CHESSWOOD GROUP LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

DECEMBER 31, 2021

Through three wholly owned subsidiaries in the United States and five subsidiaries in Canada, two of which is wholly owned, Chesswood Group Limited is a North American specialty finance company publicly traded on the Toronto Stock Exchange. Colorado-based Pawnee Leasing Corporation, founded in 1982, finances a highly diversified portfolio of commercial equipment leases and loans through relationships with over 600 brokers in the United States. Tandem Finance Inc. provides financing in the U.S. through the equipment vendor channel. In Canada, Blue Chip Leasing Corporation has been originating and servicing commercial equipment leases and loans since 1996, and today operates through a nationwide network of more than 50 brokers. Vault Credit Corporation specializes in equipment leases and commercial loans across Canada, allowing for customizable financing solutions while catering to a wide spectrum of credit tiers, equipment types and sectors by offering industry-leading service levels, experienced underwriters, and account administrators. Vault Home was acquired in September 2021 and focuses on providing home improvement and other consumer financing solutions in Canada. Rifco Inc. is focused on being the best alternative auto finance company, with the mission to help Canadians own automobiles. Rifco seeks to create sustainable long term competitive advantages through personalized partnerships with dealers, innovative products, the use of industry-leading data and analytics, and leading collections practices. Chesswood Capital Management will provide private credit alternatives to investors seeking exposure to loan receivables, including those originated by Chesswood subsidiaries.

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

CONTENTS

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

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

TO OUR SHAREHOLDERS

2021 Year in Review

Chesswood Group achieved record financial results across all key metrics in 2021. Originations in our U.S businesses were US$554 million, nearly double the previous peak. Our Canadian businesses, on the strength of our merger of Blue Chip Leasing with Vault Credit Corporation, had record originations of CAD$239 million. Excellent portfolio performance along with strong incremental operating margins generated diluted earnings per share of $1.59 and diluted free cash flow per share of $1.72.

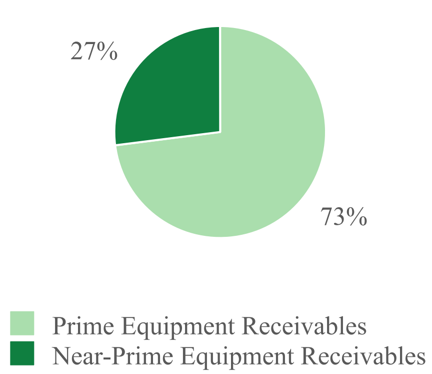
The return on average equity for the full year was 19.0% as a result of improved operating margins by credit program, asset growth and an efficient use of balance sheet leverage. The profitability of prime versus near-prime receivables is driven by different factors, ultimately affecting returns on equity. The prime business focuses on origination cost efficiency and the use of balance sheet leverage while profitability on near-prime receivables is predominantly driven by credit spread. Chesswood's overall return on equity has benefited from the achievement of scale in our prime business in 2021, which has resulted in a higher quality funding mix as well as the improved fixed cost absorption required to first enter this channel.

Financial Highlights	2017	2018	2019	2020	2021
(C$000)					
Average Equity	$159,558	$162,358	$160,089	$148,750	$164,399
Revenue	$95,324	$110,586	$126,975	$117,056	$138,083
Net income (loss)	$25,431	$22,885	$12,691	$(8,525)	$31,169
Free Cash Flow ("FCF")[1]	$29,617	$25,403	$22,361	$19,606	$33,573
Return on Average Shareholders' Equity	15.9%	14.1%	7.9%	(5.7)%	19.0%
FCF Return on Average Shareholders' Equity	18.6%	15.6%	14.0%	13.2%	20.4%

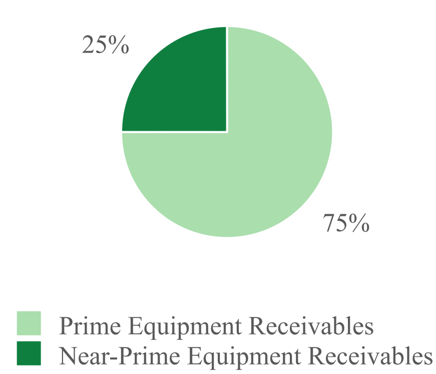
[1] Free Cash Flow is a non-GAAP measure which is based on the significant banking and lending agreements for the purposes of calculating permitted dividends and cash required for purchases of shares under the Company's normal course issuer bid. For further information, reference should be made to Non-GAAP Measures in this MD&A.

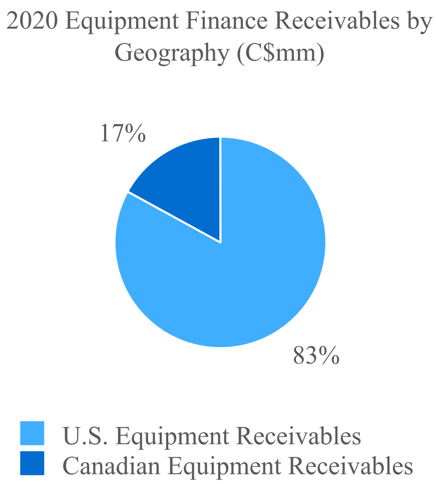
Chesswood's net investment portfolio of leases and loans grew 94% to CAD$1.4 billion in 2021. The composition of this portfolio is approximately 2/3rd US and 1/3rd Canadian with average yields of 11.8% and 10.2% respectively. The portfolio credit weighting continues towards prime, ending the year with 75% of the portfolio in prime receivables and 25% in near-prime. Lease and loan charge-offs were exceptionally low at only 1.1% on a gross basis due to a greater mix of prime receivables, increasing exposure to the vendor channel and an accommodative monetary policy backdrop.

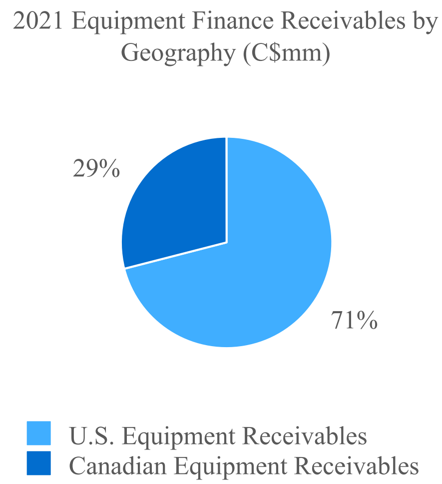
2020 Equipment Finance Receivables by Segment (C$mm)



2021 Equipment Finance Receivables by Segment (C$mm)







Operating expenses increased 60% year over year due to increasing staff counts required to process higher origination volumes. At the end of the year, Chesswood's operating divisions employed 299 people versus 144 in 2020. Similarly, the number of individual leases and loans increased 60% to 45,000 contracts.

The underwriting and funding process for small ticket commercial credit is complex and therefore certain underwriting costs scale with origination volumes. Most of the costs associated with a lease or loan are recognized upfront versus the interest revenue which is recognized over time. These costs include underwriting, funding, and loss provisioning. We grew our team throughout the year in anticipation that existing levels of origination would continue into 2022.

In addition to strong operating results, Chesswood made meaningful progress towards its key strategic initiatives. Last year, we outlined key areas of focus to evolve Chesswood into a specialty finance company with a diverse source of funding, diverse asset base and a technology-centric operating system. We target these three areas as we believe they will ultimately drive the most value for Chesswood shareholders. Our platform approach to niche lending verticals provides us with the scale to be more efficient and therefore competitive in the marketplace.

Funding Updates & Strategy

Our U.S. team completed a US$356 million Asset Backed Securitization ("ABS") financing towards the end of last year that was broadly marketed and oversubscribed by fixed income investors. Our ABS program provides us with a competitive cost of funds for our prime programs and allows us to offer customers lower financing rates. This was the largest ABS issue in the company's history and solidifies our presence as an issuer in this funding channel.

After year-end, we announced the renewal of our revolving credit facility that was upsized and repriced with a new syndicate of lenders. This facility is used to fund the originations of our operating entities prior to selling the assets into securitization conduits, warehouse facilities, or the ABS markets. This renewal reduced our cost of funds by 75bps and increased our revolving base borrowing capacity to US$300 million (from US$250 million) and also provides for a US$100 million accordion feature (US$50 million previously).

Lastly, we incorporated Chesswood Capital Management, the asset management arm of Chesswood Group Limited. In 2021, we began a search process to identify off-balance sheet funding partners to finance the growth in originations from Chesswood's subsidiaries. Instead of spread income, Chesswood Capital Management will receive recurring asset management fees on capital invested by these funding partners. We are particularly excited by this initiative as it is expected to be accretive to our return on equity and leverages the growing origination pipeline of our operating subsidiaries.

Asset Diversification & Acquisitions

Chesswood successfully entered two new asset verticals in 2021 and early 2022 – Vault Home and Rifco Automotive Finance. Both of these opportunities leverage the existing treasury management function at Chesswood and benefit from strong established management teams with significant tenure and industry experience.

As a result of these acquisitions, Chesswood now provides financing in the areas of commercial equipment finance, automotive finance, and home improvement finance. Although the industry verticals are different, they share common attributes. All are small ticket, geographically diversified, regulated credit markets that can be securitized with our existing funding partners. Substantial data and regulation exist in each of these categories for the purposes of maximizing portfolio returns, evaluating portfolio risk and loss mitigation.

The added diversification from these verticals reduces the overall volatility of Chesswood's business model, introduces new categories to drive revenue and earnings growth and strengthens our existing origination and treasury management expertise.

Technology Driving Efficiency

We are investing in the deployment of advanced automation technologies to drive operating leverage as we continue to scale our businesses. Repeated manual processes such as contract validation, ID validation, booking, data validation, credit triage, funding, and post-funding activities drive unnecessary overhead costs. The deployment of advanced Artificial Intelligence, and Machine Learning platforms against key operational processes will reduce unnecessary headcount and costs as the businesses continue to grow. These systems verify the accuracy of data extracted from our loan and lease documents at scale, and in real-time, within key operational processes. This provides Chesswood with a competitive advantage to meet rigorous compliance and data verification standards. We expect these investments will save significant labour hours, reduce operating costs, and improve process quality as we move forward.

We are so fortunate to have the teams that drove our successes in 2021 and to date in 2022, and are excited to continue our initiatives.

Sincerely,

Ryan Marr,
President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (this "MD&A") is provided to enable readers to assess the financial condition and results of operations of Chesswood Group Limited ("Chesswood" or the "Company") as at and for the three months and year ended December 31, 2021. This discussion should be read in conjunction with the 2021 audited consolidated financial statements and accompanying notes of the Company. Unless otherwise indicated, all financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), and all amounts are expressed in Canadian dollars, unless specifically noted otherwise. This MD&A is dated March 9, 2022.

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

MD&A Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

The Company cautions readers against placing undue reliance on forward-looking statements when making decisions, as actual results could differ considerably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various factors. Among others, these factors include: continuing access to required financing; continuing access to products that allow the Company and its subsidiaries to hedge exposure to changes in interest rates; risks of increasing default rates on leases, loans and advances; the adequacy of the Company's provisions for credit losses; increasing competition (including, without limitation, more aggressive risk pricing by competitors and financing options provided by manufacturers); increased governmental regulation of the rates and methods we use in financing and collecting on our leases or loans; dependence on key personnel; disruption of business models due to the emergence of new technologies; fluctuations in the Canadian dollar and U.S. dollar exchange rate; the successful launch of Vault Home Credit Corporation; factors that impact on the decision to acquire a motor vehicle; and general economic and business conditions (including the continuing effect of the COVID-19 pandemic). The Company further cautions that the foregoing list of factors is not exhaustive.

