MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

As more fully detailed in the accompanying MD&A, the Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of the Company's DC&P and ICFR as at December 31, 2021 and have concluded that the Company's DC&P and ICFR are effective as at financial year end.

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

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

(signed) Ryan Marr
President & CEO
March 9, 2022

To the Shareholders of Chesswood Group Limited

Opinion

We have audited the consolidated financial statements of Chesswood Group Limited and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2021 and 2020, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Business Combinations

During the year ended December 31, 2021, the Group completed two acquisitions for aggregated consideration of approximately $33million. Business combinations were determined to be a key audit matter requiring special audit consideration given there are significant estimates and judgement over the measurement of the transaction price as well as the determination of the allocation of the transaction price to the acquired assets and liabilities based on their respective fair values. Refer to Note 29 of the Consolidated Financial Statements for details on the Group's business combinations during the year.

How the Audit Matter was Addressed in the Audit

We reviewed the share purchase agreements for the acquisitions, reviewed management's estimates of the measurement of the transaction price, including the accounting treatment of and the estimated fair value of the option liability, as well as the fair value allocation to the assets and liabilities acquired in each acquisition.

We utilized our valuation specialists to assist in the assessment of the reasonableness of management's valuation methodology as well as the significant assumptions used in measuring any contingent consideration. The assessment included the reasonableness of the allocation to various individual identifiable intangible assets, including evaluating the estimates surrounding discount rates, forecast growth and terminal growth rates where applicable. We also performed sensitivity analysis around the key inputs and assumptions and considered the likelihood of reasonably possible movements in those key assumptions in the context of the scope and size of the acquisitions.

Allowance for Expected Credit Losses (ECL)

The Group has an allowance for expected credit losses ('ECL') of $22M recorded against its finance receivables. The Group's assessment of the allowance involves significant estimates and judgements relating to the application of the ECL model prescribed in IFRS 9, in particular, with respect to the timing and amount of the credit loss as well as considerations for forward-looking information. In addition, and partly as a result of the ongoing COVID-19 pandemic, the economic environment is still experiencing significant volatility and uncertainty, which has a direct impact on forward-looking macroeconomic variables, probability weights and overlays. As a result, we identified the loss allowance measurement for expected credit losses as a significant risk, requiring special audit consideration. Refer to Note 7 of the Consolidated Financial Statements for details of the Group's finance receivables and allowance for expected credit losses.

How the Audit Matter was Addressed in the Audit
Our audit procedures included, among others, an assessment of the appropriateness of the ECL model developed by management. We performed an independent assessment of the significant inputs and assumptions used by management such as historical loss rate, segmentation and staging of the lease and loan portfolio, assessment of significant increase in credit risk and forward-looking macroeconomic factors. We also focused on the adequacy of the Group's disclosures over the description of its methodology and the related significant inputs and assumptions.

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

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

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

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

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or,

if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 9, 2022

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

	Note	December 31, 2021	December 31, 2020
ASSETS			
Cash		**$ 12,379**	$ 9,668
Restricted funds	*13(d)*	**67,069**	35,714
Other assets	*6*	**11,254**	2,904
Finance receivables	*4, 7*	**1,439,727**	740,878
Right-to-use assets	*8*	**2,089**	1,697
Property and equipment	*9*	**2,348**	1,736
Intangible assets	*10*	**26,938**	10,919
Goodwill	*11*	**43,143**	23,920
TOTAL ASSETS		**$ 1,604,947**	$ 827,436
LIABILITIES			
Accounts payable and other liabilities	*12*	**$ 31,764**	$ 17,531
Premise leases payable	*8*	**2,522**	2,163
Option liability	*4, 29*	**11,560**	—
Borrowings	*4, 13*	**1,339,674**	638,976
Customer security deposits	*4, 14*	**4,362**	7,210
Interest rate derivative	*4, 15*	**—**	340
Deferred tax liabilities	*16*	**27,083**	20,400
		1,416,965	686,620
EQUITY			
Common shares	*20*	**109,672**	104,236
Contributed surplus	*22, 29*	**23,875**	5,605
Accumulated other comprehensive income		**10,961**	11,733
Retained earnings		**28,815**	7,445
		173,323	129,019
Non-controlling interest	*21,29*	**14,659**	11,797
		187,982	140,816
TOTAL LIABILITIES AND EQUITY		**$ 1,604,947**	$ 827,436
Subsequent events	*30*		

Approved by the Board of Directors

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

(signed) Raghunath Davloor
Chairman, Audit and Risk Committee

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(in thousands of Canadian dollars, except per share amounts)

	Note	Year ended December 31, 2021	2020
Finance revenue			
Interest revenue on finance leases and loans		**$ 120,112**	$ 102,896
Ancillary finance and other fee income		**17,971**	14,160
		138,083	117,056
Finance expenses			
Interest expense		**31,671**	28,521
Provision for credit losses	*4, 7*	**188**	25,644
		31,859	54,165
Finance margin		**106,224**	62,891
Expenses			
Personnel expenses		**35,813**	20,123
Other expenses		**26,450**	18,618
Depreciation	*9*	**1,111**	1,216
Amortization	*10*	**1,789**	1,333
		65,163	41,290
Operating income		**41,061**	21,601
Restructuring and other transaction costs		**—**	(9,250)
Goodwill and intangible asset impairment	*11*	**—**	(20,828)
Gain on investments	*4*	**—**	483
Gain (loss) on interest rate derivative	*4*	**344**	(118)
Unrealized gain (loss) on foreign exchange		**666**	(6)
Income (loss) before taxes		**42,071**	(8,118)
Current tax expense	*16*	**(13,849)**	(2,723)
Deferred tax recovery	*16*	**2,947**	2,316
Tax expense		**(10,902)**	(407)
Net income (loss)		**$ 31,169**	$ (8,525)
Attributable to:			
Common shareholders		**$ 28,796**	$ (7,814)
Non-controlling interest		**$ 2,373**	$ (711)
Income (loss) from operations attributable to common shareholders per share:			
Basic	*24*	**$ 1.75**	$ (0.48)
Diluted	*24*	**$ 1.59**	$ (0.48)

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(in thousands of Canadian dollars)

	Year ended December 31,	
	2021	2020
Net income (loss)	**$ 31,169**	$ (8,525)
Other comprehensive income items which may be reclassified subsequently to the consolidated statements of income:		
Unrealized loss on translation of foreign operations	**(841)**	(2,424)
Comprehensive income (loss)	**$ 30,328**	$ (10,949)
Attributable to:		
Common shareholders	**$ 28,024**	$ (10,037)
Non-controlling interest	**$ 2,304**	$ (912)

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(in thousands of Canadian dollars)

	Note	Common shares	Common shares	Contributed Surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interest	2021 Total
		(# '000s)							
Shareholders' equity - December 31, 2020		**16,255**	**$104,236**	**$ 5,605**	**$ 11,733**	**$ 7,445**	**$ 129,019**	**$ 11,797**	**$140,816**
Net income		—	—	—	—	**28,796**	**28,796**	**2,373**	**31,169**
Dividends declared	*23*	—	—	—	—	**(5,670)**	**(5,670)**	**(473)**	**(6,143)**
Share-based compensation	*22*	—	—	**3,544**	—	—	**3,544**	—	**3,544**
Exercise of restricted share units	*22*	**7**	**71**	**(71)**	—	—	—	—	—
Exercise of options	*22*	**668**	**6,855**	**(1,612)**	—	—	**5,243**	—	**5,243**
Repurchase of common shares under issuer bid	*20*	**(488)**	**(3,157)**	—	—	**(1,756)**	**(4,913)**	—	**(4,913)**
Unrealized loss on translation of foreign operations		—	—	—	**(772)**	—	**(772)**	**(69)**	**(841)**
Acquisition of subsidiary	*29*	—	—	—	—	—	—	**1,031**	**1,031**
Special warrants issued on business combination	*29*	—	—	**16,409**	—	—	**16,409**	—	**16,409**
Shares issued on business combination	*29*	**133**	**1,667**	—	—	—	**1,667**	—	**1,667**
Shareholders' equity - December 31, 2021		**16,575**	**$109,672**	**$ 23,875**	**$ 10,961**	**$ 28,815**	**$ 173,323**	**$ 14,659**	**$187,982**

	Note	Common shares	Common shares	Contributed Surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interest	2020 Total
		(# '000s)							
Shareholders' equity - December 31, 2019		16,248	$103,963	$ 5,509	$ 13,956	$ 20,125	$ 143,553	$ 13,130	$156,683
Net loss		—	—	—	—	(7,814)	(7,814)	(711)	(8,525)
Dividends declared	*23*	—	—	—	—	(4,632)	(4,632)	(421)	(5,053)
Share-based compensation	*22*	—	—	920	—	—	920	—	920
Exercise of restricted share units	*22*	93	824	(824)	—	—	—	—	—
Repurchase of common shares under issuer bid	*20*	(86)	(551)	—	—	(234)	(785)	—	(785)
Unrealized loss on translation of foreign operations		—	—	—	(2,223)	—	(2,223)	(201)	(2,424)
Shareholders' equity - December 31, 2020		16,255	$104,236	$ 5,605	$ 11,733	$ 7,445	$ 129,019	$ 11,797	$140,816

