

**CHESSWOOD GROUP LIMITED**

**SECOND QUARTER REPORT**

**FOR THE THREE AND SIX MONTHS ENDED**

**JUNE 30, 2022**



Through three wholly-owned subsidiaries in the United States and five subsidiaries in Canada, two of which are wholly-owned, Chesswood Group Limited is a North American specialty finance company publicly traded on the Toronto Stock Exchange. Colorado-based Pawnee Leasing Corporation, founded in 1982, finances a highly diversified portfolio of commercial equipment leases and loans through relationships with over 600 brokers in the United States. Tandem Finance Inc. provides financing in the U.S. through the equipment vendor channel. Blue Chip Leasing Corporation has been originating and servicing commercial equipment leases and loans in Canada since 1996. Vault Credit Corporation specializes in equipment leases and commercial loans across Canada, allowing for customizable financing solutions while catering to a wide spectrum of credit tiers, equipment types and sectors by offering industry-leading service levels, experienced underwriters and account administrators. Blue Chip and Vault Credit operate through a nationwide network of more than 60 brokers. Vault Home Credit Corporation was launched in September 2021 and focuses on providing home improvement and other consumer financing solutions in Canada. Rifco National Auto Finance Corporation, with the mission to help Canadians own automobiles, seeks to create sustainable long-term competitive advantages through personalized partnerships with dealers, innovative products, the use of industry-leading data and analytics, and leading collection practices. Through Waypoint Investment Partners Inc., a Toronto-based investment manager and exempt market dealer, and Chesswood Capital Management USA Inc., Chesswood Capital Management provides private credit alternatives to Canadian and U.S. investors seeking exposure to lease and loan receivables, including those originated by Chesswood subsidiaries.

Based in Toronto, Canada, Chesswood's shares trade on the Toronto Stock Exchange under the symbol CHW. Learn more at [www.ChesswoodGroup.com](http://www.ChesswoodGroup.com), [www.PawneeLeasing.com](http://www.PawneeLeasing.com), [www.TandemFinance.com](http://www.TandemFinance.com), [www.BlueChipLeasing.com](http://www.BlueChipLeasing.com), [www.VaultCredit.com](http://www.VaultCredit.com), [www.VaultPay.ca](http://www.VaultPay.ca), [www.Rifco.net](http://www.Rifco.net), and [www.WaypointInvestmentPartners.com](http://www.WaypointInvestmentPartners.com).

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This Interim Report is intended to provide shareholders and other interested persons with selected information concerning Chesswood. For further information, shareholders and other interested persons should consult Chesswood's other disclosure documents, such as its 2021 Annual Report and its 2021 Annual Information Form. Copies of Chesswood's continuous disclosure documents can be obtained at [www.chesswoodgroup.com](http://www.chesswoodgroup.com), by email to [investorrelations@chesswoodgroup.com](mailto:investorrelations@chesswoodgroup.com), or by calling Chesswood at 416-386-3099, at [www.sedar.com](http://www.sedar.com), or from Investor Relations at the addresses shown at the end of this Interim Report. Readers should also review the notes further in this Interim Report, in the section titled Management's Discussion and Analysis, concerning the use of Non-GAAP Measures and Forward-Looking Statements, which apply to the entirety of this Interim Report.

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

**TO OUR SHAREHOLDERS**

Chesswood generated strong earnings and free cash flow in the second quarter of 2022. On a consolidated basis, our businesses achieved record levels of free cash flow, driven by our diversified portfolio of more than \$2 billion of commercial and consumer net finance receivables. Origination levels were strong in all of our businesses throughout the quarter, driven in particular by growth in our vendor channel in addition to our unique full credit spectrum underwriting capability. Net charge-offs were low in the quarter and continue to reflect the increased weighting towards prime credits in our equipment finance portfolio.

The second quarter was our first complete reporting period for Rifco National Auto Finance Corporation (“Rifco”) following the acquisition of the business in the first quarter of 2022. The business achieved good results during the period, with strong top line performance and cost discipline across the organization. Delinquency levels rose due to changes in collections staff, new system updates, and general trends in borrowers coming off COVID relief programs.

The second quarter also included results from our first asset management flow agreement with a third party institutional investor. This relationship is off to a great start, having delivered approximately US\$97 million of Chesswood's U.S. net finance receivables into the forward flow facility. Our team is very pleased with the progression of this corporate initiative, and believes the hybrid approach to funding our originations with a mix of on-balance sheet and off-balance funding is paramount to achieving both our profitability and risk management objectives.

Operating costs in the quarter were up 7%, compared to the 22% increase in funds advanced for new originations. When evaluating operating expenses, we believe comparing these two metrics is necessary to contextualize the value generated through portfolio growth. The earnings stream from each dollar lent out, less our cost of origination, ultimately drives bottom line results. We therefore look favorably on these trends as we continue growing our businesses.

I could not end this letter without addressing the elephant in the room – interest rates. North American central banks have abandoned accommodative monetary policy in order to fight inflation. In 2022, inflation is tracking at 8.6%, forcing an increase in interest rates to increase at a speed not seen in decades. The fed funds rate, a key benchmark for our revolving credit facility, has increased from 0% to 1.50% since March. Markets currently anticipate this rate will climb to 3.5% by year end.

The rising inflation and interest rate environment has two notable impacts on Chesswood's businesses. First, and most directly, rising interest rates increase our cost of funds on facilities such as our revolver and warehouse. These facilities temporarily hold originations until sold or securitized in the marketplace. Second, the level of inflation supports asset values backing our leases and loans. Ultimately, this should support better credit performance and higher recovery rates in the case of default on receivables in our portfolios.

We have raised pricing to reflect the increase in base rates. Our teams are working hard to help customers face this new reality while at the same time ensuring we have a well diversified portfolio. Our team anticipates origination volumes will slow as we progress throughout the year, albeit still at levels supporting net growth. Our focus on growing this fee-based earnings stream gets us closer to our goals of enhancing earnings predictability and growth and reducing balance sheet risk.

As always, I want to thank our team of almost 500 people for their hard work and dedication to our businesses and, of course, another quarter of strong results.

Sincerely,

Ryan Marr  
President and Chief Executive Officer

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This management's discussion and analysis (this "MD&A") is provided to enable readers to assess the financial condition and results of operations of Chesswood Group Limited ("Chesswood" or the "Company") as at and for the three and six months ended June 30, 2022. This discussion should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes of the Company as at and for the three and six months ended June 30, 2022, and the audited consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2021. Unless otherwise indicated, all financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), and all amounts are expressed in Canadian dollars, unless specifically noted otherwise. This MD&A is dated August 4, 2022.

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

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## **FORWARD-LOOKING STATEMENTS**

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

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

The Company cautions readers against placing undue reliance on forward-looking statements when making decisions, as actual results could differ considerably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various factors. Among others, these factors include: continuing access to required

financing; continuing access to products that allow the Company and its subsidiaries to hedge exposure to changes in interest rates; risks of increasing default rates on leases, loans and advances; the adequacy of the Company's provisions for credit losses; increasing competition (including, without limitation, more aggressive risk pricing by competitors, financing options provided by manufacturers, and investment products offered by competitors of Chesswood Capital Management); increased governmental regulation of the rates and methods we use in financing and collecting on our leases or loans; and increasingly stringent interpretation and enforcement of laws related to dealers and advisors and their products and compensation; dependence on key personnel; disruption of business models due to the emergence of new technologies; fluctuations in the Canadian dollar and U.S. dollar exchange rate; the successful integration of Rifco Inc. and its subsidiary; factors that impact on the decision to acquire a motor vehicle; and general economic and business conditions (including the continuing effect of the COVID-19 pandemic and the military conflict in Ukraine), which could impact upon equipment purchase and investment decisions. The Company further cautions that the foregoing list of factors is not exhaustive.

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

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

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### **NON-GAAP MEASURES**

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

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

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

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

"Adjusted Operating Income" is Operating Income (Loss) as presented in the consolidated statements of income, adjusted to exclude amortization of intangible assets and the change in ACL. Adjusted Operating Income is intended to reflect the recurring income from the Company's businesses. Amortization of intangible assets, which includes the expense related to broker relationships and non-compete clauses, is a function of acquisitions. The cost of maintaining the broker relationships after

acquisition, being internally generated intangible assets, cannot be measured and is therefore not recognized as an asset, meaning that once these acquisition-related intangibles have been fully amortized they are not replenished, and the amortization expense will cease. The change in the ACL can be calculated from continuity of the ACL in Note 6(c) - *Finance Receivables* in the unaudited interim condensed consolidated financial statements as the difference between the provision for credit losses and the net charge-offs during a period. The change in ACL is a non-cash item and reflects our creditor approved formulas for Adjusted EBITDA and Free Cash Flow that drives our Maximum Permitted Dividends, both relevant measures for users of the Company's financial reporting.

"Adjusted Net Income (Loss)" is Net Income (Loss) as presented in the consolidated statements of income adjusted for one-time non-recurring items. See the "Results of operations for the three and six months ended June 30, 2022 and 2021" section of this MD&A for a reconciliation of Adjusted Net Income (Loss).

"Adjusted Return on Equity" is a non-GAAP ratio representing Adjusted Net Income (Loss) divided by average equity as presented in the consolidated statements of financial position. See the "Results of operations for the six months ended June 30, 2022 and 2021" section of this MD&A for a reconciliation of Adjusted Return on Equity.

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

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

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

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

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## COMPANY OVERVIEW

As at June 30, 2022, Chesswood's operations are conducted through three wholly-owned subsidiaries in the United States and five subsidiaries in Canada (two of which are wholly-owned):

- Pawnee Leasing Corporation ("Pawnee"), which finances micro and small-ticket commercial equipment for small and medium-sized businesses in the U.S. through the third-party broker channel;
- Tandem Finance Inc. ("Tandem"), which sources micro and small-ticket commercial equipment originations to small and medium-sized businesses through the equipment vendor channel in the U.S.;
- Blue Chip Leasing Corporation ("Blue Chip"), which provides commercial equipment financing to small and medium-sized businesses across Canada;

- Vault Credit Corporation ("Vault Credit"), which provides commercial equipment financing and loans to small and medium-sized businesses across Canada;
- Vault Home Credit Corporation ("Vault Home"), which provides home improvement and other consumer financing solutions in Canada;
- Waypoint Investment Partners Inc. ("Waypoint") and Chesswood Capital Management USA Inc. ("CCM USA"), which provide private credit alternatives to investors seeking exposure to lease and loan receivables, including those originated by Chesswood subsidiaries; and
- Rifco National Auto Finance Corporation ("Rifco"), which provides consumer financing for motor vehicle purchasers across Canada except for Quebec.

On a consolidated basis, at June 30, 2022, the Company had 465 employees (299 employees at December 31, 2021).

As described below, on January 14, 2022, the Company acquired a 100% ownership interest in Rifco (see "Canadian Auto Financing Segment") and on May 25, 2022, the Company acquired a 100% ownership interest in Waypoint, (see "Asset Management Segment").

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## **U.S. EQUIPMENT FINANCING SEGMENT**

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

The Company's largest operations are conducted by Pawnee, which, together with Tandem, accounted for 57% of consolidated revenue in the six months ended June 30, 2022. As at June 30, 2022, the U.S. Equipment Financing Segment employed 161 full-time equivalent employees (153 employees at December 31, 2021).

Established in 1982, and located in Fort Collins, Colorado, Pawnee specializes in providing equipment financing (generally up to US\$350,000) to small and medium-sized businesses in the U.S., with a wide range of credit profiles from start-up entrepreneurs to more established businesses, in prime and non-prime market segments, through a network of approximately 600 equipment finance broker firms (also referred to as the "third-party market" or "third-party channel").

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

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

Pawnee's brokers predominantly originate prime (with "A" credit score) equipment finance transactions versus "B", "C", and "Start-up" rated customers. Pawnee's reliability, ease of service, focus on the broker-channel business and offering of competitive products has made Pawnee a top tier funding partner to its brokers relative to its competitors for prime originations. Given the sheer size of the market opportunity, prime originations represent greater than 64% of new originations, and these volumes are expected to continue to grow as Pawnee's prime credit products further penetrate Pawnee's broad broker network.



FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

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

As at June 30, 2022, Pawnee's and Tandem's portfolios respectively represented 63% and 37% of Chesswood's overall receivables portfolio in the U.S.

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

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



FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

**U.S. EQUIPMENT FINANCING PORTFOLIO METRICS**

*U.S. Equipment Financing Segment Finance Receivable Portfolio Statistics*

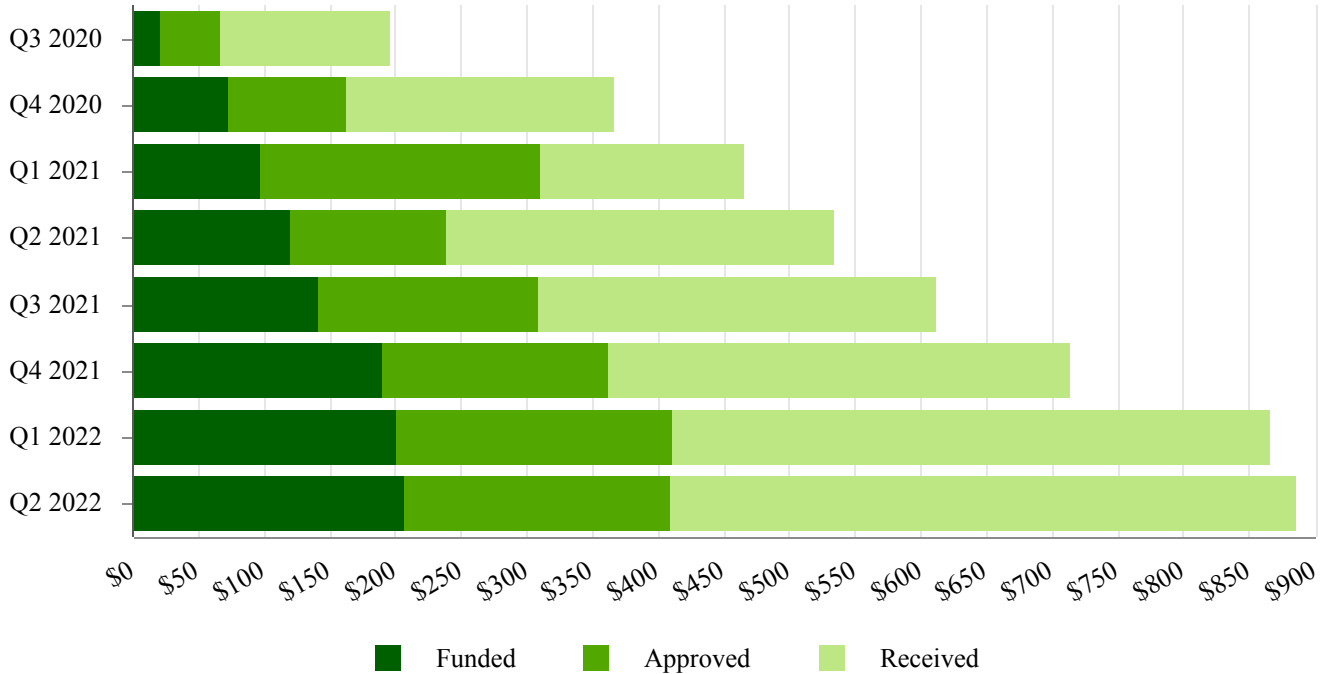
*(in US\$ thousands except # of leases/loans and %'s)*

	Sep 30 2020	Dec 31 2020	Mar 31 2021	June 30 2021	Sep 30 2021	Dec 31 2021	Mar 31 2022	June 30 2022
Number of leases and loans outstanding (#)	17,104	17,211	17,870	19,042	20,552	22,396	24,209	24,266
Gross lease and loan receivables ("GLR") (1)(5)	\$556,456	\$574,991	\$632,262	\$709,461	\$809,317	\$956,936	\$1,102,395	\$1,131,304
Residual receivables	\$17,883	\$17,428	\$17,268	\$17,595	\$17,965	\$18,323	\$18,751	\$18,325
Net investment in leases and loans receivables ("Net Finance Receivables" or "NFR"), before allowance (6)	\$479,908	\$497,982	\$547,204	\$611,603	\$696,041	\$822,671	\$947,695	\$976,381
Security deposits ("SD") (nominal value)(4)	\$6,986	\$5,965	\$5,323	\$4,643	\$4,124	\$3,577	\$3,171	\$3,012
Allowance for Credit Losses ("ACL")	\$19,259	\$16,552	\$13,499	\$12,125	\$12,599	\$13,544	\$16,383	\$17,676
ACL as % of NFR net of SD	4.07%	3.36%	2.49%	2.00%	1.82%	1.65%	1.73%	1.82%
Over 31 days delinquency (% of GLR) (2)	1.91%	1.85%	1.07%	0.87%	0.80%	0.94%	1.01%	0.89%
Net charge-offs (recoveries) for the three months ended (3)	\$3,762	\$4,150	\$3,774	\$(726)	\$(1,253)	\$(704)	\$(427)	\$924
Provision for credit losses for the three months ended	\$(5,044)	\$1,509	\$761	\$(2,083)	\$(748)	\$282	\$2,296	\$2,443

Notes:

- (1) Excludes residual receivables
- (2) Over 31-days delinquency includes non-accrual GLR.
- (3) Excludes the "charge-offs" of interest revenue on finance leases and loans on non-accrual leases recognized under IFRS.
- (4) Excludes adjustment for discounting security deposits and increasing unearned income for interest savings on security deposits.
- (5) At June 30, 2022, approximately 64% of U.S. GLR (excluding residuals) were in the prime market segment.
- (6) Excludes unearned income for interest on security deposits

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



<sup>(1)</sup>The volumes table above includes information on contracts which were originated by the U.S. Equipment Financing Segment and sold to third-party investors under forward flow agreements with CCM USA in Q1 2022 and Q2 2022.

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

**CANADIAN EQUIPMENT FINANCING SEGMENT**

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

Blue Chip, a specialist in micro and small-ticket equipment finance for small and medium-sized businesses, has been conducting operations since 1996. Located in Toronto, Blue Chip provides equipment financing across Canada, primarily through a nationwide network of more than 60 equipment finance broker firms.

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

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

The Canadian Equipment Financing Segment accounted for 25% of the Company's consolidated revenue in the six months ended June 30, 2022. This segment's portfolio risk is mitigated by its diversification across geographies, industries, equipment types, equipment cost, vendors, brokers and credit classes. The Canadian Equipment Financing Segment had 185 full-time equivalent employees at June 30, 2022 (137 employees at December 31, 2021).