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

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

NON-GAAP MEASURES

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

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

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

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

"Adjusted Operating Income" is Operating Income (Loss), as presented in the consolidated statements of income, adjusted to exclude amortization of intangible assets and the change in ACL. Adjusted Operating Income is intended to reflect the recurring income from the Company's businesses. Amortization of intangible assets, which includes the expense related to broker relationships and non-compete clauses, is a function of acquisitions. The cost of maintaining the broker relationships after acquisition, being internally generated intangible assets, cannot be measured and is therefore not recognized as an asset, meaning that once these acquisition-related intangibles have been fully amortized they are not replenished, and the amortization expense will cease. The change in the ACL can be calculated from continuity of the ACL in Note 7(c) - *Finance Receivables* in the audited consolidated financial statements as the difference between the provision for credit losses and the net charge-offs during a period. The change in ACL is a non-cash item and reflects our creditor approved formulas for Adjusted EBITDA and

Free Cash Flow that drives our Maximum Permitted Dividends, both relevant measures for users of the Company's financial reporting.

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

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

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

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

COMPANY OVERVIEW

As at December 31, 2021, Chesswood's operations consisted of three wholly-owned subsidiaries in the United States and four subsidiaries in Canada (one of which is wholly-owned):

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

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

- Blue Chip Leasing Corporation ("Blue Chip"), which provides commercial equipment financing to small and medium-sized businesses across Canada;

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

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

- Chesswood Capital Management Inc. ("CCM") and Chesswood Capital Management USA Inc. ("CCM USA") (each of which are wholly-owned by the Company) will provide private credit alternatives to investors seeking exposure to loan receivables, including those originated by Chesswood subsidiaries. Each of these entities was incorporated in December 2021.

On a consolidated basis, at December 31, 2021, the Company had 299 employees (144 employees at December 31, 2020).

As described below (see "Canadian Equipment Financing Segment"), on April 30, 2021, Blue Chip was merged with Vault Credit under CHW/Vault Holdco Corp. ("Canadian Holdco"). On September 14, 2021, Chesswood Holdings Ltd. acquired 51% of Vault Home Credit Corporation ("Vault Home") for a subscription price of $1.0 million and also committed to provide an additional $1.5 million of capital contribution upon request of the Vault Home board of directors, which was advanced in November 2021.

On January 14, 2022, the Company acquired a 100% ownership interest in Rifco Inc. ("Rifco"), which provides financing for motor vehicle purchasers in Canada. Through a plan of arrangement under the Business Corporations Act (Alberta).

U.S. EQUIPMENT FINANCING SEGMENT

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

The Company's largest operations are conducted by Pawnee, which, along with Tandem, accounted for 76% of consolidated revenue in the year ended December 31, 2021. As at December 31, 2021, the U.S. Equipment Financing Segment employed 153 full-time equivalent employees (112 employees at December 31, 2020).

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

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

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

Pawnee's brokers predominantly originate prime (with "A" credit score) equipment finance transactions versus "B", "C", and "Start-up" rated customers. Pawnee's reliability, ease of service, focus on the broker-channel business and offering of competitive products has made Pawnee a top tier funding partner to its brokers relative to its competitors for prime originations. Given the sheer size of the market opportunity, prime originations represent greater than 73% of new originations, and these volumes are expected to continue to grow as Pawnee's prime credit products further penetrate Pawnee's broad broker network.

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

As at December 31, 2021, Tandem's portfolio represented 31% of Chesswood's overall receivables' portfolio in the U.S.

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

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

Key Aspects of Business Model

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

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

These five aspects are discussed in greater detail below.

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

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

2. The U.S. Equipment Financing Segment originates finance receivables through a network of over 600 broker firms across the U.S., with a relationship-driven approach and service capabilities that have distinguished Pawnee as a first-choice funder. In addition, through Tandem Finance, originations are developed by experienced equipment finance professionals directly through manufacturer engaged equipment financing program relationships and endorsed referrals from Tandem's dealer, manufacturer and vendor arrangements.

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

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

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

As at December 31, 2021, the U.S. Equipment Financing Segment's portfolio of 22,396 leases and loans, representing US$956.9 million in gross finance receivables (excluding residual receivable), was diversified, with:

- Over 110 equipment categories, with the five largest - construction, auto repair, restaurant, beauty salons, and medical - accounting for an aggregate of 32.5% of the total number of active leases and loans;
- Over 256 industry segments, with no industry representing more than 8.3% of the number of active financings;
- No lessee/borrower accounting for more than 0.07% of the total finance receivable balance;
- 50 U.S. states, with no state representing more than 10.0% of the number of total active leases and loans (with the exception of California and Texas, which represented 14.3% and 11.9%, respectively);
- The largest broker (excluding Tandem) accounting for 4.8% of gross lease and loan receivables, and the ten largest (excluding Tandem) accounting for an aggregate of 28.7%; and
- Tandem's vendor channel originations accounted for 31% of gross receivables.

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

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

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

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

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

- The U.S. Equipment Financing Segment had 153 full-time equivalent employees at 2021 fiscal year-end, of which approximately 30 were engaged in the collection and servicing processes. Collection and servicing activities are structured to systematically and quickly resolve delinquent leases and loans whenever possible, mitigate losses, and collect post-default recovery dollars.
- Because of the U.S. Equipment Financing Segment's requirement that most lease and loan payments be made by direct debit, it can immediately recognize a delinquent account when a direct debit payment is not received on the required due date.
    - Generally, when a payment falls 31 days past due, or earlier if investigation reveals an underlying issue at the borrower/lessee level, the account is referred to the appropriate negotiation, repossession/remarketing, bankruptcy or legal specialist on the U.S. Equipment Financing Segment's Advanced Collection Team. Through a combination of collecting payments, soliciting broker and vendor remediation assistance, issuing forbearances, repossessing and selling financed equipment, initiating lawsuits and negotiating settlements, the U.S. Equipment Financing Segment typically remediates a high percentage of past due accounts.
    - After 154 days of delinquency, or earlier if the U.S. Equipment Financing Segment deems the account uncollectible, the debt is written off. However, collection efforts continue when prospects for recovery through a personal guarantor, sale of equipment or other remedy warrant. Otherwise, the account is normally assigned to an independent collection agency for further collection efforts, where the primary sources of recovery include payments on restructured accounts, settlements with guarantors, equipment sales, litigation, and bankruptcy court distributions.

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

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

5. A tenured senior management team

The U.S. Equipment Financing Segment's 5-member senior management team has a combined 114 years in the equipment finance industry and the Pawnee leadership team has been together for over 12 years. The U.S. Equipment Financing Segment's President was directly responsible for building out its broker network and credit underwriting in the segment's earlier years and continues to play an important role in both of these areas. Tandem's President, has been in the vendor-channel equipment finance for over 35 years and is highly experienced in equipment finance sales leadership and organization-building.

U.S. Equipment Financing Segment Finance Receivable Portfolio Statistics

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

	Mar 31 2020	June 30 2020	Sep 30 2020	Dec 31 2020	Mar 31 2021	June 30 2021	Sep 30 2021	Dec 31 2021
Number of leases and loans outstanding (#)	19,730	18,184	17,104	17,211	17,870	19,042	20,552	22,396
Gross lease and loan receivables ("GLR") (1)(5)	$658,562	$606,309	$556,456	$574,991	$632,262	$709,461	$809,317	$956,936
Residual receivables	$21,061	$19,303	$17,883	$17,428	$17,268	$17,595	$17,965	$18,323
Net investment in leases and loans receivables ("Net Finance Receivables" or "NFR"), before allowance (6)	$557,064	$518,544	$479,908	$497,982	$547,204	$611,603	$696,041	$822,671
Security deposits ("SD") (nominal value)(4)	$9,123	$8,009	$6,986	$5,965	$5,323	$4,643	$4,124	$3,577
ACL	$32,464	$28,146	$19,259	$16,552	$13,499	$12,125	$12,599	$13,544
ACL as % of NFR net of SD	5.92%	5.51%	4.07%	3.36%	2.49%	2.00%	1.82%	1.65%
Over 31 days delinquency (% of GLR) (2)	2.61%	1.60%	1.91%	1.85%	1.07%	0.87%	0.80%	0.94%
Net charge-offs (recoveries) for the three months ended (3)	$5,800	$6,975	$3,762	$4,150	$3,774	$(726)	$(1,253)	$(704)
Provision for credit losses for the three months ended	$17,069	$2,784	$(5,044)	$1,509	$761	$(2,083)	$(748)	$282

Notes:
(1) Excludes residual receivables
(2) Over 31-days delinquency includes non-accrual GLR.
(3) Excludes the "charge-offs" of interest revenue on finance leases and loans on non-accrual leases recognized under IFRS.
(4) Excludes adjustment for discounting security deposits and increasing unearned income for interest savings on security deposits.
(5) At December 31, 2021, approximately 64% of U.S. GLR (excluding residuals) were in the prime market segment.
(6) Excludes unearned income for interest on security deposits

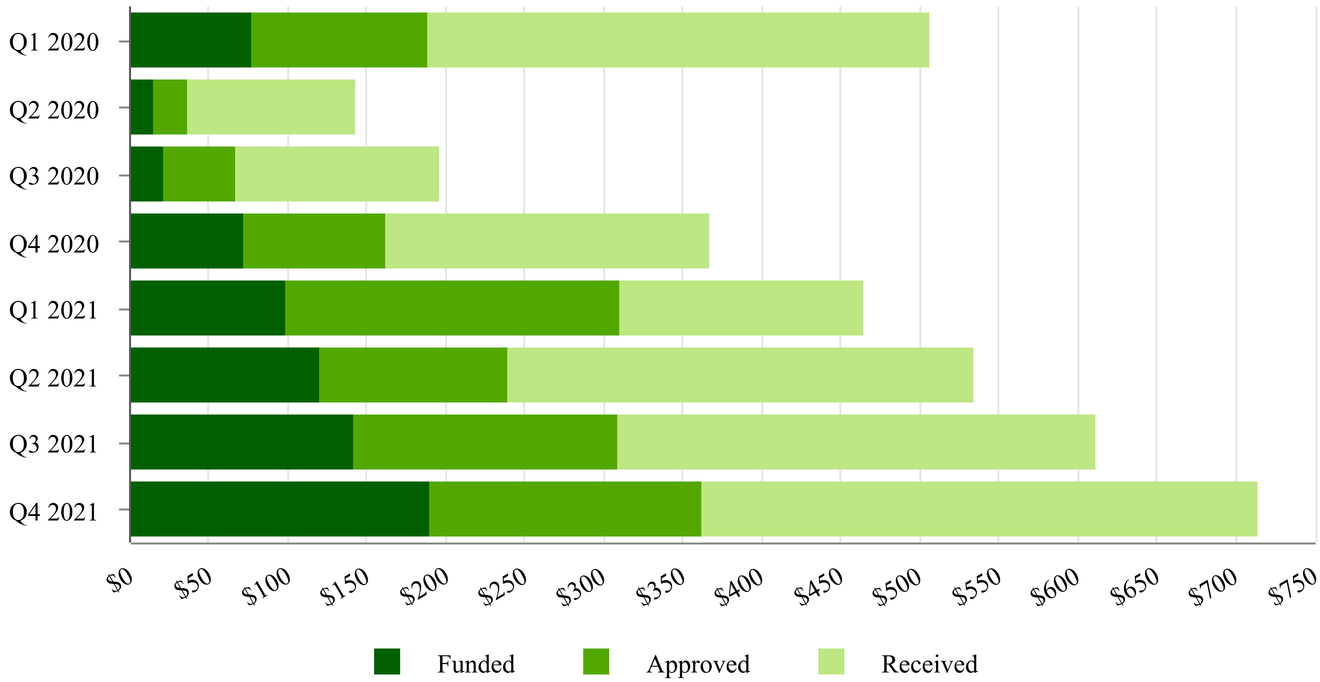
U.S. Equipment Financing Segment Net Finance Receivable Aging Analysis

(US$ thousands)	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days	Total
As at December 31, 2021	$ 810,698	$ 7,790	$ 2,174	$ 542	$ 1,393	$ 822,597
As at December 31, 2020	$ 481,547	$ 9,789	$ 3,072	$ 1,691	$ 1,514	$ 497,613

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

(US$ thousands)	As at December 31, 2021	As at December 31, 2020
0 - 1 year	$ 316,970	$ 218,934
1 - 2 years	257,134	166,674
2 - 3 years	192,836	110,296
3 - 4 years	127,029	60,622
4 - 5 years	58,736	17,813
Over 5 years	4,231	652
Total minimum payments	$ 956,936	$ 574,991

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



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

CANADIAN EQUIPMENT FINANCING SEGMENT

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

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

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

The merger with Vault Credit increased the Company's receivables portfolio in Canada by approximately $194 million (based on gross contractual receivable amounts as at April 30, 2021) and enables the Company's continued expansion of the Canadian equipment financing operations by removing a competitor and benefits through the use of Vault Credit's proprietary technology. Vault Credit is included in the Canadian Equipment Financing Segment.

