

**CHESSWOOD GROUP LIMITED**

**FIRST QUARTER REPORT**

**FOR THE THREE MONTHS ENDED**

**MARCH 31, 2023**



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](http://www.ChesswoodGroup.com). The websites of Chesswood Group Limited's operating businesses are: [www.PawneeLeasing.com](http://www.PawneeLeasing.com), [www.TandemFinance.com](http://www.TandemFinance.com), [www.VaultCredit.com](http://www.VaultCredit.com), [www.VaultPay.ca](http://www.VaultPay.ca), [www.Rifco.net](http://www.Rifco.net), [www.WaypointInvestmentPartners.com](http://www.WaypointInvestmentPartners.com), and [www.EasyLegal.ca](http://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 2022 Annual Report and its 2022 Annual Information Form. Copies of Chesswood's continuous disclosure documents can be obtained at [www.chesswoodgroup.com](http://www.chesswoodgroup.com), by email to [investorrelations@chesswoodgroup.com](mailto:investorrelations@chesswoodgroup.com), or by calling Chesswood at 416-386-3099, at [www.sedar.com](http://www.sedar.com), or from Investor Relations at the addresses shown at the end of this Interim Report. Readers should also review the notes further in this Interim Report, in the section titled Management's Discussion and Analysis, concerning the use of Non-GAAP Measures and Forward-Looking Statements, which apply to the entirety of this Interim Report.

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

**TO OUR SHAREHOLDERS**

Chesswood Group generated \$1 million of net income and \$5.7 million of free cash flow in Q1 2023 (fully diluted EPS of \$0.06 and 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 continued to rise, reflecting pricing adjustments put in place during the quarter. In addition, ancillary revenue continued to benefit from the growth of our asset management division, which generates fee-based income associated with the management of off-balance sheet assets.

The balance of net receivables was flat for the quarter while off-balance sheet assets continued to rise. Expenses in the quarter were impacted by \$1 million of one-time costs associated with new systems and controls that transitioned largely in the quarter. At our operating divisions, origination levels remain healthy. After replacing the amortizing assets on balance sheet, the remainder of this volume was sold to off-balance sheet conduits in the quarter.

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. This credit deterioration appears to be broad based but is particularly evident in the transport sector which began to show cracks mid-2022. While it is still early to make conclusive statements regarding the precise state of the U.S. economy, our incoming data would suggest we are in, or near, a U.S. recession although the severity remains uncertain.

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. The automotive market has become an area of focus due to a significant slow down in industry sales following rate hikes and lender pricing adjustments. We have seen several competitors reduce volumes in this marketplace and are also taking a cautious approach. As a result of higher rates, we have observed lower refinancing activity which has the effect of extending the duration of our existing loan book. To offset this dynamic, we have tightened credit standards and adjusted pricing to manage portfolio growth.

In our 2022 year-end letter to investors we noted the impact on profitability associated with rising interest rates. Our team would be shortchanging itself by being myopic about short term results without regard for the progress that has been made in the past three years. Our origination capabilities exceed \$1.5 billion per year, we have meaningfully upgraded the credit quality of our portfolio and diversified both our asset base and funding sources substantially. These changes will meaningfully contribute to Chesswood's earnings as economic and monetary policy conditions normalize. In simpler terms, the challenges arising from rapidly rising interest rates will be the source of meaningful tailwinds at some point in the future. While this doesn't mean we can ignore near-term pressures, our team remains excited about our business prospects.

Investor appetite for commercial and consumer loans with established securitization programs continues to attract new capital. As a result, the opportunity for Chesswood Capital Management remains robust. The repercussions of the recent regional bank failures in the United States will further this trend. In the future, we are likely to see increased regulation in the regional banking sector along with higher capital requirements for specialty finance assets, thereby reducing the scope and scale of the funding they will be able to provide. Our team is ready to capitalize on this change, taking advantage of our unique ability to service and collect loan portfolios. Notably, the inflow of capital through a variety of investment structures exposed to specialty finance assets is still growing. Several institutional investment managers have gone so far as to acquire funding operators, recognizing the advantage one has when able to service and collect portfolios. Examples of the more than seven publicly announced transactions include the acquisitions of Marlin Business Services by HPS Investment Manager, Channel Partners by Elliot Management, Amur Equipment Finance by Pimco Asset Management, and Aqua Finance by Apollo. Chesswood Capital Management is uniquely positioned to participate in the transition from traditional bank funding to a hybrid model in which institutional private capital is becoming a bigger share of overall funding in our markets.

Growing our capabilities and partnerships as a manager of assets is critical to our future growth. At the end of the quarter, we had off-balance sheet receivables of over \$345 million on which we earn management fees. In addition to our own assets, we see opportunities to manage portfolios originated through third party flow programs or those wishing to deconsolidate balance

sheet assets. As I have previously mentioned, the drivers of this trend are strengthening, and Chesswood is excited to capitalize on these opportunities.

Over the next few quarters, we are looking to take advantage of our systems upgrades and automation that has been a major source of expenditure over the past year. These upgrades will allow us to streamline processes and more effectively manage costs.

We expect economic conditions will remain uncertain in the near-term, and therefore we are focusing on those elements 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.

Chesswood has undergone a significant transformation over the past few years as it seeks to diversify its asset base and complement its traditional interest revenue with recurring fee-based revenue. This transformation produces better quality earnings through the cycle due to its diversification, higher portfolio credit quality, and stability that comes with asset management fee income. Our team has not lost sight of the scale and earnings power this business has achieved and will benefit from once economic conditions normalize.

Sincerely,

Ryan Marr  
President & CEO

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (this "MD&A") is provided to enable readers to assess the financial condition and results of operations of Chesswood Group Limited ("Chesswood" or the "Company") as at and for the three months ended March 31, 2023. 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, 2023, and the audited consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2022. Unless otherwise indicated, all financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), and all amounts are expressed in Canadian dollars, unless specifically noted otherwise. This MD&A is dated May 9, 2023.

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

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## FORWARD-LOOKING STATEMENTS

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

Forward-looking statements typically use the conditional, as well as words such as prospect, believe, estimate, forecast, project, expect, anticipate, plan, may, should, could and would, or the negative of these terms, variations thereof or similar terminology. By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. The Company operates in a dynamic environment that involves various risks and uncertainties, many of which are beyond its control, and which could have an effect on the Company's business, revenues, operating results, cash flow, 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 we use in financing and collecting on our leases or loans; and increasingly stringent interpretation and enforcement of laws related to dealers and advisors and their products and compensation; dependence on key personnel; disruption of business models due to the emergence of new technologies; fluctuations in the Canadian dollar and U.S. dollar exchange rate; factors that impact on the decision to acquire a motor vehicle; and general economic and business conditions (including the military conflict in Ukraine, and inflation and recession concerns), which could impact equipment purchases, investment decisions and the need for legal sector finance. The Company further cautions that the foregoing list of factors is not exhaustive.

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

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

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## NON-GAAP MEASURES

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

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

"EBITDA" is Net Income (Loss) as presented in the 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 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 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 software, 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 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 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. See the "EBITDA, Adjusted EBITDA, Free Cash Flow, Maximum Permitted Dividends" section of this MD&A for a reconciliation of Free Cash Flow to Net Income (Loss).

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

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

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

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## COMPANY OVERVIEW

As at March 31, 2023, Chesswood's operations were conducted through three wholly owned subsidiaries in the United States and five operating subsidiaries in Canada (three of which are wholly owned):

- Pawnee Leasing Corporation ("Pawnee"), which finances micro and small-ticket commercial equipment for small and medium-sized businesses in the U.S. through the third-party broker channel;
- Tandem Finance Inc. ("Tandem"), which sources micro and small-ticket commercial equipment originations to small and medium-sized businesses through the equipment vendor channel in the U.S.;
- Vault Credit Corporation ("Vault Credit"), which provides commercial equipment financing and loans to small and medium-sized businesses across Canada;
- Vault Home Credit Corporation ("Vault Home"), which provides home improvement and other consumer financing solutions in Canada;
- Waypoint Investment Partners Inc. ("Waypoint") and Chesswood Capital Management USA Inc. ("CCM USA"), which provide private credit alternatives to investors seeking exposure to lease and loan receivables, including those originated by Chesswood subsidiaries



- 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.

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 476 employees as at March 31, 2023 (476 employees as at December 31, 2022).

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## U.S. EQUIPMENT FINANCING SEGMENT

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

The Company's largest operations are conducted by Pawnee, which, together with Tandem, accounted for 51% of consolidated revenue for the three months ended March 31, 2023. As at March 31, 2023, the U.S. Equipment Financing Segment employed 145 full-time equivalent employees (158 employees as at December 31, 2022).

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 71% of new originations in the three months ended March 31, 2023.

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



As at March 31, 2023, Pawnee's and Tandem's portfolios represented 61% and 39%, respectively of Chesswood's overall receivables portfolio in the U.S.

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

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

FOR THE THREE MONTHS ENDED MARCH 31, 2023

## U.S. EQUIPMENT FINANCING PORTFOLIO METRICS

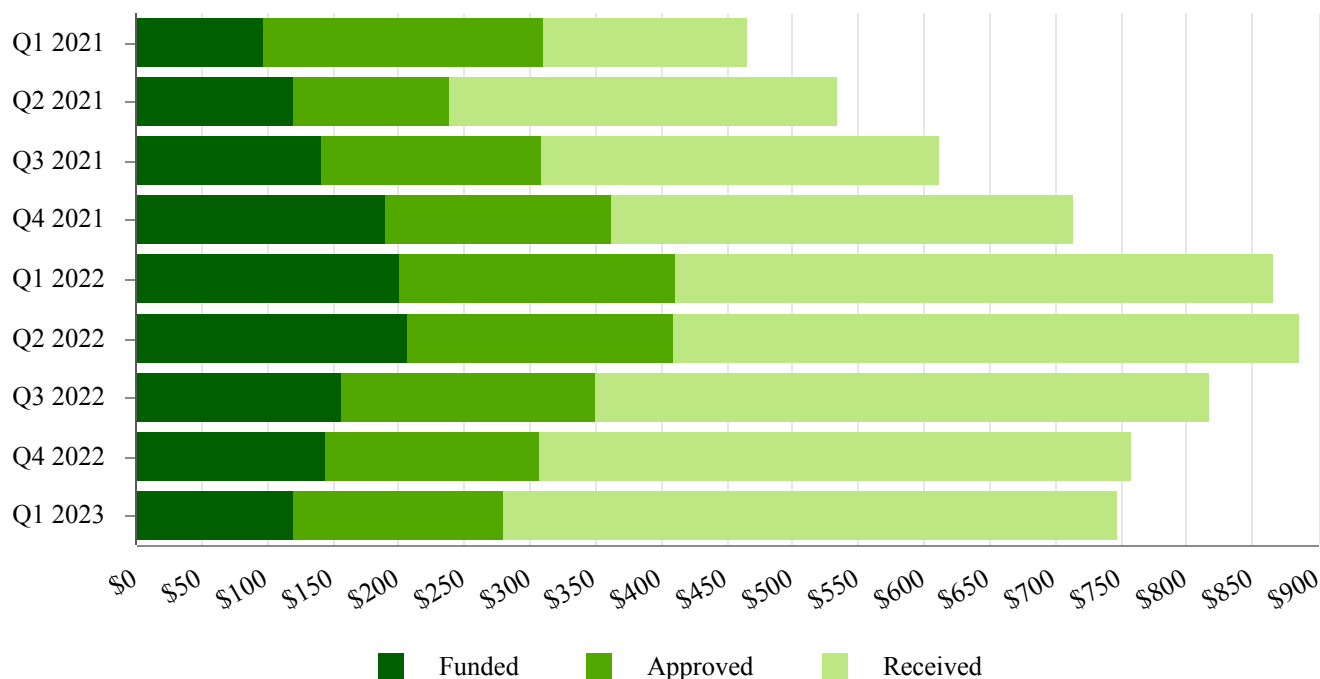
### *U.S. Equipment Financing Segment Finance Receivable Portfolio Statistics*

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

	June 30 2021	Sep 30 2021	Dec 31 2021	Mar 31 2022	June 30 2022	Sep 30 2022	Dec 31 2022	Mar 31 2023
Number of leases and loans outstanding (#)	19,042	20,552	22,396	24,209	24,266	24,246	24,756	24,585
Gross lease and loan receivables ("GLR") <sup>(1)(2)</sup>	\$709,461	\$809,317	\$956,936	\$1,102,395	\$1,131,304	\$1,133,736	\$1,162,115	\$1,140,121
Residual receivables	\$17,595	\$17,965	\$18,323	\$18,751	\$18,325	\$17,819	\$17,859	\$17,953
Net investment in leases and loans receivables ("Net Finance Receivables" or "NFR"), before allowance <sup>(3)</sup>	\$611,603	\$696,041	\$822,671	\$947,695	\$976,381	\$980,906	\$1,004,286	\$986,844
Security deposits ("SD") (nominal value) <sup>(4)</sup>	\$4,643	\$4,124	\$3,577	\$3,171	\$3,012	\$2,624	\$2,373	\$1,802
Allowance for ECL	\$12,125	\$12,599	\$13,544	\$16,383	\$17,676	\$18,866	\$20,284	\$24,086
Allowance for ECL as % of NFR net of SD	2.00%	1.82%	1.65%	1.73%	1.82%	1.94%	2.02%	2.45%
Over 31 days delinquency (% of GLR) <sup>(5)</sup>	0.87%	0.80%	0.94%	1.01%	0.88%	1.36%	1.99%	2.79%
Net charge-offs (recoveries) for the three months ended	\$(709)	\$(1,224)	\$(663)	\$(543)	\$1,150	\$1,473	\$2,484	\$5,533
Provision for credit losses for the three months ended	\$(2,083)	\$(748)	\$282	\$2,296	\$2,443	\$2,663	\$3,902	\$9,335

Notes:

- (1) Excludes residual receivables
- (2) As at March 31, 2023, approximately 63% 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 which was 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 financing of the customers’ equipment purchase or lease. Management regularly reviews lease and loan application, approval and origination volumes for trends that may indicate changes in the economic or competitive landscape and that may necessitate adjustments in its approach to doing business in its market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of applicants.

**CANADIAN EQUIPMENT FINANCING SEGMENT**

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

On April 30, 2021, Blue Chip Leasing Corporation ("Blue Chip") (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 subsidiary of Chesswood, CHW/Vault Holdco Corp. (the "Canadian Holdco") in which Chesswood 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. Figures for our Canadian operations shown in this MD&A and our Financial Statements for any period prior to the merger only reflect Blue Chip. Vault Credit figures are only accounted for the period following the merger.

On 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 (in which, as noted above, Chesswood owns 51% and exercises control).

On September 14, 2021, Chesswood Holdings Ltd. acquired a number of common shares of Vault Home which constitutes 51% of the currently outstanding common shares for a subscription price of \$1.0 million and a commitment to provide an aggregate of \$1.5 million of capital contributions upon the request of the Vault Home board of directors (which was fully advanced in November 2021). Vault Home is incorporated in Ontario. 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.

As of March 31, 2023, \$39.1 million of finance receivables have been sold to VCOF SPV I Inc., a corporation controlled by Daniel Wittlin. The segment earned \$0.6 million of fee revenue from these sales for the three months ended March 31, 2023.

On February 13, 2023, Easy Legal, a subsidiary of the Company, acquired the operating business of Easy Legal Finance Inc, a specialty lender focused on providing credit solutions to the legal sector for \$3.5 million in cash. Easy Legal is incorporated in Ontario. This acquisition allows the Company to further expand into the consumer finance industry.

The Canadian Equipment Financing Segment accounted for 31% of the Company's consolidated revenue for the three months ended March 31, 2023. 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 199 full-time equivalent employees as at March 31, 2023 (189 employees as at December 31, 2022).