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**CANADIAN EQUIPMENT FINANCING PORTFOLIO METRICS**

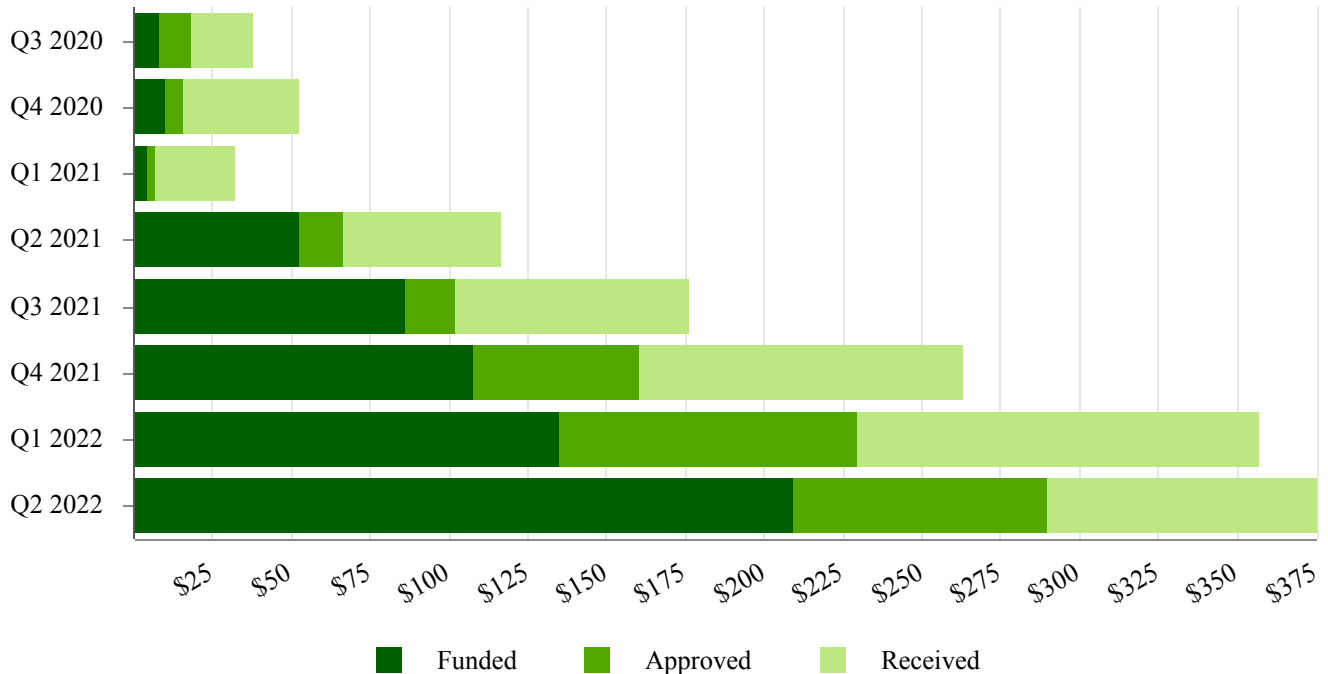
*Canadian Equipment Financing Segment Equipment Finance Receivable Portfolio Statistics*

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

	Sep 30 2020	Dec 31 2020	Mar 31 2021	June 30 2021	Sep 30 2021	Dec 31 2021	Mar 31 2022	June 30 2022
Number of leases and loans outstanding (#)	11,345	10,561	9,759	20,310	21,441	22,696	24,622	27,811
Gross lease and loan receivables ("GLR") <sup>(1)</sup>	\$143,370	\$134,878	\$120,762	\$331,375	\$377,054	\$434,983	\$516,081	\$658,783
Residual receivables	\$131	\$121	\$105	\$5,988	\$6,798	\$7,537	\$8,212	\$11,080
Net Finance Receivables ("NFR"), before allowance	\$128,846	\$121,085	\$108,591	\$300,726	\$343,668	\$397,915	\$472,573	\$601,163
Allowance for Credit Losses ("ACL")	\$3,672	\$3,289	\$2,715	\$4,229	\$5,472	\$5,216	\$6,360	\$7,995
ACL as % of NFR	2.85%	2.72%	2.50%	1.41%	1.59%	1.31%	1.35%	1.33%
Over 31 days delinquency (% of NFR)	1.22%	0.73%	0.63%	0.27%	0.44%	0.24%	0.49%	0.46%
Net charge-offs (recoveries) for the three months ended	\$822	\$485	\$71	(\$29)	\$104	\$355	\$603	\$982
Provision for credit losses for the three-months ended	\$1,162	\$102	(\$433)	\$1,400	\$1,362	\$99	\$1,741	\$2,617

Notes:

(1) Excludes residual receivables

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


“Received” reflects all applications for equipment financing received by the Canadian Equipment Financing Segment, “Approved” are those received applications that receive an approval by the segment's credit department and “Funded” refers to previously approved applications that become actual lease or loan transactions through the segment's financing of the customers’ equipment purchase or lease. Management regularly reviews lease and loan application, approval and origination volumes for trends that may indicate changes in the economic or competitive landscape and that may necessitate adjustments in its approach to doing business in its market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of applicants. Only applications for Vault Credit subsequent to April 30, 2021, and for Vault Home subsequent to September 14, 2021, are included.

**CANADIAN AUTO FINANCING SEGMENT**

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

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

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

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

The Canadian Auto Financing Segment accounted for 15% of consolidated revenue in the six months ended June 30, 2022. The segment's portfolio risk is mitigated by its diversification across geographies, vehicle types, dealers, and credit classes. The segment had 95 full-time equivalent employees at June 30, 2022.

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

The majority of Canadians finance their vehicle purchases. A significant portion of Canadians require near-prime or non-prime financing for these purchases. Rifco's major competitors include three large Canadian financial institutions that control a large portion of the near-prime ("B" & "C" credit) market in Canada. In addition, a number of mid-sized and smaller competitors exist throughout the near-prime and non-prime credit spectrum.

**CANADIAN AUTO FINANCING PORTFOLIO METRICS**
*Canadian Auto Financing Segment Finance Receivable Portfolio Statistics*
*(in \$ thousands except # of leases/loans and %)*

	Mar 31 2022	June 30 2022
Number of loans outstanding (#)	11,994	12,506
Gross loan receivables ("GLR")	\$336,330	\$348,729
Refundable Application Fees	\$3,667	\$3,866
Net Finance Receivables ("NFR"), before allowance	\$217,110	\$224,907
Allowance for Credit Losses ("ACL")	\$12,341	\$13,359
ACL as % of NFR	5.68%	5.94%
Over 31 days delinquency (% of NFR)	5.28%	7.25%
Net charge-offs (recoveries) for the three months ended	\$(322)	\$1,463
Provision for credit losses for the three-months ended	\$12,019 <sup>(1)</sup>	\$2,481

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

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



“Received” reflects all applications for auto financing received by the Canadian Auto Financing Segment, “Approved” are those received applications that receive an approval by the Segment's credit department and “Funded” refers to previously approved applications that become actual lease or loan transactions through the Segment's financing of the customers' auto purchase or lease. Management regularly reviews lease and loan application, approval and origination volumes for trends that may indicate changes in the economic or competitive landscape and that may necessitate adjustments in its approach to doing business in its market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of applicants. Only applications subsequent to January 14, 2022 are included.



## ASSET MANAGEMENT SEGMENT

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

Chesswood's Asset Management operations provide private credit alternatives to investors seeking exposure to lease and loan receivables originated by Chesswood subsidiaries.

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

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

The Asset Management Segment accounted for 3% of consolidated revenue in the six months ended June 30, 2022. The segment had 11 full-time equivalent employees at June 30, 2022.

A total of \$0.4 million was expensed in the year to set up the initial agreements between CCM USA and its clients. US\$97.4 million of Chesswood subsidiary originated finance receivables were sold under the forward flow purchase agreement during the six months ended June 30, 2022 and the segment recognized a total revenue of \$3.4 million for the six months ended June 30, 2022.

**RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2022 AND 2021**

U.S. dollar results for the six months ended June 30, 2022 were converted at an exchange rate of 1.2715, which was the average exchange rate for the period (six months ended June 30, 2021 - 1.2470).

***Financial Highlights***

- The successful acquisition of Rifco on January 14, 2022 has allowed the Company to establish its Canadian Auto Financing Segment. Subsequent to the acquisition, Rifco contributed total originations of \$63.5 million for the six months.
- On January 14, 2022, Chesswood renegotiated its revolving credit facility to allow borrowings of up to US\$300 million. This credit facility includes a US\$100 million accordion feature that can increase the overall borrowing amount to US\$400 million, is secured by the Company's (and most of its subsidiaries') assets, contains covenants, including maintaining leverage and interest coverage ratios, and expires on January 14, 2025. The new credit facility has a Secured Overnight Financing Rate ("SOFR") based interest rate.
- Both the U.S. and Canadian Equipment Financing Segments continued to experience strong originations with total originations of \$851.1 million<sup>(1)</sup>, an increase of 114.4% from the same period in the prior year. The increase is mainly due to the growth of both the Canadian and U.S. segments.
- In March 2022, the Company entered into a forward flow agreement with an investment firm to sell equipment leases and loans in exchange for fees. During the period ended June 30, 2022, US\$97.4 million of finance receivables were sold.
- Chesswood has achieved a return on equity of 11.5%<sup>(2)</sup> during the six months ended June 30, 2022. Following the acquisition of Rifco, a provision of \$9.3 million was booked on the loans directly acquired through the acquisition. Without this one-time "day 2" provision for credit losses, Chesswood's return on equity for the six months ended June 30, 2022 would have been 18.4%<sup>(3)</sup> (June 30, 2021 - 18.2%).

(1) Origination volumes include contracts which were originated by the U.S. Equipment Financing Segment and sold to third-party investors under forward flow agreements with CCM USA in Q1 2022 and Q2 2022.

(2) Return on equity is the current period's Net Income (Loss) annualized (divided by the number of quarters in the period ended and multiplied by four) divided by the yearly average of total Equity, as presented on the consolidated statements of financial position

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

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

**Summary of Financial Results and Key Measures**

(\$ thousands, except per share figures)	Six months ended June 30,	
	2022	2021
Revenue	\$ 126,235	\$ 56,833
Net revenue	72,132	43,880
Operating income	18,792	19,489
Income (loss) before income taxes	18,338	20,015
Income tax expense	7,008	5,890
Net income (loss)	11,330	14,125
Basic earnings per share <sup>(1)</sup>	\$ 0.62	\$ 0.79
Diluted earnings per share <sup>(1)</sup>	0.55	0.74
Total assets	2,261,242	1,602,583
Long-term liabilities	2,002,186	1,382,837
<u>Other Data</u>		
Adjusted Operating Income <sup>(2)</sup>	\$ 41,362	\$ 15,592
EBITDA <sup>(2)</sup>	49,607	34,842
Adjusted EBITDA <sup>(2)</sup>	42,980	16,590
Free Cash Flow <sup>(2)</sup>	30,953	11,899
Free Cash Flow per diluted share <sup>(2)</sup>	1.48	0.63
Return on Equity <sup>(5)</sup>	11.5 %	18.2 %
Dividends declared <sup>(3)</sup>	4,434	2,621
Dividends declared per share <sup>(4)</sup>	0.22	0.14
<u>Segment Financials</u>		
U.S. Equipment Financing Segment interest revenue	\$ 63,109	\$ 42,220
U.S. Equipment Financing Segment operating income	25,321	20,456
Canadian Equipment Financing Segment interest revenue	25,014	7,761
Canadian Equipment Financing Segment operating income	1,786	1,749
Canadian Auto Financing Segment interest revenue	18,913	N/A
Canadian Auto Financing Segment operating income (loss)	(5,085)	N/A
Asset Management Segment ancillary finance and other fee income	3,356	N/A
Asset Management Segment operating income (loss)	1,505	N/A
<u>Portfolio Metrics</u>		
U.S. Equipment Financing Segment finance receivables	\$ 1,235,144	\$ 742,628
U.S. Equipment Financing Segment originations	519,017	276,461
U.S. Equipment Financing Segment interest revenue yield	10.8 %	12.3 %
U.S. Equipment Financing Segment net charge-offs as a percentage of finance receivables	0.1 %	1.1 %
Canadian Equipment Financing Segment finance receivables	\$ 593,149	\$ 313,076
Canadian Equipment Financing Segment originations	332,062	54,455
Canadian Equipment Financing Segment interest revenue yield	10.2 %	8.8 %
Canadian Equipment Financing Segment net charge-offs as a percentage of finance receivables	0.6 %	— %

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

Canadian Auto Financing Segment finance receivables	211,544	N/A
Canadian Auto Financing Segment originations	63,521	N/A
Canadian Auto Financing Segment interest revenue yield	17.5 %	N/A
Canadian Auto Financing Segment net charge-offs as a percentage of finance receivables	1.1 %	N/A

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

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

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

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

(5) Return on equity is the sum of the current period's Net Income (Loss) divided by the average of total Equity (as at December 31 and June 30), as presented on the consolidated statements of financial position.

The Company reported consolidated net income of \$11.3 million for the six months ended June 30, 2022, compared to net income of \$14.1 million recorded in the same period of 2021, a decrease of \$2.8 million. The main driver of the decrease is the requirement to recognize the full provision for credit loss on the acquired Rifco sub-prime auto loan portfolio. As a result, the full \$9.3 million (tax adjusted \$7.2 million) provision on the acquired loans related to originations before January 14, 2022 was recognized in the consolidated 2022 net income. Without the provision, consolidated net income would have been \$18.5 million, an increase of \$4.4 million. The \$4.4 million is a result of higher originations increasing revenue by \$69.4 million offset by corresponding increases in interest from increased securitizations and greater operating costs driven by volume. Although net charge-offs have stayed fairly consistent with the prior 2021 period, there was a significant increase in the change in non-cash ACL of \$26.0 million (\$16.7 million excluding the Rifco "day 2" provision) to account for uncertainties in the economic environment and global events as well as a growing portfolio. In addition, there was an increase in personnel and other expenses of \$28.1 million, and a higher income tax expense of \$1.1 million in the six months ended June 30, 2022, compared to the same period in 2021.

Return on equity decreased during the six months ended June 30, 2022 by 6.7% compared to the same period in 2021, primarily due to the decrease in net income of \$2.8 million offset partially by an increase in average equity in 2022 of \$42.3 million. The increase in average equity is mainly related to the equity issuances from the Rifco and Waypoint acquisitions and the exercise of special warrants, restricted share units ("RSUs"), and options.

(\$ thousands)	Six months ended June 30,	
	2022	2021
Net income (loss)	\$ 11,330	\$ 14,125
Annualized	x 4/2	x 4/2
Average equity	197,876	155,549
Return on equity	11.5 %	18.2 %

If the full \$9.3 million provision on the acquired loans related to originations by Rifco before January 14, 2022 was not recognized in the consolidated 2022 net income, the Return on Equity would have increased by 0.2%, to 18.4%, for the six months ended June 30, 2022. Refer to the table below:

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

(\$ thousands)	Six months ended June 30,	
	2022	2021
Net income	\$ 11,330	\$ 14,125
Business combination "day 2" provision <sup>(1)</sup>	7,166	—
Adjusted net income <sup>(2)</sup>	18,496	14,125
Annualized	x 4/2	x 4/2
Average equity, excluding one-time items	201,459	155,549
Adjusted return on equity <sup>(2)</sup>	18.4 %	18.2 %

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

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

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

(\$ thousands)	Six months ended June 30,		
	2022	2021	Change
Average FX rate	1.2715	1.2470	
Revenue	\$ 126,235	\$ 56,833	\$ 69,402
Interest expense	(29,220)	(13,634)	(15,586)
Net charge-offs	(3,497)	(3,910)	413
	93,518	39,289	54,229
<u>Expenses:</u>			
Personnel expenses	(30,350)	(12,939)	(17,411)
General and administrative expenses	(20,941)	(10,259)	(10,682)
Depreciation	(865)	(499)	(366)
Adjusted operating income <sup>(1)</sup>	41,362	15,592	25,770
Decrease (Increase) in ACL	(21,386)	4,591	(25,977)
Amortization	(1,184)	(694)	(490)
Operating Income	18,792	19,489	(697)
Mark-to-market gain on interest rate derivative	—	258	(258)
Other non-cash FMV charges and unrealized FX	(454)	268	(722)
Income (loss) before taxes	18,338	20,015	(1,677)
Income tax expense	7,008	5,890	1,118
<b>Net Income</b>	<b>\$ 11,330</b>	<b>\$ 14,125</b>	<b>\$ (2,795)</b>

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

The U.S. Equipment Financing Segment's interest revenue on leases and loans totaled \$63.1 million, an increase of \$20.9 million year-over-year. The increase was caused by a 65.8% increase in the average net investment in finance receivables (before ACL) to US\$915.6 million, an increase of US\$363.3 million in the six months ended June 30, 2022 compared with the same period in 2021 resulting from continuously growing originations. The impact of the portfolio growth was bolstered by a 1.4% increase in foreign exchange year-over-year and offset by a 1.5% decrease in the interest revenue yield during the year. The decrease in overall yield percentage was due to the continuing growth of the Tandem portfolio which has a slightly lower yield.

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

<i>(US\$ thousands)</i>	Six months ended June 30,	
	2022	2021
Interest revenue on finance leases and loans	\$ 49,634	\$ 33,857
Annualized	x 4/2	x 4/2
Average NFR, before allowance	\$ 915,582	\$ 552,263
Interest revenue yield	10.8 %	12.3 %

Ancillary finance and other fee income increased by \$4.3 million year-over-year and was positively impacted by foreign exchange. The increase was primarily driven by higher originations.

The U.S. Equipment Financing Segment's interest expense increased by \$6.4 million compared to the same period in the prior year. The increase in interest expense is driven primarily by a \$431.4 million increase in average debt outstanding throughout the year. In addition, the balance was impacted by an increase in average foreign exchange and a higher effective interest rate (including amortization of origination costs) on the segment's warehouse facility as a result of rising interest rates in the market.

Net charge-offs were US\$2.5 million lower than the prior year period. In the six months ended June 30, 2022, the U.S. segment's actual net charge-offs were 0.1% of average finance receivables (before ACL) compared to 1.1% in the prior year period. In addition, the U.S. segment's average 31 days past due delinquency for the period ended June 30, 2022 decreased by 0.3% year-over-year. However, as a result of a growing portfolio and uncertain market conditions, there was an increase to the change in ACL of US\$8.6 million. As a result, the U.S. Equipment Financing Segment's provision for credit losses increased by \$7.7 million in the six months ended June 30, 2022, compared to the prior year period.

<i>(US\$ thousands)</i>	Six months ended June 30,	
	2022	2021
Impact of loan book growth	\$ 2,531	\$ 3,781
Impact of change in provision rate during the period	1,601	(8,208)
Change in ACL	4,132	(4,427)
Net charge-offs	607	3,105
Provision for credit losses	4,739	(1,322)
Average NFR, before allowance	\$ 915,582	\$ 552,263
Net charge-offs (annualized, x 4/2) as a percentage of finance receivables	0.1 %	1.1 %

The U.S. Equipment Financing Segment's personnel expenses (including share-based compensation) increased by \$3.3 million year-over-year, primarily due to having an average of 33 more staff during the six months ended June 30, 2022 compared to the prior year period and market driven wage inflation. In addition, in the latter half of 2021, there was a restricted share unit issuance resulting in an additional \$0.6 million in restricted share unit expenses incurred during the six months ended June 30, 2022.

During the six months ended June 30, 2022, the operating income from the U.S. Equipment Financing Segment's operations increased by \$4.9 million compared with the prior year period, mainly due to higher average NFR, before allowance and the strengthening of the U.S. dollar, offset by a higher provision for credit losses, lower interest revenue yield, and increased personnel expenses (including higher share-based compensation).

The Canadian Equipment Financing Segment generated revenue of \$31.3 million during the six months ended June 30, 2022 compared to \$10.0 million in the prior year period, an increase of \$21.3 million, or 213%. The Canadian Equipment Financing Segment's average net investment in finance receivables (before ACL) increased approximately \$313.8 million in the six

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

months ended June 30, 2022, compared to the prior year period, largely due to Vault Credit's continued expansion in the Canadian equipment leasing market. In addition, the average number of finance receivable contracts outstanding increased by 11,499 in the six months ended June 30, 2022 compared to the prior year period. In the six months ended June 30, 2022, the interest revenue yield earned on the Canadian Equipment Financing Segment's net finance receivables was 10.2%, an increase from 8.8% in the prior year.