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

		Year ended December 31,	
(in thousands of Canadian dollars)	Note	**2021**	2020
OPERATING ACTIVITIES			
Net income (loss)		**$ 31,169**	$ (8,525)
Non-cash items included in net income			
Amortization and depreciation		**2,900**	2,549
Goodwill and intangible asset impairment	*10, 11*	**—**	20,828
Provision for credit losses	*4, 7*	**188**	25,644
Amortization of origination costs		**29,141**	24,725
Tax expense	*16*	**10,902**	407
Other non-cash items	*27*	**5,554**	7,584
		48,685	81,737
Cash from operating activities before change in net operating assets		**79,854**	73,212
Funds advanced on origination of finance receivables		**(934,034)**	(280,753)
Origination costs paid on finance receivables		**(57,074)**	(20,523)
Principal collections of finance receivables		**434,362**	304,988
Recoveries of amounts previously charged off	*7*	**13,690**	15,031
Change in other net operating assets	*27*	**(23,918)**	(15,525)
Cash from (used in) operating activities before tax		**(487,120)**	76,430
Income taxes paid		**(13,312)**	(10,198)
Income tax refund		**1,208**	13,648
Cash from (used in) operating activities		**(499,224)**	79,880
INVESTING ACTIVITY			
Purchase of property and equipment		**(1,003)**	(880)
Business combinations, cash acquired	*29*	**2,796**	—
Cash from (used in) investing activity		**1,793**	(880)
FINANCING ACTIVITIES			
Borrowings, net	*27*	**510,872**	(69,147)
Payment of financing costs	*13*	**(4,922)**	(3,645)
Payment of lease obligations	*8*	**(683)**	(711)
Proceeds from exercise of options	*22*	**5,243**	—
Repurchase of common shares under issuer bid	*20*	**(4,913)**	(785)
Cash dividends paid	*23*	**(5,571)**	(5,939)
Cash from (used in) financing activities		**500,026**	(80,227)
Unrealized foreign exchange gain (loss) on cash		**116**	(137)
Net increase (decrease) in cash		**2,711**	(1,364)
Cash, beginning of period		**9,668**	11,032
Cash, end of period		**$ 12,379**	$ 9,668

Please see notes to the consolidated financial statements.

TABLE OF NOTES

1. NATURE OF BUSINESS

Chesswood Group Limited (the “Company” or "Chesswood") is 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 26 - *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.

Chesswood Capital Management Inc. ("CCM") and Chesswood Capital Management USA Inc. ("CCM USA") will provide private credit alternatives to investors seeking exposure to lease and loan receivables originated by Chesswood subsidiaries. These entities were incorporated December 2021.

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

The Company's audited consolidated financial statements were authorized for issue on March 9, 2022 by the Board of Directors.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements, including comparatives:

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

Certain prior year amounts have been reclassified on the consolidated statements of cash flows and consolidated statements of income to conform with current year presentation.

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 which 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, Blue Chip, Vault Credit, Vault Home, 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 is the United States dollar. Refer to Note 26 - *Subsidiaries* for additional information on the subsidiaries. Income and expenses of subsidiaries with a different functional currency than the Company's presentation currency are translated in the Company's consolidated financial statements at the average U.S. dollar exchange rate for the reporting period (for the year ended December 31, 2021 - 1.2535; December 31, 2020 - 1.3415), and assets and liabilities are translated at the closing rate (as at December 31, 2021 - 1.2678; December 31, 2020 - 1.2732). Exchange differences arising from the translation are recognized in other comprehensive income. Foreign currency payables and receivables in the statement 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.

Statement of cash flows
Cash consists of bank balances adjusted for items such as deposits in transit.

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 year. Cash flows in foreign currencies have been translated at the average rate for the period. Exchange rate differences affecting cash items are presented separately in the statement of cash flows.

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

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

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

Restricted funds
Restricted funds represent cash reserve accounts which are held in trust as security for secured borrowings (facilities described in Note 13 - *Borrowings*), cash related to early terminations on securitized finance receivables, and cash collection accounts required by the lenders of certain financial assets that can only be used to repay these debts on specific dates. The 'cash in collections accounts' will be applied to the outstanding borrowings in the following month.

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

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

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

Financial assets are categorized for subsequent measurement as follows:

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

Financial assets at fair value through net income or loss
Financial assets that are held for trading and derivative assets are required to be measured at fair value through net income or loss ("FVTPL"). Financial assets that meet certain conditions may be designated at fair value through net income or loss upon initial recognition. Upon initial recognition, attributable transaction costs are recognized in net income or loss as incurred.

Assets in this category are subsequently measured at fair value with gains or losses recognized in net income or loss. The fair values of derivative financial instruments are based on changes in observable prices in active markets or by a valuation technique where no market exists.

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

Gains and losses are recognized in other comprehensive income and presented in the available for sale reserve within equity, except for the accretion in value based on the effective interest method, impairment losses and foreign exchange differences on monetary assets, which are recognized in net income or loss. Financial assets measured at fair value through other comprehensive income for which fair value cannot be estimated reliably, are measured at cost and any impairment losses are recognized in net income or loss. Upon initial recognition, attributable transaction costs are recognized in net income or loss as incurred. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified from equity to net income or loss and presented as a reclassification adjustment within other comprehensive income.

Financial liabilities are categorized as follows for subsequent measurement:

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

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

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

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

The Company's interest rate derivative is required to be measured at fair value through net income or loss. The Company has not designated any financial instruments as hedges for accounting purposes.

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

The categories to which the financial instruments are allocated are:

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

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

(i) Level 1 Inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
(ii) Level 2 Inputs - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
(iii) Level 3 Inputs - techniques which use inputs which have a significant effect on the recorded fair value for the asset or liability that are not based on observable market data (unobservable inputs).

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

Allowance for credit losses

The Company measures loss allowances based on an expected credit loss ("ECL") impairment model for all financial instruments except those measured at fair value through net income and loss. Application of the model depends on the following credit stages of the financial assets:

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

Lease and loan receivables are composed of a large number of homogenous leases and loans, with relatively small balances. Thus, the evaluation of the allowance for credit losses is performed collectively for the lease and loan receivable portfolios, segregated into prime and non-prime.

Definitions of default have been selected to eliminate the judgement that may otherwise be necessary, given the diversity within the finance receivable portfolio, the lack of individual drivers of changes in credit risk across assets and over time, and the resulting inability to assess which specific assets will be rectified. For the purposes of measuring ECL, a default is defined as:

- For prime finance receivables: leases and loans that have missed one payment and are not subsequently rectified within 30 days.
- For non-prime finance receivables: leases and loans that have missed one payment.

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument based on the following inputs by credit stage:

- For Stage 1, the Company utilized recent static pool data applied to recent origination levels and included forward-looking macroeconomic assumptions. Recent static pool data includes historical loss rates by credit class and by originating quarter and therefore includes all knowable credit and economic conditions up to the reporting date.
- For Stage 2, the Company considers 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 leases and loans that have experienced a significant increase in credit risk include: those instruments that are delinquent for over 30 days; and an estimate of those assets that will subsequently become delinquent calculated as approximately 14% (December 31, 2020 - 15%) 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 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.

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

The Company is entitled to repossess financed equipment 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. Repossessed equipment is generally held at various warehouses by the Company's third party contractors to repossess and sell the equipment. As the U.S. Equipment Financing Segment, Blue Chip and Vault Credit finance a wide range of small equipment, it is difficult to estimate the fair value of the potential collateral when estimating future ECLs.

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

- Security deposits held;
- Recoveries of amounts previously charged off in the last 12 months, as an estimate of recoveries for the next 12 months;
- An estimate of the effects on credit losses in the next 12 months of natural disasters and economic shocks, including the COVID-19 pandemic;
- The stage of the business cycle for the industry, which considers: the competitive environment, GDP growth, prevailing interest rates and expectations of future rates, fiscal policy and inflation rates; and
- Current delinquency trends of non-accrual and greater than 30 days delinquency rates.

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

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

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

The right-to-use assets are depreciated over the respective lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. Lease terms range from 1 to 7 years, and the optional extension periods have been excluded. Right-to-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease liability is subsequently accounted for at amortized cost using the effective interest rate method.

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

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

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

Asset class	Useful life
Computer hardware	3 - 7 years
Furniture and equipment	2 - 12 years

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

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

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

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

Goodwill
Goodwill is initially measured at cost which represents the excess of the fair value of consideration paid for a business acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Forecasts of future events and conditions are incorporated by adjusting losses from the static pool data, which is consistent with prior periods. Determining the inputs listed and ECLs requires significant estimation uncertainty. In particular, determining the COVID-19 effects to be layered over the static pool data at December 31, 2021 to estimate the effect on ECLs at that date - which requires assessing the direction of macroeconomic variables in the forward-looking scenarios, the duration of lock-down conditions, the effectiveness of relief programs at mitigating the effects on our lessees and borrowers, amongst other factors - are subject to significant measurement uncertainty. Determining which finance receivables have seen a significant increase in credit risk is also subject to significant judgement.

(b) Business combination and goodwill
Information about critical judgments, assumptions, and estimation uncertainties in applying business combination accounting policies that have the most significant effect on the amounts recognized in the audited consolidated financial statements are presented in Note 29 - *Business Combinations.*

In the Vault Credit Corporation business combination, the Company obtained a call option on the non-controlling interest ("NCI") and the holders of the NCI has a similar put option exercisable by the non-controlling interest. Chesswood exercised judgement by applying IAS 32 to recognize a 100% ownership interest in the acquiree. In addition, the Company recognized a financial liability under amortized cost for the present value of the amount payable upon exercise of the NCI option. No NCI is recognized on acquisition and all dividends paid to the NCI is recognized as an expense through the consolidated statements of income.

(c) Impairment of intangibles and goodwill
The impairment testing utilizes several assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year as a result of the VIU being derived from an estimated discounted cash flow

model. VIU 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. The cash flows are derived from budgets for the next five years, excluding restructuring activities and future investments. Other than the cash flow estimates, the VIU is most sensitive to the discount rate used and the growth rate applied beyond the five-year estimate.

