Chesswood Group Limited

2019 ANNUAL REPORT

Through its three wholly-owned subsidiaries in the U.S. and Canada, Chesswood Group Limited ("Chesswood") is North America's only publicly-traded commercial equipment finance company focused on small and medium-sized businesses. Our Colorado-based Pawnee Leasing Corporation, founded in 1982, finances a highly diversified portfolio of commercial equipment leases and loans through established relationships with over 600 independent brokers in the lower 48 states. In Canada, Blue Chip Leasing Corporation has been originating and servicing commercial equipment leases and loans since 1996, and today operates through a nationwide network of more than 50 independent brokers. Tandem Finance Inc., located in Houston, Texas, and launched by Chesswood in early 2019, provides small and medium sized businesses of all credit profiles with financing for their equipment purchases through equipment vendors and distributors in the United States.

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

CONTENTS

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

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

TO OUR SHAREHOLDERS

Our 2019 was an extremely active year for Chesswood that included great excitement with the launch of a new business, the achievement of a major portfolio milestone, expansion and renewal of all of our largest banking facilities, the completion of our first fully marketed ABS (securitization) transaction in the U.S., and the continuation of our strong dividend program with the payout of $14.9 million in dividends.

We launched Tandem Finance, our new vendor channel business headquartered in Houston, and it went from one person and no business to a staff of 14 and more than US$30 million in originations, while bettering its most important first year targets - a lower burn rate than forecast and higher originations. Tandem is poised to have an excellent 2020.

Tandem is the only vendor channel finance company in the U.S. today that offers its equipment vendors financing for their customers from prime credits through "C" credits, and start-ups, underwritten and serviced directly by Tandem. Most competitors do not offer financing for non-prime lessees or 'syndicate' those types of transactions with other funders, leading to slow turnaround times, low closing rates and an overall negative experience.

Because Tandem operates in a market five times larger than Pawnee, and generates repeat business from its vendor customers, it has the potential to outgrow our flagship U.S. business in annual originations, in three to five years, depending on market conditions. This is a very exciting longer-term growth opportunity for Chesswood that is off to a great start.

In November of 2019, Chesswood crossed a major threshold for the equipment finance industry by reaching a gross portfolio of more than $1.0 billion! That is not only a great milestone, but stands out all the more when we consider that we began in 2006 with an equipment finance portfolio of just US$118 million which contracted before growth began after 2008. Through the credit crisis and beyond, our tenured team has guided Chesswood to this amazing milestone - which includes pretax earnings this year of almost $18 million, compared to just $6.3 million in 2009, our first year after the financial crisis in the U.S. It's also noteworthy that we generated these pretax earnings despite the deduction of $7.3 million in increased allowance for credit losses compared to the prior year, in accordance with the recently adopted new rules under IFRS 9.

Toward the end of the third quarter of 2019 and into the fourth, we renewed our Canadian-based revolver facility for up to US $300 million as well as our US$250 million warehouse facility for Pawnee's prime transactions, while simultaneously completing our first U.S. securitization transaction for US$254 million. This was a tremendous amount of work and effort which locked in our main treasury facilities for two to three more years at an improved cost-of-funds. It also fixed the cost of funds at an attractive and improved rate through the ABS transaction, for a large portion of our prime portfolio financing, which was an important treasury objective. These facilities provide Pawnee, Tandem and Blue Chip with excellent capacity for growth.

While we accomplished a tremendous amount in 2019, we also saw our U.S. portfolio show gradually more delinquency and charge-offs during the year. It is important to note that in dollar terms, because of the significant growth in our portfolio over the last 4-5 years (or decade), we expected the dollar amount of charge-offs to rise. Ten years ago, in 2010, we finished the year with gross receivables of $125 million. We closed 2019 with gross receivables of $1.0 billion! That is portfolio growth of almost 10 times, in a decade.

As we indicated at the end of the third quarter, while overall portfolio performance metrics for each of our products are in ranges that have been weakening over the last 2-3 years (although still at acceptable levels), we are today underwriting with more caution, especially at Pawnee. That is the course that Pawnee continues to follow in 2020 while it is not the behavior of our market, influencing our originations volumes directly.

We believe it's important to also discuss IFRS 9, the rules around the allowance for credit losses for finance companies, and our charge-offs. The new rules for our allowance, adopted in 2018, continue to produce volatility in results that is very difficult to predict and which penalizes finance businesses that have good new business growth in a period. These rules require the company to record an estimate of the next twelve months' charge-offs on all performing receivables. This means that at the same time we must also record the expected loss for the next twelve months, for new business put on in a period.

That is of course in addition to providing for 100% of the expected future loss on “under-performing” receivables. In our case that means receivables that are generally more than 30 days past due, as well as any loans/leases that are on non-accrual (the leasing term for non-performing).

While changes to the allowance are non-cash and do not affect our free cash flow, we added $7.6 million to our allowance in 2019 - which means our earnings absorbed this same charge as well - compared to adding only $210,000 in 2018, for a year-over year difference of $7.4 million! This difference, along with net charge-offs which were higher than 2018 by $6.4 million, account for more than the $12.8 million difference in our operating income, year-over-year. Notwithstanding these main differences, it’s a relevant reminder that when considering a year-over-year comparison, to also note that Tandem had net expenses this year of $2.2 million, which are deducted in arriving at operating income, while Tandem did not exist in 2018.

Increases to the allowance for under-performing receivables do reflect a rise in receivables more than 30 days past due and/or our non-accruals, while our fourth quarter and year-end were also affected by a year-over-year anomaly. At the end of 2018 we experienced an unusual improvement in delinquency from the third quarter. That time of the year normally sees a rise in delinquency from the third quarter, reflecting the holidays at the end of December when collections are low. So, in 2019 we did see the usual year-end pattern of a rise in delinquency which made the comparison to 2018 all the more dramatic, with a quarter over quarter increase in our allowance of $3.3 million.

Our actual net charge-offs at Pawnee totaled US$5.5 million in the fourth quarter compared to US$4.0 million in the same quarter of the prior year or a difference of approximately US$500,000 a month. In this same time period Pawnee’s gross portfolio went from US$534 million to US$653 million for 22% growth. As an annual rate of loss, based on Pawnee’s average net investment in leases, net charge-offs were almost unchanged at 3.73% in 2019 versus 3.66% in 2018.

In short, while our portfolio was noisier in 2019, we executed on a tremendous amount of positive initiatives for Chesswood that we believe enhance longer-term value while continuing to provide excellent dividend income to our shareholders. Notwithstanding increases in our charge-offs and allowance, we had another year of strong free cash flow. We returned almost $15 million in dividends to our shareholders from our free cash flow of $22 million. For 2019, based on our average share price of $10.34, we provided a dividend yield to our investors of 8.1%.

Barry Shafran,
President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management’s discussion and analysis (this "MD&A") is provided to enable readers to assess the financial condition and results of operations of Chesswood Group Limited (“Chesswood” or the "Company”) as at and for the three months and year ended December 31, 2019. This discussion should be read in conjunction with the 2019 audited consolidated financial statements and accompanying notes of the Company. Unless otherwise indicated, all financial information in this MD&A has been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS"), and all amounts are expressed in Canadian dollars, unless specifically denoted otherwise. This MD&A is dated March 18, 2020.

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

MD&A Table of Contents

FORWARD-LOOKING STATEMENTS

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

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

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

For more information on the risks, uncertainties and assumptions that would cause the Company's actual results to differ from current expectations, please also refer to "Risk Factors" in this MD&A and in the Company's Annual Information Form, as well as to other public filings of the Company available at www.sedar.com. The Company does not undertake to update any forward-looking statements, whether oral or written, made by itself or on its behalf, except to the extent required by securities regulation.

NON-GAAP MEASURES

This MD&A makes reference to certain non-GAAP measures as supplementary information and to assist in assessing the Company's financial performance.

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

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

"Adjusted EBITDA" is EBITDA further adjusted for (i) interest on debt facilities, (ii) non-cash gain (loss) on interest rate derivatives, investments and convertible debentures, (iii) non-cash unrealized gain (loss) on foreign exchange, (iv) non-cash share-based compensation expense, (v) non-cash change in finance receivable allowance for credit losses (effective Q1 2018), (vi) acquisition costs, (vii) contingent consideration accretion or reduction, (viii) any unusual and material one-time gains or expenses and (ix) actual interest attributable to the period in respect of the convertible debentures. Adjusted EBITDA is a measure of performance defined in one of the Company's significant bank agreements and is the basis for the Company's Free Cash Flow calculation. Adjusted EBITDA is therefore included as a non-GAAP measure that is relevant for a wider audience of users of the Company's financial reporting.

"Adjusted Operating Income" is Operating Income, as presented in the consolidated statements of income, adjusted to exclude amortization of intangible assets, the change in allowance for credit losses ("ACL") and Tandem net expenses. Adjusted Operating Income is intended to reflect the recurring income from the Company's business. Amortization of intangible assets, which includes the expense related to broker relationships and non-compete clauses, is a function of acquisitions. The cost of maintaining the broker relationships subsequent to acquisition, being internally generated intangible assets, cannot be measured and is therefore not recognized as an asset, meaning that once these acquisition-related intangibles have been fully amortized they are not replenished and the amortization expense will cease. The change in the ACL can be calculated from continuity of the ACL in Note 6(c) - *Finance Receivables* as the difference between the provision for credit losses and the net charge-offs during a period. The change in ACL is a non-cash item, which reflects our creditor approved formulas for Adjusted EBITDA and Free Cash Flow that drives our Maximum Permitted Dividends, which are relevant measures for users of our Company's financial reporting. Operating Income for 2019, in comparison to the same period in the prior year, is being influenced by the net expenses of Tandem's first year. Chesswood only launched Tandem in 2019, and therefore, has modest revenue expectations for its first year of operations. Instead of mentioning the impact of Tandem's expenses in a sentence, the Company has chosen to show the impact in a chart with non-GAAP subtotals. The Company believes this presentation provides readers with a better understanding of the impact of the start-up costs on the Company's 2019 results compared to the prior year. Tandem's start-up costs exclude costs incurred at Pawnee, which provides administrative support and other support for the applications received by Tandem.

"Free Cash Flow" or "FCF" is defined as Adjusted EBITDA less maintenance capital expenditures, tax effect of the non-cash change in the allowance for credit losses and tax expense. Cash receives significant attention from primary users of financial reporting. The IFRS measures on the statement of cash flows and income measures do not provide primary users with the equivalent information related to cash. 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 lender as to a measure of the cash flow produced by our businesses in a period. It is also management's concurrent view that the measure eliminates often 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 Adjusted EBITDA, Free Cash Flow, Maximum Permitted Dividend section of this MD&A for a reconciliation of Free Cash Flow to net income.

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

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

COMPANY OVERVIEW

Chesswood is North America's only public company focused on commercial equipment finance for small and medium-sized businesses. As at December 31, 2019, its operations consisted of three wholly-owned subsidiaries:

- 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 through the equipment vendor channel in the U.S.; and
- Blue Chip Leasing Corporation ("Blue Chip"), which provides commercial equipment financing to small and medium-sized businesses across Canada.

On a consolidated basis, the Company has 152 employees at all locations.

OTHER OPERATIONS

Case Funding Inc. ("Case Funding"), a specialty provider of loans and funding solutions to attorneys and law firms, sold its assets in 2015, except for a small portfolio of receivables. At December 31, 2019, there were 84 advances and loans outstanding totaling $907,000 (December 31, 2018 - 110 advances and loans totaling $1.9 million). Case Funding operations were reclassified to continuing operations, as they failed to meet the conditions required for the Discontinued Operations classification, because they had not been sold within a year of classifying them as discontinued operations; however, this business is no longer being pursued and the receivables are being collected as the operation is wound-down. This legal finance receivable is included with Other Assets and its net results has been included in Other Expenses. In the segment note, it is included in the "Other Operations" column.

PAWNEE

The Company's largest operations are conducted by Pawnee, which accounted for 85.7% of consolidated revenue and 87.2% of consolidated Operating Income before corporate overhead (excluding amortization of intangible assets) in the year ended December 31, 2019. As of December 31, 2019, Pawnee employed 103 full-time equivalent employees.

Established in Fort Collins, Colorado in 1982, Pawnee specializes in providing equipment financing of up to US$250,000 to small and medium-sized businesses in the U.S., with a wide range of credit profiles from start-up entrepreneurs to more established businesses, in prime and non-prime market segments, through a network of approximately 600 independent equipment finance broker firms (also referred to as the "third-party market" or "third-party channel").

A table setting out the U.S. equipment finance receivables portfolio statistics or Pawnee and Tandem is included below following the discussion of Tandem.

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.

In September 2008, prior to the financial crisis, Pawnee offered equipment financing only to start-ups and some "B-" businesses. In pursuit of strategic growth, Pawnee leveraged its existing sales channel of equipment finance brokers by expanding its range of products to include the full B credit market. This market consisted of higher quality credits than Pawnee's historical market segment and is also a significantly larger segment. This was the first meaningful expansion from Pawnee's "core" suite of products.

As the financial crisis took hold in late 2008, Pawnee's portfolio also experienced more stress; however, it remained profitable by having maintained risk-adjusted pricing in the years leading up to the crisis that were in excess of most of its competitors. A large majority of Pawnee's competitors in both its "Core" (start-up and "C" markets) and B markets were gone by January 2009 having either retreated to their prime markets, lost their funding and/or closed their operations.

Pawnee was fortunate, therefore, to be able to take advantage of its strong market position and continued access to capital to grow significantly while building a portfolio which, in each product “bucket”, enjoyed unprecedented credit quality due to the severe contraction in credit markets, especially from 2009 through 2013-4. With the gradual normalization of credit markets, loss rates in Pawnee's higher yielding non-prime market segments have returned to more typical levels. Pawnee continues to generate strong risk-adjusted returns, but at levels below the years immediately following the crisis. This is the same pattern seen in past economic cycles.

Beginning in 2015, Pawnee expanded its product line once more, by entering the prime or "A"-rated equipment finance market. Just as in 2008, when Pawnee entered the "B" market, this new market segment is much larger than the markets Pawnee had served previously. Pawnee now offers equipment financing to small and medium sized businesses across America in all credit classes with transactions up to US$250,000, and it may in the future finance equipment costing up to US$500,000 in the prime market.

These gradual expansions in Pawnee's product offerings have allowed it to become a much more important source of funding to its broker customers as well as expanding its overall market to include brokers with whom it did not have a prior business relationship. Many brokers concentrate on prime equipment finance customers, and therefore did not consider Pawnee as a source for the funding prior to its entry into the prime market.

Funding

Pawnee’s leases and loans are presently funded through the following facilities:

- Chesswood’s revolving corporate credit facility allows borrowings of up to US$250.0 million subject to, among other things, threshold levels of eligible finance receivables, and is renewed to December 8, 2022.
- On October 16, 2017, Pawnee closed its first non-recourse US$75 million asset-backed facility, which is secured by a portfolio of Pawnee's prime equipment leases and loans. A second US$50 million facility was closed during 2018. The repayment terms are based on the cash flow of the underlying portfolio. The proceeds from these non-recourse facilities were applied to Chesswood's revolving corporate credit facility.
- In August 2018, Pawnee closed its new US$250 million warehouse facility with a syndicate of three major banks which matures in September 2021 and expires in September 2024. The warehouse facility is used to fund most of Pawnee’s prime originations before they are securitized.

- In June 2019, Pawnee obtained a credit facility with annual capacity of US$80 million with a life insurance company that expires in June 2027. The funder makes advances to Pawnee 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. Pawnee maintains certain cash reserves as credit enhancements or provides letters of guarantee in lieu of those same cash reserves, for this facility and retains the servicing of the related finance receivables. Proceeds from advances under this facility are applied to Chesswood's revolving corporate credit facility.
- In the fourth quarter of 2019, Pawnee completed its first US$254 million marketed asset-backed securitization which has a fixed term and fixed interest rate, and is collateralized by certain receivables from Pawnee's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay down Pawnee's warehouse facility and Chesswood's revolving credit facility.

Key Aspects of Business Model

Management believes Pawnee’s long track-record of success is attributable to several key aspects of its business model, including:

1. credit underwriting parameters designed to mitigate risk;
2. a relationship-driven approach to origination through a well-established and trained network of reputable broker firms;
3. portfolio diversification across geographies, industries, equipment classes, origination source, vendors, equipment cost, and credit classes;
4. risk management resources that include credit analyst reviews of all applications, a proprietary credit scorecard to guide consistent analysis and decision-making, and effectively price for risk; and a dedicated and efficient servicing and collection effort; and
5. a tenured senior management team.

These five aspects are discussed in greater detail below.

1. **Asset quality at Pawnee begins with underwriting parameters that define a careful approach to doing business and mitigating risk.** Generally:

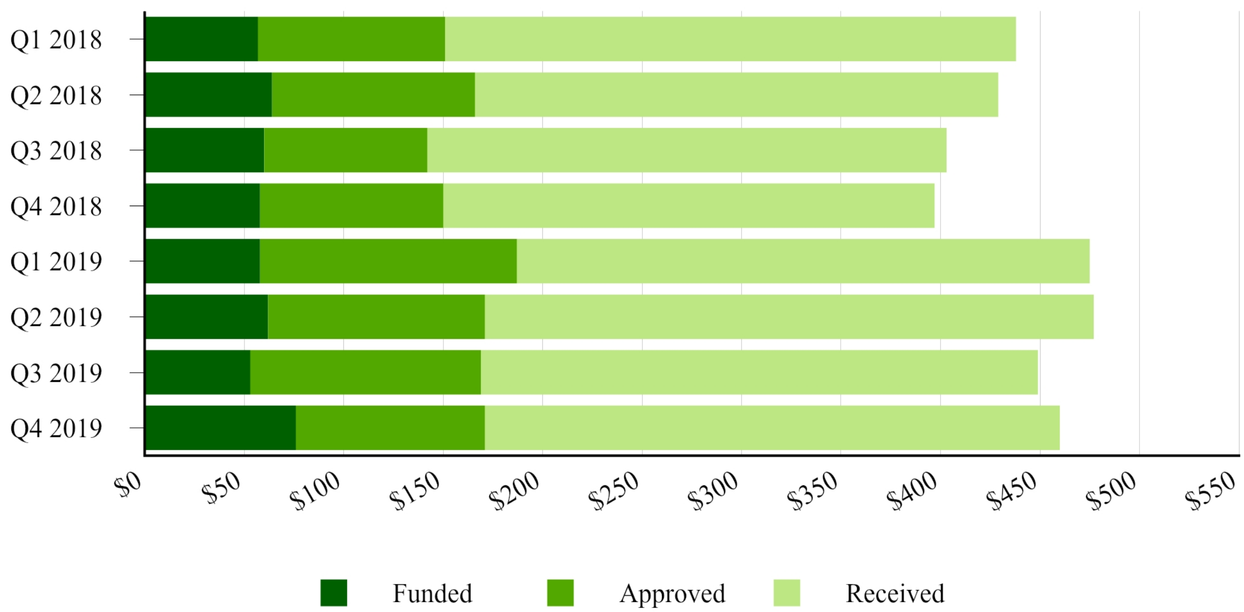
   - Pawnee finances equipment that is fundamental to the core operations of the lessee/borrower’s business, reflecting management’s view that payments on “business essential” equipment are among the least susceptible to default except in the case of business failure;
   - Pawnee operates only in select market segments, excluding certain industries such as agriculture and hazardous materials;
   - A personal guarantee of at least the major shareholder(s)/owner(s) and generally all owners are obtained for non-prime credits, with acceptable personal credit profiles a prerequisite for credit approval;
   - Business owners are interviewed by Pawnee for verification purposes prior to the commencement of the lease or loan, with site inspections conducted for financings as low as US$15,000 or more (US$100,000 for A-rated credits); and
   - All scheduled payments for non-prime financings are paid by direct debit from the lessee’s/borrower's account, allowing Pawnee’s collection team to take immediate action on delinquencies.

