dollars, except where otherwise indicated)*

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

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

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

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

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

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

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

**(b) Restricted share units**

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

*(in Canadian dollars, except where otherwise indicated)*

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

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

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

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

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

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

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

## 19. DIVIDENDS

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

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

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

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

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

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

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

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

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

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

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

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

## 20. EARNINGS PER SHARE

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

## 21. RELATED PARTY TRANSACTIONS

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

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

Key management compensation is as follows:

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

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

(d) Vault Credit engaged in the following transactions with related parties in the period subsequent to the Vault Credit business combination:

- Vault Credit signed a sublease commencing on April 30, 2021 for an eight-year term with a company controlled by Wittlin and Trager. The sublease mirrors all the terms of the head lease, which was entered into with an arm's length party, and requires Vault Credit to pay an allocation of the head lease rent based on head count. The sublease is therefore considered to be on fair market value terms. The right-of-use asset and premise lease liability initially recognized on the date of commencement is $0.8 million. In 2022, there were additional modifications and terminations to the lease resulting in net additions of $0.1 million to the premise lease liability. Lease payments paid during the year ended December 31, 2022 were $0.1 million (December 31, 2021 - $0.1 million).
- Wittlin has significant influence over certain brokers within Vault Credit's origination network. The leases obtained from related party brokers comprise 48% (December 31, 2021 - 37%) of total finance receivables of the Canadian Equipment Financing Segment as at December 31, 2022. The total related party broker commissions capitalized during the year ended December 31, 2022 was $12.2 million (December 31, 2021 - $6.1 million). These transactions were conducted at fair market value terms.

- Prior to the merger with Vault Credit, the Canadian Equipment Financing Segment had provided leases to entities over which Wittlin has significant influence. The total capital cost of the leases is $0.5 million (December 31, 2021 - $0.6 million) with a net book value which was insignificant as at December 31, 2022 (December 31, 2021 - $0.2 million). These transactions were conducted at fair market value terms.
- Vault Credit and Vault Home license proprietary leasing software from an entity controlled by Wittlin. Vault Credit and Vault Home pay for the costs of improving and maintaining the software. The total costs expensed by Vault Credit and Vault Home during the year ended December 31, 2022 is $5.4 million (December 31, 2021 - $2.0 million). These transactions were conducted at fair market value terms.
- Wittlin and Trager are indirectly general partners, through controlled entities, of the VCOF, a limited partnership, which Vault Credit had entered into arrangements with on December 14, 2021. Total servicing fee revenue and interest expense for the year ended December 31, 2022 was $0.4 million (December 31, 2021 - n/a). See Note 10 - *Borrowings*.

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

(f) Wittlin has significant influence over Vault Credit, which has begun developing Tandem's vendor system. For the year ended December 31, 2022, Tandem paid Vault Credit Inc. $1.8 million (December 31, 2021 - $0.3 million) for software development services. This transaction was conducted at fair market value terms.

(g) During the year ended December 31, 2022, related parties were holders of unsecured debentures in Rifco. The terms offered to related parties for the unsecured debentures are identical to those offered to non-related party unsecured debenture holders. As at December 31, 2022, the total unsecured debentures held by related parties was $0.7 million. Total interest paid during the year was $0.1 million.

*(in Canadian dollars, except where otherwise indicated)*

## 22. SUBSIDIARIES

The following table contains a list of the Company's consolidated subsidiaries:

| Entity's name | Principal place of business | Ownership as at December 31, 2022 | Operating segment | Functional currency |
|---|---|---|---|---|
| Chesswood Holdings Ltd. | Ontario | 100% | Corporate - Canada | CAD |
| Lease-Win Limited | Ontario | 100% | Corporate - Canada | CAD |
| 1000390232 Ontario Inc. | Ontario | 100% | Corporate - Canada | CAD |
| Case Funding Inc. | Delaware | 100% | Corporate - Canada | USD |
| Chesswood Capital Management Inc. | Ontario | 100% | Asset Management | CAD |
| Chesswood Capital Management USA Inc. | Colorado(1) | 100% | Asset Management | USD |
| Waypoint Investment Partners Inc. | Ontario | 100% | Asset Management | CAD |
| Waypoint Private Credit GP Inc. | Ontario | 100% | Asset Management | CAD |
| Waypoint Private Credit Fund LP | Ontario | General partner | Asset Management | CAD |
| Chesswood Canadian ABS GP Inc. | Ontario | 100% | Asset Management | CAD |
| CHW/Vault Holdco Corp. | Ontario | 51% | Canadian Equipment Financing | CAD |
| Vault Credit Corporation(3) | Ontario | 51% | Canadian Equipment Financing | CAD |
| Vault Home Credit Corporation | Ontario | 51% | Canadian Equipment Financing | CAD |
| Chesswood U.S. Acquisition Co Ltd. | Delaware | 100%(2) | U.S. Equipment Financing | USD |
| Pawnee Leasing Corporation(4) | Colorado | 100% | U.S. Equipment Financing | USD |
| Tandem Finance Inc. | Colorado | 100% | U.S. Equipment Financing | USD |
| Windset Capital Corporation | Delaware | 100% | U.S. Equipment Financing | CAD |
| Rifco Inc. | Alberta | 100% | Canadian Auto Financing | CAD |
| Rifco National Auto Finance Corporation | Alberta | 100% | Canadian Auto Financing | CAD |

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

(1) Chesswood Capital Management USA Inc. was incorporated in the State of Delaware, however, its principal place of business is Colorado.
(2) 100% ownership of voting shares.
(3) Vault holds, through a consolidated, wholly owned SPE, a portfolio of leases and loans that are financed through an arm's length financial institution. See Note 6 - *Finance Receivables* and Note 10(a) - *Borrowings*.
(4) Pawnee holds, through consolidated, wholly owned SPEs, a portfolio of leases and loans that are financed through arm's length financial institutions. See Note 6 - *Finance Receivables* and Note 10(b) - *Borrowings*.

## 23. CASH FLOW SUPPLEMENTARY DISCLOSURE

| *($ thousands)* | Note | Year ended December 31, 2022 | Year ended December 31, 2021 |
|---|---|---|---|
| **Non-cash transactions** | | | |
| Common shares issued for business combinations | *25* | **$ 9,104** | $ 1,667 |
| Common shares issued on exercise of RSUs | *18* | **2,614** | 71 |
| | | **$ 11,718** | $ 1,738 |
| **Interest paid** | | **$ 73,238** | $ 26,804 |

| *($ thousands)* | Note | Year ended December 31, 2022 | Year ended December 31, 2021 |
|---|---|---|---|
| **Other non-cash items included in net income** | | | |
| Share-based compensation expense | *18* | **$ 3,683** | $ 3,544 |
| Amortization of deferred financing costs and debt restructuring | *10* | **5,568** | 3,659 |
| Non-cash interest expense on premise leases payable and revaluation of option liability | | **(7,433)** | (639) |
| Net realized and unrealized gain on interest rate derivative | | **—** | (344) |
| Unrealized loss (gain) on foreign exchange | | **1,464** | (666) |
| | | **$ 3,282** | $ 5,554 |
| **Changes in other net operating assets** | | | |
| Other assets | | **14,832** | (1,593) |
| Accounts payable and other liabilities | | **(10,982)** | 10,060 |
| Customer security deposits | | **(1,661)** | (2,785) |
| | | **$ 2,189** | $ 5,682 |

| *($ thousands)* | Note | Year ended December 31, 2022 | Year ended December 31, 2021 |
|---|---|---|---|
| **Borrowings** | | | |
| Draw-downs or proceeds from borrowings | *10* | **$ 4,886,915** | $ 1,938,391 |
| Payments - borrowings | *10* | **(4,272,570)** | (1,427,727) |
| | | **$ 614,345** | $ 510,664 |

## 24. SEGMENT INFORMATION

Segments are identified on the same basis that is used internally to manage and to report on performance, taking into account materiality and the products and services of each segment and the organizational structure of the Company. The Company's operations consist of the following reportable segments: U.S. Equipment Financing, Canadian Equipment Financing, Canadian Auto Financing, and Asset Management.