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

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

i) The five years of cash flow estimates were based on achieving key operating metrics and drivers based on management estimates, past history and the current economic outlook, and were approved by Chesswood management. The VIU for the operating segments are most sensitive to assumptions of lease origination volumes and net charge-offs. The cash flow inputs used represent management's current best estimates and are consistent with changes seen in the finance receivable portfolio and with readily available external sources of information. Each of those variables will ultimately be determined by the duration of restrictions that are currently in place to contain the pandemic, the effects and ultimate success of which are inherently unknowable.
ii) A terminal value incorporated into the VIU calculation which was estimated by applying a 3.0% growth rate to the cash flow forecast for the fifth year. The growth rate reflects the historical average core inflation rate which does not exceed the long-term average growth rate for the industry.
iii) A discount rate of approximately 53% was applied to the Canadian CGU forecasted cash flows (December 31, 2020 - 27%). The change in the estimated discount rate is due to the inclusion of a higher risk premium to reflect the high growth and origination expectations subsequent to the Vault Credit business combination. A discount rate of approximately 31% was applied to the U.S. CGU forecasted cash flows (December 31, 2020 - 35%). The change in the estimated discount rate reflects the lowered risks present in the finance receivables in the current environment as the CGU continues to experience strong originations, collections, and growth.

The estimation of VIU is subject to considerable measurement uncertainty.

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

Refer to Note 10 and Note 11 for additional information.

(d) Taxes

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

Determining the value of deferred tax assets recognized requires an estimate of the value of tax benefits that will eventually be realized by the Company which utilizes several assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

(e) Fair value of share-based compensation

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

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

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

3. NEW ACCOUNTING STANDARDS

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

(a) Phase 2 of the Interest Rate Benchmark Reform amendments made to IFRSs: 7 *Financial Instruments: Disclosures*; 9 *Financial Instruments*; and 16 *Leases*, that provide 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 13 - *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.

(b) COVID-19 rent concession amendment made to IFRS 16 *Leases,* provides lessees with an exemption from assessing whether or not a rent concession related to COVID-19 is a lease modification. Chesswood has not received any rent concessions related to COVID-19. Therefore, this amendment had no impact on the consolidated financial statements of the Company.

Standards issued but not yet effective

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

(a) Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, clarifies which costs to include in the assessment of whether a contract is onerous. The Company will adopt the amendment when it becomes effective in the Company's December 31, 2022 year.

(b) Annual Improvements Project (AIP) 2018-2020 Cycle amendment to IFRS 1 *First-time adoption of International Financial Reporting Standards*, allows subsidiaries that adopt IFRS at a later date than its parent to measure cumulative translation differences using the amounts reported by the parent based on the parent's date of transition to IFRS. The Company will adopt the amendment when it becomes effective in the Company's December 31, 2022 year.

(c) AIP 2018-2020 Cycle amendment to IFRS 9 *Financial Instruments*, provides a clarification on the fees that an entity is allowed to include when applying the '10 per cent' test when assessing whether to derecognize a financial liability. The Company will adopt the amendment when it becomes effective in the Company's December 31, 2022 year.

(d) Amendment to IFRS 3 *Business Combinations*, updates the standard to reference the 2018 conceptual framework when determining what constitutes an asset or liability in a business combination, a new exception requiring reference to IAS 37 and IFRIC 21 for certain liabilities and contingent liabilities, and a clarification that acquirers should not recognize contingent assets. The Company will adopt the amendment when it becomes effective in the Company's December 31, 2022 year.

4. FINANCIAL INSTRUMENTS

(a) Categories and measurement hierarchy

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

					December 31, 2021
($ thousands)	Level 1	Level 2	Level 3	Fair Value	Carrying Value
ASSETS					
Finance receivables *(i)*	—	1,439,727	—	1,439,727	1,439,727
LIABILITIES					
Borrowings *(ii)*	—	(1,339,674)	—	(1,339,674)	(1,339,674)
Customer security deposits *(iii)*	—	(4,362)	—	(4,362)	(4,362)
Option liability *(iv)*	—	(11,560)	—	(11,560)	(11,560)

					December 31, 2020
($ thousands)	Level 1	Level 2	Level 3	Fair Value	Carrying Value
ASSETS					
Finance receivables *(i)*	—	740,878	—	740,878	740,878
LIABILITIES					
Borrowings *(ii)*	—	(638,976)	—	(638,976)	(638,976)
Customer security deposits *(iii)*	—	(7,210)	—	(7,210)	(7,210)
Interest rate derivative *(v)*	—	(340)	—	(340)	(340)

i. There is no organized market for the finance receivables. The carrying value is the amortized cost using the effective interest rate method which approximates fair value because contractual interest rates approximate current market rates.
ii. The stated value of the borrowings approximates fair values, as the interest rates attached to these instruments are representative of current market rates, for loans with similar terms, conditions and maturities.
iii. There is no organized market for customer security deposits. The carrying value is the amortized cost using the effective interest rate method which approximates fair value because contractual interest rates approximate current market rates.
iv. The option liability is initially measured at fair value at the discounted cash outflow expected on exercise. The call option exercise price is equal to 105% of the value of the unowned portion of Canadian Holdco's receivables portfolio net of any related debt. The option is subsequently held at amortized cost. The non-controlling interest in Vault Credit has a put option on the shares with an exercise price equal to 95% of the value of the unowned portion of receivables portfolio net of any related debt, creating a demand liability. The liability is valued at the greater of the call and put option. The carrying value of the option approximates fair value because contractual interest rates approximate current market rates and the exercise price is based on the fair market value of the underlying assets. All of the significant inputs are directly or indirectly observable.
v. The Company determines the fair value of its interest rate derivatives under the income valuation technique using a discounted cash flow model. Significant inputs to the valuation model include the contracted notional amount, LIBOR rate yield curves and the applicable credit-adjusted risk-free rate yield curve. The Company's interest rate derivative is included in the Level 2 fair value hierarchy because all of the significant inputs are directly or indirectly observable.

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

(b) 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 year ended December 31, **2021**	2020
Amortized cost:		
Provision for credit losses	**$ (188)**	$ (25,644)
Interest on option liability	**745**	—
Fair value through net income or loss:		
Gain on investments	—	483
Interest rate derivative	**344**	(118)
Net gain (loss)	**$ 901**	$ (25,279)

5. FINANCIAL RISK MANAGEMENT

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

The Company's 2021 objectives, policies or processes for measuring and managing any of the risks to which it is exposed to no longer accounts for the 2020 effects of COVID-19 on credit and liquidity risk as described in the following paragraphs.

In 2020, due to COVID-19, modifications to the terms of finance receivables were granted to a higher volume of receivables than usual, as described in Note 7(e), as a means to avert economic losses. To manage the increased credit risk and minimize future losses and charge offs, measures had been put in place at all operating subsidiaries. Those measures included a tightening of underwriting, including limiting the type of equipment, industry, dollar value and receivable term and also required higher credit ratings, which dampened originations. The Company's subsidiaries also granted deferrals on portions of their respective portfolios of leases and loans as a result of the COVID-19 pandemic. In addition, various credit facilities were amended to better reflect COVID-19 related experiences and expectations.

i) Credit risk

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

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

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

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

The subsidiaries are entitled to repossess financed equipment if the lessee/borrower defaults on their contract in order to minimize any credit losses. When an asset previously accepted as collateral is to be repossessed, it undergoes a process of physical repossession and disposal in accordance with the legal provisions of the relevant market. See Note 7(f) - *Finance Receivables*, for a further discussion on the repossession of collateral.

The finance receivables consist of a large number of homogenous leases and loans, with relatively small balances, and as such, the evaluation of the allowance for credit losses is performed collectively for the lease and loan receivable portfolio. More detailed information regarding this methodology and on finance receivables that are considered to be impaired is provided in Note 7 - *Finance Receivables*.

ii) Liquidity risk

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

The Company's objective is to maintain low cash balances, investing any free cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. At December 31, 2021, the Company's operations have at least $756.4 million (2020 - $485.2 million) in additional borrowings available under various credit facilities to fund business operations.

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

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, and principal payments) is shown in Operating Activities in the Consolidated Statements of Cash Flows. The Company's finance receivables have an average term of approximately 45 months. The finance receivables will generate earnings approximately over the next 45 months, with only a portion in the current operating period. Our ability to borrow under our various credit facilities is directly linked to our finance receivable portfolio. The funds borrowed to support the growth in the finance receivables is shown under Financing Activities in the Consolidated Statements of Cash Flows. Presentation of cash outflows for investment in a long-term asset in Operating Activities and the direct financing thereof under another category (Financing Activities) results in a 'cash flow from operations' in the current period that is distorted. Management assesses 'cash flow from operations' by excluding the net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, and principal payments).

The Company has a corporate credit facility that allows borrowings of up to US$250.0 million with a US$50 million accordion feature, subject to certain percentages of eligible gross lease receivables, of which US$153.5 million was utilized at December 31, 2021 (2020 - US$71.9 million). See Note 13 - *Borrowings*. On January 14, 2022, the revolving credit facility was re-negotiated. Refer to Note 30 - *Subsequent Events*. In addition, the Company has several bulk financing lines available to its Canadian business and similar financing for its U.S. prime portfolio. At this time; however, management believes that the syndicate of financial institutions that provides Chesswood's credit facility and the banks and life insurance company that provides financing to our subsidiaries are financially viable and will continue to provide the facilities.

Under the corporate credit facility, the maximum cash dividends that the Company can pay in any month is 1/12 of 90% of free cash flow for the most recently completed four financial quarters in which the Company has publicly filed its consolidated financial statements less the cost of any repurchases under normal course issuer bids, if any. The Company's 2020 dividend payments were suspended during the year as disclosed in Notes 13(a) and 23 - *Dividends*.