(\$ thousands)	Six months ended June 30,	
	2022	2021
Interest revenue	\$ 25,014	\$ 7,761
Annualized	x 4/2	x 4/2
Average NFR, before allowance	490,551	176,800
Interest revenue yield	10.2 %	8.8 %

The Canadian Equipment Financing Segment's interest expense increased by \$5.7 million due to higher average debt outstanding (increased by approximately \$253.7 million) and a higher cost of funds on its securitization facilities.

The Canadian Equipment Financing Segment's provision for credit loss increased by \$3.4 million in the six months ended June 30, 2022, compared to the prior year period as a result of greater charge offs and an increase in the change in ACL to accommodate a significantly larger portfolio in an uncertain market, as evidenced by an increase in actual net charge-offs.

(\$ thousands)	Six months ended June 30,	
	2022	2021
Impact of loan book growth	\$ 2,648	\$ 4,865
Impact of change in provision rate during the year	125	(3,940)
Change in ACL	2,773	925
Net charge-offs	1,585	42
Provision for credit losses	4,358	967
Average NFR, before allowance	\$ 490,551	\$ 176,800
Net charge-offs (annualized, x 4/2) as a percentage of finance receivables	0.6 %	— %

The Canadian Equipment Financing Segment's operating income totaled \$1.8 million in the six months ended June 30, 2022, compared to \$1.7 million in the prior year period, an increase of \$0.1 million, primarily due to the increase in revenue on leases offset by a higher provision for credit losses, interest expense, personnel expenses, and other general expenses. The increase in personnel expenses of \$7.1 million was primarily due to an average increase of 110 employees during the six months ended June 30, 2022, compared to the prior year period, and the segment's continued expansion into the Canadian equipment leasing market. The increase in other expenses of \$4.4 million is a function of increased originations, the segment's technology upgrades, and dividend payment to the non-controlling shareholders of \$1.3 million.

The Canadian Auto Financing Segment generated revenue of \$19.7 million during the six months ended June 30, 2022. The segment's net investment in finance receivables before allowance was \$224.9 million at June 30, 2022.

The average annualized interest revenue yield earned on the Canadian Auto Financing Segment's net finance receivables was 17.5% during the period. The Canadian Auto Financing Segment's interest expense was \$4.4 million due to approximately \$206.8 million in average borrowings outstanding from the time of the Rifco acquisition.

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

Canadian Auto Financing Segment (\$ thousands)	Six months ended June 30, 2022
Interest revenue	\$ 18,913
Annualized	x 4/2
Average NFR, before allowance	\$ 216,289
Interest revenue yield	17.5 %

The Canadian Auto Financing Segment's provision for credit losses was \$14.5 million for the six months ended June 30, 2022. A large portion of the provision stems from the requirement to recognize the full \$9.3 million provision on loans related to originations before January 14, 2022, indirectly acquired through the Rifco acquisition in the consolidated 2022 net income on the day following the acquisition. Without this, the total provision would have been \$5.2 million.

The change in the provision for credit losses is the result of the provision for credit losses incurred through the acquisition of Rifco during the six months ended June 30, 2022.

Canadian Auto Financing Segment (\$ thousands)	Six months ended June 30, 2022
Impact of loan book growth	\$ 691
Impact of change in provision rate during the period	3,362
Business combination	9,306
Change in ACL	13,359
Net charge-offs	1,141
Provision for credit losses	14,500
Average NFR, before allowance	216,289
Net charge-offs (annualized, x 4/2) as a percentage of finance receivables	1.1 %

The Canadian Auto Financing Segment's personnel expenses were \$3.4 million for the six months ended June 30, 2022. Other expenses for the six months ended June 30, 2022 were \$2.2 million, which relates to collection, marketing, and other operating costs.

Overall, the Canadian Auto Financing Segment's operating loss totaled \$5.1 million in the six months ended June 30, 2022. The main driver of the operating loss was the \$9.3 million provision for credit losses related to the acquisition of Rifco. Without this, the segment would have generated an operating income of \$4.2 million.

For the six months ended, the Asset Management Segment generated \$3.4 million of revenue from fees charged on the US\$97.4 million of finance receivables sold under the forward flow agreement with third party investors. The income was partially offset by other expenses related to setting up the initial agreements between CCM USA and its clients as well as personnel costs. The results of operations of Waypoint were not yet material since the acquisition occurred on May 25, 2022.

The provision for taxes for the consolidated entity during the six months ended June 30, 2022 was an expense of \$7.0 million compared to an expense of \$5.9 million in the same period in the prior year. The increase of \$1.1 million is primarily driven by the Company's increased income from its growing business portfolio. The effective tax rate differs from the Canadian statutory tax rate due to permanent differences between accounting and taxable income.





FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2022 AND 2021**

U.S. dollar results for the three months ended June 30, 2022, were converted at an exchange rate of 1.2768 which was the average exchange rate for Q2 2022 (Q2 2021 - 1.2282).

**Summary of Financial Results and Key Measures**

As at and for the quarter-ended (\$ thousands, except per share figures)	2020		2021				2022	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Revenue	\$ 27,337	\$ 26,395	\$ 26,309	\$ 30,524	\$ 37,007	\$ 44,243	\$ 57,250	\$ 68,985
Net Revenue	26,139	18,456	19,954	23,926	27,752	34,592	28,497	43,635
Operating income	16,448	7,237	8,879	10,610	11,000	10,572	2,718	16,074
Income (loss) before income tax	13,681	(1,432)	8,979	11,036	12,335	9,721	2,777	15,561
Income tax expense (recovery)	3,877	(1,523)	2,666	3,224	3,187	1,825	1,098	5,910
Net income	9,804	91	6,313	7,812	9,148	7,896	1,679	9,651
Basic earnings per share <sup>(1)</sup>	\$ 0.55	\$ 0.01	\$ 0.36	\$ 0.43	\$ 0.49	\$ 0.46	\$ 0.10	\$ 0.52
Diluted earnings per share <sup>(1)</sup>	0.56	0.00	0.35	0.40	0.45	0.40	0.09	0.46
Total assets	844,920	827,436	868,715	1,188,925	1,391,782	1,604,947	2,048,228	2,261,242
Long-term liabilities	681,167	668,749	707,962	995,837	1,184,647	1,358,201	1,813,968	2,002,186
<u>Other Data</u>								
Adjusted operating income <sup>(2)</sup>	\$ 5,016	\$ 3,585	\$ 4,773	\$ 10,819	\$ 13,376	\$ 12,042	\$ 20,382	\$ 20,980
EBITDA <sup>(2)</sup>	21,393	14,160	15,445	19,397	22,006	19,794	15,888	33,719
Adjusted EBITDA <sup>(2)</sup>	5,343	4,437	5,266	11,324	13,992	14,338	19,893	23,087
Free Cash Flow <sup>(2)</sup>	4,591	6,939	3,756	8,143	10,188	11,486	15,208	15,745
Free Cash Flow per diluted share <sup>(2)</sup>	0.26	0.39	0.21	0.42	0.51	0.56	0.73	0.75
Return on Equity <sup>(5)</sup>	27.6 %	0.3 %	17.8 %	20.0 %	20.9 %	17.1 %	3.5 %	19.3 %
Dividends declared <sup>(3)</sup>	—	710	1,055	1,566	1,766	1,756	2,009	2,425
Dividends declared per share <sup>(4)</sup>	—	0.04	0.06	0.08	0.09	0.09	0.10	0.12
<u>Segment Financials</u>								
U.S. Equipment Financing Segment interest revenue	\$21,641	\$19,947	\$20,597	\$21,623	\$24,279	\$27,721	\$30,614	\$32,495
U.S. Equipment Financing Segment operating income	17,156	7,409	8,509	11,947	12,601	9,876	11,700	13,621
Canadian Equipment Financing Segment interest revenue	2,710	2,614	2,322	5,439	7,887	10,244	11,015	13,999
Canadian Equipment Financing Segment operating income (loss)	(37)	1,320	1,602	147	418	2,346	1,460	326
Canadian Auto Financing Segment interest revenue	n/a	n/a	n/a	n/a	n/a	n/a	8,282	10,631
Canadian Auto Financing Segment operating income (loss)	n/a	n/a	n/a	n/a	n/a	n/a	(8,231)	3,146
Asset Management Segment ancillary finance and other fee income	n/a	n/a	n/a	n/a	n/a	n/a	66	3,290
Asset Management Segment operating income (loss)	n/a	n/a	n/a	n/a	n/a	n/a	(648)	2,153
<u>Portfolio Metrics</u>								
U.S. Equipment Financing Segment finance receivables	\$613,632	\$612,487	\$670,742	\$742,628	\$870,449	\$1,025,567	\$1,163,557	\$1,235,144
U.S. Equipment Financing Segment originations	25,493	94,305	128,791	147,670	178,613	239,625	254,732	264,285
U.S. Equipment Financing Segment interest revenue yield	13.0 %	12.2 %	12.5 %	12.0 %	11.9 %	11.7 %	10.9 %	10.6 %

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U.S. Equipment Financing Segment net charge-offs as a percentage of finance receivables	2.5 %	3.4 %	2.9 %	(0.5)%	— %	(0.3)%	(0.2)%	0.5 %
Canadian Equipment Financing Segment finance receivables	\$134,468	\$128,391	\$112,169	\$313,076	\$357,379	\$414,160	\$466,213	\$593,149
Canadian Equipment Financing Segment originations	8,509	10,090	4,707	49,748	83,325	101,555	128,687	203,375
Canadian Equipment Financing Segment interest revenue yield	8.1 %	8.4 %	8.1 %	10.6 %	9.8 %	11.1 %	10.1 %	10.4 %
Canadian Equipment Financing Segment net charge-offs as a percentage of finance receivables	2.4 %	1.6 %	0.2 %	(0.1)%	0.1 %	0.4 %	0.6 %	0.7 %
Canadian Auto Financing Segment finance receivables	n/a	n/a	n/a	n/a	n/a	n/a	\$ 204,769	\$ 211,544
Canadian Auto Financing Segment originations	n/a	n/a	n/a	n/a	n/a	n/a	28,115	35,406
Canadian Auto Financing Segment interest revenue yield	n/a	n/a	n/a	n/a	n/a	n/a	15.5 %	19.2 %
Canadian Auto Financing Segment net charge-offs as a percentage of finance receivables	n/a	n/a	n/a	n/a	n/a	n/a	(0.6)%	2.6 %

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

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

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

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

(5) Return on equity is the sum of the current quarter Net Income (Loss) annualized (multiplied by four) divided by the quarterly average of total Equity (March 31 and June 30), as presented on the consolidated statements of financial position.

The Company reported consolidated net income of \$9.7 million for the three months ended June 30, 2022, compared to \$7.8 million in the same period of 2021, an increase of \$1.9 million year-over-year. The increase is caused by the acquisition of Rifco in 2022, which contributed \$2.6 million in the three months ended June 30, 2022 and the contribution of \$1.6 million from the Asset Management Segment during the same period. The increase is offset by greater net charge offs and provision rates in 2022 as a result of market uncertainties. This is evidenced by increased net charge offs of \$4.9 million compared to the prior year period and an increase in the change in non-cash ACL of \$4.5 million.

Return on equity decreased for the three months ended June 30, 2022 by 0.7% compared to the same period in 2021, primarily due to the increase in average equity related to share issuances on the acquisition of Rifco and Waypoint and the exercise of special warrants, RSUs and options..

(\$ thousands)	Three months ended June 30,	
	2022	2021
Net income (loss)	\$ 9,651	\$ 7,812
Annualized	x 4	x 4
Average equity	199,737	156,594
Return on equity	19.3 %	20.0 %

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

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period as it eliminates the often-large swings in results due to IFRS 9 - the non-cash allowance for credit losses.

Average FX rate (\$ thousands)	1.2768		1.2282	
	Three months ended June 30,			
	2022	2021	Change	
Revenue	\$ 68,985	\$ 30,524	\$ 38,461	
Interest expense	(17,133)	(7,739)	(9,394)	
Net recoveries (charge-offs)	(3,904)	989	(4,893)	
	47,948	23,774	24,174	
<u>Expenses:</u>				
Personnel	(15,761)	(7,240)	(8,521)	
General and administrative	(10,775)	(5,454)	(5,321)	
Depreciation	(432)	(261)	(171)	
Adjusted operating income <sup>(1)</sup>	20,980	10,819	10,161	
Decrease (increase) in ACL	(4,313)	152	(4,465)	
Amortization	(593)	(361)	(232)	
Operating income	16,074	10,610	5,464	
Mark-to-market gain on interest rate derivative	—	132	(132)	
Other non-cash FMV charges and unrealized FX	(513)	294	(807)	
Income before taxes	15,561	11,036	4,525	
Tax expense	(5,910)	(3,224)	(2,686)	
<b>Net income</b>	<b>\$ 9,651</b>	<b>\$ 7,812</b>	<b>\$ 1,839</b>	

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

The U.S. Equipment Financing Segment's interest revenue on leases and loans totaled \$32.5 million, an increase of \$10.9 million year-over-year in the three-month period. This was a result of a 66.0% increase in average net investment in finance receivables (before ACL) to US\$962.0 million, an increase of US\$382.6 million in the three months ended June 30, 2022 compared to the same period in the prior year, caused by continuously growing originations. As a result, the June 30, 2022 net investment in leases and loans (before ACL) was US\$364.8 million higher than at June 30, 2021. The average yield earned during the period decreased by 1.4% (10.6% compared to 12.0% in the same period in the prior year). The decrease in overall yield percentage was due to the continuing growth of the Tandem portfolio, which has a slightly lower yield.

U.S. Equipment Financing Segment (US\$ thousands)	Three months ended June 30,	
	2022	2021
Interest revenue on finance leases and loans	\$ 25,556	\$ 17,340
Annualized	x 4	x 4
Average NFR, before allowance	\$ 962,038	\$ 579,404
Interest revenue yield	10.6 %	12.0 %

Ancillary finance and other fee income increased by \$3.2 million period-over-period, mainly related to an increase in originations.

The U.S. Equipment Financing Segment's interest expense increased by \$3.3 million in the three months ended June 30, 2022 compared to the same period in the prior year as a result of increased average debt outstanding throughout the period (\$477.9 million higher compared to the same period in 2021).

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The U.S. Equipment Financing Segment's provision for credit losses increased by US\$4.5 million in the three months ended June 30, 2022 compared to the same period in the prior year due an increase in charge offs of US\$1.9 million and a greater change in ACL compared to the same quarter in the prior year to account for market uncertainties.

U.S. Equipment Financing Segment (US\$ thousands)	Three months ended June 30,	
	2022	2021
Impact of loan book growth	\$ 473	\$ 2,143
Impact of change in provision rate during the period	820	(3,517)
Change in ACL	1,293	(1,374)
Net charge-offs (recoveries )	1,150	(709)
Provision for credit losses	2,443	(2,083)
Net charge-offs annualized (x4)	4,600	(2,836)
Average NFR, before allowance	962,038	579,404
Charge-offs as a percentage of finance receivables	0.5 %	(0.5)%

The U.S. Equipment Financing Segment's 31 days past due delinquency at June 30, 2022 stayed consistent period-over-period.

Personnel expenses in the U.S. Equipment Financing Segment increased by \$1.5 million compared to the same period in the prior year due to an increase in the average number of staff by 24 during the three months ended June 30, 2022. The U.S. Equipment Financing Segment's other expenses also increased by \$1.6 million, mainly related to expenses driven by higher origination volumes (e.g. credit reports) and increased collection costs as a result of managing a larger portfolio.

During the three months ended June 30, 2022, the operating income from the U.S. Equipment Financing Segment's operations increased by \$1.7 million compared with the same period in the prior year, mainly due to a higher average NFR, before allowance, which increased revenues earned offset by a higher provision for credit losses, interest expenses, personnel expenses, and other expenses.

The Canadian Equipment Financing Segment generated revenue of \$16.9 million during the three months ended June 30, 2022, an increase of \$10.0 million from the same period in the prior year. The Canadian Equipment Financing Segment's average net investment in finance receivables (before ACL) increased approximately \$332.2 million in the three months ended June 30, 2022, compared to the same period in the prior year. In addition, the average number of finance receivable contracts outstanding increased by 11,181 in the quarter ended June 30, 2022 compared to the same period in the prior year. The average annualized interest revenue yield earned on the Canadian Equipment Financing Segment 's net finance receivables decreased by 0.2%, to 10.4%, during the period compared to the same period in the prior year. The Canadian Equipment Financing Segment's interest expense increased by \$3.0 million due to approximately \$251.2 million higher average debt outstanding.

Canadian Equipment Financing Segment (\$ thousands)	Three months ended June 30,	
	2022	2021
Interest revenue	\$ 13,999	\$ 5,439
Annualized	x 4	x 4
Average NFR, before allowance	536,868	204,658
Interest revenue yield	10.4 %	10.6 %

The Canadian Equipment Financing Segment's provision for credit losses increased by \$1.1 million compared to the same period in the prior year. The change in the provision for credit losses is the result of an increase in the change in ACL of \$0.1 million and an increase in net charge-offs of \$1.0 million.

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Canadian Equipment Financing Segment (\$ thousands)	Three months ended June 30,	
	2022	2021
Impact of loan book growth	\$ 1,669	\$ 5,134
Impact of change in provision rate during the period	(34)	(3,634)
Change in ACL	\$ 1,635	\$ 1,500
Net charge-offs (recoveries)	982	(29)
Provision for credit losses	\$ 2,617	\$ 1,471
Net charge-offs annualized (x4)	\$ 3,928	\$ (116)
Average NFR, before allowance	536,868	204,658
Charge-offs as a percentage of finance receivables	0.7 %	(0.1)%

The Canadian Equipment Financing Segment's personnel expenses also increased by \$3.2 million compared to the same period in the prior year to \$4.8 million as a result of increased employees. The average number of employees in the three months ended June 30, 2022 increased by 110 compared to the same period in 2021. The increase in other expenses of \$2.2 million is a function of increased originations, the segment's technology upgrades, and dividend declaration to the non-controlling shareholders of \$1.0 million.

Overall, the Canadian Equipment Financing Segment's operating income totaled \$0.3 million in the three months ended June 30, 2022, compared to \$0.1 million in the same period in the prior year. The increased operating income is the result of higher revenue levels being partially offset by increased interest, personnel, and other expenses. The main drivers of the expenses were related to the segment's continued expansion into the Canadian equipment leasing market, and an increase in the average number of staff during the three months ended June 30, 2022 allowing them to earn increased revenues.

The Canadian Auto Financing Segment generated revenue of \$11.1 during the three months ended June 30, 2022. The Segment's average net investment in finance receivables was \$221.0 million at June 30, 2022,

The average annualized interest revenue yield earned on the Canadian Auto Financing Segment's net finance receivables was 19.2% during the period. The Canadian Auto Financing Segment's interest expense was \$2.4 million due to approximately \$210.5 million in average debt outstanding during the three months ended June 30, 2022.

Canadian Auto Financing Segment (\$ thousands)	Three months ended June 30,	
	2022	
Interest revenue	\$	10,631
Annualized		x 4
Average NFR, before allowance		221,009
Interest revenue yield		19.2 %

The Canadian Auto Financing Segment's provision for credit losses was \$2.5 million for the three months ended June 30, 2022. Rifco's over 31 days delinquency has increased by 2.0% to 7.25% since March 31, 2022. The increase is primarily driven by current market conditions and decreasing government subsidies to sub prime borrowers.