2. **Pawnee originates finance receivables through a network of over 600 independent broker firms across the U.S., with a relationship-driven approach and service capabilities that have distinguished it as a first-choice funder.**

Risk management begins with the selection and training of broker firms and their staff. Broker principals must have an acceptable personal credit profile, industry references, and preferably a minimum one-year track record in the equipment finance industry. Pawnee’s Business Development managers train new and existing brokers and their staff, and develop a knowledge base on Pawnee’s underwriting policies and procedures. The training process is instrumental in reducing both the broker and Pawnee's time spent reviewing applicants unable to meet Pawnee's credit qualifications. Business Development managers also monitor broker efficiencies in credit application reviews and closings, including applications submitted, approved and ultimately funded.

Pawnee's service-driven focus strengthens the relationships with its customers, helping to support and expand origination volumes. It has become a funder of choice as a result of unique capabilities that improve efficiency and save time for its broker customers, such as consistent credit decisions; rapid response time, a customized on-line broker portal (for application submissions, tracking of lease and loan status, documentation, and more) and one-stop shopping for all credit-classes.

Pawnee Lease and Loan Application, Approval and Origination Volume *(in US$ millions)*



Lease and Loan Application, Approval and Origination Volume
Pawnee has formed relationships with hundreds of origination sources, comprised primarily of equipment finance brokerage firms. They rely on these relationships to generate applications. As used in the above graph, "Received" reflects all applications for equipment financing received by Pawnee, "Approved" are those received applications that receive an approval by Pawnee's credit department and "Funded" refers to previously approved applications that become actual lease or loan transactions through Pawnee's financing of the customers' equipment purchase or lease. Management regularly reviews lease and loan application, approval and origination volumes for trends that may indicate changes in the economic or competitive landscape and that may necessitate adjustments in Pawnee's approach to doing business in its market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of Pawnee's applicants. Pawnee refers to total originations Funded, as a percentage of leases and loans Approved, as the "closing ratio". The chart above excludes Tandem sourced applications, approvals and originations.

3. Pawnee's portfolio of leases and loans is well diversified across geography, equipment types, industries, brokers, vendors, equipment cost, and credit classes.

As of December 31, 2019, Pawnee's portfolio of 19,416 leases and loans, representing US$632.2 million in gross finance receivables (excluding residual receivable), was diversified, with:

- over 87 equipment categories, with the five largest - restaurant, titled trucks, medical, beauty salons and construction - accounting for 39.5% of the total number of active leases and loans;
- over 243 industry segments, with no industry representing more than 10.6% of the number of active financings;
- no lessee/borrower accounting for more than 0.13% of the total;
- 48 U.S. states, with no state representing more than 10.0% of the number of total active leases and loans (with the exception of California and Texas, which represented 14.4% and 11.8%, respectively); and
- the largest originator accounting for 6.6% of gross lease and loan receivables, and the ten largest accounting for 38.4%.

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

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

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

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

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

- Pawnee had 103 full-time equivalent employees at 2019 fiscal year-end, of which more than a third were engaged in the collection and servicing processes. Collection and servicing activities are structured to systematically and quickly resolve delinquent leases and loans whenever possible, mitigate losses, and collect post-default recovery dollars.
- Because of Pawnee's requirement that most lease and loan payments be made by direct debit, it can immediately recognize a delinquent account when a direct debit payment is not received on the required due date.
- ◦ Generally, when a payment falls 31 days past due, or earlier if investigation reveals an underlying issue at the borrower/lessee level, the account is referred to the appropriate negotiation, repossession/remarketing, bankruptcy or legal specialist on Pawnee's Advanced Collection Team. Through a combination of collecting payments, issuing forbearances, repossessing and selling financed equipment, initiating lawsuits and negotiating settlements, Pawnee regularly remediates a high percentage of past due accounts.
- ◦ After 154 days of delinquency, or earlier if Pawnee deems the account uncollectible, the debt is written off. However, collection efforts continue when prospects for recovery through a personal guarantor, sale of equipment or other remedy warrant. Otherwise, the account is normally assigned to an independent collection agency for further collection efforts, where the primary sources of recovery include payments on restructured accounts, settlements with guarantors, equipment sales, litigation, and bankruptcy court distributions.

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

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

5. A tenured senior management team

Pawnee's senior management team has a combined 73 years in the industry and has been together for almost 15 years. Pawnee's President was directly responsible for building out its broker network in the company's early years and continues to play an important role in business development.

TANDEM

In early 2019, the Company launched Tandem, located in Houston, Texas, which offers equipment financing for small and medium-sized businesses of all credit profiles through equipment vendors and distributors in the U.S. (the "vendor market" or "vendor channel").

Annual originations in the vendor small-ticket market is estimated to be five times larger than the third-party small-ticket market served by Pawnee and Blue Chip. While the vendor channel has a longer sales cycle than the traditional third-party channel, equipment vendors and distributors generally form long-term partnerships with funders which usually result in programs that generate originations and revenues over many years. As a start-up in 2019, Chesswood had modest revenue expectations for Tandem in its first year of operations and is very pleased that Tandem was able to slightly exceed it's 2019 twelve-month target of US$30 million in originations, despite only ten months of operating activity. Chesswood expected Tandem to generate a net loss of up to $3.0 million, as it built out Tandem's infrastructure to support the first years' activity as well as a platform for the future.

Tandem had 14 employees at December 31, 2019 and had net expenses of approximately $584,000 and $2.2 million for the three months and year ended December 31, 2019, respectively, which are reflected in Chesswood's operating results and income before taxes. Tandem originated US$31 million in 2019 and was supported by Pawnee's credit, documentation, collection and administrative departments which provides "back-office" support to Tandem.

U.S. Equipment Finance Receivable Portfolio Statistics[(6)]
(in US$ thousands except # of leases/loans and %'s)

	Mar 31 2018[(5)]	June 30 2018	Sep 30 2018	Dec 31 2018	Mar 31 2019	June 30 2019	Sep 30 2019	Dec 31 2019
Number of leases and loans outstanding (#)	17,037	17,604	17,974	18,179	18,351	18,698	18,879	19,416
Gross lease and loan receivable ("GLR") [(1)(5)]	$427,100	$465,526	$493,370	$515,439	$535,525	$561,452	$580,808	$632,240
Residual receivable	$17,101	$17,617	$18,175	$18,725	$19,347	$20,281	$20,752	$21,242
Net investment in leases and loans receivable ("NFR"), before allowance	$352,431	$384,643	$408,957	$426,065	$444,376	$467,056	$486,397	$531,860
Security deposits ("SD") (nominal value)[(4)]	$12,734	$13,330	$13,763	$13,787	$12,936	$11,812	$10,946	$9,955
Allowance for credit losses ("ACL")	$15,309	$15,895	$15,489	$15,904	$17,211	$17,528	$18,706	$21,507
ACL as % of (NFR - SD)	4.51%	4.28%	3.92%	3.86%	3.99%	3.85%	3.93%	4.12%
Over 31 days delinquency (% of GLR) [(2)]	2.10%	1.97%	1.83%	1.89%	2.13%	2.12%	2.25%	2.38%
Net charge-offs for the three-months ended [(3)]	$3,765	$3,131	$3,208	$3,986	$3,800	$3,947	$4,328	$5,453
Provision for credit losses for the three-months ended	$3,379	$3,717	$2,802	$4,059	$5,106	$4,380	$5,479	$8,508

Notes:
(1) Excludes residual receivable.
(2) Over 31-days delinquency includes non-accrual gross lease and loan receivables.
(3) Excludes the "charge-offs" of interest revenue on finance leases and loans on non-accrual leases recognized under IFRS prior to 2018.
(4) Excludes adjustment for discounting security deposits and increasing unearned income for interest savings on security deposits.
(5) At December 31, 2019, approximately 62% of U.S. gross finance receivables (excluding residuals) were in the prime market segment.
(6) Figures for 2019 include both Pawnee and Tandem.

BLUE CHIP

Chesswood's Canadian operations are conducted by Blue Chip, a specialist in micro and small-ticket equipment finance for small and medium-sized businesses since 1996. Located in Toronto, Blue Chip provides equipment financing across Canada, primarily through a nationwide network of more than 50 independent equipment finance broker firms. Blue Chip accounted for 14.3% of consolidated revenue and 22.5% of consolidated Operating Income before corporate overhead (excluding amortization of intangible assets) in the year ended December 31, 2019.

Blue Chip's portfolio risk is mitigated by its diversification across geographies, industries, equipment types, equipment cost and credit classes. Blue Chip had 30 full-time equivalent employees at December 31, 2019.

Blue Chip Portfolio Statistics *(in $ thousands except # of leases/loans and %)*

	Mar 31 2018	June 30 2018	Sep 30 2018	Dec 31 2018	Mar 31 2019	June 30 2019	Sep 30 2019	Dec 31 2019
Number of leases and loans outstanding (#)	14,188	14,587	14,494	14,253	14,066	13,896	13,525	13,171
Gross lease and loan receivable ("GLR")	$175,681	$190,466	$191,365	$189,917	$189,960	$191,111	$184,938	$177,402
Net investment in leases and loans receivable ("NIL"), before allowance	$155,930	$168,745	$169,657	$168,631	$168,745	$169,928	$164,605	$158,166
Allowance for credit losses ("ACL")	$1,731	$1,974	$2,127	$2,233	$2,278	$2,464	$2,551	$2,372
ACL as % of NIL	1.11%	1.17%	1.25%	1.32%	1.35%	1.45%	1.55%	1.50%
Over 31 days delinquency (% of NIL)	0.34%	0.46%	0.19%	0.25%	0.34%	0.30%	0.45%	0.47%

Key Aspects of Business Model

Management believes Blue Chip's track record of success is attributable to several key aspects of its business model, including those described below.

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

- The micro-ticket segment is a high-volume, low-touch business. Blue Chip has an application, approval and funding process designed to speed up credit decisions and automate the preparation of secure documents to meet market demand for rapid funding and customer service excellence.
- Blue Chip also has the expertise in financial analysis and detailed documentation to meet the underwriting requirements of the small-ticket segment.
- Like Pawnee, Blue Chip's value proposition to originators is relationship and service based, with fast and predictable credit decision-making and the convenience of one-stop shopping for commercial equipment financing needs across all credit classes.

Blue Chip's portfolio risk is mitigated by its diversification across geography, origination sources, industry, equipment type, equipment cost and credit class.

As at December 31, 2019, Blue Chip's gross finance receivables portfolio of $177.4 million (2018: $189.9 million) consisting of 13,171 leases and loans (2018: 14,253) was well diversified:

- Ontario represented 45.0% of net finance receivables, Alberta represented 20.2% and 34.8% were from the other provinces;
- the five largest equipment categories by volume - industrial, construction, landscaping, truck and trailers - accounted for 59.2% of net finance receivables;
- of its network of more than 50 originators, the largest originator by dollar volume during 2019 accounted for 16.2% originations; and

- the four largest brokers by dollars financed accounted for approximately 49.4% of originations during 2019.

Effective risk management has made Blue Chip a solid performer in its markets throughout business cycles.

- Blue Chip has a focus on thorough credit analysis, consistent decision-making, risk-based pricing, careful broker selection and education, a strong collection effort, and management's continual evaluation of portfolio performance against key performance indicators.

Blue Chip's performance has been enhanced by its success in negotiating a competitive cost of funds.

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

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

U.S. dollar results for the year ended December 31, 2019 were converted at an exchange rate of 1.3269, which was the average exchange rate for the year (2018 - 1.2957).

The Company reported consolidated net income of $12.7 million in the year ended December 31, 2019 compared to $22.9 million in 2018, a decrease of $10.2 million year-over-year. Operating income decreased $12.8 million year-over-year (discussed below), while the changes in net unrealized fair value adjustments and other items decreased net income by $1.6 million compared to 2018. Offsetting these decreases in net income was the decrease in tax expense of $4.2 million in the year ended December 31, 2019 compared to the prior year.

Free Cash Flow for the year ended December 31, 2019 totaled $22.4 million compared to $25.4 million in 2018, a decrease of $3.0 million, notwithstanding an increase in net charge-offs year-over-year of $6.4 million and Tandem's net expenses, totaling $2.2 million for 2019, both of which are deducted in the calculation of Free Cash Flow.

Overall, our results for the year ended December 31, 2019, in comparison to the prior year were highly influenced by large changes to two non-cash items: our allowance for credit losses ("ACL") and the mark-to-market ("M2M") valuation on our interest rate swaps and caps. As the table below illustrates, our provision for credit losses increased over 2018 by $7.4 million as a result of the change in our allowance, while the change in our mark-to-market loss on our interest rate swaps and caps in the year ended December 31, 2019 resulted in a decrease in income from the prior year of $1.8 million. These two non-cash changes totaled $9.2 million, comprising approximately 63.7% of the decrease in Income before taxes, compared to the prior year, while having no effect on our Free Cash Flow.

Tandem, launched in 2019 as a strategic long-term investment by Chesswood, in the much larger equipment finance vendor channel in the U.S. exceeded its origination targets for 2019 and landed in the lower range of expected net expenses for the year. Unlike the traditional broker channel, the vendor channel can be characterized differently, with longer sales cycles and typically with repeat business from vendor-partners over many years. As a result of these different business development dynamics, Tandem required a build out of business development resources and the development of a technology platform in advance of its launch. These resources and efforts will continue to build-out along with originations. Tandem incurred net expenses of approximately US$2.2 million in 2019.

The table below is primarily provided in order to illustrate the results of operations for Chesswood before any change to the non-cash allowance for credit losses, Tandem's net expenses, and amortization of intangible assets - referred to below as Adjusted Operating Income. In management's opinion, this provides readers with a more meaningful comparison of our operating results from period to period as it eliminates the often large swing in results due to IFRS 9 - the non-cash allowance for credit losses - as well as the unique circumstances around our new business start-up in 2019, Tandem. As the table indicates, before the rise in net charge-offs, Chesswood increased its profitability in 2019, compared to the prior year, based on this measure.

Average FX rate	1.3269	1.2957	
	Year ended December 31,		
($ thousands)	2019	2018	Change
Revenue(1)	$ 126,975	$ 110,586	$ 16,389
Interest expense	(33,663)	(26,647)	(7,016)
Net charge-offs	(25,641)	(19,213)	(6,428)
	67,671	64,726	2,945
Expenses excluding Tandem:			
Personnel	(17,697)	(16,497)	(1,200)
Other expenses(1)(4)	(18,811)	(14,267)	(4,544)
Depreciation	(1,184)	(506)	(678)
Adjusted Operating Income(2)	29,979	33,456	(3,477)
Change in allowance for credit losses - (increase)	(7,573)	(210)	(7,363)
Tandem net expenses	(2,184)	—	(2,184)
Amortization - intangible assets	(1,332)	(1,512)	180
Operating Income(3)(4)	18,890	31,734	(12,844)
M2M interest rate derivatives	(1,109)	705	(1,814)
Other non-cash FMV charges and unrealized FX	77	(181)	258
Income before taxes(4)	$ 17,858	$ 32,258	$ (14,400)
Free Cash Flow(2)	$ 22,361	$ 25,403	$ (3,042)

(1) IFRS 16 required a gross-up of revenue and other expenses by $3.8 million during the year ended December 31, 2019, prior year results were not restated.

(2) Free Cash Flow and Adjusted Operating Income are non-GAAP measures. See "Non-GAAP Measures" above for the definitions. See Adjusted EBITDA, Free Cash Flow, Maximum Permitted Dividend section of this MD&A for a reconciliation of Free Cash Flow to net income.

(3) The financial statements in Q3 2019 were reclassified to be on a consistent basis with prior periods, except for renaming 'income before undernoted items' as 'operating income' and the inclusion of amortization - intangible assets in the calculation of that subtotal. The calculation of these measures has been changed for the current and prior periods to be consistent with the discussion of Operating Income and Adjusted Operating Income in the MD&A.

(4) Case Funding operations were reclassified to continuing operations, as they failed to meet the conditions required for the Discontinued Operations classification. Its net loss of $587,000 for 2019 has been included in Other Expenses. The 2018 comparative results have been reclassified, the net loss of $458,000 has been moved from Discontinued Operations to Other Expenses.

By segment, the U.S. equipment finance segment's interest revenue on leases and loans totaled $97.0 million, an increase of $12.5 million year-over-year, as a result of growth in net finance receivables outstanding during the year compared to the prior year. The U.S. equipment finance segment's average net investment in finance receivables (before ACL) of US$471.0 million increased approximately US$91.0 million in the year ended December 31, 2019 compared to the prior year due to ongoing new originations which contributed approximately 1,200 more, on average, finance receivable contracts outstanding during the period compared to the prior year and also an increase of US$3,400 in the average book value of finance receivables. The average annualized interest revenue yield earned on U.S. based net finance receivables was 15.5% in 2019 compared to 17.15% in the prior year, reflecting an increase in the overall amount of prime receivables in our portfolio. The U.S. non-prime portfolio continues to generate strong returns and profitability, with limited or no growth, while the continued expansion of the prime portfolio exerts its influence on the over-all weighted-average portfolio yield in the U.S. Management has adopted harder credit floors and stiffer pricing policies in the non-prime business compared to many of the competitors, negatively impacting growth in these portfolio segments. Management believes this is the prudent approach for these portfolios at this time in the economic cycle.

U.S. equipment finance segment's ancillary finance and other fee income increased $3.6 million compared to the same period in the prior year, of which $3.4 million is from the Company's January 1, 2019 adoption of IFRS 16 - *Leases*, which increased ancillary finance and other fee income (with an offsetting increase of an equal amount in Other expenses). Prior year comparatives were not restated. The increase in the average foreign exchange rate for the year increased total revenue by $2.6 million compared to the prior year.

The U.S. segment's interest expense increased by $6.6 million compared to the prior year. The increase in interest expense is primarily a result of the strong growth in the portfolio of net finance receivables (discussed above) year-over-year which comprised the majority of the US$128.2 million increase in average debt outstanding during the year. The overall cost of funds year-over-year, as a percentage of average outstanding debt, was approximately 22 basis points higher than last year, driven by higher average benchmark lending rates (LIBOR and US Treasuries) in 2019. The increase in the foreign exchange rate increased interest expense by $354,000.

The U.S. segment's provision for credit losses increased by $13.3 million in the year ended December 31, 2019 compared to the prior year as a result of an increase in net charge-offs of $5.9 million and a $7.4 million increase in the ACL. In 2019, Pawnee's actual net charge-offs were 3.79% of average finance receivables (before ACL) compared to 3.63% in the prior year. Pawnee's 31 days past due delinquency at December 31, 2019 compared to December 31, 2018 increased by 0.49% (compared to a decrease of 0.41% in the prior year), which contributed to the increase in the required ACL. The increase in the foreign exchange rate increased the provision for credit losses by $731,000 compared to the prior year.

