CHESSWOOD GROUP LIMITED

FIRST QUARTER REPORT

FOR THE THREE MONTHS ENDED

MARCH 31, 2024

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

To learn more about Chesswood Group Limited, visit www.ChesswoodGroup.com. The websites of Chesswood Group Limited's operating businesses are: www.PawneeLeasing.com, www.TandemFinance.com, www.VaultCredit.com, www.VaultPay.ca, www.Rifco.net, www.WaypointInvestmentPartners.com and www.EasyLegal.ca.

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This Interim Report is intended to provide shareholders and other interested persons with selected information concerning Chesswood. For further information, shareholders and other interested persons should consult Chesswood's other disclosure documents, such as its 2023 Annual Report and its 2023 Annual Information Form. Copies of Chesswood's continuous disclosure documents can be obtained at www.chesswoodgroup.com, by email to investorrelations@chesswoodgroup.com, by calling Chesswood at 416-386-3099, at www.sedarplus.ca or from Investor Relations at the addresses shown at the end of this Interim Report. Readers should also review the notes further in this Interim Report, in the section titled Management's Discussion and Analysis, concerning the use of Non-GAAP Measures and Forward-Looking Statements, which apply to the entirety of this Interim Report.

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

Chesswood Group Limited

TO OUR SHAREHOLDERS

Review of Quarterly Performance

Chesswood reported an adjusted net loss of $5.2 million in the first quarter of 2024, reflecting the ongoing challenges associated with our lease and loan portfolios performance. Results in the quarter were impacted by a non-cash charge related to the mark-to-market impact of warrants issued to Wafra that accompanied the transaction announced in the previous quarter. Provisions were lower in the quarter, reflecting the outlook on future losses and given the expected charge-offs that occurred but were reserved for the end of 2023.

Expense management remained a priority in the quarter. General and administrative expenses were higher than expected due to rising collection costs associated with charged off leases and loans. Although we expect these costs to remain elevated, it is these costs which allow our collections teams to utilize the many tools at their disposal to recover on delinquent or impaired loans. Personnel expenses have declined meaningfully year over year due to reductions in staff counts. We will continue to right size our workforce to reflect origination levels and the size of our overall portfolio.

Of note, this quarter was the elevated losses in our Canadian automotive portfolio, which resulted in a $2.2 million net loss for the division. This was likely the result of a combination of weak seasonality and volatility. Looking at our forward indicators for loan delinquency suggests that these losses are contained and not a sign of a more systemic issue. Specifically, early stage delinquency metrics declined meaningfully in March after rising in the Dec '23 – Feb '24 time period. In other words, new underperforming loans are not replacing charged off loans, reducing future charge-off expectations.

Our team continues to make progress in resizing our U.S. equipment leasing business to match the realities of capital availability, loan demand and portfolio performance. We have made good progress adjusting our lending mix, targeting a 14-16% average yield on new originations. However, the availability of balance sheet capital and general loan demand means that our team will need time to recycle capital from the existing portfolio into new vintages.

At quarter end, the average life of the U.S. receivables portfolio was approximately 33 months. Therefore, we roll off approximately one third of the portfolio each year, freeing up equity for new originations. Higher interest rates require lower leverage levels, thereby reducing our ability to replace loans on a 1:1 basis. In the quarter, we reduced debt levels by $317 million as a result. We are looking to continue reducing leverage further while increasing finance margins on recycled equity. This process will be ongoing for the year, and its pace will be contingent on the portfolio's performance and general profitability.

The highlight of the quarter was certainly the initial success of our joint venture with Wafra through Bishop Holdings LLC. We successfully sold $196.8 million of finance receivables to this joint venture, in which Chesswood has 10% ownership. This joint venture provides us with strong visibility on capital to support origination levels, grow our recurring fee streams as well as participate in portfolio performance. While it is paramount that we strike a balance between on and off balance sheet sources of earnings, we remain committed to our asset management model to augment volatility associated with credit performance.

The Opportunity For RIFCO

The near prime automotive market has been under stress as of late due to elevated vehicle pricing and strong loan demand experienced in 2022 and 2023. Many of our peers in this segment have either exited the market or meaningfully reduced origination volumes. Our team took a more cautious view in these years, deciding not to grow the portfolio, and therefore did not experience the level of losses reported by the industry.

Despite this quarter's weakness, our interest in the near prime automotive market remains high. The sector has transitioned meaningfully since its birth in the early 2000s. What was once a euphoric view of profitability matched with unsophisticated credit operations has transitioned to absolute industry pessimism despite substantial improvement in credit operations. Furthermore, the automotive market's status quo is broadly being challenged by entrants trying to displace traditional dealers with direct-to-consumer models.

We continue to view this market dynamic as attractive. Being one of the few finance companies devoted to this channel, our opportunity to work closely with dealers is a competitive advantage compared to other finance companies which split their focus on direct to consumer models in addition to dealers. While we see a world for both models to exist, the burden of care resulting from new technologies continues to move closer to the OEMs and, by extension, licensed dealers. Our team is excited to execute on this strategy, leading to portfolio growth, operating leverage and improving returns on equity.

Conclusion

We continue to face pressure from higher rates and underperforming loan portfolios. Fortunately, we have identified several opportunities to expand margins and manage costs as we transition the loan portfolios to higher margin products. It has been a challenging environment for Chesswood, and our team is focusing on ways to reorient the business better to align it with current market realities. Our platform offers exceptional value with an ability to originate, service and collect loans in various market segments across the U.S. and Canada. As market conditions normalize, we are confident our operating results will return to levels achieved in previous periods.

Sincerely,

Ryan Marr
President & CEO

Chesswood Group Limited

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 ended March 31, 2024. This MD&A should be read in conjunction with the unaudited interim condensed consolidated financial statements and accompanying notes of the Company as at and for the three months ended March 31, 2024, and the audited consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2023. Unless otherwise indicated, all financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A is dated May 8, 2024.

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

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FORWARD-LOOKING STATEMENTS

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

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

The Company cautions readers against placing undue reliance on forward-looking statements when making decisions, as actual results could differ considerably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various factors. Among others, these factors include: continuing access to required financing; continuing access to products that allow the Company and its subsidiaries to hedge exposure to changes in interest rates; risks of increasing default rates on leases, loans and advances; the adequacy of the Company's provisions for credit losses; increasing competition (including, without limitation, more aggressive risk pricing by competitors, financing options provided by manufacturers and investment products offered by competitors of Chesswood Capital Management); increased governmental regulation (and policies of law societies and analogous governing bodies) of the rates and methods the Company uses in financing and collecting on our leases or loans; increasingly stringent interpretation and enforcement of laws related to dealers and advisors and its products and compensation; dependence on key personnel; disruption of business models due to the emergence of new technologies; fluctuations in the Canadian dollar and U.S. dollar exchange rate; factors that impact on the decision to acquire business equipment or a motor vehicle; the outcome of the strategic review being carried out by the Company's board of directors; and general economic and business conditions (including the military conflicts in Ukraine and the Middle East, and inflation and recession concerns), which could impact equipment (including motor vehicle) purchases, investment decisions and the need for home renovation and legal sector financing. The Company further cautions that the foregoing list of factors is not exhaustive.

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

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

NON-GAAP MEASURES

This MD&A refers to certain measures that are not in accordance with Generally Accepted Accounting Principles ("GAAP") as supplementary information and to assist in assessing the Company's financial performance. These measures are based primarily on the significant banking and lending agreements of the Company and its subsidiaries to determine compliance with financial covenants and calculate permitted dividends and cash available for purchases of shares under the Company's normal course issuer bid.

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

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

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

"Adjusted Net Income (Loss)" is net income (loss) as presented in the consolidated statements of income adjusted for one time non-recurring items and non-cash unrealized loss on the revaluation of warrant instruments. See the "Consolidated results of operations for the three months ended March 31, 2024 and 2023" section of this MD&A for reconciliations of Adjusted Net Income (Loss).

"Adjusted Operating Income (Loss)" is Operating Income (Loss) as presented in the unaudited interim condensed consolidated statements of income (loss), adjusted to exclude the amortization of intangible assets, goodwill and intangible asset impairment, the change in allowance for ECL, and the unrealized loss on the revaluation of warrant instruments. Adjusted Operating Income (Loss) is intended to reflect the recurring income from the Company's businesses. Amortization of intangible assets, which includes the expense related to broker relationships, trade names and software, is a function of acquisitions. Once these acquisition-related intangibles have been fully amortized they are not replenished, and the amortization expense will cease. The change in the allowance for ECL can be calculated from the continuity of the allowance for ECL in Note 6(c) - *Finance Receivables* in the unaudited interim condensed consolidated financial statements as the difference between the provision for credit losses and the net charge-offs during a period. The change in allowance for ECL is a non-cash item. It reflects our creditor-approved formulas for Adjusted EBITDA and Free Cash Flow that drive our Maximum Permitted Dividends (as defined below), both relevant measures for the Company's financial reporting users.

"Adjusted Return on Equity" is a non-GAAP ratio representing Adjusted Net Income (Loss) divided by average equity as presented in the unaudited interim condensed consolidated financial statements. See the "Results of operations for the three months ended March 31, 2024 and 2023" section of this MD&A for reconciliations of Adjusted Net Income (Loss) and Adjusted Return on Equity.

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

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

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

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

COMPANY OVERVIEW

As at March 31, 2024, Chesswood's operations were conducted through three wholly owned subsidiaries in the United States and six operating subsidiaries in Canada (four of which are wholly owned):

- Pawnee Leasing Corporation ("Pawnee"), which finances micro and small-ticket commercial equipment for small and medium-sized businesses in the U.S. through the third-party broker channel;
- Tandem Finance Inc. ("Tandem", and together with Pawnee, the "U.S. Equipment Financing Segment"), which sources micro and small-ticket commercial equipment originations to small and medium-sized businesses through the equipment vendor channel in the U.S.;
- Vault Credit Corporation ("Vault Credit", or the "Canadian Equipment Financing Segment"), which provides commercial equipment financing and loans to small and medium-sized businesses across Canada;
- Vault Home Credit Corporation ("Vault Home", or the "Canadian Consumer Financing Segment"), which provides home improvement and other consumer financing solutions in Canada;
- Waypoint Investment Partners Inc. ("Waypoint"), Chesswood Capital Management Inc. ("CCM") and Chesswood Capital Management USA Inc. ("CCM USA", and together with Waypoint and CCM, the "Asset Management Segment"), which provide private credit alternatives to investors seeking exposure to lease and loan receivables, including those originated by Chesswood subsidiaries;
- Rifco National Auto Finance Corporation ("Rifco", or the "Canadian Auto Financing Segment"), which provides consumer financing for motor vehicle purchasers across Canada except for Quebec; and
- 1000390232 Ontario Inc ("Easy Legal"), which provides specialized financing solutions to the Canadian legal industry.

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

On a consolidated basis, the Company had 405 employees as at March 31, 2024 (409 employees as at December 31, 2023).

CONSOLIDATED RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023

U.S. dollar results for the three months ended March 31, 2024, were converted at an exchange rate of 1.3478, which was the average exchange rate for the period (three months ended March 31, 2023 - 1.3525). Separate information on our operating segments and their respective results of operations follow this section on our consolidated results of operations.

Financial Highlights:

- During the three months ended March 31, 2024, the Company continued entering into new agreements with mutual funds or partnerships managed by its affiliates for the non-recourse sale of leases and loans in exchange for fees. During the three months ended March 31, 2024, $341.9 million of U.S. and Canadian finance receivables were sold under such arrangements (three months ended March 31, 2023 - $106.0 million).
- On January 31, 2024, the U.S. Financing Segment closed the first sale of finance receivables to Bishop Holdings LLC, an entity owned by certain funds managed by Wafra Inc. ("Wafra Funds") and Pawnee.

Summary of Financial Results and Key Measures

As at and for the quarter ended			2022				2023	2024
($ thousands, except per share figures)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	$ 68,985	$ 73,054	$ 77,076	$ 81,143	$ 80,457	$ 80,013	$ 74,759	$ 68,799
Net revenue	43,635	46,686	39,853	32,204	35,115	27,115	10,859	24,292
Operating income (loss)	16,074	16,573	10,278	1,312	1,542	1,343	(41,933)	(6,134)
Income (loss) before income taxes	15,561	16,024	9,817	1,568	1,379	690	(40,714)	(6,304)
Income tax expense (recovery)	5,910	3,728	3,027	611	(468)	580	(5,000)	516
Net income (loss)	9,651	12,296	6,790	957	1,847	110	(35,714)	(6,820)
Basic earnings (loss) per share (1)	$ 0.52	$ 0.64	$ 0.36	$ 0.06	$ 0.11	$ 0.01	$ (1.80)	$ (0.34)
Diluted earnings (loss) per share (1)	0.46	0.58	0.33	0.06	0.10	0.01	(1.80)	(0.34)
Total assets	2,261,242	2,471,723	2,534,196	2,531,879	2,433,870	2,379,020	2,214,799	1,885,337
Long-term liabilities	2,002,186	2,191,422	2,259,996	2,256,204	2,171,831	2,113,339	1,982,597	1,661,563
Other Data								
Adjusted Operating Income (Loss) (2)	$ 20,980	$ 20,775	$ 12,703	$ 7,079	$ 1,698	$ 5,521	$ (11,730)	$ (17,308)
EBITDA (2)	33,719	34,445	37,706	33,644	31,216	33,973	15,442	23,531
Adjusted EBITDA (2)	23,087	16,737	12,819	7,897	(201)	6,865	(10,601)	(16,208)
Free Cash Flow (2)	15,745	11,956	8,806	5,729	365	5,329	(7,578)	(13,504)
Free Cash Flow per diluted share (2)	0.75	0.57	0.42	0.28	0.02	0.26	(0.38)	(0.68)
Return on Equity (3)	19.3 %	22.6 %	11.9 %	1.7 %	3.3 %	0.2 %	(69.2)%	(14.7)%
Dividends declared (4)	2,424	2,436	2,414	3,014	3,016	2,214	606	0
Dividends declared per share (5)	0.12	0.12	0.12	0.15	0.15	0.11	0.03	0.00

(1) Based on weighted average number of common shares outstanding (basic and diluted, respectively) during the period for income attributable to common shareholders.
(2) Adjusted Operating Income (Loss), EBITDA, Adjusted EBITDA, and Free Cash Flow are non-GAAP measures. See "Non-GAAP Measures" above for the definitions.
(3) Return on equity is the quarter's net income (loss) annualized (multiplied by four) divided by the quarterly average of total Equity (March 31, 2024 and December 31, 2023), as presented on the unaudited interim condensed consolidated statements of financial position.
(4) Includes dividends on Exchangeable Securities (non-controlling interest, as described below under "Statement of Financial Position") and special warrants.
(5) Dividends declared on common shares, Exchangeable Securities and special warrants.

The Company reported a consolidated net loss of $6.8 million for the three months ended March 31, 2024, compared to net income of $1.0 million for the same period of the prior year, a decrease of $7.8 million for the reasons described below.

A larger volume of off balance sheet sales occurred in Q1 2024, further progressing towards Chesswood's alternative asset management business. For the three months ended March 31, 2024, the Company sold $341.9 million of finance receivables to mutual funds or partnerships managed by its affiliates (March 31, 2023 - $106.0 million). As a result, the average finance receivables (after allowance for ECL) decreased by $476.5 million period over period, decreasing interest revenue by $12.8 million. Lower interest revenues were slightly offset by a $0.4 million increase in ancillary finance and other fee income due to greater reoccurring fee revenue streams. In addition, a non-cash unrealized loss of $1.7 million was recorded on the mark to market value of the warrants issued to an affiliate of Wafra Funds as part of the joint venture arrangement with Wafra Inc.

Average debt outstanding decreased by $425.7 million, resulting in a decrease in interest expense of $2.0 million compared to the same period in the prior year. Lower ECL provisions in the quarter resulted from lower average finance receivable balances and a reduction in stage one loss reserves associated with expected improvements in portfolio performance going forward. General and administrative expenses were $1.3 million higher compared to the same period in prior year, driven by expenses associated with lease and loan recovery costs, offset by reductions in personnel expenses of $3.2 million.

Return on equity and Adjusted Return on Equity each decreased for the three months ended March 31, 2024 compared to the same period in the prior year, primarily due to the decrease in net income offset partially by lower average equity period over period.

	Three months ended	
($ thousands)	March 31, 2024	March 31, 2023
Net income (loss)	$ (6,820)	$ 957
Annualized	x 4	x 4
Average equity	185,287	227,499
Return on equity	(14.7)%	1.7 %

	Three months ended	
($ thousands)	March 31, 2024	March 31, 2023
Net income (loss)	$ (6,820)	$ 957
Unrealized loss on warrant liability	1,669	—
Adjusted Net Income (Loss) (1)	(5,151)	957
Annualized	x 4	x 4
Average equity, including adjustments	186,121	227,499
Adjusted Return on Equity(1)	(11.1)%	1.7 %

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

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

	Three months ended March 31,		
($ thousands)	2024	2023	Change
Revenue	$ 68,799	$ 81,143	$ (12,344)
Interest expense	(28,964)	(30,957)	1,993
Net charge-offs	(28,861)	(12,874)	(15,987)
	10,974	37,312	(26,338)
Personnel expenses	(13,568)	(16,743)	3,175
General and administrative expenses	(14,318)	(13,030)	(1,288)
Depreciation	(396)	(460)	64
Adjusted Operating Income (Loss) *(1)*	(17,308)	7,079	(24,387)
Decrease (Increase) in allowance for ECL	13,318	(5,108)	18,426
Unrealized loss on warrant liability	(1,669)	—	(1,669)
Amortization	(475)	(659)	184
Operating income (loss)	(6,134)	1,312	(7,446)
Unrealized gain (loss) on foreign exchange	(170)	256	(426)
Income (loss) before income taxes	(6,304)	1,568	(7,872)
Income tax expense	(516)	(611)	95
Net income (loss)	$ (6,820)	$ 957	$ (7,777)

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

The provision for taxes for the consolidated entity during the three months ended March 31, 2024 was a expense of $0.5 million compared to an expense of $0.6 million in the same period in the prior year. The tax expense is mainly due to greater non-deductible non-cash expenses incurred in the three months ended March 31, 2024, compared to the same period in the prior year. The effective tax rate differs from the Canadian statutory tax rate due to permanent differences between accounting and taxable income.

U.S. EQUIPMENT FINANCING SEGMENT

The Company's largest operations are conducted by Pawnee, which, together with Tandem, accounted for 45% of consolidated revenue for the three months ended March 31, 2024. As at March 31, 2024, the U.S. Equipment Financing Segment employed 99 employees (102 employees as at December 31, 2023).