FOR THE THREE MONTHS ENDED MARCH 31, 2023

**CANADIAN EQUIPMENT FINANCING PORTFOLIO METRICS**

*Canadian Equipment Financing Segment Finance Receivable Portfolio Statistics*

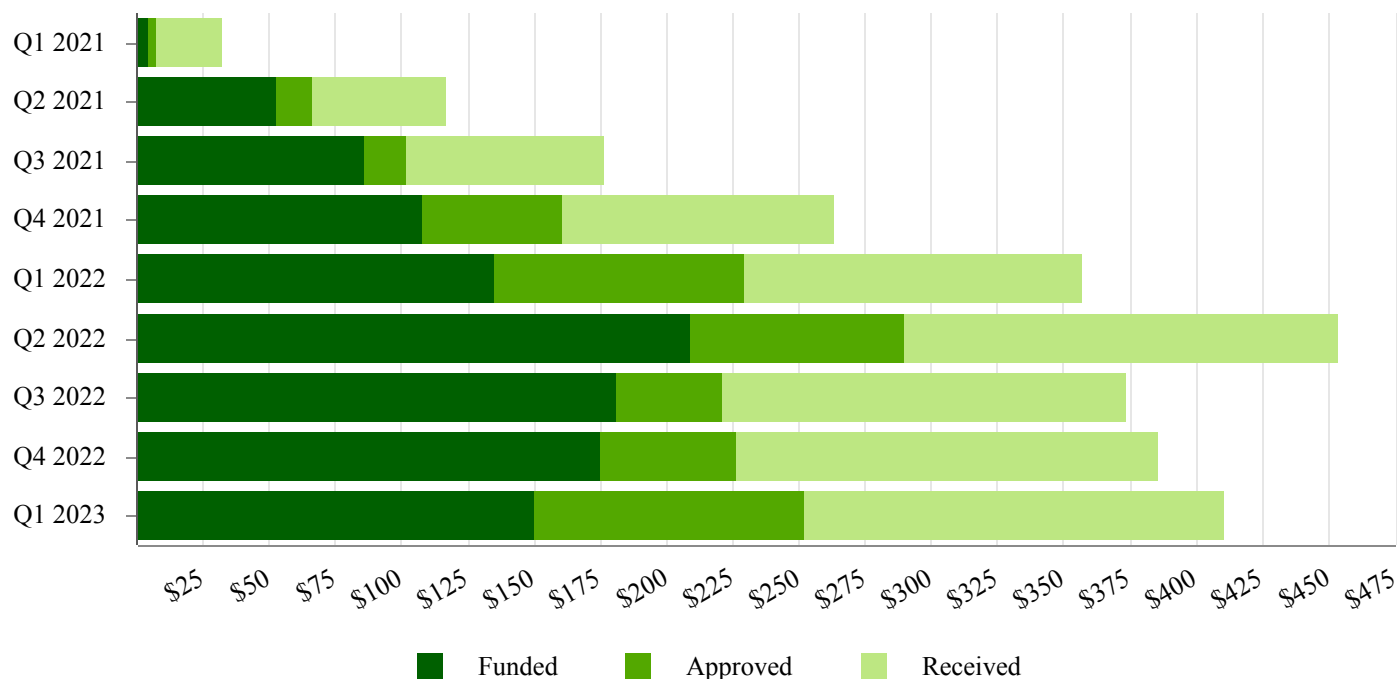
*(in \$ thousands except # of leases/loans and %)*

	June 30 2021	Sep 30 2021	Dec 31 2021	Mar 31 2022	June 30 2022	Sep 30 2022	Dec 31 2022	Mar 31 2022
Number of leases and loans outstanding (#)	20,310	21,441	22,696	24,622	27,811	30,527	33,173	33,886
Gross lease and loan receivables ("GLR") <sup>(1)</sup>	\$331,375	\$377,054	\$434,983	\$516,081	\$658,783	\$764,271	\$849,772	\$852,549
Residual receivables <sup>(2)</sup>	\$5,988	\$6,798	\$7,537	\$8,212	\$11,080	\$12,948	\$14,967	\$15,300
Net finance receivables ("NFR"), before allowance	\$300,726	\$343,668	\$397,915	\$472,573	\$601,163	\$695,988	\$772,205	\$775,921
Allowance for ECL	\$4,229	\$5,472	\$5,216	\$6,360	\$7,995	\$8,892	\$10,051	\$9,794
Allowance for ECL as % of NFR	1.41%	1.59%	1.31%	1.35%	1.33%	1.28%	1.30%	1.26%
Over 31 days delinquency (% of NFR)	0.27%	0.44%	0.24%	0.49%	0.46%	0.54%	0.77%	0.95%
Net charge-offs (recoveries) for the three months ended	(\$29)	\$104	\$355	\$603	\$982	\$1,313	\$2,028	\$1,861
Provision for credit losses for the three months ended	\$1,400	\$1,362	\$99	\$1,741	\$2,617	\$2,216	\$3,187	\$1,604

Notes:

(1) Excludes residual receivables

(2) Residuals include guaranteed and unguaranteed purchase options. As at March 31, 2023, 98% of the residuals are purchase options contractually obligated to be exercised

**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 for equipment financing received by the Canadian Equipment Financing Segment, “Approved” are those received applications that receive an approval by the segment's credit department and “Funded” refers to previously approved applications that become actual lease or loan transactions through the segment's financing of the customers' equipment purchase or lease. Management regularly reviews lease and loan application, approval and origination volumes for trends that may indicate changes in the economic or competitive landscape and that may necessitate adjustments in its approach to doing business in its market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of applicants. Applications for Vault Credit prior to May 1, 2021, for Vault Home prior to September 15, 2021, and Easy Legal prior to February 14, 2023, are not included.

**CANADIAN AUTO FINANCING SEGMENT**

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

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

The Canadian Auto Financing Segment accounted for 14% of consolidated revenue for the three months ended March 31, 2023. The segment's portfolio risk is mitigated by its diversification across geographies, vehicle types, dealers, and credit classes. The segment had 110 full-time equivalent employees as at March 31, 2023 (107 employees as at December 31, 2022).

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

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



FOR THE THREE MONTHS ENDED MARCH 31, 2023

**CANADIAN AUTO FINANCING PORTFOLIO METRICS**

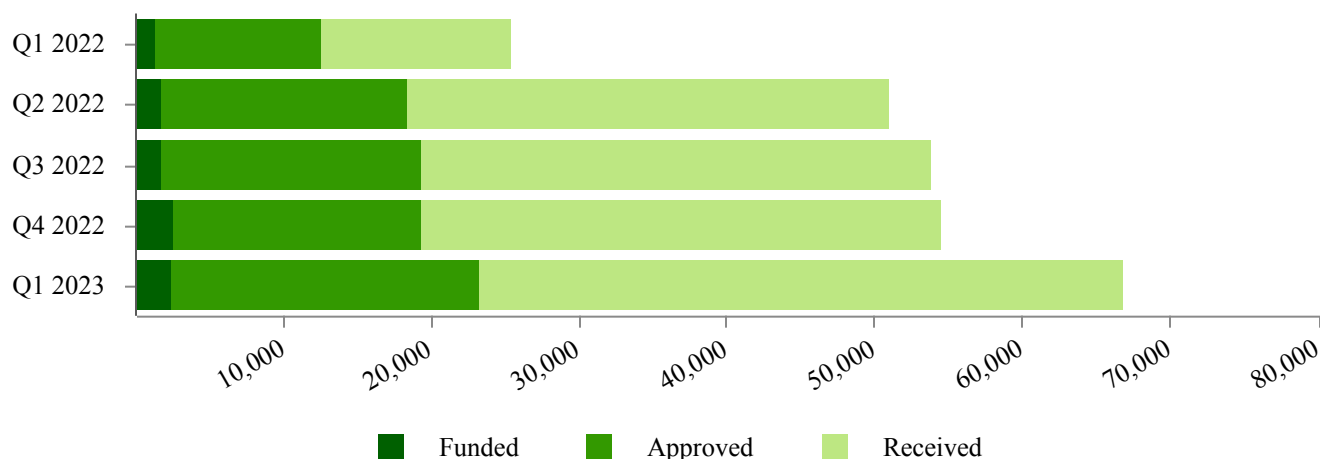
*Canadian Auto Financing Segment Finance Receivable Portfolio Statistics*

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

	Mar 31 2022	June 30 2022	Sep 30 2022	Dec 31 2022	Mar 31 2023
Number of loans outstanding (#)	11,994	12,506	12,916	14,234	15,143
Gross loan receivables ("GLR")	\$336,330	\$348,729	\$356,167	\$370,838	\$398,187
Refundable application fees	\$3,667	\$3,866	\$3,964	\$4,128	\$4,319
Net finance receivables ("NFR"), before allowance	\$217,110	\$224,907	\$231,198	\$242,810	\$254,102
Allowance for ECL	\$12,341	\$13,359	\$14,425	\$13,158	\$13,380
Allowance for ECL as % of NFR	5.68%	5.94%	6.24%	5.42%	5.27%
Over 31 days delinquency (% of NFR)	5.28%	7.25%	6.31%	5.48%	6.16%
Net charge-offs (recoveries) for the three months ended	\$(322)	\$1,463	\$2,332	\$3,215	\$3,530
Provision for credit losses for the three months ended	\$12,019 <sup>(1)</sup>	\$2,481	\$3,398	\$1,948	\$3,752

(1) As a result of acquiring a 100% ownership interest in Rifco in the first quarter of 2022, a \$9.3 million provision for credit losses was required to be taken on the loans related to originations before January 15, 2022. Otherwise, the provision for credit losses for the three months ended March 31, 2022 would have been \$2.7 million.

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



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 previously approved applications that become actual lease or loan transactions through the Segment's financing of the customers' auto purchase or lease. Management regularly reviews lease and loan application, approval and origination volumes for trends that may indicate changes in the economic or competitive landscape and that may necessitate adjustments in its approach to doing business in its market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of applicants. Applications prior to January 15, 2022 are not included.

**ASSET MANAGEMENT SEGMENT**

CCM, CCM USA and Waypoint are referred to in this MD&A as the "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 growing suite of alternative investment funds. The consideration for the acquisition included the payment of \$1.6 million and the issuance of 150,983 Chesswood common shares. Waypoint is a member of the Portfolio Management Association of Canada and is registered as an Investment Fund Manager, Advisor and Exempt Market Dealer in several Canadian provinces.

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.

Under these agreements, Chesswood's 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, that augment Chesswood's existing on-balance sheet facilities.

The Asset Management Segment accounted for 3% of consolidated revenue for the three months ended March 31, 2023. The segment had 9 full-time equivalent employees as at March 31, 2023 (9 full-time employees as at December 31, 2022).

\$66.9 million of Chesswood subsidiary originated finance receivables were sold under agreements with investment managers and financial institutions for the non-recourse sale of equipment leases and loans during the three months ended March 31, 2023 and the segment recognized a total revenue of \$2.5 million for the three months ended March 31, 2023.

**RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022**

U.S. dollar results for the three months ended March 31, 2023 were converted at an exchange rate of 1.3525, which was the average exchange rate for the period (three months ended March 31, 2022 - 1.2662).

***Financial Highlights***

- The Canadian Equipment Financing Segment and Canadian Auto Financing Segment continued to experience strong originations, with total originations of \$145.2 million and \$39.6 million, respectively<sup>(1)</sup>. This resulted in increases of 12.9% and 40.9% from the same period in the prior year, respectively.
- During the three months ended March 31, 2023, Chesswood launched the Chesswood Canadian Asset Backed Credit Fund ("CABCF"), a fund that allows private investors access to Chesswood generated Canadian leases and loans. CCM USA also continued entering into new agreements with investment managers and financial institutions for the non-recourse sale of U.S. Equipment Financing Segment's equipment leases and loans in exchange for fees.
- During the quarter, \$106.0 million of US and Canadian finance receivables were sold under such arrangements (year ended December 31, 2022 - \$270.1 million)..

(1) 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.

FOR THE THREE MONTHS ENDED MARCH 31, 2023

**Summary of Financial Results and Key Measures**

As at and for the quarter ended (\$ thousands, except per share figures)	2021			2022				2023
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	\$ 30,524	\$ 37,007	\$ 44,243	\$ 57,250	\$ 68,985	\$ 73,054	\$ 77,076	\$ 81,143
Net Revenue	23,926	27,752	34,592	28,497	43,635	46,686	39,853	32,204
Operating income	10,610	11,000	10,572	2,718	16,074	16,573	10,278	1,312
Income before income taxes	11,036	12,335	9,721	2,777	15,561	16,024	9,817	1,568
Income tax expense	3,224	3,187	1,825	1,098	5,910	3,728	3,027	611
Net income	7,812	9,148	7,896	1,679	9,651	12,296	6,790	957
Basic earnings per share <sup>(1)</sup>	\$ 0.43	\$ 0.49	\$ 0.46	\$ 0.10	\$ 0.52	\$ 0.64	\$ 0.36	\$ 0.06
Diluted earnings per share <sup>(1)</sup>	0.40	0.45	0.40	0.09	0.46	0.58	0.33	0.06
Total assets	1,186,802	1,389,932	1,602,582	2,048,228	2,261,242	2,471,723	2,534,196	2,531,879
Long-term liabilities	993,714	1,182,797	1,382,837	1,813,968	2,002,186	2,191,422	2,259,996	2,256,204
<b>Other Data</b>								
Adjusted operating income <sup>(2)</sup>	\$ 10,819	\$ 13,376	\$ 12,042	\$ 20,382	\$ 20,980	\$ 20,775	\$ 12,703	\$ 7,079
EBITDA <sup>(2)</sup>	19,397	22,006	19,794	15,888	33,719	34,445	37,706	33,644
Adjusted EBITDA <sup>(2)</sup>	11,324	13,992	14,338	19,893	23,087	16,737	12,819	7,897
Free Cash Flow <sup>(2)</sup>	8,143	10,188	11,486	15,208	15,745	11,956	8,806	5,729
Free Cash Flow per diluted share <sup>(2)</sup>	0.42	0.51	0.56	0.73	0.75	0.57	0.42	0.28
Return on Equity <sup>(3)</sup>	20.0 %	20.9 %	17.1 %	3.5 %	19.3 %	22.6 %	11.9 %	1.7 %
Dividends declared <sup>(3)</sup>	1,566	1,766	1,756	2,009	2,425	2,436	2,414	3,014
Dividends declared per share <sup>(4)</sup>	0.08	0.09	0.09	0.10	0.12	0.12	0.12	0.15
<b>Segment Financials</b>								
U.S. Equipment Financing Segment interest revenue	\$21,623	\$24,279	\$27,721	\$30,614	\$32,495	\$32,438	\$34,806	\$35,380
U.S. Equipment Financing Segment operating income	11,947	12,601	9,876	11,700	13,620	8,373	6,143	(443)
Canadian Equipment Financing Segment interest revenue	5,439	7,887	10,244	11,015	13,999	17,200	19,756	20,983
Canadian Equipment Financing Segment operating income	147	418	2,346	1,460	326	736	1,072	1,756
Canadian Auto Financing Segment interest revenue	n/a	n/a	n/a	8,282	10,631	10,548	10,839	10,902
Canadian Auto Financing Segment operating income (loss)	n/a	n/a	n/a	(8,230)	3,146	1,825	2,710	1,011
Asset Management Segment ancillary finance and other fee income	n/a	n/a	n/a	66	3,290	4,013	1,912	2,455
Asset Management Segment operating income (loss)	n/a	n/a	n/a	(648)	2,153	2,455	1,335	1,475
<b>Portfolio Metrics</b>								
U.S. Equipment Financing Segment finance receivables	\$742,628	\$870,449	\$1,258	\$1,163,557	\$1,235,144	\$1,318,264	\$1,332,452	\$1,302,691
U.S. Equipment Financing Segment originations	147,670	178,613	239,625	254,732	264,285	205,448	198,884	162,491
U.S. Equipment Financing Segment interest revenue yield	12.0 %	11.9 %	11.7 %	10.9 %	10.6 %	10.3 %	10.8 %	10.5 %
U.S. Equipment Financing Segment net charge-offs as a percentage of finance receivables (before allowance for ECL)	(0.5)%	(0.7)%	(0.3)%	(0.2)%	0.5 %	0.6 %	1.0 %	2.2 %
Canadian Equipment Financing Segment finance receivables	\$313,076	\$357,379	\$392,699	\$466,213	\$593,149	\$687,096	\$762,154	\$766,124
Canadian Equipment Financing Segment originations	49,748	83,325	101,555	128,687	203,375	174,466	169,050	145,247

FOR THE THREE MONTHS ENDED MARCH 31, 2023

Canadian Equipment Financing Segment interest revenue yield	10.6 %	9.8 %	11.1 %	10.1 %	10.4 %	10.6 %	10.8 %	10.8 %
Canadian Equipment Financing Segment net charge-offs as a percentage of finance receivables (before allowance for ECL)	(0.1)%	0.1 %	0.4 %	0.6 %	0.7 %	0.8 %	1.1 %	1.0 %
Canadian Auto Financing Segment finance receivables	n/a	n/a	n/a	\$ 204,769	\$ 211,544	\$ 216,773	\$ 229,652	\$ 240,721
Canadian Auto Financing Segment originations	n/a	n/a	n/a	28,115	35,406	33,054	36,338	39,602
Canadian Auto Financing Segment interest revenue yield	n/a	n/a	n/a	15.5 %	19.2 %	18.5 %	18.3 %	17.6 %
Canadian Auto Financing Segment net charge-offs as a percentage of finance receivables (before allowance for ECL)	n/a	n/a	n/a	(0.6)%	2.6 %	4.1 %	5.4 %	5.7 %

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

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

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

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

(5) Quarterly return on equity is the current quarter Net Income annualized (multiplied by four) divided by the quarterly average of total Equity (December 31, 2022 and March 31, 2023), as presented on the unaudited interim condensed consolidated statements of financial position.