The maturity structure for undiscounted contractual cash flows is presented in Note 17 - *Minimum payments*. Please see Note 7(b) - *Finance Receivables* for the expected collections of finance receivables over the same time period. See Note 13(d) - *Borrowings* - for the amount of restricted cash in collection accounts that will be applied to debt in the following month.

iii) Market risk

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

a) Trading prices

The Company's investment in Dealnet common shares was measured at fair value at each reporting date with changes in fair value recognized in net income or loss. The Dealnet common shares were sold during 2020.

b) *Interest rate risk*

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

The following table presents a sensitivity analysis for a reasonable fluctuation in interest rates and the effect on the financial position and performance as at and for the years ended December 31, 2021 and 2020:

	For the years ended			
	December 31, 2021		December 31, 2020	
($ thousands)	+100 bps	-100 bps	+100 bps	-100 bps
Increase (decrease) in interest expense	$ 2,637	$ (2,637)	$ 1,418	$ (1,418)
Increase (decrease) in net income and equity	$ (1,936)	$ 1,936	$ (1,283)	$ 1,283

c) Foreign currency risk

The Company is exposed to fluctuations in the U.S. dollar exchange rate because significant operating cash inflows are generated in the United States, while dividends are paid to shareholders in Canadian dollars. For the year-ended December 31, 2021, dividends paid totaled $5.6 million (2020 - $5.9 million).

The following table presents a sensitivity analysis for a hypothetical fluctuation in U.S. dollar exchange rates and the effect on the financial position and performance as at and for the years ended December 31, 2021 and 2020:

($ thousands)	**December 31, 2021**	December 31, 2020
Year-end exchange rate	1.2678	1.2732
U.S. denominated net assets in U.S.$ held in Canada	$ 528	$ 125
Effect of a 10% increase or decrease in the Canadian/U.S. dollar on U.S. denominated net assets	$ 67	$ 16

6. OTHER ASSETS

($ thousands)	Note	**December 31, 2021**	December 31, 2020
Tax receivable		**$ —**	$ 1,503
Sales tax receivable		**2,853**	29
Prepaid expenses and other assets		**3,094**	1,372
Deferred tax asset	16	**5,307**	—
Other assets		**$ 11,254**	$ 2,904
Current		**5,947**	2,904
Long-term		**$ 5,307**	$ —

7. FINANCE RECEIVABLES

All lease and loan receivables have been pledged as security for amounts borrowed from lenders under various facilities, as described in Note 13 - *Borrowings*. The lenders have the right to enforce their security interest in the pledged lease and loan receivables if the Company defaults under these facilities. The Company retains significant risks and rewards of ownership (in some cases through consolidated special purpose entities ("SPEs")) and servicing responsibilities of the pledged lease and loan receivables, and therefore continues to recognize them on the consolidated statement of financial position. None of our facilities meet the requirements for gain-on-sale or de-recognition treatment for accounting purposes and none of the receivables have been derecognized.

($ thousands)	**December 31, 2021**	December 31, 2020
Net investment in leases	**$ 609,292**	$ 335,814
Loan receivables	**830,435**	405,064
	$ 1,439,727	$ 740,878

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

($ thousands)	**December 31, 2021**	December 31, 2020
Total minimum finance receivables payments *(b)*	**$ 1,648,185**	$ 868,107
Residual values of leased equipment	**30,767**	22,311
	1,678,952	890,418
Unearned income, net of initial direct costs	**(238,299)**	(135,772)
Net investment in finance receivables before allowance for credit losses	**1,440,653**	754,646
Allowance for credit losses *(c)*	**(22,393)**	(24,363)
	1,418,260	730,283
Reserve receivable on securitized financial contracts	**21,467**	10,595
Net investment in finance receivables	**1,439,727**	740,878
Current portion	**481,801**	274,309
Long-term portion	**$ 957,926**	$ 466,569

(b) Minimum scheduled collections of finance receivables at December 31, 2021, 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	$ 585,270	$ 476,703
2023	436,194	367,927
2024	319,582	280,765
2025	204,920	187,336
2026	95,277	90,508
2027 and thereafter	6,942	6,646
Total minimum payments	$ 1,648,185	$ 1,409,885

(c) Allowance for credit losses

The Company's ECL was determined as at December 31, 2021 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.

If the expected loss rates increased or decreased by 10% the provision for credit loss and the allowance for credit losses would increase or decrease by approximately $0.4 million (December 31, 2020 - $2.2 million).

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

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

	As at December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
($ thousands)	Performing	Under-Performing	Non-Performing	
Prime	$ 545,048	$ 3,241	$ 3,105	$ 551,394
Non-prime	195,505	3,872	3,875	203,252
Total	$ 740,553	$ 7,113	$ 6,980	$ 754,646

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

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

	Year ended December 31, 2020			
	Stage 1	Stage 2	Stage 3	
($ thousands)	Performing	Under-Performing	Non-Performing	**Total**
Balance, January 1, 2020	$ 11,914	$ 8,072	$ 10,319	**$ 30,305**
Transfer to Performing (Stage 1)	7,112	(4,380)	(2,732)	**—**
Transfer to Under-Performing (Stage 2)	(345)	755	(410)	**—**
Transfer to Non-Performing (Stage 3)	(260)	(8,346)	8,606	**—**
Net remeasurement of loss allowance	(11,923)	10,811	22,310	**21,198**
New receivables originated	4,446	—	—	**4,446**
Provision for credit losses	(970)	(1,160)	27,774	**25,644**
Charge-offs	—	—	(46,405)	**(46,405)**
Recoveries of amounts previously charged off	—	—	15,031	**15,031**
Net charge-offs	—	—	(31,374)	**(31,374)**
Foreign exchange translation	(112)	(81)	(19)	**(212)**
Balance, end of year	**$ 10,832**	**$ 6,831**	**$ 6,700**	**$ 24,363**

Certain prior year amounts have been re-classed 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 $4.4 million (December 31, 2020 - $7.2 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. An estimate of fair value for the collateral and personal guarantees cannot reasonably be determined.

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. Loan and lease receivables that are charged-off during the period are all subject to continued collection efforts.

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

												As of December 31, 2020
($ thousands)		Current		1-30 days		31 - 60 days		61 - 90 days		Over 90 days		Total
Finance receivables	$	732,061	$	13,354	$	4,481	$	2,439	$	2,311	$	754,646
Credit Impaired	$	115	$	664	$	1,560	$	2,179	$	2,182	$	6,700
Past due but not impaired	$	—	$	12,690	$	2,921	$	260	$	129	$	16,000

(e) Modifications

The net investment in finance receivables that have been modified (in 2021 or prior) and are current at December 31, 2021 is $103.7 million (December 31, 2020 - $183.0 million). On average the terms have been modified to extend the contracts by approximately one to three months, depending on the modification. Modified finance receivables as at December 31, 2021 had a total net investment in finance receivable balance of $109.0 million (December 31, 2020 - $218.0 million). The majority of the modifications were related to COVID-19 deferrals. These amounts reflect the net investment in finance receivable balances prior to payments collected since modification, or leases that terminated early after modifications or leases charged-off after modification.

(f) Collateral

The U.S. Equipment Financing Segment, Blue Chip and Vault Credit are entitled to repossess financed equipment 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. In the year ended December 31, 2021, the proceeds from the disposal of repossessed equipment that was charged-off totaled $3.8 million (December 31, 2020 - $5.7 million). Repossessed equipment is held at various warehouses by the companies contracted to repossess and sell the equipment.

8. RIGHT-TO-USE ASSETS AND PREMISE LEASES PAYABLE

The following table presents the right-to-use assets for the Company:

($ thousands)	For the year ended December 31, 2021	For the year ended December 31, 2020
Premises:		
Balance, beginning of year	$ 1,697	$ 3,024
Business combinations	939	—
Additions	—	55
Reductions - sublet and termination	—	(726)
Depreciation	(532)	(645)
Foreign exchange translation	(15)	(11)
Balance, end of year	$ 2,089	$ 1,697

The contractual undiscounted cash flows for the related lease obligations are disclosed in Note 17 - *Minimum payments*. The effective interest expense on these lease obligations for the year ended December 31, 2021 was $0.6 million (December 31, 2020 - $0.1 million) and is included in interest expense. Total outflow for leases for the year ended December 31, 2021 was $0.7 million (December 31, 2020 - $0.7 million). Expenses for leases of low-dollar value items are not material. Pawnee's two options to extend the premises lease term for two additional periods of 60 month each are not reasonably certain to be exercised and have therefore been excluded from the measurement of lease obligations.