Segment information is prepared in conformity with the accounting policies adopted for the Company's audited consolidated financial statements for the year ended December 31, 2022. The role of the "chief operating decision maker" with respect to resource allocation and performance assessment is embodied in the position of Chief Executive Officer. The performance of the segments is measured on the basis of net income before income tax. Net assets, which are defined as total segment assets less total segment liabilities, are used as the basis of assessing the allocation of resources. When compared with the last annual consolidated financial statements, there are no differences in the basis of segmentation or in the basis of measuring segment results, other than the acquisition of Rifco in Q1 2022 and the operations of the Asset Management Segment.

Selected information by segment and geographically is as follows:

| *($ thousands)* | Year ended December 31, 2022 U.S. Equipment Financing | Canadian Equipment Financing | Canadian Auto Financing | Asset Management | Corporate - Canada | Total |
|---|---|---|---|---|---|---|
| Interest revenue on finance leases and loans | $ 130,353 | $ 61,970 | $ 40,300 | $ — | $ — | $ 232,623 |
| Ancillary finance and other fee income | 20,500 | 12,315 | 1,646 | 9,281 | — | 43,742 |
| Interest income (expense) | (46,964) | (24,398) | (9,777) | 8 | 7,752 | (73,379) |
| Provision for credit losses | (14,708) | (9,761) | (19,846) | — | — | (44,315) |
| **Net revenue** | **89,181** | **40,126** | **12,323** | **9,289** | **7,752** | **158,671** |
| Personnel expenses | 25,614 | 19,090 | 7,110 | 2,617 | 4,891 | 59,322 |
| Share-based compensation expense | 1,296 | 43 | — | — | 2,344 | 3,683 |
| General and administrative expenses | 21,465 | 14,753 | 5,235 | 1,320 | 3,050 | 45,823 |
| Depreciation | 970 | 435 | 356 | 4 | — | 1,765 |
| Amortization | — | 2,211 | 171 | 53 | — | 2,435 |
| **Operating income (loss)** | **39,836** | **3,594** | **(549)** | **5,295** | **(2,533)** | **45,643** |
| Unrealized gain (loss) on foreign exchange | — | 508 | — | 41 | (2,013) | (1,464) |
| **Income (loss) before income taxes** | **39,836** | **4,102** | **(549)** | **5,336** | **(4,546)** | **44,179** |
| Income tax expense (recovery) | 11,979 | 2,740 | (256) | 1,363 | (2,063) | 13,763 |
| **Net income (loss)** | **$ 27,857** | **$ 1,362** | **$ (293)** | **$ 3,973** | **$ (2,483)** | **$ 30,416** |
| Total assets | $ 1,433,620 | $ 836,796 | $ 246,596 | $ 5,406 | $ 11,778 | $ 2,534,196 |
| Total liabilities | $ 1,135,507 | $ 645,297 | $ 223,666 | $ 3,216 | $ 298,105 | $ 2,305,791 |
| Finance receivables | $ 1,332,452 | $ 762,154 | $ 229,652 | $ — | $ 6,000 | $ 2,330,258 |
| Goodwill and intangible assets | $ 21,880 | $ 47,571 | $ 2,265 | $ 3,870 | $ — | $ 75,586 |
| Property and equipment expenditures | $ 434 | $ 371 | $ 106 | $ — | $ — | $ 911 |

