CHESSWOOD ANNOUNCES FIRST QUARTER 2023 RESULTS

TORONTO, May 9, 2023 – Chesswood Group Limited ("Chesswood" or the "Company") (TSX: CHW), a publicly traded North American specialty finance company providing commercial equipment leases and loans, automotive loans, home improvement financing, legal financing, and asset management, today reported its results for its quarter ended March 31, 2023.

First Quarter Highlights

- *The Canadian Equipment Financing Segment and Canadian Auto Financing Segment continued to experience strong volumes, with total originations of $145.2 million and $39.6 million, respectively(2). This resulted in increases of 12.9% and 40.9% from the same period in the prior year, respectively.*

- *During the quarter, Chesswood launched the Chesswood Canadian Asset Backed Credit Fund ("CABCF"), a fund that allows private investors access to Chesswood generated Canadian lease and loan receivables.*

- *During the three months ended March 31, 2023, $106.0 million of U.S. and Canadian finance receivables were sold through various off-balance sheet conduits.*

- *Chesswood generated Free Cash Flow per diluted share of $0.28.*

"Net income was adversely impacted by an increase in our provision for expected credit losses associated with rising U.S. loan delinquency experienced at quarter end. On a positive note, overall portfolio yields rose and ancillary revenue continued to benefit from the growth of our asset management division" said Ryan Marr, Chesswood's President and Chief Executive Officer.

"The economic consequence of rapidly rising interest rates appears to be impacting U.S. borrowers after a 9-month lag. At the end of the quarter, we observed climbing delinquency levels in the U.S. along with declining loan applications" said Mr. Marr. "In contrast, operating results in the Canadian market showed relative strength (perhaps reflecting the less aggressive policy stance taken by monetary authorities). While volumes have come off the peak levels achieved in 2022, overall loan performance remains stable."

"Market conditions have weakened and therefore we are focusing on elements of the business we can control within the organization. Our collections teams are best in class and have refined their processes using what they learned during several past downturns. Our team has not lost sight of the scale and earnings power this business has achieved and will benefit from once economic conditions normalize" added Mr. Marr.

Summary of First Quarter Results

The Company reported consolidated net income of $1.0 million for the three months ended March 31, 2023, compared to $1.7 million in the same period of 2022. The decrease was caused by greater net charge-offs and an increase in the allowance for expected credit losses ("ECL") from higher delinquencies linked to current economic conditions, as well as a higher cost of funds. These factors were partially offset by increased revenues from portfolio growth and greater off-balance sheet sales.

The U.S. Equipment Financing Segment generated revenue of $41.3 million ($35.4 million interest revenue and $5.9 million ancillary finance and other fee income) during the three-months ended March 31, 2023, an increase of $7.1 million compared to the same period of 2022. This was primarily because of a 12% increase in average net investment in finance receivables (before allowance for ECL), an increase of US$110.4 million (to US$995.6 million) in the three months compared to the same period in the prior year, partially offset by a 0.4% decrease in the average yield earned compared to the same period in the prior year. The decrease in overall yield was due to the continuing growth of the Tandem portfolio, which has a slightly lower yield.

The Canadian Equipment Financing Segment generated revenue of $25.6 million ($21.0 million interest revenue and $4.6 million ancillary finance and other fee income) during the three months ended March 31, 2023, an increase of $11.2 million from the same period in the prior year. The Canadian Equipment Financing Segment's average net investment in finance receivables (before allowance for ECL) increased approximately $338.8 million in the three months ended March 31, 2023 (to $774.1 million), compared to the same period in the prior year. In addition, the Canadian Equipment Financing Segment sold $46.0 million of leases and loans off-balance sheet, while the on-balance sheet portfolio reached an interest revenue yield of 10.8% in the first quarter of 2023 compared to the 10.1% achieved in the same period last year. The increase in net income was due to higher revenue levels partially offset by increased interest and other expenses.

The Canadian Auto Financing Segment generated revenue of $11.6 million ($10.9 million interest revenue and $0.7 million ancillary finance and other fee income) during the three months ended March 31, 2023, an increase of $3.0 million compared to the same period in the prior year. The Segment's average net investment in finance receivables (before allowance for ECL) increased by approximately $35.3 million in the three months ended March 31, 2023 (to $248.5 million), compared to the same period in the prior year. The annualized interest revenue yield earned on the Canadian Auto Financing Segment's net finance receivables was 17.6% during the period, an increase of 2.1% compared to the same period in the prior year. Net income was reduced in the first quarter of 2022 as a result of the absence of the one-time "day 2" provision of $9.3 million recognized on the acquisition of Rifco.

The Company recognized a provision for credit losses of $18.0 million, a $1.3 million increase compared to the same period in the prior year. The increase was primarily related to higher net charge-offs in the quarter as well as higher provision rates compared to the same period in the prior year to reflect pessimistic market expectations.

Free cash flow[1] for the period was $5.7 million, down $9.5 million from Q1 2022. The decrease in free cash flow was a result of increased interest and other operating expenses during the quarter.