($ thousands)	For the year ended December 31, 2021	For the year ended December 31, 2020
Premise Leases Payable		
Balance, beginning of year	$ 2,163	$ 3,222
Business combinations	922	—
Additions	—	55
Reduction - termination	—	(513)
Principal payments	(549)	(571)
Foreign exchange translation	(14)	(30)
Balance, end of year	$ 2,522	$ 2,163

9. PROPERTY AND EQUIPMENT

($ thousands)	Furniture and equipment	Computer hardware	Total
Cost:			
December 31, 2019	$ 1,397	$ 2,309	$ 3,706
Additions	162	718	880
Disposals	—	(17)	(17)
Foreign exchange translation	18	(14)	4
December 31, 2020	1,577	2,996	4,573
Business combinations	19	57	76
Additions	259	833	1,092
Disposals	(17)	(733)	(750)
Foreign exchange translation	28	59	87
December 31, 2021	**$ 1,866**	**$ 3,212**	**$ 5,078**

($ thousands)	Furniture and equipment	Computer hardware	Total
Accumulated depreciation:			
December 31, 2019	$ 694	$ 1,585	$ 2,279
Depreciation	157	414	571
Disposals	—	(17)	(17)
Foreign exchange translation	2	2	4
December 31, 2020	853	1,984	2,837
Depreciation	187	392	579
Disposals	(17)	(644)	(661)
Foreign exchange translation	(5)	(20)	(25)
December 31, 2021	**$ 1,018**	**$ 1,712**	**$ 2,730**

($ thousands)	Furniture and equipment	Computer hardware	Total
Carrying amount:			
December 31, 2019	$ 703	$ 724	$ 1,427
December 31, 2020	$ 724	$ 1,012	$ 1,736
December 31, 2021	**$ 848**	**$ 1,500**	**$ 2,348**

10. INTANGIBLE ASSETS

The Company assessed its intangibles for impairment for the year ended December 31, 2021. The test identified no impairment. Refer to Note 2 - *Significant Accounting Policies* for the Exercise of judgment and use of accounting estimates and assumptions.

In 2020, based on the annual assessment of intangible assets, management determined that the carrying value of Blue Chip's broker network exceeded its estimated fair value and recorded a $4.7 million impairment charge due to projected decreases in future originations compared to the prior year end projection. The fair value was determined based primarily on discounted cash flows, utilizing several assumptions and estimation uncertainties, especially as it relates to COVID-19.

	Indefinite useful life	Finite useful life	
($ thousands)	Trade names	Broker relationships & trade names	Total
Cost:			
December 31, 2019	$ 7,429	$ 19,517	$ 26,946
Foreign exchange translation	(138)	—	(138)
December 31, 2020	7,291	19,517	26,808
Business combinations	—	17,838	17,838
Foreign exchange translation	(30)	—	(30)
December 31, 2021	**$ 7,261**	**$ 37,355**	**$ 44,616**

($ thousands)	Trade names	Broker relationships & trade names	Total
Accumulated amortization:			
December 31, 2019	$ 127	$ 9,739	$ 9,866
Impairment	—	4,690	4,690
Amortization	—	1,333	1,333
December 31, 2020	127	15,762	15,889
Amortization	—	1,789	1,789
December 31, 2021	**$ 127**	**$ 17,551**	**$ 17,678**

($ thousands)	Trade names	Broker relationships & trade names	Total
Carrying amount:			
December 31, 2019	$ 7,302	$ 9,778	$ 17,080
December 31, 2020	$ 7,164	$ 3,755	$ 10,919
December 31, 2021	**$ 7,134**	**$ 19,804**	**$ 26,938**

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

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

($ thousands)	**December 31, 2021**	December 31, 2020
U.S. Equipment Financing Segment	**$ 6,846**	$ 6,876
Canadian Equipment Financing Segment	**288**	288
Total indefinite-life intangible assets	**$ 7,134**	$ 7,164

11. GOODWILL

Goodwill totaled $43.1 million at December 31, 2021 compared to $23.9 million at December 31, 2020. The $19.2 million increase was mainly due to the merger with Vault Credit and the acquisition of Vault Home as discussed in Note 29 - *Business Combinations*. As at December 31, 2021, all Goodwill has been allocated to the Company's two CGUs.

The Company last performed its annual impairment tests at December 31, 2021, which identified no impairment.

In 2021, despite COVID-19, collections stay strong and with the acquisition of Vault Credit, the Canadian Equipment Financing Segment entered growth mode with significant growth in applications and originations. In 2020, the economic environment was unfavorable due to the various effects of the COVID-19 pandemic: applications and approvals of new finance receivables had dropped compared to the same period in the previous year; economic measures indicated a reduced level of activity, including spending and employment; and the Company's dividend and share price had decreased. Total goodwill impairment related to the Canadian Equipment Financing Segment recognized in 2020 was $16.1 million.

Management's sensitivity of the key assumptions discussed in Note 2 - *Significant Accounting Policies,* indicated there are no reasonably possible changes that could cause the carrying value of the CGUs to exceed its recoverable value.

($ thousands)	U.S.Equipment Financing Segment	Canadian Equipment Financing Segment	Total
Cost:			
December 31, 2019	$ 47,109	$ 26,365	$ 73,474
Foreign exchange translation	(929)	—	(929)
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**

($ thousands)	U.S.Equipment Financing Segment	Canadian Equipment Financing Segment	Total
Accumulated impairment:			
December 31, 2019	$ 33,140	$ —	$ 33,140
Impairment	—	16,138	$ 16,138
Foreign exchange translation	(653)	—	(653)
December 31, 2020	32,487	16,138	48,625
Foreign exchange translation	(139)	—	(139)
December 31, 2021	**$ 32,348**	**$ 16,138**	**$ 48,486**

($ thousands)	U.S.Equipment Financing Segment	Canadian Equipment Financing Segment	Total
Carrying amount:			
December 31, 2019	$ 13,969	$ 26,365	$ 40,334
December 31, 2020	$ 13,693	$ 10,227	$ 23,920
December 31, 2021	**$ 13,636**	**$ 29,507**	**$ 43,143**

12. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

($ thousands)	**December 31, 2021**	December 31, 2020
Dividend payable	**$ 927**	$ 355
Accounts payable	**5,218**	1,554
Sales tax payable	**863**	1,219
Customer deposits and prepayments	**2,262**	992
Unfunded finance receivables	**10,284**	4,731
Taxes payable	**2,792**	2,549
Payroll related payables and accruals	**3,310**	1,671
Accrued expenses and other liabilities	**6,108**	4,460
	$ 31,764	$ 17,531

13. BORROWINGS

The Company and its subsidiaries were compliant with all covenants attached to the following facilities at December 31, 2021 and throughout the year then ended.

($ thousands)	Chesswood credit facility *(a)*	Chesswood deferred financing costs	U.S. Equipment Financing Segment credit facilities *(b)*	U.S. Equipment Financing Segment deferred financing costs	Canadian Equipment Financing Segment financing facilities *(c)*	Total
Net as at December 31, 2019	$ 189,105	$ (2,178)	$ 395,743	$ (7,331)	$ 139,352	$ 714,691
Proceeds or draw-downs	200,194	—	373,526	—	35,353	609,073
Repayments	(305,644)	—	(301,229)	—	(71,347)	(678,220)
Payment of financing costs	—	—	—	(3,645)	—	(3,645)
Amortization of deferred financing costs	—	1,050	—	3,342	—	4,392
Debt restructuring	—	—	—	2,491	—	2,491
Foreign exchange translation	1,642	—	(11,459)	11	—	(9,806)
Net as at December 31, 2020	85,297	(1,128)	456,581	(5,132)	103,358	638,976
Assumed in business combination	—	—	—	—	188,629	188,629
Proceeds or draw-downs	990,122	—	755,294	—	192,834	1,938,250
Repayments	(885,830)	—	(418,975)	—	(122,573)	(1,427,378)
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)**	**$ 362,248**	**$ 1,339,674**

(a) The Chesswood revolving credit facility allows borrowings of up to US$250.0 million, subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility includes a US$50 million accordion feature that can increase the overall revolver to US$300 million, is secured by substantially all of the Company's assets, contains covenants, including maintaining leverage, interest coverage, and delinquency ratios, and expires on December 8, 2022. At December 31, 2021, the Company was utilizing US$153.5 million (December 31, 2020 - US$71.9 million) of its credit facility and had approximately US$96.5 million in additional borrowings available under the corporate credit facility. Based on average debt levels, the effective interest rate during the year ended December 31, 2021 was 4.50% (year ended December 31, 2020 - 5.42%). The effective interest rate for the three months ended December 31, 2021 was 4.27% (December 31, 2020 - 3.02%). Since the current credit facility expires within the next 12 months, it is a current liability. On January 14, 2022, the revolving credit facility was re-negotiated. Refer to Note 30 - *Subsequent Events*. In 2020, the Company was restricted from paying dividends and limited quarterly equipment financing originations during the period that the temporary COVID-19 related amendments were required.

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 at December 31, 2021 was US$95.1 million (December 31, 2020 - US$45.1 million). Based on average debt levels, the effective interest rate for the year ended December 31, 2021 was 3.72% (including amortization of origination costs) (December 31, 2020 – 4.94%).
(ii) In October 2019, the U.S. Equipment Financing Segment completed a US$254 million asset-backed securitization which has 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 at December 31, 2021 was US$83.1 million (December 31, 2020 - US$150 million). Based on average debt levels, the effective interest rate was 3.24% for the year ended December 31, 2021 (including amortization of origination costs) (December 31, 2020 – 2.78%).
(iii) On September 30, 2020, the U.S. Equipment Financing Segment completed a US$183.5 million asset-backed securitization which 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 at December 31, 2021 was US$89.8 million (December 31, 2020 - US$163.5 million). The effective interest rate was approximately 2.61% for the year ended December 31, 2021 (including amortization of origination costs) (December 31, 2020 – 2.21%).
(iv) On October 22, 2021, the U.S. Equipment Financing Segment completed a US$356.1 million asset-backed securitization which 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 2.01% (including amortization of origination costs). The balance of this facility at December 31, 2021 was US$333.9 million.
(v) The U.S. Equipment Financing Segment has a US$250 million revolving warehouse loan facility specifically to fund its growing prime portfolio that was established in May 2021. 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. At December 31, 2021, the U.S. Equipment Financing Segment was not utilizing this facility (December 31, 2020 - nil). Pawnee paid off the remaining balance of this facility utilizing proceeds from its asset-backed securitization in October 2021. The effective interest rate for the year ended December 31, 2021 was approximately 2.09% (December 31, 2020 - 7.31%) (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 Investment Partners Inc. ("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, and Chesswood has a small minority ownership interest in the general partner of the fund. The U.S. Equipment Financing Segment receives origination fees and fees for administering the portfolio, and Waypoint receives fees for managing the investment fund. Chesswood will be entitled to its proportionate share of any amounts earned by the fund's general partner. 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 at December 31, 2021 was US$19.0 million. Based on average debt levels, the effective return provided to the private credit investors for the year ended December 31, 2021 was 12.48% (including amortization of origination costs). See Note 25 - *Related party transactions*.

