SOLUTION FINANCIAL

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## FOR THE THREE-MONTH PERIOD ENDED JANUARY 31, 2024 AND 2023

**(Expressed in Canadian Dollars)**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis ("**MD&A**") of Solution Financial Inc. (the "**Company**" or "**Solution**" or "**we**" or "**our**") (formerly Shelby Ventures Inc.("**Shelby**")), should be read in conjunction with the Company's interim financial statements for the three months ended January 31, 2024 and 2023 ("reporting period") and the accompanying notes to those financial statements.

The Company's consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and are presented in accordance with the International Accounting Standards ("**IAS**"), as issued by the International Accounting Standards Board ("**IASB**") and are reported in Canadian dollars.

The date of this MD&A is March 15, 2024.

### CAUTIONARY STATEMENT

This analysis has been prepared taking into consideration information available to March 15, 2024. Certain statements contained in this report constitute "forward-looking statements. " When used in this report, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", and similar expressions, as they relate to the Company or its management, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to inherent risks, uncertainties and numerous assumptions, including, without limitation, general economic conditions, reliance on debt financing, dependence on non-prime borrowers, inability to sustain receivables, competition, interest rates, regulation, insurance, failure of key systems, debt service, future capital needs and such other risks or factors described from time to time in reports of Solution that are filed with securities regulatory authorities. By their nature, forward-looking statements involve numerous assumptions, known and unknown, risks and uncertainties, both general and specific, which contribute to the possibility that predictions, forecasts, projections and other forms of forward-looking information may not be achieved. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements and readers are cautioned that the list of factors in the foregoing paragraph is not exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. Accordingly, readers are cautioned not to place undue reliance on forward- looking statements or interpret or regard forward-looking statements as guarantees of future outcomes.

### OVERVIEW

Solution Financial Inc. specializes in sourcing and leasing luxury and ultraluxury vehicles, yachts and other high value assets in British Columbia, Alberta and Ontario.  Solution provides a unique leasing program designed with greater flexibility for upgrading and reselling than traditional leasing companies or financial institutions in Canada. The Company trades on the Toronto Stock Exchange under the symbol "SFI".

The Company's registered and records office is Unit 137, 8680 Cambie Road, Richmond, British Columbia, Canada, V6X 4K1.

## OVERVIEW (CONTINUED)

The Company's wholly-owned operating subsidiaries include Solution Financial (Canada) Inc. ("Solution Canada") which was incorporated under the Company Act of British Columbia on August 8, 2003 and Solution Financial (Alberta) Inc. which was incorporated August 4, 2022.

Solution provides a unique leasing experience whereby it partners with its clients to help them navigate the challenges of acquiring, insuring, maintaining, upgrading and reselling luxury and ultra luxury assets in Canada. Typical customers include new immigrants, international students and business owners who tend to upgrade their vehicles more frequently then typical consumers or want to minimize the buying and reselling challenges that many consumers can experience in the automobile industry in Canada.

Solution derives its revenue from three inter-related business streams: in house leasing including financial leases and operating leases; brokerage leasing; and end-of lease auto sales.

## SIGNIFICANT EVENTS AND DEVELOPMENTS IN THE THREE MONTHS ENDING JANUARY 31, 2024

- In January 2024, the Company initiated a new luxury Corporate Leasing program aimed at providing guidance on optimizing and understanding executive auto leasing programs, with an emphasis on the new increased leasing allowances, corporate executive incentives and personal usage considerations. The program is being rolled out in 2024 in cooperation with key dealership partners in British Columbia, Alberta and Ontario.

- On February 22, 2024, the TSX accepted the Company's NCIB renewal. Under the renewed NCIB, a total of up to 4,364,623 common shares may be purchased through the facilities of the TSX and also be made through alternative Canadian trading systems, representing 5% of the issued and outstanding common shares of the Company, and any such purchases will be at market prices.

## SUMMARY OF QUARTERLY RESULT (in $ except ratios)

| Quarter ended | Jan 31, 2024 | Oct 31, 2023 | Jul 31, 2023 | Apr 30, 2023 | Jan 31, 2023 | Oct 31, 2022 | Jul 31, 2022 | Apr 30, 2022 |
|---|---|---|---|---|---|---|---|---|
| **Total revenue** | 3,087,791 | 3,727,981 | 3,083,206 | 3,460,955 | 5,105,308 | 6,118,610 | 3,383,201 | 5,610,046 |
| **Net Income (Loss) for the period before Income Taxes** | 29,271 | (140,368) | 205,995 | 51,826 | (486,781) | 131,446 | 456,928 | 248,054 |
| **Net Income (Loss) and comprehensive income for the period** | 21,171 | 208,632 | 148,995 | 37,826 | (356,781) | 33,446 | 376,928 | 203,054 |
| **Net Income (Loss) and comprehensive income per share** | 0.000 | 0.002 | 0.002 | 0.000 | (0.004) | 0.000 | 0.004 | 0.003 |
| **Carrying value of assets under operating lease** | 2,637,454 | 4,353,731 | 6,932,107 | 7,975,808 | 9,713,931 | 12,028,119 | 15,635,640 | 17,684,548 |
| **Lease receivables balance** | 21,821,637 | 21,224,556 | 17,843,929 | 16,700,278 | 15,108,638 | 14,184,435 | 11,681,437 | 8,340,738 |
| **Total Portfolio** | 24,459,091 | 25,578,287 | 24,776,036 | 24,676,086 | 24,822,569 | 26,212,554 | 27,317,077 | 26,025,286 |