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, a decrease of \$0.7 million year-over-year. The decrease was caused by two main factors, both driven by current economic conditions and market uncertainties. First, the operating entities had an increase in net charge-offs of \$13.3 million as a result of higher delinquencies. Second, the rising interest rates resulted in higher costs of funds, which was aggravated by the Company's higher debt outstanding balance as a result of the operating subsidiaries' growth in 2022, causing an \$18.9 million rise in interest expense. This was offset by a decrease in the non-cash change in allowance for ECL of \$12.0 million mainly related to the \$9.3 million first quarter 2022 one-time provision for credit losses booked on the acquired Rifco portfolio. The Company also experienced a significant increase in revenue of \$23.9 million compared to the same period in prior year, due to the growth of the finance receivables.

Return on equity decreased for the three months ended March 31, 2023 by 1.8% compared to the same period in 2022, primarily due to the decrease in net income and the increase in average equity relative to the income earned in the period in 2022, as well as share issuances on the acquisition of Waypoint and the exercise of special warrants, restricted share units ("RSUs"), and options.

(\$ thousands)	Three months ended	
	March 31, 2023	March 31, 2022
Net income (loss)	\$ 957	\$ 1,679
Annualized	x 4	x 4
Average equity	227,499	189,843
Return on equity	1.7 %	3.5 %

FOR THE THREE MONTHS ENDED MARCH 31, 2023

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

Average FX rate	1.3525	1.2662	
	Three months ended March 31,		
(\$ thousands)	2023	2022	Change
Revenue	\$ 81,143	\$ 57,250	\$ 23,893
Interest expense	(30,957)	(12,087)	(18,870)
Net recoveries (charge-offs)	(12,874)	407	(13,281)
	37,312	45,570	(8,258)
Personnel	(16,743)	(14,589)	(2,154)
General and administrative expenses	(13,030)	(10,166)	(2,864)
Depreciation	(460)	(433)	(27)
Adjusted operating income <sup>(1)</sup>	7,079	20,382	(13,303)
Increase in allowance for ECL	(5,108)	(17,073)	11,965
Amortization	(659)	(591)	(68)
Operating income	1,312	2,718	(1,406)
Unrealized loss on foreign exchange	256	59	197
Income before income taxes	1,568	2,777	(1,209)
Income tax expense	(611)	(1,098)	487
<b>Net income</b>	<b>\$ 957</b>	<b>\$ 1,679</b>	<b>\$ (722)</b>

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

The U.S. Equipment Financing Segment's interest revenue on leases and loans totaled \$35.4 million, an increase of \$4.8 million year-over-year for the three month period. This was a result of a 12.5% increase in average net investment in finance receivables (before allowance for ECL) to US\$995.6 million, an increase of US\$110.4 million for the three months ended March 31, 2023 compared to the same period in the prior year, caused by continuously growing originations. As a result, the March 31, 2023 net investment in leases and loans (before allowance for ECL) was US\$39.1 million higher than as at March 31, 2022. The average yield earned during the period decreased by 0.4% (10.5% compared to 10.9% in the same period in the prior year). The decrease in overall yield percentage was due to the continuing growth of the Tandem portfolio, which has a slightly lower yield.

U.S. Equipment Financing Segment	Three months ended	
(US\$ thousands)	March 31, 2023	March 31, 2022
Interest revenue on finance leases and loans	\$ 26,159	\$ 24,178
Annualized	x 4	x 4
Average NFR, before allowance	\$ 995,565	\$ 885,183
Interest revenue yield	10.5 %	10.9 %

The U.S. Equipment Financing Segment's interest expense increased by \$9.3 million for the three months ended March 31, 2023 compared to the same period in the prior year as a result of higher average interest rates and an increase in borrowed funds throughout the period (\$235.4 million higher in average borrowings compared to the same period in 2022).

The U.S. Equipment Financing Segment's provision for credit losses increased by US\$7.0 million for the three months ended March 31, 2023 compared to the same period in the prior year due to an increase in net charge-offs of US\$6.1 million and a



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US\$1.0 million increase in allowance for ECL compared to the same quarter in the prior year to account for market uncertainties and higher delinquencies. The U.S. Equipment Financing Segment's 31 days past due delinquency at March 31, 2023 increased by 1.8% compared to March 31, 2022.

U.S. Equipment Financing Segment (US\$ thousands)	Three months ended	
	March 31, 2023	March 31, 2022
Impact of loan book growth	\$ (350)	\$ 2,059
Impact of change in provision rate during the period	4,152	780
Change in allowance for ECL	3,802	2,839
Net charge-offs (recoveries)	5,533	(543)
Provision for credit losses	9,335	2,296
Average NFR, before allowance	995,565	885,183
Net charge-offs (annualized, x4) as a percentage of finance receivables	2.2 %	(0.2)%

Personnel expenses in the U.S. Equipment Financing Segment increased by \$0.4 million compared to the same period in the prior year due to an increase in the average number of staff by three during the three months ended March 31, 2023. However, there was a decrease in share-based compensation expense of \$0.3 million related to the vesting schedule of issued RSUs. Other expenses for the quarter stayed consistent with the same period in the prior year.

During the three months ended March 31, 2023, the operating income from the U.S. Equipment Financing Segment's operations decreased by \$12.1 million compared with the same period in the prior year, mainly due to a higher provision for credit losses and interest. These were partially offset by a higher average NFR, before allowance, which increased revenues earned.

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 (\$10.0 million interest revenue and \$1.2 million ancillary finance and other fee income) 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 for the three months ended March 31, 2023 compared to the same period in the prior year. In addition, the average number of finance receivable contracts outstanding increased by 9,870 in the quarter ended March 31, 2023 compared to the same period in the prior year. The average annualized interest revenue yield earned on the Canadian Equipment Financing Segment's net finance receivables increased by 0.7%, to 10.8%, during the period compared to the same period in the prior year.

Canadian Equipment Financing Segment (\$ thousands)	Three months ended	
	March 31, 2023	March 31, 2022
Interest revenue	\$ 20,983	\$ 11,015
Annualized	x 4	x 4
Average NFR, before allowance	774,063	435,244
Interest revenue yield	10.8 %	10.1 %

The Canadian Equipment Financing Segment's provision for credit losses remained essentially unchanged compared to the same period in the prior year. The change in the provision for credit losses was the result of a decrease in the change in allowance for ECL of \$1.4 million offset by an increase in net charge-offs of \$1.3 million.

Canadian Equipment Financing Segment (\$ thousands)	Three months ended	
	March 31, 2023	March 31, 2022
Impact of loan book growth	\$ 38	\$ 980
Impact of change in provision rate during the period	(295)	158
Change in allowance for ECL	(257)	1,138
Net charge-offs (recoveries)	1,861	603
Provision for credit losses	1,604	1,741
Average NFR, before allowance	774,063	435,244
Net charge-offs (annualized, x4) as a percentage of finance receivables	1.0 %	0.6 %

The Canadian Equipment Financing Segment's interest expense increased by \$7.1 million due to approximately \$256.6 million higher average debt outstanding and a higher cost of funds.

The Canadian Equipment Financing Segment's personnel expenses were \$6.3 million, an increase of \$1.8 million from the same period in the prior year, due to an increase in the average number of employees by 51. The increase in general and administrative expenses of \$2.1 million was mainly a function of increased originations, the segment's technology upgrades, and dividend declaration to the non-controlling shareholders of the Canadian Holdco of \$1.1 million.

Overall, the Canadian Equipment Financing Segment's operating income totalled \$1.8 million for the three months ended March 31, 2023, compared to \$1.5 million in the same period in the prior year. The increased operating income was the result of increased revenues and a decrease in provision for credit losses 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 (\$2.6 million interest revenue and \$0.4 million ancillary finance and other fee income) from the same period in the prior year. The Segment's average net investment in finance receivables was \$248.5 million for the three months ended March 31, 2023 compared to \$213.2 million in the same period in the prior year, an increase of \$35.3 million. 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.

Canadian Auto Financing Segment (\$ thousands)	Three months ended	
	March 31, 2023	March 31, 2022
Interest revenue	\$ 10,902	\$ 8,282
Annualized	x 4	x 4
Average NFR, before allowance	248,456	213,198
Interest revenue yield	17.6 %	15.5 %

The Canadian Auto Financing Segment's interest expense was \$3.1 million compared to \$2.0 million in the same period in the prior year. The increase of \$1.1 million is due to an increase of approximately \$16.9 million in average debt outstanding during the three months ended March 31, 2023 and a higher cost of borrowing. In addition, Rifco's prior period results did not include interest incurred prior to the acquisition date of January 14, 2022.

The Canadian Auto Financing Segment's provision for credit losses was \$3.8 million for the three months ended March 31, 2023, a decrease of \$8.3 million compared to the same period in the prior year. The change in the provision for credit losses was the result of a decrease in the change in allowance for ECL of \$12.1 million and an increase in net charge-offs of \$3.8 million. The main driver of the decrease in the change in allowance for ECL was the one-time "day 2" provision of \$9.3 million recognized on the acquisition of Rifco in 2022. In addition, Rifco anticipates improving market conditions based on current macroeconomic factor predictions, therefore the provision rate applied to the book has decreased. The decrease in the change in

FOR THE THREE MONTHS ENDED MARCH 31, 2023

allowance for ECL was offset by an increase in net charge-offs which is attributable to current market uncertainties and increased delinquencies. Rifco's over 31 days delinquency has increased by 0.9%, to 6.2%, compared to the same period in the prior year.

Canadian Auto Financing Segment (\$ thousands)	Three months ended	
	March 31, 2023	March 31, 2022
Impact of loan book growth	\$ 611	\$ 348
Impact of change in provision rate during the period	(389)	2,687
Business Combination	—	9,306
Change in allowance for ECL	222	12,341
Net charge-offs	3,530	(322)
Provision for credit losses	3,752	12,019
Average NFR, before allowance	248,456	213,198
Net charge-offs (annualized, x4) as a percentage of finance receivables	5.7 %	(0.6)%

The Canadian Auto Financing Segment's personnel expenses were \$2.3 million for the three months ended March 31, 2023, an increase of \$0.7 million from the same period in the prior year, due to an increase in the average number of employees of five. General and administrative expenses for the three months ended March 31, 2023 were \$1.3 million, and increase of \$0.2 million from the same period in the prior year, which relates to collection, marketing, and other operating costs.

Overall, the Canadian Auto Financing Segment's operating income totaled \$1.0 million for the three months ended March 31, 2023, an increase of \$9.2 million compared to the same period in the prior year. The increased operating income was mainly due to the absence of the one-time "day 2" post-acquisition provision recorded for ECL. Increased revenue levels were offset by higher interest and other expenses.

For the three months ended March 31, 2023, the Asset Management Segment generated \$2.5 million of revenue of which \$2.1 million related to fees on the receivables sold since inception. The segment facilitated the sale of \$66.9 million of receivables in the three months ended March 31, 2023. During the three months ended, revenues were partially offset by personnel costs and other expenses.

The provision for taxes for the consolidated entity during the three months ended March 31, 2023 was an expense of \$0.6 million compared to an expense of \$1.1 million in the same period in the prior year. The decrease of \$0.5 million is primarily driven by the lower income before taxes generated in the quarter. The effective tax rate differs from the Canadian statutory tax rate due to permanent differences between accounting and taxable income.

FOR THE THREE MONTHS ENDED MARCH 31, 2023

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

Free Cash Flow is a calculation that reflects the agreement with one of 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 (\$ thousands)	2021			2022				2023
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net income	\$ 7,812	\$ 9,148	\$ 7,896	\$ 1,679	\$ 9,651	\$ 12,296	\$ 6,790	\$ 957
Interest expense	7,739	8,835	9,202	12,087	17,133	17,284	26,875	30,957
Income tax expense	3,224	3,187	1,825	1,098	5,910	3,728	3,027	611
Amortization and depreciation	622	836	871	1,024	1,025	1,137	1,014	1,119
EBITDA <sup>(1)</sup>	19,397	22,006	19,794	15,888	33,719	34,445	37,706	33,644
Interest expense	(7,739)	(8,835)	(9,202)	(12,087)	(17,133)	(17,284)	(26,875)	(30,957)
Non-cash revaluation of option liability	—	—	(745)	(1,572)	608	(5,590)	(1,198)	(169)
Non-cash change in finance receivables allowance for ECL <sup>(2)</sup>	(152)	1,830	921	17,073	4,313	3,542	1,834	5,108
Share-based compensation expense	244	326	2,719	650	1,067	1,075	891	527
Unrealized (gain) loss on foreign exchange	(294)	(1,249)	851	(59)	513	549	461	(256)
Gain on interest rate derivative	(132)	(86)	—	—	—	—	—	—
Adjusted EBITDA <sup>(1)(2)</sup>	11,324	13,992	14,338	19,893	23,087	16,737	12,819	7,897
Maintenance capital expenditures	(79)	(112)	(771)	(196)	(265)	(26)	(423)	(202)
Income tax impact of non-cash change in allowance for ECL <sup>(2)</sup>	122	(505)	(256)	(3,391)	(1,167)	(1,027)	(563)	(1,355)
Income tax (expense) recovery	(3,224)	(3,187)	(1,825)	(1,098)	(5,910)	(3,728)	(3,027)	(611)
Free Cash Flow <sup>(1)(2)</sup>	\$ 8,143	\$ 10,188	\$ 11,486	\$ 15,208	\$ 15,745	\$ 11,956	\$ 8,806	\$ 5,729
FCF per diluted share	\$ 0.42	\$ 0.51	\$ 0.56	\$ 0.73	\$ 0.75	\$ 0.57	\$ 0.42	\$ 0.28
FCF L4PQ divided by 4 <sup>(1)(3)</sup>	\$ 4,820	\$ 5,498	\$ 7,256	\$ 8,393	\$ 11,256	\$ 13,156	\$ 13,599	\$ 12,929
Maximum Permitted Dividends <sup>(1)(3)</sup>	\$ 4,338	\$ 4,948	\$ 6,530	\$ 7,553	\$ 10,130	\$ 11,841	\$ 12,239	\$ 11,636
Dividends declared <sup>(4)</sup>	\$ 1,566	\$ 1,766	\$ 1,756	\$ 2,009	\$ 2,425	\$ 2,436	\$ 2,414	\$ 3,014

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

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

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

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

On 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. See "Liquidity and Capital Resources - Dividends to Shareholders" below.

## STATEMENT OF FINANCIAL POSITION

The total consolidated assets of the Company as at March 31, 2023 were \$2.5 billion, substantially unchanged from December 31, 2022. The U.S. dollar exchange rate on March 31, 2023 was 1.3533, compared to 1.3544 as at December 31, 2022. The decrease in the foreign exchange rate represents an decrease of \$1.2 million in assets.

Cash totalled \$6.2 million as at March 31, 2023, a decrease of \$1.9 million from December 31, 2022. The Company's objective is to maintain low cash balances, investing any excess cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. Please see the "Liquidity and Capital Resources" section of this MD&A for a discussion of cash movements during the periods ended March 31, 2023 and 2022.

Restricted funds represent cash reserve accounts which are held in trust as security for the U.S. Equipment Financing Segment, Canadian Equipment Financing Segment, and Canadian Auto Financing Segment secured borrowings and cash collection accounts required by their lenders of certain financial assets that can only be used to repay these debts on specific dates. The 'cash in collections accounts' will be applied to the outstanding borrowings in the following month. See Note 8(e) - *Borrowings* in the unaudited interim condensed consolidated financial statements for further details.