Pawnee and Tandem's personnel expenses increased by $2.9 million year-over-year, primarily due to having on average 16.5 more staff during the year ended December 31, 2019 compared to the prior year. Tandem added most of those positions, with 14 full-time staff at December 31, 2019.

Pawnee and Tandem's other expenses increased by $4.5 million year-over-year, of which $3.4 million comes from the Company's January 1, 2019 adoption of IFRS 16 - *Leases*, as certain lessor costs (predominantly property taxes on equipment leases that are deemed to be property in certain US states and counties, that are paid by the lessee to the lessor) are required to be presented at their gross amounts in the statements of income, with a corresponding increase in revenues. Prior year comparatives were not restated. The next largest increase in other expenses was collection related costs, which increased $685,000 in the year ended December 31, 2019 compared to the prior year; while the corresponding increase in funds recovered of $1.3 million was well in excess of the cost increase. Recoveries are netted against the provision for credit losses.

Predominantly because of the increase in the change in ACL discussed above, Pawnee and Tandem's operating income decreased by $11.6 million compared to the prior year. The effects of a higher foreign exchange rate for this year, increased Pawnee's operating income by $750,000 year-over-year.

Blue Chip generated revenue of $18.2 million during the year ended December 31, 2019 compared to $17.8 million in the prior year, an increase of $397,000 or 2.2%. Of the increase, $396,000 is due to the Company's January 1, 2019 adoption of IFRS 16 - *Leases*, which increased ancillary finance and other fee income (with an offsetting increase of equal amount in Other expenses). Blue Chip's average net investment in finance receivables increased approximately $3.2 million in the year ended December 31, 2019 compared to the prior year due to an increase of $637 in average book value of each finance receivable, while the average number of finance receivable contracts outstanding decreased by 478 due to competitive pressures and the on-boarding of several new senior team members, including a President that joined Blue Chip at the end of 2018. As a relationship-based business, it takes time for new people to develop relationships with customers that can help drive origination volumes. The average annualized yield of 10.7% earned on Blue Chip's net finance receivables decreased from 10.9% (if the IFRS-16 gross-up is excluded from 2019 revenue) during the period due to market conditions.

Blue Chip's provision for credit loss as a percentage of average net finance receivables (before ACL) was 1.25% for the year ended December 31, 2019 up from 0.98% in the prior year. Blue Chip's operating income totaled $4.2 million in the year ended December 31, 2019, compared to $5.2 million in the prior year, a decrease of $1.0 million due to higher cost of debt in 2019 (an increase of 0.2% on avg debt levels) compared to the prior year and higher personnel costs (see notes in paragraph above). Blue

Chip's other expenses were actually down year-over-year if the IFRS-16 $396,000 gross-up of certain expenses (also included in ancillary finance and other fee income) are excluded. Prior year comparatives were not restated.

The Company's investment in Dealnet Capital Corp. ("Dealnet") common shares increased in market value by $30,000 in the year ended December 31, 2019 compared to a $181,000 decrease in the prior year, resulting in an increase in net income of $211,000 year-over-year.

The Company's convertible debentures were redeemed in January 2018. Prior to redemption, there was an unrealized gain of $29,000 in the prior year, translating to a decrease in net income of $29,000 year-over-year.

The provision for taxes for the year ended December 31, 2019 totaled $5.2 million, compared to $9.4 million in the same period in the prior year. The $5.2 million provision for taxes for the year ended December 31, 2019 is comprised of $1.1 million in current tax expense, future tax expense of $3.5 million, and $529,000 in withholding tax expense on inter-company dividends. The effective tax rate differs from the Canadian statutory tax rate due to withholding taxes and permanent differences between accounting and taxable income, which include share-based compensation expense.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2019 AND 2018

	Three months ended December 31, 2019				
($ thousands)	**Equipment Financing - U.S.**	**Equipment Financing - Canada**	**Other Operations** *(Note 5)*	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 25,254	$ 3,294		$ —	$ 28,548
Ancillary finance and other fee income	3,145	1,119		39	4,303
Interest expense	(6,836)	(1,358)		—	(8,194)
Provision for credit losses	(11,254)	(497)		—	(11,751)
Finance margin	**10,309**	**2,558**		**39**	**12,906**
Personnel expenses	2,984	699		368	4,051
Share-based compensation expense	47	4		136	187
Other expenses	3,863	508	266	640	5,277
Depreciation	255	33		10	298
Amortization - intangible assets	—	333		—	333
Operating income	**3,160**	**981**	**(266)**	**(1,115)**	**2,760**
Unrealized gain on interest rate derivatives	13	—	—	89	102
Unrealized gain on foreign exchange	—	—	—	267	267
Income before taxes	**3,173**	**981**	**(266)**	**(759)**	**3,129**
Tax expense	381	(33)	—	32	380
Net income	**$ 2,792**	**$ 1,014**	**$ (266)**	**$ (791)**	**$ 2,749**
Net cash used in operating activities	$ (60,369)	$ 6,121	$ 79	$ 193	$ (53,976)
Net cash used in investing activities	$ —	$ —	$ —	$ —	$ —
Net cash from financing activities	$ 140,923	$ (2,839)	$ —	$ (80,651)	$ 57,433
Property and equipment expenditures	$ —	$ —	$ —	$ —	$ —

($ thousands)	Equipment Financing - U.S.	Equipment Financing - Canada	Other Operations *(Note 5)*	Corporate Overhead - Canada	Total
	Three months ended December 31, 2018				
Interest revenue on leases and loans	$ 22,823	$ 3,484		$ —	$ 26,307
Ancillary finance and other fee income	2,104	1,001		79	3,184
Interest expense	(6,586)	(1,380)		—	(7,966)
Provision for credit losses	(5,626)	(102)		—	(5,728)
Finance margin	**12,715**	**3,003**		**79**	**15,797**
Personnel expenses	2,673	647		394	3,714
Share-based compensation expense	64	5		166	235
Other expenses	2,682	548	246	569	4,045
Depreciation	144	1		—	145
Amortization - intangible assets	—	333		—	333
Operating income	**7,152**	**1,469**	**(246)**	**(1,050)**	**7,325**
Fair value adjustments - investments	—	—	—	(30)	(30)
Unrealized loss on interest rate derivatives	(380)	—	—	(490)	(870)
Unrealized gain on foreign exchange	—	—	—	117	117
Income before taxes	**6,772**	**1,469**	**(246)**	**(1,453)**	**6,542**
Tax expense	802	274		189	1,265
Net income	**$ 5,970**	**$ 1,195**	**$ (246)**	**$ (1,642)**	**$ 5,277**
Net cash used in operating activities	$ (22,499)	$ 1,965	$ 62	$ (908)	$ (21,380)
Net cash used in investing activities	$ (50)	$ —	$ —	$ —	$ (50)
Net cash from financing activities	$ 63,286	$ 1,166	$ —	$ (45,347)	$ 19,105
Property and equipment expenditures	$ 50	$ —	$ —	$ —	$ 50

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2019 AND 2018

U.S. dollar results for the three months ended December 31, 2019 were converted at an exchange rate of 1.3200, which was the average exchange rate for Q4 2019 (Q4 2018 - 1.3204).

The Company reported consolidated net income of $2.7 million for the three months ended December 31, 2019 compared to $5.3 million in the same period of 2018, a decrease of $2.5 million year-over-year. Operating income decreased $4.6 million year-over-year, net unrealized fair value adjustments and other items decreased net income by $1.2 million compared to 2018, and offsetting these decreases in net income was the decrease in tax expense of $885,000 in the three months ended December 31, 2019 compared to the same period in the prior year.

Free Cash Flow was $6.0 million for the quarter compared to $6.9 million for Q4 of 2018, a decrease of $926,000 of which $2.8 million relates to an increase in net charge-offs year-over-year, and $584,000 relates to the net costs associated with Tandem in its first year of operations.

The table below is primarily provided in order to illustrate the results of operations for Chesswood before any change to the non-cash allowance for credit losses, Tandem's net expenses, and amortization of intangible assets - referred to below as Adjusted Operating Income. In management's opinion, this provides readers with a more meaningful comparison of our operating results from period to period as it eliminates the often large swing in results due to IFRS 9 - the non-cash allowance for credit losses - as well as the unique circumstances around Tandem's start-up in 2019.

The table below for the fourth quarter indicates the same effects as the table in the annual results section of this MD&A, namely that, before the rise in net charge-offs, Chesswood increased its profitability in 2019, compared to the prior year, based on this measure.

Overall, results for the three months ended December 31, 2019, in comparison to the same period in the prior year, were heavily influenced by the change in the net charge-offs as well as changes to two non-cash items; a $3.3 million increase in the change in the allowance for credit losses offset by a $1.15 million change in the mark-to-market valuation on interest rate swaps and caps and other non-cash items.

Average FX rate	1.3200	1.3204	
	Three months ended December 31		
($ thousands)	2019	2018	Change
Revenue(1)	$ 32,851	$ 29,491	$ 3,360
Interest expense	(8,194)	(7,966)	(228)
Net charge-offs	(8,220)	(5,460)	(2,760)
	16,437	16,065	372
Expenses excluding Tandem:			
Personnel	(3,697)	(3,949)	252
Other expenses(1)(4)	(5,234)	(4,045)	(1,189)
Depreciation	(298)	(145)	(153)
Adjusted Operating Income(2)	7,208	7,926	(718)
Change in allowance for credit losses - (increase)	(3,531)	(268)	(3,263)
Tandem net expenses	(584)	—	(584)
Amortization - intangible assets	(333)	(333)	—
Operating Income(3)(4)	2,760	7,325	(4,565)
M2M interest rate derivatives	102	(870)	972
Other non-cash FMV charges and unrealized FX	267	87	180
Income before taxes	$ 3,129	$ 6,542	$ (3,413)
Free Cash Flow(2)	$ 5,986	$ 6,912	$ (926)

(1) IFRS 16 required a gross-up of revenue and other expenses by $1.1 million in Q4 2019, prior year results were not restated.
(2) Free Cash Flow, Adjusted Operating Income and 'Adjusted Operating income before change in allowance and Tandem net expenses' are non-GAAP measures. See "Non-GAAP Measures" above for the definitions. See Adjusted EBITDA, Free Cash Flow, Maximum Permitted Dividend section of this MD&A for a reconciliation of Free Cash Flow to net income.
(3) The financial statements in Q3 2019 were reclassified to be on a consistent basis with prior periods, except for renaming 'income before undernoted items' as 'operating income' and the inclusion of amortization - intangible assets in the calculation of that subtotal. The calculation of these measures has been changed for the current and prior periods to be consistent with the discussion of Operating Income and Adjusted Operating Income in the MD&A.
(4) Case Funding operations were reclassified to continuing operations, as they failed to meet the conditions required for the Discontinued Operations classification. Its net loss of $266,000 for Q4 2019 has been included in Other Expenses. The Q4 2018 comparative results have been reclassified, the net loss of $246,000 has been moved from Discontinued Operations to Other Expenses.

The U.S. equipment finance segment's revenues grew by approximately $1.9 million in the quarter, compared to the same quarter in 2018 (before the gross-up from IFRS 16 of $899,000 for property taxes collected from lessees). The U.S. equipment finance segment's interest revenue on leases and loans totaled $25.3 million, an increase of $2.4 million year-over-year in the three month period, as a result of growth in the net finance receivables outstanding during the period. The U.S. equipment finance segment's average net investment in finance receivables (before ACL) of US$509.1 million increased US$91.6 million or 21.9% in the three months ended December 31, 2019 compared to the same period in the prior year due to both an increase of US$3,500 in average book value of each finance receivable as well as an increase in originations which generated an increase in the average number of finance receivables outstanding during the three month period which increased by approximately 1,070 contracts year-over-year. The average annualized interest revenue yield earned on U.S. based net finance receivables was 15.0% in the three month period compared to 16.6% in the same period of the prior year. The decrease in overall yield percentage is due to the continuing growth in the prime segment of the portfolio that changes the overall product mix toward prime which earns a lower yield than non-prime. The U.S. non-prime portfolio continues to generate strong earnings while the expanding suite of products and portfolio mix continues its shift towards a greater concentration in the prime market. Revenue also increased in the period by $44,000 over the same quarter in the prior year due to the increase in the foreign exchange rate.

The U.S. segment's interest expense increased by $250,000 in the three month period compared to the same period of the prior year. The increase in interest expense is primarily a result of the strong growth in the portfolio of net finance receivables (discussed above) year-over-year, which resulted in the US$93.7 million increase in average debt outstanding during the period. The overall cost of funds year-over-year as a percentage of our average outstanding debt was approximately 1.2% lower than last year for the three month period, driven by lower average benchmark lending rates (LIBOR and US Treasuries) in 2019 and lower cost of funds facilities obtained during the year, particularly the ABS transaction. The change in the foreign exchange rate increased interest expense by $20,000 in the three month period compared to the same period of the prior year.

The U.S. segment's provision for credit losses increased by $5.6 million in the three months ended December 31, 2019 compared to the same period in the prior year as a result of an increase in net charge-offs of $2.5 million and a $3.1 million increase in the ACL. The U.S. segment's annualized net charge-off rate increased to 4.5% in the three months ended December 31, 2019 compared to 4.2% in the same period of the prior year. Pawnee's 31 days past due delinquency at December 31, 2019 compared to September 30, 2019 increased by 0.13% (compared to an increase of 0.06% in the same period in the prior year), which contributed to the $3.1 million increase in the required ACL. In total, the U.S. segment's annualized provision for credit losses rate increased to 6.7% in the three months ended December 31, 2019 compared to 4.7% in the same period of the prior year, mainly due to year-over-year movement in the non-cash ACL.

Personnel expenses in the U.S. segment increased by approximately $311,000 quarter-over-quarter reflecting having approximately 8 more staff compared to the same period in the prior year, due primarily to Tandem’s new complement of 14 employees at December 31, 2019, following its launch earlier this year. While other expenses increased by $1.2 million in the three months ended December 31, 2019 compared to the same period in the prior year, $1.0 million of that increase was a result of the gross-up in expenses from the adoption of IFRS 16 - *Leases*, which was offset by the same increase to revenues. Personnel and other expenses increased by $9,000 in the three month period year-over-year due to the increase in the foreign exchange rate.

Blue Chip generated revenue of $4.4 million during the three months ended December 31, 2019, relatively unchanged from the same period in the prior year. Blue Chip's average net investment in finance receivables decreased approximately $7.8 million in the three months ended December 31, 2019 compared to the same period in the prior year due to a decrease of approximately 1,030 in the average number of finance receivable contracts outstanding year-over-year in the three month period. Competitive market conditions along with the on-boarding of several new senior team members in late 2018, including a new President, have combined to soften Blue Chip's originations as the new team builds new relationships which takes time. The average annualized yield earned on Blue Chip's net finance receivables increased by 0.06% (if the IFRS-16 gross-up is excluded from 2019 revenue) during the period compared to the prior year. Blue Chip's interest expense decreased due to lower average debt outstanding offset by higher cost of debt in 2019 (an increase of 0.07% on avg debt levels) compared to the same period in the prior year.

Blue Chip's provision for credit loss increased $395,000 in the three months ended December 31, 2019 compared to the same period in the prior year. The provision for credit losses was 0.3% of Blue Chip's average finance receivable during the three months ended December 31, 2019, up from 0.09% in the same period in the prior year. Of the $395,000 increase in the provision for credit losses, actual net charge-offs accounted for $267,000 of the increase in the three months ended December 31, 2019 compared to the same period in the prior year. As a percentage of average net finance receivables (before ACL), actual net charge-offs were 0.4% for the three months ended December 31, 2019, up from 0.35% in the same period in the prior year. Blue Chip's other expenses were actually down year-over-year if the IFRS-16 $100,000 gross-up of certain expenses (also included in ancillary finance and other fee income) are excluded, while prior year comparatives were not restated. Blue Chip's operating income totaled

$981,000 in the three months ended December 31, 2019 compared to $1.5 million in the same period in the prior year, a decrease of $488,000, predominantly from the increase in provision for credit losses.

The market value of the Company's investment in Dealnet common shares did not change in the three months ended December 31, 2019 compared to a loss of $30,000 in the same period of 2018, resulting in an increase in net income of $30,000 year-over-year.

The non-cash unrealized mark-to-market adjustment on interest rate derivatives for the three months ended December 31, 2019 totaled a gain of $102,000 compared to a loss of $870,000 in the same period in the prior year, translating to an increase in net income of $972,000 year-over-year.

The provision for taxes for the three months ended December 31, 2019 totaled $380,000 compared to $1.3 million in the same period in the prior year. The $380,000 for the three months ended December 31, 2019 is comprised of a current tax recovery of $3.8 million, a future tax expense of $4.1 million, and $107,000 in withholding tax expense on inter-company dividends. The effective tax rate differs from the Canadian statutory tax rate due to permanent differences between accounting and taxable income, which primarily include share-based compensation expense.

SELECTED FINANCIAL INFORMATION

($ thousands, except per share figures)

	2017(4)(5)	2018(4)(6)	2019
Average foreign exchange rate for the year	1.2986	1.2957	1.3269
Revenue(9)	$ 95,324	$ 110,586	$ 126,975
Finance margin	$ 58,972	$ 64,516	$ 60,098
Operating income(4)(8)	$ 30,064	$ 31,734	$ 18,890
Net income	$ 25,431	$ 22,885	$ 12,691
Basic earnings per share (2)	$1.41	$ 1.28	$ 0.72
Diluted earnings per share (2)	$1.37	$ 1.25	$ 0.71
Foreign exchange rate as at year end	1.2545	1.3642	1.2988
Total assets	$ 643,612	$ 817,812	$ 926,917
Long-term financial liabilities	$ 447,412	$ 638,717	$ 753,399
Adjusted EBITDA (1)(7)	$ 31,860	$ 35,013	$ 29,674
Free Cash Flow(1)(5)(7)	$ 29,617	$ 25,403	$ 22,361
Dividends declared (3)(4)	$ 15,147	$ 15,044	$ 14,883
Dividends declared per share (3)(4)	$0.84	$0.84	$0.84

(1) Adjusted EBITDA and Free Cash Flow are non-GAAP measures. See "Non-GAAP Measures" above for the definitions.
(2) Based on weighted average shares outstanding during the period for income attributable to common shareholders.
(3) Includes dividends on Exchangeable Securities (non-controlling interest, as described below under "Statement of Financial Position").
(4) The financial statements for the third quarter of 2019 were reclassified to be on a consistent basis with prior periods, except for renaming 'income before undernoted items' as 'operating income' and the inclusion of amortization - intangible assets in the calculation of that subtotal. The calculation of these measures has been changed for the current and prior periods to be consistent with the discussion of Operating income and Adjusted Operating Income in this MD&A.
(5) As a result of the 2017 U.S. Tax Cuts and Jobs Act, the U.S. subsidiaries' net deferred tax liabilities were revalued, resulting in a $9.4 million reduction in future taxes expense and deferred tax liabilities.
(6) Provision for credit losses and allowance for credit losses included in the selected financial information for 2018 were prepared in accordance with IFRS 9. Prior period comparatives (2017) were prepared in accordance with IAS 39, and have not been restated. Refer to Note 2 - *New Accounting Standards* and Note 6 - *Finance Receivables* of the December 31, 2018 consolidated financial statements for further details.
(7) Effective for the first quarter of 2018, and in keeping with the revised calculation of Free Cash Flow as agreed upon with one of our significant lenders, the formulas for Consolidated Adjusted EBITDA and Free Cash Flow have been amended to adjust for the non-cash change in finance receivables' allowance for credit losses included in the provisions for credit losses in the income statement as well as the related tax effect of this non-cash change. As a result, on a go-forward basis since the first quarter of 2018, Consolidated 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. Consolidated Adjusted EBITDA and Free Cash Flow for 2017 have **not** been recalculated for the new method used starting in 2018.