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

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

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

Pawnee's brokers predominantly originate prime (with "A" credit score) equipment finance transactions versus "B," "C" and "Start-up" rated customers. Pawnee's reliability, ease of service, focus on the broker-channel business and offering of competitive products has made Pawnee a top tier funding partner to its brokers relative to its competitors for prime originations. Pawnee's prime originations represented greater than 69% of its new originations during the three months ended March 31, 2024.

Tandem offers equipment financing for small and medium-sized businesses of all credit profiles through equipment manufacturers, distributors and dealers in the U.S. Tandem leverages Pawnee's infrastructure to offer vendor programs where it believes Pawnee can leverage its credit expertise in the small ticket market.

As at March 31, 2024, Pawnee's and Tandem's portfolios respectively represented 63% and 37%, of Chesswood's overall receivables portfolio in the U.S.

U.S. EQUIPMENT FINANCING PORTFOLIO METRICS

U.S. Equipment Financing Segment Finance Receivable Portfolio Statistics

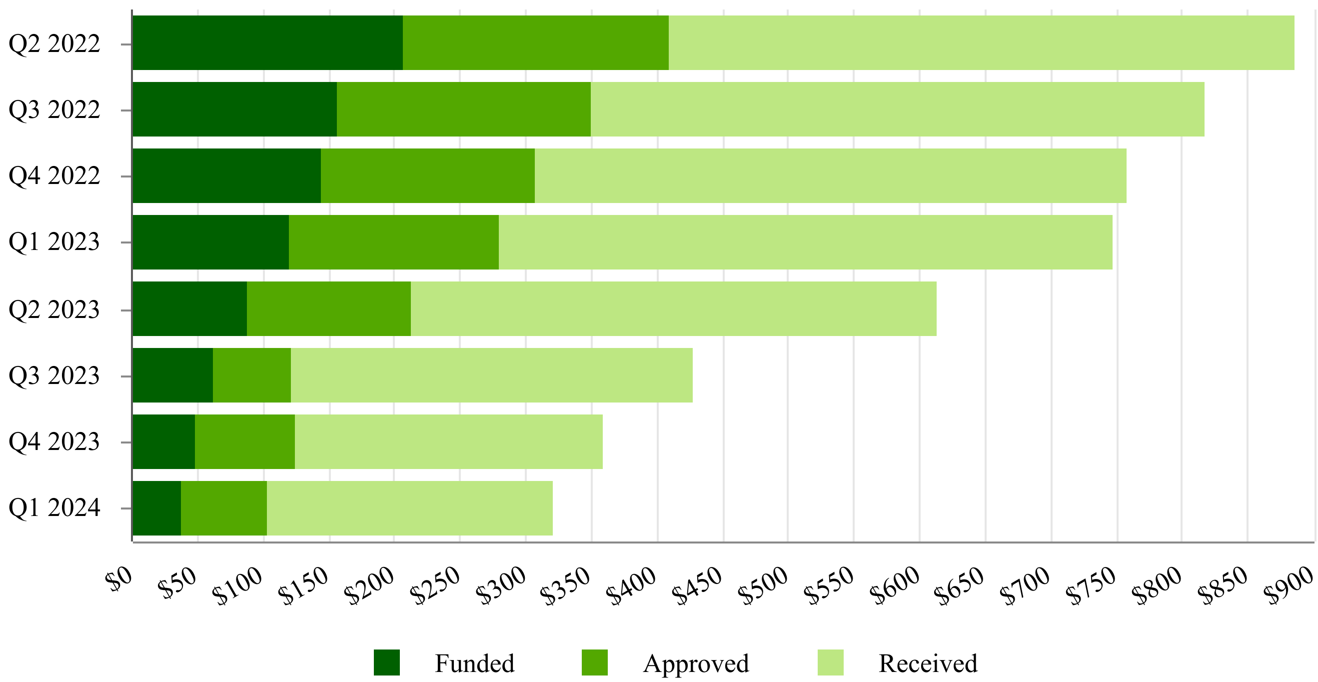
(in US$ thousands except # of leases/loans and %)

	June 30 2022	Sep 30 2022	Dec 31 2022	Mar 31 2023	June 30 2023	Sep 30 2023	Dec 31 2023	Mar 31 2024
Number of leases and loans outstanding (#)	24,266	24,246	24,756	24,585	23,790	23,612	23,469	19,598
Gross lease and loan receivables (“GLR”) (1)(2)	$1,131,304	$1,133,736	$1,162,115	$1,140,121	$1,076,052	$1,020,358	$962,308	$719,599
Residual receivables	$18,325	$17,819	$17,859	$17,953	$17,908	$17,808	$17,631	$13,501
Net investment in leases and loans receivables ("Net Finance Receivables" or "NFR"), before allowance (3)	$976,381	$980,906	$1,004,286	$986,844	$935,429	$891,072	$842,854	$645,073
Security deposits ("SD") (nominal value)(4)	$3,012	$2,624	$2,373	$1,802	$1,651	$1,164	$949	$847
Allowance for ECL	$17,676	$18,866	$20,284	$24,086	$24,175	$26,577	$30,788	$21,442
Allowance for ECL as % of NFR net of SD	1.82%	1.94%	2.02%	2.45%	2.59%	2.99%	3.66%	3.33%
Over 31 days delinquency (% of GLR) (5)	0.88%	1.36%	1.99%	2.79%	3.14%	4.21%	4.74%	5.21%
Net charge-offs for the three months ended	$1,150	$1,473	$2,484	$5,533	$8,282	$7,686	$11,971	$13,544
Provision for credit losses for the three months ended	$2,443	$2,663	$3,902	$9,335	$8,371	$10,088	$16,182	$4,198

Notes:

(1) Excludes residual receivables
(2) As at March 31, 2024, approximately 65% of U.S. GLR (excluding residuals) were in the prime market segment
(3) Excludes unearned income for interest on security deposits
(4) Excludes adjustment for discounting security deposits
(5) Over 31 days delinquency includes non-accrual GLR

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



The volumes table above includes information on contracts that were originated by the U.S. Equipment Financing Segment and sold to third-party investors through sales facilitated by CCM USA.

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

Results for the three months ended March 31, 2024 and 2023

The following table is a summary of select metrics and results for the U.S. Equipment Financing Segment for the three months ended March 31, 2024, and March 31, 2023:

($ thousands)	Three months ended March 31, 2024	Three months ended March 31, 2023
Interest revenue on finance leases and loans	$26,626	$35,380
Operating income (loss)	(701)	(443)
Finance receivables, net of allowance for ECL	844,567	1,302,691
Originations	51,036	162,491
Interest revenue yield	10.6%	10.5%
Net charge-offs as a percentage of finance receivables (before allowance for ECL)	7.3%	2.2%

The U.S. Equipment Financing Segment's interest revenue on leases and loans totaled $26.6 million for the three months ended March 31, 2024. Interest revenue decreased by $8.8 million when compared to the same period in the prior year due to a 26.2% decrease in average net investment in finance receivables (before allowance for ECL) to $1.0 billion as a result of continued off-balance sheet sales and lower originations. As a result, net investment in leases and loans (before allowance for ECL) as at March 31, 2024, was $461.9 million lower than as at March 31, 2023. In the absence of FX, the U.S. Equipment Financing Segment's interest revenue on leases and loans totaled US$19.8 million for the three months ended March 31, 2024. Interest revenue decreased US$6.4 million when compared to the same period in the prior year due to a decrease in average net investment in finance receivables to US$744.0 million. As a result, net investment in leases and loans (before allowance for ECL) as at March 31, 2024, was US$341.8 million lower than as at March 31, 2023. The average yield earned during the three months ended March 31, 2024, increased by 0.1% compared with the same period in the prior year (to 10.6%). The overall yield increased as the segment adjusted its products for increased costs of funding partially offset by the sale of current year higher yielding originations to mutual funds and partnerships, managed by Chesswood Capital Management USA Inc., to generate recurring fee-based revenue.

U.S. Equipment Financing Segment *(US$ thousands)*	Three months ended March 31, 2024	Three months ended March 31, 2023
Interest revenue on finance leases and loans	$ 19,756	$ 26,159
Annualized	x 4	x 4
Average NFR, before allowance	743,964	995,565
Interest revenue yield	10.6 %	10.5 %

Ancillary finance and other fee income was $4.5 million for the three months ended March 31, 2024, compared to the $5.9 million earned during the same period in the prior year. The decrease was driven by lower originations during the three months ended March 31, 2024, compared to the same period in the prior year.

The U.S. Equipment Financing Segment's interest expense was $15.8 million (US$11.7 million) for the three months ended March 31, 2024, a decrease of $1.8 million (US$1.3 million) compared to the same period in the prior year. This was a result of a $319.9 million (US $229.6 million) decrease in average debt outstanding compared to the same period in the prior year due to lower on balance sheet originations and the use of proceeds from off balance sheet sales to pay down debt.

During the three months ended March 31, 2024, the U.S. Equipment Financing Segment's provision for credit losses decreased by $7.0 million (US$5.1 million) when compared to the same period in the prior year. This was due to an increase in net charge-offs of $10.8 million (US$8.0 million) as a result of higher delinquencies compared to the same period in the prior year and a decrease in the change in allowance for ECL of $17.8 million (US$13.1 million) compared to the same period in the prior year. The decrease in change in allowance for ECL is due to a decrease in the portfolio size and a decrease in the provision rates to reflect a more favourable outlook for the U.S. markets compared to the same period in the prior year as delinquency rates have shown signs of peaking during the quarter, particularly reflected in the greater than 90 days past due delinquency (as a percentage of GLR).

U.S. Equipment Financing Segment	Three months ended	
(US$ thousands)	March 31, 2024	March 31, 2023
Impact of loan book growth	$ (7,221)	$ (350)
Impact of change in provision rate during the period	(2,125)	4,152
Change in allowance for ECL	(9,346)	3,802
Net charge-offs	13,544	5,533
Provision for credit losses	4,198	9,335
Average NFR, before allowance	743,964	995,565
Net charge-offs (annualized, x4) as a percentage of finance receivables	7.3 %	2.2 %

Personnel expenses including share based compensation in the U.S. Equipment Financing Segment were $4.4 million (US$3.3 million) for the three months ended March 31, 2024. This was a decrease of $1.6 million (US$1.2 million) compared to the same period in the prior year due to a decrease of 50 in the average number of staff during the period compared to the same period in the prior year. General and administrative expenses increased by $0.6 million (US$0.5 million) compared to the same period in the prior year due to increased costs of recoveries.

During the three months ended March 31, 2024, the U.S. Equipment Financing Segment had an operating loss of $0.7 million compared with an operating loss of $0.4 million for the same period in 2023 mainly due to decreased revenues offset by lower provision for credit losses, interest expenses, and personnel expenses.

CANADIAN EQUIPMENT FINANCING SEGMENT

On April 30, 2021, Blue Chip Leasing Corporation ("Blue Chip", then a subsidiary of the Company) was merged with its primary competitor in the Canadian equipment finance sector, Vault Credit. The merger was achieved through the sales of each of Blue Chip and Vault Credit into a newly formed subsidiary of Chesswood, CHW/Vault Holdco Corp. (the "Canadian Holdco"), of which Chesswood now owns 51%. Chesswood exercised control of Blue Chip and Vault Credit through the board of directors of the Canadian Holdco. The change of ownership interest in Blue Chip as a result of the merger was a common control reorganization accounted for at consolidated book value.

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

During the three months ended March 31, 2024, $112.0 million of finance receivables were sold to VCOF SPV I Inc and Vault Financial Corporation ("VFC") (March 31 2023 - $39.1 million). Both VCOF SPV I Inc and VFC are corporations controlled by Daniel Wittlin, the Chief Executive Officer of Vault Credit and a Director of Chesswood. The segment earned $2.5 million of fee revenue for the three months ended March 31, 2024 (March 31 2023 - $0.6 million).

The Canadian Equipment Financing Segment accounted for 30% of the Company's consolidated revenue for the three months ended March 31, 2024. This segment's portfolio risk is mitigated by its diversification across geographies, industries, equipment types, equipment cost, vendors, brokers and credit classes. The Canadian Equipment Financing Segment had 151 full-time equivalent employees as at March 31, 2024 (unchanged from December 31, 2023).

CANADIAN EQUIPMENT FINANCING PORTFOLIO METRICS

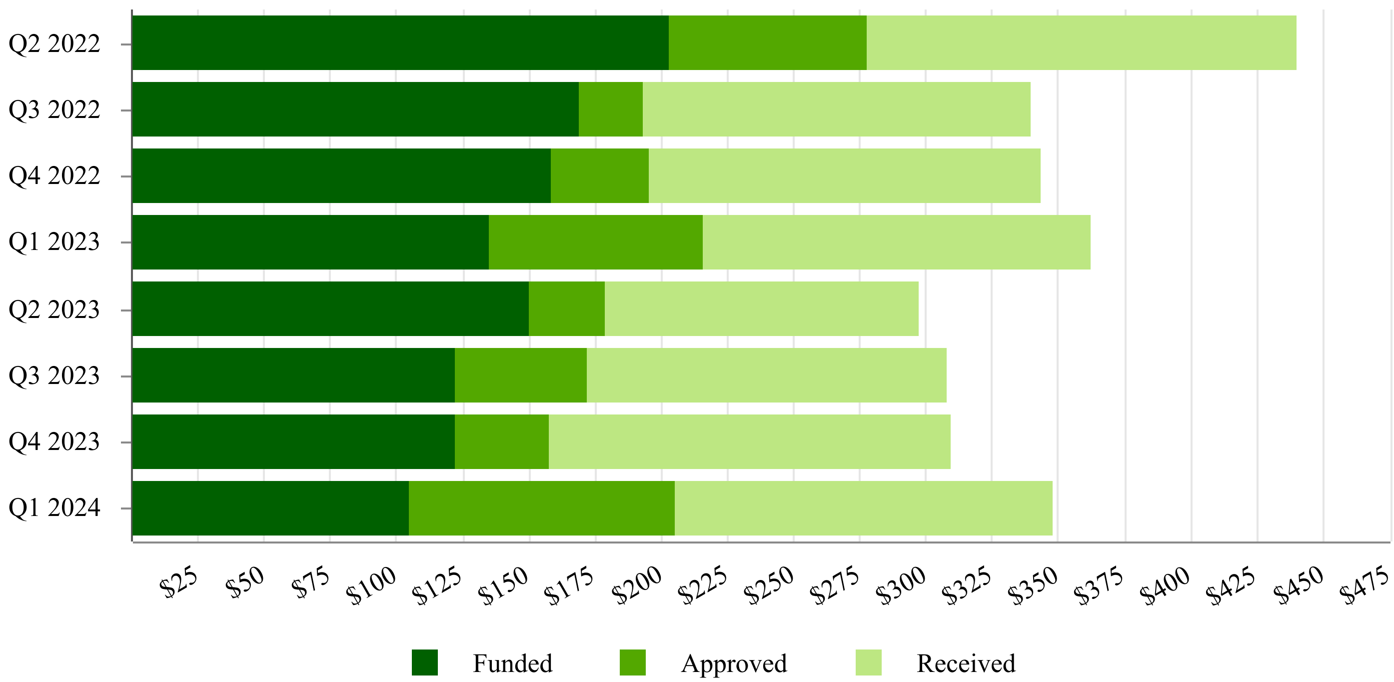
Canadian Equipment Financing Segment Finance Receivable Portfolio Statistics[3]

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

	June 30 2022	Sep 30 2022	Dec 31 2022	Mar 31 2023	June 30 2023	Sep 30 2023	Dec 31 2023	Mar 31 2024
Number of leases and loans outstanding (#)	27,074	29,032	30,720	30,499	29,110	28,562	26,737	24,313
Gross lease and loan receivables (“GLR”) [1]	$650,528	$746,194	$817,932	$806,421	$760,827	$741,653	$681,983	$584,300
Residual receivables [2]	$11,080	$12,948	$14,967	$15,300	$15,262	$15,577	$15,560	$14,740
Net finance receivables ("NFR"), before allowance	$592,908	$677,911	$740,363	$729,793	$687,524	$659,208	$608,647	$525,944
Allowance for ECL	$7,968	$8,845	$9,979	$9,677	$8,691	$8,252	$7,749	$6,545
Allowance for ECL as % of NFR	1.34%	1.30%	1.35%	1.33%	1.26%	1.25%	1.27%	1.24%
Over 31 days delinquency (% of NFR)	0.46%	0.61%	0.61%	0.99%	1.51%	1.99%	1.55%	2.02%
Net charge-offs for the three months ended	$982	$1,313	$2,028	$1,813	$2,227	$3,376	$3,472	$3,687
Provision for credit losses for the three months ended	$2,603	$2,190	$3,162	$1,511	$1,241	$2,937	$2,969	$2,483

Notes:
(1) Excludes residual receivables
(2) Residuals include guaranteed and unguaranteed purchase options. As at March 31, 2024, 99% of the residuals are purchase options contractually obligated to be exercised
(3) Historical figures are exclusive of Vault Home and Easy Legal. Vault Home is now reported in the "Canadian Consumer Financing Segment" section of this MD&A. Easy Legal is now reported in the "Corporate - Canada Segment".

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



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

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

Results for the three months ended March 31, 2024 and 2023

The following table is a summary of select metrics and results for the Canadian Equipment Financing Segment for the three months ended March 31, 2024 and March 31, 2023:

Canadian Equipment Financing Segment *($ thousands)*	Three months ended March 31, 2024	March 31, 2023
Interest revenue on finance leases and loans	$ 14,418	$ 20,047
Operating income	865	2,506
Finance receivables, net of allowance for ECL	519,399	720,114
Originations	100,658	126,343
Interest revenue yield	10.2 %	10.9 %
Net charge-offs as a percentage of finance receivables (before allowance for ECL)	2.6 %	1.0 %

During the three months ended March 31, 2024, the Canadian Equipment Financing Segment generated revenue of $20.4 million ($14.4 million interest revenue and $6.0 million ancillary finance and other fee income), a decrease of $4.0 million ($5.6 million decrease in interest revenue offset by a $1.6 million increase in ancillary finance and other fee income) when compared to the same period in the prior year. The Canadian Equipment Financing Segment's average net investment in finance receivables (before allowance for ECL) decreased by approximately $167.8 million for the three months ended March 31, 2024 compared to the same period in the prior year. In addition, the average number of finance receivable contracts outstanding decreased by 5,085 during the three months ended March 31, 2024 compared to the same period in the prior year. Although the segment is adjusting its products for increased costs of funding, the average annualized interest revenue yield earned on the Canadian Equipment Financing Segment's net finance receivables decreased by 0.7% for the three months ended March 31, 2024 when compared to the same period in the prior year. This is due to the sale of current year higher yielding originations through off-balance sheet conduits to generate recurring fee-based revenue. These sales also resulted in the reduction of higher-yielding products with greater credit risk. The segment also facilitated the sale of $112.0 million of finance receivables to VCOF SPV I Inc. and VFC during the three months ended March 31, 2024. The segment earned $2.5 million, related to these sales for the three months ended March 31, 2024, increasing ancillary finance and other fee income.