Other assets totalled \$10.7 million as at March 31, 2023, an increase of \$2.2 million from December 31, 2022. The Canadian Equipment Financing Segment and U.S. Equipment Financing Segment contributed \$1.5 million and \$0.5 million, respectively, to the increase due to higher prepaid expenses and receivables during the period.

The Company had current tax receivables of \$1.4 million as the installments certain segments paid to tax authorities exceeded the current tax expense incurred during the period ended March 31, 2023.

Net Finance receivables consist of the following:

<i>Period end FX rate</i>	1.3533	1.3544
<i>(\$ thousands)</i>	March 31, 2023	December 31, 2022
U.S. equipment finance receivables	\$ 1,302,691	\$ 1,332,452
Canadian equipment finance receivables	766,124	762,154
Canadian automotive finance receivables	240,721	229,652
Corporate finance receivables	6,000	6,000
	<b>\$ 2,315,536</b>	<b>\$ 2,330,258</b>

<i>(\$ thousands)</i>	March 31, 2023	December 31, 2022
Opening gross finance receivables	\$ 2,839,733	\$ 1,678,952
Gross loan originations	347,340	1,737,840
Gross loans acquired from business combination	—	329,270
Principal payments, collections from sale of assets and adjustments	(331,700)	(873,868)
Charge-offs	(16,118)	(32,461)
Ending gross finance receivables	<b>\$ 2,839,255</b>	<b>\$ 2,839,733</b>

Net finance receivables decreased by \$14.7 million, or 0.6%, during the three months ended March 31, 2023. In U.S. dollars, the U.S. Equipment Financing Segment's net finance receivables before allowances decreased by US\$17.4 million and the decrease in the foreign exchange rate compared to December 31, 2022 decreased finance receivables by \$1.1 million, thus reflecting a decrease in U.S. based net finance receivables of \$29.8 million since December 31, 2022. The Canadian Equipment Financing Segment's net finance receivables increased by \$4.0 million during the three months ended March 31, 2023. The

FOR THE THREE MONTHS ENDED MARCH 31, 2023

Canadian Auto Financing Segment's finance receivables increased by \$11.1 million during the three months ended March 31, 2023.

The \$2.3 billion in finance receivables is net of \$55.8 million (or 2.4%) in allowance for ECL compared to \$50.7 million (or 2.2%) in allowance for ECL as at December 31, 2022, an increase of \$5.1 million. The increase was a result of higher quarterly provisions for credit losses of \$18.0 million offset by higher net charge-offs of \$12.9 million due to higher delinquencies. As a result, the net change in allowance for ECL was \$5.1 million compared to \$1.4 million in the three months ended December 31, 2022.

The Company's finance receivables are separated into three distinct categories, U.S. equipment lease and loan, Canadian equipment lease and loan, and Canadian auto loan receivables. Each of the categories are 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 expected credit losses and the assessment of 'significant increase' (per IFRS 9) in credit risk considers information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information also requires judgment when calculating the ECL. The Company's allowance for ECL was determined as at March 31, 2023 as follows:

(\$ thousands)	For the three months ended	
	March 31, 2023	December 31, 2022
Opening allowance for ECL	\$ 50,680	\$ 49,284
Net recoveries (charge-offs)	(12,874)	(8,514)
Provision for credit losses	17,982	10,348
Foreign exchange	(20)	(438)
Ending allowance for ECL	\$ 55,768	\$ 50,680
Finance receivables	\$ 2,315,536	\$ 2,330,258
Allowance for ECL as a percentage of finance receivables	2.4 %	2.2 %

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. Vault Credit charges off leases and loans on an individual basis when there is no realistic prospect of recovery. Rifco charges off loans when they become 120 days contractually past due. Many finance receivables that are charged-off are subject to collection efforts, with future recoveries possible. Charge-offs are recognized net of recoveries.

The Company's deferred tax assets increased by \$0.6 million to \$7.9 million. This was driven by the \$1.0 million increase in the corporate deferred tax asset. The deferred tax asset is based on temporary tax difference creations and non-capital loss carryforwards.

Intangible assets totalled \$30.4 million as at March 31, 2023 compared to \$27.5 million as at December 31, 2022, a \$2.9 million increase. \$3.5 million of intangible assets were acquired by Easy Legal on its purchase of Easy Legal Finance Inc.'s operating business (refer to Note 19 - *Business Combinations* in the unaudited interim condensed consolidated financial statements for more detail). This increase was mainly offset by amortization of \$0.7 million (refer to Note 6 - *Intangible Assets*). The significant intangible assets of broker relationships and trade names do not require any outlay of cash to be maintained, as the creation of lease and loan receivables does not require an outlay of cash, other than commissions, which are separately expensed over the terms of the lease and loan receivables.

Goodwill totalled \$48.1 million as at March 31, 2023, an insignificant change compared to December 31, 2022. See Note 7 - *Goodwill* in the unaudited interim condensed consolidated financial statements for more detail.



Accounts payable and other liabilities totalled \$46.4 million as at March 31, 2023, compared to \$43.9 million as at December 31, 2022, an increase of \$2.5 million. The main driver of this increase was due to increases in accounts payable by \$6.0 million and dividends payable by \$0.2 million, mainly offset by decreases in vendor payables of \$3.8 million.

As at March 31, 2023, the Company had a current tax payable balance of \$2.7 million. The Asset Management Segment currently holds a majority of the balance as a result of a greater tax accrual on increased income.

During the period ended March 31, 2023, there was a net decrease in the option liability established during the merger of Blue Chip and Vault Credit of \$0.2 million as a result of a decrease in the underlying net assets used to value the liability. See Note 2 - *Significant Accounting Policies* of the audited consolidated financial statements for the year ended December 31, 2022 for further detail on the option liability.

Borrowings totalled \$2.2 billion as at March 31, 2023, a decrease of \$1.6 million since December 31, 2022. The Canadian Equipment Financing Segment's debt decreased by \$16.9 million, the Canadian Auto Segment's debt increased by \$9.6 million, and the drawdown under the Chesswood revolving credit facility increased by \$5.1 million since December 31, 2022.

The \$2.2 million (December 31, 2022 - \$2.9 million) in customer security deposits relates to security deposits predominantly held by the U.S. Equipment Financing Segment. Historically, the U.S. Equipment Financing Segment's non-prime contracts typically required that the lessees/borrowers provide one or two payments as security deposit (not advance payments), which are held for the full term of the lease/loan and then returned or applied to the purchase option of the equipment at the lessee's/borrower's request, unless the contract is in default (in which case the deposit is applied against the receivable). Beginning in January 2019, the U.S. Equipment Financing Segment discontinued requiring security deposits due to changing market conditions and now require advance payments (first and last months).

Deferred tax liabilities as at March 31, 2023 totalled \$25.8 million compared to \$26.9 million as at December 31, 2022, a decrease of \$1.1 million. Taxes are provided for using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the subsidiaries' assets and liabilities and their corresponding tax basis.

As at March 31, 2023, there were 17,817,351 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of \$128.0 million. During the period ended March 31, 2023, 51,857 RSUs and 12,500 options were exercised, and 133,333 special warrants were automatically exercised.

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 March 31, 2023, the Company did not repurchase any shares under the normal course issuer bid.

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

Non-controlling interest consists of 1,274,601 Class B common shares and 203,936 Class C common shares (the "Exchangeable Securities") of Chesswood U.S. Acquisitionco Ltd. ("U.S. Acquisitionco") issued as partial consideration for the acquisition of Pawnee and are fully exchangeable at any time for the Company's common shares, on a one-for-one basis, for no additional consideration, through a series of steps and entitle the holders to receive the same dividends as the common shares. Attached to the Exchangeable Securities are Special Voting Shares of the Company which provide the holders of the Exchangeable Securities voting equivalency to holders of common shares. Under IFRS, the Exchangeable Securities must be shown as non-controlling interest because they are equity in a subsidiary not attributable, directly or indirectly, to the parent. 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 19,295,888 common shares outstanding.



As a result of the Blue Chip - Vault Credit merger and prior to the exercise of the option liability, the non-controlling interest in the Canadian Holdco has a right to 49% of the income and distributions of the Canadian Holdco. However, because of the option liability, the non-controlling interest in the Canadian Holdco is not recognized. See Note 2 - *Significant Accounting Policies* of the audited consolidated financial statements for the year ended December 31, 2022. Finally, there is a 49% non-controlling interest in Vault Home which 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, 2023. There were 1,883,050 options and 728,427 RSUs outstanding as at March 31, 2023.

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## LIQUIDITY AND CAPITAL RESOURCES

The primary sources of cash for the Company and its subsidiaries have been cash flows from operating activities, and borrowings under its and its various subsidiaries' revolvers, warehouses, asset-backed securitizations and bulk lease financing facilities. The primary uses of cash for the Company and its subsidiaries are to fund originations of equipment leases and loans, 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 period ended March 31, 2023.

As at March 31, 2023, the Company had the following facilities:

(a) Chesswood Revolving Credit Facility:

(i) In support of its strategic plan, Chesswood exercised the accordion feature under this revolving credit facility in Q4 2022, which expanded its capacity to US\$386.7 million from US\$300 million previously. 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, interest coverage and delinquency ratios, and expires on January 14, 2025. As at March 31, 2023, the Company was utilizing US\$240.3 million (December 31, 2022 - US\$236.1 million) of its credit facility and had approximately US\$146.4 million in additional borrowings available under the revolving credit facility. Based on average debt levels, the effective interest rate during the three months ended March 31, 2023, was 6.87% (year ended December 31, 2022 - 4.91%).

This revolving credit facility allows Chesswood to internally manage the allocation of capital to its financial services businesses in Canada and the United States. The credit facility supports growth in finance receivables, provides for Chesswood's working capital needs and for general corporate purposes. The facility, available in U.S. 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 facilities are not intended to directly fund dividends by the Company. Under the facility, the maximum amount of cash dividends and purchases under its normal course issuer bid in respect of a month is 1/12 of 90% of Free Cash Flow (see dividend policy below) for the most recently completed four financial quarters for which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is defined as the consolidated Adjusted EBITDA less maintenance capital expenditures and tax expense, plus or minus the tax effect of non-cash change in the allowance for ECL. Please refer to the definitions of Non-GAAP Measures provided in this MD&A.

(b) U.S. Equipment Financing Segment:

(i) The U.S. Equipment Financing Segment has a credit facility, with a US\$150 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, 2023 was US\$124.0 million (December 31, 2022 - US\$112.8 million). Based on average debt levels, the effective interest rate for the

three months ended March 31, 2023, was 5.07% (including amortization of origination costs) (year ended December 31, 2022 - 3.91%).

(ii) In October 2019, the U.S. Equipment Financing Segment completed a US\$254 million asset-backed securitization that has a fixed term and fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay down the U.S. Equipment Financing Segment's previously existing warehouse line and Chesswood's senior revolving credit facility. The balance of this facility as at March 31, 2023 was US\$28.7 million (December 31, 2022 - US\$37.2 million). Based on average debt levels, the effective interest rate was 3.68% for the three months ended March 31, 2023 (including amortization of origination costs) (year ended December 31, 2022 - 3.47%).

(iii) On September 30, 2020, the U.S. Equipment Financing Segment completed a US\$183.5 million asset-backed securitization that has a fixed term and fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's previously existing warehouse line, and CapOne facilities, and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at March 31, 2023 was US\$38.0 million (December 31, 2022 - US\$45.9 million). The effective interest rate was approximately 3.71% for the three months ended March 31, 2023 (including amortization of origination costs) (year ended December 31, 2022 - 3.29%).

(iv) On October 22, 2021, the U.S. Equipment Financing Segment completed a US\$356.1 million asset-backed securitization that has a fixed term and a fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's warehouse line and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at March 31, 2023, was US\$197.8 million (December 31, 2022 - US\$222.0 million). The effective interest rate was approximately 2.24% for the three months ended March 31, 2023 (including amortization of origination costs) (year ended December 31, 2022 - 1.90%).

(v) 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, 2023, was US\$290.3 million (December 31, 2022 - US\$313.1 million). The effective interest rate was approximately 5.81% for the three months ended March 31, 2023 since the inception of the facility (including amortization of origination costs) (year ended December 31, 2022 - 5.85%).

(vi) The U.S. Equipment Financing Segment has a US\$350 million revolving warehouse loan facility that was established in May 2021 specifically to fund its growing prime and near prime portfolio. The warehouse facility holds the U.S. Equipment Financing Segment's prime receivables before they are securitized and is secured by the U.S. Equipment Financing Segment's assets, and contains covenants, including maintaining leverage, interest coverage, and delinquency ratios. This facility has a revolving period until November 2024 followed by an optional amortizing period for an additional 36 months. As at March 31, 2023, the balance of this facility was US\$91.2 million (December 31, 2022 - US\$44.8 million). The effective interest rate for the three months ended March 31, 2023 was approximately 7.15% (including amortization of origination costs) (year ended December 31, 2022 - 3.93%).

(vii) The U.S. Equipment Financing Segment entered into arrangements on April 29, 2021 under which an investment fund managed by Waypoint provides loan funding to a special purpose vehicle and thereby receives returns based on the performance of a specific group of finance receivables. The investment fund is structured as a limited partnership with the Company owning the general partnership interest. Waypoint receives fees for managing the investment fund. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. The balance of this facility as at March 31, 2023 was US\$35.8 million (December 31, 2022 - US\$30.0 million). Based on average debt levels, the effective return provided to the private credit investors for the three months ended March 31, 2023 was 13.30% (including amortization of origination costs) (year ended December 31, 2022 - 14.41%).

(viii) As at March 31, 2023, 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 (December 31, 2022 - US\$4.0 million).

(c) Canadian Equipment Financing Segment:

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 the CHW/Vault Holdco Corp ("Canadian Holdco"), in which, Chesswood owns 51% and exercises control.

As at March 31, 2023, 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, 2023, Vault Credit continues to service these finance receivables on behalf of the Funders.

(i) As at March 31, 2023, Vault Credit had access to the following lines of funding:

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

As at March 31, 2023, Vault Credit had \$610.3 million (December 31, 2022 - \$629.2 million) in securitization and bulk lease financing facilities debt outstanding. Vault Credit had access to at least \$287.2 million of additional financing from its securitization partners (December 31, 2022 - \$363.3 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, 2023 was 4.86% for Vault Credit (year ended December 31, 2022 - 3.69%).

(ii) The Canadian Equipment Financing Segment entered into arrangements on December 14, 2021 under which Vault Credit Opportunities Fund ("VCOF") provides loan funding to Vault Credit and thereby receives returns based on the performance of a specific group of finance receivables. The Canadian Equipment Financing Segment receives fees for servicing the portfolio. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. The balance of this facility as at March 31, 2023 was \$2.3 million (December 31, 2022 - \$2.0 million). VCOF earns a yield equivalent to the interest on the underlying loans.

(iii) As at March 31, 2023, Vault Credit had provided \$14.9 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2022 - \$14.9 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.

(iv) In 2023, Vault Home obtained a line of funding with a \$30 million annual limit from a life insurance company. As at March 31, 2023, Vault Home had \$1.7 million (December 31, 2022 - n/a) in securitizations and bulk lease financing facilities debt outstanding. Vault Home had access to at least \$28.3 million of additional financing from its securitization partner (December 31, 2022 - n/a). Based on average debt levels, the interest rate during the three months ended March 31, 2023 was 6.03% for Vault Home (year ended December 31, 2022 - n/a).

(d) Canadian Auto Financing Segment:

(i) As at March 31, 2023, Rifco had access to the following lines of funding:

- (a) \$60 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, 2023, Rifco had \$219.5 million outstanding on its securitization facilities (December 31, 2022 - \$208.3 million). Based on average debt levels, the effective interest rate during the three months ended March 31, 2023 was 5.08% (December 31, 2022 - 4.48%).

(ii) Unsecured debentures:

Rifco has previously issued unsecured debentures that allow Rifco the right to redeem the debenture in the last year of their terms without penalty. The unsecured debenture holders do not have early retraction rights and have no right to convert into common shares. The unsecured debentures have an asset coverage covenant. Non-compliance with this covenant could result in the debenture holders declaring an event of default and requiring all amounts outstanding to be immediately due and payable. Rifco was compliant for the reporting period. The unsecured debentures are non-retractable and have maturity dates that go out until August 2026.