(8) At December 31, 2019, Case Funding operations were reclassified to continuing operations, as they failed to meet the conditions required for the Discontinued Operations classification; however, this operation is no longer being pursued and the remaining receivables are being collected. The legal finance receivable is included with Other Assets and its net results has been included in Other Expenses. The prior year results have been reclassified to reflect this classification.

(9) IFRS 16 required a gross-up of revenue and other expenses by $3.8 million during the year ended December 31, 2019. Prior year results were not restated.

As at and for the quarter-ended				2018				2019
($ thousands, except per share figures)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue[6]	$ 25,185	$ 27,012	$ 28,898	$ 29,491	$ 30,757	$ 31,586	$ 31,781	$ 32,851
Finance margin before expenses	15,409	15,736	17,574	15,797	15,158	16,797	15,237	12,906
Operating income[4][5]	7,828	7,680	8,901	7,325	5,185	6,229	4,716	2,760
Income before tax[5]	8,429	8,188	9,099	6,542	4,570	5,661	4,498	3,129
Provision for taxes	2,529	2,572	3,007	1,265	1,499	1,767	1,521	380
Net income	$ 5,900	$ 5,616	$ 6,092	$ 5,277	$ 3,071	$ 3,894	$ 2,977	$ 2,749
Basic earnings per share [2]	$0.33	$0.31	$0.34	$0.30	$0.17	$0.22	$0.17	$0.16
Diluted earnings per share [2]	$0.32	$0.31	$0.33	$0.29	$0.17	$0.22	$0.16	$0.16
Total assets	$ 685,593	$ 748,732	$ 766,310	$ 817,812	$ 830,432	$ 855,121	$ 873,610	$ 926,917
Long-term liabilities	$ 515,590	$ 575,289	$ 589,702	$ 638,717	$ 656,840	$ 683,204	$ 699,926	$ 753,399
Other Data								
Adjusted EBITDA [1]	$ 8,033	$ 9,476	$ 9,224	$ 8,280	$ 7,855	$ 7,588	$ 7,121	$ 7,110
Free Cash Flow[1]	$ 5,601	$ 6,631	$ 6,259	$ 6,912	$ 5,833	$ 5,402	$ 5,140	$ 5,986
Dividends declared [3]	$ 3,784	$ 3,764	$ 3,759	$ 3,737	$ 3,713	$ 3,724	$ 3,723	$ 3,723
Dividends declared per share	$0.21	$0.21	$0.21	$0.21	$0.21	$0.21	$0.21	$0.21

(1) Adjusted EBITDA and Free Cash Flow are non-GAAP measures. See “Non-GAAP Measures” above for the definitions.

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

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

(4) The financial statements for the third quarter of 2019 were reclassified to be on a consistent basis with prior periods, except for renaming 'income before undernoted items' as 'operating income' and the inclusion of amortization - intangible assets in the calculation of that subtotal. The calculation of these measures has been changed for the current and prior periods to be consistent with the discussion of Operating income and Adjusted Operating Income in this MD&A.

(5) At December 31, 2019, Case Funding operations were reclassified to continuing operations, as they failed to meet the conditions required for the Discontinued Operations classification. The legal finance receivable is included with Other Assets and its net results has been included in Other Expenses. The prior year results have been reclassified to reflect this classification.

(6) IFRS 16 required a gross-up of revenue and other expenses by $3.8 million during the year ended December 31, 2019. Prior year results were not restated.

ADJUSTED EBITDA, FREE CASH FLOW, MAXIMUM PERMITTED DIVIDENDS (1)

Management believes that its measurement of Free Cash Flow (in the table below) is a meaningful measure of the performance of the Company's businesses, overall. Free Cash Flow is a calculation that reflects the agreement with one of the significant lenders as to a measure of the cash flow produced by the businesses in a period, as well as management's concurrent 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	2018				2019			
($ thousands)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net income	$ 5,900	$ 5,616	$ 6,092	$ 5,277	$ 3,071	$ 3,894	$ 2,977	$ 2,749
Interest expense	5,257	6,211	7,213	7,966	8,257	8,536	8,676	8,194
Provision for taxes	2,529	2,572	3,007	1,265	1,499	1,767	1,521	380
Amortization and depreciation	632	450	458	478	620	633	632	631
EBITDA (1)	14,318	14,849	16,770	14,986	13,447	14,830	13,806	11,954
Interest expense	(5,257)	(6,211)	(7,213)	(7,966)	(8,257)	(8,536)	(8,676)	(8,194)
Non-cash change in finance receivables allowance for credit losses(4)	(628)	982	(368)	242	1,825	615	1,601	3,532
Share-based compensation expense	262	364	233	235	225	111	172	187
Financing costs - convertible debenture	(29)	—	—	—	—	—	—	—
Interest expense on convertible debenture	(61)	—	—	—	—	—	—	—
Unrealized loss (gain) on investments	151	—	—	30	30	(121)	61	—
Foreign exchange unrealized loss (gain)	36	52	58	(117)	82	63	75	(267)
Unrealized loss (gain) – interest rate derivatives	(759)	(560)	(256)	870	503	626	82	(102)
Adjusted EBITDA (1)(4)	8,033	9,476	9,224	8,280	7,855	7,588	7,121	7,110
Maintenance capital expenditures	(69)	(10)	(56)	(50)	(72)	(212)	(28)	—
Tax impact of change in allowance for credit losses(4)	166	(263)	98	(53)	(451)	(207)	(432)	(744)
Provision for taxes	(2,529)	(2,572)	(3,007)	(1,265)	(1,499)	(1,767)	(1,521)	(380)
Free Cash Flow(1)(4)	$ 5,601	$ 6,631	$ 6,259	$ 6,912	$ 5,833	$ 5,402	$ 5,140	$ 5,986
FCF L4PQ divided by 4 (1)(3)	$ 5,666	$ 7,452	$ 7,596	$ 7,959	$ 7,524	$ 6,389	$ 6,204	$ 5,915
Maximum Permitted Dividends (1)(3)	$ 5,100	$ 6,707	$ 6,837	$ 7,163	$ 6,772	$ 5,751	$ 5,584	$ 5,324
Dividends declared (2)	$ 3,784	$ 3,764	$ 3,759	$ 3,737	$ 3,713	$ 3,724	$ 3,723	$ 3,723

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

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

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

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

STATEMENT OF FINANCIAL POSITION

The total consolidated assets of the Company at December 31, 2019 were $926.9 million, an increase of $109.1 million from December 31, 2018. The U.S. dollar exchange rate on December 31, 2019 was 1.2988, compared to 1.3642 at December 31, 2018. The decrease in the foreign exchange rate represents a decrease of $28.8 million in assets.

Cash totaled $11.0 million at December 31, 2019 compared to $2.3 million at December 31, 2018, an increase of approximately $8.7 million. The Company's objective is to maintain low cash balances, investing any free cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. Please see the Liquidity and Capital Resources overview section of this MD&A for a discussion of cash movements during the years ended December 31, 2019 and 2018.

Other assets totaled $11.1 million at December 31, 2019, an increase of $486,000 from December 31, 2018. Included in this total are assets that relate to the sale of EcoHome Financial Inc. ("EcoHome") in 2016, which totaled $3.2 million at December 31, 2019 compared to $5.4 million at December 31, 2018. The non-cash consideration received on the sale included 6,039,689 Dealnet common shares. The fair value of the Dealnet common shares represents the trading price at each reporting date, and the value at December 31, 2019 totaled $483,000. The warehouse loan receivable from EcoHome at December 31, 2019 totaled $2.7 million. This loan matures in October 2020 and is secured by specific leases and loans as well as general security over all of the assets of EcoHome. The loan has fixed monthly principal payments, and related interest is based on a floating interest rate plus a fixed margin. See Note 5 - *Other Assets* in the audited consolidated financial statements for further details.

Case Funding's legal finance receivables were reclassified from Asset-Held-for-Sale to Other Assets as they failed to meet the conditions required for the Discontinued Operations classification; as they had not been sold within a year of classifying them as discontinued operations. However, these legal finance receivables are still in wind-down mode. The receivables represent funds advanced to plaintiffs, attorneys, and for the purchase of medical liens relating to plaintiff cases. At December 31, 2019, there were 84 advances and loans outstanding totaling $907,000 (December 31, 2018 - 110 advances and loans totaling $1.9 million). The advances and loans are due when the underlying cases are settled. The number of days the receivable is outstanding does not necessarily indicate the likelihood of impairment. It is normal for receivables in the legal finance industry to be outstanding anywhere from six months to 48 months (or longer). The collectability of loans and/or advances made by Case Funding depends on litigation outcomes in the form of judgments and/or settlements. Once an advance/loan is made, the timing of the collection cycle is out of Case Funding's control. Therefore, the timing of actual collections is irregular. As a result of the adoption of IFRS 16 - *Leases* (see Note 2 - *New Accounting Standards* in the audited consolidated financial statements), the property tax charged to the lessee is considered a lease payment and as such the estimated receivable for property taxes has been reclassified to Finance receivables from Other assets. The prior period balance has not been reclassified.

Finance receivables consist of the following:

	December 31, 2019	December 31, 2018
Period end FX rate	1.2988	1.3642
	($ thousands)	
U.S. equipment finance receivables	$ 661,907	$ 559,542
Canadian equipment finance receivables	159,178	169,382
	$ 821,085	$ 728,924

Finance receivables increased by $92.2 million, or 13%, during the year ended December 31, 2019, even though the decrease in the foreign exchange rate had the effect of decreasing finance receivables by $26.8 million since December 31, 2018. In U.S. dollars, U.S.-based finance receivables increased by US$99.5 million, or a 29.5% increase compared to December 31, 2018. Blue Chip's finance receivables decreased by $10.2 million during the year ended December 31, 2019.

The $821.1 million in net investment in leases and loans is net of $30.3 million in allowance for credit losses (or 3.6%) (compared to $23.9 million in allowance for credit losses at December 31, 2018 or 3.19%). Of the $6.4 million increase in the allowance for credit losses, $3.1 million is the result of the increase in portfolio size and $3.3 million is the result of the higher delinquency rates which force an increase in the required allowance for credit losses. Finance receivables are composed of a large number of homogenous leases and loans, with relatively small balances. As such, the evaluation of the allowance for credit losses is performed collectively for the lease and loan receivable portfolios. The measurement of expected credit losses and the assessment of 'significant increase' (per IFRS 9) in credit risk considers information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information also requires judgment when calculating the allowance for credit losses.

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

The Company's right-to-use assets and premises leases payable relate to the operating leases of its office premises at the Pawnee, Tandem and Blue Chip locations and were recorded on January 1, 2019 on adoption of IFRS 16 (see Note 2 and Note 7 in the audited consolidated financial statements for more information). The right-to-use assets are being amortized on a straight-line basis over the life of the underlying premises leases. The premises leases payable are amortized under the effective interest rate method using the interest rate inherent in the underlying leases and lease payments that will include both a principal and interest component. The Company has leases of certain office equipment that are considered of low value that have been excluded. Pawnee's two premises lease extensions from 2025 to 2035 have been excluded from the measurement of lease obligations and right-to-use assets (there could be a re-measurement of the premises lease obligation payable as those years more closely approach).

Intangible assets totaled $17.1 million at December 31, 2019. Of the $1.7 million decrease in intangible assets from December 31, 2018, $1.3 million reflects amortization and $353,000 relates to the decrease in the foreign exchange rate. 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 totaled $40.3 million at December 31, 2019 compared to $41.0 million at December 31, 2018. The $703,000 decrease in goodwill is the result of the decrease in the foreign exchange rate. Goodwill is typically tested annually for impairment unless certain circumstances arise that would require an assessment prior to an annual review. The Company's annual goodwill impairment assessment did not indicate any impairment as at December 31, 2019.

Accounts payable and other liabilities totaled $16.8 million at December 31, 2019 compared to $15.6 million at December 31, 2018, an increase of $1.2 million. See Note 11 - *Accounts Payable and Other Liabilities* in the consolidated financial statements for more detail on the balances that comprise accounts payable and other liabilities.

Borrowings totaled $714.7 million at December 31, 2019 compared to $601.5 million at December 31, 2018, an increase of $113.2 million. The $113.2 million increase in borrowings is supporting $92.2 million of growth in net finance receivables. The decrease in the foreign exchange rate since December 31, 2018, led to a $25.0 million decrease in the borrowing amount.

Chesswood was utilizing US$156.1 million of its US$250.0 million revolving credit facility at December 31, 2019 compared to US$178.7 million at December 31, 2018. This revolving credit facility allows Chesswood to internally manage the allocation of capital to its financial services businesses in Canada and the United States. The credit facility supports growth in finance receivables, provides for Chesswood's working capital needs and for general corporate purposes. The facility, available in U.S. or Canadian dollars, also improves the Company's financial flexibility by centralizing treasury management and making the provision of capital to individual businesses more efficient. During the third quarter the facility was extended from December 2020 and now matures in December 2022 and includes a $50 million accordion. During the fourth quarter, the outstanding balance of this facility was reduced by US$105.4 million from the proceeds of Pawnee's securitization.

The Company's borrowings under the revolving credit facility are subject to, among other things, adhering to certain percentages of eligible gross lease/loan receivables. The credit facility is secured by substantially all of the Company's assets and contains covenants (including the maintaining of leverage and interest coverage ratios). Chesswood was in full compliance with all its bank covenants at December 31, 2019 and December 31, 2018 (and throughout the periods).

Pawnee has two non-recourse asset-backed loans that are secured by a portion of Pawnee's prime equipment finance receivable portfolio. At December 31, 2019, the balance of these loans was US$48.4 million compared to the original value of the loans of US$125.0 million. The repayment terms are based on the cash flow of the underlying leases and loans. Proceeds from these non-recourse facilities were applied to Chesswood's corporate credit facility. As part of the servicing agreements related to these non-recourse facilities, Pawnee is to comply with leverage ratio, interest coverage ratio, and tangible net worth covenants. At December 31, 2019 and December 31, 2018, (and throughout the periods), Pawnee was in compliance with its covenants. The interest rate risk on these non-recourse facilities is mitigated by interest rate caps for an amount that is not less than 80% of the aggregate outstanding balance.

In June 2019, Pawnee obtained a credit facility with annual capacity of US$80 million with a life company that expires in June 2027. The funder makes approved advances to Pawnee 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. Pawnee maintains certain cash reserves as credit enhancements or provides letters of guarantee in lieu of those same cash reserves. Pawnee retains the servicing of these finance receivables. The proceeds from advances under this facility are applied to Chesswood's corporate credit facility. The balance of this facility at December 31, 2019 was US$16.6 million with an effective interest rate of 4.43% (including the amortization of upfront costs).

During the fourth quarter, Pawnee completed a US$254 million asset-backed securitization which has a fixed term and fixed interest rate, and is collateralized by receivables from Pawnee's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay down Pawnee's warehouse line and Chesswood's senior revolving credit facility.

Pawnee's US$250 million warehouse facility, which was entered into in August 2018, funds most of Pawnee's prime receivables before they are securitized and provides an improved cost of capital than Chesswood's revolving facility, which was primarily structured for non-prime commercial leases and loans and will continue to be utilized primarily for those originations. At December 31, 2019, Pawnee was not utilizing any of this facility (December 31, 2018 - US$83.0 million), because the outstanding balance of this facility was reduced by the proceeds of Pawnee's asset-backed securitization. During the fourth quarter of 2019, the maturity was extended from August 2020 to September 2021 and expires on September 2024.

Blue Chip has entered into master purchase and servicing agreements and bulk lease financing facilities with various financial institutions and life insurance companies. Funds under each securitization facility are advanced to Blue Chip on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. Interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Blue Chip maintains either certain cash reserves as credit enhancements or provides letters of guarantee in return for release of cash reserves. Blue Chip continues to service these finance receivables on behalf of these funders. As at December 31, 2019, Blue Chip had access to at least $115.8 million of committed bulk financing lines of funding from both financial and insurance companies, in addition to access to Chesswood's revolving facility. Blue Chip must meet certain financial covenants to support these securitization and bulk lease financing facilities. As at December 31, 2019 and December 31, 2018 (and throughout the periods), Blue Chip was in compliance with all covenants.

The $12.1 million (December 31, 2018 - $16.8 million) in customer security deposits relates to security deposits predominantly held by Pawnee. Pawnee's non-prime contracts require 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). Historically, a very high percentage of such deposits are either applied to the purchase option of the leased equipment at the end of the lease term or used to offset charge-offs.

The Company entered into US$40.0 million of interest rate swap agreements that provide for payment of an annual fixed rate, in exchange for a LIBOR-based floating rate amount. The interest rate swaps are intended to offset a portion of the variable interest rate risk on the credit facility. If the Company had terminated the swaps at December 31, 2019, the Company would have realized a loss of $293,000 compared to a gain of $455,000 at December 31, 2018. Pawnee's non–recourse asset–backed facility requires Pawnee to mitigate interest rate risk by entering into an interest rate cap for a notional amount of not less than 80% of the aggregate outstanding balance. The interest rate cap is tied to the repayment terms of the underlying finance receivables portfolio supporting the Pawnee facility, through the maturity date, with a floating index rate based on USD–LIBOR–BBA, but subject to a capped fixed rate. At December 31, 2019, the fair value of the interest rate caps was an asset of $3,200 (2018 - $441,000 asset). During the third quarter, Pawnee entered into a US$40.0 million interest rate cap agreement that provides for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. The interest rate cap is intended to offset a portion of the variable interest rate risk on Pawnee's warehouse facility (see Note 12(b)(*i*) - *Borrowings*). The interest rate cap agreement matures on July 25, 2022. At December 31, 2019, the fair value of the swap was an asset of $57,000 (December 31, 2018 - n/a). See Note 14 - *Interest rate derivatives* for further details.

Future taxes payable at December 31, 2019 totaled $23.1 million compared to $20.4 million at December 31, 2018, an increase of $2.7 million. The increase in future taxes payable is comprised of $3.5 million in future tax expense and a decrease of $876,000 due to the change in the foreign exchange rate. Taxes at Pawnee and Blue Chip 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 subsidiary’s assets and liabilities and their corresponding tax basis.

At December 31, 2019, there were 16,247,961 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of $104.0 million. Including the common shares issuable in exchange for the Exchangeable Securities, Chesswood had 17,726,498 common shares outstanding.