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

The Canadian Equipment Financing Segment accounted for 24% of consolidated revenue in the year ended December 31, 2021. The Canadian Equipment Financing Segment's portfolio risk is mitigated by its diversification across geographies, industries, equipment types, equipment cost, vendors, brokers and credit classes. The Canadian Equipment Financing Segment had 137 full-time equivalent employees at December 31, 2021 (27 employees at December 31, 2020).

Key Aspects of Business Model

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

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

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

- The Canadian Equipment Financing Segment's value proposition to equipment leasing originators is relationship and service based, with fast and predictable credit decision-making and the convenience of one-stop shopping for commercial equipment financing needs across all credit classes.
- Enhanced by a customized software system, the Canadian Equipment Financing Segment has a digitized application, approval and funding process designed to speed up credit decisions and automate the preparation of secure documents to meet market demand for rapid funding and customer service excellence.
- The Canadian Equipment Financing Segment also has the expertise in financial analysis and detailed documentation to meet the underwriting requirements of both small and mid-ticket market segments. The Canadian Equipment Financing Segment is intended to prudently increase its average loan amount while still maintaining its focus on portfolio stratification and industry leading service levels as its equipment leasing portfolio continues to grow.
- In addition to increasing market share and a focus on mid-sized transactions, the Canadian Equipment Financing Segment's other growth initiatives are its non-equipment leasing products. The Canadian Equipment Financing Segment has originated, underwritten and funded a well performing $53.5 million portfolio of business loans and in September launched a consumer finance division.

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

As at December 31, 2021, the Canadian Equipment Financing Segment's gross finance receivables portfolio of $442.5 million, consisting of 22,696 leases and loans, was well diversified:

- Ontario represented 45.2% of net finance receivables, Quebec represented 17.8% and 37.0% were from other provinces/territories;
- The five largest equipment categories by volume - construction, industrial, trucks, trailers, miscellaneous equipment, and machine tools - accounted for an aggregate of 61.5% of net finance receivables;
- Of its network of more than 60 originators, the largest originator by dollar volume during 2021 accounted for 25.1% of originations; and
- The four largest brokers by dollars financed accounted for and aggregate of approximately 58.3% of originations during 2021.

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

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

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

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

Canadian Equipment Financing Segment Equipment Finance Receivable Portfolio Statistics

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

	Mar 31 2020	June 30 2020	Sep 30 2020	Dec 31 2020	Mar 31 2021	June 30 2021	Sep 30 2021	Dec 31 2021
Number of leases and loans outstanding (#)	12,793	12,000	11,345	10,561	9,759	20,310	21,441	22,696
Gross lease and loan receivables (“GLR”) (1)	$169,185	$154,501	$143,370	$134,878	$120,762	$331,375	$377,054	$434,983
Residual Receivables	$150	$139	$131	$121	$105	$5,988	$6,798	$7,537
Net Finance Receivables, before allowance(2)	$151,307	$138,812	$128,846	$121,085	$108,591	$300,726	$343,668	$397,915
ACL	$2,950	$3,331	$3,672	$3,289	$2,715	$4,229	$5,472	$5,216
ACL as % of NFR	1.95%	2.40%	2.85%	2.72%	2.50%	1.41%	1.59%	1.31%
Over 31 days delinquency (% of NFR)	0.63%	0.54%	1.22%	0.73%	0.63%	0.27%	0.44%	0.24%
Net charge-offs (recoveries) for the three months ended	$668	$863	$822	$485	$71	($29)	$104	$355
Provision for credit losses for the three-months ended	$1,246	$1,244	$1,162	$102	($433)	$1,400	$1,362	$99

Notes:
(1) Excludes residual receivables
(2) Excludes cash reserve account

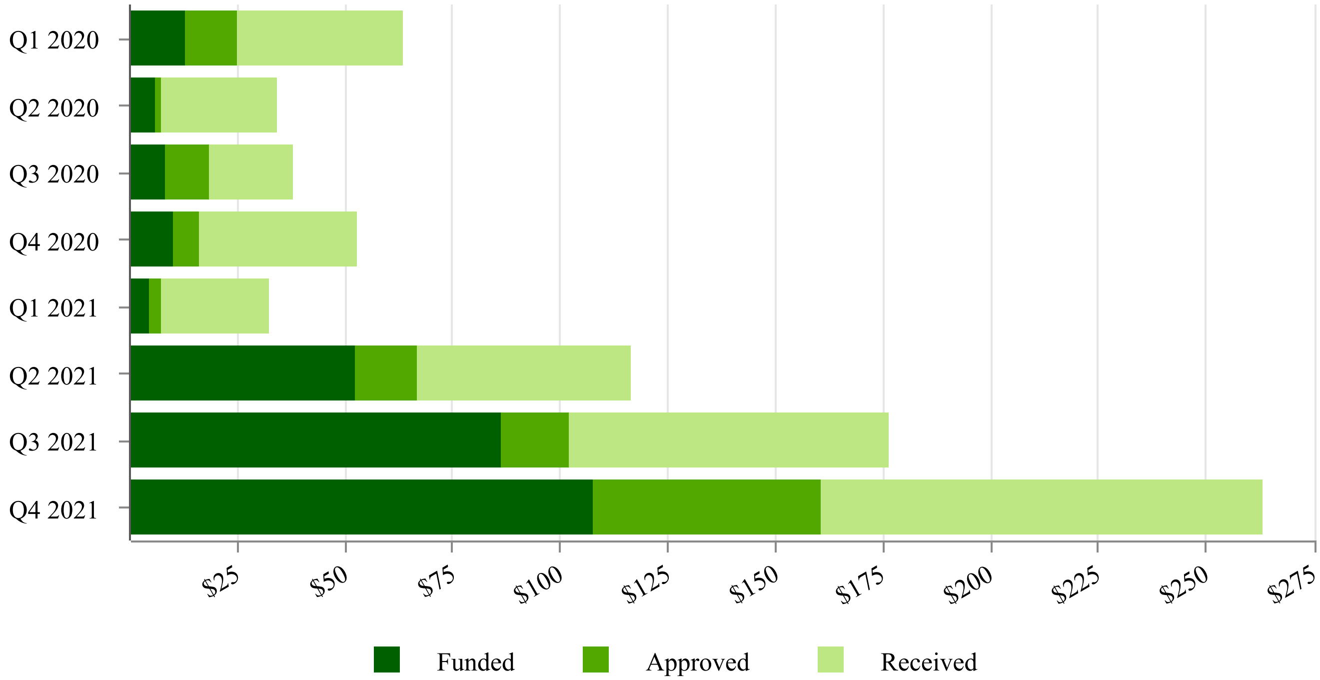
Canadian Equipment Financing Segment Finance Receivable Aging Analysis

($ thousands)	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days	Total
As at December 31, 2021	$ 394,240	$ 2,682	$ 548	$ 356	$ 89	$ 397,915
As at December 31, 2020	$ 118,954	$ 891	$ 571	$ 286	$ 383	$ 121,085

Canadian Equipment Financing Segment Minimum Scheduled Collection of Finance Receivables

($ thousands)	As at December 31, 2021	As at December 31, 2020
0 - 1 year	$ 183,416	$ 59,782
1 - 2 years	110,200	40,985
2 - 3 years	75,104	21,823
3 - 4 years	43,873	9,386
4 - 5 years	20,812	2,677
Over 5 years	1,578	225
Total minimum payments	$ 434,983	$ 134,878

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



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

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2021 AND 2020

U.S. dollar results for the year ended December 31, 2021 were converted at an exchange rate of 1.2535, which was the average exchange rate for the year (2020 - 1.3415).

Financial Highlights

- The successful merger with Vault Credit on April 30, 2021 has expanded the Canadian Equipment Financing Segment and its exposure in the Canadian market. Subsequent to the acquisition, Blue Chip and Vault Credit have contributed total originations of $233.9 million.
- On September 14, 2021, Chesswood acquired a controlling interest in Vault Home, expanding its product offerings by entering into the consumer financing industry.
- On October 22, 2021, Pawnee completed a fixed-rate US$356.1 million asset-backed term securitization that is collateralized by receivables from Pawnee's portfolio of equipment leases and loans. Proceeds from the securitization were used to repay Pawnee's warehouse line and Chesswood's senior revolving credit facility. The effective interest rate was approximately 2.01% (including amortization of origination costs).
- On October 27, 2021, Chesswood announced its proposed acquisition of Rifco, a key player in the Canadian alternative auto financing industry. The acquisition closed subsequent to year end, on January 14, 2022.
- Both the U.S. and Canadian Equipment Financing Segments continued to experience strong originations with total annual originations of $934.0 million, an increase of 232.7% from the prior year. The increase is mainly due to the expansion of both the Canadian and U.S. segments.
- Chesswood's strong 2021 returns has achieved a return on equity of 19.0%.

Summary of Financial Results and Key Measures

($ thousands, except per share figures)	Year ended December 31, 2021	2020
Revenue	$ 138,083	$ 117,056
Finance margin before expenses	106,224	62,891
Operating income	41,061	21,601
Income (loss) before taxes	42,071	(8,118)
Provision for tax expense	10,902	407
Net income (loss)	31,169	(8,525)
Basic earnings (loss) per share (1)	1.75	(0.48)
Diluted earnings (loss) per share (1)	1.59	(0.48)
Total assets	1,604,947	827,436
Long-term liabilities	1,385,201	669,089
Other Data		
Adjusted Operating Income (2)	$ 41,010	$ 17,204
EBITDA (2)	76,642	43,780
Adjusted EBITDA (2)	44,920	19,341
Free Cash Flow(2)	33,573	19,606
Free Cash Flow per diluted share(2)	1.72	1.10
Return on Equity (5)	19.0 %	(5.7)%
Dividends declared (3)	6,143	5,053
Dividends declared per share (4)	0.32	0.285
Segment Financials		
U.S. Equipment Financing Segment interest revenue	$ 94,220	$ 91,481
U.S. Equipment Financing Segment operating income	42,933	23,936
Canadian Equipment Financing Segment interest revenue	25,892	11,415
Canadian Equipment Financing Segment operating income	4,513	1,494
Portfolio Metrics		
U.S. Equipment Financing Segment finance receivables	$ 1,025,567	$ 612,487
U.S. Equipment Financing Segment originations	694,699	243,044
U.S. Equipment Financing Segment interest revenue yield	11.8 %	13.2 %
U.S. Equipment Financing Segment net charge-offs as a percentage of finance receivables	0.2 %	4.1 %
Canadian Equipment Financing Segment finance receivables	$ 414,160	$ 128,391
Canadian Equipment Financing Segment originations	239,335	37,709
Canadian Equipment Financing Segment interest revenue yield	10.2 %	8.2 %
Canadian Equipment Financing Segment net charge-offs as a percentage of finance receivables	0.2 %	2.0 %

(1) Based on weighted average number of common shares outstanding (basic and diluted respectively) during the year for income attributable to common shareholders.
(2) Adjusted Operating Income, EBITDA, Adjusted EBITDA, and Free Cash Flow are non-GAAP measures. See "Non-GAAP Measures" above for the definitions.
(3) Includes dividends on Exchangeable Securities (non-controlling interest, as described below under "Statement of Financial Position") and special warrants.
(4) Dividends declared on common shares, special warrants and Exchangeable Securities.