As at December 31, 2021, the U.S. Equipment Financing Segment had provided US$500,000 in outstanding letters of guarantee through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2020 - US$500,000).

(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) At December 31, 2021, Blue Chip and Vault had access to the following committed lines of funding:

- Blue Chip and Vault Credit: (i) $200 million annual limit from a life insurance company; (ii) $150 million rolling limit from a financial institution; and (iii) approved funding from another financial institution with no annual or rolling limit.

As at December 31, 2021, Blue Chip and Vault Credit had $57.6 million and $302.1 million, respectively (December 31, 2020 - $103.4 million and n/a, respectively) in securitization and bulk lease financing facilities debt outstanding. Blue Chip and Vault Credit together had access to at least $247.5 million of additional financing from its securitization partner (December 31, 2020 - $124.9 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 year ended December 31, 2021 was 3.37% and 2.61% for Blue Chip and Vault Credit, respectively (December 31, 2020 - 3.58% and n/a, 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 at December 31, 2021 was $2.2 million. VCOF earns a yield equivalent to the interest on the underlying loans.

As at December 31, 2021, Blue Chip had provided $3.8 million in outstanding letters of guarantee through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2020 - $5.6 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. As at December 31, 2021 and December 31, 2020, and throughout the periods presented, the Canadian Equipment Financing segment was compliant with all covenants, with certain covenants in 2020 being waived or amended to accommodate COVID-19 circumstances.

(d) Restricted funds

($ thousands)	**December 31, 2021**	December 31, 2020
Restricted - cash in collection accounts	**$ 47,201**	$ 15,516
Restricted - cash reserves	**19,868**	20,198
Restricted funds	**$ 67,069**	$ 35,714

14. CUSTOMER SECURITY DEPOSITS

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

($ thousands)	**December 31, 2021**	December 31, 2020
Security deposits that will be utilized within one year	**$ 1,873**	$ 2,950
Security deposits that will be utilized in future years	**2,489**	4,260
	$ 4,362	$ 7,210

15. INTEREST RATE DERIVATIVES

Interest rate derivatives, which comprise interest rate swaps and caps, are not considered trading instruments as the Company intends to hold them until maturity. The instruments do not qualify as hedges for accounting purposes, and are therefore recorded as separate derivative financial instruments. Accordingly, the estimated fair values are recorded on the accompanying consolidated statement of financial position. The fair values are based on the estimated net present value of cash flows and represent the consideration the Company would receive (pay) if a derivative was terminated on the reporting date.

Payments made and received pursuant to the terms of the instruments are recorded as an adjustment to interest expense. Fair value adjustments are recorded separately on the statement of income.

(a) Derivative swaps

The Company enters into interest rate swap agreements that provide for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. The interest rate swaps are intended to offset a portion of the variable interest rate risk on Chesswood's revolving credit facility (see Note 13(a) - *Borrowings*). There were no derivative swaps outstanding as at December 31, 2021. At December 31, 2020, the fair value of the swap was $0.3 million.

The following swap agreement matured during the year ended December 31, 2021:

Effective Date	**Notional Amount US$**	**Annual Fixed Rate**	**Maturity Date**
August 15, 2016	$20 million	2.120%	August 13, 2021

(b) Derivative caps

During the third quarter of 2019, the U.S. Equipment Financing Segment entered into a US$40.0 million interest rate cap agreement that provided for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. The interest rate cap agreement was expected to mature on July 25, 2022; however, Pawnee elected for early termination on May 17, 2021. At December 31, 2020, the fair value of the swap was insignificant.

16. TAXES

(a) The table below shows the reconciliation between tax expense reported in the consolidated statements of income and the tax expense that would have resulted from applying the combined Canadian Federal and Ontario tax rate of 26.5% (2020 - 26.5%) to income before income taxes.

($ thousands)	For the year ended December 31, 2021	For the year ended December 31, 2020
Income (loss) before taxes	**$ 42,071**	$ (8,118)
Canadian tax rate	**26.5 %**	26.5 %
Theoretical tax expense (recovery)	**11,149**	(2,151)
Tax cost of non-deductible items	**(30)**	4,635
Tax benefit on U.S. loss carry-back rate change	**—**	(3,560)
Unrecognized tax losses, net	**21**	697
Withholding tax on inter-company dividends	**—**	221
Higher effective tax rates in foreign jurisdictions	**37**	524
Other	**(275)**	41
Tax expense	**$ 10,902**	$ 407

(b) The net deferred tax balances within the consolidated statements of financial position were comprised of the following:

($ thousands)		December 31, 2021	December 31, 2020
Deferred tax assets	*(c)*	**$ 5,307**	—
Deferred tax liabilities	*(c)*	**(27,083)**	(20,400)
Net deferred tax liabilities		**$ (21,776)**	$ (20,400)

Reconciliation of net deferred tax liabilities:

($ thousands)	For the year ended December 31, 2021	For the year ended December 31, 2020
Balance, beginning of year	**$ (20,400)**	$ (23,087)
Deferred recovery in the statements of income	**2,947**	2,316
Business combinations	**(4,369)**	—
Foreign exchange translation	**46**	371
Net change in net deferred tax liabilities during the year	**(1,376)**	2,687
Balance, end of year	**$ (21,776)**	$ (20,400)

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

($ thousands)	**December 31, 2021**	December 31, 2020
Deferred tax assets:		
Leased assets	**$ 129,336**	$ 57,654
Allowance for credit losses	**4,324**	5,149
Tax losses carried forward	**1,826**	141
Financing costs and accrued liabilities	**721**	188
	136,207	63,132
Deferred tax liabilities:		
Finance receivables	**152,669**	82,549
Difference in goodwill and intangible asset base	**5,314**	983
	157,983	83,532
Deferred tax liabilities, net	**$ 21,776**	$ 20,400

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

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

At December 31, 2021, Case Funding had US$2.3 million (2020 - US$2.2 million) in tax losses carried forward and taxable timing differences that have not been recognized. At December 31, 2021, Chesswood had $0.3 million (2020 - $0.3 million) in deferred tax assets related to an allowable capital tax losses carried forward that has not been recognized.

The Company has not recognized deferred tax liabilities in respect of unremitted earnings in foreign subsidiaries, totaling $41.3 million (2020 - $29.3 million), as it is not considered probable that this temporary difference will reverse in the foreseeable future.

17. 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		$ 31,764	$ —	$ —	$ —	$ —	$ —	**$ 31,764**
Premises leases payments	*(i)*	364	705	699	669	357	316	**3,110**
Borrowings	*(ii)*	477,518	572,741	220,825	133,553	13,685	600	**1,418,922**
Customer security deposits	*(iii)*	1,979	1,825	374	156	201	—	**4,535**
		511,625	575,271	221,898	134,378	14,243	916	**1,458,331**
Service contracts		1,580	212	46	47	23	—	**1,908**
Total commitments		$513,205	$575,483	$221,944	$134,425	$ 14,266	$ 916	**$ 1,460,239**

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 13 - *Borrowings*, and include fixed payments for the U.S. Equipment Financing Segment, Blue Chip, and Vault Credit's securitization facilities 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, and Vault Credit's credit facilities and estimated interest payments on the Chesswood corporate credit facility, assuming the interest rate, debt balance and foreign exchange rate at December 31, 2021 remain the same until the expiry date of December 2022. The amount owing under Chesswood's revolving corporate revolving credit facility is shown in year of maturity, all other expected payments for borrowings are based on the underlying finance receivables supporting the borrowings. Since the current credit facility expires within the next 12 months, the Chesswood revolving credit facility is a current liability. On January 14, 2022, the revolving credit facility was re-negotiated. Refer to Note 30 - *Subsequent Events*.

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 7(b) - *Finance Receivables* for the expected collections of finance receivables over the same time period. See Note 13(d) - *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 statements of financial position, other than US$3.5 million in letters of guarantee. For contingent liabilities and other commitments, refer to Note 18 - *Contingent Liabilities and Other Financial Commitments*.

18. CONTINGENT LIABILITIES

The Company is subject to various claims and legal actions in the normal course of its business, from various customers, suppliers and others. The individual value of each claim and the total value of all claims as at December 31, 2021 and 2020 were not material or possible outflows are considered remote.

19. 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 13 - *Borrowings* for further details on the Company's revolving credit facility. On January 14, 2022, the revolving credit facility was re-negotiated. Refer to Note 30 - *Subsequent Events*.

20. COMMON SHARES

At December 31, 2021, there were 16,574,864 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities) (2020 - 16,255,071) with a book value of $109.7 million (2020 - $104.2 million).

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

(a) Normal course issuer bids

In November 2020, the Company's Board of Directors approved the repurchase for cancellation of up to 932,296 of the Company's outstanding common shares for the period commencing December 2, 2020 and ending on December 1, 2021. From December 2, 2020 to December 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. Decisions regarding the timing of purchases will be based on market conditions and other factors. Refer to Note 30 - *Subsequent Events*.

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.