Canadian Auto Financing Segment (\$ thousands)	Three months ended June 30, 2022
Impact of loan book growth	\$ 343
Impact of change in provision rate during the period	675
Change in ACL	1,018
Net charge-offs (recoveries )	1,463
Provision for credit losses	2,481
Net charge-offs annualized (x4)	5,852
Average NFR, before allowance	221,009
Charge-offs as a percentage of finance receivables	2.6 %

The Canadian Auto Financing Segment's personnel expenses were \$1.8 million for the three months ended June 30, 2022. Other expenses for the three months ended June 30, 2022 were \$1.1 million, which relates to collection, marketing, and other operating costs.

Overall, the Canadian Auto Financing Segment 's operating income totaled \$3.1 million in the three months ended June 30, 2022.

For the three months ended June 30, 2022, the Asset Management Segment generated \$3.2 million of revenue from fees charged on the US\$97.4 million of receivables sold under the forward flow agreement with third party investors. The revenue was offset by personnel costs. The results of operations of Waypoint were not yet material to the Company's consolidated results for the three months ended June 30, 2022 since the acquisition only occurred on May 25, 2022.

The provision for taxes for the consolidated entity during the three months ended June 30, 2022 was an expense of \$5.9 million compared to an expense of \$3.2 million in the same period in the prior year. The increase of \$2.7 million is primarily driven by higher income before taxes generated in the quarter. The effective tax rate differs from the Canadian statutory tax rate due to permanent differences between accounting and taxable income.

**EBITDA, ADJUSTED EBITDA, FREE CASH FLOW, MAXIMUM PERMITTED DIVIDENDS <sup>(1)</sup>**

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

For the quarter-ended (\$ thousands)	2020		2021				2022	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net income (loss)	\$ 9,804	\$ 91	\$ 6,313	\$ 7,812	\$ 9,148	\$ 7,896	\$ 1,679	\$ 9,651
Interest expense	7,084	6,000	5,895	7,739	8,835	9,202	12,087	17,133
Income tax expense (recovery)	3,877	(1,523)	2,666	3,224	3,187	1,825	1,098	5,910
Goodwill and intangible asset impairment	—	8,960	—	—	—	—	—	—
Amortization and depreciation	628	632	571	622	836	871	1,024	1,025
EBITDA <sup>(1)</sup>	21,393	14,160	15,445	19,397	22,006	19,794	15,888	33,719
Interest expense	(7,084)	(6,000)	(5,895)	(7,739)	(8,835)	(9,202)	(12,087)	(17,133)
Non-cash revaluation of option liability	—	—	—	—	—	(745)	(1,572)	608
Non-cash change in finance receivables allowance for credit losses <sup>(2)</sup>	(11,765)	(3,986)	(4,439)	(152)	1,830	921	17,073	4,313
Share-based compensation expense	32	554	255	244	326	2,719	650	1,067
Restructuring and transaction costs	3,474	—	—	—	—	—	—	—
Unrealized (gain) loss on investments	(544)	(60)	—	—	—	—	—	—
Unrealized (gain) loss on foreign exchange	51	(98)	26	(294)	(1,249)	851	(59)	513
(Gain) loss on interest rate derivative	(214)	(133)	(126)	(132)	(86)	—	—	—
Adjusted EBITDA <sup>(1)(2)</sup>	5,343	4,437	5,266	11,324	13,992	14,338	19,893	23,087
Maintenance capital expenditures	(56)	(93)	(40)	(79)	(112)	(771)	(196)	(265)
Income tax impact of non-cash change in allowance for credit losses <sup>(2)</sup>	3,181	1,072	1,196	122	(505)	(256)	(3,391)	(1,167)
Income tax (expense) recovery	(3,877)	1,523	(2,666)	(3,224)	(3,187)	(1,825)	(1,098)	(5,910)
Free Cash Flow <sup>(1)(2)</sup>	\$ 4,591	\$ 6,939	\$ 3,756	\$ 8,143	\$ 10,188	\$ 11,486	\$ 15,208	\$ 15,745
FCF per diluted share	\$ 0.26	\$ 0.39	\$ 0.21	\$ 0.42	\$ 0.51	\$ 0.56	\$ 0.73	\$ 0.75
FCF L4PQ divided by 4 <sup>(1)(3)</sup>	\$ 4,932	\$ 4,709	\$ 4,743	\$ 4,820	\$ 5,498	\$ 7,256	\$ 8,393	\$ 11,256
Maximum Permitted Dividends <sup>(1)(3)</sup>	\$ 4,438	\$ 4,238	\$ 4,268	\$ 4,338	\$ 4,948	\$ 6,530	\$ 7,553	\$ 10,130
Dividends declared <sup>(4)</sup>	\$ —	\$ 710	\$ 1,055	\$ 1,566	\$ 1,766	\$ 1,756	\$ 2,009	\$ 2,425

(1) EBITDA, Adjusted EBITDA, Free Cash Flow, FCF L4PQ (Free Cash Flow for the last four published quarters) and Maximum Permitted Dividends are non-GAAP measures. See "Non-GAAP Measures" above for the definitions.

(2) The formulas for Adjusted EBITDA and Free Cash Flow adjust for the non-cash change in finance receivables' allowance for credit losses included in the provisions for credit losses in the income statement as well as the related tax effect of this non-cash change. Adjusted EBITDA and Free Cash Flow includes only the actual net credit losses incurred in the quarter. Management believes that this change enhances the usefulness of Adjusted EBITDA and Free Cash Flow as performance measures and is a more appropriate method of calculation as it removes the volatility associated with the effect of estimates and assumptions for a non-cash item and reflects the compliance with the terms of Chesswood's main corporate credit facility.

(3) The FCF L4PQ is calculated on a monthly basis as required by the terms of Chesswood's revolving credit facility. This calculation uses Chesswood's most recent four quarters' published results, divided by twelve. The FCF L4PQ, in any one quarter, is the basis for the Maximum Permitted Dividends in that quarter (90% of FCF L4PQ) and will not include the FCF for the currently published quarter as they are released/published after the final month of the respective reporting period.

(4) Includes dividends on Exchangeable Securities (non-controlling interest, as described below under "Statement of Financial Position") and Special Warrants.

On March 9, 2022, the Company announced a 33% monthly dividend increase to \$0.04 per share (\$0.48 per share annualized), effective March 31, 2022. See "Liquidity and Capital Resources - Dividends to Shareholders" below.

**STATEMENT OF FINANCIAL POSITION**

The total consolidated assets of the Company at June 30, 2022 were \$2.3 billion, an increase of \$658.7 million from December 31, 2021. The U.S. dollar exchange rate on June 30, 2022 was 1.2886, compared to 1.2678 at December 31, 2021. The increase in the foreign exchange rate represents an increase of \$18.4 million in assets.

Cash totaled \$1.9 million at June 30, 2022 compared to \$12.4 million at December 31, 2021, a decrease of \$10.5 million. The Company's objective is to maintain low cash balances, investing any excess cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. Please see the Liquidity and Capital Resources overview section of this MD&A for a discussion of cash movements during the six months ended June 30, 2022 and 2021.

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

Other assets totaled \$13.3 million at June 30, 2022, an increase of \$7.4 million from December 31, 2021. The increase is the result of two main factors. Firstly, Rifco contributed \$1 million of prepaids and other assets. Secondly, Vault Credit had an increase in originations subsequent to December 31, 2021, resulting in a proportionate increase in sales tax receivable of \$4.3 million. See Note 5 - *Other Assets* in the unaudited interim condensed consolidated financial statements for further details.

Net Finance receivables consist of the following:

<i>Period end FX rate</i>	1.2886	1.2678
<i>(\$ thousands)</i>	June 30, 2022	December 31, 2021
U.S. equipment finance receivables	\$ 1,235,144	\$ 1,025,567
Canadian equipment finance receivables	593,149	392,693
Canadian automotive finance receivables	211,544	—
	<b>\$ 2,039,837</b>	<b>\$ 1,418,260</b>

<i>(\$ thousands)</i>	June 30, 2022	December 31, 2021
Opening gross finance receivables	\$ 1,678,952	\$ 890,418
Gross loan originations	931,196	934,034
Gross loans acquired from business combination	329,270	194,018
Principal payments, collections from sale of assets and adjustments	(432,957)	(323,800)
Charge-offs	(11,319)	(15,718)
Ending gross finance receivables	<b>\$ 2,495,142</b>	<b>\$ 1,678,952</b>

Finance receivables saw an increase of \$621.6 million, or 43.8%, during the six months ended June 30, 2022. In U.S. dollars, the U.S. Equipment Financing Segment's net finance receivables before allowances increased by US\$153.7 million and the increase in the foreign exchange rate compared to December 31, 2021 increased finance receivables by \$16.8 million since December 31, 2021, thus reflecting an increase in U.S. based finance receivables of \$209.6 million since December 31, 2021. The Canadian Equipment Financing Segment's finance receivables increased by \$200.5 million during the six months ended June 30, 2022.

Subsequent to the Company's update of the fair value of the finance receivables, the Auto Financing Segment's finance receivables were valued at \$206.9 million as at January 14, 2022, (the date of the Rifco acquisition), before the ACL. Following



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the provision for credit losses of \$9.3 million recognized the day after the acquisition ("day 2"), finance receivables totaled \$197.6 million. Since then, the finance receivables increased by \$13.9 million (to \$211.5 million) as at June 30, 2022.

The \$2.0 billion in finance receivables is net of \$44.2 million (or 2.2%) in ACL compared to \$22.4 million (or 1.6%) in ACL at December 31, 2021. The \$21.8 million increase in the ACL is related primarily to the acquisition of Rifco, which resulted in a \$9.3 million credit loss provision being booked on "day 2", as well as increasing provisions across all subsidiaries as a result of growing originations and uncertainties during global events.

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

The measurement of expected credit losses and the assessment of 'significant increase' (per IFRS 9) in credit risk considers information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information also requires judgment when calculating the ACL. The Company's ACL was determined as at June 30, 2022 as follows:

<i>(\$ thousands)</i>	June 30, 2022	December 31, 2021
Opening allowance for credit losses	\$ 22,393	\$ 24,363
Net recoveries (charge-offs)	(3,497)	(2,028)
Provision for credit losses	24,883	188
Foreign exchange	376	(130)
Ending allowance for credit losses	\$ 44,155	\$ 22,393
Finance receivables	\$ 2,039,837	\$ 1,418,260
ACL as a percentage of finance receivables	2.2 %	1.6 %

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

The Company's deferred tax assets increased by \$5.6 million to \$10.9 million as Rifco contributed \$3.0 million of deferred tax assets (with a majority of the balance from the "day 2" loss provision) and the Canadian Equipment Financing Segment and Corporate Overhead Segment generated an additional \$2.2 million of deferred tax assets based on projected temporary tax difference creations and non-capital loss carryforwards.

Intangible assets totaled \$28.1 million at June 30, 2022 compared to \$26.9 million at December 31, 2021. The \$1.2 million increase is related to intangible assets acquired on the acquisitions of Rifco and Waypoint of an aggregate of \$2.1 million, offset by amortization of \$1.2 million, refer to Note 7 - *Intangible assets* in the unaudited interim condensed consolidated financial statements for more detail. The significant intangible assets of broker relationships and trade names do not require any outlay of cash to be maintained, as the creation of lease and loan receivables does not require an outlay of cash, other than commissions, which are separately expensed over the terms of the lease and loan receivables.

Goodwill totaled \$47.4 million at June 30, 2022, compared to \$43.1 million at December 31, 2021. The increase was primarily due to goodwill obtained through the acquisitions of Rifco and Waypoint of an aggregate of \$4.0 million. See Note 8 - *Goodwill* in the unaudited interim condensed consolidated financial statements for more detail.

Accounts payable and other liabilities totaled \$45.8 million at June 30, 2022, compared to \$29.0 million at December 31, 2021, an increase of \$16.8 million. The main driver of this increase was due to the acquisition of Rifco. Rifco contributed \$2.9 million in accounts payable and accrued liabilities. In addition, Rifco has a statutory requirement to refund application fees to



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borrowers in the event a loan is prepaid. As at June 30, 2022, this liability totaled \$3.9 million. There was also an increase of \$8.6 million of vendor payables as a result of increased originations in both equipment financing segments. See Note 9 - *Accounts Payable and Other Liabilities* in the unaudited interim condensed consolidated financial statements for more detail on the balances that comprise accounts payable and other liabilities.

As at June 30, 2022, the Company had a current tax payable balance of \$5.5 million. The U.S. Equipment Financing Segment currently holds \$4.8 million in current income taxes payable, an increase of \$3.4 million, as a result of a greater tax accrual on increased profit.

During the six months ended June 30, 2022, there was a net decrease in the option liability established during the merger of Blue Chip and Vault Credit of \$1.0 million as a result of a decrease in the underlying net assets used to value the liability. See Note 21 - *Business Combinations* to the unaudited interim condensed consolidated financial statements for further detail on the option liability.

Borrowings totaled \$2.0 billion at June 30, 2022 compared to \$1.3 billion at December 31, 2021, an increase of \$618.9 million net of deferred financing costs. The increase is primarily a function of the increased originations and inclusion of Rifco. Rifco contributed \$199.5 million in debt at the time of acquisition, which has since increased by \$13.6 million, to \$213.1 million, as at June 30, 2022. The U.S. Equipment Financing Segment's US dollar debt is further increased by US\$144.0 million and the Canadian Equipment Financing Segment 's debt increased by \$131.8 million, and the drawdown under Chesswood Credit Facility increased by \$75.7 million since December 31, 2021.

The \$3.8 million (December 31, 2021 - \$4.4 million) in customer security deposits relates to security deposits predominantly held by the U.S. Equipment Financing Segment. Historically, the U.S. Equipment Financing Segment's non-prime contracts typically required that the lessees/borrowers provide one or two payments as security deposit (not advance payments), which are held for the full term of the lease/loan and then returned or applied to the purchase option of the equipment at the lessee's/borrower's request, unless the contract is in default (in which case the deposit is applied against the receivable). Beginning in January 2019, the U.S. Equipment Financing Segment discontinued requiring security deposits due to changing market conditions and now require advance payments (first and last months).

Deferred tax liabilities as at June 30, 2022 totaled \$28.0 million compared to \$27.1 million at December 31, 2021, an increase of \$0.9 million. Taxes are provided for using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the subsidiaries' assets and liabilities and their corresponding tax basis.

At June 30, 2022, there were 17,630,185 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of \$124.4 million. A total of 498,605 common shares were issued as part of the consideration for the Rifco acquisition on January 14, 2022 and 150,983 common shares were issued as part of the consideration for the Waypoint acquisition on May 25, 2022. In addition, during the six months ended June 30, 2022, 150,000 RSUs were exercised, 123,389 options were exercised, and 266,666 special warrants were automatically exercised.

In December 2021, the Company's Board of Directors approved the repurchase for cancellation of up to 980,230 of the Company's outstanding common shares for the period commencing January 24, 2022 and ending on January 23, 2023. From January 24, 2022 to June 30, 2022, the Company repurchased 134,322 of its common shares under the normal course issuer bid at an average cost of \$14.16 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.

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

Non-controlling interest consists of 1,274,601 Class B common shares and 203,936 Class C common shares (the "Exchangeable Securities") of Chesswood U.S. Acquisitionco Ltd. ("U.S. Acquisitionco") were issued as partial consideration for the acquisition of Pawnee and are fully exchangeable at any time for the Company's common shares, on a one-for-one basis, for no additional consideration, through a series of steps and entitle the holders to receive the same dividends as the common shares. Attached to the Exchangeable Securities are Special Voting Shares of the Company which provide the holders of the Exchangeable Securities voting equivalency to holders of common shares. Under IFRS, the Exchangeable Securities must be shown as non-controlling interest because they are equity in a subsidiary not attributable, directly or indirectly, to the parent. The Exchangeable Securities are fully exchangeable into the Company's common shares. Their portion of income and dividends is allocated to non-controlling interest. Including the common shares issuable in exchange for the Exchangeable Securities, Chesswood had 19,108,722 common shares outstanding.

As a result of the Blue Chip - Vault Credit merger and prior to the exercise of the option liability, the non-controlling interest in the Canadian Holdco has a right to 49% of the income and distributions of the Canadian Holdco. However, because of the option liability, the non-controlling interest in Canadian Holdco is not recognized. See Note 21 - *Business Combinations*. Finally, there is a 49% non-controlling interest in Vault Home which is recognized under the non-controlling interest section of the Shareholder's Equity.

Contributed surplus includes the accumulated share-based compensation expensed over the vesting term for options and RSUs unexercised at June 30, 2022. There were 1,908,050 options and 521,500 RSUs outstanding at June 30, 2022.

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## LIQUIDITY AND CAPITAL RESOURCES

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

The Company and its subsidiaries were compliant with all covenants as at and through the six months ended June 30, 2022.

At June 30, 2022, the Company had the following facilities:

(a) The Chesswood revolving credit facility allows borrowings of up to US\$300.0 million, subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility includes a US\$100 million accordion feature that can increase the overall borrowing amount to US\$400 million, 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 June 30, 2022, the Company was utilizing US\$208.9 million (December 31, 2021 - US\$153.5 million) of its credit facility and had approximately US\$91.1 million in additional borrowings available under the revolving credit facility. Based on average debt levels, the effective interest rate during the six months ended June 30, 2022, was 3.52% (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. 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 credit losses. 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\$200 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 guarantee in lieu of cash reserves. The segment retains the servicing of these finance receivables. The balance of this facility as at June 30, 2022 was US\$100.7 million (December 31, 2021 - US\$95.1 million). Based on average debt levels, the effective interest rate for the six months ended June 30, 2022, was 3.59% (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 June 30, 2022 was US\$56.6 million (December 31, 2021 - US\$83.1 million). Based on average debt levels, the effective interest rate was 3.40% for the six months ended June 30, 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 June 30, 2022 was US\$64.6 million (December 31, 2021 - US\$89.8 million). The effective interest rate was approximately 3.17% for the six months ended June 30, 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 effective interest rate was approximately 1.76% (including amortization of origination costs) (year ended December 31, 2021 - 2.01%). The balance of this facility as at June 30, 2022, was US\$277.0 million (December 31, 2021 - US\$333.9 million).

(v) The U.S. Equipment Financing Segment has a US\$250 million revolving warehouse loan facility that was established in May 2021 specifically to fund its growing prime and near prime portfolio. 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, contains covenants, including maintaining leverage, interest coverage, and delinquency ratios. This facility has a revolving period until January 2024 followed by an optional amortizing period for an additional 36 months. As at June 30, 2022, the balance of this facility was US\$223.3 million (December 31, 2021 - nil). The effective interest rate for the six months ended June 30, 2022 was approximately 2.79% (year ended December 31, 2021 - 2.09%) (including amortization of origination costs).

(vi) 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. The Company 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 June 30, 2022 was US\$45.0 million (December 31, 2021 - US\$19.0 million). Based on average debt levels, the effective return provided to the private credit investors for the six months ended June 30, 2022 was 14.16% (including amortization of origination costs) (year ended December 31, 2021 - 12.48%).

As at June 30, 2022, the U.S. Equipment Financing Segment had provided US\$0.5 million in outstanding letters of guarantee through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2021 - US\$0.5 million).

(c) Canadian Equipment Financing Segment:

Blue Chip and Vault Credit have master purchase and servicing agreements with various financial institutions and life insurance companies (referred to collectively as the "Funders"). The Funders make advances to Blue Chip and 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. Blue Chip and Vault Credit either maintain certain cash reserves as credit enhancements or provide letters of guarantee in return for release of the cash reserves. Blue Chip and Vault Credit continue to service these finance receivables on behalf of the Funders.