(5) Return on equity is the sum of the current quarter and prior three quarters' Net Income (Loss) divided by the yearly average of total Equity, as presented on the consolidated statements of financial position.

The Company reported consolidated net income of $31.2 million in the year ended December 31, 2021, compared to a net loss of $8.5 million recorded in 2020, an increase of $39.7 million. The increase was primarily a result of a lower provision for credit losses of $25.5 million which was due to a decrease in net charge-offs and lower provisions from improved collections and a stronger portfolio performance, respectively. In addition, the absence of goodwill impairment and restructuring charges of $20.9 million and $9.3 million, respectively, which were the result of COVID-19 and management retirements at Chesswood in 2020, increased current year net income in comparison.

Net income was negatively impacted by strengthening of the Canadian dollar and an increase in interest expense of $3.2 million. In addition, there was an increase in personnel and other expenses of $23.5 million, and a higher tax expense of $10.5 million in the year ended December 31, 2021, compared to 2020.

Return on equity increased during the year ended December 31, 2021 by 24.7% year over year, primarily due to the increase in net income of $39.7 million offset partially by an increase in average equity in 2021 of $15.6 million primarily related to the equity issuances from the merger of Blue Chip with Vault Credit.

	Year ended December 31,	
($ thousands)	2021	2020
Net income (loss)	$ 31,169	$ (8,525)
Average equity	164,399	148,750
Return on equity	19.0 %	(5.7)%

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

Average FX rate		1.2535		1.3415		
	Year ended December 31,					
($ thousands)		2021		2020		Change
Revenue	$	138,083	$	117,056	$	21,027
Interest expense		(31,671)		(28,521)		(3,150)
Net charge-offs		(2,028)		(31,374)		29,346
		104,384		57,161		47,223
Expenses:						
Personnel expenses		(35,813)		(20,123)		(15,690)
Other expenses		(26,450)		(18,618)		(7,832)
Depreciation		(1,111)		(1,216)		105
Adjusted operating income(1)		41,010		17,204		23,806
Decrease in ACL		1,840		5,730		(3,890)
Amortization - intangible assets		(1,789)		(1,333)		(456)
Operating Income		41,061		21,601		19,460
Restructuring and other transaction costs(2)		—		(9,250)		9,250
Goodwill and intangible asset impairment(3)		—		(20,828)		20,828
Mark-to-market gain (loss) on interest rate derivative		344		(118)		462
Other non-cash FMV charges and unrealized FX		666		477		189
Income (loss) before taxes		42,071		(8,118)		50,189
Tax expense		10,902		407		10,495
Net Income (Loss)	$	31,169	$	(8,525)	$	39,694

(1) Adjusted Operating Income is a non-GAAP measures. See "Non-GAAP Measures" above for the definitions. See the Adjusted EBITDA, Free Cash Flow, Maximum Permitted Dividend section of this MD&A for a reconciliation of Free Cash Flow to net income (loss).
(2) Within the COVID-19 induced restructuring and other transaction costs, the Company recorded $3.2 million in severance costs resulting from employee voluntary retirements and staff reductions and $0.7 million in transaction costs. The Company also incurred $2.0 million in amendment fees specific to COVID-19 issues related to its revolving credit facility. The Company expensed $2.5 million in financing costs related to restructuring Pawnee's debt facilities in the third quarter of 2020.
(3) As a result of the unfavorable economic operating conditions caused by uncertainties relating to COVID-19, an interim impairment test was performed at March 31, 2020. Based on this assessment, management recorded an $11.9 million goodwill impairment. An additional $8.96 million in goodwill and intangible asset impairment was also recorded at December 31, 2020.

By segment, the U.S. Equipment Financing Segment's interest revenue on leases and loans totaled $94.2 million, an increase of $2.7 million year-over-year. The increase was caused by a US$118.0 million increase in the average portfolio size due to lower originations in Q4 2020 caused by COVID-19 and continuously growing originations since the last quarter of 2020. As a result, the December 31, 2021 net portfolio size (before ACL) was US$324.7 million higher than at December 31, 2020. The impact of the portfolio growth was offset by a 6.6% decrease in foreign exchange year-over-year and a 1.4% decrease in the interest revenue yield during the year. The average annualized interest revenue yield earned on U.S. based net finance receivables was 11.8% in the year ended December 31, 2021, compared to 13.2% in prior year, reflecting an increase in the overall percentage of lower yield prime receivables.

	Year ended December 31,			
(US$ thousands)		2021		2020
Interest revenue on finance leases and loans	$	75,166	$	68,193
Average NFR, before allowance	$	635,100	$	517,072
Interest revenue yield		11.8 %		13.2 %

For U.S. Equipment Financing Segment, the non-prime portfolio continued to generate strong risk-adjusted returns and profitability, while the continued expansion of the prime portfolio influences the overall weighted-average portfolio yield. Ancillary finance and other fee income increased by $0.7 million year-over-year and was negatively impacted by foreign exchange.

The U.S. Equipment Financing Segment's interest expense increased by $0.1 million compared to the same period in the prior year. The increase in interest expense is driven primarily by a 5.7% increase in average debt outstanding throughout the year. This increase was offset by the decrease in average foreign exchange (approximately $1.7 million of the decrease) and a lower cost of funds on the Chesswood revolving credit facility, the segment's life insurance and warehouse facilities, and the 2021 asset backed securitization.

The U.S. Equipment Financing Segment's provision for credit losses decreased by $24.1 million in the year ended December 31, 2021, compared to the prior year as a result of a decrease in the change in ACL of US$1.9 million as well as a better performing portfolio, as evidenced by a decrease of US$20.1 million in actual net charge offs. In the year ended December 31, 2021, the U.S. segment's actual net charge-offs were 0.2% of average finance receivables (before ACL) compared to 4.1% in the prior year. The improved performance was reflected in the provision rate, resulting in a $10.2 million decrease.

	Year ended December 31,	
(US$ thousands)	2021	2020
Impact of loan book growth	$ 10,806	$ (1,358)
Impact of change in provision rate during the period	(13,814)	(3,597)
Change in ACL	$ (3,008)	$ (4,955)
Net charge-offs	1,220	21,272
Provision for credit losses	$ (1,788)	$ 16,317
Average NFR, before allowance	635,100	517,072
Charge-offs as a percentage of finance receivables	0.2 %	4.1 %

The U.S. segment's 31 days past due delinquency at December 31, 2021 decreased by 0.9% year-over-year (compared to a year-over-year decrease of 0.5% in 2020), which contributed to the decrease in the ACL at December 31, 2021. The ACL for new finance receivables increased by $12.2 million due to higher originations year-over-year. The decrease in the foreign exchange rate decreased the provision for credit losses by $0.2 million compared to the prior year.

The U.S. Equipment Financing Segment's personnel expenses (including share-based compensation) increased by $7.2 million year-over-year, primarily due to having 41 more staff during the year ended December 31, 2021 compared to the prior year and a one-time issuance of restricted share units ("RSUs") to the segment's personnel in the fourth quarter.

During the year ended December 31, 2021, the operating income from the U.S. Equipment Financing Segment's operations increased by $19.0 million compared with the prior year, mainly due to higher average NFR, before allowance, and lower provision for credit losses partially offset by lower interest revenue yield, increased personnel expenses (including higher share-based compensation), and the strengthening of the Canadian dollar.

The Canadian Equipment Financing Segment generated revenue of $32.8 million during the year ended December 31, 2021 compared to $15.2 million in the prior year, an increase of $17.6 million, or 116%. The Canadian Equipment Financing Segment 's average net investment in finance receivables (before ACL) increased approximately $114.6 million in the year ended December 31, 2021, compared to the prior year, largely due to the Blue Chip and Vault Credit merger and Vault Credit's continued expansion in the Canadian equipment leasing market. In addition, the average number of finance receivable contracts outstanding increased by 4,979 in the year ended December 31, 2021 compared to the prior year. In the year ended December 31, 2021, the interest revenue yield of 10.2% earned on the Canadian Equipment Financing Segment 's net finance receivables has increased from 8.2% in 2020.

($ thousands)	Year ended December 31, 2021	2020
Interest revenue	$ 25,892	$ 11,415
Average NFR, before allowance	254,397	139,778
Interest revenue yield	10.2 %	8.2 %

The Canadian Equipment Financing Segment's interest expense increased by $3.8 million due to higher average debt outstanding by approximately $105.3 million despite a lower cost of funds on its securitization facilities.

The Canadian Equipment Financing Segment 's provision for credit loss decreased by $1.3 million in the year ended December 31, 2021, compared to the prior year as a result of a better performing portfolio, as evidenced by a decrease in actual net charge-offs. This was offset by the recognition of the expected credit losses on leases acquired through the merger with Vault Credit.

($ thousands)	Year ended December 31, 2021	2020
Impact of loan book growth	$ 7,514	$ (556)
Impact of change in provision rate during the year	(5,587)	1,472
Change in ACL	$ 1,927	$ 916
Net charge-offs	501	2,838
Provision for credit losses	$ 2,428	$ 3,754
Average NFR, before allowance	254,397	139,778
Charge-offs as a percentage of finance receivables	0.2 %	2.0 %

The Canadian Equipment Financing Segment's operating income totaled $4.5 million in the year ended December 31, 2021, compared to $1.5 million in the prior year, an increase of $3.0 million, primarily due to the increase in revenue on leases and lower provision for credit losses offset by higher interest expense and increases in personnel expenses and other general expenses. The increase in personnel expenses of $6.9 million was primarily due to the merger of Blue Chip with Vault Credit, which resulted in an increase of 110 employees during the year ended December 31, 2021, compared to the prior year, and the segment's continued expansion into the Canadian equipment leasing market. The increase in other expenses of $4.6 million is a function of increased originations, the segment's technology upgrades, and dividend payment to the non-controlling shareholders of $0.8 million.

On a consolidated basis, the provision for taxes for the year ended December 31, 2021, was $10.9 million, compared to $0.4 million expense in the prior year. The change was driven by the improvement in the results of operations. The effective tax rate differs from the Canadian statutory tax rate due to withholding taxes and permanent differences between accounting and taxable income, which include share-based compensation expense.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2021 AND 2020

U.S. dollar results for the three months ended December 31, 2021, were converted at an exchange rate of 1.2600, which was the average exchange rate for Q4 2021 (Q4 2020 - 1.3321).