In August 2018, the Company's Board of Directors approved the repurchase for cancellation of up to 1,043,895 of the Company’s outstanding common shares for the period commencing August 25, 2018 and ending on August 24, 2019. From August 25, 2018 to December 31, 2018, the Company repurchased 206,340 of its common shares under this normal course issuer bid at an average cost of $10.2412 per share. From January 1, 2019 to August 24, 2019, the Company repurchased 78,020 of its shares under the normal course issuer bid at an average cost of $10.3583 per share. The excess of the purchase price over the average stated value of common shares purchased for cancellation was charged to retained earnings.

In August 2019, the Company's Board of Directors approved the repurchase for cancellation of up to 1,031,791 of the Company’s outstanding common shares for the period commencing August 26, 2019 and ending on August 25, 2020. From August 26, 2019 to December 31, 2019, no common shares were repurchased under this normal course issuer bid. Decisions regarding the timing of purchases are based on market conditions and other factors.

Non-controlling interest consists of 1,274,601 Class B common shares and 203,936 Class C common shares (the "Exchangeable Securities") of Chesswood US Acquisitionco Ltd. (“U.S. Acquisitionco”), which were issued as partial consideration for the acquisition of Pawnee and are fully exchangeable at any time for the Company's common shares, on a one-for-one basis, through a series of steps. 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 (even though they have no voting powers in the subsidiary, have voting powers only in the parent company, and are fully exchangeable into the equity of the parent for no additional consideration and receive the same dividends as the common shares of the parent company). When the non-controlling interest was moved from Other Liabilities back to the shareholders’ equity section on January 1, 2011 (the date Chesswood Income Fund was converted into the Company), per IFRS, the value attributed to the non-controlling interest was just the fair value of the equivalent common shares (closing value of the units of Chesswood Income Fund on the Toronto Stock Exchange on December 31, 2010) as the Exchangeable Securities are fully exchangeable into the Company's common shares. Their portion of the cumulative income and dividends from May 2006 to January 1, 2011 was not allocated to non-controlling interest; however, their portion of income and dividends has since been allocated to non-controlling interest.

Reserves represent the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised at December 31, 2019. There were 2,553,939 options and 44,000 restricted share units outstanding at December 31, 2019.

Accumulated other comprehensive income is the cumulative translation difference between the exchange rate on January 1, 2010, the IFRS adoption date, and the exchange rate on December 31, 2019 of self-sustaining foreign operations net assets.

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' credit and securitization and bulk lease financing facilities. The primary uses of cash for the Company and its subsidiaries are to fund business operations, equipment leases and loans, support working capital, long-term debt principal repayments, share repurchases and dividends.

At December 31, 2019, the Company had approximately US$93.9 million in additional borrowings available under Chesswood's revolving credit facility, US$313.4 million available under all of Pawnee's facilities and at least $115.8 million under Blue Chip's securitization and bulk lease financing facilities, to fund business operations.

The Chesswood revolving credit facility allows borrowings up to US$250.0 million. On September 30, 2019, this facility was renewed and extended to December 2022 and now also includes an additional accordion feature that can expand the facility by up to US$50 million in additional borrowings, to US$300 million. This credit facility is used to provide funding for operations (i.e. to provide financing for the purchase of assets that are to be the subject of leases and loans and support working capital). 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 change in the allowance for credit losses. Please refer to the definitions of Non–GAAP Measures provided in this MD&A.

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, changes in working capital and 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 and not investing or financing activities. Cash flow from investing activities comprises payments relating to the acquisition of companies, net of cash proceeds from the sale of discontinued operations, and payments relating to the purchase of property and equipment. Cash flow from financing activities comprises changes in borrowings, payment of dividends, proceeds from stock issues, exercise of stock options, and the purchase and sale of treasury stock.

For the year ended December 31, 2019

In the year ended December 31, 2019, there was an increase in cash of $8.7 million compared to a decrease in cash of $1.3 million in the same period in the prior year as a result of the reasons discussed below.

The Company's operations utilized $109.1 million of cash during the year ended December 31, 2019 compared to $116.1 million in the same period in the prior year, a decrease in the utilization of cash of $7.0 million.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, and principal payments) totaled $205.7 million in the year ended December 31, 2019 compared to $207.2 million in the same period in the prior year, a decrease of $1.5 million. The Company funded the growth in finance receivables from excess opening cash, cash from operations and $141.8 million in net borrowings (included in Financing Activities) in the year ended December 31, 2019 (2018 - $158.5 million).

In the year ended December 31, 2019, the Company made tax payments of $6.5 million compared to $3.6 million in the year ended December 31, 2018, an increase of $2.9 million year-over-year.

The Company's finance receivables originated have an average term of approximately 40 months. The finance receivables will generate earnings over the next 40 months, with only a portion in the current operating period. Our ability to borrow under our various credit facilities is directly linked to our finance receivable portfolio. The funds borrowed to support the growth in the finance receivables is shown under Financing Activities. This required accounting disclosure, of including an investment in a long-term asset in Operating Activities and the direct financing thereof under another category (Financing Activities), results in a 'cash flow from operations' in the current period which does not match our funding of new receivables with the borrowings that support them. If the cash utilized to fund the growth in finance receivables and net tax payments (discussed above) was matched and included with the related borrowing activities in financing activities or in investing activities, the operating activities generated $103.1 million in cash from net income, non-cash items and other working capital changes compared to $94.7 million in the same period in the prior year, an increase of $8.4 million compared to the prior year.

On January 17, 2018, Chesswood repaid, in cash, the $20 million outstanding principal and accrued and unpaid interest to debenture holders as the redemption amount.

Capital expenditures totaled $312,000 (2018 - $212,000) during the year ended December 31, 2019.

The Company received $285,000 (2018 - $571,000) from the exercise of options by employees during the year ended December 31, 2019.

The Company repurchased 78,020 of its common shares under normal course issuer bids at an average cost of $10.3583 during the year ended December 31, 2019 totaling $808,000 (2018 - 293,096 shares at an average cost of $10.5277 totaling $5.2 million).

The Company paid dividends to the holders of its common shares and Exchangeable Securities in the amount of $14.9 million during the year ended December 31, 2019 relatively unchanged from the prior year.

For the three months ended December 31, 2019

In the three months ended December 31, 2019, there was an increase in cash of $3.3 million compared to a decrease in cash of $2.3 million in the same period in the prior year as a result of the reasons discussed below.

The Company's operations utilized $54.0 million of cash during the three months ended December 31, 2019 compared to $21.4 million in the same period in the prior year, an increase in the utilization of cash of $32.6 million.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, and principal payments) totaled $83.3 million in the three months ended December 31, 2019 compared to $42.5 million in the same period in the prior year, a decrease of $40.8 million. The Company funded the growth in finance receivables from excess opening cash, cash from operations and $65.8 million in net borrowings (included in Financing Activities) in the three months ended December 31, 2019 (Q4 2018 - $25.4 million).

In the three months ended December 31, 2019, the Company made tax payments of $1.1 million compared to $1.4 million in the same period in the prior year, a decrease in cash utilization of $301,000 year-over-year.

If the cash utilized to fund the growth in finance receivables and net tax payments (discussed above) was included in financing activities along with the related borrowing activity or investing activities, the operating activities generated $30.4 million in cash from net income, non-cash items and other working capital changes compared to $22.5 million in the same period in the prior year, an increase of $7.9 million from the prior year.

Capital expenditures totaled $0 (Q4 2018 - $50,000) during the three months ended December 31, 2019.

The Company paid dividends to the holders of its common shares and Exchangeable Securities in the amount of $3.7 million during the three months ended December 31, 2019 relatively unchanged from 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 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 relative to leverage and/or working capital.

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, and its ability to continue to access funding is an important condition to its future success.

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

Advances on the Chesswood revolving credit facility may be drawn at any time, subject to compliance with borrowing base calculations and compliance with the covenants set out therein. As of December 31, 2019, US$156.1 million was outstanding under the US$250.0 million facility, which included US$10.5 million of letters of credit.

Dividends to Shareholders

The Company declared monthly cash dividends of $0.07 per common share from January 2019 to December 31, 2019.

Dividend Policy

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

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

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

Minimum Payments The following are the contractual payments and maturities of financial liabilities and other commitments as at December 31, 2019 (including interest):

($ thousands)	2020	2021	2022	2023	2024	2025 and beyond	Total
Accounts payable and other liabilities	$ 16,835	$ —	$ —	$ —	$ —	$ —	$ 16,835
Premises leases payable (a)	696	719	729	740	570	239	3,693
Borrowings (b)	207,433	166,315	302,807	64,151	18,269	436	759,411
Customer security deposits (c)	3,896	3,793	2,899	2,214	135	10	12,947
Interest rate swaps	57	236	—	—	—	—	293
	228,917	171,063	306,435	67,105	18,974	685	793,179
Service contracts	285	220	113	2	—	—	620
Total commitments	$ 229,202	$ 171,283	$ 306,548	$ 67,107	$ 18,974	$ 685	$ 793,799

a. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2025. The amounts above exclude adjustment for discounting premise lease payable.
b. Borrowings are described in Note 12 - *Borrowings* in the consolidated financial statements, and include Chesswood's corporate credit facility and Pawnee's warehousing facility which are lines-of-credit; as such the balances can fluctuate. The amount

above includes fixed interest payments on Pawnee and Blue Chip's facilities and estimated interest payments on the Chesswood corporate credit facility, assuming the interest rate, debt balance and foreign exchange rate at December 31, 2019 remain the same until its expiry date of December 2022. The amount owing under Chesswood's corporate credit facility is shown in year of maturity, all other expected borrowings payments are based on the underlying finance receivables supporting the borrowings.

c. The Company's experience has shown the actual contractual payment streams will vary depending on a number of variables, including: prepayment rates, charge-offs and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.
d. Please see Note 6(b) - *Finance Receivables* for the expected collections of finance receivables over the same time period. See Note 12(d) - *Borrowings* - for the amount of restricted cash in collections accounts that will be applied to debt in the following month.

The Company has no material "off-balance sheet" financing obligations, except for US$10.5 million in letters of guarantee. Other commitments are disclosed in Note 17 - *Contingent Liabilities and Other Financial Commitments* in the 2019 audited consolidated financial statements.

OUTLOOK

At the time of writing, Covid-19 is rampant, most sports and entertainment organizations have shuttered their facilities and businesses are all scrambling to determine their contingency plans for operating in the case of contamination in their workforce and/or pre-emptive decisions to have staff work remotely. We are no different. We have plans in place today that focus on having our inside staff working remotely (as some are already doing) and the processes for that are underway. We believe that Covid-19 may negatively affect our portfolio performance, and ultimately charge-offs, however there is no way to determine that at this time nor to assess what the potential effects might be. Today, Chesswood has a strong balance sheet with more than $150 million of equity, modest leverage with our banks, significant liquidity and availability in each of our funding facilities.

We continue to believe that we are in the very late stages of the credit cycle with a correction that seems very close, and perhaps even closer with the assistance of Covid-19. As a result, we remain cautious in underwriting today, especially at Pawnee.

Our Canadian portfolio, while much smaller than our U.S. portfolio, isn't expected to grow much in 2020 as it continues to integrate some new management and deal with the effects of Covid-19, while competing mostly against bank-owned equipment finance businesses.

RISK FACTORS

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

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

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 and Other Origination Sources

Pawnee, Tandem and Blue Chip have formed relationships with hundreds of origination sources, comprised primarily of equipment finance brokerage firms and vendors/distrubtors. They rely on these relationships to generate applications and originations. The failure to maintain effective relationships with their brokers and other origination sources or decisions by them to refer transactions to, or to sign contracts with, other financing sources could impede their ability to generate transactions, including Canada where Blue Chip gets a substantial portion of its origination volume from a few large equipment brokerage firms.

Tandem was only recently launched and 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.

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 monthly lease/loan payment amounts than to the effective rates of interest charged.

Portfolio Delinquencies; Inability to Underwrite Lease and Loan Applications

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

Analogous risks are faced by Blue Chip and Tandem 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 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.

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

The results of the Company's subsidiaries may be negatively impacted by various economic factors and business conditions, including the level of economic activity in the markets in which they operate. To the extent that economic activity or business conditions deteriorate, originations may decrease; and delinquencies and credit losses may increase. Delinquencies and credit losses generally increase during economic slowdowns or recessions such as that experienced in the United States from 2008-2013.

As our operating companies extend credit primarily to small businesses, 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 finance industry 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 political unrest which impacts upon the prices of oil and other commodities or otherwise) can ultimately significantly impact upon North American economic conditions which, in turn, could result in the adverse implications described in the first paragraph under this heading. Similarly, natural disasters in any part of the world may directly (through impact on supplies of goods or equipment to our businesses) or indirectly impact Chesswood's operations or results. Further, tariffs or duties imposed by a country could adversely impact upon industries in which companies to which our operating companies have provided financing or seek to provide financing, which may impact Chesswood's operations or results.

As of today, Canada and the U.S. are only weeks into the new Coronavirus pandemic. Financial markets and businesses across many industries are already experiencing significant challenges and it will likely be some time before the duration and ultimate severity of the impact will be known. Chesswood expects that, at a minimum, there will be some period of decreased originations and increased delinquencies/charge-offs, perhaps significant.

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

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

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

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

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

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

If judicial or other governmental rulings or actions or interpretations of laws adverse to the equipment finance industry and\or the working capital loan industry 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 financed from our operating companies, there could be a material adverse impact on our business, financial condition and results of operations, and the amount of cash available for dividends to our shareholders.

"Characterization" Risks

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

Case Funding's non-recourse advances may be re-characterized in certain jurisdictions as loans, or determined to be improper fee-splitting, which would adversely affect the collectability of the advances.

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 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 practices, whether or not our operating companies have actual legal responsibility for broker conduct. Any of these broker related risks can impair our operating companies' rights with respect to recovering the rents and/or property under leases and loans. Pawnee has not been involved in any claims or litigation in relation to such risks and Pawnee does not conduct lien searches in the name of, require lien releases from, or file financing statements against the lease broker.

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 core product and US$35,000 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 Blue Chip and Tandem.

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

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

Licensing Requirements

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

Fees, Rates and Charges

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

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

Insurance

To ensure that the lessor or lender of the leased or financed property suffering a loss receives the related insurance proceeds, the lease or loan also requires that the lessor or lender be named as a loss payee under the requisite casualty coverage. However, each lessee/borrower is ultimately relied upon to obtain and maintain the required coverage for financed equipment 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 equipment, 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 Pawnee, Blue Chip or Tandem, could be deemed liable for harm to persons or property in connection with, among other things, the ownership or leasing of the leased property, or the conduct or responsibilities of the parties to the lease relating to that property. The liability may be contractual (such as warranties regarding the equipment), statutory (such as federal, state or provincial environmental liability) or pursuant to various legal theories (such as negligence). There have been cases in which a lessor has been held responsible for damage caused by leased property without a showing of negligence or wrong-doing on the lessor's part. Even if a lessor ultimately succeeds in defending itself or settling any related litigation, the related costs and any settlement amount could be significant.

Liability for Misuse of Leased Equipment

There is no practical manner to ensure that leased equipment or a leased vehicle will be used, maintained or caused to comply with applicable law. Pawnee, Blue Chip and Tandem 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 Pawnee, Blue Chip or Tandem, as applicable, to liability to third parties.

Estimates Relating to Value of Leases

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

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

Competition from Alternative Sources of Financing

The business of micro and small-ticket equipment finance in the United States is highly fragmented and competitive. Pawnee focuses some its business on the segment of the micro and small-ticket equipment finance market involving start-up businesses that have not 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. Pawnee's main competition comes from equipment finance companies, banks, commercial lenders, home equity loans, and credit cards.

As Pawnee expands its suite of products and targets potential lessees/borrowers with better credit scores, it faces 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.

Many of the firms and institutions providing financing alternatives are substantially larger than Pawnee, Blue Chip and Tandem 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 Pawnee, Blue Chip and Tandem. A lower cost of funds could enable a competitor to offer leases and loans with pricing lower than that of Pawnee, Blue Chip or Tandem, 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 and small-ticket equipment finance market, new competitors could enter this market 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 Pawnee, Blue Chip or Tandem's business in a significant manner.

Fraud by Lessees, Borrowers, Vendors or Brokers

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. 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 equipment. Our operating companies may be subject to risks related to broker practices whether or not our operating companies have actual legal responsibility for broker conduct. Increased rates of fraud could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Protection of Intellectual Property

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

Uncertainty of Outcome of Cases

The returns on loans and/or advances made by Case Funding, and thus the returns for Chesswood, depend on litigation outcomes in the form of judgments or settlements. Litigation of individual cases entails a large degree of uncertainty. It is also possible that a claimant may die or abandon his or her case, that the lawyer may abandon the plaintiff's case, or that the defendant, the law firm, or the defendant's insurance carrier may declare bankruptcy. Case Funding is also reliant on the capabilities of the attorneys handling the cases in which it provides funding to effectively litigate claims with due skill and care. Although Case Funding sought to weigh such uncertainties in the due diligence conducted before making its funding decisions, and intended to reduce risk by funding in a broad array of cases, there can be no assurance that the outcome of any given litigated claim or basket of claims can be predicted, whether or not the probabilities were correctly assessed by Case Funding.

Uncertainty in the Timing of Litigation Settlements and Awards

The nature of litigation recoveries, including the timing and amounts recovered, are outside the control of Case Funding. Individual claims may be resolved over drastically varying times: for example, as short as one month, or longer than three years. Case Funding will be required to wait for an indeterminate period of time after an advance/loan is made to fully collect money from judgment recoveries.

Case Funding May Have Difficulty Collecting on its Investments

If plaintiffs or law firms to which Case Funding has advanced or loaned funds do not pay Case Funding pursuant to the terms of the advances/loans made, Case Funding may be required to pursue costly legal actions to collect. It is also possible that a plaintiff's attorney or a law firm may attempt to renegotiate the ultimate amount owed to Case Funding or that there is not enough proceeds from the case to repay Case Funding in full. In these situations, Case Funding may have to accept a smaller return than anticipated in order to accommodate and maintain business relationships or avoid litigation. In either event, the inability of Case Funding to collect or the necessity of legal action to collect, could harm or reduce the potential cash flow.

Failure of Computer and Data Processing Systems

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

Security Risks

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

Risks Related to our Structure and Exchange Rate Fluctuations

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

Unpredictability and Volatility of Share Price

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

Leverage, Restrictive Covenants

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

Possible Acquisitions

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

Restrictions on Potential Growth

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

Canadian Income Tax Matters

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

United States Income Tax Matters

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

On December 22, 2017, the U.S. government enacted new tax legislation effective January 1, 2018. The legislation made broad and complex changes to the U.S. tax code. The tax provision recorded by the Company in our financial statements may change in the future following a more comprehensive review of the legislation, including implementation of the associated rules and regulations and supporting guidance from the Internal Revenue Service and other bodies, and as a result of any future changes or amendments to this legislation.

Environmental risk

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Net Investment in Leases

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

Allowance for Credit Losses

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

As of January 1, 2018, the Company adopted IFRS 9 which replaced the incurred loss model with an expected credit loss ('ECL') impairment method for calculating allowance for credit losses. Please see Note 2 - *New Accounting Standards* in the 2018 audited consolidated financial statements for further disclosure.

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.