As at March 31, 2023, Rifco had \$5.8 million in unsecured debentures outstanding (December 31, 2022 - \$7.5 million). Based on average debt levels, the effective interest rate during the three months ended March 31, 2023 was 8.54% (December 31, 2022 - 8.81%).

(iii) As at March 31, 2023, Rifco had provided \$5.1 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2022 - \$5.1 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 acquired on business combinations, and payments relating to the purchase of property and equipment. Cash flow from financing activities comprises changes in borrowings, payment of dividends, proceeds from exercise of stock options, and the purchase and sale of treasury stock.

#### ***For the three months ended March 31, 2023***

During the three months ended March 31, 2023, there was an increase in cash and restricted funds of \$8.0 million compared to a \$22.8 increase of cash in the same period in the prior year as a result of the reasons discussed below.

The Company's U.S. and Canadian equipment finance receivables have an average remaining term of approximately 43 and 37 months, respectively, and the Canadian Auto Financing Segment has an expected realized term of approximately 26 months. The current U.S. and Canadian equipment finance receivables are expected to generate earnings approximately over the next 43 and 37 months, respectively. The Company's Canadian Auto finance receivables are expected to generate earnings over the next 26 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 receivable portfolio. The funds borrowed (or repaid) to support the growth (retraction) in the finance receivables is shown under Financing Activities.

The Company's operations generated \$17.0 million of cash and restricted funds during the three months ended March 31, 2023, compared to \$220.8 million of cash and restricted funds utilized in the same period in the prior year, an increase in cash generated of \$237.8 million compared to the same period in the prior year.

The Company funded growth in finance receivables from cash and restricted funds from operating activities (funds advanced, recoveries on amounts previously written off, origination costs, security deposits, and principal payments) of \$17.4 million and decreased net borrowings by \$2.2 million for the three months ended March 31, 2023. In the same period in the prior year, the

Company funded growth in finance receivables using \$251.8 million from cash and restricted funds from operating activities and net borrowings increased by \$249.6 million.

During the three months ended March 31, 2023, the Company had net tax payments of \$0.6 million compared to net tax payments of \$3.8 million in the same period in the prior year, a decrease in cash and restricted funds utilization of \$3.2 million compared to the same period in the prior year.

The Company did not repurchase any common shares under its normal course issuer bid and paid \$2.8 million of dividends to holders of its common shares and Exchangeable Securities, as well as on its special warrants during the three months ended March 31, 2023. The Company paid \$1.9 million for the repurchase of common shares and \$1.7 million of dividends in the same period in the prior year.

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

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

The Company and its operating subsidiaries are subject to bank and/or funder covenants. The Company was compliant with all of its covenants on all facilities as at March 31, 2023.

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

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

Advances on the Chesswood revolving credit facility may be drawn at any time, subject to compliance with borrowing base calculations and required representations and warranties. As at March 31, 2023, US\$146.4 million was available under the US\$386.7 million facility (utilizing US\$240.3 million), which included US\$18.8 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.

#### ***Dividend Policy***

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

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

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



### Minimum Payments

The following are the contractual payments and maturities of financial liabilities and other commitments (including interest) as at March 31, 2023:

(\$ thousands)	2023	2024	2025	2026	2027	2028+	Total
Accounts payable and other liabilities	\$ 46,383	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 46,383
Premise leases payables (a)	886	1,157	1,172	1,226	501	54	4,996
Borrowings (b)	625,752	643,528	760,954	238,664	95,163	24,052	2,388,113
Customer security deposits (c)	1,179	337	304	352	208	3	2,383
	674,200	645,022	762,430	240,242	95,872	24,109	2,441,875
Service contracts	2,057	929	860	598	396	396	5,236
Total commitments	\$ 676,257	\$ 645,951	\$ 763,290	\$ 240,840	\$ 96,268	\$ 24,505	\$ 2,447,111

- The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2028. The amounts above exclude adjustments for discounting premise leases payable.
- Borrowings are described in Note 8 - *Borrowings*, and include fixed payments for the U.S. Equipment Financing Segment, Canadian Equipment Financing Segment, and the 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, Vault Credit'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, 2023 remain the same until the expiry date of January 2025. The amount owing under Chesswood's revolving credit facility and the Canadian Auto Financing Segment's debentures are shown in the year of maturity, and all other expected payments for borrowings are based on the underlying finance receivables supporting the borrowings.
- 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 5(b) - *Finance Receivables* of the unaudited interim condensed consolidated financial statements for the minimum expected collections of finance receivables over the same time period. Also see Note 8(e) - *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, other than US\$18.8 million in letters of credit.

## 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.

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## **RISK FACTORS**

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

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

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

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

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

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

Of particular note are the significant potential continuing impact of the COVID-19 pandemic, the military conflict in Ukraine, and the related multinational sanctions, 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 a more established business that has experienced some business or personal credit difficulty at some time in its history. As a result, such leases or loans entail a relatively higher risk and may be expected to experience higher levels of delinquencies and loss levels. Pawnee cannot guarantee that the delinquency and loss levels of its receivables will correspond to the historical levels Pawnee has experienced on its portfolio and there is a risk that delinquencies and losses could increase significantly.

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

***Interest Rate Fluctuations***

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



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

At the customer level, non-prime segments of the micro and small-ticket equipment finance market have historically and typically been, and continue to be, more sensitive to the monthly payment amounts than to the effective rates of interest charged. 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 business, financial condition and results of operations and on the amount of cash available for dividends to our shareholders.

Determining the appropriate level of the allowance is an inherently uncertain process and therefore the determination of this allowance may prove to be inadequate to cover losses in connection with a portfolio of leases and loans. Factors that could lead to the inadequacy of an allowance for 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 law, or other legal purposes, adverse consequences could result with respect to leases entered into in such form including the loss of preferred creditor status (which would impact 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 and US\$50,000 for the "B" product, and US\$100,000 for "A", Pawnee's practice of requiring only a verbal confirmation that the property has been delivered and irrevocably accepted under the subject lease or loan, and/or inspecting the property to confirm the same, could make Pawnee vulnerable to certain defenses. By way of example, Pawnee's deemed failure to deliver conforming property under the lease or loan documents could be a defense to a lessee/borrower's "unconditional" obligation to pay the rents and certain other amounts. Pawnee has not suffered any material losses relating to these practices, however, there can be no assurance that it would not in the future.

Analogous risks are faced by Tandem, the Canadian Equipment Financing Segment, 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) which have adopted, among other things, codes of business practice. Laws, regulations and codes of business practice may be adopted with respect to existing leases and loans or the leasing, marketing, selling, pricing, financing and collections processes which might increase the costs of compliance, or require them to alter their respective business, strategy or operations, in a fashion that could hamper the ability to conduct business in the future.

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

#### ***Licensing Requirements***

If an applicable court or regulatory authority were to make an adverse finding or otherwise take adverse action with respect to our operating companies based on their failure to have a finance lender's or other license or registration required in the applicable jurisdiction, our operating companies would have to change business practices and could be subject to financial or other penalties. Further, certain jurisdictions may enact or change administrative practices in respect of licensing requirements

for our operating companies or their referring brokers. For example, California requires that referring brokers have a lenders' license, which may impact loan referrals from certain brokers for funding to California residents.

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

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

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

### ***Insurance***

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

### ***Lessor Liability***

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

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

Analogous risks are faced by the Canadian Equipment Financing Segment, 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 a victim of fraud by lessees/borrowers, vendors and brokers or dealers. In cases of fraud, it is difficult and often unlikely that our operating companies will be able to collect amounts owing under a lease or loan or repossess the related property. Our operating companies may be subject to risks related to broker/dealer practices whether or not our operating companies have actual legal responsibility for broker conduct. Increased rates of fraud could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders. 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 is an important factor in maintaining a competitive market position. No assurance can be given that competitors will not independently develop substantially similar branding, systems or process. Despite the efforts of our operating subsidiaries to protect their proprietary rights, unauthorized parties may attempt to obtain and use information the subsidiaries regard as proprietary. Preventing unauthorized use of such proprietary rights may be difficult, time-consuming and costly, and without any assurance of success.

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

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

***Security Risks***

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

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

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

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

A publicly traded company will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which our common shares will trade cannot be predicted. The market price of the common shares could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the common shares as compared to the annual yield on other financial instruments may also influence the price of common shares



in the public trading markets. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the common shares.

***Leverage 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).

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

### *Net Investment in Leases*

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

### *Allowance for 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 life-time expected net credit losses is recognized.

The Company's finance receivables are separated into three distinct categories, U.S. equipment lease and loan, Canadian equipment lease and loan, and Canadian auto loan receivables. Each of the categories are 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 it's 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 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 we cannot predict with certainty the amount of such losses. Changes in economic conditions, the risk characteristics and composition of the portfolio, bankruptcy laws, and other factors could impact the actual and projected net credit losses and the related allowance for ECL.

The U.S. Equipment Financing Segment, Vault Credit, 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.

### ***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 value-in-use and/or goodwill impairment.

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

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

### ***Taxes***

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



their lease arrangements as operating leases for tax reporting purposes. This results in temporary differences between financial and tax reporting for which deferred taxes have been provided.

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## CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

### New standards effective for the Company's December 31, 2023 year

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

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, 2022, except for the adoption of new standards effective as of January 1, 2023. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2023, but do not have a significant impact on the unaudited interim condensed consolidated financial statements of the Company.

#### *Amendments to IFRS 7, Financial Instruments: Disclosures*

The amendment provides clarification on disclosing material accounting policy information regarding the measurement bases for financial instruments.

#### *Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates, and Errors*

The amendment provides a definition of "accounting estimate" and clarifies the difference between accounting policies and accounting estimates.

#### *Amendments to IAS 12, Income Taxes*

The amendment provides clarification on how companies account for deferred taxes that arise on single transactions such as leases and decommissioning obligations.

#### *Amendments to IAS 1, Presentation of Financial Statements, IFRS Practice Statement 2, Making Materiality Judgments*

The amendment provides guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

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## RELATED PARTY TRANSACTIONS

See Note 15 - *Related Party Transactions* in the unaudited interim condensed consolidated financial statements for the disclosure of key management compensation and other related party transactions.

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## CONTROLS AND PROCEDURES

### Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer (the "Certifying Officers"), along with other members of management, have designed, or caused to be designed under their supervision, Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the Company is made known to them by others,

particularly during the period in which the annual or interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Certifying Officers have assessed the design effectiveness of the Company's DC&P as at March 31, 2023 and have concluded that the design of the Company's DC&P was effective as at that date.

### **Internal Control over Financial Reporting**

The Certifying Officers, along with other members of management, have also designed, or caused to be designed under their supervision, Internal Control over Financial Reporting ("ICFR") to provide reasonable assurance regarding the reliability of 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, 2023 and have concluded that the design of the Company's ICFR was effective as at that date.

During the quarter ended, March 31, 2023, 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: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) breakdowns could occur because of undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

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

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

## MARKET FOR SECURITIES

The Company's common shares are traded on the Toronto Stock Exchange under the symbol CHW. The following table summarizes the high and low sales prices of the common shares and the average daily trading volume for each month in the three months ended March 31, 2023.

	<u>Common Shares</u>		
	High	Low	Average Daily Volume
January	\$11.56	\$10.86	10,857
February	\$12.00	\$10.85	14,058
March	\$12.05	\$8.51	32,487
	\$12.05	\$8.51	19,719

**Chesswood Group Limited**  
**Interim Condensed Consolidated Financial Statements**  
(Unaudited)  
March 31, 2023



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

	<i>Note</i>	As at March 31, 2023	As at December 31, 2022
<b>ASSETS</b>			
Cash		\$ 6,225	\$ 8,120
Restricted funds	8(e)	105,300	95,356
Other assets		10,733	8,573
Current tax receivables		1,350	2,314
Finance receivables	5	2,315,536	2,330,258
Deferred tax assets		7,862	7,237
Right-of-use assets, net		3,624	3,826
Property and equipment, net		2,734	2,926
Intangible assets, net	6	30,414	27,473
Goodwill	7	48,101	48,113
<b>TOTAL ASSETS</b>		<b>\$ 2,531,879</b>	<b>\$ 2,534,196</b>
<b>LIABILITIES</b>			
Accounts payable and other liabilities		\$ 46,383	\$ 43,871
Current tax payables		2,699	1,924
Premise leases payable		4,466	4,673
Option liability		3,639	3,808
Borrowings	8	2,220,093	2,221,649
Customer security deposits		2,225	2,931
Deferred tax liabilities		25,781	26,935
		<b>2,305,286</b>	<b>2,305,791</b>
<b>EQUITY</b>			
Common shares	11	128,047	125,655
Contributed surplus	12	16,670	18,413
Accumulated other comprehensive income		20,986	21,359
Retained earnings		44,524	46,255
<b>Total shareholders' equity</b>		<b>210,227</b>	<b>211,682</b>
Non-controlling interest		16,366	16,723
		<b>226,593</b>	<b>228,405</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 2,531,879</b>	<b>\$ 2,534,196</b>

Approved by the Board of Directors

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

(signed) Raghunath Davloor  
Chairman, Audit and Risk Committee

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

**CHESSWOOD GROUP LIMITED**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022**

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

	<i>Note</i>	March 31, 2023	March 31, 2022
<b>Finance revenue</b>			
Interest revenue on finance leases and loans		\$ 67,449	\$ 49,911
Ancillary finance and other fee income		13,694	7,339
		<b>81,143</b>	<b>57,250</b>
<b>Finance expenses</b>			
Interest expense		30,957	12,087
Provision for credit losses	5	17,982	16,666
		<b>48,939</b>	<b>28,753</b>
<b>Net revenue</b>		<b>32,204</b>	<b>28,497</b>
<b>Expenses</b>			
Personnel expenses		16,743	14,589
General and administrative expenses		13,030	10,166
Depreciation		460	433
Amortization	6	659	591
		<b>30,892</b>	<b>25,779</b>
<b>Operating income</b>		<b>1,312</b>	<b>2,718</b>
Unrealized gain on foreign exchange		256	59
<b>Income before income taxes</b>		<b>1,568</b>	<b>2,777</b>
<b>Income tax expense</b>		<b>611</b>	<b>1,098</b>
<b>Net income for the period</b>		<b>\$ 957</b>	<b>\$ 1,679</b>
<b>Attributable to:</b>			
Common shareholders		\$ 1,061	\$ 1,752
Non-controlling interest		\$ (104)	\$ (73)
<b>Earnings per share</b>			
Basic (in Canadian dollars)	14	\$ 0.06	\$ 0.10
Diluted (in Canadian dollars)	14	\$ 0.06	\$ 0.09

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

**CHESSWOOD GROUP LIMITED**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2023 AND 2022**

*(in thousands of Canadian dollars, unaudited)*

	March 31, 2023	March 31, 2022
Net income	\$ 957	\$ 1,679
Other comprehensive loss items that may be subsequently reclassified to the interim condensed consolidated statements of income:		
Unrealized loss on translation of foreign operations	(404)	(1,811)
Comprehensive income (loss) for the period	<u>\$ 553</u>	<u>\$ (132)</u>
<b>Comprehensive income (loss) attributable to:</b>		
Common shareholders	\$ 688	\$ 84
Non-controlling interest	\$ (135)	\$ (216)

*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, 2023 AND 2022**

(in thousands of Canadian dollars, unaudited)