## SELECTED FINANCIAL INFORMATION

The following table summarizes key financial data to be read in conjunction with the consolidated interim financial statements of the Company for the three months ended January 31, 2024 and 2023.

| | | For 3 months ended Jan 31, 2024 | | For 3 months ended Jan 31, 2023 |
|---|---|---|---|---|
| **Sales** | **$** | **1,997,889** | $ | 3,635,812 |
| **Leasing income** | | **1,005,369** | | 1,371,456 |
| **Brokerage commissions** | | **84,533** | | 98,040 |
| **Total Revenue** | | **3,087,791** | | 5,105,308 |
| **Income before income taxes** | | **29,271** | | (458,781) |
| **Net income and comprehensive income** | | **21,171** | | (328,781) |
| **Net income and comprehensive income per share** | | | | |
| Basic and diluted earnings per common share | **$** | **0.000** | $ | (0.004) |
| Weighted average number of common shares outstanding | | **86,398,273** | | 87,626,888 |

### *Financial Highlights*

Total revenues were $3,087,791 for the three months ended January 31, 2024 compared to $5,105,308 for the three months ended January 31, 2023, a decrease of $2,017,517 (or 40%). The decrease in revenues was a result of decreased sales income of $1,637,923 (45%) and decreased leasing income of $366,087 (27%). The decrease in vehicle sales was mostly a result of premium prices that were available in the resale automobile markets in the comparative quarter as well as for the comparative year in general. For the current quarter the Company remains primarily focused on finance type leasing with lower, although relatively steady sales volumes, month over month. The Company's decreasing leasing income is primarily a result of focusing entirely on finance type leases which generates net interest income, whereas operating leases historically were reflecting gross vehicle rental revenues, offset by a cost of sale associated with the depreciation of the applicable leased vehicle. These older operating leases are gradually amortizing out and being replaced by financed type leases.

For the three months ended January 31, 2024, the Company reported net income of $21,171 compared to net loss of $328,781 for the comparative three months period ending January 31, 2023. The increase was primarily a result of the one time, $478,688 finance fee recognized in the comparative three months ended January 31, 2023 related to securing the Company Securitization facility. Gross profit for the quarter was lower for the three months ended January 31, 2024 to $902,832 compared to $1,038,011 for the three months ended January 31, 2023, amounting to a $135,179 or 13% decrease. This decrease was consistent with the general decrease in vehicle sales volumes and tightening profit margins partially offset by the slight increase in the net margin from the Company's leasing income. Total expenses decreased to $897,917 for the three months ended January 31, 2024 compared to $1,034,770 for the three months ended January 31, 2023, an decrease of $136,853 or 13% resulting from lower sales and marketing and general and administrative expenses, partially offset by an increase in provisions for credit losses and interest. The lower expenses correspond with the lower sales volumes as tends to the nature of the Company's operations.

During the quarter ended January 31, 2024, the Company's net operating lease portfolio decreased by $1,716,277 or 39% while the Company's receivables under finance leases increased by $597,081 to $21,821,637 or 3%. Commencing in fiscal 2022, the Company focused entirely on finance type leases which typically include a guaranteed residual by the lessee in conjunction with the Company's new securitization financing plans. During the quarter ended January 31, 2024, new lease originations in total outpaced terminations by $802,251, resulting in the net increase in the total lease portfolio. The high prime interest rates experienced in 2023 slowed the overall new lease origination volumes compared to the prior year.

## DESCRIPTION OF NON-IFRS FINANCIAL METRICS (in $ except ratios)

Throughout this MD&A, management uses the following terms and ratios not found in IFRS and which do not have a standardized meaning under IFRS and are unlikely to be comparable to similar measures presented by other issuers, and therefore require definition. These non-IFRS measures and additional information should not be considered in isolation or as a substitute for measures prepared in accordance with IFRS. Management reviews non-IFRS measures on an ongoing basis and expects to introduce additional non-IFRS measures in the near future.

### *Revenue run-rate*

Revenue run rate is the financial revenue in a particular period, annualized. It provides an indication of annual revenue that would be generated based on the revenue in the particular reported period. As the Company expands its in-house leasing portfolio it will recognize revenue as interest income which gets recognized over the lease term rather than brokered lease transactions that get recognized immediately. As a result, the annualized run-rate provides a useful longer-term perspective on the Company's expected revenue performance.