Canadian Equipment Financing Segment *($ thousands)*	Three months ended March 31, 2024	March 31, 2023
Interest revenue on finance leases and loans	$ 14,418	$ 20,047
Annualized	x 4	x 4
Average NFR, before allowance	567,296	735,078
Interest revenue yield	10.2 %	10.9 %

The Canadian Equipment Financing Segment's provision for credit losses was $2.5 million for the three months ended March 31, 2024. This was an increase of $1.0 million when compared to the same period in prior year. The change in the provision for credit losses was the result of a decrease in the change in allowance for ECL of $0.9 million offset by an increase in net charge-offs of $1.9 million. The higher net charge-offs were the result of higher delinquencies compared to the same period in the prior year as the average over 31 days of delinquency increased by 1.0%. Change in allowance for ECL decreased due to a decrease in the size of the portfolio and a slightly lower provision rate applied to reflect a more favourable outlook.

Canadian Equipment Financing Segment	Three months ended	
($ thousands)	March 31, 2024	March 31, 2023
Impact of loan book growth	$ (1,053)	$ (7)
Impact of change in provision rate during the year	(151)	(295)
Change in allowance for ECL	(1,204)	(302)
Net charge-offs	3,687	1,813
Provision for credit losses	2,483	1,511
Average NFR, before allowance	567,296	735,078
Net charge-offs (annualized, x4) as a percentage of finance receivables	2.6 %	1.0 %

The Canadian Equipment Financing Segment's interest expense was $7.9 million for the three months ended March 31, 2024. This was a decrease of $1.7 million compared to the same period in the prior year due to a decrease in the average borrowings of $134.5 million compared to the same period in the prior year due to lower on balance sheet originations and the use of proceeds from off balance sheet sales to pay down debt.

The Canadian Equipment Financing Segment's personnel expenses including share based compensation were $3.9 million for the three months ended March 31, 2024, a decrease of $1.8 million compared to the same period in the prior year. This was a result of a decrease of 26 average employees when compared to the same period in the prior year. General and administrative expenses in the three months increased by $0.5 million compared to the same period in the prior year.

Overall, the Canadian Equipment Financing Segment's operating income totalled $0.9 million for the three months ended March 31, 2024, a decrease of $1.6 million compared to the same period in the prior year due to lower revenues offset partially by lower interest expense and personnel expenses.

CANADIAN CONSUMER FINANCING SEGMENT

On September 14, 2021, Chesswood Holdings Ltd. acquired a number of common shares of Vault Home that constituted 51% of the outstanding common shares for a subscription price of $1.0 million and a commitment to provide an aggregate of $1.5 million of capital contributions upon the request of the Vault Home board of directors (which was fully advanced in November 2021). Vault Home is incorporated in Ontario. The Company exercises control over Vault Home through the ability to control the decisions of Vault Home's board of directors, through a priority vote related to those activities that are most relevant to determining returns.

During the three months ended March 31, 2024, $27.0 million of finance receivables (March 31, 2023 - n/a) were sold to VCOF SPV I Inc., a corporation controlled by Daniel Wittlin, the Chief Executive Officer of Vault Credit, and a Director of Chesswood. The segment earned $0.1 million of fee revenue for the three months ended March 31, 2024.

The Canadian Consumer Financing Segment accounted for 3% of the Company's consolidated revenue for the three months ended March 31, 2024. This segment's portfolio risk is mitigated by its primarily prime loan book, as well as diversification across geographies and loan collateral types. The Canadian Consumer Financing Segment had 16 full-time equivalent employees as at March 31, 2024 (15 employees as at December 31, 2023).

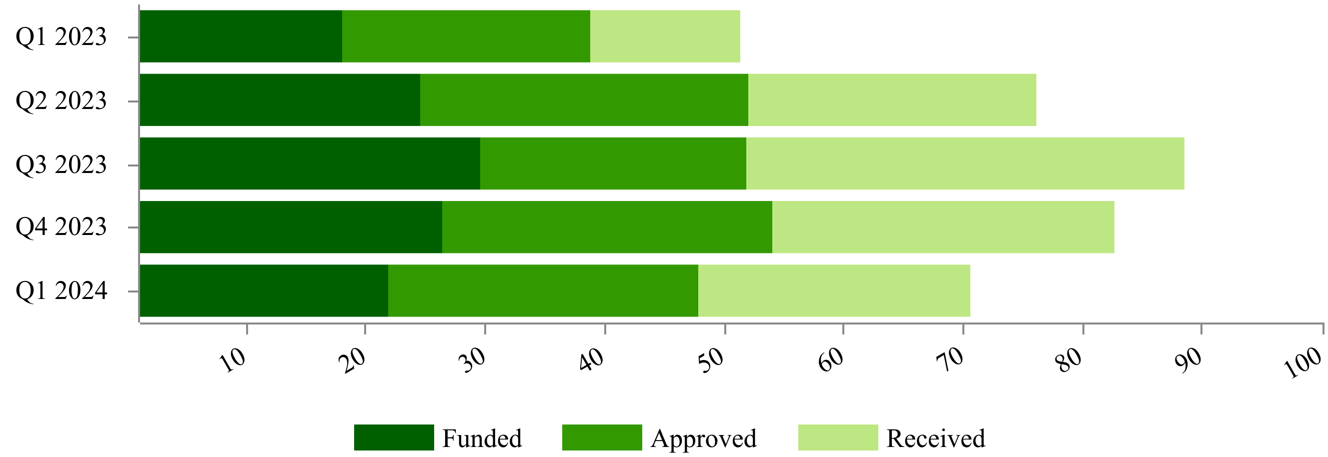
CANADIAN CONSUMER FINANCING PORTFOLIO METRICS

Canadian Consumer Financing Segment Finance Receivable Portfolio Statistics

(in $ thousands except # of loans and %)

	Mar 31 2023	June 30 2023	Sep 30 2023	Dec 31 2023	Mar 31 2024
Number of loans outstanding (#)	3,342	4,373	5,436	4,542	3,763
Gross loan receivables (“GLR”)	$61,897	$84,246	$110,071	$83,526	$63,115
Net finance receivables ("NFR"), before allowance	$45,393	$62,697	$83,700	$65,062	$51,236
Allowance for ECL	$117	$164	$219	$168	$132
Allowance for ECL as % of NFR	0.26%	0.26%	0.26%	0.26%	0.26%
Over 31 days delinquency (% of NFR)	0.10%	0.27%	0.46%	0.80%	1.63%
Net charge-offs (recoveries) for the three months ended	$48	$(3)	$23	$33	$29
Provision for credit losses for the three months ended	$93	$44	$78	$(18)	$(7)

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



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

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

Results for the three months ended March 31, 2024 and 2023:

The following table is a summary of select metrics and results for the Canadian Consumer Financing Segment for the three months ended March 31, 2024, and March 31, 2023.

Canadian Consumer Financing Segment *($ thousands)*	Three months ended March 31, 2024	 March 31, 2023
Interest revenue on finance leases and loans	$ 1,553	$ 922
Operating loss	(291)	(485)
Finance receivables, net of allowance for ECL	51,104	45,276
Originations	22,617	18,183
Interest revenue yield	10.7 %	9.6 %
Net charge-offs as a percentage of finance receivables (before allowance for ECL)	0.2 %	0.5 %

The Canadian Consumer Financing Segment generated revenue of $1.9 million ($1.6 million interest revenue and $0.3 million ancillary finance and other fee income) during the three months ended March 31, 2024, an increase of $0.8 million ($0.6 million increase in interest revenue and a $0.2 million increase in ancillary finance and other fee income) from the same period in the prior year. The Canadian Consumer Financing Segment's average net investment in finance receivables (before allowance for ECL) increased by approximately $19.5 million for the three months ended March 31, 2024 compared to the same period in the prior year. This was a result of the average number of finance receivable contracts outstanding increasing by 1,255 compared to the same period in the prior year. The average annualized interest revenue yield earned on the Canadian Consumer Financing Segment's average net finance receivables (before allowance for ECL) increased to 10.7% (from 9.6%) as the Canadian Consumer Financing Segment adjusts its products for increased costs of funding.

Canadian Consumer Financing Segment *($ thousands)*	Three months ended March 31, 2024	 March 31, 2023
Interest revenue on finance leases and loans	$ 1,553	$ 922
Annualized	x 4	x 4
Average NFR, before allowance	58,149	38,617
Interest revenue yield	10.7 %	9.6 %

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

Canadian Consumer Financing Segment *($ thousands)*	Three months ended March 31, 2024	 March 31, 2023
Impact of loan book growth	$ (36)	$ 45
Impact of change in provision rate during the period	—	—
Change in allowance for ECL	(36)	45
Net charge-offs	29	48
Provision for credit losses	(7)	93
Average NFR, before allowance	58,149	38,617
Net charge-offs (annualized, x4) as a percentage of finance receivables	0.2 %	0.5 %

The Canadian Consumer Financing Segment's interest expense increased by $0.4 million compared to the same period in the prior year. This was due to an increase in average debt outstanding by $39.4 million when compared to the same period in the prior year as a result of an increase in the segment's finance receivables portfolio.

The Canadian Consumer Financing Segment's personnel expenses were $0.5 million for the three months ended March 31, 2024, an increase of $0.2 million compared to the same period in the prior year. This was a result of an increase by 6 in average employees to accommodate the segment's growing finance receivables portfolio. General and administrative expenses were $0.4 million for the three months ended March 31, 2024, an insignificant increase compared to the same period of the prior year.

Overall, the Canadian Consumer Financing Segment's operating loss totalled $0.3 million for the three months ended March 31, 2024, which decreased slightly from its operating loss of $0.5 million during the same period in the prior year.

CANADIAN AUTO FINANCING SEGMENT

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

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

The Canadian Auto Financing Segment accounted for 18% of the Company's consolidated revenue for the three months ended March 31, 2024. The segment's portfolio risk is mitigated by its diversification across geographies, vehicle types, dealers and credit classes. The segment had 109 full-time equivalent employees as at March 31, 2024 (108 employees as at December 31, 2023).

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

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

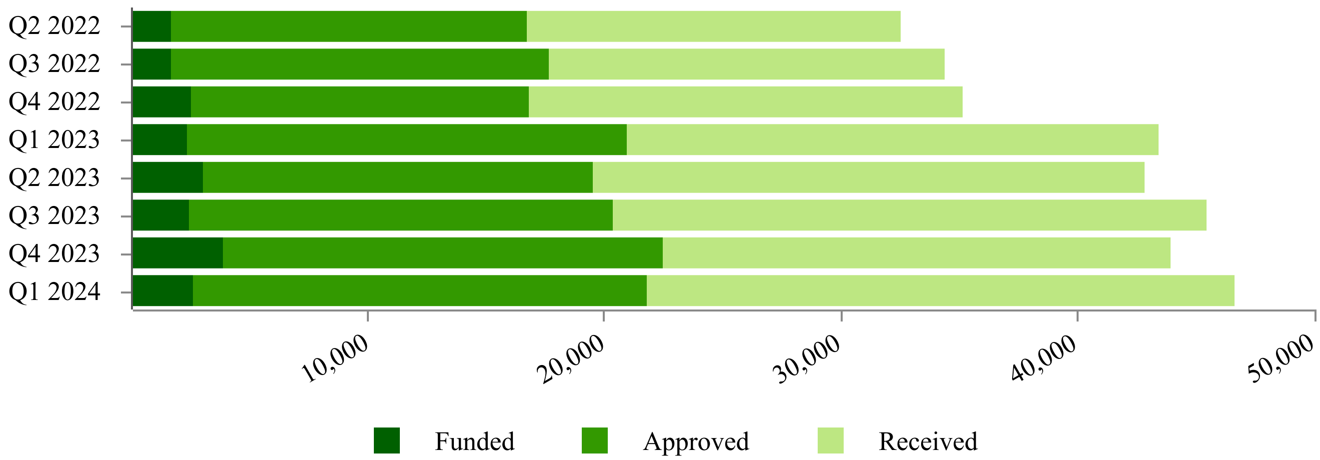
CANADIAN AUTO FINANCING PORTFOLIO METRICS

Canadian Auto Financing Segment Finance Receivable Portfolio Statistics

(in $ thousands except # of loans and %)

	June 30 2022	Sep 30 2022	Dec 31 2022	Mar 31 2023	June 30 2023	Sep 30 2023	Dec 31 2023	Mar 31 2024
Number of loans outstanding (#)	12,506	12,916	14,234	15,143	16,505	17,325	19,644	20,412
Gross loan receivables (“GLR”)	$348,729	$356,167	$370,838	$398,187	$411,123	$414,864	$423,522	$418,268
Refundable application fees	$3,866	$3,964	$4,128	$4,319	$4,495	$4,538	$4,694	$4,598
Net finance receivables ("NFR"), before allowance	$224,907	$231,198	$242,810	$254,102	$262,841	$264,703	$275,030	$271,496
Allowance for ECL	$13,359	$14,425	$13,158	$13,380	$13,624	$14,142	$15,571	$16,073
Allowance for ECL as % of NFR	5.94%	6.24%	5.42%	5.27%	5.18%	5.34%	5.66%	5.92%
Over 31 days delinquency (% of NFR)	7.25%	6.31%	5.48%	6.16%	5.66%	6.01%	6.33%	6.28%
Net charge-offs for the three months ended	$1,463	$2,332	$3,215	$3,530	$3,878	$3,600	$5,352	$6,790
Provision for credit losses for the three months ended	$2,481	$3,398	$1,948	$3,752	$4,122	$4,118	$6,781	$7,292

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



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

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

Results for the three months ended March 31, 2024 and 2023

The following table is a summary of select metrics and results for the Canadian Auto Financing Segment for the years ended March 31, 2024, and March 31 2023:

($ thousands)	Three months ended March 31, 2024	March 31, 2023
Interest revenue on finance leases and loans	$ 11,650	10,902
Operating income (loss)	(2,873)	1,011
Finance receivables, net of allowance for ECL	255,423	240,721
Originations	26,908	39,602
Interest revenue yield	17.1 %	17.6 %
Net charge-offs as a percentage of finance receivables (before allowance for ECL)	9.9 %	5.7 %

During the three months ended March 31, 2024, the Canadian Auto Financing Segment generated revenue of $12.3 million ($11.7 million interest revenue and $0.6 million ancillary finance and other fee income) compared to $11.6 million ($10.9 million interest revenue and $0.7 million ancillary finance and other fee income) during the same period in the prior year. The segment's average net investment in finance receivables (before allowance for ECL) was $273.3 million for the three months ended March 31, 2024 compared to $248.5 million during the same period in the prior year, an increase of $24.8 million. The interest revenue yield earned on the Canadian Auto Financing Segment's net finance receivables was 17.1% during the period, a decrease of 0.5% compared to the same period in the prior year.

Canadian Auto Financing Segment ($ thousands)	Three months ended March 31, 2024	March 31, 2023
Interest revenue on finance leases and loans	$ 11,650	$ 10,902
Annualized	x 4	x 4
Average NFR, before allowance	273,264	248,456
Interest revenue yield	17.1 %	17.6 %

During the three months ended March 31, 2024, the Canadian Auto Financing Segment's interest expense was $3.8 million compared to $3.1 million in the same period in the prior year. The increase of $0.7 million is due to an increase in average debt outstanding of approximately $20.6 million during the three months ended March 31, 2024 when compared to the same period of the prior year. The increase in debt was due to the growth in finance receivables period over period.

The Canadian Auto Financing Segment's provision for credit losses was $7.3 million for the three months ended March 31, 2024, an increase of $3.5 million compared to the same period in the prior year. The change in the provision for credit losses was the result of an increase in net charge-offs of $3.2 million and an increase in the change in allowance for ECL of $0.3 million. The higher net charge-offs were the result of higher delinquencies compared to the same period in the prior year as the average over 31 days of delinquency increased by 0.5%. The change in allowance for ECL increased due to increased provision rates as management maintains a conservative outlook for the automobile lending industry for the next 12 months.

Canadian Auto Financing Segment	Three months ended	
($ thousands)	March 31, 2024	March 31, 2023
Impact of loan book growth	$ (201)	$ 611
Impact of change in provision rate during the period	703	(389)
Change in allowance for ECL	502	222
Net charge-offs	6,790	3,530
Provision for credit losses	7,292	3,752
Average NFR, before allowance	273,264	248,456
Net charge-offs (annualized, x4) as a percentage of finance receivables	9.9 %	5.7 %

The Canadian Auto Financing Segment's personnel expenses remained relatively flat for the three months ended March 31, 2024 compared to the same period in the prior year. General and administrative expenses was $1.5 million for the three months ended March 31, 2024, an increase of $0.3 million when compared to the same period in the prior year. This increase was a result of higher collections costs during the period.

Overall, the Canadian Auto Financing Segment's operating loss totaled $2.9 million for the three months ended March 31, 2024, a decrease of $3.9 million compared to the same period in the prior year. The decreased operating income was mainly due to the increased provision for credit losses.

ASSET MANAGEMENT SEGMENT

Chesswood's asset management operations offer investment products to clients, including providing private credit alternatives to investors seeking exposure to lease and loan receivables originated by Chesswood subsidiaries.

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

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

The Asset Management Segment accounted for 3% of consolidated revenue for the three months ended March 31, 2024. The segment had six full-time equivalent employees as at March 31, 2024 (seven full-time employees as at December 31, 2023).

During the three months ended March 31, 2024, the Asset Management Segment facilitated finance receivable sales under agreements with mutual funds or partnerships managed by its affiliates for $202.9 million (March 31, 2023 - $66.9 million). The sales were non-recourse for leases and loans originated by various Chesswood subsidiaries. The segment recognized total revenues of $2.2 million for the three months ended March 31, 2024, compared with $2.5 million generated during the same period of the prior year. The income was partially offset by other expenses related to setting up the initial agreements between CCM USA and its clients as well as personnel costs. Overall, the Asset Management Segment's operating income was $1.1 million during the three months ended March 31, 2024, compared with $1.5 million recorded in the same period in the prior year.