(i) As at June 30, 2022, Blue Chip and Vault Credit had access to the following committed lines of funding:

- (i) \$200 million annual limit from a life insurance company.
- (ii) \$150 million rolling limit from a financial institution.
- (iii) \$250 million rolling limit from a bank.
- (iv) Approved funding from another financial institution with no annual or rolling limit.

As at June 30, 2022, Blue Chip and Vault Credit had \$37.7 million and \$431.1 million, respectively (December 31, 2021 - \$57.6 million and \$302.1 million, respectively) in securitization and bulk lease financing facilities debt outstanding. Blue Chip and Vault Credit together had access to at least \$347.7 million of additional financing from its securitization partner (December 31, 2021 - \$247.5 million).

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 six months ended June 30, 2022 was 3.14% and 3.11% for Blue Chip and Vault Credit, respectively (year ended December 31, 2021 - 3.37% and 2.61%, respectively).

(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 June 30, 2022 was \$2.7 million (December 31, 2021 - \$2.2 million). VCOF earns a yield equivalent to the interest on the underlying loans.

As at June 30, 2022, Blue Chip and Vault Credit had provided \$2.5 million in outstanding letters of guarantee through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2021 - \$3.8 million). Blue Chip and 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 June 30, 2022, Rifco had access to the following committed lines of funding:

- (i) \$50 million annual limit from a life insurance company.
- (ii) \$50 million rolling limit from a financial institution.
- (iii) Approved funding from another financial institution with no annual or rolling limit.

As at June 30, 2022, Rifco had \$204.1 million outstanding on its securitization facilities. Based on average debt levels, the effective interest rate during the six months ended June 30, 2022, was 4.32%.

(ii) Unsecured debentures

Rifco has previously issued unsecured debentures which allow Rifco the right to redeem the debenture in the last year of the agreement without penalty. The unsecured debenture holders do not have early retraction rights and have no right to convert into common shares. 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 with maturity dates that go out until August 2026.

As at June 30, 2022, Rifco had \$9.0 million in unsecured debentures outstanding. Based on average debt levels, the effective interest rate during the six months ended June 30, 2022, was 9.16%.

***Cash Sources and Uses***

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

*For the six months ended June 30, 2022*

In the six months ended June 30, 2022, there was an increase in cash and restricted cash of \$17.0 million compared to an increase in cash of \$20.0 million in the same period in the prior year as a result of the reasons discussed below.

The Company's finance receivables have an average term of approximately 47 months at the time of origination. At origination, the finance receivables will generate earnings over the next 47 months, with only a portion in the current operating period. Chesswood's ability to borrow under its various credit facilities is directly linked to its finance receivable portfolio. The funds borrowed (or repaid) to support the growth (retraction) in the finance receivables is shown under Financing Activities.

The Company's operations utilized \$378.1 million million of cash and restricted cash during the six months ended June 30, 2022, compared to \$136.0 million million cash and restricted cash utilized in the same period in the prior year, an increase in utilization of \$242.1 million compared to the same period in the prior year.

The net cash and restricted cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, and principal payments) totaled \$451.8 in the six months ended June 30, 2022, compared to the utilization of \$176.2 in the same period in the prior year, an increase of \$275.6 million in cash and restricted cash utilized compared to the same period in the prior year.

The Company funded growth in finance receivables from cash from operating activities as well as net borrowings of \$401.7 million in the six months ended June 30, 2022. In the same period in the prior year, the Company funded growth in finance receivables from cash from operating activities and net borrowings of \$141.6 million.

In the six months ended June 30, 2022, the Company had net tax payments of \$8.6 million compared to net tax payments of \$5.4 million in the same period in the prior year, an increase in cash and restricted cash utilization of \$3.2 million compared to the same period in the prior year.

Proceeds from the exercise of options were \$0.9 million in the six month period and were offset by the repurchase of common shares under the Company's normal course issuer bid of \$1.9 million. Similar amounts for the six months ended June 30, 2021, were \$5.1 million and \$2.8 million, respectively.

The Company paid \$4.0 million of dividends to the holders of its common shares and Exchangeable Securities, as well as its non-controlling interests in the Canadian Holdco, during the six months ended June 30, 2022 compared to \$2.3 million paid in the same period in the prior year.

Cash and restricted cash used in investing activities were insignificant during the six months ended as a result of the cash and restricted cash received from the acquisition of Rifco being offset by the cash paid for the acquisition of Waypoint. The net impact was \$0.5 million. In 2021, the \$16.8 million investing activity inflow mainly related to cash obtained from the Vault acquisition.

*For the three months ended June 30, 2022*

In the three months ended June 30, 2022, there was a decrease in cash and restricted cash of \$5.9 million compared to an increase in cash of \$25.4 million in the same period in the prior year as a result of the reasons discussed below.

The Company's operations utilized \$157.3 million of cash and restricted cash during the three months ended June 30, 2022, compared to \$87.6 million of cash and restricted cash utilized in the same period in the prior year, an increase in utilization of \$69.7 million compared to the same period in the prior year.

The net cash and restricted cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, and principal payments) totaled \$195.8 million in the three months ended June 30, 2022, compared to the utilization of \$120.0 million in the same period in the prior year, an increase of \$75.8 million in utilization compared to the same period in the prior year.

The Company funded growth in finance receivables from cash and restricted cash from operating activities as well as net borrowings of \$152.1 million in the three months ended June 30, 2022. In the same period in the prior year, the Company funded growth in finance receivables from operating activities and net borrowings of \$94.6 million.

In the three months ended June 30, 2022, the Company had net tax payments of \$4.8 million compared to net tax payments of \$3.0 million in the same period in the prior year, an increase in utilization of \$1.8 million compared to the same period in the prior year.

Proceeds from the exercise of options were \$0.9 million in the period. Similar amounts for the three months ended June 30, 2021, were \$4.6 million.

The Company paid \$2.3 million of dividends to the holders of its common shares and Exchangeable Securities, as well as its non-controlling interests in the Canadian Holdco, during the three months ended June 30, 2022 compared to \$1.3 million paid in the same period in the prior year.

Cash and restricted cash used in investing activities was \$1.7 million. The outflow mainly consisted of \$1.4 million cash paid related to the acquisition of Waypoint. In 2021, the \$16.8 million investing activity inflow mainly related to the Vault acquisition.

***Financial Covenants, Restrictions and Events of Default***

The Company and its operating subsidiaries are subject to bank and/or funder covenants. The Company was compliant with all of its covenants on all facilities as at June 30, 2022.

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

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

Advances on the Chesswood revolving credit facility may be drawn at any time, subject to compliance with borrowing base calculations and required representations and warranties. As at June 30, 2022, US\$91.1 million was available under the US\$300.0 million facility (utilizing US\$208.9 million), which included US\$2.4 million of letters of credit.

***Dividends to Shareholders***

On March 9, 2022, the Company announced a 33% monthly dividend increase to \$0.04 per share (\$0.48 per share annualized), effective for the dividend for March 2022 (paid in April).

***Dividend Policy***

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

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

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

***Minimum Payments***

The following are the contractual payments and maturities of financial liabilities and other commitments as at June 30, 2022 (including interest):

<i>(\$ thousands)</i>	2022	2023	2024	2025	2026	2027 and beyond	Total
Accounts payable and other liabilities	\$ 45,780	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 45,780
Premise leases payables (a)	493	1,030	1,010	693	504	251	3,981
Borrowings (b)	394,233	571,596	430,126	557,044	116,057	39,602	2,108,658
Customer security deposits (c)	962	1,622	455	347	371	124	3,881
	441,468	574,248	431,591	558,084	116,932	39,977	2,162,300
Service contracts	1,465	467	76	54	23	—	2,085
<b>Total commitments</b>	<b>\$ 442,933</b>	<b>\$ 574,715</b>	<b>\$ 431,667</b>	<b>\$ 558,138</b>	<b>\$ 116,955</b>	<b>\$ 39,977</b>	<b>\$ 2,164,385</b>

- a. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2028. The amounts above exclude adjustment for discounting premise leases payable.
- b. Borrowings are described in Note 10 - *Borrowings*, and include fixed payments for the U.S. Equipment Financing Segment, Canadian Equipment Financing Segment, and Canadian Auto Financing Segment securitization facilities, as well as Canadian Auto Financing Segment's debentures and Chesswood's corporate revolving credit facility which is a line-of-



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credit and, as such, the balance can fluctuate. The amounts above includes fixed interest payments on U.S. Equipment Financing Segment, Blue Chip, Vault Credit, and Canadian Auto Financing Segment's credit facilities and estimated interest payments on the Canadian Auto Financing Segment's debentures and Chesswood corporate credit facility. The latter assuming the interest rate, debt balance and foreign exchange rate as at June 30, 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 year of maturity, all other expected payments for borrowings are based on the underlying finance receivables supporting the borrowings.

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

Reference should be made to Note 6(b) - *Finance Receivables* of the interim condensed 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 cash 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 interim condensed statement of financial position, other than US\$2.4 million in letters of guarantee.

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## OUTLOOK

Following quarter end, Pawnee announced another ABS transaction for USD\$346.6 million. The transaction is expected to close in early August. For the second half of 2022, our team is prioritizing balance sheet liquidity. Economists predict that chances for a recession are building as central banks continue to tighten monetary policy. We therefore believe a defensive approach is warranted in the current environment.

We will continue to build our managed assets through our Chesswood Capital Management division. Our team continues to see strong investor interest for Chesswood originated finance receivables in addition to entertaining interest from other originators looking for diversified funding away from traditional conduits. Following the acquisition of Waypoint, Chesswood's Asset Management division is now positioned to distribute and manage investment funds across all asset classes, and we expect to continue leveraging this capability as we progress throughout the remainder of 2022.

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## RISK FACTORS

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

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

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

The results of the Company's subsidiaries may be negatively impacted by various economic factors and business conditions, including the level of economic activity in the markets in which they operate. To the extent that economic activity or business conditions deteriorate, originations may decrease, delinquencies and credit losses may increase and investor confidence could result in less investor interest in products offered by the Asset Management Segment. Delinquencies and credit losses generally increase during economic slowdowns or recessions such as that experienced in the United States from 2008-2013. As our operating companies extend credit primarily to small businesses (and for Rifco and Vault Home, individual consumers), many of their customers may be particularly susceptible to economic slowdowns or recessions, and may be unable to make scheduled lease or loan payments during these periods. Unfavourable economic conditions may also make it more difficult for our operating companies to maintain new origination volumes and the credit quality of new leases and loans at levels previously

attained. Unfavourable economic conditions could also increase funding costs or operating cost structures, limit access to credit facilities, securitizations and other capital markets or result in a decision by lenders not to extend further credit.

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

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

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

#### ***Portfolio Delinquencies; Inability to Underwrite Lease and Loan Applications***

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

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

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

#### ***Dependence on Key Personnel***

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

#### ***Relationships with Brokers, Dealers, and Other Origination Sources***

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

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

***Risk of Future Legal Proceedings***

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

***Interest Rate Fluctuations***

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

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

At the customer level, non-prime segments of the micro and small-ticket equipment finance market have historically and typically been, and continue to be, more sensitive to the monthly payment amounts than to the effective rates of interest charged.

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

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

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

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

Pawnee began offering its prime product in 2015 - financing for higher credit rated lessees and borrowers, and this product represents an increasing part of the composition of Pawnee's portfolio. While it is expected that the losses and allowance for credit losses in respect of this part of Pawnee's portfolio will be lower - commensurate with the prime credit rating of the lessees/borrowers - the spread between the rates that Pawnee can charge over our cost of funds is also considerably smaller.

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

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

#### ***“Characterization” Risks***

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

#### ***Defenses to Enforcement of a Significant Number of Leases and Loans***

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

#### ***Origination, Funding and Administration of Transactions***

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

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

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

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

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

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

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

### ***Licensing Requirements***

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

### ***Fees, Rates and Charges***

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

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

### ***Insurance***

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

***Lessor Liability***

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

***Liability for Misuse of Leased Equipment***

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

***Estimates Relating to Value of Leases and Loans***

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

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

***Competition***

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

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

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

Many of the firms and institutions providing financing alternatives are substantially larger than our U.S. and Canadian operations, and have considerably greater financial, technical and marketing resources. Some of them may have a lower cost of funds and access to funding sources that are unavailable to our U.S. and Canadian operations. A lower cost of funds could enable a competitor to offer leases and loans with pricing lower than that of our U.S. and Canadian operations, potentially

forcing them to decrease prices or lose origination volume. In addition, some financing sources may have higher risk tolerances or different risk assessments, which could allow them to establish more origination sources and customer relationships to increase their market share.

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

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

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

#### ***Fraud by Lessees, Borrowers, Vendors or Brokers/Dealers***

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

#### ***Protection of Intellectual Property***

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

#### ***Failure of Computer and Data Processing Systems***

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

#### ***Security Risks***

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

***Risks Related to our Structure and Exchange Rate Fluctuations***

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

***Unpredictability and Volatility of Share Price***

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

***Leverage, Restrictive Covenants***

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

***Possible Acquisitions***

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

***Restrictions on Potential Growth***

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

***Canadian Income Tax Matters***

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

***United States Income Tax Matters***

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



***Environmental risk***

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

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**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

***Net Investment in Leases***

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

***Allowance for Credit Losses***

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

Application of the Expected Credit Loss ("ECL") model depends on the following credit stages of the financial assets:

- (i) Stage 1 - for new leases and loans recognized and for existing leases or loans that have not experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the net credit losses expected to result from defaults occurring in the next 12 months;
- (ii) Stage 2 - for those leases or loans that have experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the net credit losses expected over the remaining life of the lease or loan; and
- (iii) Stage 3 - for leases or loans that are considered credit-impaired, a loss allowance equal to full life-time expected net credit losses is recognized.

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

For Stage 2, the Company considers prime and non-prime leases and loans to have experienced a significant increase in credit risk since initial recognition if they are delinquent for over 30 days. Non-prime auto loans are also defined as stage 2 if they are currently in or recently completed a payment arrangement or extension. In addition, for equipment leases and loans, an estimate of those assets that will subsequently become delinquent calculated as approximately 13% (December 31, 2021 - 14%) of non-prime assets that are in default but have been delinquent for less than 30 days at the reporting date.

For Stage 3, the Company considers equipment leases and loans to be credit impaired if they are delinquent for more than 90 days or if the individual leases and loans have otherwise been classified as non-accrual. Auto loans are considered credit impaired if they are delinquent for greater than 90 days, the underlying collateral is in process of being repossessed, or there is another identifiable factor

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

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

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

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

### ***Impairment of Goodwill***

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

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

### ***Share-based Payments***

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

***Interest rate derivatives***

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

Interest rate derivatives are not considered trading instruments as the Company intends to hold them until maturity. Nonetheless, interest rate derivatives do not qualify as a hedge for accounting purposes, and are therefore recorded as separate derivative financial instruments. Accordingly, the estimated fair value of interest rate derivatives is recorded as an asset or a liability on the accompanying consolidated statement of financial position. Payments made and received pursuant to the terms of the interest rate derivatives are recorded as an adjustment to interest expense, and adjustments to the fair value of the interest rate derivatives are recorded as gain or loss on interest rate derivatives. The fair value of interest rate derivatives is based upon the estimated net present value of cash flows.

***Taxes***

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

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**RELATED PARTY TRANSACTIONS**

See Note 17 - *Related Party Transactions* in the unaudited interim condensed consolidated financial statements for the disclosure of key management compensation and other related party transactions.

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**CONTROLS AND PROCEDURES****Disclosure Controls and Procedures**

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

The Certifying Officers have assessed the design effectiveness of the Company's DC&P as at June 30, 2022 and have concluded that the design of the Company's DC&P was effective as at that date.

**Internal Control over Financial Reporting**

The Certifying Officers, along with other members of management, have also designed, or caused to be designed under their supervision, Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

financial reporting and the preparation of financial statements for external purposes prepared in accordance with IFRS. The Certifying Officers have used the Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), to design the Company’s ICFR.

The Certifying Officers have assessed the design effectiveness of the Company’s ICFR as at June 30, 2022 and have concluded that the design of the Company’s ICFR was effective as at that date.

During the quarter ended June 30, 2022, there has been no significant change in the Company's ICFR that would have materially affected, or would be reasonably likely to materially affect, the Company's ICFR.

### Limitation of Scope of Design

On January 14, 2022, Chesswood completed its acquisition of Rifco Inc. Total consideration was \$28.1 million. Rifco Inc. shareholders elected for approximately 25% of the consideration to be paid out in Chesswood common shares and the remainder in cash. This resulted in a total of 498,605 common shares being issued and \$21.0 million paid out in cash. For further information, reference should be made to Note 21 – *Business Combinations* – in the Unaudited Interim Condensed Financial Statements for the six months ended June 30, 2022.

Following the acquisition, management of Chesswood commenced the process of integrating and aligning Rifco’s controls, policies, and procedures with those of Chesswood. To allow time for completion of this integration and alignment, for the quarters ended March 31, 2022 and June 30, 2022, Chesswood availed itself of the scope limitation permitted under section 3.3(1)(b) of National Instrument 52-109 which allows an issuer to limit its design of DC&P and ICFR to exclude controls, policies, and procedures of a business that the issuer acquired not more than 365 days before the end of the fiscal period. It is, however, expected by management that the integration and alignment process will be completed by the end of the current fiscal year.

The table below presents the summary financial information of Rifco for the period commencing January 14, 2022 and ending June 30, 2022.

<b>Financial Information for Rifco</b>	<b>January 14, 2022, to June 30, 2022</b>
Revenues	\$19.7 million
Net Income (Loss)	\$(3.9) million
	<b>As at June 30, 2022</b>
Current Assets	\$18.4 million
Non-Current Assets	\$218.2 million
Current Liabilities	\$7.5 million
Non-Current Liabilities	\$214.3 million

### Limitations of an Internal Control System

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

Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues, including instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include, amongst other items: (i) that management’s assumptions and judgments could ultimately prove to be incorrect under varying

conditions and circumstances; (ii) breakdowns could occur because of undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

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

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

### MARKET FOR SECURITIES

The Company's common shares are traded on the Toronto Stock Exchange under the symbol CHW. The following table summarizes the high and low sales prices of the common shares and the average daily trading volume for each month in the six months ended June 30, 2022.