| ($ thousands) | Year ended December 31, 2021<br>U.S. Equipment Financing | Canadian Equipment Financing | Corporate - Canada | Total |
|---|---|---|---|---|
| Interest revenue on finance leases and loans | $ 94,220 | $ 25,892 | $ — | $ 120,112 |
| Ancillary finance and other fee income | 11,053 | 6,918 | — | 17,971 |
| Interest income (expense) | (24,397) | (8,019) | 745 | (31,671) |
| Provision for credit losses | 2,240 | (2,428) | — | (188) |
| **Net revenue** | **83,116** | **22,363** | **745** | **106,224** |
| Personnel expenses | 19,912 | 9,619 | 2,738 | 32,269 |
| Share-based compensation expense | 2,378 | — | 1,166 | 3,544 |
| General and administrative expenses | 17,047 | 6,187 | 3,216 | 26,450 |
| Depreciation | 846 | 255 | 10 | 1,111 |
| Amortization | — | 1,789 | — | 1,789 |
| **Operating income (loss)** | **42,933** | **4,513** | **(6,385)** | **41,061** |
| Gain on interest rate derivative | — | — | 344 | 344 |
| Unrealized gain on foreign exchange | — | 198 | 468 | 666 |
| **Income (loss) before income taxes** | **42,933** | **4,711** | **(5,573)** | **42,071** |
| Income tax expense (recovery) | 11,076 | 907 | (1,081) | 10,902 |
| **Net income (loss)** | **$ 31,857** | **$ 3,804** | **$ (4,492)** | **$ 31,169** |
| Total assets | $ 1,118,416 | $ 484,627 | $ (460) | $ 1,602,583 |
| Total liabilities | $ 835,571 | $ 375,192 | $ 203,838 | $ 1,414,601 |
| Finance receivables | $ 1,025,561 | $ 392,699 | $ — | $ 1,418,260 |
| Goodwill and intangible assets | $ 20,481 | $ 49,600 | $ — | $ 70,081 |
| Property and equipment expenditures | $ (717) | $ (286) | $ — | $ (1,003) |

## 25. BUSINESS COMBINATIONS

(a) Rifco Inc.

On January 14, 2022, Chesswood completed its acquisition of Rifco, a provider of consumer auto loans to the sub-prime market in Canada, where the Company acquired 100% of Rifco's outstanding shares.

The acquisition of Rifco was accounted for using the acquisition method, whereby the cost of acquisition is measured as the aggregate of the acquisition-date fair value of consideration transferred. Goodwill is measured as the excess of the aggregate of the acquisition-date fair value of consideration transferred over the net acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Costs related to the acquisition are expensed as incurred.

The acquisition of Rifco allows the Company to enter into the auto loan industry and increase efficiencies with lenders. Rifco is included in the Canadian Auto Financing Segment and the goodwill recognized is included in the Canadian Auto Financing CGU for purposes of goodwill impairment tests.

The consideration for the acquisition included:

| *($ thousands)* | January 14, 2022 |
|---|---|
| Shares of the Company[1] | $ 7,095 |
| Cash | 21,020 |
| | $ 28,115 |

(1) Based on Chesswood share market price on January 14, 2022 of $14.23. Consideration does not include equity issuance costs.

Rifco shareholders elected for approximately 25% of the consideration to be paid out in Chesswood common shares. This resulted in a total of 498,605 shares being issued.

During the second quarter of 2022, the Company updated the estimated fair value of the finance receivables and determined the resulting deferred tax impact as at the date of the merger, which resulted in a $2.4 million reduction to the finance receivables and a $0.5 million increase in deferred tax assets. The net impact to goodwill was $1.9 million.

The fair values of the assets and liabilities, including the goodwill and intangible assets arising on acquisition, were as follows:

| *($ thousands)* | January 14, 2022 |
|---|---|
| **Assets** | |
| Cash | $ 5,127 |
| Restricted funds | 17,807 |
| Other assets | 1,849 |
| Finance receivables | 206,850 |
| Right-of-use assets | 1,081 |
| Property and equipment | 452 |
| Intangible assets | 340 |
| Goodwill | 1,895 |
| **Liabilities** | |
| Accounts payable and other liabilities | 6,508 |
| Premise leases payable | 1,327 |
| Borrowings | 199,451 |
| **Net assets acquired** | $ 28,115 |

The gross contractual amount of finance receivables was approximately $329.3 million as at January 14, 2022. A provision for credit losses subsequent to acquisition of $9.3 million was recognized.