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

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

For the quarter ended			2022				2023	2024
($ thousands)	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net income (loss)	$ 9,651	$ 12,296	$ 6,790	$ 957	$ 1,847	$ 110	$(35,714)	$ (6,820)
Interest expense	17,133	17,284	26,875	30,957	28,661	32,111	32,192	28,964
Income tax expense (recovery)	5,910	3,728	3,027	611	(468)	580	(5,000)	516
Goodwill and intangible asset impairment	—	—	—	—	—	—	22,886	—
Amortization and depreciation	1,025	1,137	1,014	1,119	1,176	1,172	1,078	871
EBITDA [1]	33,719	34,445	37,706	33,644	31,216	33,973	15,442	23,531
Interest expense	(17,133)	(17,284)	(26,875)	(30,957)	(28,661)	(32,111)	(32,192)	(28,964)
Non-cash revaluation of option liability	608	(5,590)	(1,198)	(169)	(3,239)	—	—	—
Unrealized loss on warrant liability	—	—	—	—	—	—	—	1,669
Non-cash change in finance receivables allowance for ECL [2]	4,313	3,542	1,834	5,108	(556)	3,472	6,609	(13,318)
Share-based compensation expense	1,067	1,075	891	527	876	878	759	704
Unrealized loss (gain) on foreign exchange	513	549	461	(256)	163	653	(1,219)	170
Adjusted EBITDA [1][2]	23,087	16,737	12,819	7,897	(201)	6,865	(10,601)	(16,208)
Maintenance capital expenditures	(265)	(26)	(423)	(202)	(75)	(69)	(147)	(383)
Income tax impact of non-cash change in allowance for ECL [2]	(1,167)	(1,027)	(563)	(1,355)	173	(887)	(1,830)	3,603
Income tax (expense) recovery	(5,910)	(3,728)	(3,027)	(611)	468	(580)	5,000	(516)
Free Cash Flow (FCF) [1][2]	$ 15,745	$ 11,956	$ 8,806	$ 5,729	$ 365	$ 5,329	$ (7,578)	$(13,504)
FCF per diluted share	$ 0.75	$ 0.57	$ 0.42	$ 0.28	$ 0.02	$ 0.26	($0.38)	($0.68)
FCF L4PQ divided by 4 [1][3]	$ 11,256	$ 13,156	$ 13,599	$ 12,929	$ 10,559	$ 6,714	$ 5,057	$ 961
Maximum Permitted Dividends [1][3]	$ 10,130	$ 11,841	$ 12,239	$ 11,636	$ 9,503	$ 6,043	$ 4,551	$ 865
Dividends declared [4]	$ 2,425	$ 2,436	$ 2,414	$ 3,014	$ 3,016	$ 2,214	$ 606	—

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

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

(3) The FCF L4PQ is calculated on a monthly basis as required by the terms of Chesswood's revolving credit facility. This calculation uses Chesswood's most recent four quarters' published results. The FCF L4PQ, in any one quarter, is the basis for the monthly Maximum Permitted Dividends in that quarter (1/12 of 90% of FCF L4PQ) and will not include the FCF for the currently published quarter as they are released/published after the final month of the respective reporting period.

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

On November 7, 2022, the Company announced an increase to its dividend per share to $0.05 per month (or $0.60 per year), effective January 31, 2023. On September 18, 2023, the Company announced a decrease to its dividend per share to $0.01 per month (or $0.12 per year) effective September 29, 2023. On January 22, 2024, the Company announced a suspension of the monthly dividend. See "Liquidity and Capital Resources - Dividends to Shareholders" below.

STATEMENT OF FINANCIAL POSITION

The total consolidated assets of the Company as at March 31, 2024, were $1.9 billion, a decrease of $329.5 million from December 31, 2023. The U.S. dollar exchange rate on March 31, 2024 was 1.3543, compared to 1.3255 as at December 31, 2023. The increase in the foreign exchange rate represents an increase of $25.2 million in assets.

Cash totalled $17.4 million as at March 31, 2024, an increase of $4.4 million from December 31, 2023. The Company's objective is to maintain low cash balances, investing any excess cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. See the "Liquidity and Capital Resources" section of this MD&A for a discussion of cash movements during the three months ended March 31, 2024 and 2023.

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

Other assets totalled $20.6 million as at March 31, 2024, a decrease of $3.5 million from December 31, 2023. The decline is mainly related to a decrease in sales taxes receivables and general accounts receivables as a greater volume of originations are sold off balance sheet.

The Company had current tax receivables of $2.0 million, a decrease from $7.0 million as at December 31, 2023. As certain segments had made tax installment payments to tax authorities that exceeded their current tax expense, a current tax receivable balance remains.on the statement of financial position as of March 31, 2024.

Net finance receivables consist of the following:

($ thousands)	March 31, 2024	December 31, 2023
U.S. equipment finance receivables	**$ 844,567**	$ 1,076,254
Canadian equipment finance receivables	**519,399**	$ 600,898
Canadian automotive finance receivables	**255,423**	259,459
Canadian consumer finance receivables	**51,104**	$ 64,894
Corporate finance receivables	**10,586**	10,210
	$ 1,681,079	$ 2,011,715

Gross finance receivables consists of the following:

($ thousands)	For the three months ended March 31, 2024	For the year ended December 31, 2023
Opening gross finance receivables	**$ 2,513,884**	$ 2,839,733
Gross loan originations	**141,720**	1,192,217
Principal payments, collections from sale of assets and adjustments	**(538,276)**	(1,430,419)
Charge-offs	**(33,308)**	(87,647)
Ending gross finance receivables	**$ 2,084,020**	$ 2,513,884

Net finance receivables decreased by $330.6 million, or 16.4%, during the three months ended March 31, 2024. The increase in the foreign exchange rate compared to December 31, 2023 increased the U.S. finance receivables by $23.4 million. The decrease in net finance receivables was mainly driven by off-balance sheet sales, lower originations and greater charge-offs.

During the three months ended March 31, 2024, $341.9 million of U.S. and Canadian finance receivables were sold under such arrangements.

The $1.7 billion in finance receivables is net of $52.0 million in allowance for ECL as at March 31, 2024, compared to $64.5 million in allowance for ECL as at December 31, 2023, a decrease of $12.5 million. The allowance for ECL as a percentage of finance receivables (before allowance for ECL) decreased by 0.1% to reflect a more favourable outlook based on the current and forward-looking macroeconomic factors.

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

The measurement of allowance for ECL and the assessment of 'significant increase' (per IFRS 9) in credit risk considers information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information also requires judgment when calculating the ECL. The Company’s allowance for ECL for the three months ended March 31, 2024 and year ended December 31, 2023, respectively, were determined as follows:

($ thousands)	For the three months ended March 31, 2024	For the year ended December 31, 2023
Opening allowance for ECL	**$ 64,472**	**$ 50,680**
Net recoveries (charge-offs)	**(28,861)**	**(72,525)**
Provision for credit losses	**15,543**	**87,158**
Foreign exchange	**826**	**(841)**
Ending allowance for ECL	**$ 51,980**	**$ 64,472**
Finance receivables	**$ 1,681,079**	**$ 2,011,715**
Allowance for ECL as a percentage of finance receivables (before allowance for ECL)	**3.0 %**	**3.1 %**

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

On October 31, 2023, Chesswood announced the establishment of Bishop Holdings LLC between Wafra Funds and Pawnee. As at March 31, 2024, Pawnee owns 10% of the LLC and accounts for the investment under the equity method. The carrying value of the investment was $3.8 million as at March 31, 2024. See Note 17(b) - *Subsidiaries and Investment in Associate* in the unaudited interim condensed consolidated financial statements for more detail.

The Company's deferred tax assets increased by $1.5 million, from $12.0 million as at December 31, 2023, to $13.5 million as at March 31, 2024. This was mainly driven by the increase in the corporate deferred tax asset. The deferred tax asset is based on temporary tax differences and non-capital loss carryforwards.

Intangible assets totalled $19.9 million as at March 31, 2024, compared to $20.1 million as at December 31, 2023, a $0.2 million decrease. This decrease was mainly due to amortization of $0.5 million offset by $0.3 million of software additions (see to Note 7 - *Intangible Assets* in the unaudited interim condensed consolidated financial statements for more detail). The intangible assets of broker relationships and trade names do not require any outlay of cash to be maintained, as the creation of lease and loan receivables does not require an outlay of cash, other than commissions, which are separately expensed over the terms of the lease and loan receivables.

Goodwill totalled $33.5 million as at March 31, 2024, which remained unchanged from December 31, 2023. See Note 8 - *Goodwill* in the unaudited interim condensed consolidated financial statements for more detail.

Accounts payable and other liabilities totalled $37.0 million as at March 31, 2024, compared to $41.9 million as at December 31, 2023, a decrease of $4.9 million. The main driver of this decrease was lower accrued expenses, general accounts payables, and vendor payables as a result of decreased originations compared to the prior year.

The option liability established upon the merger of Blue Chip and Vault Credit remained unchanged. See Note 2 - *Material Accounting Policy Information* of the audited consolidated financial statements for the year ended December 31, 2023, for further detail on the option liability.

In January 2024, Chesswood issued warrants to purchase 2,083,949 Chesswood common shares to an affiliate of Wafra Funds (the "Warrants"). The Warrants are exercisable at $10 per Common Share, can be exercised at the option of the holder on a cashless basis and have certain features to protect the holder from dilution and other material corporate events. As a result, under IAS 32, *Financial Instruments: Presentation*, the Warrants have been recognized as a liability. The liability related to the value of the Warrants was $1.7 million as at March 31, 2024 . See Note 17(b) - *Subsidiaries and Investment in Associate* in the unaudited interim condensed consolidated financial statements for more detail.

Borrowings totalled $1.6 billion as at March 31, 2024, a decrease of $316.7 million since December 31, 2023. The U.S. Equipment Financing Segment's debt decreased $184.6 million, the Canadian Equipment Financing Segment's debt decreased by $50.8 million, the Canadian Consumer Finance Segment's debt increased by $4.6 million and the Canadian Auto Segment's debt decreased by $0.8 million. The drawdown under the Chesswood revolving credit facility decreased by $86.6 million, and deferred financing costs decreased by $1.3 million since December 31, 2023. The reduction in borrowings was mainly due to lower on balance sheet originations and the use of proceeds from off balance sheet sales to pay down debt. Please see Note 9 - *Borrowings* in the unaudited interim condensed consolidated financial statements for more detail.

Deferred tax liabilities as at March 31, 2024 totalled $17.4 million compared to $23.3 million as at December 31, 2023, a decrease of $5.9 million. Taxes are provided for following the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the subsidiaries' assets and liabilities and their corresponding tax bases.

As at March 31, 2024, there were 18,516,538 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of $135.9 million. During the three months ended March 31, 2024, 74,101 restricted share units ("RSUs") and 133,333 special warrants were automatically exercised. See Note 12 - *Common Shares* and Note 13 - *Compensation Plans* in the unaudited interim condensed consolidated financial statements for more detail.

In January 2023, the Company's Board of Directors approved the repurchase for cancellation of up to 1,033,781 of the Company's outstanding common shares for the period commencing January 25, 2023, and ending on January 24, 2024. During the period, the Company did not repurchase any shares under the normal course issuer bid.

Non-controlling interest consists of 1,274,601 Class B common shares and 203,936 Class C common shares (the "Exchangeable Securities") of Chesswood U.S. Acquisitionco Ltd. ("U.S. Acquisitionco") issued as partial consideration for the acquisition of Pawnee and are fully exchangeable at any time for the Company's common shares, on a one-for-one basis, for no additional consideration, through a series of steps, and entitle the holders to receive the same per share dividends as are paid on the common shares. Attached to the Exchangeable Securities are Special Voting Shares of the Company, which provide the holders of the Exchangeable Securities voting equivalency to holders of common shares. Under IFRS, the Exchangeable Securities must be shown as non-controlling interest because they are equity in a subsidiary not attributable, directly or indirectly, to the parent. Their portion of income and dividends is allocated to non-controlling interest. Including the common shares issuable in exchange for the Exchangeable Securities, Chesswood had 19,995,075 common shares outstanding as at March 31, 2024.

As a result of the Blue Chip - Vault Credit merger and prior to the exercise of the option liability, the non-controlling interest in the Canadian Holdco has a right to 49% of the income and distributions of the Canadian Holdco. However, because of the option liability, the non-controlling interest in the Canadian Holdco is not recognized. See Note 2 - *Material Accounting Policy Information* of the audited consolidated financial statements for the year ended December 31, 2023 for more detail. Finally, there is a 49% non-controlling interest in Vault Home that is recognized under the non-controlling interest section of shareholders' equity.

Contributed surplus includes the accumulated share-based compensation expensed over the vesting term for options and RSUs unexercised as at March 31, 2024. There were 1,117,050 options and 952,576 RSUs outstanding as at March 31, 2024.

LIQUIDITY AND CAPITAL RESOURCES

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

The Company and its subsidiaries were compliant with all covenants as at and throughout the three months ended March 31, 2024 (except for a brief period in respect of one covenant, for which a waiver has been obtained as described below).

As at March 31, 2024, the Company had the following facilities:

(a) Chesswood revolving credit facility

On December 12, 2023, the revolving credit facility was amended to US$300 million, with step downs to US$215 million by the facility's maturity date of January 14, 2025. The Company is undergoing renewal negotiations. The total outstanding facility as at March 31, 2024 was US$250 million. The facility is subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility is secured by substantially all of the Company's (and most of its subsidiaries') assets, contains covenants, including maintaining leverage, profitability, debt service, and delinquency ratios. As at March 31, 2024, the Company was utilizing US$177.9 million (December 31, 2023 - US$247.2 million), and had approximately US$72.1 million in additional borrowings available under the revolving credit facility. As at March 31, 2024 (and during most of the quarter then ended) the Company was in compliance with all covenants in the credit facility agreement. Due to an unintended omission from a Q4 2023 amendment to the agreement, the Company was offside of one covenant for a short period at the end of 2023 and early 2024, and has received a waiver from its lenders in such regard. Based on average debt levels, the effective interest rate during the three months ended March 31, 2024, was 9.80% (including amortization of origination costs) (year ended December 31, 2023 - 8.74%).

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

(b) U.S. Equipment Financing Segment

(i) The U.S. Equipment Financing Segment has a credit facility, with a US$120 million annual capacity, with a life insurance company to be renewed annually in October. The funder makes approved advances to the segment on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. The segment maintains certain cash reserves as credit enhancements or provides letters of credit in lieu of cash reserves. The segment retains the servicing of these finance receivables. The balance of this facility as at March 31, 2024, was US$150.5 million (December 31, 2023 - US$171.7 million). Based on average debt levels, the effective interest rate for the three months ended March 31, 2024 was 6.52% (including amortization of origination costs) (year ended December 31, 2023 - 5.57%).

(ii) On September 30, 2020, the U.S. Equipment Financing Segment completed a US$183.5 million asset-backed securitization that has a fixed term and fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's previously existing warehouse line and CapOne facilities, and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at March 31, 2024, was US$15.4 million (December 31, 2023 - US$20.2 million). The effective interest rate was approximately 4.44% for the three months ended March 31, 2024 (including amortization of origination costs) (year ended December 31, 2023 - 3.93%).

(iii) On October 22, 2021, the U.S. Equipment Financing Segment completed a US$356.1 million asset-backed securitization that has a fixed term and a fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's warehouse line and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at March 31, 2024, was US$114.1 million (December 31, 2023 - US$133.6 million). The effective interest rate was approximately 2.64% for the three months ended March 31, 2024 (including amortization of origination costs) (year ended December 31, 2023 - 2.38%).

(iv) On August 15, 2022, the U.S. Equipment Financing Segment completed a US$346.6 million asset-backed securitization that has a fixed term and a fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's warehouse line and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at March 31, 2024, was US$194.6 million (December 31, 2023 - US$218.3 million). The effective interest rate was approximately 6.11% for the three months ended March 31, 2024 (including amortization of origination costs) (year ended December 31, 2023 - 5.89% since the inception of the facility).

(v) The U.S. Equipment Financing Segment had a US$250 million revolving warehouse loan facility that was established in May 2021 specifically to fund its growing prime and near-prime portfolio. The warehouse facility held the U.S. Equipment Financing Segment's prime receivables before they were securitized and was secured by the U.S. Equipment Financing Segment's assets and contains covenants, including maintaining leverage, interest coverage and delinquency ratios. This facility had a revolving period until November 2024 followed by an optional amortizing period for an additional 36 months. Pawnee repaid the remaining balance fully in February 2024 (December 31, 2023 - US$79.6 million). The effective interest rate for the three months ended March 31, 2024, was approximately 8.44% (including amortization of origination costs) (year ended December 31, 2023 - 8.25%).

(vi) The U.S. Equipment Financing Segment entered into arrangements on April 29, 2021, under which an investment fund managed by Waypoint provides loan funding to a special purpose vehicle. The investment fund is structured as a limited partnership with the Company indirectly owning the general partnership interest. Waypoint receives fees for managing the investment fund. The facility has recourse to assets pledged by Pawnee including whole loan securitizations as well as structured notes. The cost of each loan advance is fixed at the time of each tranche. The balance of this facility as at March 31, 2024, was US$26.3 million (December 31, 2023 - US$28.0 million). Based on average debt levels, the effective return provided to the private credit investors for the three months ended March 31, 2024, was 13.16% (including amortization of origination costs) (year ended December 31, 2023 - 13.39%).

(vii) As at March 31, 2024, the U.S. Equipment Financing Segment had provided US$4.0 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (unchanged from December 31, 2023).

(c) Canadian Equipment Financing Segment

As at March 31, 2024, Vault Credit had master purchase and servicing agreements with various financial institutions and life insurance companies (referred to collectively as the “Funders”). The Funders make advances to Vault Credit on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. The facilities have limited recourse to other assets in the event that lessees/borrowers fail to make payments when due. Vault Credit either maintains certain cash reserves as credit enhancements or provides letters of credit in return for release of the cash reserves. As at March 31, 2024, Vault Credit continues to service these finance receivables on behalf of the Funders.

(i) As at March 31, 2024, Vault Credit had access to the following lines of funding:
- (a) $300 million rolling limit line from a financial institution.
- (b) Approved funding from another financial institution with no annual or rolling limit.
- (c) $200 million annual limit from a life insurance company.

As at March 31, 2024, Vault Credit had $460.7 million (December 31, 2023 - $512.0 million) in securitization and bulk lease financing facilities debt outstanding. Vault Credit had access to at least $231.1 million of additional financing from its securitization partners (December 31, 2023 - $114.2 million).

The interest rates on the lines of funding noted above are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Based on average debt levels, the effective interest rate during the three months ended March 31, 2024 was 5.25% for Vault Credit (year ended December 31, 2023 - 5.00%).

(ii) Vault Credit entered into arrangements on December 14, 2021, under which Vault Credit Opportunities Fund ("VCOF") (an entity controlled by Daniel Wittlin, an officer and director of Vault Credit and the Canadian Holdco and a director of Chesswood) provides loan funding to Vault Credit and thereby receives returns based on the performance of a specific group of finance receivables. The Canadian Equipment Financing Segment receives fees for servicing the portfolio. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. The balance of this facility as at March 31, 2024, was $1.2 million (December 31, 2023 - $0.7 million). VCOF earns a yield equivalent to the interest on the underlying loans.