	<i>Note</i>	Common shares (# '000s)	Common shares	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non- controlling interest	2023 Total
<b>Equity - December 31, 2022</b>		<b>17,620</b>	<b>\$125,655</b>	<b>\$ 18,413</b>	<b>\$ 21,359</b>	<b>\$ 46,255</b>	<b>\$ 211,682</b>	<b>\$ 16,723</b>	<b>\$228,405</b>
Net income		—	—	—	—	1,061	1,061	(104)	957
Dividends declared	13	—	—	—	—	(2,792)	(2,792)	(222)	(3,014)
Share-based compensation	12	—	—	527	—	—	527	—	527
Exercise of restricted share units	12	52	732	(732)	—	—	—	—	—
Exercise of options	12	12	134	(12)	—	—	122	—	122
Unrealized loss on translation of foreign operations		—	—	—	(373)	—	(373)	(31)	(404)
Special warrants issued on business combination	11	133	1,526	(1,526)	—	—	—	—	—
<b>Equity - March 31, 2023</b>		<b>17,817</b>	<b>\$128,047</b>	<b>\$ 16,670</b>	<b>\$ 20,986</b>	<b>\$ 44,524</b>	<b>\$ 210,227</b>	<b>\$ 16,366</b>	<b>\$226,593</b>
	<i>Note</i>	Common shares (# '000s)	Common shares	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity	Non- controlling interest	2022 Total
<b>Equity - December 31, 2021</b>		<b>16,575</b>	<b>\$109,672</b>	<b>\$ 23,875</b>	<b>\$ 10,961</b>	<b>\$ 28,815</b>	<b>\$ 173,323</b>	<b>\$ 14,659</b>	<b>\$187,982</b>
Net income		—	—	—	—	1,752	1,752	(73)	1,679
Dividends declared	13	—	—	—	—	(1,861)	(1,861)	(148)	(2,009)
Share-based compensation	12	—	—	650	—	—	650	—	650
Exercise of restricted share units	12	150	2,141	(2,141)	—	—	—	—	—
Exercise of options	12	4	47	(4)	—	—	43	—	43
Repurchase of common shares under issuer bid	11	(134)	(934)	—	—	(972)	(1,906)	—	(1,906)
Unrealized loss on translation of foreign operations		—	—	—	(1,668)	—	(1,668)	(143)	(1,811)
Special warrants issued on business combination		133	1,613	(1,613)	—	—	—	—	—
Shares issued on business combination		499	7,076	—	—	—	7,076	—	7,076
<b>Equity - March 31, 2022</b>		<b>17,227</b>	<b>\$119,615</b>	<b>\$ 20,767</b>	<b>\$ 9,293</b>	<b>\$ 27,734</b>	<b>\$ 177,409</b>	<b>\$ 14,295</b>	<b>\$191,704</b>

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, 2023 AND 2022**

(in thousands of Canadian dollars, unaudited)

	<i>Note</i>	March 31, 2023	March 31, 2022
<b>OPERATING ACTIVITIES</b>			
Net income		\$ 957	\$ 1,679
Non-cash items included in net income			
Amortization and depreciation		1,119	1,024
Provision for credit losses	3, 5	17,982	16,666
Amortization of origination costs		13,037	11,018
Income tax expense		611	1,098
Other non-cash items	17	1,819	406
		<b>34,568</b>	<b>30,212</b>
Cash from operating activities before change in net operating assets		35,525	31,891
Funds advanced on origination of finance receivables		(347,340)	(411,534)
Origination costs paid on finance receivables		(14,210)	(23,096)
Principal collections of finance receivables and cash collections from sale of assets		341,645	178,979
Recoveries of amounts previously charged off	5	3,244	4,223
Change in other net operating assets	17	(1,296)	2,525
Cash from (used in) operations		17,568	(217,012)
Income taxes paid		(598)	(3,821)
Income tax refund		5	—
<b>Cash from (used in) operating activities</b>		<b>16,975</b>	<b>(220,833)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, equipment and software		(202)	(196)
Net cash and restricted funds on business combinations	19	(3,500)	1,914
<b>Cash from (used in) investing activities</b>		<b>(3,702)</b>	<b>1,718</b>
<b>FINANCING ACTIVITIES</b>			
Borrowings, net	17	(2,154)	249,610
Payment of financing costs	8	(59)	(2,744)
Payment of lease obligations		(285)	(221)
Proceeds from exercise of options	12	122	43
Repurchase of common shares under issuer bid	11	—	(1,906)
Cash dividends paid	13	(2,809)	(1,704)
<b>Cash from (used in) financing activities</b>		<b>(5,185)</b>	<b>243,078</b>
Unrealized foreign exchange loss on cash		(39)	(1,130)
Net increase in cash and restricted funds		8,049	22,833
Cash and restricted funds, beginning of period		103,476	98,551
<b>Cash and restricted funds, end of period</b>		<b>\$ 111,525</b>	<b>\$ 121,384</b>

Please see notes to the interim condensed consolidated financial statements.

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## 1. NATURE OF BUSINESS

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

Through its subsidiaries (ownership interests described in Note 16 - *Subsidiaries*), the Company operates in the following businesses:

- Pawnee Leasing Corporation ("Pawnee") - micro and small-ticket equipment financing to small and medium-sized businesses in the United States.
- Tandem Finance Inc. ("Tandem") - small-ticket equipment financing originations through equipment vendors and distributors in the United States.
- Vault Credit Corporation ("Vault Credit") - commercial equipment financing and loans to small and medium-sized businesses in Canada.
- Vault Home Credit Corporation ("Vault Home") - home improvement and other consumer financing solutions in Canada.
- Rifco National Auto Finance Corporation ("Rifco") - auto financing for motor vehicle purchasers through dealerships across Canada except for Quebec.
- Waypoint Investment Partners Inc. ("Waypoint"), Chesswood Capital Management USA Inc. ("CCM USA"), and Chesswood Capital Management Inc. ("CCM") - providing private credit alternatives to investors seeking exposure to lease and loan receivables originated by Chesswood subsidiaries.
- 1000390232 Ontario Inc. ("Easy Legal"), providing specialized financing solutions to the Canadian legal industry.

The Company's unaudited interim condensed consolidated financial statements were authorized for issue on May 9, 2023 by the Board of Directors.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### 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, 2022.
- 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, 2022.

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.

Certain prior year amounts have been reclassified on the unaudited interim condensed consolidated statements of cash flows to conform with current year presentation. The current year presentation separately identifies the restricted funds in the opening and ending cash flow balances.

### 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 16 - *Subsidiaries* for additional information on the subsidiaries. Income and expenses of subsidiaries with a different functional currency than the Company's reporting currency are translated in the Company's 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.

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

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, 2022, except for the adoption of new standards effective as of January 1, 2023. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Several amendments apply for the first time in 2023, but do not have a significant impact on the unaudited interim condensed consolidated financial statements of the Company.

*Amendments to IFRS 7, Financial Instruments: Disclosures*

The amendment provides clarification on disclosing material accounting policy information regarding the measurement bases for financial instruments.

*Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates, and Errors*

The amendment provides a definition of "accounting estimate" and clarifies the difference between accounting policies and accounting estimates.

*Amendments to IAS 12, Income Taxes*

The amendment provides clarification on how companies account for deferred taxes that arise on single transactions such as leases and decommissioning obligations.

*Amendments to IAS 1, Presentation of Financial Statements, and IFRS Practice Statement 2, Making Materiality Judgments*

The amendment provides guidance and examples to help entities apply materiality judgments to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

**Standards issued but not yet effective***Amendments to IAS 1, Presentation of Financial Statements*

The amendment provides 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. The Company will adopt the amendment when it becomes effective in the Company's December 31, 2024 year.

**3. FINANCIAL INSTRUMENTS***Categories and measurement hierarchy*

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 2022 audited annual consolidated financial statements for further disclosure.

**4. FINANCIAL RISK MANAGEMENT**

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

There have been no material changes in the Company's objectives, policies or processes for measuring and managing any of the risks to which it is exposed since the previous year-end, except for the changing market conditions on credit and liquidity risk. Refer to Note 5 - *Financial Risk Management* of the 2022 audited annual consolidated financial statements for further disclosure.

## 5. 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 8 - *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.

<i>(\$ thousands)</i>	March 31, 2023	December 31, 2022
Net investment in leases	\$ 876,973	\$ 899,982
Loan receivables	1,197,842	1,200,624
Auto loan receivables	240,721	229,652
Finance receivables	<u>\$ 2,315,536</u>	<u>\$ 2,330,258</u>

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

<i>(\$ thousands)</i>	March 31, 2023	December 31, 2022
Total minimum finance receivables payments <i>(b)</i>	\$ 2,799,660	\$ 2,800,578
Residual values of leased equipment	39,595	39,155
	<u>2,839,255</u>	<u>2,839,733</u>
Unearned income, net of initial direct costs	(467,951)	(458,795)
Net investment in finance receivables before allowance for expected credit losses ("ECL")	2,371,304	2,380,938
Allowance for ECL <i>(c)</i>	(55,768)	(50,680)
Net investment in finance receivables	<u>\$ 2,315,536</u>	<u>\$ 2,330,258</u>

(b) Minimum scheduled collections

The Company's minimum scheduled collection of finance receivables as at March 31, 2023, are presented in the following table:

<i>(\$ thousands)</i>	Minimum payments
2023	\$ 758,362
2024	771,189
2025	601,118
2026	416,815
2027	199,058
2028 and thereafter	92,713
Total minimum payments	<u>\$ 2,839,255</u>

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 expected credit losses

The Company's probability-weighted estimate of expected credit losses ("ECLs") using three scenarios (base, upside and downside) was determined as at March 31, 2023 based on forecasts and other information available at that date. When determining the ECL, the Company considered forward-looking macroeconomic information. The Company disaggregates its portfolio by segment. The following forward-looking factors were examined for each portfolio:

Segment	Macroeconomic factor	As at March 31, 2023	As at December 31, 2022
		Base scenario 12-month forecast	Base scenario 12-month forecast
Canadian Equipment Financing	Canadian GDP Growth	0.5%	0.5%
U.S. Equipment Financing	Secured Overnight Financing Rate	5.2%	4.6%
	U.S. GDP Growth	0.8%	1.1%
	U.S. Unemployment Rate	4.0%	4.4%
Canadian Auto Financing	2 Year Note Interest Rate	3.9%	3.9%
	CAD/USD Foreign Exchange Rate	1.33	1.33

Historically, an increase in interest rates, an increase in unemployment rates, a decrease in GDP growth, or weakening Canadian dollar have 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 \$57.5 million as at March 31, 2023 (an increase of \$1.7 million).

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

(\$ thousands)	As at March 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
	Performing	Under-Performing	Non-Performing	
Prime	\$ 1,596,395	\$ 20,541	\$ 6,751	\$ 1,623,687
Non-prime	689,481	33,473	24,663	747,617
Total	\$ 2,285,876	\$ 54,014	\$ 31,414	\$ 2,371,304

(\$ thousands)	As at December 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
	Performing	Under-Performing	Non-Performing	
Prime	\$ 1,614,638	\$ 13,707	\$ 5,523	\$ 1,633,868
Non-prime	699,568	29,083	18,419	747,070
Total	\$ 2,314,206	\$ 42,790	\$ 23,942	\$ 2,380,938



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

(\$ thousands)	Three months ended March 31, 2023			
	Stage 1	Stage 2	Stage 3	Total
	Performing	Under-Performing	Non-Performing	
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

(\$ thousands)	Three months ended March 31, 2022			
	Stage 1	Stage 2	Stage 3	Total
	Performing	Under-Performing	Non-Performing	
Balance, January 1, 2022	\$ 13,888	\$ 4,460	\$ 4,045	\$ 22,393
Acquisition of Rifco loans	9,306	—	—	9,306
Transfer to Performing (Stage 1)	1,257	(1,126)	(131)	—
Transfer to Under-Performing (Stage 2)	(845)	640	205	—
Transfer to Non-Performing (Stage 3)	(776)	(474)	1,250	—
Net remeasurement of loss allowance	(1,990)	1,933	2,544	2,487
New receivables originated	4,873	—	—	4,873
Provision for credit losses	11,825	973	3,868	16,666
Charge-offs	—	—	(3,816)	(3,816)
Recoveries of amounts previously charged off	—	—	4,223	4,223
Net charge-offs	—	—	407	407
Foreign exchange translation	(153)	(50)	(90)	(293)
Balance, March 31, 2022	\$ 25,560	\$ 5,383	\$ 8,230	\$ 39,173

(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 \$2.2 million (December 31, 2022 - \$2.9 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. Vault Credit charges off leases and loans on an individual basis when there is no realistic prospect of recovery. The Canadian Auto Financing Segment, charges off loans when they become 120 days contractually past due. Loan and lease receivables that are charged off during the period are all subject to continued collection efforts.

						<u>As at March 31, 2023</u>	
<i>(\$ thousands)</i>	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total	
Finance receivables	\$ 2,246,115	\$ 66,816	\$ 29,824	\$ 14,940	\$ 13,609	\$ 2,371,304	
Credit impaired	\$ 1,314	\$ 1,680	\$ 2,408	\$ 12,403	\$ 13,609	\$ 31,414	
Past due but not impaired	\$ —	\$ 65,136	\$ 27,416	\$ 2,537	\$ —	\$ 95,089	

						<u>As at December 31, 2022</u>	
<i>(\$ thousands)</i>	Current	1-30 days	31-60 days	61-90 days	Over 90 days	Total	
Finance receivables	\$ 2,261,844	\$ 73,477	\$ 23,776	\$ 8,781	\$ 13,060	\$ 2,380,938	
Credit impaired	\$ 1,032	\$ 1,860	\$ 1,590	\$ 6,492	\$ 12,968	\$ 23,942	
Past due but not impaired	\$ —	\$ 71,617	\$ 22,186	\$ 2,289	\$ 92	\$ 96,184	

(e) Modifications

The net investment in finance receivables that have been modified (in 2023 or prior) and are current as at March 31, 2023 is \$66.4 million (December 31, 2022 - \$77.8 million). On average, the terms have been modified to extend the contracts by approximately one to three months, depending on the modification. Modified finance receivables as at March 31, 2023 had a total net investment in finance receivable balance of \$92.9 million (December 31, 2022 - \$95.1 million). The majority of the modifications were related to COVID-19 deferrals.

(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 unaudited interim condensed consolidated financial statements so that the total charge-off is net of expected recoveries. Any amounts recovered from the sale of equipment or automobile after a charge-off in excess of the expected resale value, are credited to the provision for credit losses when received. During the three months ended March 31, 2023, the proceeds from the disposal of repossessed equipment and automobile that were charged off totalled \$6.1 million (December 31, 2022 - \$19.1 million).

(g) Assets sold to third parties

The Company entered into agreements with investment managers and financial institutions for the non-recourse sale of equipment leases and loans in exchange for fees. During the three months ended March 31, 2023, \$106.0 million of finance receivables were sold (year ended December 31, 2022 - \$270.1 million).

## 6. INTANGIBLE ASSETS

The Company assessed its intangible assets for indicators of impairment for the three months ended March 31, 2023. No indicators were identified during the period. Refer to Note 19 - *Business Combinations* for more information regarding the acquisitions made in the current period.

	Indefinite useful life			Finite useful life			
(\$ thousands)	Trade names	Licenses	Relationships	Trade names	Software	Total	
<b>Cost:</b>							
December 31, 2021	\$ 7,262	\$ —	\$ 35,217	\$ 2,100	\$ 37	\$ 44,616	
Business combinations	—	1,053	727	—	340	2,120	
Software	—	—	—	—	382	382	
Foreign exchange translation	468	—	—	—	—	468	
December 31, 2022	7,730	1,053	35,944	2,100	759	47,586	
Business combinations	663	—	723	—	2,114	3,500	
Software	—	—	—	—	105	105	
Foreign exchange translation	(5)	—	—	—	—	(5)	
<b>March 31, 2023</b>	<b>\$ 8,388</b>	<b>\$ 1,053</b>	<b>\$ 36,667</b>	<b>\$ 2,100</b>	<b>\$ 2,978</b>	<b>\$ 51,186</b>	
(\$ thousands)	Trade names	Licenses	Relationships	Trade names	Software	Total	
<b>Accumulated amortization:</b>							
December 31, 2021	\$ 127	\$ —	\$ 17,447	\$ 93	\$ 11	\$ 17,678	
Amortization	—	—	2,088	140	207	2,435	
December 31, 2022	127	—	19,535	233	218	20,113	
Amortization	—	—	538	35	86	659	
<b>March 31, 2023</b>	<b>\$ 127</b>	<b>\$ —</b>	<b>\$ 20,073</b>	<b>\$ 268</b>	<b>\$ 304</b>	<b>\$ 20,772</b>	
(\$ thousands)	Trade names	Licenses	Relationships	Trade names	Software	Total	
<b>Carrying amount:</b>							
December 31, 2022	\$ 7,603	\$ 1,053	\$ 16,409	\$ 1,867	\$ 541	\$ 27,473	
<b>March 31, 2023</b>	<b>\$ 8,261</b>	<b>\$ 1,053</b>	<b>\$ 16,594</b>	<b>\$ 1,832</b>	<b>\$ 2,674</b>	<b>\$ 30,414</b>	

## 7. GOODWILL

The Company last performed its annual impairment tests as at December 31, 2022, which identified no impairment.