None of the goodwill is deductible for tax purposes. No impairment on the goodwill has occurred since the date of acquisition. The transaction costs related to the acquisition expensed during the year ended December 31, 2022 were $0.9 million. Total costs of $0.4 million related to the acquisition were expensed in the year ended December 31, 2021.

For the period from January 14, 2022 to December 31, 2022, Rifco contributed $41.9 million to the consolidated revenue and a loss of $0.3 million to the consolidated net income of the Company. Had the business combination occurred at the beginning of the year ended December 31, 2022, the additional contributions of revenue made by Rifco would have been $1.2 million. The additional contribution of net income would have been a loss of $0.2 million.

(b) Waypoint Investment Partners Inc.

On May 25, 2022, CCM acquired 100% of Waypoint, an investment fund and private client investment manager.

The acquisition of Waypoint was accounted for using the acquisition method, whereby the cost of acquisition is measured as the aggregate of the acquisition-date fair value of consideration transferred. Goodwill is measured as the excess of the aggregate of the acquisition-date fair value of consideration transferred over the net acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Costs related to the acquisition are expensed as incurred.

The acquisition of Waypoint provides CCM with an integrated platform to structure and distribute private credit solutions to Canadian investors alongside Waypoint's growing suite of alternative investment funds.

An officer of the Company held a small minority interest in Waypoint, such that the purchase of Waypoint shares from such officer (the value of which was less than 0.2% of the Company's market capitalization) was a related party transaction.

The consideration for the acquisition included:

| *($ thousands)* | | **May 25, 2022** |
|---|---|---|
| Shares of the Company[(1)] | **$** | **2,038** |
| Cash | | **1,589** |
| | **$** | **3,627** |

(1) Based on Chesswood share market price on May 25, 2022 of $13.50. Consideration does not include equity issuance costs.

The fair values of the assets and liabilities, including the goodwill and intangible assets arising on acquisition, were as follows:

| *($ thousands)* | | **May 25, 2022** |
|---|---|---|
| **Assets** | | |
| Cash | **$** | **143** |
| Other assets | | **640** |
| Property and equipment | | **11** |
| Customer relationships | | **727** |
| Licenses | | **1,053** |
| Goodwill | | **2,143** |
| | | |
| **Liabilities** | | |
| Accounts payable and other liabilities | | **1,090** |
| | | |
| **Net assets acquired** | **$** | **3,627** |

None of the goodwill is deductible for tax purposes. No impairment on the goodwill has occurred since the date of acquisition. For the period from May 25, 2022 to December 31, 2022, Waypoint contributed $1.1 million to the consolidated revenue and a loss of $0.5 million to the consolidated net income of the Company. Had the business combination occurred at the beginning of the year ended December 31, 2022, the additional contributions of revenue and net income made by Waypoint would have been $0.9 million and $0.1 million, respectively.

(c) Vault Credit Corporation

On April 30, 2021 (the Effective Date), the Company merged its Canadian equipment leasing subsidiary, Blue Chip, with Vault Credit, a provider of equipment lease and commercial loan financing to small and medium-sized businesses across Canada. Chesswood incorporated a new company, Canadian Holdco, that acquired 100% of the shares of Blue Chip and 2750036 Ontario Inc., Vault Credit's parent company. In return, Chesswood received 51% ownership of Canadian Holdco. Chesswood also received a call option to acquire the remaining 49% of shares. The transaction resulted, in substance, in a 100% ownership interest at the date of acquisition and the full consolidation of Blue Chip and Vault Credit with no NCI recognized at that date. Subsequent to the acquisition and prior to exercise of the option, the NCI has the right to 49% of Canadian Holdco's net income.

The Company acquired control over Vault Credit and continues to exercise control over Blue Chip through the ability to control the decisions of Canadian Holdco's board of directors, through a priority vote, related to those activities that are most relevant to determining returns. The acquisition of Vault Credit was accounted for using the acquisition method, whereby the cost of acquisition is measured as the aggregate of the acquisition-date fair value of consideration transferred. Goodwill is measured as the excess of the aggregate of the acquisition-date fair value of consideration transferred over the net acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Costs related to the acquisition were expensed as incurred.