	Common Shares		
	High	Low	Average Daily Volume
January	\$14.50	\$12.67	11,296
February	\$14.55	\$13.30	10,860
March	\$15.25	\$13.07	13,320
April	\$15.10	\$12.88	12,960
May	\$14.40	\$13.27	6,495
June	\$13.66	\$12.04	12,986
	\$15.25	\$12.04	11,320

**Interim Condensed Consolidated Financial Statements**

**Chesswood Group Limited**  
(Unaudited)

June 30, 2022

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

	<i>Note</i>	As at June 30, 2022	As at December 31, 2021
<b>ASSETS</b>			
Cash		\$ 1,860	\$ 12,379
Restricted funds	<i>10(e)</i>	113,662	86,172
Other assets	<i>5</i>	13,303	5,947
Current tax receivables		506	—
Finance receivables	<i>3,6</i>	2,039,837	1,418,260
Deferred tax assets		10,945	5,307
Right-of-use assets		2,896	2,089
Property and equipment		2,774	2,348
Intangible assets	<i>7</i>	28,054	26,938
Goodwill	<i>8</i>	47,405	43,143
<b>TOTAL ASSETS</b>		<b>\$ 2,261,242</b>	<b>\$ 1,602,583</b>
<b>LIABILITIES</b>			
Accounts payable and other liabilities	<i>9</i>	\$ 45,780	\$ 28,972
Current tax payables		5,507	2,792
Premise leases payable		3,581	2,522
Option liability	<i>3, 21</i>	10,596	11,560
Borrowings	<i>3, 10</i>	1,956,207	1,337,310
Customer security deposits	<i>3</i>	3,755	4,362
Deferred tax liabilities		28,047	27,083
		<b>2,053,473</b>	<b>1,414,601</b>
<b>EQUITY</b>			
Common shares	<i>13</i>	124,367	109,672
Contributed surplus	<i>14, 21</i>	20,006	23,875
Accumulated other comprehensive income		13,758	10,961
Retained earnings		34,513	28,815
		<b>192,644</b>	<b>173,323</b>
Non-controlling interest	<i>21</i>	15,125	14,659
		<b>207,769</b>	<b>187,982</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 2,261,242</b>	<b>\$ 1,602,583</b>

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 interim condensed consolidated financial statements.*

**CHESSWOOD GROUP LIMITED**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022 AND 2021**

*(in thousands of Canadian dollars, except per share amounts, unaudited)*

		Three months ended June 30,		Six months ended June 30,	
	Note	2022	2021	2022	2021
<b>Finance revenue</b>					
Interest revenue on finance leases and loans		\$ 57,125	\$ 27,062	\$ 107,036	\$ 49,981
Ancillary finance and other fee income		11,860	3,462	19,199	6,852
		<b>68,985</b>	<b>30,524</b>	<b>126,235</b>	<b>56,833</b>
<b>Finance expenses</b>					
Interest expense		17,133	7,739	29,220	13,634
Provision for credit losses	3, 6	8,217	(1,141)	24,883	(681)
		<b>25,350</b>	<b>6,598</b>	<b>54,103</b>	<b>12,953</b>
<b>Net revenue</b>		<b>43,635</b>	<b>23,926</b>	<b>72,132</b>	<b>43,880</b>
<b>Expenses</b>					
Personnel expenses		15,761	7,240	30,350	12,939
General and administrative expenses		10,775	5,454	20,941	10,259
Depreciation		432	261	865	499
Amortization	7	593	361	1,184	694
		<b>27,561</b>	<b>13,316</b>	<b>53,340</b>	<b>24,391</b>
<b>Operating income</b>		<b>16,074</b>	<b>10,610</b>	<b>18,792</b>	<b>19,489</b>
Gain on interest rate derivative	3	—	132	—	258
Unrealized gain (loss) on foreign exchange		(513)	294	(454)	268
<b>Income before income tax</b>		<b>15,561</b>	<b>11,036</b>	<b>18,338</b>	<b>20,015</b>
<b>Income tax expense</b>		<b>5,910</b>	<b>3,224</b>	<b>7,008</b>	<b>5,890</b>
<b>Net income for the period</b>		<b>\$ 9,651</b>	<b>\$ 7,812</b>	<b>\$ 11,330</b>	<b>\$ 14,125</b>
<b>Attributable to:</b>					
Common shareholders		\$ 9,026	\$ 7,166	\$ 10,778	\$ 12,950
Non-controlling interest		\$ 625	\$ 646	\$ 552	\$ 1,175
<b>Earnings per Share</b>					
Basic (in Canadian Dollars)	16	\$ 0.52	\$ 0.43	\$ 0.62	\$ 0.79
Diluted (in Canadian Dollars)	16	\$ 0.46	\$ 0.40	\$ 0.55	\$ 0.74

*Please see notes to the interim condensed consolidated financial statements.*



**CHESSWOOD GROUP LIMITED**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2022 AND 2021**

*(in thousands of Canadian dollars, unaudited)*

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Net income	\$ 9,651	\$ 7,812	\$ 11,330	\$ 14,125
which may be subsequently reclassified to the interim condensed consolidated statements of income:				
Unrealized gain (loss) on translation of foreign operations	4,847	(1,669)	3,036	(2,909)
Comprehensive income for the period	<u>\$ 14,498</u>	<u>\$ 6,143</u>	<u>\$ 14,366</u>	<u>\$ 11,216</u>
<b>Comprehensive income attributable to:</b>				
Common shareholders	\$ 13,491	\$ 5,637	\$ 13,575	\$ 10,284
Non-controlling interest	\$ 1,007	\$ 506	\$ 791	\$ 932

*Please see notes to the interim condensed consolidated financial statements.*

**CHESSWOOD GROUP LIMITED**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022 AND 2021**

*(in thousands of Canadian dollars, unaudited)*

		Common shares (# '000)	Common shares	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non- controlling interest	2022 Total
	(# '000s) <i>Note</i>								
<b>Shareholders' equity - December 31, 2021</b>		<b>16,575</b>	<b>\$109,672</b>	<b>\$ 23,875</b>	<b>\$ 10,961</b>	<b>\$ 28,815</b>	<b>\$ 173,323</b>	<b>\$ 14,659</b>	<b>\$187,982</b>
Net income		—	—	—	—	10,778	10,778	552	11,330
Dividends declared	15	—	—	—	—	(4,108)	(4,108)	(325)	(4,433)
Share-based compensation	14	—	—	1,717	—	—	1,717	—	1,717
Exercise of restricted share units	14	150	2,141	(2,141)	—	—	—	—	—
Exercise of options	14	123	1,211	(272)	—	—	939	—	939
Repurchase of common shares under issuer bid	13	(134)	(934)	—	—	(972)	(1,906)	—	(1,906)
Unrealized gain on translation of foreign operations		—	—	—	2,797	—	2,797	239	3,036
Special warrants issued on business combination	13	266	3,173	(3,173)	—	—	—	—	—
Shares issued on business combination	21	650	9,104	—	—	—	9,104	—	9,104
<b>Shareholders' equity - June 30, 2022</b>		<b>17,630</b>	<b>\$124,367</b>	<b>\$ 20,006</b>	<b>\$ 13,758</b>	<b>\$ 34,513</b>	<b>\$ 192,644</b>	<b>\$ 15,125</b>	<b>\$207,769</b>

*Please see notes to the interim condensed consolidated financial statements.*

**CHESSWOOD GROUP LIMITED**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022 AND 2021, CONT'D**

*(in thousands of Canadian dollars, unaudited)*

	(# '000s) <i>Note</i>	Common shares	Common shares	Contributed Surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interest	2021 Total
Shareholders' equity - December 31, 2020		16,255	\$104,236	\$ 5,605	\$ 11,733	\$ 7,445	\$ 129,019	\$ 11,797	\$140,816
Net income		—	—	—	—	12,950	12,950	1,175	14,125
Dividends declared	15	—	—	—	—	(2,414)	(2,414)	(207)	(2,621)
Share-based compensation	14	—	—	499	—	—	499	—	499
Exercise of options	14	653	6,708	(1,599)	—	—	5,109	—	5,109
Repurchase of common shares under issuer bid	13	(308)	(1,976)	—	—	(837)	(2,813)	—	(2,813)
Unrealized loss on translation of foreign operations		—	—	—	(2,667)	—	(2,667)	(242)	(2,909)
Special warrants issued on business combination		—	—	16,409	—	—	16,409	—	16,409
Shares issued on business combination		133	1,667	—	—	—	1,667	—	1,667
Shareholders' equity - June 30, 2021		16,733	110,635	20,914	9,066	17,144	157,759	12,523	170,282
Net income		—	—	—	—	15,846	15,846	1,198	17,044
Dividends declared		—	—	—	—	(3,256)	(3,256)	(266)	(3,522)
Share-based compensation		—	—	3,045	—	—	3,045	—	3,045
Exercise of restricted share units		7	71	(71)	—	—	—	—	—
Exercise of options		15	147	(13)	—	—	134	—	134
Repurchase of common shares under issuer bid		(180)	(1,181)	—	—	(919)	(2,100)	—	(2,100)
Unrealized gain on translation of foreign operations		—	—	—	1,895	—	1,895	173	2,068
Acquisition of subsidiary		—	—	—	—	—	—	1,031	1,031
Special warrants issued on business combination		—	—	—	—	—	—	—	—
Shares issued on business combination		—	—	—	—	—	—	—	—
Shareholders' 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 interim condensed consolidated financial statements.*

**CHESSWOOD GROUP LIMITED**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022 AND 2021**

<i>(in thousands of Canadian dollars, unaudited)</i>	<i>Note</i>	Three months ended June 30,		Six months ended June 30,	
		2022	2021	2022	2021
<b>OPERATING ACTIVITIES</b>					
Net income		\$ 9,651	\$ 7,812	\$ 11,330	\$ 14,125
Non-cash items included in net income					
Amortization and depreciation		1,025	622	2,049	1,193
Provision for credit losses	3, 6	8,217	(1,141)	24,883	(681)
Amortization of origination costs		12,088	6,559	23,106	12,046
Tax expense		5,910	3,224	7,008	5,890
Other non-cash items	19	3,484	705	3,890	1,877
		<b>30,724</b>	<b>9,969</b>	<b>60,936</b>	<b>20,325</b>
Cash from operating activities before change in net operating assets		40,375	17,781	72,266	34,450
Funds advanced on origination of finance receivables		(503,066)	(197,418)	(914,600)	(330,916)
Origination costs paid on finance receivables		(24,740)	(14,806)	(47,838)	(22,944)
Principal collections of finance receivables and cash collections from sale of assets		332,301	103,084	511,280	180,902
Recoveries of amounts previously charged off	6	3,599	3,835	7,822	5,217
Change in other net operating assets	19	(993)	2,952	1,532	2,697
Cash used in operating activities before tax		(152,524)	(84,572)	(369,538)	(130,594)
Income tax refund		18	—	18	—
Income taxes paid		(4,793)	(2,998)	(8,614)	(5,416)
<b>Cash used in operating activities</b>		<b>(157,299)</b>	<b>(87,570)</b>	<b>(378,134)</b>	<b>(136,010)</b>
<b>INVESTING ACTIVITIES</b>					
Purchase of property and equipment		(265)	(79)	(461)	(119)
Net cash and restricted cash received (paid) on business combination	21	(1,446)	16,887	468	16,887
<b>Cash from investing activities</b>		<b>(1,711)</b>	<b>16,808</b>	<b>7</b>	<b>16,768</b>
<b>FINANCING ACTIVITIES</b>					
Borrowings, net	19	152,092	94,615	401,702	141,619
Payment of financing costs	10	(79)	(876)	(2,823)	(907)
Payment of lease obligations		(254)	(143)	(475)	(279)
Proceeds from exercise of options	14	896	4,627	939	5,109
Repurchase of common shares under issuer bid	13	—	(146)	(1,906)	(2,813)
Cash dividends paid	15	(2,329)	(1,253)	(4,033)	(2,308)
<b>Cash from financing activities</b>		<b>150,326</b>	<b>96,824</b>	<b>393,404</b>	<b>140,421</b>
Unrealized foreign exchange gain (loss) on cash		2,822	(637)	1,694	(1,145)
Net increase (decrease) in cash and restricted cash		(5,862)	25,425	16,971	20,034
Cash and restricted cash, beginning of period		121,384	50,586	98,551	55,977
<b>Cash and restricted cash, end of period</b>		<b>\$ 115,522</b>	<b>\$ 76,011</b>	<b>\$ 115,522</b>	<b>\$ 76,011</b>

*Please see notes to the interim condensed consolidated financial statements.*

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### 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 18 - *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.
- Blue Chip Leasing Corporation (“Blue Chip”) - commercial equipment financing to small and medium-sized businesses in Canada.
- 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.

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

In order to improve clarity, certain items have been combined in the interim condensed consolidated financial statements with details provided separately in the notes to the interim condensed consolidated financial statements.

The Company's interim condensed consolidated financial statements were authorized for issue on August 4, 2022 by the Board of Directors.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The interim condensed consolidated financial statements, including comparatives:

- have been prepared in accordance with IAS 34, *Interim Financial Reporting*, on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2021. Reference should also be made to Note 21 - *Business Combinations* for further details on the accounting policy for business combinations.
- 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 net income or loss ("FVTPL"), which have been measured at fair value.
- include the financial statements of the Company and its subsidiaries as noted above.
- should be read in conjunction with the Company's most recently issued Annual Report, which includes information necessary, or useful, to understanding the Company's businesses and financial reporting.
- are unaudited (except otherwise noted).
- should not be regarded as necessarily indicative of results that may be expected for the entire year.

The preparation of interim condensed 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 accounting policies and significant estimates and judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements for the year ended December 31, 2021.

The Company's results and operations have been and may continue to be adversely impacted by COVID -19 and the economic environment. 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 Interim Condensed Consolidated Financial Statements. Changes in the inputs used could materially impact the respective carrying values.

Certain prior year amounts have been reclassified on the interim condensed consolidated statements of financial position and the interim condensed consolidated statements of cash flows to conform with current year presentation. Certain prior year note disclosures including Note 10 - *Borrowings*, Note 19 - *Cash Flow Supplementary Disclosure*, Note 20 - *Segment Information* and Note 21 - *Business Combinations* have been reclassified to present reserves receivable in restricted cash, and overcollateralization on securitized financial contracts in borrowings.

### Basis of consolidation

Subsidiaries are consolidated using the purchase 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 financial statements are presented in thousands of Canadian dollars, except per share amounts and as otherwise noted. The functional currency of the Company, Chesswood Holdings Ltd., CCM, Waypoint, Blue Chip, Vault Credit, Vault Home, Rifco and Lease-Win Limited is the Canadian dollar. The functional currency of Chesswood U.S. Acquisition Co Ltd., Pawnee, Windset, Tandem, the Special Purpose Entities ("SPEs"), CCM USA, and Case Funding Inc. is the U.S. dollar. Refer to Note 18 - *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 interim condensed consolidated financial statements at the average U.S. dollar exchange rate for the reporting period (for the six months ended June 30, 2022 - 1.2715; June 30, 2021 - 1.2470), and assets and liabilities are translated at the closing rate (as at June 30, 2022 - 1.2886; December 31, 2021 - 1.2678). Exchange differences arising from the translation are recognized in other comprehensive income (loss). Foreign currency payables and receivables in the interim condensed 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.

**New standards effective for the Company's December 31, 2021 year**

*Phase 2 of the Interest Rate Benchmark Reform amendments made to IFRSs: 7 Financial Instruments: Disclosures; 9 Financial Instruments; and 16 Leases*

Phase 2 provides relief for issues that may arise on transition to an alternative benchmark, for example, changes to contractual cash flows for financial instruments. The current terms of Chesswood's credit facilities in Note 10 - *Borrowings* are immaterially impacted by the interest rate benchmark reform. In addition, the company does not have any interest rate hedge relationships. Therefore, these amendments had no impact on the consolidated financial statements of the Company.

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2021, except for the adoption of new standards effective as of January 1, 2022. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2022, but do not have an impact on the interim condensed consolidated financial statements of the Company.

*Reference to the Conceptual Framework – Amendments to IFRS 3*

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

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

*IFRS 9, Financial Instruments – Fees in the "10 per cent" test for derecognition of financial liabilities*

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

These amendments did not have a significant impact on the interim condensed consolidated financial statements of the Company.

*Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"*

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

### 3. FINANCIAL INSTRUMENTS

There have been no material changes in the Company's categories and measurement hierarchy. There were no transfers between levels during the current or comparative periods. Refer to Note 4 - *Financial Instruments* of the 2021 audited annual consolidated financial statements for further disclosure.

*Gains and losses on financial instruments*

The following table shows the net gains and losses arising for each category of financial instruments:

(\$ thousands)	For the three months ended June 30,		For the six months ended June 30,	
	2022	2021	2022	2021
Amortized cost:				
Provision for credit losses	\$ (8,217)	\$ 1,141	\$ (24,883)	\$ 681
Revaluation of option liability	(608)	—	964	—
Fair value through net income or loss:				
Interest rate derivative	—	132	—	258
Net income (loss)	\$ (8,825)	\$ 1,273	\$ (23,919)	\$ 939

### 4. 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.

There have been no material changes in the Company's objectives, policies or processes for measuring and managing any of the risks to which it is exposed since the previous year-end, except for the ongoing effects of COVID-19 and changing market conditions on credit and liquidity risk. Refer to Note 5 - *Financial Risk Management* of the 2021 audited annual consolidated financial statements for further disclosure.



## 5. OTHER ASSETS

(\$ thousands)	Note	June 30, 2022	December 31, 2021
Sales tax receivable		7,129	2,853
Prepaid expenses and other assets		6,174	3,094
<b>Other assets</b>		<b>13,303</b>	<b>5,947</b>

## 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 SPEs) and servicing responsibilities of the pledged lease and loan receivables, and therefore continues to recognize them on the interim condensed consolidated statement of financial position.

(\$ thousands)	June 30, 2022	December 31, 2021
Net investment in leases	\$ 765,048	\$ 587,825
Loan receivables	1,063,245	830,435
Auto loan receivables	211,544	—
	<b>\$ 2,039,837</b>	<b>\$ 1,418,260</b>

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

(\$ thousands)	June 30, 2022	December 31, 2021
Total minimum finance receivables payments (b)	\$ 2,460,448	\$ 1,648,185
Residual values of leased equipment	34,694	30,767
	<b>2,495,142</b>	<b>1,678,952</b>
Unearned income, net of initial direct costs	(411,150)	(238,299)
<b>Net investment in finance receivables before allowance for credit losses</b>	<b>2,083,992</b>	<b>1,440,653</b>
Allowance for credit losses (c)	(44,155)	(22,393)
Net investment in finance receivables	<b>2,039,837</b>	<b>1,418,260</b>

(b) Minimum scheduled collections of finance receivables as at June 30, 2022, are presented in the following table. 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 following minimum scheduled collections are not to be regarded as a forecast of future cash collections.

(\$ thousands)	Minimum payments	Present value
2022	\$ 431,254	\$ 346,768
2023	697,274	568,682
2024	551,364	463,410
2025	406,781	351,577
2026	257,613	227,424
2027 and thereafter	116,162	91,437
<b>Total minimum payments</b>	<b>\$ 2,460,448</b>	<b>\$ 2,049,298</b>

(c) Allowance for credit losses

The Company's ECL was determined as at June 30, 2022 based on forecasts and other information available at that date. The impact of COVID-19 on the economy and the timing of recovery 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.

The following table shows the gross carrying amount of the finance receivables by credit category:

(\$ thousands)	As at June 30, 2022			
	Stage 1	Stage 2	Stage 3	Total
	Performing	Under-Performing	Non-Performing	
Prime	\$ 1,400,596	\$ 2,847	\$ 3,797	\$ 1,407,240
Non-prime <sup>(1)</sup>	647,773	16,317	12,662	676,752
<b>Total</b>	<b>\$ 2,048,369</b>	<b>\$ 19,164</b>	<b>\$ 16,459</b>	<b>\$ 2,083,992</b>

(1) \$1.7 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.