### *Financial leverage ratio and total capitalization*

The financial leverage ratio is defined as the total of credit facilities and loans divided by total equity. The financial leverage ratio provides an indication and extent to which the Company can access additional debt financing with which to expand its operating lease portfolio. This is one of the primary growth drivers for the business and is helpful for evaluating the Company's ability to leverage additional debt.

| Quarter ended | Jan 31, 2024 | Oct 31, 2023 | Jul 31, 2023 | Apr 30, 2023 | Jan 31, 2023 | Oct 31, 2022 | Jul 31, 2022 | Apr 30, 2022 |
|---|---|---|---|---|---|---|---|---|
| **Revenue run-rate (annualized)** | 12,351,164 | 14,911,924 | 12,332,824 | 13,843,820 | 20,421,232 | 24,474,440 | 13,532,804 | 22,440,184 |
| **Financial Leverage ratio** | 1.18 : 1 | 1.31 : 1 | 1.22 : 1 | 1.24: 1 | 1.19 : 1 | 1.21 : 1 | 1.15 : 1 | 1.21 : 1 |

The Company's annualized revenue run rate was $12,351,164 compared to $20,421,232 for the comparative quarter in 2023. This decrease is primarily a result of the decrease in portfolio vehicle sales the Company experienced in the first quarter of 2024. The Company's long term growth objectives remain focused on increasing its overall lease portfolio which is primarily tied to the volume of new luxury vehicles hitting the market.

The Company's financial leverage ratio (debt/equity ratio) on January 31, 2024 decreased to 1.18 :1 as compared to that of 1.19: 1 at January 31, 2023. This modest improvement in the debt-to-equity ratio is a result of the Company's decreasing liabilities at quarter end combined with increasing retained earnings.

## RESULTS OF OPERATIONS

The following table summarizes financial results for each of the reported periods:

| | For 3 months ended Jan 31, 2024 | For 3 months ended Jan 31, 2023 |
|---|---|---|
| **Revenue** | $ **3,087,791** | $ 5,105,308 |
| **Cost of sales** | **2,184,959** | 4,067,297 |
| **Gross profit** | **902,832** | 1,038,011 |
| Interest expenses | **237,931** | 213,473 |
| **Operating expenses** | **659,986** | 821,297 |
| **Listing fee and finance fees** | **-** | (478,688) |
| **Other income** | **24,356** | 16,666 |
| **Income before income taxes** | **29,271** | (458,781) |

### *Revenue*

| | For 3 months ended Jan 31, 2024 | For 3 months ended Jan 31, 2023 |
|---|---|---|
| **Vehicle Sales** | $ **1,987,725** | $ 2,826,921 |
| **Finance lease vehicle sales** | **10,164** | 808,891 |
| **Total vehicle revenues** | **1,997,889** | 3,635,812 |
| **Interest and administrative income** | **688,836** | 685,619 |
| **Rental revenue** | **263,452** | 640,522 |
| **Registration fees** | **53,081** | 45,315 |
| **Total lease revenues** | **1,005,369** | 1,371,456 |
| **Brokerage commissions** | **84,533** | 98,040 |
| **Total** | **3,087,791** | 5,105,308 |

### *Vehicle sales*

For the three months ended January 31, 2024, the revenues from vehicle sales decreased to $1,987,725 compared to $2,826,921 for the three months ended January 31, 2023, a decrease of $839,196 (or 30%). These decreased vehicle sales are a result of the Company focusing more so on normal leasing operations compared to remarketing vehicles which were selling at a premium in late 2022 and early 2023 due to supply shortages in the market caused by lingering impacts of COVID-19. Those supply chain issues have improved through 2023 and are expected to continue to return to more normal operations.

### *Revenue from leases and loans*

The Company provides direct operating leases (rental) and finance leases (loans) collectively referred to as ("in-house leasing") to consumers that are typically unable to obtain financing from traditional sources. The Company generates rental, interest charges and fee income from these leases. For the three months ended January 31, 2024, the revenues derived from finance lease vehicle sales decreased to $10,164 compared to $808,891 for the three months ended January 31, 2023, a decrease of $798,727 (or 99%). The decrease was a result of exclusively providing finance type leases in 2023 which results in lower net sales profits on sales, whereas operating leases reflect revenue for vehicle sales at the gross amount offset by a cost of sale associated with the carrying value of the vehicle when sold. Although the Company expects this change will reduce the overall total revenue on each lease and each lease vehicle sale, the Company's goal is to grow its overall finance lease portfolio more quickly as these types of leases are favourable for bank financing opportunities. As the legacy operating leases expire, the revenue from leases is expected to correlate more directly to the year over year and quarter over quarter lease originations. The Company also increased its quoted lease interest rates during the year and anticipates these rates continuing to parallel the prime lending rates in Canada. The lower revenue in the first quarter of 2024 was also a result of a net reduction of the Company's lease portfolio assets which decreased by $1,119,196 during the quarter.