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

The Company determined the previous methodology under IAS 39 covered Stages 2 and 3 and retained that methodology for leases and loans in those stages. For Stage 2, leases and loans are considered to have experienced a significant increase in credit risk since initial recognition if they are delinquent for over 30 days and further includes approximately 15% of the non-prime 1-30 day delinquent leases and loans.

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

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

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

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

Impairment of Goodwill

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

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

Share-based Payments

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

Interest rate derivatives

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

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

Taxes

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

Leased Premises

As of January 1, 2019, the Company adopted IFRS 16 *Leases*, which replaced IAS 17 *Leases*. See Note 2 - *New Accounting Standards* to these audited consolidated financial statements. IFRS 16, *Leases* removed the distinction between finance and operating leases and requires lessees to recognize right-of-use assets and lease liabilities for all leases, subject to certain optional exceptions, on the commencement of a lease.

On January 1, 2019, the Company recorded a right-of-use asset and a corresponding lease liability of $3.8 million, with no net impact on retained earnings. Under the new accounting policy, the nature of expenses related to those leases changed from straight-line operating lease expense to a depreciation charge for the right-to-use assets and interest expense on the lease liabilities.

RELATED PARTY TRANSACTIONS

See Note 24 - *Related Party Transactions* in the audited consolidated financial statements for the disclosure of key management compensation.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

The Certifying Officers have assessed the design effectiveness of the Company's DC&P as at December 31, 2019 and have concluded that the design of the Company's DC&P was effective as at that date.

The Certifying Officers have also evaluated the operating effectiveness of the Company's DC&P and have concluded that the Company's DC&P was operating effectively as at December 31, 2019.

Internal Control over Financial Reporting

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

The Certifying Officers have assessed the design effectiveness of the Company's ICFR as at December 31, 2019 and have concluded that the design of the Company's ICFR was effective as at that date.

The Certifying Officers have also evaluated the operating effectiveness of the Company's ICFR and have concluded that the Company's ICFR was operating effectively as at December 31, 2019.

During the quarter ended December 31, 2019, 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 controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

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

MARKET FOR SECURITIES

The Company's common shares are traded on the Toronto Stock Exchange under the symbol CHW. The following table summarizes the high and low sales prices of the common shares and the average daily trading volume for each month in the year ended December 31, 2019.

	Common Shares		
	High	Low	Average Daily Volume
January	$11.90	$10.25	25,126
February	$11.94	$11.41	18,200
March	$12.45	$10.83	24,820
April	$11.15	$10.10	19,576
May	$10.52	$9.64	20,589
June	$10.30	$9.82	16,098
July	$10.10	$9.78	16,840
August	$9.82	$8.41	24,376
September	$9.90	$8.75	19,340
October	$11.06	$9.30	21,455
November	$11.10	$8.95	28,188
December	$10.73	$9.90	18,315
	$12.45	$8.41	21,136

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Chesswood Group Limited (the "Company") and all of the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with International Financial Reporting Standards ("IFRS"). These statements include some amounts that are based on best estimates and judgment. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly, in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the consolidated financial statements. The MD&A also includes information regarding the impact of current transactions and events, sources of liquidity and capital resources, operating trends, risks and uncertainties. Actual results in the future may differ materially from our present assessment of this information because future events and circumstances may not occur as expected.

The Board of Directors (the "Board") is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit and Governance Committee.

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

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

As more fully detailed in the accompanying MD&A, the Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of the Company's DC&P and ICFR as at December 31, 2019 and have concluded that the Company's DC&P and ICFR are effective as at financial year end.

The Audit and Governance Committee is appointed by the Board and is comprised of independent Directors. The Committee meets periodically with Management and the independent external auditors, to discuss disclosure controls and internal control over the financial reporting process, auditing matters and financial reporting issues to satisfy itself that each party is properly discharging its responsibilities. The Audit and Governance Committee reviews the Company's annual consolidated financial statements, the external auditors' report and other information in the Annual Report, and reports its findings to the Board for consideration by the Board when it approves the consolidated financial statements for issuance to the shareholders.

The consolidated financial statements have been audited by BDO Canada LLP, the independent external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. The Independent Auditor's Report outlines the nature of their examination and their opinion on the consolidated financial statements. BDO Canada LLP has full and unrestricted access to the Audit and Governance Committee to discuss their audit and related findings as to the integrity of the financial reporting.

Barry Shafran
President & CEO
March 18, 2020

Independent Auditor's Report

To the Shareholders of
Chesswood Group Limited

Opinion

We have audited the consolidated financial statements of Chesswood Group Limited and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- The information, other than the financial statements and our auditor's report thereon, included in the Annual Report, and
- The information included in the Management's Discussion and Analysis for the year ended December 31, 2019.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management's Discussion and Analysis and Annual Report prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kerri Plexman.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

March 18, 2020
Toronto, Ontario

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(in thousands of dollars)

	Note		**December 31, 2019**		December 31, 2018
ASSETS					
Cash		**$**	**11,032**	$	2,326
Restricted funds	*12(d)*		**21,751**		13,598
Other assets	*5*		**11,124**		10,638
Finance receivables	*6*		**821,085**		728,924
Interest rate derivatives	*14*		**60**		896
Right-to-use assets	*7*		**3,024**		—
Property and equipment	*8*		**1,427**		1,628
Intangible assets	*9*		**17,080**		18,765
Goodwill	*10*		**40,334**		41,037
TOTAL ASSETS		**$**	**926,917**	$	817,812
LIABILITIES					
Accounts payable and other liabilities	*11*	**$**	**16,835**	$	15,600
Premises leases payable	*7*		**3,222**		—
Borrowings	*12*		**714,691**		601,525
Customer security deposits	*13*		**12,106**		16,773
Interest rate derivatives	*14*		**293**		—
Deferred tax liabilities	*15*		**23,087**		20,419
			770,234		654,317
SHAREHOLDERS' EQUITY					
Common shares	*19*		**103,963**		103,576
Non-controlling interest	*20*		**13,130**		13,713
Share-based compensation reserve	*21*		**5,509**		5,414
Accumulated other comprehensive income			**13,956**		18,350
Retained earnings			**20,125**		22,442
			156,683		163,495
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$**	**926,917**	$	817,812

Approved by the Board of Directors

Frederick W Steiner, Chairman
Board of Directors

Samuel Leeper
Chairman, Audit, Finance and Risk Committee

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(in thousands of dollars, except per share amounts)

	Note	2019	2018
Finance revenue			
Interest revenue on finance leases and loans		**$ 110,603**	$ 97,927
Ancillary finance and other fee income		**16,372**	12,659
		126,975	110,586
Finance expenses			
Interest expense		**33,663**	26,647
Provision for credit losses	*6*	**33,214**	19,423
		66,877	46,070
Finance margin		**60,098**	64,516
Expenses			
Personnel expenses		**19,569**	16,497
Other expenses		**19,123**	14,267
Depreciation	*7, 8*	**1,184**	506
Amortization - intangible assets		**1,332**	1,512
		41,208	32,782
Operating income		**18,890**	31,734
Unrealized gain (loss) on investments held	*5*	**30**	(181)
Financing costs - convertible debentures		**—**	29
Unrealized gain (loss) on interest rate derivatives	*14*	**(1,109)**	705
Unrealized gain (loss) on foreign exchange		**47**	(29)
Income before taxes		**17,858**	32,258
Tax expense	*15*	**(5,167)**	(9,373)
Net income		**$ 12,691**	$ 22,885
Attributable to:			
Common shareholders		**$ 11,633**	$ 20,996
Non-controlling interest		**$ 1,058**	$ 1,889
Income from operations per share:			
Basic	*23*	**$ 0.72**	$ 1.28
Diluted	*23*	**$ 0.71**	$ 1.25

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(in thousands of dollars)

		2019		2018
Net income	**$**	**12,691**	$	22,885
Other comprehensive income:				
Unrealized gain (loss) on translation of foreign operations		**(4,793)**		8,255
Comprehensive income	**$**	**7,898**	$	31,140
Attributable to:				
Common shareholders	**$**	**7,239**	$	28,570
Non-controlling interest	**$**	**659**	$	2,570

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(in thousands of dollars)

	Note	Common shares	Common shares	Non-controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	2019 Total
		(# '000s)						
Shareholders' equity - December 31, 2018		**16,229**	**$ 103,576**	**$ 13,713**	**$ 5,414**	**$ 18,350**	**$ 22,442**	**$ 163,495**
Net income		**—**	**—**	**1,058**	**—**	**—**	**11,633**	**12,691**
Dividends declared	22	**—**	**—**	**(1,242)**	**—**	**—**	**(13,640)**	**(14,882)**
Share-based compensation	21	**—**	**—**	**—**	**695**	**—**	**—**	**695**
Exercise of restricted share units	21	**44**	**482**	**—**	**(482)**	**—**	**—**	**—**
Exercise of options	21	**53**	**403**	**—**	**(118)**	**—**	**—**	**285**
Repurchase of common shares under issuer bid	19	**(78)**	**(498)**	**—**	**—**	**—**	**(310)**	**(808)**
Unrealized loss on translation of foreign operations			**—**	**(399)**	**—**	**(4,394)**	**—**	**(4,793)**
Shareholders' equity - December 31, 2019		**16,248**	**$ 103,963**	**$ 13,130**	**$ 5,509**	**$ 13,956**	**$ 20,125**	**$ 156,683**

	Note	Common shares	Common shares	Non-controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	2018 Total
		(# '000s)						
Shareholders' equity - December 31, 2017		16,575	$ 105,208	$ 13,230	$ 5,295	$ 10,776	$ 26,712	$ 161,221
Impact of adopting IFRS 9		—	—	(845)	—	—	(9,444)	(10,289)
Net income		—	—	1,889	—	—	20,996	22,885
Dividends declared	22	—	—	(1,242)	—	—	(13,802)	(15,044)
Share-based compensation	21	—	—	—	1,094	—	—	1,094
Exercise of restricted share units	21	70	806	—	(806)	—	—	—
Exercise of options	21	83	741	—	(169)	—	—	572
Repurchase of common shares under issuer bid	19	(499)	(3,179)	—	—	—	(2,020)	(5,199)
Unrealized gain on translation of foreign operations			—	681	—	7,574	—	8,255
Shareholders' equity - December 31, 2018		16,229	$ 103,576	$ 13,713	$ 5,414	$ 18,350	$ 22,442	$ 163,495

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

(in thousands of dollars)	Note	2019	2018
OPERATING ACTIVITIES			
Net income		**$ 12,691**	$ 22,885
Non-cash items included in net income			
Amortization and depreciation		**2,516**	2,018
Provision for credit losses *(excluding recoveries)*	*6*	**44,147**	28,493
Amortization of origination costs		**26,781**	23,269
Tax expense		**5,167**	9,373
Other non-cash items	*25*	**5,720**	3,345
		84,331	66,498
Cash from operating activities before change in net operating assets		**97,022**	89,383
Funds advanced on origination of finance receivables		**(442,342)**	(400,725)
Origination costs paid on finance receivables		**(35,681)**	(34,354)
Principal collections of finance receivables		**285,315**	233,193
Change in other net operating assets	*25*	**(6,861)**	117
Cash used in operating activities before undernoted		**(102,547)**	(112,386)
Interest paid on convertible debentures		**—**	(61)
Income taxes paid - net		**(6,544)**	(3,645)
Cash used in operating activities		**(109,091)**	(116,092)
INVESTING ACTIVITIES			
Purchase of property and equipment	*8*	**(312)**	(212)
Cash used in investing activities		**(312)**	(212)
FINANCING ACTIVITIES			
Borrowings, net	*25*	**141,784**	158,513
Payment of financing costs	*12*	**(7,458)**	(3,967)
Payment of lease obligations	*7*	**(638)**	—
Redemption of convertible debentures	*12*	**—**	(20,000)
Proceeds from exercise of options	*21*	**285**	571
Repurchase of common shares under issuer bid	*19*	**(808)**	(5,199)
Cash dividends paid	*22*	**(14,882)**	(15,067)
Cash from financing activities		**118,283**	114,851
Unrealized foreign exchange gain (loss) on cash		**(174)**	139
Net increase (decrease) in cash		**8,706**	(1,314)
Cash, beginning of year		**2,326**	3,640
Cash, end of year		**$ 11,032**	$ 2,326

Please see notes to the consolidated financial statements.

TABLE OF NOTES

1. NATURE OF BUSINESS AND BASIS OF PREPARATION

Chesswood Group Limited (the “Company” or "Chesswood") is incorporated under the laws of the Province of Ontario. The Company’s head office is located at 156 Duncan Mill Road, Unit 16, Toronto, Ontario, M3B 3N2, and its shares trade on the Toronto Stock Exchange under the symbol CHW.

The Company holds a 100% interest in Chesswood Holdings Ltd. Chesswood Holdings Ltd. owns 100% of the shares of the operating companies: Blue Chip Leasing Corporation ("Blue Chip") incorporated in Ontario, Lease-Win Limited, Case Funding Inc. ("Case Funding"), as well as 100% of the shares of Chesswood U.S. Acquisition Co Ltd. (“U.S. Acquisitionco”), a corporation which owns 100% of the shares of each of the operating subsidiaries Pawnee Leasing Corporation (“Pawnee”), incorporated in Colorado, United States, Tandem Finance Inc. ("Tandem"), incorporated in Colorado, United States and Windset Capital Corporation ("Windset"), incorporated in Delaware, United States. In addition, Pawnee holds, through consolidated, wholly-owned Special Purpose Entities (collectively "SPEs"), a portfolio of leases and loans which are financed through arm's length financial institutions. See Note 6 - *Finance Receivables* and Note 12(b) - *Borrowings*.

Through its subsidiaries, the Company operates in the following businesses:

- Pawnee - micro and small-ticket equipment financing to small and medium-sized businesses in the United States.
- Tandem - small-ticket equipment financing originations through equipment vendors and distributors in the United States.
- Blue Chip - commercial equipment financing to small and medium-sized businesses in Canada.
- Case Funding - which holds a portfolio of legal finance receivables in the United States and is no longer actively operated as described in Note 5(c) - *Other Assets*.

The consolidated financial statements, including comparatives:

- have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The term IFRS also includes all International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").
- have been prepared on the going concern and historical cost bases, except for derivative financial instruments and hybrid financial liabilities designated as at fair value through net income or loss, which have been measured at fair value.
- include the financial statements of the Company and its subsidiaries as noted above. Subsidiaries are consolidated using the purchase method from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated as long as control is held. The financial statements of all subsidiaries are prepared for the same reporting period as the Company, using uniform accounting policies in accordance with IFRS 10, *Consolidated Financial Statements.* All intra-group balances and items of income and expense resulting from intra-group transactions are eliminated in full. Transaction costs in connection with business combinations are expensed as incurred.

In order to improve clarity, certain items have been combined in the consolidated financial statements with details provided separately in the Notes to the Consolidated Financial Statements, and certain comparative figures have been reclassified to conform to the presentation adopted in the current year's audited consolidated financial statements. Case Funding operations were reclassified to continuing operations, as they failed to meet the conditions required for the Discontinued Operations classification. The legal finance receivable is included with Other Assets and its net results has been included in Other Expenses.

The Company's audited consolidated financial statements were authorized for issue on March 18, 2020 by the Board of Directors.

Foreign currency transactions

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

The reporting currency is the Canadian dollar and the financial statements are presented in thousands of Canadian dollars except per share amounts and as otherwise noted. The functional currency of the Company, Chesswood Holdings Ltd., Blue Chip and Lease-Win Limited is the Canadian dollar. The functional currency of U.S. Acquisitionco, Pawnee, Windset, Tandem, the SPEs, and Case Funding is the United States dollar. Income and expenses of subsidiaries with a different functional currency than the Company's presentation currency are translated in the Company's consolidated financial statements at the average U.S. dollar exchange rate for the reporting period (for the year ended December 31, 2019 - 1.3269; 2018 - 1.2957), and assets and liabilities are translated at the closing rate (as at December 31, 2019 - 1.2988; December 31, 2018 - 1.3642). Exchange differences arising from the translation are recognized in other comprehensive income. Foreign currency payables and receivables in the statement of financial position are recorded at the transaction date at cost. Exchange gains and losses arising from conversion of monetary assets and liabilities at exchange rates at the end of the reporting period are recognized as income or expense.

Statement of cash flows

The statement of cash flows, which is compiled using the indirect method, shows cash flows from operating, investing and financing activities, and the Company's cash at the beginning and end of the year. Cash flows in foreign currencies have been translated at the average rate for the period. Exchange rate differences affecting cash items are presented separately in the statement of cash flows.

Cash flow from operating activities comprises net income adjusted for non-cash items, changes in working capital and operational net assets. Receipts and payments with respect to tax are included in cash from operating activities.

Cash flow from investing activities comprises payments relating to business acquisitions and purchase of property and equipment.

Cash flow from financing activities comprises payment of dividends and financing costs, net proceeds from borrowings, net proceeds from convertible debentures and stock issues, and the purchase and sale of treasury stock.

Exercise of judgment and use of accounting estimates and assumptions

The preparation of the Company's audited consolidated financial statements in accordance with IFRS requires management to apply a significant degree of judgment in applying the Company's financial accounting policies and to make certain assumptions and estimates that have a material effect on the reported amounts of assets, liabilities, revenue and expenses.

The assumptions and estimates are based on premises that reflect the facts that are known at any given time. Future economic factors are inherently difficult to predict and are beyond management's control. If the actual development differs from the assumptions and estimates, the premises used and, if necessary, the carrying amounts for the assets and liabilities in question are adjusted accordingly. The exercise of judgment is based on management's experience and also on past history. As a result, actual amounts could differ from these estimates.

The fair value of interest rate derivatives, certain assets acquired and consideration paid in business acquisitions, and legal finance receivables are estimated using valuation techniques based on assumptions of, for example, estimated future cash flows, future interest rate movements, the probability of success of legal claims and the timing of collections. The estimated fair values are sensitive to changes in these assumptions.

There were no significant changes in estimates made in the interim periods that have been adjusted in the final quarter.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the audited consolidated financial statements are presented in the following Notes: *Note 6 - Finance Receivables, and Note 15 - Taxes*.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are presented in the following Notes: Note 5(c) - *Other Assets - Legal Finance Receivables, Note 6 - Finance Receivables, Note 9 and Note 10 - Impairment of Intangibles and Goodwill, and Note 15 - Taxes*.

2. NEW ACCOUNTING STANDARDS

New accounting standards adopted in 2019

IFRS 16 Leases

The Company adopted IFRS 16, *Leases*, which replaced IAS 17, *Leases*, with effect from January 1, 2019, using the modified retrospective approach, as permitted on transition. Accordingly, the information presented for 2018 has not been restated and remains as previously reported under IAS 17 and related interpretations. The Company's new accounting policy is described in Note 7 - *Right-To-Use Assets and Premises Leases Payable*.

IFRS 16's approach to lessor accounting is substantially unchanged from its predecessor. The Company, as a Lessor, will record property tax income and expense associated with leasing on a gross basis in the consolidated statements of income. The property tax revenue and expense are recorded in the same period as earned and incurred, and the Company recognizes a provision for uncollectible property tax revenue as contra-revenue when a loss is probable and collectability is not reasonably assured.