Summary of Financial Results and Key Measures

As at and for the quarter-ended				2020				2021
($ thousands, except per share figures)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	$ 33,313	$ 30,011	$ 27,337	$ 26.395	$ 26,309	$ 30,524	$ 37,007	$ 44,243
Finance margin before expenses	1,047	17,249	26,139	18,456	19,954	23,926	27,752	34,592
Operating income	(9,868)	7,784	16,448	7,237	8,879	10,610	11,000	10,572
Income (loss) before tax	(22,527)	2,160	13,681	(1,432)	8,979	11,036	12,335	9,721
Provision for taxes expense (recovery)	(2,700)	753	3,877	(1,523)	2,666	3,224	3,187	1,825
Net income (loss)	(19,827)	1,407	9,804	91	6,313	7,812	9,148	7,896
Basic earnings (loss) per share (1)	(1.12)	0.08	0.55	0.01	0.36	0.43	0.49	0.46
Diluted earnings (loss) per share (1)	(1.10)	0.06	0.56	0.00	0.35	0.40	0.45	0.40
Total assets	1,011,698	907,987	844,920	827,436	868,715	1,188,925	1,391,782	1,604,947
Long-term liabilities	852,448	749,765	681,167	668,749	707,962	995,837	1,184,647	1,385,201
Other Data								
Adjusted operating income (2)	$ 5,780	$ 2,823	$ 5,016	$ 3,585	$ 4,773	$ 10,819	$ 13,376	$ 12,042
EBITDA (2)	(1,963)	10,190	21,393	14,160	15,445	19,397	22,006	19,794
Adjusted EBITDA (2)	6,266	3,295	5,343	4,437	5,266	11,324	13,992	14,338
Free Cash Flow(2)	4,243	3,833	4,591	6,939	3,756	8,143	10,188	11,486
Free Cash Flow per diluted share(2)	0.24	0.22	0.26	0.39	0.21	0.42	0.51	0.56
Return on Equity (5)	(53.4)%	4.0%	27.6%	0.3%	17.8%	20.0%	20.9%	17.1%
Dividends declared (3)	3,723	620	—	710	1,055	1,566	1,766	1,756
Dividends declared per share (4)	0.21	0.035	—	0.04	0.06	0.08	0.09	0.09
Segment Financials								
U.S. Equipment Financing Segment interest revenue	$26,181	$23,712	$21,641	$19,947	$20,597	$21,623	$24,279	$27,721
U.S. Equipment Financing Segment operating income	(8,864)	8,235	17,156	7,409	8,509	11,947	12,601	9,876
Canadian Equipment Financing Segment interest revenue	3,166	2,925	2,710	2,614	2,322	5,439	7,887	10,244
Canadian Equipment Financing Segment operating income	93	118	(37)	1,320	1,602	147	418	2,346
Portfolio Metrics								
U.S. Equipment Financing Segment finance receivables	$743,308	$667,534	$613,632	$612,487	$670,742	$742,628	$870,449	$1,025,567
U.S. Equipment Financing Segment originations	103,447	19,799	25,493	94,305	128,791	147,670	178,613	239,625
U.S. Equipment Financing Segment interest revenue yield	14.3 %	12.7 %	13.0 %	12.2 %	11.9 %	12.0 %	11.9 %	11.7 %
U.S. Equipment Financing Segment net charge-offs as a percentage of finance receivables	4.4 %	5.3 %	2.5 %	3.4 %	2.9 %	(0.5)%	— %	(0.3)%
Canadian Equipment Financing Segment finance receivables	$152,647	$144,214	$134,468	$128,391	$112,169	$313,076	$357,379	$414,160
Canadian Equipment Financing Segment originations	12,993	6,117	8,509	10,090	4,707	49,748	83,325	101,555
Canadian Equipment Financing Segment interest revenue yield	8.2 %	8.1 %	8.1 %	8.3 %	8.1 %	10.6 %	9.8 %	11.1 %
Canadian Equipment Financing Segment net charge-offs as a percentage of finance receivables	1.7 %	2.4 %	2.4 %	1.5 %	0.2 %	(0.1)%	0.1 %	0.4 %

(1) Based on weighted average shares outstanding during the period for income attributable to common shareholders.

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

The calculation of the basic and diluted earnings (loss) per share for three months ended is based on the following table:

	For the three months ended December 31, 2021	2020
Weighted average number of common shares outstanding	16,571,698	16,286,486
Dilutive effect of options	462,696	27,209
Dilutive effect of restricted share units	393,225	24,630
Dilutive effect of special warrants	1,466,667	—
Weighted average common shares outstanding for diluted earnings per share	18,894,286	16,338,325
Options and RSUs excluded from calculation of diluted shares for the period due to their anti-dilutive effect	265,000	2,538,939

The Company reported consolidated net income of $7.9 million for the three months ended December 31, 2021, compared to $0.1 million in the same period of 2020, an increase of $7.8 million year-over-year.

Higher revenue levels were considerably offset by increased interest expense, higher personnel costs arising from the growth in the Company and restricted share unit issuances during the quarter, and greater other expenses related to technology upgrades. In addition, the absence of a $9.0 million goodwill and intangible asset impairment charge due to COVID-19 recorded in the same period in 2020,also contributed to the improvement in net income.

Return on equity increased for the three months ended December 31, 2021 by 16.8% compared to the same period in 2020, primarily due to the increase in net income of $7.8 million offset by an increase in average equity of $40.5 million primarily related to the equity issuances as part of the merger of Blue Chip with Vault Credit.

	Three months ended December 31,	
($ thousands)	2021	2020
Net income (loss)	$ 7,896	$ 91
Annualized	x 4	x 4
Average equity	184,179	143,667
Return on equity	17.1 %	0.3 %

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

Average FX rate	1.2603	1.3030	
	Three months ended December 31,		
($ thousands)	2021	2020	Change
Revenue	$ 44,243	$ 26,395	$ 17,848
Interest expense	(9,202)	(6,000)	(3,202)
Net recoveries (net charge-offs)	472	(6,140)	6,612
	35,513	14,255	21,258
Expenses:			
Personnel	(14,207)	(5,625)	(8,582)
Other expenses	(8,942)	(4,962)	(3,980)
Depreciation	(322)	(298)	(24)
Adjusted operating income(1)	12,042	3,370	8,672
Decrease (increase) in ACL	(921)	4,201	(5,122)
Amortization of intangible assets	(549)	(334)	(215)
Operating income	10,572	7,237	3,335
Restructuring and other transaction costs	—	—	—
Goodwill and intangible impairment(2)	—	(8,960)	8,960
Mark-to-market gain (loss) on interest rate derivative	—	133	(133)
Other non-cash FMV charges and unrealized FX	(851)	158	(1,009)
Income before taxes	9,721	(1,432)	11,153
Tax recovery (expense)	(1,825)	1,523	(3,348)
Net income	$ 7,896	$ 91	$ 7,805

(1) Adjusted Operating Income is a non-GAAP measures. See "Non-GAAP Measures" above for the definitions. See Adjusted EBITDA, Free Cash Flow, Maximum Permitted Dividend section of this MD&A for a reconciliation of Free Cash Flow to net income.
(2) As a result of the unfavorable economic operating conditions caused by uncertainties relating to COVID-19, the Company recorded intangible asset impairment of $4.7 million and an additional goodwill impairment of $4.3 million in the fourth quarter of 2020.

The U.S. Equipment Financing Segment's interest revenue on leases and loans totaled $27.7 million, an increase of $7.8 million year-over-year in the three-month period, as a result of a 55.3% increase in average net investment in finance receivables (before ACL), an increase of US$270.4 million to US$759.4 million in the three months ended December 31, 2021 compared to the same period in the prior year. This was partially offset by the decrease in the average yield earned during the period (11.7% compared to 12.2% in the same period in the prior year). The decrease in overall yield percentage was due to the continuing growth in the lower yield prime segment of the portfolio that changes the overall product mix toward prime from non-prime. The U.S. non-prime portfolio continues to be a very important component of the business that generates strong earnings and cash flow while the expanding suite of products and portfolio mix continues its shift towards a greater concentration in the prime market. The decrease in the foreign exchange rate also decreased interest revenue in the period by $0.9 million over the same quarter in the prior year.

	Three months ended December 31,	
(US$ thousands)	2021	2020
Interest revenue on finance leases and loans	$ 22,115	$ 14,869
Annualized	x 4	x 4
Average NFR, before allowance	$ 759,356	$ 488,945
Interest revenue yield	11.7 %	12.2 %

The U.S. Equipment Financing Segment's interest expense increased by $2.0 million in the three months ended December 31, 2021 compared to the same period in the prior year as a result of increased average debt outstanding throughout the period ($219.0 million higher compared to the same period in 2020) as well as a higher cost of funds on the Chesswood revolving credit facility. This increased interest expense was partially offset by the asset-backed securitization in October 2021, which lowered Chesswood's overall cost of funds.

The U.S. Equipment Financing Segment's provision for credit losses decreased by US$1.2 million in the three months ended December 31, 2021 compared to the same period in the prior year as a result of the reversal of provision for credit losses recorded in the fourth quarter of 2020 resulting in an increase of US$3.7 million in the change in ACL compared to the same quarter in the prior year, offset by a decrease in net charge-offs of US$4.9 million.

	Three months ended December 31,			
(US$ thousands)		2021		2020
Impact of loan book growth	$	4,214	$	742
Impact of change in provision rate during the period		(3,269)		(3,449)
Change in ACL	$	945	$	(2,707)
Net charge-offs		(663)		4,216
Provision for credit losses	$	282	$	1,509
Net charge-offs annualized (x4)	$	(2,652)	$	16.864
Average NFR, before allowance		759,356		488,945
Charge-offs as a percentage of finance receivables		(0.3)%		3.4 %

Personnel expenses in the U.S. Equipment Financing Segment increased by $1.8 million compared to the same period in the prior year due to an increase in the number of staff of 41 during the three months ended December 31, 2021. There was also an increase in share based compensation expense of $2.3 million compared to the same period in 2020 due to a one-time grant of 300,000 RSUs to the U.S. segment's personnel in November 2021. The U.S. Equipment Financing Segment's other expenses also increased by $1.2 million mainly related to technology upgrade costs for Tandem.

The Canadian Equipment Financing Segment's results for the quarter ended December 31, 2021 were significantly impacted by the acquisition of Vault Credit on April 30, 2021. The segment generated revenue of $13.1 million during the three months ended December 31, 2021, an increase of $9.6 million from the same period in the prior year. The Canadian Equipment Financing Segment's average net investment in finance receivables (before ACL) increased approximately $245.5 million in the three months ended December 31, 2021, compared to the same period in the prior year. The average annualized interest revenue yield earned on the Canadian Equipment Financing Segment 's net finance receivables increased by 2.8%, to 11.1%, during the period compared to the same period in the prior year. The Canadian Equipment Financing Segment's interest expense increased by $2.0 million due to approximately $232.4 million higher average debt outstanding.

	Three months ended December 31,			
($ thousands)		2021		2020
Interest revenue	$	10,244	$	2,614
Annualized		x 4		x 4
Average NFR, before allowance	$	370,792	$	125,303
Interest revenue yield		11.1 %		8.3 %

The Canadian Equipment Financing Segment's provision for credit losses was consistent with the same period in the prior year. The change in the provision for credit losses is the result of a decrease in the change in ACL of $0.1 million, partially offset by a decrease in net charge offs of $0.1 million.

($ thousands)	Three months ended December 31, 2021		2020	
Impact of loan book growth	$	1,468	$	(116)
Impact of change in provision rate during the		(1,724)		(267)
Change in ACL	$	(256)	$	(383)
Net charge-offs		355		485
Provision for credit losses	$	99	$	102
Net charge-offs annualized (x4)	$	1,420	$	1,940
Average NFR, before allowance		370,792		125,303
Charge-offs as a percentage of finance receivables		0.4 %		1.5 %

The Canadian Equipment Financing Segment's personnel expenses also increased by $4.1 million compared to the same period in the prior year to $4.9 million as a result of the merger with Vault Credit. The number of employees in the three months ended December 31, 2021, increased by 110 compared to the same period in 2020. The increase in other expenses of $2.1 million is a function of increased originations, the segment's technology upgrades, and dividend payment to the non-controlling shareholders of $0.8 million.