21. EXCHANGEABLE SECURITIES

As partial consideration for the acquisition of Pawnee in May 2006, 1,274,601 Class B shares and 203,936 Class C shares of U.S. Acquisitionco were issued ("Exchangeable Securities"). The Exchangeable Securities are non-voting shares of U.S. Acquisitionco and are fully exchangeable for Common Shares of the Company, on a one-for-one basis, for no additional consideration, through a series of steps and entitle the holders to receive the same dividends as the Common Shares. Attached to the Exchangeable Securities are Special Voting Units of the Company which provide the holders of the Exchangeable Securities voting equivalency to Company Shareholders. The Exchangeable Securities are reflected as non-controlling interest. Under IFRS 10, Consolidated Financial Statements, 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 even though they have no voting powers in the subsidiary. There are no restrictions to the Company's ability to access or use assets and settle liabilities of U.S. Acquisitionco as a result of the non-controlling interest. The non-controlling interest share of the Company's consolidated net assets and net income is presented on the consolidated financial statements. These non-voting shares represent 99.3% (2020 - 99.3%) of the outstanding shares of US Acquisitionco. Dividends paid to Exchangeable Securities holders during the year were $0.5 million (2020 - $0.4 million).

22. COMPENSATION PLANS

Contributed surplus includes the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised at December 31, 2021. There were 2,041,439 options and 479,000 restricted share units outstanding at December 31, 2021 (December 31, 2020 - 2,708,939 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 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 year ended December 31,	
	2021	2020
Balance, beginning of year	**2,708,939**	2,553,939
Granted	**—**	175,000
Exercised	**(667,500)**	—
Forfeited	**—**	(20,000)
Balance, end of year	**2,041,439**	2,708,939

During the year ended December 31, 2021, personnel expenses and contributed surplus included $0.2 million (December 31, 2020 - $0.2 million) relating to option expense. As at December 31, 2021, unrecognized non-cash compensation expense related to the outstanding options was $0.2 million (December 31, 2020 - $0.4 million), which is expected to be recognized over the remaining vesting period.

During the year ended December 31, 2021, 667,500 options were exercised (December 31, 2020 - nil) for total cash consideration of $5.2 million (December 31, 2020 - nil). On exercise, the accumulated amount in contributed surplus related to these exercised options was transferred to Common Share capital (Common Share capital was also increased by the cash consideration received upon exercise). For the options exercised during the year ended December 31, 2021, the weighted average share price at the date of exercise was $11.76 (2020 - n/a) and the weighted average exercise price was $7.85 (2020 - n/a).

At December 31, 2021, the weighted average exercise price is $11.04 (December 31, 2020 - $10.25) and the weighted average remaining contractual life for all options outstanding is 4.0 years (December 31, 2020 - 4.2 years). The 1,864,064 options exercisable at December 31, 2021 have a weighted average exercise price of $11.30 (December 31, 2020 - 2,297,689 options at $10.47).

An analysis of the options outstanding at December 31, 2021 is as follows:

Range of exercise prices	Weighted average remaining life (in years)	Vested #	Total #
$ 7.45	0.48	118,989	118,989
$ 8.01 - $ 8.95	7.44	196,125	373,500
$10.17 - $10.96	4.19	618,950	618,950
$12.15 - $12.53	3.21	665,000	665,000
$14.12	2.00	265,000	265,000
	3.96	1,864,064	2,041,439

The value of the options granted during 2020 was determined using the Black-Scholes Option Pricing model with the following assumptions:

	2020	2020
Number of options granted	100,000	75,000
Weighted average share price at date	$8.01	$8.11
Expected volatility	62%	62%
Expected life (years)	2	2
Expected dividend yield	2.68%	2.68%
Risk-free interest rates	0.28%	0.28%
Weighted average fair value of options granted	$2.27	$2.30

(b) Restricted share units

Restricted share units ("RSUs") are to be settled by the issue of Common Shares and expire in ten 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 year ended December 31,	
	2021	2020
Balance, beginning of year	**57,000**	44,000
Granted	**429,000**	106,000
Exercised	**(7,000)**	(93,000)
Balance, end of year	**479,000**	57,000

During the year ended December 31, 2021, personnel expenses and contributed surplus included $3.3 million (December 31, 2020 - $0.7 million) relating to RSUs.

As at December 31, 2021, unrecognized non-cash compensation expense related to non-vested RSUs was $2.9 million (December 31, 2020 - $0.3 million). The weighted average remaining contractual life for all RSUs outstanding is 9.6 years (December 31, 2020 - 9.4 years).

During the year ended December 31, 2021, 7,000 RSUs were exercised (December 31, 2020 - 93,000). On exercise, the accumulated balance in contributed surplus related to the RSUs of $0.1 million (December 31, 2020 - $0.8 million) was transferred to common share capital. For the RSUs exercised during the year ended December 31, 2021, the weighted average share price at the date of exercise was $11.58 (December 31, 2020 - $6.40).

An analysis of the RSUs outstanding at December 31, 2021, 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	300,000	150,000	November 5, 2031	$ 14.27
	479,000	210,000		

23. DIVIDENDS

Under the Chesswood revolving credit facility (see Note 13(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 year ended December 31, 2021:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount *($ thousands)*
December 31, 2020	January 15, 2021	$ 0.020	$ 355
January 29, 2021	February 16, 2021	$ 0.020	353
February 26, 2021	March 15, 2021	$ 0.020	347
March 31, 2021	April 15, 2021	$ 0.020	350
April 30, 2021	May 17, 2021	$ 0.020	358
May 31, 2021	June 15, 2021	$ 0.030	545
June 30, 2021	July 15, 2021	$ 0.030	546
July 30, 2021	August 16, 2021	$ 0.030	546
August 31, 2021	September 15, 2021	$ 0.030	545
September 30, 2021	October 15, 2021	$ 0.030	543
October 29, 2021	November 15, 2021	$ 0.030	541
November 30, 2021	December 15, 2021	$ 0.030	542
		$ 0.310	$ 5,571

Dividends of $0.8 million were also paid to the non-controlling interest of CHW/Vault Holdco Corp. ("Canadian Holdco"). The dividend was recognized through net income and loss on the 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 December 31, 2021, dividends payable of $0.4 million has been accrued on the special warrants.

The following dividend was declared but not paid to Common Shareholders and Exchangeable Securities holders during the year-ended December 31, 2021 and was included in accounts payable and other liabilities (Note 12 - *Accounts payable and other liabilities*):

Record date	Payment date	Cash dividend per share ($)	Total dividend amount *($ thousands)*
December 31, 2021	January 17, 2022	$ 0.030	$ 542

The following dividends were declared before the financial statements were authorized for issue but not recognized during the year ended December 31, 2021:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount *($ thousands)*
January 31, 2022	February 15, 2022	$ 0.030	$ 550
February 28, 2022	March 15, 2022	$ 0.030	518
		$ 0.060	$ 1,068

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the year ended December 31, 2020:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount *($ thousands)*
December 31, 2019	January 15, 2020	$ 0.070	$ 1,241
January 31, 2020	February 18, 2020	$ 0.070	1,241
February 28, 2020	March 16, 2020	$ 0.070	1,241
March 31, 2020	April 15, 2020	$ 0.070	1,241
April 30, 2020	May 15, 2020	$ 0.035	620
November 30, 2020	December 15, 2020	$ 0.020	355
		$ 0.335	$ 5,939

The following dividend was declared but not paid to Common Shareholders and Exchangeable Securities holders during the year-ended December 31, 2020 and was included in accounts payable and other liabilities (Note 12 - *Accounts payable and other liabilities*):

Record date	Payment date	Cash dividend per share ($)	Total dividend amount *($ thousands)*
December 31, 2020	January 15, 2021	$ 0.020	$ 355

The following dividends were declared before the financial statements were authorized for issue but not recognized during the year ended December 31, 2020:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount *($ thousands)*
January 29, 2021	February 16, 2021	$ 0.020	353
February 26, 2021	March 15, 2021	$ 0.020	322
		$ 0.040	$ 675

24. EARNINGS PER SHARE

	For the year ended **December 31,**	
	2021	2020
Weighted average number of common shares outstanding	**16,473,934**	16,269,894
Dilutive effect of options	**428,963**	6,651
Dilutive effect of restricted share units	**178,340**	26,883
Dilutive effect of special warrants	**984,475**	—
Weighted average common shares outstanding for diluted earnings per share	**18,065,712**	16,303,428
Options and RSUs excluded from calculation of diluted shares for the period due to their anti-dilutive effect	**930,000**	2,538,939

25. 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:

	For the year ended **December 31,**	
($ thousands)	**2021**	2020
Salaries, fees and other employee benefits	**$ 3,197**	$ 1,341
Restructuring costs	**—**	2,674
Share-based compensation	**1,028**	713
Compensation expense of key management	**$ 4,225**	$ 4,728

(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 and lease payments paid during the period ended December 31, 2021 were $0.1 million.
- Wittlin has significant influence over certain brokers within Vault Credit's origination network. The leases obtained from related party brokers comprise 37% of total finance receivables of the Canadian Equipment Financing Segment as at December 31, 2021. The total related party broker commissions capitalized during the year ended December 31, 2021 was $6.1 million. These transactions were conducted at fair market value terms.
- Canadian Equipment Financing Segment also provides leases to entities over which Wittlin has significant influence. The total capital cost of the leases is $0.6 million with a net book value of $0.2 million as at December 31, 2021. 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 since the dates of acquisition is $2.0 million. These transactions were conducted at fair market value terms.
- Wittlin and Trager are indirectly general partners, through controlled entities, of the VCOF, a limited partnership, which Vault Credit had entered into arrangements with on December 14, 2021. Total servicing fee revenue and interest expense for the period ended December 31, 2021 is insignificant. See Note 13 - Borrowings.