(\$ thousands)	As at December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
	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
<b>Total</b>	<b>\$ 1,429,022</b>	<b>\$ 6,133</b>	<b>\$ 5,498</b>	<b>\$ 1,440,653</b>

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

(\$ thousands)	Six months ended June 30, 2022			
	Stage 1	Stage 2	Stage 3	Total
	Performing	Under-Performing	Non-Performing	
Balance, January 1, 2022	\$ 13,888	\$ 4,460	\$ 4,045	\$ 22,393
Acquisition of Rifco loans <sup>(1)</sup>	9,306	—	—	9,306
Transfer to Performing (Stage 1)	3,605	(3,213)	(392)	—
Transfer to Under-Performing (Stage 2)	(1,880)	2,024	(144)	—
Transfer to Non-Performing (Stage 3)	(1,484)	(1,769)	3,253	—
Net remeasurement of loss allowance	(3,671)	2,994	5,465	4,788
New receivables originated	10,789	—	—	10,789
Provision for credit losses	16,665	36	8,182	24,883
Charge-offs	—	—	(11,319)	(11,319)
Recoveries of amounts previously charged off	—	—	7,822	7,822
Net charge-offs	—	—	(3,497)	(3,497)
Foreign exchange translation	275	41	60	376
Balance, end of period	\$ 30,828	\$ 4,537	\$ 8,790	\$ 44,155

<sup>(1)</sup>Refer to Note 21 - Business Combinations

(\$ thousands)	Six months ended June 30, 2021			
	Stage 1	Stage 2	Stage 3	Total
	Performing	Under-Performing	Non-Performing	
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)	1,185	(783)	(402)	—
Transfer to Under-Performing (Stage 2)	(124)	362	(238)	—
Transfer to Non-Performing (Stage 3)	(152)	(3,048)	3,200	—
Net remeasurement of loss allowance	(2,875)	413	(1,424)	(3,886)
New receivables originated	1,036	—	—	1,036
Provision for credit losses	1,239	(3,056)	1,136	(681)
Charge-offs	—	—	(9,127)	(9,127)
Recoveries of amounts previously charged off	—	—	5,217	5,217
Net charge-offs	—	—	(3,910)	(3,910)
Foreign exchange translation	(213)	(151)	(151)	(515)
Balance, end of period	\$ 11,858	\$ 3,624	\$ 3,775	\$ 19,257

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

(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 \$3.8 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. Blue Chip and Vault Credit charge 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.

							<u>As at June 30, 2022</u>
(\$ thousands)	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total	
Finance receivables	\$ 2,050,968	\$ 9,062	\$ 14,633	\$ 5,346	\$ 3,983	\$ 2,083,992	
Credit impaired	\$ 325	\$ 301	\$ 1,355	\$ 1,065	\$ 3,112	\$ 6,158	
Past due but not impaired	\$ —	\$ 8,761	\$ 13,278	\$ 4,281	\$ 871	\$ 27,191	

							<u>As at December 31, 2021</u>
(\$ 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) 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 interim condensed 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 allowance for credit losses when received. In the six months ended June 30, 2022, the proceeds from the disposal of repossessed equipment and automobile that were charged-off totalled \$7.8 million (December 31, 2022 - \$3.8 million). Repossessed equipment is held at various warehouses by the companies contracted to repossess and sell the equipment. Repossessed automobiles are held at auction lots for the Company's third-party contractors to sell.

(f) Assets sold to third parties

In 2022, the Company entered into a forward flow agreement with an investment firm to sell equipment leases and loans in exchange for fees. During the six months ended June 30, 2022, US\$97.4 million of finance receivables were sold.

## 7. INTANGIBLE ASSETS

The Company assessed its intangibles for indicators of impairment for the six months ended June 30, 2022. No indicators were identified during the period. Refer to Note 21 - *Business Combinations* for more information regarding the acquisitions during the period.

(\$ thousands)	Indefinite useful life			Finite useful life		
	Trade names	Licenses	Broker & Customer Relationships	Trade names	Software	Total
<b>Cost:</b>						
December 31, 2020	\$ 7,291	\$ —	\$ 19,517	\$ —	\$ —	\$ 26,808
Business combinations	—	—	15,700	2,100	38	17,838
Foreign exchange translation	(30)	—	—	—	—	(30)
December 31, 2021	7,261	—	35,217	2,100	38	44,616
Business combinations	—	1,053	727	—	340	2,120
Purchase of software	—	—	—	—	68	68
Foreign exchange translation	112	—	—	—	—	112
<b>June 30, 2022</b>	<b>\$ 7,373</b>	<b>\$ 1,053</b>	<b>\$ 35,944</b>	<b>\$ 2,100</b>	<b>\$ 446</b>	<b>\$ 46,916</b>
<b>Accumulated amortization:</b>						
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	—	—	1,017	70	97	1,184
<b>June 30, 2022</b>	<b>\$ 127</b>	<b>\$ —</b>	<b>\$ 18,464</b>	<b>\$ 163</b>	<b>\$ 108</b>	<b>\$ 18,862</b>
<b>Carrying amount:</b>						
December 31, 2020	\$ 7,164	\$ —	\$ 3,755	\$ —	\$ —	\$ 10,919
December 31, 2021	\$ 7,134	\$ —	\$ 17,770	\$ 2,007	\$ 27	\$ 26,938
<b>June 30, 2022</b>	<b>\$ 7,246</b>	<b>\$ 1,053</b>	<b>\$ 17,480</b>	<b>\$ 1,937</b>	<b>\$ 338</b>	<b>\$ 28,054</b>

## 8. GOODWILL

The Company last performed its annual impairment tests as at December 31, 2021, which identified no impairment. Refer to Note 21 - *Business Combinations* for more information regarding the acquisitions during the period.

(\$ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Auto Financing	Asset Management	Total
<b>Cost:</b>					
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	755	—	—	—	755
<b>June 30, 2022</b>	<b>\$ 46,739</b>	<b>\$ 45,645</b>	<b>\$ 1,895</b>	<b>\$ 2,143</b>	<b>\$ 96,422</b>

(\$ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Auto Financing	Asset Management	Total
<b>Accumulated impairment:</b>					
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	531	—	—	—	531
<b>June 30, 2022</b>	<b>\$ 32,879</b>	<b>\$ 16,138</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 49,017</b>

(\$ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Auto Financing	Asset Management	Total
<b>Carrying amount:</b>					
December 31, 2020	\$ 13,693	\$ 10,227	\$ —	\$ —	\$ 23,920
December 31, 2021	\$ 13,636	\$ 29,507	\$ —	\$ —	\$ 43,143
<b>June 30, 2022</b>	<b>\$ 13,860</b>	<b>\$ 29,507</b>	<b>\$ 1,895</b>	<b>\$ 2,143</b>	<b>\$ 47,405</b>

## 9. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

<i>(\$ thousands)</i>	June 30, 2022	December 31, 2021
Dividend payable	\$ 1,340	\$ 927
Accounts payable	6,579	5,218
Sales tax payable	1,017	863
Customer deposits and prepayments	2,037	2,262
Refundable application fee	3,866	—
Vendor payable	18,898	10,284
Payroll related payables and accruals	6,502	3,310
Accrued expenses and other liabilities	5,541	6,108
	<b>\$ 45,780</b>	<b>\$ 28,972</b>

## 10. BORROWINGS

The Company and its subsidiaries were compliant with all covenants attached to the following facilities as at June 30, 2022 and throughout the period then ended. Refer to Note 21 - *Business Combinations* for more information regarding the acquisitions during the period.

	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
(\$ thousands)							
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	965,913	—	367,920	—	250,987	66,239	1,651,059
Repayments	(892,744)	—	(184,796)	—	(119,152)	(52,665)	(1,249,357)
Payment of financing costs	—	(2,657)	—	(71)	—	(95)	(2,823)
Amortization of deferred financing costs	—	588	—	1,870	—	143	2,601
Foreign exchange translation	2,546	—	15,502	(82)	—	—	17,966
<b>Net as at June 30, 2022</b>	<b>\$ 265,858</b>	<b>\$ (3,037)</b>	<b>\$ 993,426</b>	<b>\$ (4,832)</b>	<b>\$ 491,719</b>	<b>\$ 213,073</b>	<b>\$ 1,956,207</b>

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

(a) The Chesswood revolving credit facility allows borrowings of up to US\$300.0 million, subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility includes a US\$100 million accordion feature that can increase the overall borrowing amount to US\$400 million, 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 June 30, 2022, the Company was utilizing US\$208.9 million (December 31, 2021 - US\$153.5 million) of its credit facility and had approximately US\$91.1 million in additional borrowings available under the revolving credit facility. Based on average debt levels, the effective interest rate during the six months ended June 30, 2022, was 3.52% (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. 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 credit losses. Please refer to the definitions of Non-GAAP Measures provided in the MD&A.

(b) U.S. Equipment Financing Segment:

The U.S. Equipment Financing Segment must meet certain financial covenants, including leverage ratio, interest coverage ratio, and tangible net worth covenants, to support the facilities below.

(i) The U.S. Equipment Financing Segment has a credit facility, with a US\$200 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 guarantee in lieu of cash reserves. The segment retains the servicing of these finance receivables. The balance of this facility as at June 30, 2022 was US\$100.7 million (December 31, 2021 - US\$95.1 million). Based on average debt levels, the effective interest rate for the six months ended June 30, 2022, was 3.59% (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 June 30, 2022 was US\$56.6 million (December 31, 2021 - US\$83.1 million). Based on average debt levels, the effective interest rate was 3.40% for the six months ended June 30, 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 June 30, 2022 was US\$64.6 million (December 31, 2021 - US\$89.8 million). The effective interest rate was approximately 3.17% for the six months ended June 30, 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 effective interest rate was approximately 1.76% (including amortization of origination costs) (year ended December 31, 2021 - 2.01%). The balance of this facility as at June 30, 2022, was US\$277.0 million (December 31, 2021 - US\$333.9 million).

(v) The U.S. Equipment Financing Segment has a US\$250 million revolving warehouse loan facility that was established in May 2021 specifically to fund its growing prime and near prime portfolio. 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, contains covenants, including maintaining leverage, interest coverage, and delinquency ratios. This facility has a revolving period until January 2024 followed by an optional amortizing period for an additional 36 months. As at June 30, 2022, the balance of this facility was US\$223.3 million (December 31, 2021 - nil). The effective interest rate for the six months ended June 30, 2022 was approximately 2.79% (year ended December 31, 2021 - 2.09%) (including amortization of origination costs).

(vi) 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. The Company 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 June 30, 2022 was US\$45.0 million (December 31, 2021 - US\$19.0 million). Based on average debt levels, the effective return provided to the private credit investors for the six months ended June 30, 2022 was 14.16% (including amortization of origination costs) (year ended December 31, 2021 - 12.48%).

As at June 30, 2022, the U.S. Equipment Financing Segment had provided US\$0.5 million in outstanding letters of guarantee through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2021 - US\$0.5 million).

(c) Canadian Equipment Financing Segment:

Blue Chip and Vault Credit have master purchase and servicing agreements with various financial institutions and life insurance companies (referred to collectively as the "Funders"). The Funders make advances to Blue Chip and 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. Blue Chip and Vault Credit either maintain certain cash reserves as credit enhancements or provide letters of guarantee in return for release of the cash reserves. Blue Chip and Vault Credit continue to service these finance receivables on behalf of the Funders.

(i) As at June 30, 2022, Blue Chip and Vault Credit had access to the following committed lines of funding:

- (i) \$200 million annual limit from a life insurance company.
- (ii) \$150 million rolling limit from a financial institution.
- (iii) \$250 million rolling limit from a bank.
- (iv) Approved funding from another financial institution with no annual or rolling limit.

As at June 30, 2022, Blue Chip and Vault Credit had \$37.7 million and \$431.1 million, respectively (December 31, 2021 - \$57.6 million and \$302.1 million, respectively) in securitization and bulk lease financing facilities debt outstanding. Blue Chip and Vault Credit together had access to at least \$347.7 million of additional financing from its securitization partner (December 31, 2021 - \$247.5 million).

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 six months ended June 30, 2022 was 3.14% and 3.11% for Blue Chip and Vault Credit, respectively (year ended December 31, 2021 - 3.37% and 2.61%, respectively).

(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 June 30, 2022 was \$2.7 million (December 31, 2021 - \$2.2 million). VCOF earns a yield equivalent to the interest on the underlying loans.

As at June 30, 2022, Blue Chip and Vault Credit had provided \$2.5 million in outstanding letters of guarantee through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2021 - \$3.8 million). Blue Chip and 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 June 30, 2022, Rifico had access to the following committed lines of funding:

- (i) \$50 million annual limit from a life insurance company.
- (ii) \$50 million rolling limit from a financial institution.
- (iii) Approved funding from another financial institution with no annual or rolling limit.

As at June 30, 2022, Rifco had \$204.1 million outstanding on its securitization facilities. Based on average debt levels, the effective interest rate during the six months ended June 30, 2022, was 4.32%.

(ii) Unsecured debentures

Rifco has previously issued unsecured debentures which allow Rifco the right to redeem the debenture in the last year of the agreement without penalty. The unsecured debenture holders do not have early retraction rights and have no right to convert into common shares. 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 with maturity dates that go out until August 2026.

As at June 30, 2022, Rifco had \$9.0 million in unsecured debentures outstanding. Based on average debt levels, the effective interest rate during the six months ended June 30, 2022, was 9.16%.

(e) Restricted funds:

(\$ thousands)	June 30, 2022	December 31, 2021
Restricted - cash in collection accounts	\$ 53,541	\$ 47,201
Restricted - cash reserves	60,121	38,971
<b>Restricted funds</b>	<b>\$ 113,662</b>	<b>\$ 86,172</b>

## 11. MINIMUM PAYMENTS

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

(\$ thousands)	2022	2023	2024	2025	2026	2027+	Total
Accounts payable and other liabilities	\$ 45,780	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 45,780
Premise leases payables (i)	493	1,030	1,010	693	504	251	3,981
Borrowings (ii)	394,233	571,596	430,126	557,044	116,057	39,602	2,108,658
Customer security deposits (iii)	962	1,622	455	347	371	124	3,881
	441,468	574,248	431,591	558,084	116,932	39,977	2,162,300
Service contracts	1,465	467	76	54	23	—	2,085
Total commitments	\$442,933	\$574,715	\$431,667	\$558,138	\$116,955	\$ 39,977	\$2,164,385

- 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 lease 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 Canadian Auto Financing Segment securitization facilities, as well as 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 includes fixed interest payments on U.S. Equipment Financing Segment, Blue Chip, Vault Credit, and Canadian Auto Financing Segment's credit facilities and estimated interest payments on the Canadian Auto Financing Segment's debentures and Chesswood corporate credit facility. The latter assuming the interest rate, debt balance and foreign exchange rate as at June 30, 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 year of maturity, 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 interim condensed 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 cash 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 interim condensed consolidated statement of financial position, other than US\$2.4 million in letters of guarantee.

## 12. 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.

## 13. COMMON SHARES

As at June 30, 2022, there were 17,630,185 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities) (December 31, 2021 - 16,574,864) with a book value of \$124.4 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](http://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 31, 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 June 30, 2022, the Company repurchased 134,322 of its shares under the normal course issuer bid at an average cost of \$14.16 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.

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.

(b) Special warrants

An analysis of the special warrants exercised as at June 30, 2022 is as follows:

	For the three months ended	For the six months ended
	June 30, 2022	June 30, 2022
Balance, beginning of period	1,333,334	1,466,667
Exercised	133,333	266,666
Balance, end of period	1,200,001	1,200,001

Refer to Note 21 - *Business Combinations* for the grant, vesting, and exercise dates of each tranche of special warrants exercised. During the six months ended as at June 30, 2022, on exercise, the accumulated balance in contributed surplus related to the special warrants of \$3.2 million was transferred to common share capital. The weighted average share price of the warrants exercised was \$14.75 (June 30, 2021 - \$nil) for the six months ended June 30, 2022. For the warrants exercised during the three months ended June 30, 2022, the weighted average share price at the date of exercise was \$15.24 (June 30, 2021 - n/a).

#### 14. COMPENSATION PLANS

Contributed surplus includes the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised, as at June 30, 2022. There were 1,908,050 options and 521,500 restricted share units outstanding as at June 30, 2022 (June 30, 2021 - 2,056,439 and 57,000, 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.

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

	For the three months ended		For the six months ended	
	June 30, 2022	2021	June 30, 2022	2021
Balance, beginning of period	2,037,039	2,645,939	2,041,439	2,708,939
Granted	—	—	—	—
Exercised	(118,989)	(589,500)	(123,389)	(652,500)
Forfeited	(10,000)	—	(10,000)	—
Balance, end of period	1,908,050	2,056,439	1,908,050	2,056,439

During the six months ended June 30, 2022, the personnel expenses and contributed surplus relating to option expense was insignificant (June 30, 2021 - \$0.2 million). As at June 30, 2022, unrecognized non-cash compensation expense related to the outstanding options was \$0.1 million (June 30, 2021 - \$0.3 million), which is expected to be recognized over the remaining vesting period.

During the six months ended June 30, 2022, 123,389 options were exercised (June 30, 2021 - 652,500) for total cash consideration of \$0.9 million (June 30, 2021 - \$5.1 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 six months ended June 30, 2022, the weighted average share price at the date of exercise was \$13.54 (June 30, 2021 - \$11.71) and the weighted average exercise price was \$7.53 (June 30, 2021 - \$7.83).

As at June 30, 2022, the weighted average exercise price is \$11.27 (June 30, 2021 - \$7.83) and the weighted average remaining contractual life for all options outstanding is 3.7 years (June 30, 2021 - 4.4 years). The 1,758,425 options exercisable as at June 30, 2022 have a weighted average exercise price of \$11.51 (June 30, 2021 - 1,752,189 options as at \$11.02).

An analysis of the options outstanding as at June 30, 2022 is as follows:

Range of exercise prices	Weighted average remaining life (in years)	Vested #	Total #
\$ 8.01–\$ 8.95	6.94	216,865	366,490
\$10.17–\$10.96	3.67	611,560	611,560
\$12.15 –\$12.53	2.72	665,000	665,000
\$14.12	1.51	265,000	265,000
	<u>3.67</u>	<u>1,758,425</u>	<u>1,908,050</u>

*(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.

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

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Balance, beginning of period	467,000	57,000	479,000	57,000
Granted	57,000	—	195,000	—
Exercised	—	—	(150,000)	—
Forfeited	(2,500)	—	(2,500)	—
Balance, end of period	<u>521,500</u>	<u>57,000</u>	<u>521,500</u>	<u>57,000</u>

During the six months ended June 30, 2022, personnel expenses and contributed surplus included \$1.7 million (June 30, 2021 - \$0.3 million) relating to RSUs.

As at June 30, 2022, unrecognized non-cash compensation expense related to non-vested RSUs was \$3.7 million (June 30, 2021 - \$nil). The weighted average remaining contractual life for all RSUs outstanding is 9.3 years (June 30, 2021 - 8.9 years).

During the six months ended June 30, 2022, 150,000 RSUs were exercised (June 30, 2021 - nil). On exercise, the accumulated balance in contributed surplus related to the RSUs of \$2.1 million (June 30, 2021 - n/a) was transferred to common share capital. For the RSUs exercised during the six months ended June 30, 2022, the weighted average share price at the date of exercise was \$14.37 (June 30, 2021 - n/a).

An analysis of the RSUs outstanding as at June 30, 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	129,000	10,000	August 5, 2031	\$ 11.69
November 5, 2021	147,500	—	November 5, 2031	\$ 14.27
March 21, 2022	138,000	8,350	March 21, 2032	\$ 14.40
June 28, 2022	57,000	—	June 28, 2023	\$ 12.25
	<u>521,500</u>	<u>68,350</u>		

## 15. 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 paid to common shareholders and exchangeable securities holders (included as non-controlling interest) during the six months ended June 30, 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
		<u>\$ 0.21</u>	<u>\$ 3,934</u>

During the six months ended June 30, 2022, dividends of \$1.3 million (June 30, 2021 - n/a) were also paid to the non-controlling interest of CHW/Vault Holdco Corp. ("Canadian Holdco"). The dividend was recognized through net income on the interim condensed consolidated statements of income. Special warrants issued to the non-controlling interest for the merger of Vault are entitled to a dividend equivalent prior to the special warrants becoming exercisable, paid on the date of exercise. As at June 30, 2022, dividends payable of \$0.6 million has been accrued on the special warrants (June 30, 2021 - \$0.1 million). During the six months ended June 30, 2022, \$0.1 million in dividends were paid out on the special warrants (June 30, 2021 - n/a).