Overall, the Canadian Equipment Financing Segment 's operating income totaled $2.3 million in the three months ended December 31, 2021, compared to income of $1.3 million in the same period in the prior year. The increased operating income is the result of higher revenue levels being partially offset by increased interest, personnel, and other expenses. The main drivers of the expenses were related to the merger of Blue Chip with Vault Credit, the segment's continued expansion into the Canadian equipment leasing market, and an increase in the average number of staff during the three months ended December 31, 2021.

The provision for taxes for the consolidated entity during the three months ended December 31, 2021 was an expense of $1.8 million compared to a recovery of $1.5 million in the same period in the prior year. The increase of $3.3 million is primarily driven by the higher income before taxes generated in the quarter. The effective tax rate differs from the Canadian statutory tax rate due to permanent differences between accounting and taxable income.

	Three months ended December 31, 2021			
($ thousands)	**Equipment Financing - U.S.**	**Equipment Financing - Canada**	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 27,721	$ 10,244	$ —	$ 37,965
Ancillary finance and other fee income	3,384	2,894	—	6,278
Interest expense	(7,369)	(2,632)	799	(9,202)
Provision for credit losses	(350)	(99)	—	(449)
Finance margin	**23,386**	**10,407**	**799**	**34,592**
Personnel expenses	5,686	4,930	872	11,488
Share-based compensation expense	2,345	(5)	379	2,719
Other expenses	5,257	2,487	1,198	8,942
Depreciation	222	100	—	322
Amortization - intangible assets	—	549	—	549
Operating income (loss)	**9,876**	**2,346**	**(1,650)**	**10,572**
Gain on interest rate derivative	—	—	—	0
Unrealized gain (loss) on foreign exchange	—	111	(962)	(851)
Income (loss) before taxes	**9,876**	**2,457**	**(2,612)**	**9,721**
Tax expense (recovery)	2,045	202	(422)	1,825
Net income (loss)	**$ 7,831**	**$ 2,255**	**$ (2,190)**	**$ 7,896**
Net cash from (used in) operating activities	$ (115,228)	$ (54,235)	$ (21,104)	$ (190,567)
Net cash used in investing activities	$ (678)	$ (93)	$ —	$ (771)
Net cash from (used in) financing activities	$ 235,097	$ (22,472)	$ (14,094)	$ 198,531
Property and equipment expenditures	(678)	$ (93)	$ —	$ (771)

($ thousands)	Three months ended December 31, 2020 Equipment Financing - U.S.	Equipment Financing - Canada	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	$ 19,947	$ 2,614	$ —	$ 22,561
Ancillary finance and other fee income	2,870	964	—	3,834
Interest expense	(5,397)	(603)	—	(6,000)
Provision for credit losses	(1,837)	(102)	—	(1,939)
Finance margin	**15,583**	**2,873**	**—**	**18,456**
Personnel expenses	3,872	820	379	5,071
Share-based compensation expense	16	6	532	554
Other expenses	4,042	349	571	4,962
Depreciation	244	44	10	298
Amortization - intangible assets	—	334	—	334
Operating income (loss)	**7,409**	**1,320**	**(1,492)**	**7,237**
Goodwill and intangible asset impairment	—	(8,960)	—	(8,960)
Fair value adjustments - investments	—	—	60	60
Gain (loss) on interest rate derivative	1	—	132	133
Unrealized gain (loss) on foreign exchange	—	—	98	98
Income (loss) before taxes	**7,410**	**(7,640)**	**(1,202)**	**(1,432)**
Tax expense (recovery)	(760)	(891)	128	(1,523)
Net income (loss)	**$ 8,170**	**$ (6,749)**	**$ (1,330)**	**$ 91**
Net cash from (used in) operating activities	$ (21,014)	$ 7,970	$ (600)	$ (13,644)
Net cash used in investing activities	$ (93)	$ —	$ —	$ (93)
Net cash from (used in) financing activities	$ (12,132)	$ (5,980)	$ 32,154	$ 14,042
Property and equipment expenditures	$ 93	$ —	$ —	$ 93

EBITDA, ADJUSTED EBITDA, FREE CASH FLOW, MAXIMUM PERMITTED DIVIDENDS [1]

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

For the quarter-ended				2020				2021
($ thousands)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net income (loss)	$(19,827)	$ 1,407	$ 9,804	$ 91	$ 6,313	$ 7,812	$ 9,148	$ 7,896
Interest expense	8,063	7,374	7,084	6,000	5,895	7,739	8,835	9,202
Provision for (recovery of) taxes	(2,700)	753	3,877	(1,523)	2,666	3,224	3,187	1,825
Goodwill and intangible asset impairment	11,868	—	—	8,960	—	—	—	—
Amortization and depreciation	633	656	628	632	571	622	836	871
EBITDA [1]	$ (1,963)	$ 10,190	$ 21,393	$ 14,160	$ 15,445	$ 19,397	$ 22,006	$ 19,794
Interest expense	(8,063)	(7,374)	(7,084)	(6,000)	(5,895)	(7,739)	(8,835)	(9,202)
Non-cash interest income on option liability	—	—	—	—	—	—	—	(745)
Non-cash change in finance receivables allowance for credit losses[2]	15,315	(5,293)	(11,765)	(3,986)	(4,439)	(152)	1,830	921
Share-based compensation expense	186	148	32	554	255	244	326	2,719
Restructuring and transaction costs	—	5,776	3,474	—	—	—	—	—
Unrealized (gain) loss on investments	121	—	(544)	(60)	—	—	—	—
Unrealized (gain) loss on foreign exchange	72	(19)	51	(98)	26	(294)	(1,249)	851
(Gain) loss on interest rate derivative	598	(133)	(214)	(133)	(126)	(132)	(86)	—
Adjusted EBITDA [1][2]	$ 6,266	$ 3,295	$ 5,343	$ 4,437	$ 5,266	$ 11,324	$ 13,992	$ 14,338
Maintenance capital expenditures	(575)	(156)	(56)	(93)	(40)	(79)	(112)	(771)
Tax impact of non-cash change in allowance for credit losses[2]	(4,148)	1,447	3,181	1,072	1,196	122	(505)	(256)
Provision for taxes	2,700	(753)	(3,877)	1,523	(2,666)	(3,224)	(3,187)	(1,825)
Free Cash Flow[1][2]	$ 4,243	$ 3,833	$ 4,591	$ 6,939	$ 3,756	$ 8,143	$ 10,188	$ 11,486
FCF per diluted share	$ 0.24	$ 0.22	$ 0.26	$ 0.39	$ 0.21	$ 0.42	$ 0.51	$ 0.56
FCF L4PQ divided by 4 [1][3]	$ 5,745	$ 5,326	$ 4,932	$ 4,709	$ 4,743	$ 4,820	$ 5,498	$ 7,256
Maximum Permitted Dividends [1][3]	$ 5,170	$ 4,793	$ 4,438	$ 4,238	$ 4,268	$ 4,338	$ 4,948	$ 6,530
Dividends declared [4]	$ 3,723	$ 620	$ 0	$ 710	$ 1,055	$ 1,566	$ 1,766	$ 1,756

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

On May 6, 2021, the Company announced a 50% monthly dividend increase to $0.03 per share ($0.36 per share annualized). See 'Liquidity and Capital Resources - Dividends to Shareholders' below.

STATEMENT OF FINANCIAL POSITION

The total consolidated assets of the Company at December 31, 2021 were $1.6 billion, an increase of $777.5 million from December 31, 2020. The U.S. dollar exchange rate on December 31, 2021 was 1.2678, compared to 1.2732 at December 31, 2020. The decrease in the foreign exchange rate represents a decrease of $2.9 million in assets.

Cash totaled $12.4 million at December 31, 2021 compared to $9.7 million at December 31, 2020, an increase of $2.7 million. The Company's objective is to maintain low cash balances, investing any excess cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. Please see the Liquidity and Capital Resources overview section of this MD&A for a discussion of cash movements during the years ended December 31, 2021 and 2020.

Restricted funds represent cash reserve accounts which are held in trust as security for the U.S. Equipment Financing Segment's secured borrowings and cash collection accounts required by its lenders of certain financial assets that can only be used to repay these debts on specific dates. The 'cash in collections accounts' will be applied to the outstanding borrowings in the following month. See Note 13(d) - *Borrowings* in the audited consolidated financial statements for further details.

Other assets totaled $11.3 million at December 31, 2021, an increase of $8.4 million from December 31, 2020. The increase results from an increase in sales tax receivable of $2.8 million as well as an increase in prepaid expenses and other assets of $1.0 million in the Canadian Equipment Financing Segment which has grown substantially as a result of the merger of Blue Chip with Vault Credit. In addition, there was an increase in deferred tax asset of $5.3 million in the Corporate Overhead - Canada and Canadian Equipment Financing segments. See Note 6 - *Other Assets* in the audited consolidated financial statements for further details.

Net Finance receivables consist of the following:

Period end FX rate	1.2678	1.2732
	Year ended December 31,	
($ thousands)	2021	2020
U.S. equipment finance receivables	1,025,567	612,487
Canadian equipment finance receivables	414,160	128,391
	$ 1,439,727	$ 740,878

	Year ended December 31,	
($ thousands)	2021	2020
Opening gross finance receivables	$ 890,418	$ 1,026,635
Gross loan originations	934,034	280,753
Gross loans acquired from business combination	194,018	—
Principal payments and adjustments	(323,800)	(370,565)
Charge-offs	(15,718)	(46,405)
Ending gross finance receivables	$ 1,678,952	$ 890,418

Finance receivables saw an increase of $698.8 million, or 94%, during the year ended December 31, 2021. In U.S. dollars, the U.S. Equipment Financing Segment's net finance receivables increased by US$327.8 million and the decrease in the foreign exchange rate compared to December 31, 2020 decreased finance receivables by $2.6 million since December 31, 2020, thus reflecting an increase in U.S. based finance receivables of $413.1 million since December 31, 2020. The Canadian Equipment Financing Segment's finance receivables increased by $285.8 million during the year ended December 31, 2021, largely due to the Blue Chip - Vault Credit merger.

The $1.4 billion in finance receivables is net of $22.4 million (or 1.6%) in ACL compared to $24.4 million (or 3.3%) in ACL at

December 31, 2020. The $2.0 million decrease in the ACL is related to the better performing portfolio, as evidenced by the decrease in net charge-offs and provision for credit losses, resulting in a 1.7% decrease in ACL as a percentage of the net finance receivables. Finance receivables are composed of a large number of homogenous leases and loans, with relatively small balances. As such, the evaluation of the allowance for credit losses is performed collectively for the lease and loan receivable portfolios. The measurement of expected credit losses and the assessment of 'significant increase' (per IFRS 9) in credit risk considers information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information also requires judgment when calculating the ACL. The Company's ACL was determined as at December 31, 2021.