(iii) As at March 31, 2024, Vault Credit had provided $8.6 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2023 - $8.6 million). Vault Credit must meet certain financial covenants, including leverage ratio, interest coverage ratio and tangible net worth covenants, to support these securitization and bulk lease financing facilities.

(d) Canadian Consumer Financing Segment

(i) In 2023, Vault Home obtained a line of funding with an $80 million annual limit from a life insurance company. As at March 31, 2024, Vault Home had $42.5 million (December 31, 2023 - $37.9 million) in securitizations and bulk lease financing facilities debt outstanding. Vault Home had access to at least $59.9 million of additional financing from its securitization partner (December 31, 2023 - $67.9 million). Based on average debt levels, the interest rate during the three months ended March 31, 2024 was 6.41% for Vault Home (year ended December 31, 2023 - 6.37%).

(ii) As at March 31, 2024, Vault Home had provided $1.0 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2023 - $1.0 million). Vault Home must meet certain financial covenants, including leverage ratio, interest coverage ratio and tangible net worth covenants, to support these securitization and bulk lease financing facilities.

(e) Canadian Auto Financing Segment

(i) As at March 31, 2024, Rifco had access to the following lines of funding:
- (a) $120 million annual limit from a life insurance company.

(b) $50 million rolling limit from a financial institution.
(c) Approved funding from another financial institution with no annual or rolling limit.

As at March 31, 2024, Rifco had $236.8 million outstanding on its securitization facilities (December 31, 2023 - $237.6 million). Rifco had access to at least $61.9 million of additional financing from its securitization partners (December 31, 2023 - $79.2 million). Based on average debt levels, the effective interest rate during the three months ended March 31, 2024 was 5.91% (including amortization of origination costs) (year ended December 31, 2023 - 5.41%).

(ii) Unsecured debentures

Rifco has unsecured debentures which were issued prior to its acquisition by Chesswood that allow Rifco the right to redeem the debentures in the last year of their terms without penalty. The unsecured debenture holders do not have early retraction rights and have no conversion rights. The unsecured debentures have an asset coverage covenant. Non-compliance with this covenant could result in the debenture holders declaring an event of default and requiring all amounts outstanding to be immediately due and payable. Rifco was compliant throughout the three months ended March 31, 2024. The unsecured debentures have maturity dates that go out until August 2026.

As at March 31, 2024, Rifco had $3.9 million in unsecured debentures outstanding (unchanged from December 31, 2023). Based on average debt levels, the effective interest rate during the three months ended March 31, 2024 was 8.13% (year ended December 31, 2023 - 8.08%).

(iii) As at March 31, 2024, Rifco had provided $6.6 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2023 - $6.6 million).

Cash Sources and Uses

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

For the three months ended March 31, 2024

During the three months ended March 31, 2024, there was an increase in cash and restricted funds of $4.9 million compared to an increase in cash and restricted funds of $8.0 million in the same period in prior year as a result of the reasons discussed below.

The Company's U.S. and Canadian equipment finance receivables both have an average remaining term of approximately 33 months, and the Canadian Auto Financing Segment has an expected realized term of approximately 27 months. The U.S. and Canadian equipment finance receivables will both generate earnings over the next 33 months. The Company's Canadian Auto finance receivables are expected to generate earnings over the next 27 months. For all segments, only a portion of earnings will be recognized in the current operating period. Chesswood's ability to borrow under its various credit facilities is directly linked to its finance receivables portfolio. The funds borrowed (or repaid) to support the growth (retraction) in the finance receivables is shown under Financing Activities.

The Company’s operations generated $347.5 million of cash and restricted funds during the three months ended March 31, 2024, compared to $17.0 million of cash and restricted funds generated in the prior year, an increase in cash generated of $330.5 million compared to the prior year. This was mostly a result of a decrease in funds advanced on originations of finance receivables by $205.6 million due to lower on balance sheet originations and an increase in principal collections of finance receivables and cash collections from the sale of assets of $129.5 million due to the Company's continued off-balance sheet sales during the quarter.

The net cash and restricted funds generated to fund the growth in finance receivables (funds advanced, recoveries on amounts previously charged off, origination costs, security deposits and principal payments) totalled $327.2 million for the three months ended March 31, 2024, compared to the utilization of $17.4 million in the prior year, an increase of $344.6 million in cash and restricted funds generated.

During the three months ended March 31, 2024, the Company had net tax payments of $3.6 million compared to net tax payments of $0.6 million during the prior year.

Cash and restricted funds used in investing activities were $4.7 million during the three months ended March 31, 2024. This is related to $4.4 million of advances made to an investment in an associate and $0.4 million of cash paid for capital expenditures. For the three months ended March 31, 2023, the net cash paid on acquisition was $3.5 million and $0.2 million of cash was paid for capital expenditures.

The Company repaid $338.8 million of borrowings during the three months ended March 31, 2024. In the prior year, the Company repaid borrowings of $2.2 million in the corresponding period.

No options were exercised during the three months ended March 31, 2024 (three months ended March 31, 2023 - $0.1 million).

The Company paid $0.4 million of dividends to the holders of its common shares, Exchangeable Securities and special warrants during the three months ended March 31, 2024, compared to $2.8 million paid in the same period in the prior year.

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

Financial Covenants, Restrictions and Events of Default

The Company and its operating subsidiaries are subject to bank and/or funder covenants. The Company was compliant with all of its covenants on all facilities as at and throughout the three months ended March 31, 2024 (except for a brief period in respect of one covenant, for which a waiver has been obtained). As at March 31, 2024 (and during most of the quarter then ended) the Company was in compliance with all covenants in the Chesswood revolving credit facility agreement. Due to an unintended omission from a Q4 2023 amendment to the agreement, the Company was offside of one covenant for a short period at the end of 2023 and early 2024, and has received a waiver from its lenders in such regard.

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

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

Advances on the Chesswood revolving credit facility may be drawn at any time, subject to compliance with borrowing base calculations and required representations and warranties. As at March 31, 2024, US$72.1 million was available under the US$250.0 million facility (utilizing US$177.9 million), which included US$16.0 million of letters of credit.

Dividends to Shareholders

On November 7, 2022, the Company announced an increase to its dividend per share to $0.05 per month (or $0.60 per year), effective January 31, 2023. On September 18, 2023, the Company announced a decrease to its dividend per share to $0.01 per month (or $0.12 per year), effective September 29, 2023. On January 22, 2024, the Company announced a suspension of the monthly dividend.

Dividend Policy

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

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

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

Minimum Payments

The following are the contractual payments and maturities of financial liabilities and other commitments (including interest) as at March 31, 2024:

($ thousands)		2024	2025	2026	2027	2028	2029+	**Total**
Accounts payable and other liabilities		$ 37,020	$ —	$ —	$ —	$ —	$ —	**$ 37,020**
Premise leases payable	*(i)*	858	1,129	1,181	887	735	268	**5,058**
Borrowings	*(ii)*	512,609	731,173	325,404	138,553	54,023	19,015	**1,780,777**
Customer security deposits	*(iii)*	533	128	283	170	28	—	**1,142**
		551,020	732,430	326,868	139,610	54,786	19,283	**1,823,997**
Service contracts		3,476	2,288	1,783	1,269	1,254	1,179	**11,249**
Total commitments		$554,496	$734,718	$328,651	$140,879	$ 56,040	$ 20,462	**$ 1,835,246**

a. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2029. The amounts above exclude adjustments for discounting premise leases payable.

b. Borrowings are described in Note 9 - *Borrowings* of the unaudited interim condensed consolidated financial statements, and include fixed payments for the U.S. Equipment Financing Segment, Canadian Equipment Financing Segment, Canadian Consumer Financing Segment and Canadian Auto Financing Segment securitization facilities, as well as the Canadian Auto Financing Segment's debentures and Chesswood's corporate revolving credit facility, which is a line of credit and, as such, the balance can fluctuate. The amounts above include fixed interest payments on the U.S. Equipment Financing Segment's, the Canadian Equipment Financing Segment's, the Canadian Consumer Financing Segment's and the Canadian Auto Financing Segment's credit facilities and estimated interest payments on the Canadian Auto Financing Segment's debentures and Chesswood's corporate credit facility. The latter assuming the interest rate, debt balance and foreign exchange rate as at March 31, 2024, remain the same until the expiry date of January 2025. The Chesswood corporate credit facility is undergoing renewal negotiations. The amount owing under Chesswood's revolving credit facility and the Canadian Auto Financing Segment's debentures are shown in the year of maturity, and all other expected payments for borrowings are based on the underlying finance receivables supporting the borrowings.

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

See Note 6(b) - *Finance Receivables* of the unaudited interim condensed consolidated financial statements for the minimum scheduled collections of finance receivables over the same time period. Also see Note 9(f) - *Borrowings*, for the amount of restricted funds in collections accounts that will be applied to debt in the following month.

The Company has no material liabilities that have not been recognized and presented on the unaudited interim condensed consolidated statements of financial position as at March 31, 2024, other than US$16.0 million in letters of credit (December 31, 2023 - US$16.2 million).

OUTLOOK

First quarter macroeconomic data has impacted the timing of expectations for interest rate reductions in the United States. Data has generally come in stronger than expected, accompanied by higher inflation readings on core metrics. Sentiment around interest rate reductions has shifted, and markets are now pricing in fewer (if any) cuts to rates in the back half of the year in the United States.

In contrast, the Canadian market appears to be under pressure from the increase in front end rates. This is evident in several indicators around economic activity, inflation, and employment gauges. The Canadian dollar has been reflecting this potential policy differential, having depreciated versus the U.S. dollar.

A reduction in interest rates would have a meaningful impact on Chesswood's profitability, so these variables are relevant to our operating results. In a declining rate environment, pricing will likely be more stable, allowing for margin expansion upon rate adjustments. In the near term, we plan to continue reducing leverage where appropriate and redeploy any excess liquidity into higher margin loans.

With a more stable macro environment, we expect results to improve in the back half of the year, albeit slowly given liquidity constraints.

Chesswood's board continues to evaluate different business options through its special committee and strategic review process. The committee will provide updates on this review when appropriate.

RISK FACTORS

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

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

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

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

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

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

Of particular note are the significant potential continuing impact of the military conflicts in Ukraine and the Middle East and the related multinational sanctions, and growing inflation and recession concerns.

Portfolio Delinquencies; Inability to Underwrite Lease and Loan Applications

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

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

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

Dependence on Key Personnel

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

Relationships with Brokers, Dealers, and Other Origination Sources

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

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

Risk of Future Legal Proceedings

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

Interest Rate Fluctuations

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

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

At the customer level, non-prime segments of the micro and small-ticket equipment finance market have historically and typically been, and continue to be, more sensitive to the monthly payment amounts than to the effective rates of interest charged. For interest rate risk sensitivities, please refer to Note 5 - *Financial Risk Management* in the audited consolidated financial statements.

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

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

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

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

Financing for higher credit-rated lessees and borrowers represents an increasing part of the composition of our equipment leasing and loan portfolios. While it is expected that the losses and allowance for ECL in respect of this part of the portfolios will be lower - commensurate with the prime credit rating of the lessees/borrowers - the spread between the rates that can be charged over our cost of funds is also considerably smaller.

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

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

"Characterization" Risks

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

Defenses to Enforcement of a Significant Number of Leases and Loans

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

Origination, Funding and Administration of Transactions

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

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

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

Analogous risks are faced by Tandem, Vault Credit, Vault Home, Easy Legal and Rifco.

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

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

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

Licensing Requirements

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

Fees, Rates and Charges

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

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

Insurance

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

Lessor Liability

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

Liability for Misuse of Leased Equipment

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

Estimates Relating to Value of Leases and Loans

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

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

Competition

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

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

Analogous risks are faced by the Vault Credit, Vault Home, Easy Legal and Rifco.

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

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

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

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

Fraud by Lessees, Borrowers, Vendors or Brokers/Dealers

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

Legal Finance Risks

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

Protection of Intellectual Property

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

Failure of Computer and Data Processing Systems

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

Security Risks

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

Risks Related to our Structure and Exchange Rate Fluctuations

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

Unpredictability and Volatility of Share Price

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

Leverage and Restrictive Covenants

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

Possible Acquisitions

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

Restrictions on Potential Growth

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

Canadian Income Tax Matters

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

United States Income Tax Matters

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

Environmental risk

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

Strategic Review

On January 18, 2024 Chesswood announced that its board of directors would be undertaking a strategic review to seek to maximize shareholder value.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Net Investment in Leases

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

Financial assets are derecognized when the contractual rights to the cash flows from the assets expire or when the assets and substantially all related risks and rewards are transferred. A financial asset is transferred if and only if the right to receive the contractual cash flows related to that financial asset is transferred, or the right to receive the cash flows from that financial asset is retained and there is an obligation to pay the cash flows to one or more recipients under a specified arrangement. The transfer of risks and rewards is evaluated by comparing the entity's exposure before and after the transaction, with the variability in the amounts and timing of the net cash flows of the transferred assets. When a financial asset is derecognized, the difference between the consideration received and the carrying amount of the financial asset is recognized in net income or loss. If an entity has transferred and derecognized a financial asset but retains the right to collect a portion of interest payments as compensation to manage the financial asset, an interest-only strip receivable is recognized.

Allowance for Expected Credit Losses

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

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

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

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

For Stage 2, the Company considers prime and non-prime leases and loans to have experienced a significant increase in credit risk since initial recognition if they are delinquent for over 30 days or modified within the past 12 months. Non-prime auto loans are also defined as Stage 2 if they are currently in or recently completed a payment arrangement or extension.

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

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

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

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

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

Investment in Associate

On October 31, 2023, Chesswood announced the establishment of Bishop Holdings LLC between Wafra Funds and Pawnee. As at March 31, 2024, Pawnee owns 10% of the LLC and accounts for the investment under the equity method.

Impairment of Goodwill

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

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

Share-based Payments

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

Taxes

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

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2023.

New standards effective for the Company's December 31, 2024 year

The following amendments apply for the first time in 2024, but do not have a significant impact on the unaudited interim condensed consolidated financial statements of the Company.

Amendments to IAS 1, Presentation of Financial Statements
The amendments provide clarification on the conditions with which an entity must comply within 12 months after the reporting period affecting the classification of a liability as current or non-current.

New standards, interpretations and amendments issued but not yet effective

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

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

RELATED PARTY TRANSACTIONS

See Note 16 - *Related-Party Transactions* in the unaudited interim condensed consolidated financial statements for the disclosure of key management compensation and other related party transactions.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

The Certifying Officers have assessed the design effectiveness of the Company's DC&P as at March 31, 2024, and have concluded that the design of the Company's DC&P was effective as at that date. .

Internal Control over Financial Reporting

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

The Certifying Officers have assessed the design effectiveness of the Company's ICFR as at March 31, 2024, and have concluded that the design of the Company's ICFR was effective as at that date.

During the quarter ended March 31, 2024, there has been no significant change in the Company's ICFR that would have materially affected, or would be reasonably likely to materially affect, the Company's ICFR.

Limitations of an Internal Control System

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

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

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

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

MARKET FOR SECURITIES

The Company's common shares are traded on the Toronto Stock Exchange under the symbol CHW. The following table summarizes the high and low sales prices of the common shares and the average daily trading volume for each month during the three months ended March 31, 2024.

	Common Shares		
	High	Low	Average Daily Volume
January	$9.10	$7.89	12,136
February	$9.20	$8.25	5,705
March	$8.64	$6.80	4,440
	$9.20	$6.80	7,579

Chesswood Group Limited

Interim Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2024

CHESSWOOD GROUP LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT MARCH 31, 2024 AND DECEMBER 31, 2023
(in thousands of Canadian dollars, unaudited)

	Note	As at March 31, 2024	As at December 31, 2023
ASSETS			
Cash		**$ 17,437**	$ 13,010
Restricted funds	*9(f)*	**88,125**	87,619
Other assets		**20,640**	24,161
Current tax receivables		**1,988**	7,027
Finance receivables	*6*	**1,681,079**	2,011,715
Investment in associate	*17(b)*	**3,761**	—
Deferred tax assets		**13,503**	12,046
Right-of-use assets, net		**3,367**	3,510
Property and equipment, net		**1,944**	2,082
Intangible assets, net	*7*	**19,948**	20,084
Goodwill	*8*	**33,545**	33,545
TOTAL ASSETS		**$ 1,885,337**	$ 2,214,799
LIABILITIES			
Accounts payable and other liabilities		**$ 37,020**	$ 41,851
Current tax payables		**3,169**	3,363
Premise leases payable		**4,165**	4,295
Option liability		**401**	401
Warrant liability	*17(b)*	**1,669**	—
Borrowings	*9*	**1,636,795**	1,953,514
Customer security deposits		**1,117**	1,114
Deferred tax liabilities		**17,416**	23,273
		1,701,752	2,027,811
EQUITY			
Common shares	*12*	**135,863**	133,474
Contributed surplus	*13*	**12,071**	13,756
Accumulated other comprehensive income		**21,164**	18,652
Retained earnings		**2,152**	8,351
Total shareholders' equity		**171,250**	174,233
Non-controlling interest		**12,335**	12,755
		183,585	186,988
TOTAL LIABILITIES AND EQUITY		**$ 1,885,337**	$ 2,214,799

Approved by the Board of Directors

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

(signed) Raghunath Davloor
Chairman, Audit and Risk Committee

Please see notes to the interim condensed consolidated financial statements.

CHESSWOOD GROUP LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023
(in thousands of Canadian dollars, except per share amounts, unaudited)

	Note	Three months ended March 31, 2024	2023
Finance revenue			
Interest revenue on finance leases and loans		**$ 54,669**	$ 67,449
Ancillary finance and other fee income		**14,130**	13,694
		68,799	81,143
Finance expenses			
Interest expense		**28,964**	30,957
Provision for credit losses	*6*	**15,543**	17,982
		44,507	48,939
Net revenue		**24,292**	32,204
Expenses			
Personnel expenses		**13,568**	16,743
General and administrative expenses		**14,318**	13,030
Unrealized loss on warrant liability	*17(b)*	**1,669**	—
Depreciation		**396**	460
Amortization	*7*	**475**	659
		30,426	30,892
Operating income (loss)		**(6,134)**	1,312
Unrealized gain (loss) on foreign exchange		**(170)**	256
Income (loss) before income taxes		**(6,304)**	1,568
Income tax expense		**516**	611
Net income (loss) for the period		**$ (6,820)**	$ 957
Attributable to:			
Common shareholders		**$ (6,199)**	$ 1,061
Non-controlling interest		**$ (621)**	$ (104)
Earnings (loss) per share			
Basic (in Canadian dollars)	*15*	**$ (0.34)**	$ 0.06
Diluted (in Canadian dollars)	*15*	**$ (0.34)**	$ 0.06

Please see notes to the interim condensed consolidated financial statements.