The following dividends were paid to common shareholders and exchangeable securities holders (included as non-controlling interest) during the six months ended June 30, 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	0.03	358
May 31, 2021	June 15, 2021	0.03	545
		<u>\$ 0.14</u>	<u>\$ 2,308</u>

## 16. EARNINGS PER SHARE

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Weighted average number of common shares outstanding	17,463,548	16,494,121	17,336,770	16,313,181
Dilutive effect of options	397,020	596,858	462,777	552,716
Dilutive effect of restricted share units	473,667	57,000	408,492	57,000
Dilutive effect of special warrants	1,207,327	983,150	1,273,666	494,291
Weighted average common shares outstanding for diluted earnings per share	19,541,562	18,131,129	19,481,705	17,417,188
Options and RSUs excluded from calculation of diluted shares for the period due to their anti-dilutive effect	265,000	265,000	265,000	930,000

## 17. RELATED PARTY TRANSACTIONS

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

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



Key management compensation is as follows:

(\$ thousands)	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Salaries, fees and other employee benefits	\$ 1,640	\$ 335	\$ 3,975	\$ 714
Share-based compensation	452	59	735	121
Compensation expense of key management	\$ 2,092	\$ 394	\$ 4,710	\$ 835

(c) Daniel Wittlin (“Wittlin”), the CEO of Vault Credit and a Company director indirectly owns 64% of the non-controlling interest in Canadian Holdco. Rob Trager (“Trager”), the President of Vault Credit, controls an intermediary entity which owns the remaining 36% of the non-controlling interest. Through the entity, Trager indirectly owns 5% of the non-controlling interest 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 sub-lease commencing on April 30, 2021 for an eight-year term with a company controlled by Wittlin and Trager. The sub-lease 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 six months ended June 30, 2022 were \$0.1 million (June 30, 2021 - insignificant).
- Wittlin has significant influence over certain brokers within Vault Credit's origination network. The leases obtained from related party brokers comprise 42% (June 30, 2021 - 30%) of total finance receivables of the Canadian Equipment Financing Segment as at June 30, 2022. The total related party broker commissions capitalized during the six months ended June 30, 2022 was \$6.1 million (June 30, 2021 - \$1.3 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 \$0.6 million (June 30, 2021 - \$0.5 million) with a net book value of \$0.1 million as at June 30, 2022 (June 30, 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 six months ended June 30, 2022 is \$2.3 million (June 30, 2021 - insignificant). 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 six months ended June 30, 2022 was \$0.2 million (June 30, 2021 - n/a). See Note 10 - *Borrowings*.

(e) Wittlin owns 38.3% of the non-controlling interest in Vault Home.

(f) Wittlin has significant influence over Vault Credit, which has begun developing Tandem's vendor system. For the six months ended June 30, 2022, Tandem paid Vault Credit Inc. \$0.6 million (June 30, 2021 - n/a) for software development services. This transaction was conducted at fair market value terms.

(g) During the six months, 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 June 30, 2022, the total unsecured debentures held by related parties was \$0.7 million. Total interest paid during the period was insignificant.

## 18. SUBSIDIARIES

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

Entity's name	Principal place of business	Ownership as at June 30, 2022
Chesswood Holdings Ltd.	Ontario	100%
CHW/Vault Holdco Corp.	Ontario	51%
Blue Chip Leasing Corporation	Ontario	51%
2750036 Ontario Inc.	Ontario	51%
Vault Credit Corporation	Ontario	51%
Vault Home Credit Corporation	Ontario	51%
Chesswood Capital Management Inc.	Ontario	100%
Chesswood Capital Management USA Inc.	Colorado <sup>(1)</sup>	100%
Lease-Win Limited	Ontario	100%
Case Funding Inc.	Delaware	100%
Chesswood U.S. Acquisition Co Ltd.	Delaware	100% <sup>(2)</sup>
Pawnee Leasing Corporation <sup>(3)</sup>	Colorado	100%
Tandem Finance Inc.	Colorado	100%
Rifco Inc.	Alberta	100%
Rifco National Auto Finance Corporation	Alberta	100%
Windset Capital Corporation	Delaware	100%
Waypoint Investment Partners Inc.	Ontario	100%
Waypoint Private Credit GP Inc.	Ontario	100%
Waypoint Private Credit Fund LP	Ontario	General partner

<sup>(1)</sup> Chesswood Capital Management USA Inc. was incorporated in the State of Delaware, however, its principal place of business is Colorado.

<sup>(2)</sup> 100% ownership of voting shares.

<sup>(3)</sup> 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*.

## 19. CASH FLOW SUPPLEMENTARY DISCLOSURE

(\$ thousands)	For the three months ended			For the six months ended	
	June 30,			June 30,	
	2022	2021	Note	2022	2021
<b>Non-cash transactions</b>					
Common shares issued for business combination	\$ 2,028	\$ 1,667		\$ 9,104	\$ 1,667
Common shares issued on exercise of RSUs	—	—		2,141	—
	<u>\$ 2,028</u>	<u>\$ 1,667</u>		<u>\$ 11,245</u>	<u>\$ 1,667</u>
<b>Interest paid</b>	<u>\$ 15,016</u>	<u>\$ 6,433</u>		<u>\$ 26,824</u>	<u>\$ 10,899</u>

(\$ thousands)	For the three months ended			For the six months ended	
	June 30,			June 30,	
	2022	2021	Note	2022	2021
<b>Other non-cash items included in net income</b>					
Share-based compensation expense	\$ 1,067	\$ 244	14	\$ 1,717	\$ 499
Amortization of deferred financing costs and debt restructuring	1,255	858	10	2,601	1,850
Non-cash interest expense on premise leases payable and revaluation of option liability	649	29		(882)	54
Net realized and unrealized (gain) loss on interest rate derivative	—	(132)	4	—	(258)
Unrealized (gain) loss on foreign exchange	513	(294)		454	(268)
	<u>\$ 3,484</u>	<u>\$ 705</u>		<u>\$ 3,890</u>	<u>\$ 1,877</u>
<b>Change in other net operating assets</b>					
Other assets	(1,168)	(2,341)		(547)	(944)
Accounts payable and other liabilities	429	6,164		2,748	5,135
Customer security deposits	(254)	(871)		(669)	(1,494)
	<u>\$ (993)</u>	<u>\$ 2,952</u>		<u>\$ 1,532</u>	<u>\$ 2,697</u>

(\$ thousands)	For the three months ended			For the six months ended	
	June 30,			June 30,	
	2022	2021	Note	2022	2021
<b>Borrowings</b>					
Draw-downs or proceeds from borrowings	\$ 876,476	\$ 463,173	10	\$ 1,651,059	\$ 623,633
Payments - borrowings	(724,384)	(368,558)	10	(1,249,357)	(482,014)
	<u>\$ 152,092</u>	<u>\$ 94,615</u>		<u>\$ 401,702</u>	<u>\$ 141,619</u>

## 20. 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, Auto Financing, and Asset Management.

The Company's U.S. Equipment Financing business is located in the United States and is involved in small-ticket equipment leasing and lending to small and medium-sized businesses. Pawnee and Tandem's information is aggregated as Chesswood's U.S. Equipment Financing Segment as Pawnee and Tandem offer lending solutions to small and medium-sized businesses in the United States. Tandem leverages off Pawnee's experience, processes and "back-office" support for credit adjudication, collections and documentation. Chesswood's Canadian Equipment Financing Segment consists of Blue Chip and Vault Credit, which both provide commercial equipment financing to small and medium-sized businesses in Canada. Vault Credit and Blue Chip combined their operations and personnel following the merger in 2021. Vault Home is not a reportable segment and has been combined with the Canadian Equipment Financing Segment because each have similar economic characteristics. Chesswood's Canadian Auto Financing Segment consists of Rifco, which provides auto financing to customers in Canada. Chesswood's Asset Management Segment consists of CCM, CCM USA, and Waypoint whom provide private credit alternatives to investors seeking exposure to lease and loan receivables originated by Chesswood subsidiaries.

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, 2021. 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 or loss before 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)	Six months ended June 30, 2022					
	Equipment Financing - U.S.	Equipment Financing - Canada	Auto Financing - Canada	Asset Management	Corporate Overhead - Canada	Total
Interest revenue on finance leases and loans	\$ 63,109	\$ 25,014	\$ 18,913	\$ —	\$ —	\$ 107,036
Ancillary finance and other fee income	8,825	6,259	759	3,356	—	19,199
Interest expense	(17,565)	(8,155)	(4,410)	(54)	964	(29,220)
Provision for credit losses	(6,025)	(4,358)	(14,500)	—	—	(24,883)
<b>Net revenue</b>	<b>48,344</b>	<b>18,760</b>	<b>762</b>	<b>3,302</b>	<b>964</b>	<b>72,132</b>
Personnel expenses	11,844	9,314	3,383	1,176	2,916	28,633
Share-based compensation expense	653	49	—	—	1,015	1,717
Other expenses	10,081	6,293	2,198	621	1,748	20,941
Depreciation	445	221	179	—	20	865
Amortization - intangible assets	—	1,097	87	—	—	1,184
<b>Operating income (loss)</b>	<b>25,321</b>	<b>1,786</b>	<b>(5,085)</b>	<b>1,505</b>	<b>(4,735)</b>	<b>18,792</b>
Unrealized gain (loss) on foreign exchange	—	239	—	8	(701)	(454)
<b>Income (loss) before income tax</b>	<b>25,321</b>	<b>2,025</b>	<b>(5,085)</b>	<b>1,513</b>	<b>(5,436)</b>	<b>18,338</b>
Income tax expense (recovery)	7,529	854	(1,222)	384	(537)	7,008
<b>Net income (loss)</b>	<b>\$ 17,792</b>	<b>\$ 1,171</b>	<b>\$ (3,863)</b>	<b>\$ 1,129</b>	<b>\$ (4,899)</b>	<b>\$ 11,330</b>
Total assets	\$ 1,334,376	\$ 682,602	\$ 236,608	\$ 4,594	\$ 3,062	\$ 2,261,242
Total liabilities	\$ 1,043,979	\$ 509,921	\$ 221,788	\$ 1,480	\$ 276,305	\$ 2,053,473
Finance receivables	\$ 1,235,144	\$ 593,149	\$ 211,544	\$ —	\$ —	\$ 2,039,837
Goodwill and intangible assets	\$ 20,817	\$ 48,503	\$ 2,217	\$ 3,922	\$ —	\$ 75,459
Property and equipment expenditures	\$ 22	\$ 333	\$ 106	\$ —	\$ —	\$ 461

(\$ thousands)	Six months ended June 30, 2021			
	Equipment Financing - U.S.	Equipment Financing - Canada	Corporate Overhead - Canada	Total
Interest revenue on finance leases and loans	\$ 42,220	\$ 7,761	\$ —	\$ 49,981
Ancillary finance and other fee income	4,574	2,278	—	6,852
Interest expense	(11,129)	(2,505)	—	(13,634)
Provision for credit losses	1,648	(967)	—	681
<b>Net revenue</b>	<b>37,313</b>	<b>6,567</b>	<b>—</b>	<b>43,880</b>
Personnel expenses	9,179	2,189	1,072	12,440
Share-based compensation expense	25	4	470	499
Other expenses	7,234	1,861	1,164	10,259
Depreciation	419	70	10	499
Amortization - intangible assets	—	694	—	694
<b>Operating income (loss)</b>	<b>20,456</b>	<b>1,749</b>	<b>(2,716)</b>	<b>19,489</b>
Gain on interest rate derivative	—	—	258	258
Unrealized gain on foreign exchange	—	87	181	268
<b>Income (loss) before income tax</b>	<b>20,456</b>	<b>1,836</b>	<b>(2,277)</b>	<b>20,015</b>
Income tax expense (recovery)	5,766	488	(364)	5,890
<b>Net income (loss)</b>	<b>\$ 14,690</b>	<b>\$ 1,348</b>	<b>\$ (1,913)</b>	<b>\$ 14,125</b>
Total assets	\$ 823,482	\$ 361,536	\$ 3,907	\$ 1,188,925
Total liabilities	\$ 570,218	\$ 283,349	\$ 165,076	\$ 1,018,643
Finance receivables	\$ 742,628	\$ 313,076	\$ —	\$ 1,055,704
Goodwill and intangible assets	\$ 20,023	\$ 42,239	\$ —	\$ 62,262
Property and equipment expenditures	\$ 38	\$ 81	\$ —	\$ 119

(\$ thousands)	Three months ended June 30, 2022					
	Equipment Financing - U.S.	Equipment Financing - Canada	Auto Financing - Canada	Asset Management	Corporate Overhead - Canada	Total
Interest revenue on finance leases and loans	\$ 32,495	\$ 13,999	\$ 10,631	\$ —	\$ —	\$ 57,125
Ancillary finance and other fee income	5,250	2,875	445	3,290	—	11,860
Interest expense	(9,280)	(4,801)	(2,408)	(36)	(608)	(17,133)
Provision for credit losses	(3,119)	(2,617)	(2,481)	—	—	(8,217)
<b>Net revenue</b>	<b>25,346</b>	<b>9,456</b>	<b>6,187</b>	<b>3,254</b>	<b>(608)</b>	<b>43,635</b>
Personnel expenses	6,226	4,790	1,790	911	977	14,694
Share-based compensation expense	330	36	—	—	701	1,067
Other expenses	4,946	3,659	1,114	190	866	10,775
Depreciation	223	97	92	—	20	432
Amortization - intangible assets	—	548	45	—	—	593
<b>Operating income (loss)</b>	<b>13,621</b>	<b>326</b>	<b>3,146</b>	<b>2,153</b>	<b>(3,172)</b>	<b>16,074</b>
Unrealized gain (loss) on foreign exchange	—	103	—	8	(624)	(513)
<b>Income (loss) before income tax</b>	<b>13,621</b>	<b>429</b>	<b>3,146</b>	<b>2,161</b>	<b>(3,796)</b>	<b>15,561</b>
Income tax expense (recovery)	4,244	347	568	609	142	5,910
<b>Net income (loss)</b>	<b>\$ 9,377</b>	<b>\$ 82</b>	<b>\$ 2,578</b>	<b>\$ 1,552</b>	<b>\$ (3,938)</b>	<b>\$ 9,651</b>
Property and equipment expenditures	\$ 9	\$ 239	\$ 17	\$ —	\$ —	\$ 265

(\$ thousands)	Three months ended June 30, 2021			
	Equipment Financing - U.S.	Equipment Financing - Canada	Corporate Overhead - Canada	Total
Interest revenue on finance leases and loans	\$ 21,623	\$ 5,439	\$ —	\$ 27,062
Ancillary finance and other fee income	2,021	1,441	—	3,462
Interest expense	(5,987)	(1,752)	—	(7,739)
Provision for credit losses	2,612	(1,471)	—	1,141
<b>Net revenue</b>	<b>20,269</b>	<b>3,657</b>	<b>—</b>	<b>23,926</b>
Personnel expenses	4,770	1,637	589	6,996
Share-based compensation expense	9	2	233	244
Other expenses	3,336	1,456	662	5,454
Depreciation	207	54	—	261
Amortization - intangible assets	—	361	—	361
<b>Operating income (loss)</b>	<b>11,947</b>	<b>147</b>	<b>(1,484)</b>	<b>10,610</b>
Gain on interest rate derivative	—	—	132	132
Unrealized gain on foreign exchange	—	87	207	294
<b>Income (loss) before income tax</b>	<b>11,947</b>	<b>234</b>	<b>(1,145)</b>	<b>11,036</b>
Income tax expense (recovery)	3,375	63	(214)	3,224
<b>Net income (loss)</b>	<b>\$ 8,572</b>	<b>\$ 171</b>	<b>\$ (931)</b>	<b>\$ 7,812</b>
Property and equipment expenditures	\$ (2)	\$ 81	\$ —	\$ 79



## 21. BUSINESS COMBINATIONS

### (a) Rifco Inc.

On January 14, 2022, Chesswood completed its acquisition of Rifco Inc. ("Rifco"), a provider of consumer auto loans to the sub-prime market, 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 cash-generating unit for purposes of goodwill impairment tests.

The consideration for the acquisition included:

<i>(\$ thousands)</i>	<b>January 14, 2022</b>
Shares of the Company <sup>(1)</sup>	<b>\$ 7,095</b>
Cash	<b>21,020</b>
	<b>\$ 28,115</b>

(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 receivable and \$0.6 million increase in deferred tax assets. The net impact to goodwill was \$1.9 million. The measurement period is left open to enable the asset valuation to be finalized, in particular intangibles and goodwill.

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

(\$ thousands)	January 14, 2022
<b><u>Assets</u></b>	
Cash	\$ 5,127
Restricted cash	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
<b><u>Liabilities</u></b>	
Accounts payable and other liabilities	6,508
Premise leases payable	1,327
Borrowings	199,451
Net assets acquired	<b>\$ 28,115</b>

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 period ended June 30, 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 January 14, 2022 to June 30, 2022, Rifco contributed \$19.7 million to the consolidated revenue and a loss of \$3.9 million to the consolidated net income of the Company. Had the business combination occurred at the beginning of the six months ended, 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

On March 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 <sup>(1)</sup>	\$ 2,038
Cash	1,589
	<b>\$ 3,627</b>

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

The measurement period is left open to enable the asset valuation to be finalized, in particular intangibles and goodwill.

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

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

None of the goodwill is deductible for tax purposes. No impairment on the goodwill has occurred since the date of acquisition. For the period May 25, 2022 to June 30, 2022, Waypoint contributed \$0.2 million to the consolidated revenue and a loss of \$0.1 million to the consolidated net income of the Company. Had the business combination occurred at the beginning of the six months ended June 30, 2022, the additional contributions of revenue made by Waypoint would have been \$0.9 million. The additional contribution of net income would have been an income of \$0.1 million.

(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. See Note 3 - *Financial Instruments*. 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 non-controlling interest recognized at that date. Subsequent to the acquisition and prior to exercise of the option, the non-controlling interest has the right to 49% of Canadian Holdco's earnings.

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 cash-generating unit 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 20 – *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:

<i>(\$ thousands)</i>		<b>April 30, 2021</b>
Shares of the Company	<i>i</i>	<b>\$ 1,667</b>
Special warrants	<i>ii</i>	<b>16,409</b>
Option liability	<i>iii</i>	<b>12,305</b>
		<b>\$ 30,381</b>

(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; and

(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% mark up on the date of exercise. The non-controlling interest 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. 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 intangibles arising on consolidation, were as follows:

(\$ thousands)	April 30, 2021
<b><u>Assets</u></b>	
Cash	\$ 2,758
Restricted cash	14,129
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
<b><u>Liabilities</u></b>	
Accounts payable and other liabilities	2,582
Premise leases payable	922
Borrowings	189,906
Deferred tax liabilities	4,512
Net assets acquired	<b>\$ 30,381</b>

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.

Subsequent to June 30, 2022, the third tranche of 133,333 special warrants which vested on June 30, 2022 were automatically exercised on July 5, 2022. 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 third tranche of special warrants exercised on July 5, 2022, the share price on the date of exercise was \$12.45.

(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 non-controlling interest 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 20 – *Segment information*. Revenues, net losses, and transaction costs were insignificant prior to the acquisition and for the period of September 14, 2021 to December 31, 2021.

# 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

**Toronto Stock Exchange Symbol**  
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