(\$ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Auto Financing	Asset Management	Total
<b>Cost:</b>					
December 31, 2021	\$ 45,984	\$ 45,645	\$ —	\$ —	\$ 91,629
Business combinations	—	—	1,895	2,143	4,038
Foreign exchange translation	3,142	—	—	—	3,142
December 31, 2022	49,126	45,645	1,895	2,143	98,809
Foreign exchange translation	(40)	—	—	—	(40)
<b>March 31, 2023</b>	<b>\$ 49,086</b>	<b>\$ 45,645</b>	<b>\$ 1,895</b>	<b>\$ 2,143</b>	<b>\$ 98,769</b>

(\$ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Auto Financing	Asset Management	Total
<b>Accumulated impairment:</b>					
December 31, 2021	\$ 32,348	\$ 16,138	\$ —	\$ —	\$ 48,486
Foreign exchange translation	2,210	—	—	—	2,210
December 31, 2022	34,558	16,138	—	—	50,696
Foreign exchange translation	(28)	—	—	—	(28)
<b>March 31, 2023</b>	<b>\$ 34,530</b>	<b>\$ 16,138</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 50,668</b>

(\$ thousands)	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Auto Financing	Asset Management	Total
<b>Carrying amount:</b>					
December 31, 2022	\$ 14,568	\$ 29,507	\$ 1,895	\$ 2,143	\$ 48,113
<b>March 31, 2023</b>	<b>\$ 14,556</b>	<b>\$ 29,507</b>	<b>\$ 1,895</b>	<b>\$ 2,143</b>	<b>\$ 48,101</b>

## 8. BORROWINGS

The Company and its subsidiaries were compliant with all covenants attached to the following facilities as at March 31, 2023 and throughout the period then ended.

	Chesswood credit facility (a)	Chesswood deferred financing costs	U.S. Equipment Financing Segment credit facilities (b)	U.S. Equipment Financing Segment deferred financing costs	Canadian Equipment Financing Segment financing facilities (c)	Canadian Auto Financing Segment financing facilities (d)	Total
(\$ thousands)							
Net as at December 31, 2022	\$ 294,048	\$ (3,377)	\$ 1,091,324	\$ (7,273)	\$ 631,177	\$ 215,750	\$ 2,221,649
Proceeds or draw-downs	743,730	—	113,459	—	74,343	40,043	971,575
Repayments	(738,455)	—	(113,486)	—	(91,263)	(30,525)	(973,729)
Payment of financing costs	—	—	—	(48)	—	(11)	(59)
Amortization of deferred financing costs	—	413	—	1,167	—	79	1,659
Foreign exchange translation	(121)	—	(891)	10	—	—	(1,002)
<b>Net as at March 31, 2023</b>	<b>\$ 299,202</b>	<b>\$ (2,964)</b>	<b>\$ 1,090,406</b>	<b>\$ (6,144)</b>	<b>\$ 614,257</b>	<b>\$ 225,336</b>	<b>\$ 2,220,093</b>

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, auto loans, support working capital, long-term debt principal repayments, share repurchases and dividends.

As at March 31, 2023, the Company had the following facilities:

(a) Chesswood Revolving Credit Facility:

(i) In support of its strategic plan, Chesswood exercised the accordion feature under this revolving credit facility in Q4 2022, which expanded its capacity to US\$386.7 million from US\$300 million previously. 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, interest coverage and delinquency ratios, and expires on January 14, 2025. As at March 31, 2023, the Company was utilizing US\$240.3 million (December 31, 2022 - US\$236.1 million) of its credit facility and had approximately US\$146.4 million in additional borrowings available under the revolving credit facility. Based on average debt levels, the effective interest rate during the three months ended March 31, 2023, was 6.87% (year ended December 31, 2022 - 4.91%).

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

(b) U.S. Equipment Financing Segment:

(i) The U.S. Equipment Financing Segment has a credit facility, with a US\$150 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, 2023 was US\$124.0 million (December 31, 2022 - US\$112.8 million). Based on average debt levels, the effective interest rate for the three months ended March 31, 2023, was 5.07% (including amortization of origination costs) (year ended December 31, 2022 - 3.91%).

(ii) In October 2019, the U.S. Equipment Financing Segment completed a US\$254 million asset-backed securitization that has a fixed term and fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay down the U.S. Equipment Financing Segment's previously existing warehouse line and Chesswood's senior revolving credit facility. The balance of this facility as at March 31, 2023 was US\$28.7 million (December 31, 2022 - US\$37.2 million). Based on average debt levels, the effective interest rate was 3.68% for the three months ended March 31, 2023 (including amortization of origination costs) (year ended December 31, 2022 - 3.47%).

(iii) On September 30, 2020, the U.S. Equipment Financing Segment completed a US\$183.5 million asset-backed securitization that has a fixed term and fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's previously existing warehouse line, and CapOne facilities, and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at March 31, 2023 was US\$38.0 million (December 31, 2022 - US\$45.9 million). The effective interest rate was approximately 3.71% for the three months ended March 31, 2023 (including amortization of origination costs) (year ended December 31, 2022 - 3.29%).

(iv) On October 22, 2021, the U.S. Equipment Financing Segment completed a US\$356.1 million asset-backed securitization that has a fixed term and a fixed interest rate and is collateralized by receivables from the U.S. Equipment Financing Segment's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off the U.S. Equipment Financing Segment's warehouse line and to pay down Chesswood's senior revolving credit facility. The balance of this facility as at March 31, 2023, was US\$197.8 million (December 31, 2022 - US\$222.0 million). The effective interest rate was approximately 2.24% for the three months ended March 31, 2023 (including amortization of origination costs) (year ended December 31, 2022 - 1.90%).

(v) 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, 2023, was US\$290.3 million (December 31, 2022 - US\$313.1 million). The effective interest rate was approximately 5.81% for the three months ended March 31, 2023 since the inception of the facility (including amortization of origination costs) (year ended December 31, 2022 - 5.85%).

(vi) The U.S. Equipment Financing Segment has a US\$350 million revolving warehouse loan facility that was established in May 2021 specifically to fund its growing prime and near prime portfolio. The warehouse facility holds the U.S. Equipment Financing Segment's prime receivables before they are securitized and is secured by the U.S. Equipment Financing Segment's assets, and contains covenants, including maintaining leverage, interest coverage, and delinquency ratios. This facility has a revolving period until November 2024 followed by an optional amortizing period for an additional 36 months. As at March 31, 2023, the balance of this facility was US\$91.2 million (December 31, 2022 - US\$44.8 million). The effective interest rate for the three months ended March 31, 2023 was approximately 7.15% (including amortization of origination costs) (year ended December 31, 2022 - 3.93%).

(vii) The U.S. Equipment Financing Segment entered into arrangements on April 29, 2021 under which an investment fund managed by Waypoint provides loan funding to a special purpose vehicle and thereby receives returns based on the

performance of a specific group of finance receivables. The investment fund is structured as a limited partnership with the Company owning the general partnership interest. Waypoint receives fees for managing the investment fund. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. The balance of this facility as at March 31, 2023 was US\$35.8 million (December 31, 2022 - US\$30.0 million). Based on average debt levels, the effective return provided to the private credit investors for the three months ended March 31, 2023 was 13.30% (including amortization of origination costs) (year ended December 31, 2022 - 14.41%).

(viii) As at March 31, 2023, 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 (December 31, 2022 - US\$4.0 million).

(c) Canadian Equipment Financing Segment:

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 the CHW/Vault Holdco Corp. ("Canadian Holdco"), in which, Chesswood owns 51% and exercises control.

As at March 31, 2023, 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, 2023, Vault Credit continues to service these finance receivables on behalf of the Funders.

(i) As at March 31, 2023, Vault Credit had access to the following lines of funding:

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

As at March 31, 2023, Vault Credit had \$610.3 million (December 31, 2022 - \$629.2 million) in securitization and bulk lease financing facilities debt outstanding. Vault Credit had access to at least \$287.2 million of additional financing from its securitization partners (December 31, 2022 - \$363.3 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, 2023 was 4.86% for Vault Credit (year ended December 31, 2022 - 3.69%).

(ii) The Canadian Equipment Financing Segment entered into arrangements on December 14, 2021 under which Vault Credit Opportunities Fund ("VCOF") provides loan funding to Vault Credit and thereby receives returns based on the performance of a specific group of finance receivables. The Canadian Equipment Financing Segment receives fees for servicing the portfolio. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. The balance of this facility as at March 31, 2023 was \$2.3 million (December 31, 2022 - \$2.0 million). VCOF earns a yield equivalent to the interest on the underlying loans.

(iii) As at March 31, 2023, Vault Credit had provided \$14.9 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2022 - \$14.9 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.

(iv) In 2023, Vault Home obtained a line of funding with a \$30 million annual limit from a life insurance company. As at March 31, 2023, Vault Home had \$1.7 million (December 31, 2022 - n/a) in securitizations and bulk lease financing facilities debt outstanding. Vault Home had access to at least \$28.3 million of additional financing from its securitization partner (December 31, 2022 - n/a). Based on average debt levels, the interest rate during the three months ended March 31, 2023 was 6.03% for Vault Home (year ended December 31, 2022 - n/a).

(d) Canadian Auto Financing Segment:

(i) As at March 31, 2023, Rifco had access to the following lines of funding:

- (a) \$60 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, 2023, Rifco had \$219.5 million outstanding on its securitization facilities (December 31, 2022 - \$208.3 million). Based on average debt levels, the effective interest rate during the three months ended March 31, 2023 was 5.08% (December 31, 2022 - 4.48%).

(ii) Unsecured debentures:

Rifco has previously issued unsecured debentures that allow Rifco the right to redeem the debenture in the last year of their terms without penalty. The unsecured debenture holders do not have early retraction rights and have no right to convert into common shares. The unsecured debentures have an asset coverage covenant. Non-compliance with this covenant could result in the debenture holders declaring an event of default and requiring all amounts outstanding to be immediately due and payable. Rifco was compliant for the reporting period. The unsecured debentures are non-retractable and have maturity dates that go out until August 2026.

As at March 31, 2023, Rifco had \$5.8 million in unsecured debentures outstanding (December 31, 2022 - \$7.5 million). Based on average debt levels, the effective interest rate during the three months ended March 31, 2023 was 8.54% (December 31, 2022 - 8.81%).

(iii) As at March 31, 2023, Rifco had provided \$5.1 million in outstanding letters of credit through Chesswood's revolving credit facility in lieu of cash reserves (December 31, 2022 - \$5.1 million).

(e) Restricted funds:

<i>(\$ thousands)</i>	March 31, 2023	December 31, 2022
Restricted - cash in collection accounts	\$ 56,440	\$ 49,314
Restricted - cash reserves	48,860	46,042
Restricted funds	<u>\$ 105,300</u>	<u>\$ 95,356</u>



## 9. MINIMUM PAYMENTS

The following are the contractual payments and maturities of financial liabilities and other commitments (including interest) as at March 31, 2023:

(\$ thousands)		2023	2024	2025	2026	2027	2028+	Total
Accounts payable and other liabilities		\$ 46,383	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 46,383
Premise leases payables	(i)	886	1,157	1,172	1,226	501	54	4,996
Borrowings	(ii)	625,752	643,528	760,954	238,664	95,163	24,052	2,388,113
Customer security deposits	(iii)	1,179	337	304	352	208	3	2,383
		674,200	645,022	762,430	240,242	95,872	24,109	2,441,875
Service contracts		2,057	929	860	598	396	396	5,236
Total commitments		\$676,257	\$645,951	\$763,290	\$240,840	\$96,268	\$24,505	\$2,447,111

- i. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2028. The amounts above exclude adjustments for discounting premise leases payable.
- ii. Borrowings are described in Note 8 - *Borrowings*, and include fixed payments for the U.S. Equipment Financing Segment, Canadian Equipment Financing Segment, and the 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, Vault Credit'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, 2023 remain the same until the expiry date of January 2025. The amount owing under Chesswood's revolving credit facility and the Canadian Auto Financing Segment's debentures are shown in 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 5(b) - *Finance Receivables* of the unaudited interim condensed consolidated financial statements for the minimum expected collections of finance receivables over the same time period. Also see Note 8(e) - *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, other than US\$18.8 million in letters of credit.

## 10. 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 8 - *Borrowings* for further details on the Company's revolving credit facility.

## 11. COMMON SHARES

As at March 31, 2023, there were 17,817,351 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities) (December 31, 2022 - 17,619,661) with a book value of \$128.0 million (December 31, 2022 - \$125.7 million).

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

### (a) Normal course issuer bids

In December 2021, the Company's Board of Directors approved the repurchase for cancellation of up to 980,230 of the Company's outstanding common shares for the period commencing January 24, 2022 and ending on January 23, 2023. From January 24, 2022 to December 31, 2022, the Company repurchased 453,612 of its shares under the normal course issuer bid at an average cost of \$12.58 per share. The excess of the purchase price over the average stated value of common shares purchased for cancellation was charged to retained earnings. Decisions regarding the timing of purchases are based on market conditions and other factors.

In 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 March 31, 2023, the Company did not repurchase any shares under the normal course issuer bid.

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

### (b) Special warrants

On April 30, 2021, the Company merged its Canadian equipment leasing subsidiary, Blue Chip, with Vault Credit, a provider of equipment lease and commercial loan financing to small and medium-sized businesses across Canada. Chesswood incorporated a new company, Canadian Holdco, that acquired 100% of the shares of Blue Chip and Vault Credit's parent company.

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, 2023 is as follows:

	Three months ended	
	March 31, 2023	March 31, 2022
Balance, beginning of period	933,335	1,466,667
Exercised	133,333	133,333
Balance, end of period	800,002	1,333,334

During the three months ended March 31, 2023, on exercise, the accumulated balance in contributed surplus related to the special warrants of \$1.5 million was transferred to common share capital (March 31, 2022 - \$1.6 million). For the special warrants exercised during the three months ended March 31, 2023, the share price at the date of exercise was \$11.35 (March 31, 2022 - \$14.25).

On April 4, 2023, the sixth tranche of 133,333 special warrants which vested on March 31, 2023 were automatically exercised. On exercise, the accumulated balance in contributed surplus related to the special warrants of \$1.5 million was transferred to common share capital. For the sixth tranche of special warrants exercised on April 4, 2023, the share price at the date of exercise was \$9.08.

## 12. 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, 2023. There were 1,883,050 options and 728,427 restricted share units outstanding as at March 31, 2023 (March 31, 2022 - 2,037,039 and 467,000, respectively).

### (a) Share options

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

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

	Three months ended	
	March 31, 2023	March 31, 2022
Balance, beginning of period	1,908,050	2,041,439
Granted	—	—
Exercised	(12,500)	(4,400)
Forfeited	(12,500)	—
Balance, end of period	1,883,050	2,037,039

During the three months ended March 31, 2023, the personnel expenses and contributed surplus relating to option expense was insignificant (March 31, 2022 - insignificant). As at March 31, 2023, unrecognized non-cash compensation expense related to the outstanding options was insignificant (March 31, 2022 - \$0.1 million), which is expected to be recognized over the remaining vesting period.

During the three months ended March 31, 2023, 12,500 options were exercised (March 31, 2022 - 4,400) for total cash consideration of \$0.1 million (March 31, 2022 - insignificant). On exercise, the accumulated amount in contributed surplus related to these exercised options was transferred to common share capital (common share capital was also increased by the cash consideration received upon exercise). For the options exercised during the three months ended March 31, 2023, the weighted average share price at the date of exercise was \$11.24 (March 31, 2022 - \$14.87) and the weighted average exercise price was \$9.68 (March 31, 2022 - \$9.61).

As at March 31, 2023, for all options outstanding, the weighted average exercise price is \$11.28 (March 31, 2022 - \$11.04) and the weighted average remaining contractual life is 2.89 years (March 31, 2022 - 3.7 years). The 1,821,800 options exercisable as at March 31, 2023 have a weighted average exercise price of \$11.39 (March 31, 2022 - 1,839,174 options at \$11.34).

An analysis of the options outstanding as at March 31, 2023 is as follows:

Range of exercise prices	Weighted average remaining life (in years)	Vested #	Total #
\$ 8.01–\$ 8.95	6.18	300,240	361,490
\$10.17–\$10.96	2.90	599,060	599,060
\$12.15 –\$12.53	1.94	657,500	657,500
\$14.12	0.76	265,000	265,000
	<u>2.89</u>	<u>1,821,800</u>	<u>1,883,050</u>

**(b) Restricted share units**

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

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

	Three months ended	
	March 31, 2023	March 31, 2022
Balance, beginning of period	<b>479,400</b>	479,000
Granted	<b>302,550</b>	138,000
Exercised	<b>(51,857)</b>	(150,000)
Forfeited	<b>(1,666)</b>	—
Balance, end of period	<u><b>728,427</b></u>	<u>467,000</u>

During the three months ended March 31, 2023, personnel expenses and contributed surplus included \$0.5 million (March 31, 2022 - \$0.6 million) relating to RSUs.