	Year ended December 31,	
($ thousands)	2021	2020
Opening allowance for credit losses	**$ 24,363**	$ 30,305
Net charge-offs	**(2,028)**	(31,374)
Provision for credit losses	**188**	25,644
Foreign exchange	**(130)**	(212)
Ending allowance for credit losses	**$ 22,393**	$ 24,363
Finance receivables	**1,439,727**	740,878
ACL as a percentage of finance receivables	**1.6 %**	3.3 %

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

Intangible assets totaled $26.9 million at December 31, 2021 compared to $10.9 million at December 31, 2020. The $16.0 million increase in intangible assets consists mainly of the broker relationship and trade name intangibles recognized from the Blue Chip - Vault Credit merger and the acquisition of a controlling interest in Vault Home. See Note 29 - *Business Combinations* in the audited consolidated financial statements for more detail. This increase is net of amortization of $1.8 million. The significant intangible assets of broker relationships and trade names do not require any outlay of cash to be maintained, as the creation of lease and loan receivables does not require an outlay of cash, other than commissions, which are separately expensed over the terms of the lease and loan receivables. The Company's annual intangible asset impairment assessment as at December 31, 2021 indicated no impairment of the Canadian Equipment Financing Segment's intangible assets, compared to the prior year where an impairment of $4.7 million was recognized. The prior year impairment was due to a combination of projected decreases in originations in the coming months due to continued impact of COVID-19 lockdowns and forecasted increases in the level of charge-offs.

Goodwill totaled $43.1 million at December 31, 2021, compared to $23.9 million at December 31, 2020. The $19.2 million increase was primarily due to the Blue Chip - Vault Credit merger and the acquisition of a controlling interest in Vault Home. See Note 29 - *Business Combinations* in the audited consolidated financial statements for more detail.

Goodwill is typically tested annually for impairment unless certain circumstances arise that would require an assessment prior to an annual review. The Company's annual goodwill impairment assessment did not indicate any impairment as at December 31, 2021 compared to December 31, 2020, where an impairment of $16.1 million was recorded. The Company is required to test its assets, such as intangible assets and goodwill, for impairment when facts and circumstances indicate that impairment may have occurred.

Based on this assessment, in the prior year management concluded that the carrying value of goodwill for the Canadian Equipment Financing Segment exceeded its recoverable amount and recorded an impairment loss for the excess of $16.1 million. The impairment was due to a combination of: projected decreases in originations in the coming months; forecasted increases in the level of charge-offs; and increased competitive pressures compared to the December 31, 2019 projection. The

Canadian Equipment Financing Segment's recoverable amount was determined using discounted cash flows, incorporating several assumptions and estimation uncertainties. Measurements were particularly sensitive, due to the inherently unknowable effects of COVID-19, not least of which being the duration of those effects and the degree of success of the current measures to contain the pandemic's effects on our businesses. See Note 11 - *Goodwill* to the audited consolidated financial statements for further detail.

Accounts payable and other liabilities totaled $31.8 million at December 31, 2021, compared to $17.5 million at December 31, 2020, an increase of $14.3 million. This is predominately related to an increase in accruals as well as accrued expenses and other liabilities of $5.3 million in the Canadian Equipment Financing Segment, which has grown substantially as a result of the merger of Blue Chip with Vault Credit. In addition, there was an increase in unfunded finance receivables of $5.6 million and customer deposits and prepayments of $1.3 million as a result of an increase in originations compared to 2020. See Note 12 - *Accounts Payable and Other Liabilities* in the audited consolidated financial statements for more detail on the balances that comprise accounts payable and other liabilities.

On August 13, 2021, the Company's US$20.0 million interest rate swap matured. In addition, on May 17, 2021, the U.S. Equipment Financing Segment terminated its 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 originally anticipated to mature on July 25, 2022. The company does not have any derivative positions as at December 31, 2021. In addition, an option liability in the amount of $11.6 million at December 31, 2021 was established as a result of the merger of Blue Chip with Vault Credit (December 31, 2020 - nil). See Note 29 - *Business Combinations* to the audited consolidated financial statements for further detail on the option liability.

Borrowings totaled $1.3 billion at December 31, 2021 compared to $639.0 million at December 31, 2020, an increase of $700.7 million. The increase is primarily a function of the increased level of originations and inclusion of Vault Credit. The U.S. Equipment Financing Segment's US dollar debt is up US$268.3 million and the Canadian Equipment Financing Segment 's debt increased by $285.8 million since December 31, 2020. The U.S. Equipment Financing Segment completed a fixed-rate US$356.1 million asset-backed term securitization 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. Please see the discussion under 'Liquidity and Capital Resources' for further details on borrowings.

The $4.4 million (December 31, 2020 - $7.2 million) in customer security deposits relates to security deposits predominantly held by the U.S. Equipment Financing Segment. Historically, the U.S. Equipment Financing Segment’s non-prime contracts typically required that the lessees/borrowers provide one or two payments as security deposit (not advance payments), which are held for the full term of the lease/loan and then returned or applied to the purchase option of the equipment at the lessee’s/borrower's request, unless the contract is in default (in which case the deposit is applied against the receivable). Beginning in January 2019, the U.S. Equipment Financing Segment discontinued requiring security deposits due to changing market conditions and now require advance payments (first and last months).

Future taxes payable at December 31, 2021 totaled $27.1 million compared to $20.4 million at December 31, 2020, an increase of $6.7 million. Taxes are provided for using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the subsidiaries' assets and liabilities and their corresponding tax basis.

At December 31, 2021, there were 16,574,864 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of $109.7 million. Including the common shares issuable in exchange for the Exchangeable Securities, Chesswood had 18,053,401 common shares outstanding. A total of 133,333 shares and 1,466,667 special warrants were issued as part of the consideration for the Blue Chip-Vault Credit merger on April 30, 2021. Each special warrant is exchangeable for one common share.

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 common 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 are based on market conditions and other factors.

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

Non-controlling interest consists of 1,274,601 Class B common shares and 203,936 Class C common shares (the "Exchangeable Securities") of Chesswood U.S. Acquisitionco Ltd. ("U.S. Acquisitionco"), which were issued as partial consideration for the acquisition of Pawnee and are fully exchangeable at any time for the Company's common shares, on a one-for-one basis, for no additional consideration, through a series of steps and entitle the holders to receive the same dividends as the common shares. Attached to the Exchangeable Securities are Special Voting Shares of the Company which provide the holders of the Exchangeable Securities voting equivalency to holders of common shares. Under IFRS, the Exchangeable Securities must be shown as non-controlling interest because they are equity in a subsidiary not attributable, directly or indirectly, to the parent. The Exchangeable Securities are fully exchangeable into the Company's common shares. Their portion of income and dividends is allocated to non-controlling interest. As a result of the Blue Chip - Vault Credit merger and prior to the exercise of the option liability, the non-controlling interest in Canadian Holdco has a right to 49% of the income and distributions of Canadian Holdco, which are recognized under the non-controlling interest section of the Shareholder's Equity. See Note 29 - *Business Combinations.*

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.

LIQUIDITY AND CAPITAL RESOURCES

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

The Company and its subsidiaries were compliant with all covenants as at and through the year ended December 31, 2021.

At December 31, 2021, the Company had the following facilities:

(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 renewed at improved terms to Chesswood. Refer to Note 30 - *Subsequent Events* in the audited consolidated financial statements for further details.

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.

Cash Sources and Uses

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

For the year ended December 31, 2021

In the year ended December 31, 2021, there was an increase in cash of $2.7 million compared to a decrease in cash of $1.4 million in the prior year as a result of the reasons discussed below.

The Company's finance receivables have an average term of approximately 45 months at the time of origination. The finance receivables will generate earnings over the next 45 months, with only a portion in the current operating period. Chesswood's ability to borrow under its various credit facilities is directly linked to its finance receivable portfolio. The funds borrowed (or repaid) to support the growth (retraction) in the finance receivables is shown under Financing Activities.

The Company’s operations utilized $499.2 million of cash during the year ended December 31, 2021, compared to $79.9 million cash generated in the prior year, an increase in cash utilization of $579.1 million year-over-year.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, and principal payments) totaled $589.1 million in the year ended December 31, 2021, compared to the utilization of $16.3 million in the prior year, an increase of $572.8 million in cash utilized year-over-year.

The Company funded growth in finance receivables from cash from operating activities, and net borrowings of $510.9 million in the year ended December 31, 2021. In the prior year, the Company utilized cash from operating activities to pay down net borrowings of $69.1 million.

In the year ended December 31, 2021, the Company had net tax payments of $12.1 million compared to net tax refunds of $3.5 million in the prior year, an increase in cash utilization of $15.6 million year-over-year.

Proceeds from the exercise of options of $5.2 million were partially offset by the repurchase of common shares under the Company's normal course issuer bid of $4.9 million. Similar amounts for the year ended December 31, 2020, were nil and $0.8 million respectively.

The Company paid $5.6 million of dividends to the holders of its common shares and Exchangeable Securities, as well as its non-controlling interests in Canadian Holdco, during the year ended December 31, 2021 compared with $5.9 million paid in the prior year.

Capital expenditures totaled $1.0 million (2020 - $0.9 million) during the year ended December 31, 2021 predominantly related to the U.S Equipment Financing Segment's upgrade of its computer network infrastructure offset by disposals during the year.

Cash from investing activities also included $2.8 million of cash acquired from business combinations.

For the three months ended December 31, 2021

In the three months ended December 31, 2021, there was an increase in cash of $2.7 million compared to the same period in prior year, which had an insignificant movement in cash as a result of the reasons discussed below.

The Company’s operations utilized $190.6 million of cash during the three months ended December 31, 2021 compared to utilizing $13.6 million in the same period in the prior year, an increase in cash utilization of $177.0 million year-over-year.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, and principal payments) totaled $213.8 million in the three months ended December 31, 2021 compared to utilizing $38.4 million in the same period in the prior year, an increase of $175.4 million in cash utilized year-over-year.

The Company funded growth in finance receivables from excess opening cash, cash from operating activities, and net borrowings of $204.7 million in the three months ended December 31, 2021. In the same period of the prior year, the Company utilized the funds from the collection of finance receivables, excess opening cash, and cash from operating activities to pay down net borrowings of $16.9 million.

Capital expenditures totaled $0.8 million (2020 - $0.1 million) during the three months ended December 31, 2021 predominantly related to Pawnee's upgrade of its computer network infrastructure.

In the three months ended December 31, 2021, the Company had a net tax payable of $5.4 million compared to $5.1 million of net tax refunds in the same period in the prior year, an increase in cash utilization of $10.5 million year-over-year.

The Company paid $0.5 million for the repurchase of common shares under its normal course issuer bid and paid $1.6 million of dividends to the holders of its common shares and Exchangeable Securities, as well as its non-controlling interests in the Canadian Holdco, during the three months ended December 31, 2021. The Company paid $0.8 million for the repurchases of common shares and $0.4 million of dividends in the same period in the prior year.

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

Financial Covenants, Restrictions and Events of Default

The Company and its operating subsidiaries are subject to bank and/or funder covenants. The Company was compliant with all of its covenants on all facilities as at December 31, 2021.

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

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

Advances on the Chesswood revolving credit facility may be drawn at any time, subject to compliance with borrowing base calculations and required representations and warranties. As at December 31, 2021, US$96.5 million was available under the US$250.0 million facility (utilizing US$153.5 million), which included US$3.5 million of letters of credit.

Dividends to Shareholders

On May 6, 2021, the Company announced it would increase its monthly dividend by 50% to $0.03 per share ($0.36 per share annualized) and would target a payout ratio including dividends and share repurchases of 40% of Free Cash Flow.