### *Brokerage commissions*

In addition to providing in-house leases and loans, the Company facilitates lease brokering and end of lease sales through third-party dealerships. The Company bears limited inventory risks in these transactions and does not have latitude in setting vehicle prices and therefore the Company only recognizes the net fees or brokerage commissions.

The following table summarizes the brokerage leases and sales for each of the reported periods:

| | For 3 months ended Jan 31, 2024 | For 3 months ended Jan 31, 2023 |
|---|---|---|
| **Brokerage sale** | **360,952** | 669,729 |
| **Cost of brokerage sale** | **(276,419)** | (571,689) |
| | **84,533** | 98,040 |

For the three months ended January 31, 2024, the Company brokered $360,952 of vehicle sales transactions compared to $669,729 during the three months ended January 31, 2023, a decrease of $308,777 or 46%. For the three months ended January 31, 2024, the Company net brokerage sales revenue was $84,533 compared to $98,040 for the three months ended January 31, 2023, a decrease of $13,507 or 14%. Brokerage sales transactions and net margins can vary depending on market conditions and despite the drop in gross brokerage sales, the net profits remained relatively consistent quarter over quarter.

### *Operating and other expenses*

The following table summarizes the operating and other expenses:

| | For 3 months ended Jan 31, 2024 | For 3 months ended Jan 31, 2023 |
|---|---|---|
| **Sales and marketing** | **$ 139,241** | $ 283,139 |
| **General and administration** | **469,849** | 520,982 |
| **Provision for credit losses** | **29,282** | 4,292 |
| **Interest expenses** | **237,931** | 213,473 |
| **Amortization** | **21,614** | 12,884 |
| **Stock based compensation** | **-** | - |
| **Total** | **897,917** | 1,034,770 |

### *Interest on loans*

Interest expense for the three months ended January 31, 2024 increased modestly to $237,9318 compared to $213,473 (or 11%) as a result of expanded use of the Securitization Financing compared to the Company's operating bank facility. The Company's Securitization Financing generally provides the lowest interest rates and locks the debt at a fixed rate over the corresponding period of the securitization leases. The Company's operating bank facility is entirely dependent on the variable prime lending rates.

### *Provision for credit losses*

The company recognized a provision for credit losses of $29,282 during the three months ended January 31, 2024 compared to $4,292 in the prior comparative quarter. The provision for credit losses recognizes the growing utilization of finance type leases by the Company. This provision was determined by looking at several market and economic conditions. As a result of indicators of a potential economic recession, uncertainties inherent in the COVID-19 pandemic, rising interest rates, offset by the elevated used vehicle market the Company recognized a provision based on its 11-year historical loss ratios on all lease types as well as the allowance levels of Canadian National banks personal retail lending levels which represents a 0.75% allowance.

### *General and administrative*

General and administrative expenses include the following major expenses by nature:

| | For 3 months ended Jan 31, 2024 | For 3 months ended Jan 31, 2023 |
|---|---|---|
| **Accounting and legal** | **$ 133,978** | $ 228,362 |
| **Consulting fees** | **2,500** | 16,861 |
| **Regulatory and transfer agent** | **71,674** | 71,847 |
| **Insurance, license and permit** | **10,325** | 12,859 |
| **Office and miscellaneous** | **34,515** | 30,919 |
| **Repairs and maintenance** | **3,696** | 845 |
| **Salaries and wages** | **213,161** | 159,289 |
| **Total** | **469,849** | 520,982 |

Significant components of the Company's general and administrative expenses include salaries and benefits, regulatory and transfer agent fees, and lease administration costs that are not directly attributable to the acquisition of a direct lease or loan. For the three months January 31, 2024, general and administrative expenses decreased by $51,133 (or 10%). This decrease was primarily a result of lower accounting and legal expenses incurred during the quarter in comparison to the prior comparative quarter, partially offset by increases to salaries and wages. For the fiscal 2023 year end, accounting and audit fees were commenced earlier and legal costs were substantially lower in the current quarter as the Company was actively engaged in the securitization financing during the comparative first quarter ending January 31, 2023. The additional salaries and wages were related to adding one new team member and cost of living salary increases.

***Sales and marketing***

Sales and marketing expenses include the following major expenses by nature:

| | For 3 months ended Jan 31, 2024 | For 3 months ended Jan 31, 2023 |
|---|---|---|
| **Advertising and promotion** | **$ 15,732** | $ 42,285 |
| **Commissions** | **78,477** | 213,127 |
| **Marketing** | **31,244** | 20,001 |
| **Meals and entertainment** | **13,789** | 7,726 |
| **Total** | **139,241** | 283,139 |

Significant components of the Company's sales and marketing expenses include commissions and benefits paid to sales personnel, as well as advertising and social media marketing fees. For the three months ended January 31, 2024, sales and marketing expenses decreased by $143,898 (or 50%). The decrease was a result of decreased commissions that tend to correlate closely with the Company's revenues, in particular the vehicle sales which were also down proportionately. The other sales and marketing costs were consistent overall, whereas the mix of expenditures saw some fluctuations. The Company anticipates increases to its marketing costs going forward with the goal of increasing dealership, lease customer and investor awareness of its services and expansion into new potential markets.