Outlook

U.S. credit conditions deteriorated in the first quarter of 2023, largely driven by monetary policy and regional banking issues that have percolated to the surface. While some of this performance is localized to the transportation vertical, there is mounting evidence that the weakness is broad based. Our U.S. team has prepared for a difficult year by staffing up our collections teams and tightening credit standards for new approvals. We have seen these same sentiments echoed by our peers that are seeing similar performance patterns across industry verticals. We are now seeing competitors pull away from the market and more rational pricing established for different credit profiles. As in previous such cycles, we are likely seeing our best origination opportunities today.

Our Canadian entities are performing well, and credit performance appears to be diverging from the U.S. While pleased with this result, we are approaching this cautiously knowing that Canada is not immune to the broader macroeconomic weakness observed globally.

At this point, it is difficult to determine the severity of the credit weakness we will see over the next few quarters. The combination of high interest rates and weakening credit creates a difficult environment for any financial services operator. We believe, however, that the pressure of one of these two variables will dissipate before year end. Our strategy remains unchanged as we continue focusing on maintaining liquidity, controlling costs, and applying discipline in our pricing and application review decisions in order to not only get through this uncertain environment but to take advantage of opportunities.

Consolidated Operating and Financial Results

Financial Highlights (in CDN $000's, except EPS)	**For the Three Months Ended March 31**	
	2023	**2022**
Revenue	$81,143	$57,250
Interest expense	(30,957)	(12,087)
Net recoveries (charge-offs)	(12,874)	407
	37,312	45,570
Expenses:		
Personnel	(16,743)	(14,589)
Other expenses	(13,030)	(10,166)
Depreciation	(460)	(433)
Adjusted Operating Income(1)	**$7,079**	$20,382
Decrease in Allowance for expected credit losses	(5,108)	(17,073)
Amortization	(659)	(591)
Operating income	**1,312**	2,718
Other non-cash items	256	59
Income before income taxes	**$1,568**	$2,777
Net income	**$957**	$1,679
Earnings Per Share – Basic	**$0.06**	$0.10
Earnings Per Share – Diluted	**$0.06**	$0.09
Free Cash Flow	**$5,729**	$15,208
Free Cash Flow Per Share – Diluted	$0.28	$0.73

(1) - See "Non-GAAP Measures" below.

(1) NON-GAAP MEASURES

Adjusted Operating Income and Free Cash Flow are not recognized measures under International Financial Reporting Standards and do not have a standard meaning. Accordingly, these measures may not be comparable to similar measures presented by other issuers. Furthermore, these measures are based primarily on the significant banking and lending agreements of the Company and its subsidiaries for the purposes of determination of compliance with financial covenants as well as calculation of permitted dividends and cash available for purchases of shares under the Company's normal course issuer bid.

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

“Adjusted EBITDA” is EBITDA as further adjusted for inclusion of interest on debt facilities as a deduction from net income (loss), and further removal of other non-cash or non-recurring items such as (i) non-cash gain (loss) on interest rate derivatives and investments, (ii) non-cash unrealized gain (loss) on foreign exchange, (iii) non-cash share-based compensation expense, (iv) non-cash change in finance receivable allowance for 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 users of the Company’s financial reporting.

"Adjusted Operating Income" is Operating Income (Loss) as presented in the unaudited interim condensed consolidated statements of income, adjusted to exclude amortization of intangible assets and the change in allowance for ECL. Adjusted Operating Income is intended to reflect the recurring income from the Company's businesses. Amortization of intangible assets, which includes the expense related to broker relationships and non-compete clauses, is a function of acquisitions. The cost of maintaining the broker relationships after acquisition, being internally generated intangible assets, cannot be measured and is therefore not recognized as an asset, meaning that once these acquisition-related intangibles have been fully amortized they are not replenished, and the amortization expense will cease. The change in the allowance for ECL can be calculated from continuity of the allowance for ECL in Note 5(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 and reflects our creditor approved formulas for Adjusted EBITDA and Free Cash Flow that drives our Maximum Permitted Dividends (as defined below), both relevant measures for users of the Company's financial reporting.

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

"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 on a fully diluted basis.

(2) Origination volumes include contracts which were originated by the Canadian Equipment Financing Segment and Canadian Auto Financing Segment and sold to investment managers and financial institutions.

ABOUT CHESSWOOD GROUP LIMITED

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).

For information on Chesswood Group Limited and its operating subsidiaries:
www.ChesswoodGroup.com

www.PawneeLeasing.com
www.VaultPay.ca
www.Rifco.net
www.EasyLegal.ca
www.TandemFinance.com
www.VaultCredit.com
www.WaypointInvestmentPartners.com

For further information:
Investor Relations - 416-386-3099 / investorrelations@chesswoodgroup.com
Media Inquiries - Ryan Marr, President & CEO - 416-386-3099 / rmarr@chesswoodgroup.com