Dividend Policy

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

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

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

Minimum Payments

The following are the contractual payments and maturities of financial liabilities and other commitments as at December 31, 2021 (including interest):

($ thousands)	2022	2023	2024	2025	2026	2027 and beyond	Total
Accounts payable and other liabilities	$ 31,764	$ —	$ —	$ —	$ —	$ —	$ 31,764
Premises leases payable (a)	364	705	699	669	357	316	3,110
Borrowings (b)	477,518	572,741	220,825	133,553	13,685	600	1,418,922
Customer security deposits (c)	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

a. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2028. The amounts above exclude adjustment for discounting premise lease payable.
b. Borrowings are described in Note 13 - Borrowings in the audited consolidated financial statements 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 include fixed interest payments on the U.S. Equipment Financing Segment, Blue Chip, and Vault Credit's 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 its expiry date of December 2022. The amount owing under Chesswood's revolving corporate credit facility is shown in year of maturity, all other expected payments for borrowings are based on the underlying finance receivables supporting the borrowings. On January 14, 2022, the revolving credit facility was re-negotiated. Refer to Note 30 - Subsequent Events in the audited consolidated financial statements. 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.
c. The Company's experience has shown the actual contractual payment streams will vary depending on a number of variables, including prepayment rates, charge-offs and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.

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 "off-balance sheet" financing obligations, except for US$3.5 million in letters of guarantee. Other commitments are disclosed in Note 18 - *Contingent Liabilities* in the 2021 audited consolidated financial statements.

OUTLOOK

Chesswood exited 2021 with record originations and the largest receivables portfolio in the Company's history. We expect this momentum to continue throughout 2022 with the added benefit of contributions from our newly acquired automobile finance entity, Rifco.

The equipment finance subsidiaries continue to see strong origination volumes in both Canada and the United States. Changes in the general interest rate environment are expected to impact pricing for prime credits as the industry passes through increases in funding cost. Historically, we have been successful in maintaining credit spreads in a rising rate environment. Any negative impact from rising rates will likely be seen in weaker industry wide origination volumes.

Portfolio losses and recoveries throughout 2021 were the strongest in Chesswood's history due to several economic factors. For 2022, we expect these metrics to begin normalizing towards levels more consistent with our underwriting expectations. Furthermore, the addition of near-prime receivables, from our Rifco acquisition, will increase overall portfolio provisioning and losses. On a net basis, we expect to maintain strong credit margins, consistent with Chesswood's historical performance.

Our acquisition of Rifco will begin to contribute to overall results in Q1 of 2022. As a reminder, the accounting treatment for acquisitions of loan portfolios requires that the allowance for doubtful accounts be taken as a provision in the quarter for which the portfolio is acquired. Therefore, Q1 results will be impacted by this one-time charge, flowing through the income statement. Rifco is expected to build on the results achieved in 2021 after adjusting for this one-time provision.

Chesswood's funding sources for the year will be augmented with off-balance sheet investments arranged by Chesswood Capital Management. In addition to managing Chesswood's on balance sheet facilities and access to the ABS markets, Chesswood Capital Management will structure off-balance sheet funding partnerships as well as manage investor capital seeking direct exposure to the underlying originations of Chesswood's operating subsidiaries. Chesswood and its subsidiaries will earn management fees, servicing fees and origination fees associated with these programs. We are excited about these new funding relationships and expect them to be accretive to Chesswood's profitability and return on equity.

RISK FACTORS

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

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

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

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

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

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

As of December 31, 2021, Canada and the U.S. were approximately 21 months into the COVID-19 pandemic. Financial markets and businesses across many industries have experienced significant challenges and it will likely be some time before the duration and ultimate severity of the impact, and any going forward adverse effects on originations, delinquencies, and change offs, will be known.

Portfolio Delinquencies; Inability to Underwrite Lease and Loan Applications

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

Analogous risks are faced by Tandem, Blue Chip, Vault Credit, Vault Home, and Rifco in their businesses.

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

Dependence on Key Personnel

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

Relationships with Brokers, Dealers, and Other Origination Sources

The U.S. and Canadian operations have formed relationships with hundreds of origination sources, comprised primarily of equipment finance brokerage firms, vendors/distributors (and for Rifco, motor vehicle dealerships). They rely on these relationships to generate applications and originations. The failure to maintain effective relationships with their brokers and other origination sources or decisions by them to refer transactions to, or to sign contracts with, other financing sources could impede their ability to generate transactions, including in Canada where the segment gets a substantial portion of their origination volume from a few large equipment brokerage firms.

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

Risk of Future Legal Proceedings

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

Interest Rate Fluctuations

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

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

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

For interest rate risk sensitivities, please refer to Refer to Note 5 - *Financial Risk Management* in the audited consolidated financial statements.

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

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

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

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

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

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

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

"Characterization" Risks

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

Defenses to Enforcement of a Significant Number of Leases and Loans

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

Origination, Funding and Administration of Transactions

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

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

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

Analogous risks are faced by Tandem, Blue Chip, Vault Credit, Vault Home, and Rifco.

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

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

Licensing Requirements

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

Fees, Rates and Charges

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

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

Insurance

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

Lessor Liability

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

Liability for Misuse of Leased Equipment

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

Estimates Relating to Value of Leases

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

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

Competition from Alternative Sources of Financing

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

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

Analogous risks are faced by Blue Chip, Vault Credit, Vault Home, and Rifco.

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

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

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

Fraud by Lessees, Borrowers, Vendors or Brokers/Dealers

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

Protection of Intellectual Property

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

Failure of Computer and Data Processing Systems

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

Security Risks

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

Risks Related to our Structure and Exchange Rate Fluctuations

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

Unpredictability and Volatility of Share Price

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

Leverage, Restrictive Covenants

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

Possible Acquisitions

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

Restrictions on Potential Growth

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

Canadian Income Tax Matters

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

United States Income Tax Matters

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

Environmental risk

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Net Investment in Leases

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

Allowance for Credit Losses

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

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

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

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

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

Finance receivables at Pawnee, Tandem, Blue Chip, Vault Credit, and Vault Home are composed of a large number of homogenous leases and loans, all with relatively small balances. Thus, the evaluation of the allowance for credit losses is performed collectively for the lease and loan receivable portfolios.

For Stage 2, leases and loans are considered to have experienced a significant increase in credit risk since initial recognition if they are delinquent for over 30 days and further includes approximately 14% of the non-prime 1-30 day delinquent leases and loans.

For Stage 3, leases and loans are considered credit impaired if they are delinquent for more than 90 days or if the individual leases and loans are otherwise classified as non-accrual.

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

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

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

The U.S. Equipment Financing Segment, Blue Chip, 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.

Impairment of Goodwill

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

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

Share-based Payments

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

Interest rate derivatives

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

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

Taxes

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

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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 but that are not yet effective:

(a) Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, to clarify 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) 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*, updating 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.

RELATED PARTY TRANSACTIONS

Ryan Marr, CEO of Chesswood, is the chief investment officer and a minority shareholder of Waypoint, which established an investment fund through which a subsidiary of Pawnee established a credit facility with on April 29, 2021 . The Company has a small minority ownership interest in the general partner of such fund. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. Pawnee retains the servicing of these finance receivables in exchange for a fee. 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 is 12.5% (including amortization of origination costs).

See Note 25 - *Related Party Transactions* in the audited consolidated financial statements for the disclosure of key management compensation and other related party transactions related to the Canadian Equipment Financing Segment.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

The Certifying Officers have assessed the design effectiveness of the Company’s DC&P as at December 31, 2021 and have concluded that the design of the Company’s DC&P was effective as at that date.

The Certifying Officers have also evaluated the operating effectiveness of the Company’s DC&P and have concluded that the Company's DC&P was operating effectively as at December 31, 2021.

Internal Control over Financial Reporting

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

The Certifying Officers have assessed the design effectiveness of the Company’s ICFR as at December 31, 2021 and have concluded that the design of the Company’s ICFR was effective as at that date.

The Certifying Officers have also evaluated the operating effectiveness of the Company’s ICFR and have concluded that the Company's ICFR was operating effectively as at December 31, 2021.

Other than the completion of the integration and alignment process of the newly acquired entities discussed below, during the quarter ended December 31, 2021, there has been no significant change in the Company's ICFR that would have materially affected, or would be reasonably likely to materially affect, the Company's ICFR.

Scope of Design

Effective April 30, 2021, through a newly created entity, Canadian Holdco, the Company carried out the merger of its Canadian equipment leasing subsidiary, Blue Chip, with Vault Credit, a provider of equipment lease and commercial loan financing to small and medium businesses across Canada. Canadian Holdco effectively acquired 100% of the shares of Blue Chip and Vault

Credit and in return Chesswood received 51% ownership of Canadian Holdco as well as control of the Canadian Holdco board, through a priority vote. For further information, reference should be made to Note 29 – *Business Combinations* - in the audited consolidated financial statements for the year ended December 31, 2021.

Following the merger, Vault Credit, a privately held organization, substantially assumed management of Blue Chip, processing all of its transactions through its own personnel, controls, policies and procedures, resulting in the then existing Blue Chip environment effectively ceasing to exist or not relevant for certification purposes.

On September 14, 2021, Chesswood Holdings Ltd. acquired shares providing a 51% ownership interest in Vault Home post acquisition for a subscription price of $1.0 million and committed to also provide capital contributions of $1.5 million upon request of the Vault Home board of directors. Vault Home is incorporated in Ontario and had not yet earned revenue as at the date of acquisition. The Company exercises control over Vault Home through the ability to control the decisions of Vault Home's board of directors, through a priority vote, related to those activities that are most relevant to determining returns. Following the acquisition, Vault Credit, substantially assumed management of Vault Home, processing all of its transactions through its own personnel, controls, policies and procedures.

Following the acquisitions, management of Chesswood commenced the process of integrating and aligning Canadian Holdco's and Vault Home's controls, policies and procedures with those of Chesswood. In order to allow time for completion of this integration and alignment, for the quarters ended, June 30, 2021 and September 30, 2021, Chesswood availed itself of the scope limitation permitted under section 3.3(1)(b) of National Instrument 52-109 which allows an issuer to limit its design of DC&P and ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days before the end of the fiscal period. Given the completion of the integration and alignment process, the scope limitation discussed above was lifted as at December 31, 2021.

Limitations of an Internal Control System

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

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

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

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

MARKET FOR SECURITIES

The Company's common shares are traded on the Toronto Stock Exchange under the symbol CHW. The following table summarizes the high and low sales prices of the common shares and the average daily trading volume for each month in the year ended December 31, 2021.

	Common Shares		
	High	Low	Average Daily Volume
January	$9.30	$8.38	11,296
February	$9.28	$8.78	10,860
March	$9.44	$8.90	13,320
April	$12.85	$9.34	60,988
May	$13.89	$12.30	57,007
June	$13.75	$12.54	22,599
July	$13.35	$10.94	17,890
August	$12.18	$10.95	16,700
September	$12.29	$11.32	12,214
October	$13.66	$11.57	16,254
November	$14.50	$12.46	20,139
December	$14.55	$13.35	12,158
	$14.55	$8.38	22,567

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

(in thousands of Canadian dollars)	Note	Year ended December 31, 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	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	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.

($ thousands)	Indefinite useful life Trade names	Finite useful life 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:

($ thousands)	For the year ended December 31, 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:

	Year ended December 31, 2021			
($ thousands)	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

DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors

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

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
Director
C.E.O., CHW / Vault Holdco

Executive Team

Ryan Marr
President & C.E.O.

Tobias Rajchel
Chief Financial Officer

Other Information

Auditors
BDO Canada LLP

Transfer Agent
TSX Trust Company

Corporate Counsel
McCarthy Tétrault LLP

Toronto Stock Exchange Symbol
CHW

Chesswood Group Limited
1133 Yonge Street, Suite 603
Toronto, Ontario, Canada M4T 2Y7
Tel. 416.386.3099
e-mail:investorrelations@chesswoodgroup.com
www.chesswoodgroup.com

Chesswood Group Limited

TSX: CHW
Executive Office:
Chesswood Group Limited
1133 Yonge Street, Suite 603
Toronto, Ontario, Canada M4T 2Y7
Tel. 416.386.3099
e-mail:investorrelations@chesswoodgroup.com
www.chesswoodgroup.com