## FINANCIAL POSITION

The following table summarizes the Company's financial position:

| As at | | January 31, 2024 | | October 31, 2023 |
|---|---|---|---|---|
| Receivable under finance leases | $ | **21,821,637** | $ | 21,224,556 |
| Property under operating leases | | **2,637,454** | | 4,353,731 |
| Cash and cash equivalents | | **645,954** | | 1,289,773 |
| Restricted cash | | **1,243,995** | | |
| Inventory | | **747,456** | | 490,995 |
| Other assets | | **687,318** | | 2,249,228 |
| **Total assets** | | **27,783,814** | | 29,608,283 |
| Credit facilities and loans | | **613,910** | | 1,085,131 |
| Customers' deposits and advances | | **1,870,880** | | 2,011,660 |
| Deferred revenue | | **138,667** | | 242,049 |
| Other liabilities | | **12,428,044** | | 13,471,903 |
| **Total liabilities** | | **15,051,501** | | 16,810,743 |
| **Net assets** | **$** | **12,732,313** | $ | 12,797,540 |

### *Assets*

Total assets decreased by $1,824,469 (or 6%) to $27,783,814 as of January 31, 2024 from $29,608,283 as of January 31, 2023. The Company's revenue generating assets consist primarily of finance lease receivable and operating leases. These asset groups make up the Company's portfolio assets. The Company's non-portfolio assets represented 12% (October 31, 2023- 14%) of the total assets, and consist primarily of cash and cash equivalents, restricted cash, inventory, prepaids, other assets, and property and equipment. The Company generates considerable cash flows from monthly pre-authorized payments on its lease portfolio, and generally limits the amount of unutilized cash by way of the Company's banking credit facilities that allow the ability to access cash resources when required. This strategy ensures that the Company maximizes its rate of returns on its revenue generating assets.

### *Lease receivables*

Lease receivables contain leases that are classified as finance leases. Under a finance lease substantially all the risks and rewards incidental to legal ownership are transferred by the lessor to the lessee at the inception of the lease transaction or contain a contractual guarantee by the lessee which the Company formally adopted in early 2022. Lease receivables increased by $597,081 (or 3%) at January 31, 2024 to $21,821,637 compared to $21,224,556 as at October 31, 2023.

### *Properties under operating lease*

An operating lease is one that does not transfer substantially all the risks and rewards of ownership to the lessee. The carrying value of properties under operating lease decreased by $1,716,277 (or 39%) to $2,637,454 as at January 31, 2024 from $4,353,731 as at October 31, 2023. The decrease in the properties under operating lease is a result of the Company focusing exclusively on finance type leases that contain contractual lessee guarantees. The properties under operating lease are expected to slowly decrease as these lease agreements reach maturity.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's approach to managing capital is to ensure that it will have sufficient liquidity to meet liabilities as they come due. The Company currently settles all of its financial obligations out of cash generated from operations. The ability to do so relies on the Company maintaining sufficient cash in excess of anticipated needs. To help manage its liquidity the Company has obtained an operating loan agreement through a major schedule 1 Canadian Financial Institution. To fund the acquisition of vehicles for leasing purposes, the Company utilizes its credit facilities and when additional capital is required, it will be raised through debt and share issuances.

The Company is subject to externally imposed capital requirements pursuant to the covenants of the secured credit facility. Management reviews its capital management approach on an ongoing basis.

The table below represents the financial leverage ratio and equity capitalization for the periods ended January 31, 2024 and January 31, 2023:

| As at | | January 31, 2024 | | October 31, 2023 |
|---|---|---|---|---|
| Credit facilities and loans | **$** | **613,910** | $ | 1,085,131 |
| Other liabilities | | **14,437,591** | | 15,725,612 |
| **Total liabilities** | | **15,051,501** | | 16,810,743 |
| **Total Equity** | | **12,732,313** | | 12,797,540 |
| **Financial leverage ratio** | | **1.18 : 1** | | 1.31 :1 |

***Cash flows and liquidity***

Cash flows provided from operating activities for the three months ended January 31, 2024 consumed $506,257 compared to a consumption of $1,768,132 for the comparative period ended January 31, 2023. The fluctuation was primarily the result of the substantial additions to the Company's receivable under finance leases reflected as working capital reductions, whereas the disposal of the Company's assets under operating leases is reflected as investing activities which amounted to $1,427,278 for the three months ending January 31, 2024 compared to a net increase of $1,631,192 for the three months ending January 31, 2023. In combination, the net cash flows amounted to $937,389 which is consistent with the general maturity of the operating leases and renewals and new lease originations as finance leases.