For lessees, IAS 17 required an entity to identify 'finance' leases, being those leases where in substance the lessee has acquired substantially all the risks and rewards incidental to ownership of the subject asset. For a finance lease, the underlying asset is recognized on the statement of financial position at an amount equal to the fair value of the leased asset, or if lower, the present value of minimum lease payments. Any lease not classified as finance in nature is considered to be an operating lease. The Company's only material leases are for its premises at the Pawnee, Tandem and Blue Chip locations, which were determined to be operating in nature. Therefore, lease payments were expensed as incurred, straight-line, over the lease term.

IFRS 16 has removed the distinction between finance and operating leases and requires lessees to recognize right-of-use assets and lease liabilities for all leases, subject to certain optional exceptions, on commencement of a lease. Under the new accounting policy, the nature of expenses related to those leases has changed from straight-line operating lease expense to a depreciation charge for the right-to-use assets and interest expense on the lease liabilities.

The Company elected to use the following exemptions on application of the new rules: lease contracts for which the lease ends within 12 months from the date of initial application; lease contracts for which the underlying asset is of low value; and short-term leases that have a lease term of 12 months or less. Leases of certain office equipment are considered of low value and have been excluded. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.

On initial application, the Company recorded a lease liability of $3.8 million measured as the future lease payments discounted using a weighted average incremental borrowing rate at January 1, 2019 of 4.5%. The Company elected to measure the right-to-use assets at an amount equal to the lease liability. Therefore on adoption there was no net impact on retained earnings.

	January 1, 2019
	($ thousands)
Operating lease commitment as at December 31, 2018 as disclosed in Note 17 in 2018 Audited Consolidated Financial Statements	$ 4,556
Operating lease renewal options reasonably certain to be exercised but not included in operating lease commitments as at December 31, 2018	545
Service contracts that do not convey a right-to-use defined asset and low value office equipment leases	(851)
Discount, using the incremental borrowing rate as at January 1, 2019	(591)
Foreign exchange translation (average rate for 2018 vs January 1, 2019 rate)	178
Lease liabilities recognized as at January 1, 2019	$ 3,837

Ancillary finance and other fee income and other expenses increased by $2.7 million, as certain lessor costs, including property taxes (related to equipment leases that are deemed to be property in certain U.S. jurisdictions) that are paid by the lessee to the lessor are required to be presented gross in the audited consolidated statements of income. Prior year comparatives were not restated. The estimated receivable for property taxes has been reclassified to Finance receivables from Other assets. The prior period balance has not been reclassified.

3. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are recognized initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through net income or loss, which are measured initially at fair value.

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire or when the asset and substantially all related risks and rewards are transferred. A financial liability is derecognized when it is extinguished, which occurs when it is either discharged, canceled or expires.

Financial assets

Financial assets are categorized for subsequent measurement as follows:

Amortized cost
Financial assets that are held in a business model with the objective of collecting contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI") are measured at amortized cost ("AC"). The Company's cash, restricted funds, net investment in leases, and loan receivables are measured at amortized cost. Broker commissions related to the origination of finance leases are deferred and recorded as an adjustment to the yield of the net investment in finance leases as part of the effective interest rate. Gains and losses are recognized in the statement of income when the loans or receivables are derecognized or impaired.

Financial assets at fair value through net income or loss
Financial assets that are held for trading and derivative assets are required to be measured at fair value through net income or loss ("FVTP"). Financial assets that meet certain conditions may be designated at fair value through net income or loss upon initial recognition. Upon initial recognition, attributable transaction costs are recognized in net income or loss as incurred.

Assets in this category are subsequently measured at fair value with gains or losses recognized in net income or loss. The fair values of derivative financial instruments are based on changes in observable prices in active markets or by a valuation technique where no market exists.

The Company's investment in Dealnet common shares and legal finance receivables (included in Other assets on the consolidated statements of financial position) is classified in this category.

Fair value through other comprehensive income
Financial assets that are held to both collect contractual cash flows and for sale are required to be measured at fair value through other comprehensive income ("FVOCI"). Other financial assets, provided they are not held for trading and have not been designated as at fair value through net income or loss, can be designated as at fair value through other comprehensive income on initial recognition.

Gains and losses are recognized in other comprehensive income and presented in the available for sale reserve within equity, except for the accretion in value based on the effective interest method, impairment losses and foreign exchange differences on monetary assets, which are recognized in net income or loss. Financial assets measured at fair value through other comprehensive income for which fair value cannot be estimated reliably, are measured at cost and any impairment losses are recognized in net income or loss. Upon initial recognition, attributable transaction costs are recognized in net income or loss as incurred. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified from equity to net income or loss and presented as a reclassification adjustment within other comprehensive income.

Financial liabilities

Financial liabilities are categorized as follows for subsequent measurement:

Amortized cost
Financial liabilities that are not otherwise measured as at fair value through net income or loss or designated at fair value are measured at amortized cost using the effective interest rate method. Any host contract in a hybrid instrument is also measured at amortized cost. Gains and losses are recognized in net income or loss when the liabilities are derecognized. Transaction costs incurred in connection with the issuance of loans and borrowings are capitalized and recorded as a reduction of the carrying amount of the related financial liabilities and amortized using the effective interest method.

The Company's financial liabilities measured at amortized cost include borrowings, accounts payable, other liabilities and customer security deposits.

Financial liabilities at fair value through net income or loss
Financial liabilities that are held for trading and stand-alone derivative liabilities are required to be measured at fair value through net income or loss ("FVTP"). When certain conditions are satisfied, embedded derivatives are required to be separately recognized and measured at fair value with subsequent changes in fair value recognized in net income or loss.

A designation can be made at initial recognition for financial liabilities that include one or more embedded derivatives, provided the host contract is not a financial asset, to measure the entire hybrid instrument at fair value. Where certain criteria are met, for example measurement at amortized cost would create measurement inconsistencies, the financial liability can also be designated at fair value. For such designated financial liabilities, the amount of the change in fair value that relates to changes in the entity's own credit risk is recognized in other comprehensive income and the remaining amount of the change in fair value is recognized in net income or loss. All contingent consideration payable is also included in this category. Derivative financial instruments that are designated as effective hedge instruments are excluded from this category.

The Company's interest rate swap contracts are required to be measured at fair value through net income or loss. The Company has not designated any financial instruments as hedges for accounting purposes.

The fair values of financial liabilities are based on changes in observable prices in active markets or by a valuation technique where no market exists. Transaction costs attributable to the issuance of financial liabilities at fair value through net income or loss are recognized in net income or loss as incurred.

(a) Categories and measurement hierarchy

The categories to which the financial instruments are allocated are:

Financial instrument	Classification
ASSETS	
Cash	Amortized cost
Restricted funds	Amortized cost
Other assets - loan receivable	Amortized cost
Other assets - investments	FVTP
Other assets - legal finance receivables	FVTP
Finance receivables	Amortized cost
Interest rate derivatives	FVTP
LIABILITIES	
Accounts payable and other liabilities	Amortized cost
Borrowings	Amortized cost
Customer security deposits	Amortized cost
Interest rate derivatives	FVTP

All financial instruments measured at fair value and for which fair value is disclosed are categorized into one of three hierarchy levels. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

(i) Level 1 Inputs - quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;

(ii) Level 2 Inputs - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

(iii) Level 3 Inputs - techniques which use inputs which have a significant effect on the recorded fair value for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of financial instruments are classified using the IFRS 13, *Fair Value Measurement,* hierarchy as follows:

	Level 1	Level 2	Level 3	December 31, 2019 Carrying Value
				($ thousands)
ASSETS				
Cash *(iii)*	$ 11,032	$ —	$ —	$ 11,032
Restricted funds *(iii)*	21,751	—	—	21,751
Other assets - loan receivable - Note 5(a)	—	2,671	—	2,671
Other assets - investments - Note 5(b)	483	—	—	483
Other assets - legal finance receiv.*(v) Note 5(c)*	—	—	907	907
Finance receivables *(i)*	—	821,085	—	821,085
Interest rate derivatives *(iv)*	—	60	—	60
LIABILITIES				
Accounts payable and other liabilities *(iii)*	—	(16,835)	—	(16,835)
Borrowings *(ii)*	—	(714,691)	—	(714,691)
Customer security deposits	—	(12,106)	—	(12,106)
Interest rate derivatives *(iv)*	—	(293)	—	(293)

	Level 1	Level 2	Level 3	December 31, 2018 Carrying Value
				($ thousands)
ASSETS				
Cash *(iii)*	$ 2,326	$ —	$ —	$ 2,326
Restricted funds *(iii)*	13,598	—	—	13,598
Other assets - loan receivable - Note 5(a)	—	4,900	—	4,900
Other assets - investments - Note 5(b)	453	—	—	453
Other assets - legal finance receiv.*(v) Note 5(c)*	—	—	1,852	1,852
Finance receivables *(i)*	—	728,924	—	728,924
Interest rate derivatives *(iv)*	—	896	—	896
LIABILITIES				
Accounts payable and other liabilities *(iii)*	—	(15,600)	—	(15,600)
Borrowings *(ii)*	—	(601,525)	—	(601,525)
Customer security deposits	—	(16,773)	—	(16,773)

(i) There is no organized market for the finance receivables. The carrying value is the amortized cost using the effective interest rate method which approximates fair value because contractual interest rates approximate current market rates.
(ii) The stated value of the borrowings approximates fair values, as the interest rates attached to these instruments are representative of current market rates, for loans with similar terms, conditions and maturities.
(iii) Carrying amounts are expected to be reasonable approximations of fair value for cash, restricted funds and for financial instruments with short maturities, including accounts payable and other liabilities.
(iv) The Company determines the fair value of its interest rate derivatives under the income valuation technique using a discounted cash flow model. Significant inputs to the valuation model include the contracted notional amount, LIBOR rate yield curves and the applicable credit-adjusted risk-free rate yield curve. The Company's interest rate derivative is included in the Level 2 fair value hierarchy because all of the significant inputs are directly or indirectly observable.
(v) There is no organized market for the legal finance receivables. The carrying value is the amortized cost using the effective interest rate method which approximates fair value because contractual interest rates approximate current market rates.

Transfers between levels are considered to occur on the date that the fair valuation methodology changes. There were no transfers between levels during the current or comparative periods.

Reconciliation of Level 3 Financial Instruments - The following table sets forth a summary of changes in the carrying value of legal finance receivables (plaintiff advances):

	For the years ended **December 31,**	
	2019	2018
	($ thousands)	
Balance, beginning of year	**$ 1,852**	$ 3,355
Fair value accretion	**88**	95
Losses and provision for losses	**(522)**	(720)
Collections	**(441)**	(1,079)
Foreign exchange impact *(i)*	**(70)**	201
Balance, end of year	**$ 907**	$ 1,852

(i) Difference between year-end foreign exchange rate and average exchange rate; the amount is included in other comprehensive income.

Significant Estimates

Fair value measurements are based on level 3 inputs of the three-level hierarchy system which indicates inputs for the assets that are not based on observable market data (unobservable inputs). Legal finance receivables (plaintiff advances) were initially recorded at their fair value, equivalent to the funds advanced. Subsequent measurement of plaintiff advances is at fair value utilizing a fair value model developed by the Company.

The principal assumptions used in the fair value model are as follows:
- Estimated duration of each plaintiff advance;
- Best estimate of anticipated outcome;
- Monthly fee per advance contract on nominal value of each plaintiff advance; and
- Market interest rate at which estimated cash flows are discounted.

The fair value of plaintiff advances is reviewed quarterly on an individual case basis. Events that may trigger changes to the fair value of each plaintiff advance include the following:
- Successful and unsuccessful judgments of claims in which the Company has a plaintiff advance;
- Outstanding appeals against both successful and unsuccessful judgments;
- Receipt of funds to settle plaintiff advances;
- A case is dismissed with prejudice (meaning, it can never be re-filed anywhere);
- Change in monthly fee assessed on plaintiff advances;
- Market interest rate at which estimated cash flows are discounted.

Inherent to the underwriting process is the approval for funding of cases that have a high probability of success, to be achieved either in pre-trial settlement or as a result of a judgment by a court. The fair value estimate is inherently subjective being based largely on an estimate of the duration of plaintiff advance and its potential settlement. In the Company's opinion there is no useful alternative valuation that would better quantify the market risk inherent in the portfolio and there are no other inputs or variables to which the value of the plaintiff advances are correlated.

A 10% change in the estimated duration of plaintiff advances, while all other variables remain constant, would have no significant impact on the Company's net income and net assets.

(b) Gains and losses on financial instruments

The following table shows the net gains and losses arising for each category of financial instruments:

	For the year ended December 31,	
	2019	2018
	($ thousands)	
Amortized cost:		
Provision for credit losses	**$ (33,214)**	$ (19,423)
Designated as at fair value through net income or loss:		
Convertible debentures	**—**	29
Fair value through net income or loss:		
Investment in Dealnet common shares	**30**	(181)
Interest rate derivatives	**(1,109)**	705
Net loss	**$ (34,293)**	$ (18,870)

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.

i) Credit risk

Credit risk stems primarily from the potential inability of a customer or counterparty to a financial instrument to meet its contractual obligations. The Company's maximum exposure to credit risk is represented by the carrying amounts of cash, restricted funds, EcoHome loan receivable and finance receivables.

The Company's excess cash is held in accounts with several major Canadian chartered banks and a few U.S. banks with the majority at J.P. Morgan Chase. Management has estimated credit risk with respect to such balances to be nominal and monitors changes in the status of these financial institutions to mitigate potential credit risk.

Pawnee and Blue Chip's investment in finance receivables are originated with smaller, often owner-operated businesses, some of whom have limited access to traditional financing. A portion of Pawnee's lessees and borrowers are either start-up businesses that have not established business credit or more tenured businesses that have experienced some business credit difficulty at some time in their history ("non-prime"). As a result, such leases and loans entail higher credit risk than our prime customers (reflected in higher than expected levels of delinquencies and loss) relative to the prime commercial equipment finance market. The typical Blue Chip borrower is a tenured small business with a strong credit profile.

Pawnee's credit risk is mitigated by: funding only "business essential" commercial equipment, where the value of the equipment is less than US$250,000, typically obtaining at least the personal guarantee of the majority owners of the lessee\borrower for each lease or loan, and by diversification on a number of levels, including: geographical across the United States, type of equipment, vendor, equipment cost, industries in which Pawnee's lessees\borrowers operate and through the number of lessees\borrowers, none of which is individually significant. Furthermore, Pawnee's credit risk in its non-prime portfolio is mitigated by the fact that the standard lease\loan contract may require that the lessee\borrower provide two months payments as a security deposit or advance payments, which, in the case of default, is applied against the lease\loan receivable; otherwise the deposit is held for the full term of the lease\loan and is then returned or applied to the purchase option of the equipment at the lessee's option.

Pawnee and Blue Chip are entitled to repossess financed equipment if the lessee\borrower defaults on their contract in order to minimize any credit losses. When an asset previously accepted as collateral is to be repossessed, it undergoes a process of physical repossession and disposal in accordance with the legal provisions of the relevant market. See Note 6(f) - *Finance Receivables*, for a further discussion on the repossession of collateral.

The finance receivables consist of a large number of homogenous leases and loans, with relatively small balances, and as such, the evaluation of the allowance for credit losses is performed collectively for the lease and loan receivable portfolio. More detailed information regarding this methodology and on finance receivables that are considered to be impaired is provided in Note 6 - *Finance Receivables*.

Blue Chip, in a similar segment of the Canadian equipment finance market as Pawnee's market segment in the U.S., mitigates credit risk in similar fashion to Pawnee including the small average size of each lease\loan, diversification in multiple asset categories and industries, very low lessee\borrower concentration and personal guarantees of the business principals on certain finance contracts.

The credit risk on the EcoHome loan is mitigated by the security held by the Company, which includes: the specific leases and loans and a general security agreement over all the assets of EcoHome. See Note 5(a) - *Other Assets* for further discussion.

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Company's objective is to maintain low cash balances, investing any free cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. At December 31, 2019, the Company's operations has at least $644.0 million (2018 - $419.0 million) in additional borrowings available under various credit facilities to fund business operations.

The Company's operations and growth are financed through a combination of the cash flows from operations, borrowings under existing credit facilities, and through non-recourse asset-backed bulk lease\loan transactions (often referred to as securitization). Prudent liquidity risk management requires managing and monitoring liquidity on the basis of a rolling cash flow forecast and ensuring adequate committed credit facilities are in place, to the extent possible, to meet funding needs.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, and principal payments) is shown in Operating Activities in the Consolidated Statements of Cash Flows. The Company's finance receivables originated in the current period have an average term of approximately 40 months. The finance receivables will generate earnings over the next 40 months, with only a portion in the current operating period. Our ability to borrow under our various credit facilities is directly linked to our finance receivable portfolio. The funds borrowed to support the growth in the finance receivables is shown under Financing Activities in the Consolidated Statements of Cash Flows. This required accounting disclosure, of including an investment in a long-term asset in Operating Activities and the direct financing thereof under another category (Financing Activities) results in a 'cash flow from operations' in the current period that is distorted. Management assesses 'cash flow from operations' by excluding the net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, and principal payments).

The Company has a corporate credit facility that allows borrowings of up to US$250.0 million with a US$50 million accordion feature (US$204.0 million available based on borrowing base as at December 31, 2019), subject to certain percentages of eligible gross lease receivables, of which US$156.1 million was utilized at December 31, 2019 (2018 - US$178.7 million). See Note 12 - *Borrowings*. In addition, the Company has several bulk financing lines available to its Canadian business and similar financing for its U.S. prime portfolio. At this time; however, management believes that the syndicate of financial institutions that provides Chesswood's credit facility and the banks and life insurance company that provides financing to our subsidiaries are financially viable and will continue to provide the facilities; however there are no guarantees.

Under the corporate credit facility, the maximum cash dividends that the Company can pay in any month is 1/12 of 90% of free cash flow for the most recently completed four financial quarters in which the Company has publicly filed its consolidated financial statements less the cost of any repurchases under normal course issuer bids, if any.

The maturity structure for undiscounted contractual cash flows is presented in Note 16 - *Minimum payments*. Please see Note 6(b) - *Finance Receivables* for the expected collections of finance receivables over the same time period. See Note 12(d) - *Borrowings* - for the amount of restricted cash in collection accounts that will be applied to debt in the following month.

iii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market price risks faced by the Company relate to the trading price Dealnet common shares, interest rates and foreign currency.

a) Trading prices
The Company's investment in Dealnet common shares (included in Note 5(c) - *Other Assets* on the Consolidated Statements of Financial Position) are measured at fair value at each reporting date with changes in fair value recognized in net income or loss. Fair value is based on the trading price of the shares on the Toronto Stock Exchange. Therefore changes in trading price has a direct impact on net assets and net income or loss. The Company does not hedge this fair value price exposure.

b) Interest rate risk
The finance receivables are written at fixed effective interest rates. To the extent the Company finances its fixed rate finance receivables with floating rate funds, there is exposure to fluctuations in interest rates such that an increase in interest rates could narrow the margin between the yield on a lease/loan receivable and the interest rate paid by the Company to finance working capital. The Company elects to lock in the majority of its credit facility at the LIBOR based interest rate.