The ownership interest in Blue Chip was rolled into Canadian Holdco, resulting in a common control reorganization that is accounted for at consolidated book value.

The merger with Vault Credit enables the Company's continued expansion of the Canadian Equipment Financing Segment by removing a competitor and obtaining access to Vault Credit's broker relationships, which is accessed through its proprietary technology license. Vault Credit is included in the Canadian Equipment Financing Segment and the goodwill recognized is included in the Canadian Equipment Financing CGU for purposes of goodwill impairment tests. The results of the Canadian Equipment Financing Segment consist of Blue Chip and the post-acquisition results of Vault Credit. See Note 24 – *Segment Information*.

Recognized goodwill is attributable to synergies from combining both Vault Credit's and the Company's operations and the knowledge and expertise of their leadership teams.

The consideration for the merger included:

| *($ thousands)* | | | **April 30, 2021** |
|---|---|---|---|
| Shares of the Company | *i* | $ | 1,667 |
| Special warrants | *ii* | | 16,409 |
| Option liability | *iii* | | 12,305 |
| | | $ | 30,381 |

(*i*) A total of 133,333 common shares of the Company were issued on April 30, 2021.

(*ii*) A total of 1,466,667 special warrants issued, each exchangeable for one common share of the Company for no additional consideration. The special warrants vest in equal quarterly tranches beginning December 31, 2021 with the final tranche vesting on June 30, 2024 and are automatically exercised in two business days of vesting, unless the put or call option on the 49% of common shares has been exercised. The special warrants are classified as equity and were measured at fair value under the Black-Scholes Options Pricing Model.

(*iii*) On exercise of the Company's option, the derivative is payable in cash. The Company holds a call option valued at 49% of the fair values of the finance receivables less any direct debt, plus a 5% markup on the date of exercise. The NCI holders also hold an equivalent put option over the 49% of shares held in Canadian Holdco, where the exercise price is 95% of 49% of the net investment in leases less any direct debt. The option is initially recognized at the value of the put option as the demand liability was the greater of the two option values. The option is subsequently held at amortized cost. Distributions to be made by Canadian Holdco are at the sole discretion of the Canadian Holdco board of directors.

The fair values of the assets and liabilities, including the goodwill and intangible assets arising on consolidation, were as follows:

| *($ thousands)* | | **April 30, 2021** |
|---|---|---|
| **Assets** | | |
| Cash | $ | 2,758 |
| Restricted funds | | 12,852 |
| Other assets | | 2,950 |
| Finance receivables | | 171,781 |
| Right-of-use assets | | 919 |
| Property and equipment | | 76 |
| Broker relationships | | 15,737 |
| Trade name | | 2,100 |
| Goodwill | | 17,853 |
| **Liabilities** | | |
| Accounts payable and other liabilities | | 2,582 |
| Premise leases payable | | 922 |
| Borrowings | | 188,629 |
| Deferred tax liabilities | | 4,512 |
| **Net assets acquired** | $ | 30,381 |

The gross contractual amount of finance receivables including cash reserves was approximately $194 million as at April 30, 2021. Contractual cash flows not expected to be collected on receivables are not significant. A provision for credit losses subsequent to acquisition of $2.2 million was recognized.

None of the goodwill is deductible for tax purposes. No impairment on the goodwill has occurred since the date of acquisition. The transaction costs related to the acquisition expensed during the year ended December 31, 2021 were $0.6 million.

For the period from May 1, 2021 to December 31, 2021, Vault Credit contributed $21.7 million to the consolidated revenue and $0.4 million to the consolidated net income of the Company. Had the business combination occurred at the beginning of the year ended December 31, 2021, the additional contributions of revenue made by Vault Credit would have been $6.0 million. The additional contribution of net income would have been insignificant to the results of the Company on a consolidated basis.