Cash flows from investing activities for the three months ended January 31, 2024 amounted to $1,427,278, as noted above resulting from the majority of the vehicle disposals during the year being related to assets under operating leases, whereas new additions to the Company's lease portfolio were included in receivables under finance leases as a component of working capital.

Cash flows used in financing activities for the three months ended January 31, 2024 were $1,564,840 as compared to a net decrease of 1,551,416 for the three months ended January 31, 2023. The decrease was a result of the utilization of the Company's new Securitization Financing offset by a reduction in the use of the Company's bank operating line. During the three months ended January 31, 2024, the Company decreased the amount of funds used for the NCIB amounting to $nil compared to $115,469 for the three months ended January 31, 2023.

The Company's Credit Loan Facility allows the Company to borrow up to $15,000,000 at prime plus 1.5% subject to certain limitations. The bank covenant limitations require the Company to maintain a Funded Debt to Equity ratio being lower than 6 : 1 and a Working Capital including assets available for securitization of 1.25 : 1.

As at January 31, 2024, the Company's Funded Debt to Equity Ratio was 0.64 represented by the $9,539,542 of funded debt by the bank, divided by the Company's total shareholder's equity of $14,872,343.

As at January 31, 2024, the Company's Working Capital Ratio including assets available for securitization was 3.00 : 1 represented by total qualifying assets $15,285,223 divided by total applicable liabilities of $5,093,707.

## OUTSTANDING SHARE DATA

The Company had 86,398,273 common shares issued and outstanding at January 31, 2024 and at March 15, 2024. Please refer to Note 16 – "Share Capital" in the Company's interim consolidated financial statements for additional information.

The Company had nil purchase warrants issued and outstanding at January 31, 2024 and at March 15, 2024. Please refer to Note 16 – "Share Capital" in the Company's interim consolidated financial statements for additional information.

The Company had nil share purchase options issued and outstanding at January 31, 2024 and at March 15, 2024. Please refer to Note 16 – "Share Capital" in the Company's interim consolidated financial statements for additional information.

The Company had a total of $2,175,400, 5.00% convertible debentures outstanding at January 31, 2024 and March 15, 2024 that are convertible at $0.38 into a total of 5,724,737 common shares.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of financial condition and results of operations are made with reference to the Company's interim financial statements for the three months ended January 31, 2024. A summary of the Company's significant accounting policies is presented in the notes to those financial statements. Some of the Company's accounting policies, as required by International Financial Reporting Standards, require management to make subjective, complex judgments and estimates to matters that are inherently uncertain. The Company believes the policies below are the most critical accounting estimates that affect its operating results, and that would have the most material effect on the financial statements should these policies change or be applied in a different manner.

### *Revenue recognition*

*Brokerage Commissions*

The Company facilitates vehicle sales through third-party dealerships where customers have low or limited credit history. The Company bears limited inventory risk in the transaction and does not have latitude in setting vehicle prices and therefore the Company only recognizes the net fees. In these situations, the fees are recorded as revenue at the time the customer enters into the contract and the Company is entitled to the fee. The Company is not the obligor under any of these contracts.

*Automobile sales*

Revenue is recognized when the risks and rewards of ownership have been transferred to the customer and the revenue and costs can be reliably measured and it is probable that economic benefits will flow to the Company. In practice, this means that revenue is recognized when vehicles are invoiced and physically delivered to the customer and payment has been received or credit approval has been obtained by the customer.

*Lease interest and rental income*

Finance lease interest income is included in the statement of comprehensive income for all financial assets measured at amortized cost using the effective interest method. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument back to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument including prepayment options, fee income charged to the customer on the origination of all financial assets, and all purchase premiums or discounts, net of any transaction costs that are directly attributable to the financial instrument, but not future credit losses. The application of the method has the effect of recognizing revenue on the financial instrument evenly in proportion of the amount outstanding over the period to maturity or repayment. Once the recorded value of a financial asset has been reduced due to an impairment loss, interest revenue continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. This is offset by a corresponding adjustment to the loan loss provision charge to reflect the fact that this additional revenue may not be collectible.

Rental income on operating leases is recognized on a straight-line basis over the lease term.

***Financial instruments***

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

*Financial assets*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Financial assets carried at amortized cost are assessed at each reporting date for any potential impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted using the original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment and is recognized in the consolidated statements of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated statements of comprehensive income.

Purchases or sales of financial assets that require delivery of assets in a timeframe established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, which is the date that the Company commits to purchase or sell the asset.

The Company’s financial assets include cash, term deposits, accounts receivable, due from related company, car loans receivable and receivable under finance lease.

*Fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments, as defined by IAS 39. The Company’s cash and term deposit are classified as fair value through profit or loss.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Company's loans and receivables are comprised of accounts receivable, due from related company, car loans receivable, and receivable under finance lease.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and are not classified in any of the previous categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, these assets are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within equity. When an investment is derecognized through sale or has an impairment that is other than temporary, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

The Company does not have any financial assets that are classified as available-for-sale.