(e) Ryan Marr, CEO of Chesswood, is the chief investment officer and a minority shareholder of Waypoint, which has established an investment fund through which a subsidiary of Pawnee established a credit facility with on April 29, 2021. The total interest expense for the period ended December 31, 2021 was $1.3 million. See Note 13 - *Borrowings*.

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

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

26. SUBSIDIARIES

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

Entity's name	Principal place of business	Ownership as at December 31, 2021
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.	Delaware	100%
Lease-Win Limited	Ontario	100%
Case Funding Inc.	Delaware	100%
Chesswood U.S. Acquisition Co Ltd.	Delaware	100%[2]
Pawnee Leasing Corporation[1]	Colorado	100%
Tandem Finance Inc.	Colorado	100%
Windset Capital Corporation	Delaware	100%

[1] Pawnee holds, through consolidated, wholly-owned SPEs, a portfolio of leases and loans which are financed through arm's length financial institutions. See Note 7 - *Finance Receivables* and Note 13(b) - *Borrowings*.
[2] 100% ownership of voting shares. See Note 21 - *Exchangeable Securities.*

27. CASH FLOW SUPPLEMENTARY DISCLOSURE

($ thousands)	Note	For the year ended December 31, 2021	2020
Non-cash transactions			
Common shares issued for business combination		**$ 1,667**	$ —
Common shares issued on exercise of RSUs		**71**	824
		$ 1,738	**$ 824**
Interest paid		**$ 26,804**	$ 21,606

($ thousands)	*Note*	For the year ended December 31, **2021**	2020
Other non-cash items included in net income			
Share-based compensation expense	22	**$ 3,544**	$ 920
Amortization of deferred financing costs and debt restructuring	13	**3,659**	6,883
Unrealized gain on investments	4	**—**	(483)
Non-cash interest expense - premise leases payable and option liability interest	8	**(639)**	140
Net realized and unrealized (gain) loss on interest rate derivative	4	**(344)**	118
Unrealized (gain) loss on foreign exchange		**(666)**	6
		$ 5,554	$ 7,584
Change in other net operating assets			
Restricted funds		**$ (29,601)**	$ (15,132)
Other assets		**(1,593)**	5,197
Accounts payable and other liabilities		**10,061**	(684)
Customer security deposits		**(2,785)**	(4,906)
		$ (23,918)	$ (15,525)

($ thousands)	*Note*	For the year ended December 31, **2021**	2020
Borrowings			
Draw-downs or proceeds from borrowings	13	**$ 1,938,250**	$ 609,073
Payments - borrowings	13	**(1,427,378)**	(678,220)
		$ 510,872	$ (69,147)

28. 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: Equipment Financing - U.S. and Equipment Financing - Canada.

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 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. Vault Home is not a reportable segment and has been combined with the Canadian Financing Segment because each have similar economic characteristics.

Segment information is prepared in conformity with the accounting policies adopted for the Company's consolidated financial statements. 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 acquisitions of Vault Credit and Vault Home and their inclusion in the Canadian Financing Segment. Selected information by segment and geographically is as follows:

($ thousands)	Year ended December 31, 2021			
	Equipment Financing - U.S.	Equipment Financing - Canada	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	$ 94,220	$ 25,892	$ —	$ 120,112
Ancillary finance and other fee income	11,053	6,918	—	17,971
Interest expense	(24,397)	(8,019)	745	(31,671)
Provision for credit losses	2,240	(2,428)	—	(188)
Finance margin	**83,116**	**22,363**	**745**	**106,224**
Personnel expenses	19,912	9,619	2,738	32,269
Share-based compensation expense	2,378	—	1,166	3,544
Other expenses	17,047	6,187	3,216	26,450
Depreciation	846	255	10	1,111
Amortization - intangible assets	—	1,789	—	1,789
Operating income	**42,933**	**4,513**	**(6,385)**	**41,061**
Gain on investments	—	—	—	—
Gain on interest rate derivative	—	—	344	344
Unrealized gain on foreign exchange	—	198	468	666
Income (loss) before taxes	**42,933**	**4,711**	**(5,573)**	**42,071**
Tax expense (recovery)	11,076	907	(1,081)	10,902
Net income (loss)	**$ 31,857**	**$ 3,804**	**$ (4,492)**	**$ 31,169**
Net cash used in operating activities	$ (390,922)	$ (103,876)	$ (4,426)	$ (499,224)
Net cash from (used in) investing activities	$ (717)	$ 2,510	$ —	$ 1,793
Net cash from financing activities	$ 390,815	$ 103,398	$ 5,813	$ 500,026
Total assets	$ 1,118,416	$ 486,991	$ (460)	$ 1,604,947
Total liabilities	$ 835,571	$ 377,556	$ 203,838	$ 1,416,965
Finance receivables	$ 1,025,567	$ 414,160	$ —	$ 1,439,727
Goodwill and intangible assets	$ 20,481	$ 49,600	$ —	$ 70,081
Property and equipment expenditures	$ (717)	$ (286)	$ —	$ (1,003)

($ thousands)	Year ended December 31, 2020 Equipment Financing - U.S.	Equipment Financing - Canada	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	$ 91,481	$ 11,415	$ —	$ 102,896
Ancillary finance and other fee income	10,338	3,794	28	14,160
Interest expense	(24,303)	(4,218)	—	(28,521)
Provision for credit losses	(21,890)	(3,754)	—	(25,644)
Finance margin	**55,626**	**7,237**	**28**	**62,891**
Personnel expenses	15,011	2,705	1,487	19,203
Share-based compensation expense	120	14	786	920
Other expenses	15,524	1,551	1,543	18,618
Depreciation	1,035	140	41	1,216
Amortization - intangible assets	—	1,333	—	1,333
Operating income	**23,936**	**1,494**	**(3,829)**	**21,601**
Restructuring costs	(2,491)	—	(6,759)	(9,250)
Goodwill impairment		(20,828)		(20,828)
Fair value adjustments - investments	—	—	483	483
Loss on interest rate derivative	(61)	—	(57)	(118)
Unrealized loss on foreign exchange	—	—	(6)	(6)
Income before taxes	**21,384**	**(19,334)**	**(10,168)**	**(8,118)**
Tax expense (recovery)	2,105	(864)	(834)	407
Net income (loss)	**$ 19,279**	**$ (18,470)**	**$ (9,334)**	**$ (8,525)**
Net cash from (used in) operating activities	$ 47,914	$ 37,148	$ (5,182)	$ 79,880
Net cash used in investing activities	$ (880)	$ —	$ —	$ (880)
Net cash from (used in) financing activities	$ 68,121	$ (36,174)	$ (112,174)	$ (80,227)
Total assets	$ 678,837	$ 146,237	$ 2,362	$ 827,436
Total liabilities	$ 490,274	$ 109,573	$ 86,773	$ 686,620
Finance receivables	$ 612,487	$ 128,391	$ —	$ 740,878
Goodwill and intangible assets	$ 20,569	$ 14,270	$ —	$ 34,839
Property and equipment expenditures	$ 880	$ —	$ —	$ 880

29. BUSINESS COMBINATIONS

(a) 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-size 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 4 - *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 are 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 28 – *Segment information*.

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

The consideration for the merger included:

($ thousands)			**April 30, 2021**
Shares of the Company	a	**$**	**1,667**
Special warrants	b		**16,409**
Option liability	c		**12,305**
		$	**30,381**

(a) A total of 133,333 common shares of the Company were issued on April 30, 2021;

(b) 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 Model; and
(c) 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.

During the fourth quarter of 2021, the Company finalized the estimated fair values of the assets and liabilities as at the date of merger which resulted in a $7.0 million adjustment to the option liability and a respective increase in goodwill.

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

($ thousands)		**April 30, 2021**
Cash	$	2,758
Restricted cash		1,601
Other assets		2,950
Finance receivables		183,032
Right-to-use assets		919
Property and equipment		76
Broker relationships		15,737
Trade name		2,100
Goodwill		17,853

Accounts payable and other liabilities		2,582
Premises leases payable		922
Borrowings		188,629
Deferred tax liabilities		4,512
Net assets acquired	$	30,381

The gross contractual amount of finance receivables 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 the finance receivables 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 May 1 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 year end the first tranche of 133,333 special warrants which vested on December 31, 2021 were automatically exercised on January 5, 2022. On exercise, the accumulated balance in contributed surplus related to the special warrants of $1.6 million was transferred to common share capital. For the first tranche of special warrants exercised on January 5, 2022, the share price on the date of exercise was $14.25.

(b) 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 28 – *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.

30. SUBSEQUENT EVENTS

Share Repurchases - Subsequent to year end (up to and including March 8, 2022), the Company repurchased 103,492 of its shares under the normal course issuer bid at an average cost of $14.13.

Rifco Inc. Acquisition - On January 14, 2022, Chesswood completed its acquisition of Rifco Inc. ("Rifco") where the Company acquired 100% of Rifco's outstanding shares. Rifco is a leading Canadian alternative auto finance company and enables the Company to expand into new markets. Total consideration was $28.0 million. Rifco 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 shares being issued.

The transaction costs related to the acquisition expensed during year ended December 31, 2021 were $0.3 million.

Chesswood Credit Facility - On January 14, 2022, Chesswood renegotiated the credit facility to allow borrowings of up to US$300 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 revolver to US$400 million, is secured by substantially all of the Company’s 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.

Chesswood Group Limited

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Clare Copeland, O.Ont.
Director, Chairman, Compensation 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.

Rags Davloor
Director, Chairman, Audit and Risk Committee

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

Frederick W. Steiner
Director

Daniel Wittlin
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Ryan Marr
President & C.E.O.

Tobias Rajchel
Chief Financial Officer

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