As at March 31, 2023, unrecognized non-cash compensation expense related to non-vested RSUs was \$4.1 million (March 31, 2022 - \$4.4 million). The weighted average remaining contractual life for all RSUs outstanding is 9.2 years (March 31, 2022 - 9.5 years).

During the three months ended March 31, 2023, 51,857 RSUs were exercised (March 31, 2022 - 150,000). On exercise, the accumulated balance in contributed surplus related to the RSUs of \$0.7 million (March 31, 2022 - \$2.1 million) was transferred to common share capital. For the RSUs exercised during the three months March 31, 2023, the weighted average share price at the date of exercise was \$11.32 (March 31, 2022 - \$14.37).

An analysis of the RSUs outstanding as at March 31, 2023, is as follows:

Grant date	Number of RSUs outstanding	Vested	Expiry date	Value on grant date
November 30, 2020	50,000	50,000	June 29, 2030	\$ 8.01
August 5, 2021	84,228	41,604	August 5, 2031	\$ 11.69
November 5, 2021	96,649	—	November 5, 2031	\$ 14.27
March 21, 2022	138,000	81,057	March 21, 2032	\$ 14.40
June 28, 2022	57,000	—	June 28, 2032	\$ 12.25
March 29, 2023	302,550	—	March 29, 2023	\$ 9.00
	<u>728,427</u>	<u>172,661</u>		

### 13. DIVIDENDS

Under the Chesswood revolving credit facility (see Note 8(a) - *Borrowings*), the maximum amount of cash dividends (and/or cost of any repurchases under normal course issuer bids) that the Company can pay in respect of a month is 1/12 of 90% of Free Cash Flow for the most recently completed four financial quarters in which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is a Non-GAAP measure, which is defined in the MD&A.

The following dividends were declared during the three months ended March 31, 2023 and March 31, 2022:

(\$ thousands)	Three months ended	
	March 31, 2023	March 31, 2022
Dividends declared to common shareholders and exchangeable securities holders	\$ 2,894	\$ 1,876
Dividends declared to warrant holders	120	133
	<u>\$ 3,014</u>	<u>\$ 2,009</u>

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. 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, 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
		<u>\$ 0.14</u>	<u>\$ 2,693</u>

During the three months ended March 31, 2023, dividends of \$1.1 million (March 31, 2022 - \$0.4 million) were also paid to the NCI of Canadian Holdco. The dividend was recognized through net income on the unaudited interim condensed consolidated statements of income. 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, 2023, dividends payable of \$0.7 million has been accrued on the special warrants (March 31, 2022 - \$0.5 million). During the three months ended March 31, 2023, \$0.1 million in dividends were paid out on the special warrants (March 31, 2022 - insignificant).

The following dividends were paid to common shareholders and exchangeable securities holders (included as NCI) during the three months ended March 31, 2022:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount (\$ thousands)
December 31, 2021	January 17, 2022	\$ 0.03	\$ 542
January 31, 2022	February 15, 2022	0.03	564
February 28, 2022	March 15, 2022	0.03	563
		<u>\$ 0.09</u>	<u>\$ 1,669</u>

#### 14. EARNINGS PER SHARE

	Three months ended	
	March 31, 2023	March 31, 2022
Weighted average number of common shares outstanding	17,802,451	17,208,584
Dilutive effect of options	102,365	459,212
Dilutive effect of restricted share units	437,482	351,000
Dilutive effect of special warrants	804,446	1,340,741
Weighted average number of common shares outstanding for diluted earnings per share	19,146,744	19,359,537
Options and RSUs excluded from calculation of diluted shares for the period due to their anti-dilutive effect	1,257,500	—

#### 15. 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, 2023	March 31, 2022
Salaries, fees and other employee benefits	\$ 1,838	\$ 2,335
Share-based compensation	403	283
Compensation expense of key management	<u>\$ 2,241</u>	<u>\$ 2,618</u>



(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 11 - *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 sublease is therefore considered to be on fair market value terms. The right-of-use asset and premise lease liability initially recognized on the date of commencement is \$0.8 million. In 2022, there were additional modifications and terminations to the lease resulting in net additions of \$0.1 million to the premise lease liability. Lease payments paid during the three months ended March 31, 2023 was insignificant (March 31, 2022 - insignificant).
- Wittlin has significant influence over certain brokers within Vault Credit's origination network. The leases obtained from related party brokers comprise 49% (March 31, 2022 - 37%) of total finance receivables of the Canadian Equipment Financing Segment as at March 31, 2023. The total related party broker commissions capitalized during the three months ended March 31, 2023 was \$1.6 million (March 31, 2022 - \$2.0 million). These transactions were conducted at fair market value terms.
- Prior to the merger with Vault Credit, the Canadian Equipment Financing Segment had provided leases to entities over which Wittlin has significant influence. The total capital cost of the leases is \$0.5 million (March 31, 2022 - \$0.6 million) with a net book value which was insignificant as at March 31, 2023 (March 31, 2022 - \$0.1 million). These transactions were conducted at fair market value terms.
- Vault Credit and Vault Home license proprietary leasing software from an entity controlled by Wittlin. Vault Credit and Vault Home pay for the costs of improving and maintaining the software. The total costs expensed by Vault Credit and Vault Home during the three months ended March 31, 2023 is \$1.6 million (March 31, 2022 - \$1.1 million). These transactions were conducted at fair market value terms.
- 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, 2023 was \$0.1 million and servicing fee revenue was insignificant (March 31, 2022 - insignificant). See Note 8 - *Borrowings*.
- Wittlin controls VCOF SPV I Inc. During the three months ended March 31, 2023, Vault Credit sold \$39.1 million (March 31, 2022 - n/a) of finance receivables to VCOF SPV I Inc. Total fees earned by Vault Credit were \$0.6 million.

(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, 2023, Tandem paid Vault Credit Inc. \$0.3 million (March 31, 2022 - \$0.2 million) for software development services. This transaction was conducted at fair market value terms.

(g) During the three months ended March 31, 2023, 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, 2023, the total unsecured debentures held by related parties was \$0.7 million (March 31, 2022 - \$0.7 million). Total interest paid during the period was insignificant (March 31, 2022 - insignificant).

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



## 16. 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, 2023	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
Chesswood Capital Management Inc.	Ontario	100%	Asset Management	CAD
Chesswood Capital Management USA Inc.	Colorado <sup>(1)</sup>	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 <sup>(3)</sup>	Ontario	51%	Canadian Equipment Financing	CAD
Vault Home Credit Corporation	Ontario	51%	Canadian Equipment Financing	CAD
1000390232 Ontario Inc. (Easy Legal) <sup>(4)</sup>	Ontario	100%	Canadian Equipment Financing	CAD
Chesswood U.S. Acquisition Co Ltd.	Delaware	100% <sup>(2)</sup>	U.S. Equipment Financing	USD
Pawnee Leasing Corporation <sup>(5)</sup>	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	CAD
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 (in which, as noted above, Chesswood owns 51% and exercises control).

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

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

<sup>(3)</sup> Vault Credit holds, through a consolidated, wholly owned Special Purpose Entity ("SPE"), a portfolio of leases and loans that are financed through an arm's length financial institution. See Note 5 - *Finance Receivables* and Note 8(a) - *Borrowings*.

<sup>(4)</sup> Easy Legal holds a consolidated wholly owned SPE.

<sup>(5)</sup> Pawnee holds, through consolidated, wholly owned SPEs, a portfolio of leases and loans that are financed through arm's length financial institutions. See Note 5 - *Finance Receivables* and Note 8(b) - *Borrowings*.

## 17. CASH FLOW SUPPLEMENTARY DISCLOSURE

		Three months ended	
		March 31, 2023	March 31, 2022
(\$ thousands)	Note		
<b>Non-cash transactions</b>			
Common shares issued for business combinations		\$ —	\$ 7,076
Common shares issued on exercise of RSUs	12	732	2,141
		<u>\$ 732</u>	<u>\$ 9,217</u>
<b>Interest paid</b>		<b>\$ 28,637</b>	<b>\$ 11,808</b>

		Three months ended	
		March 31, 2023	March 31, 2022
(\$ thousands)	Note		
<b>Other non-cash items included in net income</b>			
Share-based compensation expense	12	\$ 527	\$ 650
Amortization of deferred financing costs and debt restructuring	8	1,659	1,346
Non-cash interest expense on premise leases payable and revaluation of option liability		(111)	(1,531)
Unrealized gain on foreign exchange		(256)	(59)
		<u>\$ 1,819</u>	<u>\$ 406</u>
<b>Changes in other net operating assets</b>			
Other assets		(2,301)	629
Accounts payable and other liabilities		1,709	2,311
Customer security deposits		(704)	(415)
		<u>\$ (1,296)</u>	<u>\$ 2,525</u>

		Three months ended	
		March 31, 2023	March 31, 2022
(\$ thousands)	Note		
<b>Borrowings</b>			
Draw-downs or proceeds from borrowings	8	\$ 971,575	\$ 774,583
Payments - borrowings	8	(973,729)	(524,973)
		<u>\$ (2,154)</u>	<u>\$ 249,610</u>

## 18. 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 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, 2023. 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 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 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:

(\$ thousands)	Three months ended March 31, 2023					
	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Auto Financing	Asset Management	Corporate - Canada	Total
Interest revenue on finance leases and loans	\$ 35,380	\$ 20,983	\$ 10,902	\$ —	\$ 184	\$ 67,449
Ancillary finance and other fee income	5,925	4,571	743	2,455	—	13,694
Interest income (expense)	(17,620)	(10,452)	(3,140)	86	169	(30,957)
Provision for credit losses	(12,626)	(1,604)	(3,752)	—	—	(17,982)
<b>Net revenue</b>	<b>11,059</b>	<b>13,498</b>	<b>4,753</b>	<b>2,541</b>	<b>353</b>	<b>32,204</b>
Personnel expenses	5,995	6,323	2,285	749	864	16,216
Share-based compensation expense	65	7	51	—	404	527
General and administrative expenses	5,166	4,715	1,284	293	1,572	13,030
Depreciation	276	107	76	1	—	460
Amortization	—	590	46	23	—	659
<b>Operating income (loss)</b>	<b>(443)</b>	<b>1,756</b>	<b>1,011</b>	<b>1,475</b>	<b>(2,487)</b>	<b>1,312</b>
Unrealized gain (loss) on foreign exchange	—	66	—	(43)	233	256
<b>Income (loss) before income taxes</b>	<b>(443)</b>	<b>1,822</b>	<b>1,011</b>	<b>1,432</b>	<b>(2,254)</b>	<b>1,568</b>
Income tax expense (recovery)	267	49	590	801	(1,096)	611
<b>Net income (loss)</b>	<b>\$ (710)</b>	<b>\$ 1,773</b>	<b>\$ 421</b>	<b>\$ 631</b>	<b>\$ (1,158)</b>	<b>\$ 957</b>
Total assets	\$ 1,410,055	\$ 843,127	\$ 256,799	\$ 8,652	\$ 13,246	\$ 2,531,879
Total liabilities	\$ 1,132,325	\$ 631,730	\$ 234,292	\$ 3,055	\$ 303,884	\$ 2,305,286
Finance receivables	\$ 1,302,691	\$ 766,124	\$ 240,721	\$ —	\$ 6,000	\$ 2,315,536
Goodwill and intangible assets	\$ 21,863	\$ 50,570	\$ 2,235	\$ 3,847	\$ —	\$ 78,515
Property and equipment expenditures	\$ —	\$ (135)	\$ (67)	\$ —	\$ —	\$ (202)

(\$ thousands)	Three months ended March 31, 2022					
	U.S. Equipment Financing	Canadian Equipment Financing	Canadian Auto Financing	Asset Management	Corporate - Canada	Total
Interest revenue on finance leases and loans	\$ 30,614	\$ 11,015	\$ 8,282	\$ —	\$ —	\$ 49,911
Ancillary finance and other fee income	3,575	3,384	314	66	—	7,339
Interest income (expense)	(8,285)	(3,354)	(2,002)	(18)	1,572	(12,087)
Provision for credit losses	(2,906)	(1,741)	(12,019)	—	—	(16,666)
Net revenue	22,998	9,304	(5,425)	48	1,572	28,497
Personnel expenses	5,618	4,524	1,593	265	1,939	13,939
Share-based compensation expense	323	13	—	—	314	650
General and administrative expenses	5,135	2,634	1,084	431	882	10,166
Depreciation	222	124	87	—	—	433
Amortization	—	549	42	—	—	591
Operating income (loss)	11,700	1,460	(8,231)	(648)	(1,563)	2,718
Unrealized gain (loss) on foreign exchange	—	136	—	—	(77)	59
Income (loss) before income taxes	11,700	1,596	(8,231)	(648)	(1,640)	2,777
Income tax expense (recovery)	3,285	507	(1,790)	(225)	(679)	1,098
Net income (loss)	\$ 8,415	\$ 1,089	\$ (6,441)	\$ (423)	\$ (961)	\$ 1,679
Total assets	\$ 1,258,357	\$ 557,944	\$ 228,916	\$ 259	\$ 2,752	\$ 2,048,228
Total liabilities	\$ 962,394	\$ 385,508	\$ 205,693	\$ 93	\$ 302,836	\$ 1,856,524
Finance receivables	\$ 1,163,557	\$ 466,213	\$ 204,769	\$ —	\$ —	\$ 1,834,539
Goodwill and intangible assets	\$ 20,188	\$ 49,051	\$ 368	\$ —	\$ —	\$ 69,607
Property and equipment expenditures	\$ (13)	\$ (94)	\$ (89)	\$ —	\$ —	\$ (196)

## 19. BUSINESS COMBINATIONS

### Easy Legal

On February 13, 2023, 1000390232 Ontario Inc. ("Easy Legal"), a subsidiary of the Company, acquired the operating business of Easy Legal Finance Inc., a specialty lender focused on providing credit solutions to the legal sector.

The acquisition of Easy Legal Finance Inc.'s operating business was accounted for using the acquisition method whereby the cost of acquisition is measured as the aggregate of the acquisition-date fair value of consideration transferred. Costs related to the acquisition are expensed as incurred. The acquisition of the operating business allows the Company to enter the legal finance industry and expand into a new line of business. Easy Legal is included in the Canadian Equipment Financing Segment.

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

The Company paid \$3.5 million in cash to purchase the operating business. The fair value of the assets and liabilities, including intangible assets that arose on acquisition, were as follows:

<i>(\$ thousands)</i>	<b>February 13, 2023</b>
<b><u>Assets</u></b>	
Customer relationships	\$ 723
Trade names	663
Software	2,114
<b><u>Net assets acquired</u></b>	<b><u>\$ 3,500</u></b>

For the period from February 13, 2023 to March 31, 2023, Easy Legal contributed a loss of \$0.2 million to the consolidated net income of the Company.

# Chesswood Group Limited

## DIRECTORS, OFFICERS AND OTHER INFORMATION

### **Directors**

**Edward Sonshine, O.Ont., Q.C.**

Director, *Chairman, Chesswood Group Limited and Chairman, Nominating and ESG Committee*

**Catherine Barbaro**

Director

**Raghunath Davloor**

Director  
*Chairman, Audit and Risk Committee*

**Robert Day**

Director  
*Former Chairman, Pawnee Leasing Corporation*

**Jeff Fields**

Director

**Ryan Marr**

Director  
*President & C.E.O., Chesswood Group Limited*

**Annie Ropar**

Director

**Frederick W. Steiner**

Director  
*Chairman, Compensation Committee*

**Daniel Wittlin**

Director  
*Founder and C.E.O., Vault Credit Corporation*

### **Executive Team**

**Ryan Marr**

*President & C.E.O.*

**Tobias Rajchel**

*Chief Financial Officer*

### **Other Information**

**Auditors**

*Ernst & Young LLP*

**Transfer Agent**

*TSX Trust Company*

**Corporate Counsel**

*McCarthy Tétrault LLP*

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