*Held-to-maturity financial assets*

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. The Company does not have any financial assets that are classified as held-to-maturity.

*Financial liabilities*

All financial liabilities are initially recorded at fair value and designated upon inception as fair value through profit or loss or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's bank indebtedness, accounts payable and accrued liabilities, customers' advances, customers' deposits, due to shareholder, and short-term loans are classified as other financial liabilities.

Financial liabilities classified as fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss. Derivatives, including separated embedded derivatives are also classified as held for trading and recognized at fair value with changes in fair value recognized in profit or loss unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as fair value through profit or loss are recognized in profit or loss.

*Property under operating leases*

The Company determines the classification of a lease at its lease inception date. An operating lease is one that does not transfer substantially all of the risks and rewards of ownership to the lessee.

Property classified as operating leases are carried at cost less accumulated depreciation and are being depreciated to their estimated residual values using the straight-line method over the lease term. Property under operating leases are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds the higher of the asset's fair value less costs to sell and its value in use.

The Company has not been required to record an impairment loss to date.

*Impairment of non-current assets*

The carrying amounts of the Company's non-current assets are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the Cash Generating Unit ("CGU") level, which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value less cost to sell is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

## ADOPTION OF NEW ACCOUNTING POLICIES

There have been no new accounting standards or interpretations adopted during the three months ended January 31, 2024.

### *Standards issued but not yet effective*

The Company has elected to not early adopt standards, interpretations or amendments that have been issued but are not yet effective. The new and amended standards and interpretations that have been issued, but are not yet effective, up to the date of issuance of the Company's condensed interim consolidated financial statements are disclosed below. If applicable, the Company intends to adopt when they become effective.

### *IAS 1: Classification of Liabilities as Current or Non-current*

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1, "Presentation of Financial Statements" to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. The amendments are not expected to have a material impact on the Company at this time.

## RELATED PARTY TRANSACTIONS

The Company uses an office leased by Solution Lease Club, a Company controlled by the CEO of the Company for administration and promotional purposes. Solution Lease Club's office is at Unit 6, 11220 Voyageur Way, Richmond. The Company pays Solution Lease Club a $400 fee for each sales and lease transaction for property usage. During the three months ended January 31, 2024, the Company paid $25,200 to Solution Lease Club (2023 - $19,500).

During the three months ended January 31, 2024, remuneration of directors and other members of key management personnel are $133,399 (2023 - $115,180).

During the three months ended January 31, 2024, the Company paid $nil to a law firm where a partner is a director of the Company (2023 - $nil).

Included in convertible debentures are $400,000 (2023 - $400,000) held by related parties with interest of $5,000 (2023 - $5,000).

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements such as guarantee contracts, contingent interests in assets transferred to an entity, derivative instrument obligations or any other obligations which will have or are reasonably likely to have a current or future effect on the financial condition, changes in financial conditions, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors, other than operating leases.

## RISK MANAGEMENT

Several trends and factors that the Company could be out of control can affect the operation of Company, and have the potential of affecting its financial condition, profitability, and cash flows. These trends and factors may be changes in the vehicle market sector, the state of the domestic and global economic conditions. Management has difficulty in accurately predicting the impact of changes in these risk factors and forecasting their effects on the Company's results of operations and the financial conditions.

The Company is exposed to a few financial risks in the normal course of its business operations, including market risks resulting from policies, fluctuations in interest rates, as well as credit and liquidity risks. The following summarizes the types of market risks that the Company is exposed, and the policies and procedures for measuring and managing risk.

### *COVID-19 risk*

The spread of COVID-19 is expected to have a material adverse effect on global and regional economies and continues to negatively impact stock markets. The adverse effects on the economy and the stock market could adversely impact the Company's ability to raise capital, or its ability to pursue other strategic initiatives.

### *Credit Risk*

Credit risk is the risk that the Company will incur a loss a counter party will fail to perform its obligations. The Company's financial instruments that are exposed to concentrations of credit risk consist of cash, term deposits, accounts receivable, due from related company, car loans receivable, and lease receivables. The Company attempts to mitigate the risks associated with cash and term deposits by dealing only with major Canadian financial institutions with good credit ratings and performs credit assessments of all customers making material orders. The Company attempts to mitigate the risks associated with car loans receivable and lease receivables through its credit check process performed before entering into any sales arrangement.

### *Liquidity risk*

Liquidity risk is the risk that the Company cannot meet a demand for cash or fund its obligations as they come due. Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities as they come due. The Company currently settles all of its financial obligations out of cash generated from operations. The ability to do so relies on the Company maintaining sufficient cash in excess of anticipated needs.

***Interest rate risk***

Interest rate risk is the risk that the fair values and future cash flows of the Company will fluctuate because of changes in market interest rates. The Company's financial instruments that are exposed to concentrations of interest rate risk consist of bank indebtedness and short-term loans. A change in the prime rate of interest of 1% would result in additional interest expense for the Company of $116,796 per year. In order to mitigate this risk, the Company carefully monitors its borrowing costs to ensure its rates reflect appropriate spreads to insulate against sudden unexpected interest rate movements.