CHESSWOOD GROUP LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023
(in thousands of Canadian dollars, unaudited)

	Three months ended March 31,	
	2024	2023
Net income (loss)	**$ (6,820)**	$ 957
Other comprehensive income (loss) items that may be subsequently reclassified to the consolidated statements of income (loss):		
Unrealized gain (loss) on translation of foreign operations	**2,713**	(404)
Comprehensive income (loss) for the period	**$ (4,107)**	$ 553
Comprehensive income (loss) attributable to:		
Common shareholders	**$ (3,687)**	$ 688
Non-controlling interest	**$ (420)**	$ (135)

Please see notes to the interim condensed consolidated financial statements.

CHESSWOOD GROUP LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023

(in thousands of Canadian dollars, unaudited)

	Note	Common shares (# '000s)	Common shares	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interest	2024 Total
Equity - December 31, 2023		**18,309**	**$133,474**	**$ 13,756**	**$ 18,652**	**$ 8,351**	**$ 174,233**	**$ 12,755**	**$186,988**
Net loss		**—**	**—**	**—**	**—**	**(6,199)**	**(6,199)**	**(621)**	**(6,820)**
Share-based compensation expense	*13*	**—**	**—**	**704**	**—**	**—**	**704**	**—**	**704**
Exercise of restricted share units	*13*	**74**	**944**	**(944)**	**—**	**—**	**—**	**—**	**—**
Unrealized gain on translation of foreign operations		**—**	**—**	**—**	**2,512**	**—**	**2,512**	**201**	**2,713**
Special warrants issued on business combination	*12*	**133**	**1,445**	**(1,445)**	**—**	**—**	**—**	**—**	**—**
Equity - March 31, 2024		**18,516**	**$135,863**	**$ 12,071**	**$ 21,164**	**$ 2,152**	**$ 171,250**	**$ 12,335**	**$183,585**

	Note	Common shares (#'000s)	Common shares	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non-controlling interest	2023 Total
Equity - December 31, 2022		17,620	$125,655	$ 18,413	$ 21,359	$ 46,255	$ 211,682	$ 16,723	$228,405
Net income (loss)		—	—	—	—	1,061	1,061	(104)	957
Dividends declared	*14*	—	—	—	—	(2,792)	(2,792)	(222)	(3,014)
Share-based compensation expense	*13*	—	—	527	—	—	527	—	527
Exercise of restricted share units	*13*	52	732	(732)	—	—	—	—	—
Exercise of options	*13*	12	134	(12)	—	—	122	—	122
Unrealized loss on translation of foreign operations		—	—	—	(373)	—	(373)	(31)	(404)
Special warrants issued on business combination	*12*	133	1,526	(1,526)	—	—	—	—	—
Equity - March 31, 2023		17,817	$128,047	$ 16,670	$ 20,986	$ 44,524	$ 210,227	$ 16,366	$226,593

Please see notes to the interim condensed consolidated financial statements.

CHESSWOOD GROUP LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2024 AND 2023
(in thousands of Canadian dollars, unaudited)

	Note	Three months ended March 31, 2024	2023
OPERATING ACTIVITIES			
Net income (loss)		**$ (6,820)**	$ 957
Non-cash items included in net income (loss)			
Depreciation and amortization		**871**	1,119
Provision for credit losses	*6*	**15,543**	17,982
Amortization of origination costs		**10,004**	13,037
Income tax expense		**516**	611
Other non-cash items	*18*	**4,745**	1,819
		31,679	34,568
Cash from operating activities before changes in net operating assets		**24,859**	35,525
Funds advanced on origination of finance receivables		**(141,720)**	(347,340)
Origination costs paid on finance receivables		**(6,628)**	(14,210)
Principal collections of finance receivables and cash collections from sale of assets		**471,124**	341,645
Recoveries of amounts previously charged off	*6*	**4,447**	3,244
Change in other net operating assets	*18*	**(966)**	(1,296)
Cash from operations		**351,116**	17,568
Income tax paid		**(4,289)**	(598)
Income tax refund		**717**	5
Cash from operating activities		**347,544**	16,975
INVESTING ACTIVITIES			
Purchase of property, equipment and software		**(383)**	(202)
Advances to investment in associate (net of distributions)	*17(b)*	**(4,352)**	—
Cash consideration on business combinations		**—**	(3,500)
Cash used in investing activities		**(4,735)**	(3,702)
FINANCING ACTIVITIES			
Borrowings, net	*18*	**(338,784)**	(2,154)
Payment of financing costs	*9*	**(10)**	(59)
Payment of lease obligations		**(258)**	(285)
Proceeds from exercise of options	*13*	**—**	122
Cash dividends paid	*14*	**(353)**	(2,809)
Cash used in financing activities		**(339,405)**	(5,185)
Unrealized foreign exchange gain (loss) on cash		**1,529**	(39)
Net increase in cash and restricted funds		**4,933**	8,049
Cash and restricted funds, beginning of period		**100,629**	103,476
Cash and restricted funds, end of period		**$ 105,562**	$ 111,525

Please see notes to the interim condensed consolidated financial statements.

TABLE OF NOTES

1. NATURE OF BUSINESS

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

Through its subsidiaries (ownership interests described in Note 17 - *Subsidiaries and Investment in Associate)*, the Company operates in the following businesses:

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

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

- Vault Credit Corporation ("Vault Credit"), which provides commercial equipment financing and loans to small and medium-sized businesses across Canada. On October 1, 2022, Blue Chip Leasing Corporation ("Blue Chip") and Vault Credit were amalgamated. The amalgamated corporation, which continues to use the Vault Credit Corporation name, remains a wholly owned subsidiary of CHW/Vault Holdco Corp. ("Canadian Holdco"), of which Chesswood owns 51% and exercises control;

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

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

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

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

The Company's unaudited interim condensed consolidated financial statements were authorized for issue on May 8, 2024, by the Board of Directors.

2. MATERIAL ACCOUNTING POLICY INFORMATION

Basis of preparation
The unaudited interim condensed consolidated financial statements, including comparatives:

- Have been prepared in accordance with IAS 34, *Interim Financial Reporting*, on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2023.
- Have been prepared on the going concern and historical cost bases, except for derivative financial instruments and hybrid financial liabilities designated as at fair value through profit or loss ("FVTPL"), which have been measured at fair value.
- Include the financial statements of the Company and its subsidiaries as noted above.
- Should be read in conjunction with the Company's most recently issued Annual Report, which includes information necessary, or useful, to understanding the Company's business and financial reporting.
- Are unaudited.
- Should not be regarded as necessarily indicative of results that may be expected for the entire year.

The preparation of unaudited interim condensed consolidated financial statements, including the application of accounting policies, requires management to make estimates and assumptions using judgments that affect the reported amounts of assets and liabilities, and income and expenses during the reporting period. Estimates and other judgments are continually evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates. The accounting policies and significant estimates and judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited consolidated financial statements for the year ended December 31, 2023.

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

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

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

The reporting currency is the Canadian dollar and the unaudited interim condensed consolidated financial statements are presented in thousands of Canadian dollars, except per share amounts and as otherwise noted. Refer to Note 17 - *Subsidiaries and Investment in Associate* for additional information on the subsidiaries. Income and expenses of subsidiaries with a different functional currency than the Company's reporting currency are translated in the Company's unaudited interim condensed consolidated financial statements at the average U.S. dollar exchange rate for the reporting period, and assets and liabilities are translated at the closing rate. Exchange differences arising from the translation are recognized in other comprehensive income (loss). Foreign currency payables and receivables in the unaudited interim condensed consolidated statements of financial position are recorded at the transaction date at cost. Exchange gains and losses arising from conversion of monetary assets and liabilities at exchange rates at the end of the reporting period are recognized as income or expense.

3. NEW ACCOUNTING STANDARDS

New standards, interpretations and amendments adopted by the Company
Adoption of these amendments did not have a significant impact on the Company's unaudited interim condensed consolidated financial statements.

Amendments to IAS 1, Presentation of Financial Statements
The amendments provide clarification on the conditions with which an entity must comply within 12 months after the reporting period affecting the classification of a liability as current or non-current.

New standards, interpretations and amendments issued but not yet effective
Management is currently considering the effect of the following amendments that are issued by the International Accounting Standards Board ("IASB") but are not yet effective:

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

4. FINANCIAL INSTRUMENTS

There have been no material changes in the Company's categories and measurement hierarchy. There were no transfers between levels during the current or comparative periods. Refer to Note 4 - *Financial Instruments* of the audited consolidated financial statements for the year ended December 31, 2023, for further disclosure.

5. FINANCIAL RISK MANAGEMENT

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

There have been no material changes in the Company's objectives, policies or processes for measuring and managing any of the risks to which it is exposed since the previous year-end, except for the changing market conditions on credit and liquidity risk. Refer to Note 5 - *Financial Risk Management* of the audited consolidated financial statements for the year ended December 31, 2023, for further disclosures.

6. FINANCE RECEIVABLES

Substantially all of the lease and loan receivables have been pledged as security for amounts borrowed from lenders under various facilities, as described in Note 9 - *Borrowings*. The lenders have the right to enforce their security interest in the pledged lease and loan receivables if the Company defaults under these facilities. The Company retains significant risks and rewards of ownership, in some cases through consolidated special purpose entities ("SPEs"), and servicing responsibilities of the pledged lease and loan receivables and, therefore, continues to recognize them on the unaudited interim condensed consolidated statements of financial position.

($ thousands)	March 31, 2024	December 31, 2023
Net investment in leases	**$ 690,220**	$ 814,575
Loan receivables	**735,436**	937,681
Auto loan receivables	**255,423**	259,459
Finance receivables	**$ 1,681,079**	$ 2,011,715

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

($ thousands)	March 31, 2024	December 31, 2023
Total minimum finance receivables payments *(b)*	**$ 2,050,996**	$ 2,474,955
Residual values of leased equipment *(b)*	**33,024**	38,929
	2,084,020	2,513,884
Unearned income, net of initial direct costs	**(350,961)**	(437,697)
Net investment in finance receivables before allowance for expected credit loss ("ECL")	**1,733,059**	2,076,187
Allowance for ECL *(c)*	**(51,980)**	(64,472)
Net investment in finance receivables	**$ 1,681,079**	$ 2,011,715

(b) Minimum scheduled collections:

The Company's minimum scheduled collection of finance receivables as at March 31, 2024, are presented in the following table:

($ thousands)	Minimum payments
2024	$ 607,951
2025	645,362
2026	447,341
2027	221,399
2028	95,303
2029 and thereafter	66,664
Total minimum payments	$ 2,084,020

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

(c) Allowance for ECL:

The Company's probability-weighted estimate of ECL using three scenarios (base, upside and downside) was determined as at March 31, 2024, based on forecasts and other information available at that date. When determining the ECL, the Company considers forward-looking macroeconomic information. The Company disaggregates its portfolio by segment. The following forward-looking factors were examined for each portfolio:

	As at March 31, 2024		As at December 31, 2023	
Segment	**Macroeconomic factors**	**Base scenario 12-month forecast**	Macroeconomic factors	Base scenario 12-month forecast
Canadian Equipment Financing	Canadian consumer price index - median (18-month lag)	**4.5%**	Canadian consumer price index - median (18-month lag)	4.8%
U.S. Equipment Financing	U.S. housing price index (6-month lag)	**2.6%**	U.S. housing price index (6-month lag)	0.0%
	U.S. unemployment rate	**4.0%**	U.S. unemployment rate	4.2%
Canadian Auto Financing	2-year note interest rate (6-month lag)	**3.9%**	2-year note interest rate (6-month lag)	4.1%
	Canadian housing price index	**0.5%**	Canadian housing price index	2.0%

Historically, an increase in interest rates, the consumer price index, the housing price index or unemployment rate has increased charge-offs.

The impact of market uncertainties on the economy, as well as the timing of recoveries, will continue to evolve with the subsequent effect reflected in the measurement of ECLs in future quarters as appropriate. This may add significant volatility to ECL. A 10% increase to the downside scenario from the base scenario across all segments would result in an allowance for ECL of $53.6 million as at March 31, 2024 (an increase of $1.6 million).

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

	As at March 31, 2024			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
($ thousands)	**Performing**	**Under-performing**	**Non-performing**	
Prime	**$ 1,125,032**	**$ 18,914**	**$ 15,854**	**$ 1,159,800**
Non-prime	**514,428**	**27,052**	**31,779**	**573,259**
Total	**$ 1,639,460**	**$ 45,966**	**$ 47,633**	**$ 1,733,059**

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

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

	Three months ended March 31, 2024			
	Stage 1	Stage 2	Stage 3	
($ thousands)	Performing	Under-performing	Non-performing	Total
Balance, January 1, 2024	$ 25,901	$ 21,341	$ 17,230	$ 64,472
Transfer to performing (Stage 1)	2,820	(1,371)	(1,449)	—
Transfer to under-performing (Stage 2)	(781)	1,542	(761)	—
Transfer to non-performing (Stage 3)	(4,216)	(4,565)	8,781	—
Net remeasurement of loss allowance	(11,165)	(7,637)	32,920	14,118
New receivables originated	1,425	—	—	1,425
Provision for credit losses	(11,917)	(12,031)	39,491	15,543
Charge-offs	—	—	(33,308)	(33,308)
Recoveries of amounts previously charged off	—	—	4,447	4,447
Net charge-offs	—	—	(28,861)	(28,861)
Foreign exchange translation	238	350	238	826
Balance, March 31, 2024	$ 14,222	$ 9,660	$ 28,098	$ 51,980

	Three months ended March 31, 2023			
	Stage 1	Stage 2	Stage 3	
($ thousands)	Performing	Under-performing	Non-performing	Total
Balance, January 1, 2023	$ 24,176	$ 10,733	$ 15,771	$ 50,680
Transfer to performing (Stage 1)	3,360	(2,232)	(1,128)	—
Transfer to under-performing (Stage 2)	(562)	1,064	(502)	—
Transfer to non-performing (Stage 3)	(738)	(5,433)	6,171	—
Net remeasurement of loss allowance	(10,056)	9,031	15,385	14,360
New receivables originated	3,622	—	—	3,622
Provision for credit losses	(4,374)	2,430	19,926	17,982
Charge-offs	—	—	(16,118)	(16,118)
Recoveries of amounts previously charged off	—	—	3,244	3,244
Net charge-offs	—	—	(12,874)	(12,874)
Foreign exchange translation	(7)	(3)	(10)	(20)
Balance, March 31, 2023	$ 19,795	$ 13,160	$ 22,813	$ 55,768

(d) Finance receivables past due:

The following aging represents the total carrying amount of the lease and loan receivables and not just the payments that are past due. The balances presented exclude the $1.1 million (December 31, 2023 - $1.1 million) of security deposits received from lessees/borrowers and the collateral held (including potential proceeds from repossessed equipment and potential recoveries from personal guarantees) that would offset any charge-offs.

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

						As at March 31, 2024
($ thousands)	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total
Finance receivables	$ 1,592,157	$ 68,473	$ 29,634	$ 21,632	$ 21,163	$ 1,733,059
Non-performing	$ 3,255	$ 2,710	$ 3,160	$ 17,345	$ 21,163	$ 47,633
Past due but not impaired	$ —	$ 65,763	$ 26,474	$ 4,287	$ —	$ 96,524

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

(e) Modifications:

Modified finance receivables as at March 31, 2024, had a total net investment in finance receivables before allowance for ECL balance of $49.1 million (December 31, 2023 - $59.4 million). The net investment in finance receivables before allowance for ECL that have been modified and are current have an outstanding balance as at March 31, 2024, of $28.8 million (December 31, 2023 - $23.9 million). On average, the terms have been modified to extend the contracts by approximately one to three months, depending on the modification.

(f) Collateral:

The U.S. Equipment Financing Segment, Canadian Equipment Financing Segment and Canadian Auto Financing Segment are entitled to repossess financed equipment and automobiles (subject to statutory regulations) if the borrower defaults on their lease or loan contract. When a lease or loan is charged off, the expected resale value of the related equipment or automobile is recorded on the consolidated financial statements so that the total charge-off is net of expected recoveries. Any amounts recovered from the sale of equipment or automobile after a charge-off in excess of the expected resale value are credited to the provision for credit losses when received. During the three months ended March 31, 2024, the proceeds from the disposal of repossessed equipment and automobiles that were charged off totalled $10.3 million (March 31, 2023 - $6.1 million).

(g) Assets sold to third parties:

The Company enters into agreements with mutual funds or partnerships managed by its affiliates to sell its finance receivables at fair market terms in exchange for cash and fees. All finance receivables sold under these agreements meet the criteria for derecognition under IFRS 9, *Financial Instruments* and all are sold without recourse. For the three months ended March 31, 2024, the Company sold $341.9 million of finance receivables to mutual funds or partnerships managed by its affiliates (March 31, 2023 - $106.0 million).

Fees related to the non-recourse sale of the Company's finance receivables are earned at the time of sale, and over the life of the derecognized finance receivables for servicing or managing the financial assets. The Company recognized an interest-only strip receivable of $2.8 million for the three months ended March 31, 2024 (December 31, 2023 - $3.1 million). Across all segments, the Company earned $5.6 million in fee income related to these agreements for the three months ended March 31, 2024 (March 31, 2023 - $3.6 million).

7. INTANGIBLE ASSETS

The Company assessed its intangible assets for indicators of impairment for the three months ended March 31, 2024. No indicators were identified during the period.

	Indefinite useful life		Finite useful life			
($ thousands)	Trade names	Licenses	Relationships	Trade names	Software	Total
Cost:						
December 31, 2022	$ 7,730	$ 1,053	$ 35,944	$ 2,100	$ 759	$ 47,586
Business combinations	663	—	723	—	2,114	3,500
Additions	—	—	—	—	292	292
Foreign exchange translation	(155)	—	—	—	—	(155)
December 31, 2023	8,238	1,053	36,667	2,100	3,165	51,223
Additions	**—**	**—**	**—**	**—**	**339**	**339**
March 31, 2024	**$ 8,238**	**$ 1,053**	**$ 36,667**	**$ 2,100**	**$ 3,504**	**$ 51,562**

	Indefinite useful life		Finite useful life			
($ thousands)	Trade names	Licenses	Relationships	Trade names	Software	Total
Accumulated amortization:						
December 31, 2022	$ 127	$ —	$ 19,535	$ 233	$ 218	$ 20,113
Impairment	7,576	—	793	—	—	8,369
Amortization	—	—	2,172	140	473	2,785
Foreign exchange translation	(128)	—	—	—	—	(128)
December 31, 2023	7,575	—	22,500	373	691	31,139
Amortization	**—**	**—**	**298**	**35**	**142**	**475**
March 31, 2024	**$ 7,575**	**$ —**	**$ 22,798**	**$ 408**	**$ 833**	**$ 31,614**

	Indefinite useful life		Finite useful life			
($ thousands)	Trade names	Licenses	Relationships	Trade names	Software	Total
Carrying amount:						
December 31, 2023	$ 663	$ 1,053	$ 14,167	$ 1,727	$ 2,474	$ 20,084
March 31, 2024	**$ 663**	**$ 1,053**	**$ 13,869**	**$ 1,692**	**$ 2,671**	**$ 19,948**

8. GOODWILL

The Company last performed its annual impairment tests during the fourth quarter of 2023, which identified goodwill impairment in the Pawnee and Tandem CGU of $14.5 million. The impairment was a result of increased costs of funding, which had affected the general business climate and levels of economic activity. These increases have temporarily compressed Chesswood's net interest margins resulting in an impairment. The Company assessed its goodwill for indicators of impairment as at March 31, 2024 and no indicators were identified.

($ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Consumer Financing	Canadian Auto Financing	Asset Management	Total
Cost:						
December 31, 2022	$ 49,126	$ 44,218	$ 1,427	$ 1,895	$ 2,143	$ 98,809
Foreign exchange translation	(788)	—	—	—	—	(788)
December 31, 2023	48,338	44,218	1,427	1,895	2,143	98,021
March 31, 2024	**$ 48,338**	**$ 44,218**	**$ 1,427**	**$ 1,895**	**$ 2,143**	**$ 98,021**

($ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Consumer Financing	Canadian Auto Financing	Asset Management	Total
Accumulated impairment:						
December 31, 2022	$ 34,558	$ 16,138	$ —	$ —	$ —	$ 50,696
Impairment	14,517	—	—	—	—	14,517
Foreign exchange translation	(737)	—	—	—	—	(737)
December 31, 2023	48,338	16,138	—	—	—	64,476
March 31, 2024	**$ 48,338**	**$ 16,138**	**$ —**	**$ —**	**$ —**	**$ 64,476**

($ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Consumer Financing	Canadian Auto Financing	Asset Management	Total
Carrying amount:						
December 31, 2023	$ —	$ 28,080	$ 1,427	$ 1,895	$ 2,143	$ 33,545
March 31, 2024	**$ —**	**$ 28,080**	**$ 1,427**	**$ 1,895**	**$ 2,143**	**$ 33,545**

9. BORROWINGS

The Company and its subsidiaries were compliant with all covenants attached to the following facilities as at March 31, 2024, and throughout the period then ended (except for a brief period in respect of one covenant, for which a waiver has been obtained as described below).

($ thousands)	Chesswood revolving credit facility *(a)*	Chesswood deferred financing costs	U.S. Equipment Financing Segment credit facilities *(b)*	U.S. Equipment Financing Segment deferred financing costs	Canadian Equipment Financing Segment financing facilities *(c)*	Canadian Consumer Financing Segment financing facilities *(d)*	Canadian Auto Financing Segment financing facilities *(e)*	Total
Net as at December 31, 2023	$ 305,215	$ (3,137)	$ 863,258	$ (4,002)	$ 512,743	$ 37,916	$ 241,521	$ 1,953,514
Proceeds or draw-downs	**282,119**	**—**	**—**	**—**	**6,185**	**8,044**	**29,424**	**325,772**
Repayments	**(371,574)**	**—**	**(202,357)**	**—**	**(56,972)**	**(3,420)**	**(30,233)**	**(664,556)**
Payment of financing costs	**—**	**—**	**—**	**—**	**—**	**—**	**(10)**	**(10)**
Amortization of deferred financing costs	**—**	**754**	**—**	**734**	**—**	**—**	**22**	**1,510**
Foreign exchange translation	**2,881**	**—**	**17,759**	**(75)**	**—**	**—**	**—**	**20,565**
Net as at March 31, 2024	**$ 218,641**	**$ (2,383)**	**$ 678,660**	**$ (3,343)**	**$ 461,956**	**$ 42,540**	**$ 240,724**	**$ 1,636,795**

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

As at March 31, 2024, the Company had the following facilities:

(a) Chesswood revolving credit facility

On December 12, 2023, the revolving credit facility was amended to US$300 million, with step downs to US$215 million by the facility's maturity date of January 14, 2025. The Company is undergoing renewal negotiations. The total outstanding facility as at March 31, 2024 was US$250 million. The facility is subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility is secured by substantially all of the Company’s (and most of its subsidiaries') assets, contains covenants, including maintaining leverage, profitability, debt service, and delinquency ratios. As at March 31, 2024, the Company was utilizing US$177.9 million (December 31, 2023 - US$247.2 million), and had approximately US$72.1 million in additional borrowings available under the revolving credit facility. As at March 31, 2024 (and during most of the quarter then ended) the Company was in compliance with all covenants in the credit facility agreement. Due to an unintended omission from a Q4 2023 amendment to the agreement, the Company was offside of one covenant for a short period at the end of 2023 and early 2024, and has received a waiver from its lenders in such regard. Based on average debt levels, the effective interest rate during the three months ended March 31, 2024, was 9.80% (including amortization of origination costs) (year ended December 31, 2023 - 8.74%).

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

(b) U.S. Equipment Financing Segment

(i) The U.S. Equipment Financing Segment has a credit facility, with a US$120 million annual capacity, with a life insurance company to be renewed annually in October. The funder makes approved advances to the segment on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. The segment maintains certain cash reserves as credit enhancements or provides letters of credit in lieu of cash reserves. The segment retains the servicing of these finance receivables. The balance of this facility as at March 31, 2024, was US$150.5 million (December 31, 2023 - US$171.7 million). Based on average debt levels, the effective interest rate for the three months ended March 31, 2024 was 6.52% (including amortization of origination costs) (year ended December 31, 2023 - 5.57%).

(ii) On September 30, 2020, the U.S. Equipment Financing Segment completed a US$183.5 million asset-backed securitization that has a fixed term and fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's previously existing warehouse line and CapOne facilities, and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at March 31, 2024, was US$15.4 million (December 31, 2023 - US$20.2 million). The effective interest rate was approximately 4.44% for the three months ended March 31, 2024 (including amortization of origination costs) (year ended December 31, 2023 - 3.93%).

(iii) On October 22, 2021, the U.S. Equipment Financing Segment completed a US$356.1 million asset-backed securitization that has a fixed term and a fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's warehouse line and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at March 31, 2024, was US$114.1 million (December 31, 2023 - US$133.6 million). The effective interest rate was approximately 2.64% for the three months ended March 31, 2024 (including amortization of origination costs) (year ended December 31, 2023 - 2.38%).

(iv) On August 15, 2022, the U.S. Equipment Financing Segment completed a US$346.6 million asset-backed securitization that has a fixed term and a fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's warehouse line and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at March 31, 2024, was US$194.6 million (December 31, 2023 - US$218.3 million). The effective interest rate was approximately 6.11% for the three months ended March 31, 2024 (including amortization of origination costs) (year ended December 31, 2023 - 5.89% since the inception of the facility).

(v) The U.S. Equipment Financing Segment had a US$250 million revolving warehouse loan facility that was established in May 2021 specifically to fund its growing prime and near-prime portfolio. The warehouse facility held the U.S. Equipment Financing Segment's prime receivables before they were securitized and was secured by the U.S. Equipment Financing Segment's assets and contains covenants, including maintaining leverage, interest coverage and delinquency ratios. This facility had a revolving period until November 2024 followed by an optional amortizing period for an additional 36 months. Pawnee repaid the remaining balance fully in February 2024 (December 31, 2023 - US$79.6 million). The effective interest rate for the three months ended March 31, 2024, was approximately 8.44% (including amortization of origination costs) (year ended December 31, 2023 - 8.25%).

(vi) The U.S. Equipment Financing Segment entered into arrangements on April 29, 2021, under which an investment fund managed by Waypoint provides loan funding to a special purpose vehicle. The investment fund is structured as a limited partnership with the Company indirectly owning the general partnership interest. Waypoint receives fees for managing the investment fund. The facility has recourse to assets pledged by Pawnee including whole loan securitizations as well as structured notes. The cost of each loan advance is fixed at the time of each tranche. The balance of this facility as at March 31, 2024, was US$26.3 million (December 31, 2023 - US$28.0 million). Based on average debt levels, the effective return provided to the private credit investors for the three months ended March 31, 2024, was 13.16% (including amortization of origination costs) (year ended December 31, 2023 - 13.39%).

(vii) As at March 31, 2024, the U.S. Equipment Financing Segment had provided US$4.0 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (unchanged from December 31, 2023).

(c) Canadian Equipment Financing Segment

As at March 31, 2024, Vault Credit had master purchase and servicing agreements with various financial institutions and life insurance companies (referred to collectively as the "Funders"). The Funders make advances to Vault Credit on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. The facilities have limited recourse to other assets in the event that lessees/borrowers fail to make payments when due. Vault Credit either maintains certain cash reserves as credit enhancements or provides letters of credit in return for release of the cash reserves. As at March 31, 2024, Vault Credit continues to service these finance receivables on behalf of the Funders.

(i) As at March 31, 2024, Vault Credit had access to the following lines of funding:

(a) $300 million rolling limit line from a financial institution.
(b) Approved funding from another financial institution with no annual or rolling limit.
(c) $200 million annual limit from a life insurance company.

As at March 31, 2024, Vault Credit had $460.7 million (December 31, 2023 - $512.0 million) in securitization and bulk lease financing facilities debt outstanding. Vault Credit had access to at least $231.1 million of additional financing from its securitization partners (December 31, 2023 - $114.2 million).

The interest rates on the lines of funding noted above are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Based on average debt levels, the effective interest rate during the three months ended March 31, 2024 was 5.25% for Vault Credit (year ended December 31, 2023 - 5.00%).

(ii) Vault Credit entered into arrangements on December 14, 2021, under which Vault Credit Opportunities Fund ("VCOF") (an entity controlled by Daniel Wittlin, an officer and director of Vault Credit and Canadian Holdco and a director of Chesswood) provides loan funding to Vault Credit and thereby receives returns based on the performance of a specific group of finance receivables. The Canadian Equipment Financing Segment receives fees for servicing the portfolio. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. The balance of this facility as at March 31, 2024, was $1.2 million (December 31, 2023 - $0.7 million). VCOF earns a yield equivalent to the interest on the underlying loans.

(iii) As at March 31, 2024, Vault Credit had provided $8.6 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2023 - $8.6 million). Vault Credit must meet certain financial covenants, including leverage ratio, interest coverage ratio and tangible net worth covenants, to support these securitization and bulk lease financing facilities.

(d) Canadian Consumer Financing Segment

(i) In 2023, Vault Home obtained a line of funding with an $80 million annual limit from a life insurance company. As at March 31, 2024, Vault Home had $42.5 million (December 31, 2023 - $37.9 million) in securitizations and bulk lease financing facilities debt outstanding. Vault Home had access to at least $59.9 million of additional financing from its securitization partner (December 31, 2023 - $67.9 million). Based on average debt levels, the interest rate during the three months ended March 31, 2024 was 6.41% for Vault Home (year ended December 31, 2023 - 6.37%).

(ii) As at March 31, 2024, Vault Home had provided $1.0 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2023 - $1.0 million). Vault Home must meet certain financial covenants, including leverage ratio, interest coverage ratio and tangible net worth covenants, to support these securitization and bulk lease financing facilities.

(e) Canadian Auto Financing Segment

(i) As at March 31, 2024, Rifco had access to the following lines of funding:

(a) $120 million annual limit from a life insurance company.
(b) $50 million rolling limit from a financial institution.
(c) Approved funding from another financial institution with no annual or rolling limit.

As at March 31, 2024, Rifco had $236.8 million outstanding on its securitization facilities (December 31, 2023 - $237.6 million). Rifco had access to at least $61.9 million of additional financing from its securitization partners (December 31, 2023 - $79.2 million). Based on average debt levels, the effective interest rate during the three months ended March 31, 2024 was 5.91% (including amortization of origination costs) (year ended December 31, 2023 - 5.41%).

(ii) Unsecured debentures

Rifco has unsecured debentures which were issued prior to its acquisition by Chesswood that allow Rifco the right to redeem the debentures in the last year of their terms without penalty. The unsecured debenture holders do not have early retraction rights and have no conversion rights. The unsecured debentures have an asset coverage covenant. Non-compliance with this covenant could result in the debenture holders declaring an event of default and requiring all amounts outstanding to be immediately due and payable. Rifco was compliant throughout the three months ended March 31, 2024. The unsecured debentures have maturity dates that go out until August 2026.

As at March 31, 2024, Rifco had $3.9 million in unsecured debentures outstanding (unchanged from December 31, 2023). Based on average debt levels, the effective interest rate during the three months ended March 31, 2024 was 8.13% (year ended December 31, 2023 - 8.08%).

(iii) As at March 31, 2024, Rifco had provided $6.6 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2023 - $6.6 million).

(f) Restricted funds

($ thousands)	**March 31, 2024**	December 31, 2023
Restricted - cash in collection accounts	**$ 43,191**	$ 43,730
Restricted - cash reserves	**44,934**	43,889
Restricted funds	**$ 88,125**	$ 87,619

10. MINIMUM PAYMENTS

The following are the contractual payments and maturities of financial liabilities and other commitments (including interest) as at March 31, 2024:

($ thousands)		2024	2025	2026	2027	2028	2029+	Total
Accounts payable and other liabilities		$ 37,020	$ —	$ —	$ —	$ —	$ —	**$ 37,020**
Premise leases payable	*(i)*	858	1,129	1,181	887	735	268	**5,058**
Borrowings	*(ii)*	512,609	731,173	325,404	138,553	54,023	19,015	**1,780,777**
Customer security deposits	*(iii)*	533	128	283	170	28	—	**1,142**
		551,020	732,430	326,868	139,610	54,786	19,283	**1,823,997**
Service contracts		3,476	2,288	1,783	1,269	1,254	1,179	**11,249**
Total commitments		$554,496	$734,718	$328,651	$140,879	$ 56,040	$ 20,462	**$ 1,835,246**

(i) The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2029. The amounts above exclude adjustments for discounting premise leases payable.

(ii) Borrowings are described in Note 9 - *Borrowings*, and include fixed payments for the U.S. Equipment Financing Segment, Canadian Equipment Financing Segment, Canadian Consumer Financing Segment and Canadian Auto Financing Segment securitization facilities, as well as the Canadian Auto Financing Segment's debentures and Chesswood's corporate revolving credit facility, which is a line of credit and, as such, the balance can fluctuate. The amounts above include fixed interest payments on the U.S. Equipment Financing Segment's, the Canadian Equipment Financing Segment's, the Canadian Consumer Financing Segment's and the Canadian Auto Financing Segment's credit facilities and estimated interest payments on the Canadian Auto Financing Segment's debentures and Chesswood's corporate credit facility. The latter assuming the interest rate, debt balance and foreign exchange rate as at March 31, 2024, remain the same until the expiry date of January 2025. The Chesswood corporate credit facility is undergoing renewal negotiations. The amount owing under Chesswood's revolving credit facility and the Canadian Auto Financing Segment's debentures are shown in the year of maturity, and all other expected payments for borrowings are based on the underlying finance receivables supporting the borrowings.

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

Please see Note 6(b) - *Finance Receivables* for the minimum scheduled collections of finance receivables over the same time period. Also see Note 9(f) - *Borrowings*, for the amount of restricted funds in collections accounts that will be applied to debt in the following month.

The Company has no material liabilities that have not been recognized and presented on the unaudited interim condensed consolidated statements of financial position as at March 31, 2024, other than US$16.0 million in letters of credit (December 31, 2023 - US$16.2 million).

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

11. CAPITAL MANAGEMENT

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

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

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

12. COMMON SHARES

As at March 31, 2024, there were 18,516,538 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities) (December 31, 2023 - 18,309,104) with a book value of $135.9 million (December 31, 2023 - $133.5 million).

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

(a) Normal course issuer bids

In January 2023, the Company's Board of Directors approved the repurchase for cancellation of up to 1,033,781 of the Company's outstanding common shares for the period commencing January 25, 2023, and ending on January 24, 2024. From January 25, 2023, to January 24, 2024, the Company did not repurchase any shares under the normal course issuer bid.

(b) Special warrants

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

An analysis of the special warrants exercised as at March 31, 2024, is as follows:

	Three months ended March 31,	
	2024	2023
Balance, beginning of period	**400,003**	933,335
Exercised	**133,333**	133,333
Balance, end of period	**266,670**	800,002

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

During the three months ended March 31, 2024, on exercise, the accumulated balance in contributed surplus related to the special warrants of $1.4 million was transferred to common share capital (March 31, 2023 - $1.5 million). For the special warrants exercised during the three months ended March 31, 2024, the share price at the date of exercise was $8.01 (March 31, 2023 - $11.35).

On April 2, 2024, the tenth tranche of 133,333 special warrants, which vested on March 31, 2024, were automatically exercised. On exercise, the accumulated balance in contributed surplus related to the special warrants of $1.4 million was transferred to common share capital. For the tenth tranche of special warrants exercised on April 2, 2024, the share price at the date of exercise was $7.24.

13. COMPENSATION PLANS

Contributed surplus includes the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised as at March 31, 2024. There were 1,117,050 options and 952,576 restricted share units outstanding as at March 31, 2024 (March 31, 2023 - 1,883,050 and 728,427, respectively).

(a) Share options

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

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

	Three months ended March 31,	
	2024	2023
Balance, beginning of period	**1,303,050**	1,908,050
Exercised	**—**	(12,500)
Expired	**(186,000)**	(12,500)
Balance, end of period	**1,117,050**	1,883,050

During the three months ended March 31, 2024, the personnel expenses and contributed surplus relating to option expense was nil (March 31, 2023 - insignificant). As at March 31, 2024, unrecognized non-cash compensation expense related to the outstanding options was nil (March 31, 2023 - insignificant).

During the three months ended March 31, 2024, no options were exercised (March 31, 2023 - 12,500 for total cash of $0.1 million).

As at March 31, 2024, for all options outstanding, the weighted average exercise price is $10.82 (March 31, 2023 - $11.28) and the weighted average remaining contractual life is 3.5 years (March 31, 2023 - 2.9 years). The 1,117,050 options exercisable as at March 31, 2024, have a weighted average exercise price of $10.82 (March 31, 2023 - 1,821,800 options at $11.39).