(d) Vault Home Credit Corporation

On September 14, 2021, Chesswood Holdings Ltd. acquired a number of common shares of Vault Home which comprise 51% of the currently outstanding common shares post acquisition, for a subscription price of $1.0 million, and a commitment to provide an aggregate of $1.5 million of capital contributions upon the request of the Vault Home board of directors. The $1.5 million was advanced in November 2021. Vault Home is incorporated in Ontario and had not yet earned revenue as at the date of acquisition. The Company exercises control over Vault Home through the ability to control the decisions of its board of directors, through a priority vote, related to those activities that are most relevant to determining returns. Vault Home enables the Company to expand into the consumer financing industry. The Company elected to measure the NCI at the proportionate share of identifiable net assets. No intangible assets were recognized on acquisition and goodwill recognized as at September 14, 2021 was $1.4 million.

Vault Home began originations subsequent to the acquisition and is included in the Canadian Equipment Financing Segment. See Note 24 – *Segment Information*. Revenues, net losses, and transaction costs were insignificant prior to the acquisition and for the period from September 14, 2021 to December 31, 2021.

## 26. ADJUSTMENTS TO COMPARATIVE BALANCES

Certain prior year amounts have been reclassified on the consolidated statements of financial position, the consolidated statements of cash flows, and the notes to the consolidated financial statements to conform with current year presentation. These adjustments are not material.

**Reclassification of restricted funds**

On the consolidated statements of financial position as at December 31, 2021, $19.1 million was reclassified from finance receivables to restricted funds and the remaining $2.4 million of overcollateralization was reclassified to borrowings. This reclassification impacts the consolidated statements of cash flows and certain prior year note disclosures including Note 10 - *Borrowings,* Note 23 - *Cash Flow Supplementary Disclosure,* Note 24 - *Segment Information,* and Note 25 - *Business Combinations* have been reclassified to present reserves receivable in restricted funds, and overcollateralization on securitized financial contracts in borrowings.

**Presentation of restricted funds**

To conform with IFRIC agenda decision 12A: *Demand Deposits with Restrictions on Use arising from a Contract with a Third Party,* the Company has changed the presentation of restricted funds in the consolidated statements of cash flows. In prior year, the change in restricted funds was presented in the change in other net operating assets. The current year presentation separately identifies the restricted funds in the opening and ending cash flow balances. Certain prior year amounts have been reclassified in the consolidated statements of cash flows to conform with current year presentation. This resulted in an increase in cash of $29.6 million in operating activities and $14.1 million in investing activities for a net change of $42.6 million (inclusive of unrealized foreign exchange loss on restricted funds) to the consolidated statements of cash flows.

**Adjustment to Note 4 - *Financial Instruments***

In Note 4*,* finance receivables and borrowings were reclassified from level 2 to level 3 investments. The method of valuation has also been adjusted to conform to current year methodology.

**Reclassification of Note 12(d) - *Taxes***

In Note 12(d), temporary differences related to leased assets have been netted with finance receivables. Prior year amounts have been reclassified in the note to conform with current year presentation.

# Chesswood Group Limited

## DIRECTORS, OFFICERS AND OTHER INFORMATION

**Directors**

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

**Catherine Barbaro**
Director

**Raghunath Davloor**
Director
*Chairman, Audit and Risk Committee*

**Robert Day**
Director
*Former Chairman, Pawnee Leasing Corporation*

**Jeff Fields**
Director
*Chesswood Group Limited & C.E.O., Chesswood Capital Management Inc. and Chesswood Capital Management USA Inc.*

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

**Annie Ropar**
Director

**Frederick W. Steiner**
Director
*Chairman, Compensation Committee*

**Daniel Wittlin**
Director
*C.E.O., CHW / Vault Holdco*

**Executive Team**

**Ryan Marr**
*President & C.E.O.*

**Tobias Rajchel**
*Chief Financial Officer*

**Other Information**

**Auditors**
*Ernst & Young LLP*

**Transfer Agent**
*TSX Trust Company*

**Corporate Counsel**
*McCarthy Tétrault LLP*

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