***Competitive environment***

There can be no assurance that the Company will be able to compete successfully against its current or future competitors, or that such competition will not have a material adverse effect on the financial condition and results of operations of the Company. Overall, the market for the financial services offered by the Company is highly competitive and some of the companies operating in this sector have greater financial resources than the Company.

***Potential acquisitions and investments***

The Company seeks to acquire or invest in businesses that expand or complement its current business. Such acquisitions or investments may involve significant commitments of financial or other resources of the Company. There can be no assurance that any such acquisitions or investments will generate additional earnings or other returns for the Company, or that financial or other resources committed to such activities will not be lost. Such activities could also place additional strains on the Company's administrative and operational resources and its ability to manage growth.

***Profitability***

There is no assurance that the Company will earn profits in the future, or that profitability will be sustained. There is no assurance that future revenues will be sufficient to generate the funds required to continue the Company's business development and marketing activities. If the Company does not have sufficient capital to fund its operations, it may be required to reduce its sales and marketing efforts or forego certain business opportunities.

***Debt Levels***

Solution has had and will continue to increase its indebtedness. Its ability to make payments of principal and interest on the debt or to refinance its indebtedness will depend on Solution's future operating performance and its ability to enter into additional debt and equity financings, which to a certain extent is subject to economic, financial, competitive and other factors beyond its control.
If Solution is unable to generate sufficient cash flow in the future to service its debt, it may be required to refinance all or a portion of its existing debt or obtain additional financing. There can be no assurance that any such refinancing would be possible or that any additional financing could be obtained on terms acceptable to Solution.

***General Economic Conditions***

The automobile finance business has historically been subject to cyclical variations in the general economy and to uncertainty regarding future economic prospects. Delinquencies, defaults, repossessions and losses increase during periods of economic recession. These periods also are accompanied by decreased consumer demand for automobiles and declining values of automobiles securing outstanding loans, which weakens collateral coverage and increases the amount of a loss in the event of default. Significant increases in the inventory of used automobiles during periods of economic recession will depress the prices at which repossessed automobiles may be sold or delay the time of these sales.
Solution's financial results are sensitive to immigration policies, number of international students in Canada, fluctuations in general interest rates, gross domestic product growth, and the level of consumer confidence, among other factors. Although Solution's actual rates of delinquencies, defaults, repossessions and losses on these loans are very low comparing to our competitors in the general automobile finance industry, some government policies and general economic conditions would adversely affect its business, financial condition, liquidity and results of operations or future prospects.

***Dependence on Management Information Systems***

Solution depends on its management information systems in each stage of its operations. These management information systems also form the basis of its financial reporting. Irreparable damage to its information systems and databases, or loss of the information contained therein, could have a material adverse effect on Solution's business, financial condition, liquidity and results of operations or future prospects.

***More Stringent Government Regulations***

Solution is subject to various federal, provincial and municipal laws and regulations. Such laws, regulations and related rules and policies are administered by various federal, provincial and municipal agencies and other governmental authorities. New laws governing Solution's business could be enacted and changes to any existing laws could have a significant impact on the business of Solution. Failure by Solution to comply with applicable laws and regulations may subject it to civil or regulatory proceedings which may have a material adverse effect on Solution's business, financial condition, liquidity and results of operations or future prospects.

## INTERNAL CONTROLS OVER DISCLOSURE AND FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures to ensure that material information is being recorded, processed, summarized, and reported to senior management, including the certifying officers and members of the Company's Audit Committee on a timely basis, so that appropriate decisions can be made regarding public disclosure. In addition, the CEO, and CFO are responsible to design, or cause to be designed under their supervision, internal controls over financial reporting ("ICFR"), to a standard that provides reasonable assurance of the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes to the Company's disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR") as at January 31, 2024 that have materially affected, or are reasonably likely to materially affect, DC&P or ICFR.

### *Disclosure controls and procedures*

Disclosure controls and procedures, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer 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 the securities legislation and include controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the issuer's management, including its certifying officers, as appropriate to allow timely decisions regarding required disclosure.

### *Internal controls over financial reporting*

The Company's management, including the CEO, and CFO, has evaluated the design of the Company's Internal Controls over Financial Reporting using the control framework and criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, management has concluded that the Company's ICFR as at January 31, 2024 were designed and operating effectively and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

### *Limitations of effectiveness of disclosure controls and internal controls over financial reporting*

It should be noted that while the Company's Chief Executive Officer, and Chief Financial Officer believe that the Company's internal controls system and disclosure controls and procedures provides a reasonable level of assurance that the objectives of the control systems are met, they do not expect that the Company's control system will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurances that any design will succeed in achieving its stated goals under all potential conditions. The Company will continue to periodically review our disclosure controls and procedures and internal control over financial reporting and may make modifications from time to time as considered necessary or desirable.