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

An analysis of the options outstanding as at March 31, 2024, is as follows:

Range of exercise prices	Weighted average remaining life (in years)	Vested #	Total #
$ 8.01–$ 8.95	**5.99**	**315,490**	**315,490**
$10.17–$10.96	**3.29**	**379,060**	**379,060**
$12.15 –$12.53	**2.45**	**312,500**	**312,500**
$14.12	**0.08**	**110,000**	**110,000**
	3.50	**1,117,050**	**1,117,050**

(b) Restricted share units

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

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

	Three months ended March 31,	
	2024	2023
Balance, beginning of period	**687,341**	479,400
Granted	**343,000**	302,550
Exercised	**(74,101)**	(51,857)
Expired	**(2,664)**	—
Forfeited	**(1,000)**	(1,666)
Balance, end of period	**952,576**	728,427

During the three months ended March 31, 2024, personnel expenses and contributed surplus included $0.7 million (March 31, 2023 - $0.5 million) relating to RSUs.

As at March 31, 2024, unrecognized non-cash compensation expense related to non-vested RSUs was $3.9 million (March 31, 2023 - $4.1 million). The weighted average remaining contractual life for all RSUs outstanding is 8.9 years (March 31, 2023 - 9.2 years).

During the three months ended March 31, 2024, 74,101 RSUs were exercised (March 31, 2023 - 51,857). On exercise, the accumulated balance in contributed surplus related to the RSUs of $0.9 million (March 31, 2023 - $0.7 million) was transferred to common share capital. For the RSUs exercised during the three months ended March 31, 2024, the weighted average share price at the date of exercise was $7.97 (March 31, 2023 - $11.32).

An analysis of the RSUs outstanding as at March 31, 2024, is as follows:

Grant date	Number of RSUs outstanding	Vested	Expiry date	Value on grant date
November 30, 2020	**16,300**	**16,300**	June 29, 2030	**$ 8.01**
August 5, 2021	**71,556**	**50,244**	August 5, 2031	**$ 11.25**
November 5, 2021	**46,970**	**—**	November 5, 2031	**$ 14.27**
March 21, 2022	**112,286**	**88,643**	March 21, 2032	**$ 14.40**
June 28, 2022	**27,000**	**27,000**	June 28, 2032	**$ 12.25**
March 29, 2023	**278,464**	**80,771**	March 29, 2033	**$ 9.00**
June 28, 2023	**57,000**	**9,000**	June 28, 2033	**$ 7.90**
March 19, 2024	**343,000**	**—**	March 19, 2034	**$ 7.60**
	952,576	**271,958**		

14. DIVIDENDS

Under the Chesswood revolving credit facility (see Note 9(a) - *Borrowings*), the maximum amount of cash dividends (and/or cost of any repurchases under normal course issuer bids) that the Company can pay in respect of a month is 1/12 of 90% of Free Cash Flow for the most recently completed four financial quarters for which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is a Non-GAAP measure, which is defined in the MD&A.

The following dividends were declared during the three months ended March 31, 2024 and 2023, respectively:

($ thousands)	**Three months ended March 31, 2024**	Three months ended March 31, 2023
Dividends declared to common shareholders and Exchangeable Securities holders	**$ —**	$ 2,894
Dividends declared to warrant holders	**—**	120
	$ —	$ 3,014

On November 7, 2022, the Company announced an increase to its dividend per share to $0.05 per month (or $0.60 per year), effective January 31, 2023. On September 18, 2023, the Company announced a decrease to its dividend per share to $0.01 per month (or $0.12 per year) effective September 29, 2023. On January 22, 2024, the Company announced a suspension of the monthly dividend.

The following dividends were paid to common shareholders and Exchangeable Securities holders (included as non-controlling interest ("NCI")) during the three months ended March 31, 2024:

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

During the three months ended March 31, 2024, dividends of $2.5 million (March 31, 2023 - $1.1 million) were also paid to the NCI of Canadian Holdco. The dividends were recognized through net income on the unaudited interim condensed consolidated statements of income (loss) within general and administrative expenses. Special warrants issued to the NCI for the merger of Vault Credit are entitled to a dividend equivalent prior to the special warrants becoming exercisable, paid on the date of exercise. As at March 31, 2024, dividends payable of $0.3 million have been accrued on the special warrants (March 31, 2023 - $0.7 million). During the three months ended March 31, 2024, $0.2 million in dividends were paid out on the special warrants (March 31, 2023 - $0.1 million).

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

Record date	Payment date	Cash dividend per share ($)	Total dividend amount *($ thousands)*
December 30, 2022	January 16, 2023	$ 0.04	$ 764
January 31, 2023	February 15, 2023	0.05	964
February 28, 2023	March 15, 2023	0.05	965
		$ 0.14	$ 2,693

15. EARNINGS (LOSS) PER SHARE

	Three months ended March 31,	
	2024	2023
Weighted average number of common shares outstanding	**18,488,870**	17,802,451
Dilutive effect of options	**—**	102,365
Dilutive effect of RSUs	**—**	437,482
Dilutive effect of special warrants	**—**	804,446
Weighted average number of common shares outstanding for diluted earnings (loss) per share	**18,488,870**	19,146,744
Options, RSUs and special warrants excluded from calculation of diluted shares for the period due to their anti-dilutive effect	**2,336,296**	1,257,500

16. 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)	Three months ended March 31, **2024**	2023
Salaries, fees and other employee benefits	**$ 1,255**	$ 1,838
Share-based compensation expense	**215**	403
Compensation expense of key management	**$ 1,470**	$ 2,241

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

The NCI owns the special warrants related to the Vault Credit acquisition. Refer to Note 12(b) - *Common Shares* for further information.

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

- Vault Credit signed a sublease commencing on April 30, 2021, for an eight-year term with a company controlled by Wittlin and Trager. The sublease mirrors all the terms of the head lease, which was entered into with an arm's length party, and requires Vault Credit to pay an allocation of the head lease rent based on head count. The right-of-use asset and premise lease liability initially recognized on the date of commencement is $0.8 million. In 2022, there were additional modifications and terminations to the lease resulting in net additions of $0.1 million to the premise lease liability. Lease payments paid during the three months ended March 31, 2024, were insignificant (March 31, 2023 - insignificant).
- Wittlin has significant influence over certain brokers within Vault Credit's origination network. The leases obtained from related-party brokers comprise 50% of total finance receivables of Vault Credit as at March 31, 2024 (March 31, 2023 - 49%). The total related-party broker commissions capitalized during the three months ended March 31, 2024, was $0.1 million (March 31, 2023 - $1.6 million).
- Vault Credit and Vault Home license proprietary leasing software from an entity controlled by Wittlin. Vault Credit and Vault Home pay for the costs of improving and maintaining the software. The total costs expensed by Vault Credit and Vault Home during the three months ended March 31, 2024, was $1.0 million (March 31, 2023 - $1.6 million).
- Wittlin and Trager indirectly control the general partner of VCOF. VCOF is a limited partnership that entered into a securitization arrangement with Vault Credit on December 14, 2021. Total interest expense for the three months ended March 31, 2024, was $0.1 million and servicing fee revenue was insignificant (March 31, 2023 - $0.1 million interest expense and insignificant servicing fee revenue). See Note 9(c)(ii) - *Borrowings*.
- Wittlin controls VCOF SPV I Inc. and Vault Financial Corporation ("VFC"). During the three months ended March 31, 2024, Vault Credit and Vault Home sold $139.0 million of finance receivables to these entities and earned $2.6 million in total fees (March 31, 2023 - $39.1 million of finance receivables sold, and $0.6 million total fees earned).

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

(f) Wittlin has significant influence over Vault Credit Inc., which has begun developing Tandem's vendor system. For the three months ended March 31, 2024, Tandem paid Vault Credit Inc. $0.1 million (March 31, 2023 - $0.3 million) for software development services.

(g) During the three months ended March 31, 2024, related parties were holders of unsecured debentures in Rifco. The terms offered to related parties for the unsecured debentures are identical to those offered to non-related party unsecured debenture holders. As at March 31, 2024, the total unsecured debentures held by related parties was $0.6 million (March 31, 2023 - $0.7 million). Total interest paid for the three months ended March 31, 2024, was insignificant (March 31, 2023 - insignificant).

(h) An indirect subsidiary of Chesswood is the general partner of the Chesswood Canadian Asset-Backed Credit Fund LP ("CABCF"), a limited partnership. During the three months ended March 31, 2024, Chesswood's operating entities sold $6.1 million of assets to CABCF and earned fee revenue of $0.2 million (March 31, 2023 - $8.4 million of assets sold to CABCF earning fee revenue of $0.3 million).

(i) During the three months ended March 31, 2024, Chesswood sold $196.8 million of finance receivables and earned fee revenue of $2.0 million (March 31, 2023 - n/a) from an associated company in which Chesswood had a 10% ownership.

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

17. SUBSIDIARIES AND INVESTMENT IN ASSOCIATE

(a) Subsidiaries

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

Entity's name	Principal place of business	Ownership as at March 31, 2024	Operating segment	Functional currency
Chesswood Holdings Ltd.	Ontario	100%	Corporate - Canada	CAD
Lease-Win Limited	Ontario	100%	Corporate - Canada	CAD
Case Funding Inc.	Delaware	100%	Corporate - Canada	USD
1000390232 Ontario Inc. (Easy Legal)[3]	Ontario	100%	Corporate - Canada	CAD
Chesswood Capital Management Inc.	Ontario	100%	Asset Management	CAD
Chesswood Capital Management USA Inc.	Colorado[1]	100%	Asset Management	USD
Waypoint Investment Partners Inc.	Ontario	100%	Asset Management	CAD
Waypoint Private Credit GP Inc.	Ontario	100%	Asset Management	CAD
Waypoint Private Credit Fund LP	Ontario	General partner	Asset Management	CAD
Chesswood Canadian ABS GP Inc.	Ontario	100%	Asset Management	CAD
CHW/Vault Holdco Corp.	Ontario	51%	Canadian Equipment Financing	CAD
Vault Credit Corporation[4]	Ontario	51%	Canadian Equipment Financing	CAD
Vault Home Credit Corporation	Ontario	51%	Canadian Consumer Financing	CAD
Chesswood U.S. Acquisition Co Ltd.	Delaware	100%[2]	U.S. Equipment Financing	USD
Pawnee Leasing Corporation[5]	Colorado	100%	U.S. Equipment Financing	USD
Tandem Finance Inc.	Colorado	100%	U.S. Equipment Financing	USD
Windset Capital Corporation	Delaware	100%	U.S. Equipment Financing	USD
Rifco Inc.	Alberta	100%	Canadian Auto Financing	CAD
Rifco National Auto Finance Corporation	Alberta	100%	Canadian Auto Financing	CAD

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

(1) The entity was incorporated in the State of Delaware; however, its principal place of business is Colorado.
(2) 100% ownership of voting shares.
(3) Easy Legal holds a consolidated, wholly owned SPE.
(4) Vault Credit holds, through consolidated, wholly owned SPEs, a portfolio of leases and loans that are financed through arm's-length financial institutions. See Note 6 - *Finance Receivables* and Note 9(c) - *Borrowings.*
(5) Pawnee holds, through consolidated, wholly owned SPEs, a portfolio of leases and loans that are financed through arm's-length financial institutions. See Note 6 - *Finance Receivables* and Note 9(b) - *Borrowings*.

(b) Investment in Associate

On October 31, 2023, Chesswood announced the establishment of a Limited Liability Corporation ("LLC") between a third-party investor and Pawnee. In connection with the LLC and the closing of the first sale of receivables on January 31, 2024, Chesswood has issued to an affiliate of the third-party share purchase warrants (the "Warrants") to purchase 2,083,949 Chesswood common shares. The Warrants are exercisable at $10 per Common Share, can be exercised at the option of the holder on a cashless basis and have certain features to protect the holder from dilution and other material corporate events. As a result, under IAS 32, *Financial Instruments: Presentation*, the Warrants have been recognized as a financial liability designated as at FVTPL. This is a Level 3 investment as measurement requires inputs other than quoted prices included within Level 1 that are observable for the liability directly (i.e., as prices) or indirectly (i.e., derived from prices). The initial recognition of the Warrants and any changes in the value will be recognized in the unaudited interim condensed consolidated statements of income (loss). As at March 31, 2024, 1,041,975 Warrants have vested. As at March 31, 2024, Pawnee owns 10% of the LLC and accounts for the investment under the equity method.

18. CASH FLOW SUPPLEMENTARY DISCLOSURE

($ thousands)	Note	Three months ended March 31, 2024	2023
Non-cash transactions			
Common shares issued on exercise of RSUs	13	**$ 944**	$ 732
Interest paid		**$ 27,179**	$ 28,637

($ thousands)	Note	Three months ended March 31, 2024	2023
Other non-cash items included in net income (loss)			
Share-based compensation expense	13	**$ 704**	$ 527
Amortization of deferred financing costs and debt restructuring	9	**1,510**	1,659
Non-cash interest expense (income) on premise leases payable and revaluation of option liability		**84**	(111)
Loss on investment in associate	17(b)	**608**	—
Unrealized loss on warrant liability	17(b)	**1,669**	—
Unrealized loss (gain) on foreign exchange		**170**	(256)
		$ 4,745	$ 1,819
Changes in other net operating assets			
Other assets		**$ 5,568**	$ (2,301)
Accounts payable and other liabilities		**(6,492)**	1,709
Customer security deposits		**(42)**	(704)
		$ (966)	$ (1,296)

($ thousands)	Note	Three months ended March 31, 2024	2023
Borrowings			
Draw-downs or proceeds	9	**$ 325,772**	$ 971,575
Repayments	9	**(664,556)**	(973,729)
		$ (338,784)	$ (2,154)

19. SEGMENT INFORMATION

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

Segment information is prepared in conformity with the accounting policies adopted for the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2024. The role of the "chief operating decision maker" with respect to resource allocation and performance assessment is embodied in the position of Chief Executive Officer. The performance of the segments is measured on the basis of income (loss) before income taxes. Net assets, which are defined as total segment assets less total segment liabilities, are used as the basis of assessing the allocation of resources. When compared with the last audited annual consolidated financial statements, there are no differences in the basis of segmentation or in the basis of measuring segment results.

Selected information by segment and geographically is as follows:

	Three months ended March 31, 2024						
($ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Consumer Financing	Canadian Auto Financing	Asset Manage-ment	Corporate - Canada	Total
Interest revenue on finance leases and loans	$ 26,626	$ 14,418	1,553	$ 11,650	$ —	$ 422	$ 54,669
Ancillary finance and other fee income	4,542	6,020	310	622	2,189	447	14,130
Interest expense	(15,794)	(7,947)	(1,191)	(3,846)	(186)	—	(28,964)
Provision for credit losses	(5,658)	(2,483)	7	(7,292)	(101)	(16)	(15,543)
Net revenue	9,716	10,008	679	1,134	1,902	853	24,292
Personnel expenses	4,305	3,928	513	2,272	365	1,481	12,864
Share-based compensation expense	116	15	—	67	2	504	704
General and administrative expenses	5,782	4,805	418	1,537	425	1,351	14,318
Unrealized loss on warrant liability	—	—	—	—	—	1,669	1,669
Depreciation	214	99	3	78	2	—	396
Amortization	—	296	36	53	23	67	475
Operating income (loss)	(701)	865	(291)	(2,873)	1,085	(4,219)	(6,134)
Unrealized gain (loss) on foreign exchange	—	43	—	—	—	(213)	(170)
Income (loss) before income taxes	(701)	908	(291)	(2,873)	1,085	(4,432)	(6,304)
Income tax expense (recovery)	480	863	(92)	(660)	311	(386)	516
Net income (loss)	$ (1,181)	$ 45	$ (199)	$ (2,213)	$ 774	$ (4,046)	$ (6,820)
Total assets	$ 930,661	$ 585,145	$ 56,167	$ 274,138	$ 11,497	$ 27,729	$1,885,337
Total liabilities	$ 714,102	$ 471,777	$ 44,321	$ 250,087	$ 1,252	$ 220,213	$1,701,752
Finance receivables	$ 844,567	$ 519,399	$ 51,104	$ 255,423	$ —	$ 10,586	$1,681,079
Goodwill and intangible assets	$ —	$ 42,423	$ 1,725	$ 2,383	$ 3,756	$ 3,206	$ 53,493
Property and equipment disposal (expenditures)	$ 30	$ 3	$ (76)	$ (340)	$ —	$ —	$ (383)

	Three months ended March 31, 2023						
($ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Consumer Financing	Canadian Auto Financing	Asset Manage-ment	Corporate - Canada	Total
Interest revenue on finance leases and loans	$ 35,380	$ 20,047	$ 922	$ 10,902	$ —	$ 198	$ 67,449
Ancillary finance and other fee income	5,925	4,442	122	743	2,455	7	13,694
Interest income (expense)	(17,620)	(9,681)	(771)	(3,140)	86	169	(30,957)
Provision for credit losses	(12,626)	(1,511)	(93)	(3,752)	—	—	(17,982)
Net revenue	11,059	13,297	180	4,753	2,541	374	32,204
Personnel expenses	5,995	5,780	353	2,285	749	1,054	16,216
Share-based compensation expense	65	7	—	51	—	404	527
General and administrative expenses	5,166	4,349	293	1,284	293	1,645	13,030
Depreciation	276	106	1	76	1	—	460
Amortization	—	549	18	46	23	23	659
Operating income (loss)	(443)	2,506	(485)	1,011	1,475	(2,752)	1,312
Unrealized gain (loss) on foreign exchange	—	66	—	—	(43)	233	256
Income (loss) before income taxes	(443)	2,572	(485)	1,011	1,432	(2,519)	1,568
Income tax expense (recovery)	267	260	(141)	590	801	(1,166)	611
Net income (loss)	$ (710)	$ 2,312	$ (344)	$ 421	$ 631	$ (1,353)	$ 957
Total assets	$1,410,055	$ 824,301	$ 14,392	$ 256,799	$ 8,652	$ 17,680	$2,531,879
Total liabilities	$1,132,325	$ 629,740	$ 1,994	$ 234,292	$ 3,055	$ 303,880	$2,305,286
Finance receivables	$1,302,691	$ 720,114	$ 45,276	$ 240,721	$ —	$ 6,734	$2,315,536
Goodwill and intangible assets	$ 21,863	$ 45,429	$ 1,664	$ 2,235	$ 3,847	$ 3,477	$ 78,515
Property and equipment disposal (expenditures)	$ —	$ (26)	$ (109)	$ (67)	$ —	$ —	$ (202)

Chesswood Group Limited

DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors

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

Catherine Barbaro
Director
Chairperson, Compensation Committee

Raghunath Davloor
Director
Chairperson, Audit and Risk Committee

Robert Day
Director
Former Chairperson, Pawnee Leasing Corporation

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

Frederick W. Steiner
Director

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

Executive Team

Ryan Marr
President & C.E.O.

Tobias Rajchel
Chief Financial Officer

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