The following table presents a sensitivity analysis for a reasonable fluctuation in interest rates and the effect on the Company for the years ended December 31, 2019 and 2018:

	For the years ended			
	December 31, 2019		December 31, 2018	
	+100 bps	-100 bps	+100 bps	-100 bps
	($ thousands)			
Increase (decrease) in interest expense	**$ 2,503**	**$ (2,503)**	$ 3,109	$ (3,109)
Increase (decrease) in net income and equity	**$ (1,787)**	**$ 1,787**	$ (2,240)	$ 2,240

c) Foreign currency risk
The Company is exposed to fluctuations in the U.S. dollar exchange rate because significant operating cash inflows are generated in the United States, while dividends are paid to shareholders in Canadian dollars. For the year-ended December 31, 2019, dividends paid totaled $14.9 million (2018 - $15.1 million).

The following table presents a sensitivity analysis for a hypothetical fluctuation in U.S. dollar exchange rates and the effect on the Company as at December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
	($ thousands)	
Year-end exchange rate	**1.2988**	1.3642
U.S. denominated net assets in U.S.$ held in Canada	**$ 1,638**	$ 68
Effect of a 10% increase or decrease in the Canadian/U.S. dollar on U.S. denominated net assets	**$ 213**	$ 9

5. OTHER ASSETS

		December 31, 2019	December 31, 2018
		($ thousands)	
Property tax receivable		$ —	$ 782
Tax receivable		**5,089**	991
Sales tax receivable		**558**	589
Prepaid expenses and other current assets		**1,416**	1,071
Loan receivable - EcoHome	*a*	**2,671**	4,900
Common shares - Dealnet	*b*	**483**	453
Legal finance receivables (net of allowance)	*c*	**907**	1,852
Other assets		**11,124**	10,638
Current portion		10,334	6,565
Long-term portion		$ 790	$ 4,073

(a) Loan receivable - EcoHome - On February 18, 2016, the Company sold EcoHome Financial Inc. ("EcoHome") to Dealnet Capital Corp. ("Dealnet"). The loan represented the inter-company warehouse funding to EcoHome of leases and loans that had not yet been securitized with EcoHome funders prior to the sale of EcoHome. The loan receivable is secured by specific EcoHome leases and loans and a general security agreement over all the assets of EcoHome. The loan matures in October 2020, with fixed monthly principal payments, and related interest based on a floating interest rate plus a fixed margin. The loan receivable is carried at amortized cost. At December 31, 2019 and December 31, 2018, it was determined no material allowance for expected credit losses was required.

(b) Common shares - Dealnet - as partial consideration for the sale of EcoHome, the Company received 6,039,689 common shares of Dealnet. The Dealnet shares are measured at fair value through net income or loss. The fair value represents the trading price at each reporting date. Dealnet shares trade on the TSX Venture Exchange under the stock symbol "DLS".

(c) Legal finance receivables (net of allowance) - On February 3, 2015, Case Funding sold certain assets and operations to a private equity firm. Case Funding retained approximately $9.4 million in finance receivables with a current balance of $907,000 and pays a servicing fee of 5% of collections to administer the remaining portfolio. The contracts are due when the underlying cases are settled which cannot be known and is therefore estimated. Plaintiff advances are made on a non-recourse basis, and repayment depends on the success and potential size of respective claims. The current portion of legal finance receivables is subject to estimation. Case Funding's net results are included in Other expenses. These receivables were presented as assets held for sale at December 31, 2018 and the results of their performance was classified as a discontinued operation for that year. These assets are still available for sale but no longer meet the criteria for separate presentation. The receivables do not qualify as a reportable segment - see Note 26 - *Segment Information*.

6. FINANCE RECEIVABLES

The Company finances its leases and loan receivables by pledging such receivables as security for amounts borrowed from lenders under various facilities, as described in Note 12 - *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. Therefore, the Company retains ownership (in some cases through consolidated SPE's) and servicing responsibilities of the pledged lease and loan receivables and continues to recognize them on the consolidated statement of financial position. None of our facilities meet the requirements for gain-on-sale or de-recognition treatment for accounting purposes and none of the receivables have been derecognized.

		December 31, 2019		December 31, 2018
		($ thousands)		
Net investment in leases	**$**	**432,200**	$	435,793
Loan receivables		**388,885**		293,131
	$	**821,085**	$	728,924

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

		December 31, 2019		December 31, 2018
		($ thousands)		
Total minimum finance receivable payments *(b)*	**$**	**998,888**	$	893,080
Residual values of leased equipment		**27,747**		25,735
		1,026,635		918,815
Unearned income, net of initial direct costs		**(178,630)**		(168,946)
Net investment in finance receivables before allowance for credit losses		**848,005**		749,869
Allowance for credit losses *(c)*		**(30,305)**		(23,929)
		817,700		725,940
Reserve receivable on securitized financial contracts		**3,385**		2,984
Net investment in finance receivables		**821,085**		728,924
Current portion		283,865		255,906
Long-term portion	$	537,220	$	473,018

The growth in finance receivables is attributable to the growth in the portfolio as described in the accompanying MD&A for the year ended December 31, 2019, commencing on page 4 of this annual report.

(b) Minimum scheduled collections of finance receivables at December 31, 2019, are presented in the following table. The Company's experience has shown that the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the following minimum scheduled collections are not to be regarded as a forecast of future cash collections.

		Minimum payments		Present value
		($ thousands)		
2020	$	368,759	$	277,626
2021		287,566		235,704
2022		195,632		170,492
2023		106,080		96,880
2024		38,131		36,693
2025 and thereafter		2,720		2,863
Total minimum payments	$	998,888	$	820,258

(c) Allowance for credit losses
The Company measures loss allowances based on an expected credit loss ("ECL") impairment model for all financial instruments except those measured at fair value through profit and loss. Application of the model depends on the following credit stages of the financial assets:

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

Lease and loan receivables are composed of a large number of homogenous leases and loans, with relatively small balances. Thus, the evaluation of the allowance for credit losses is performed collectively for the lease and loan receivable portfolios, segregated into prime and non-prime.

Definitions of default have been selected to eliminate the judgement that may otherwise be necessary, given the diversity within the finance receivable portfolio, the lack of individual drivers of changes in credit risk across assets and over time, and the resulting inability to assess which specific assets will be rectified. For the purposes of measuring ECL, a default is defined as:
- For prime finance receivables: leases and loans that have missed one payment and are not subsequently rectified within 30 days.
- For non-prime finance receivables: leases and loans that have missed one payment.

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument based on the following defined credit stages:

For Stage 1, the Company utilized recent static pool data applied to recent origination levels and the inclusion of forward-looking macroeconomic assumptions under the ECL methodology. Recent static pool data includes historical loss rates by credit class and by originating quarter and therefore includes all knowable credit and economic conditions up to the reporting date.

For Stage 2, the Company considers prime leases and loans to have experienced a significant increase in credit risk since initial recognition if they are delinquent for over 30 days. Non-prime leases and loans that have experienced a significant increase in credit risk include: those instruments that are delinquent for over 30 days; and an estimate of those assets that will subsequently become delinquent calculated as approximately 15% of non-prime assets that are in default but have been delinquent for less than 30 days at the reporting date.

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

Customer security deposits are held for the full term of the lease and then returned or applied to the purchase option of the equipment at the lessee's request, unless the lessee has previously defaulted in which case the deposit is applied against the lease receivable at that time. Past experience suggests that a very high percentage of the customer deposits are applied to the purchase option of the leased equipment at the end of the lease term, or as an offset against outstanding lease receivables.

Pawnee and Blue Chip are entitled to repossess financed equipment if the borrower defaults on their lease or loan contract. When a lease or loan is charged-off, the related equipment no longer has a carrying value on the consolidated financial statements. Any amounts recovered from the sale of equipment after a charge-off, are credited to the allowance for credit losses when received. Repossessed equipment is generally held at various warehouses by the Company's third party contractors to repossess and sell the equipment. As Pawnee and Blue Chip finance a wide range of small equipment, it is difficult to estimate the fair value of the potential collateral when estimating future ECLs.

In addition to internal weighted average static pool data, the process of estimating ECLs uses the following inputs and assumptions to reflect information about past events, current conditions and forecasts of future conditions that are not already captured in the inputs:
- Security deposits held;
- Recoveries of amounts previously charged off in the last 12 months, as an estimate of recoveries for the next 12 months;
- An estimate of the effects of natural disasters and economic shocks that have occurred on credit losses in the next 12 months;

- The stage of the business cycle for the industry, which considers: the competitive environment, GDP growth, prevailing interest rates and expectations of future rates, fiscal policy and inflation rates; and
- Current delinquency trends of non-accrual and greater than 30 days delinquency rates.

Forecasts of future events and conditions are incorporated by adjusting losses from the static pool data. Determining the inputs listed and ECLs requires significant estimation uncertainty. The estimation and application of forward-looking information requires significant judgement.

The following table shows the gross carrying amount of the finance receivables by credit category:

	As of December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
	Performing	Under-Performing	Non-Performing	
	($ thousands)			
Prime	$ 586,109	$ 1,727	$ 3,688	$ 591,524
Non-prime	242,664	6,455	7,362	256,481
Total	$ 828,773	$ 8,182	$ 11,050	$ 848,005

	As of December 31, 2018			
	Stage 1	Stage 2	Stage 3	Total
	Performing	Under-Performing	Non-Performing	
	($ thousands)			
Prime	$ 472,036	$ 965	$ 2,442	$ 475,443
Non-prime	264,035	5,311	5,080	274,426
Total	$ 736,071	$ 6,276	$ 7,522	$ 749,869

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

	Year ended December 31, 2019			
	Stage 1	Stage 2	Stage 3	
	Performing	Under-Performing	Non-Performing	**Total**
	($ thousands)			
Balance, January 1, 2019	$ 10,879	$ 6,141	$ 6,909	**$ 23,929**
Transfer to Performing (Stage 1)	1,734	(1,165)	(569)	**—**
Transfer to Under-Performing (Stage 2)	(34,509)	34,576	(67)	**—**
Transfer to Non-Performing (Stage 3)	—	(30,582)	30,582	**—**
Net remeasurement of loss allowance	23,980	(562)	(517)	**22,901**
New receivables originated	10,313	—	—	**10,313**
Provision for credit losses	1,518	2,267	29,429	**33,214**
Charge-offs	—	—	(36,573)	**(36,573)**
Recoveries of amounts previously charged off	—	—	10,932	**10,932**
Net charge-offs	—	—	(25,641)	**(25,641)**
Foreign exchange translation	(483)	(336)	(378)	**(1,197)**
Balance, end of year	**$ 11,914**	**$ 8,072**	**$ 10,319**	**$ 30,305**

	Year ended December 31, 2018			
	Stage 1	Stage 2	Stage 3	
	Performing	Under-Performing	Non-Performing	**Total**
		($ thousands)		
Balance, January 1, 2018	$ 10,608	$ 4,150	$ 7,216	**$ 21,974**
Transfer to Performing (Stage 1)	1,633	(812)	(821)	**—**
Transfer to Under-Performing (Stage 2)	(20,746)	20,759	(13)	**—**
Transfer to Non-Performing (Stage 3)	(2,238)	(18,632)	20,870	**—**
Net remeasurement of loss allowance	10,230	240	(1,660)	**8,810**
New receivables originated	10,613	—	—	**10,613**
Provision for credit losses	(508)	1,555	18,376	**19,423**
Charge-offs	—	—	(28,283)	**(28,283)**
Recoveries of amounts previously charged off	—	—	9,070	**9,070**
Net charge-offs	—	—	(19,213)	**(19,213)**
Foreign exchange translation	779	436	530	**1,745**
Balance, end of year	**$ 10,879**	**$ 6,141**	**$ 6,909**	**$ 23,929**

(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 $12.1 million (December 31, 2018 - $16.8 million) of security deposits received from lessees/borrowers and the collateral held (including potential proceeds from repossessed equipment, and potential recoveries from personal guarantees) that would offset any charge-offs. An estimate of fair value for the collateral and personal guarantees cannot reasonably be determined.

Pawnee charges off leases and loans when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted. A high percentage of charge-offs are recognized before the subject leases/loans reach 154 days contractually past due, due to insolvency or non-responsiveness of the lessee or borrower. Blue Chip charges off leases and loans on an individual basis when there is no realistic prospect of recovery. Loan and lease receivables that are charged-off during the period are all subject to continued collection efforts.

					As of December 31, 2019	
($ thousands)	**Current**	**1-30 days**	**31 - 60 days**	**61 - 90 days**	**Over 90 days**	**Total**
Equipment lease receivables	**$ 431,995**	**$ 3,890**	**$ 3,310**	**$ 1,341**	**$ 3,594**	**$ 444,130**
Loan receivables	**385,870**	**11,749**	**2,832**	**892**	**2,532**	**403,875**
	$ 817,865	**$ 15,639**	**$ 6,142**	**$ 2,233**	**$ 6,126**	**$ 848,005**
Credit impaired	**$ 515**	**$ 397**	**$ 1,317**	**$ 2,091**	**$ 5,999**	**$ 10,319**
Past due but not impaired	**$ —**	**$ 15,242**	**$ 4,825**	**$ 142**	**$ 127**	**$ 20,336**

($ thousands)		Current		1-30 days		31 - 60 days		61 - 90 days		Over 90 days		Total
												As of December 31, 2018
Equipment lease receivables	$	434,231	$	8,757	$	2,551	$	1,102	$	2,653	$	449,294
Loan receivables		296,429		3,189		200		545		212		300,575
	$	730,660	$	11,946	$	2,751	$	1,647	$	2,865	$	749,869
Credit Impaired	$	544	$	273	$	1,985	$	1,554	$	2,553	$	6,909
Past due but not impaired	$	—	$	11,673	$	766	$	93	$	312	$	12,844

(e) Modifications
In cases where a borrower experiences financial difficulties, Pawnee and Blue Chip may grant certain concessionary modifications to the terms and conditions of a lease or loan. Modifications may include payment deferrals, extension of amortization periods, and other modifications intended to minimize the economic loss and to avoid repossession of collateral. Pawnee and Blue Chip have policies in place to determine the appropriate remediation strategy based on certain conditions. Significant increase in credit risk (Stage 2 categorization) is assessed based on the risk of default at initial recognition of the original asset. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For finance receivables that were modified while having a lifetime ECL, the leases and loans can revert to having 12-month ECL after a period of performance and improvement in the borrower's financial condition.

The net investment in finance receivables that have been modified (in 2019 or prior) and are current at December 31, 2019 is $13.5 million (December 31, 2018 - $14.8 million). On average the terms have been modified to extend the contracts by approximately one to three months, depending on the modification. Finance receivables modified during the year ended December 31, 2019 had a total net investment in finance receivable balance at the time of modification of $27.1 million (2018 - $25.6 million). These amounts reflect the net investment in finance receivable balances prior to payments collected since modification, or leases that terminated early after modifications or leases charged-off after modification.

(f) Collateral
Pawnee and Blue Chip are entitled to repossess financed equipment if the borrower defaults on their lease or loan contract. When a lease or loan is charged-off, the related equipment no longer has a carrying value on the consolidated financial statements. Any amounts recovered from the sale of equipment after a charge-off, are credited to the allowance for credit losses when received. In the year ended December 31, 2019, the proceeds from the disposal of repossessed equipment that was charged-off totaled $4.7 million (2018 - $3.3 million). Repossessed equipment is held at various warehouses by the companies contracted to repossess and sell the equipment.

7. RIGHT-TO-USE ASSETS AND PREMISES LEASES PAYABLE

Under IFRS 16, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Included in right-to-use assets and premises leases payable are the Company’s leased offices at the Pawnee, Tandem, and Blue Chip locations. For such agreements, the Company recognizes a right-to-use asset and a lease liability at the lease commencement date. Measurement requires the lease term to be determined which includes optional extension periods only if they are reasonably certain to be exercised. Determining the lease term is judgmental.

The lease liability is initially measured at the present value of the lease payments that are unpaid at the commencement date, discounted using the Company’s incremental borrowing rate because the rate implicit in the lease is not known. The right-to-use asset is measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-to-use assets are depreciated over the respective lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. Lease terms range from 2 to 7 years, and the optional extension periods have been excluded. Right-to-use assets are reduced by impairment losses, if any, and adjusted for certain remeasurments of the lease liability. The lease liability is subsequently accounted for at amortized cost using the effective interest rate method.

The lease liability for the Company's leases will be remeasured in a future period if there is a change in future lease payments arising from a change in the likelihood that extension options are exercised. On remeasuring a lease agreement, a corresponding adjustment is made to the carrying amount of the right-to-use asset.

The following table presents the right-to-use assets for the Company:

	For the year ended December 31, 2019 *($ thousands)*
Premises:	
Balance, beginning of year	$ —
Adoption of IFRS 16	3,837
Balance, January 1, 2019	3,837
Additions	—
Depreciation	(678)
Foreign exchange translation	(135)
Balance, end of year	$ 3,024

The contractual undiscounted cash flows for the related lease obligations are disclosed in Note 16 - *Minimum payments*. The effective interest expense on these lease obligations for the year ended December 31, 2019 was $161,000 and is included in interest expense. Total outflow for leases was $638,000. Expenses for leases of low-dollar value items are not material. Pawnee's two options to extend the premises lease term for two additional periods of 60 month each are not reasonably certain to be exercised and have therefore been excluded from the measurement of lease obligations.

	For the year ended December 31, 2019 *($ thousands)*
Premises Leases Payable	
Balance, beginning of year	$ —
Adoption of IFRS 16	3,837
Balance, January 1, 2019	3,837
Additions	—
Principal payments	(477)
Foreign exchange translation	(138)
Balance, end of year	$ 3,222

8. PROPERTY AND EQUIPMENT

Description and accounting policy

Property and equipment are measured at acquisition or purchase cost less scheduled depreciation based on the useful economic lives of the assets. No components (those parts of individual property and equipment assets having different economic lives than the remainder of the asset) have been identified. Scheduled depreciation is based on 20% to 30% declining balance annual rates, which are reassessed annually.

	Furniture and equipment	Computer hardware	Total
Cost:			
December 31, 2017	$ 1,210	$ 2,115	$ 3,325
Additions	37	175	212
Disposals	(44)	(63)	(107)
Foreign exchange translation	9	(21)	(12)
December 31, 2018	1,212	2,206	3,418
Additions	208	104	312
Disposals	(20)	(2)	(22)
Foreign exchange translation	(3)	1	(2)
December 31, 2019	**$ 1,397**	**$ 2,309**	**$ 3,706**

	Furniture and equipment	Computer hardware	Total
Accumulated depreciation:			
December 31, 2017	$ 488	$ 902	$ 1,390
Depreciation	120	386	506
Disposals	(41)	(63)	(104)
Foreign exchange translation	11	(13)	(2)
December 31, 2018	578	1,212	1,790
Depreciation	133	373	506
Disposals	(21)	(2)	(23)
Foreign exchange translation	4	2	6
December 31, 2019	**$ 694**	**$ 1,585**	**$ 2,279**

	Furniture and equipment	Computer hardware	Total
Carrying amount:		*($ thousands)*	
December 31, 2017	$ 722	$ 1,213	$ 1,935
December 31, 2018	$ 634	$ 994	$ 1,628
December 31, 2019	**$ 703**	**$ 724**	**$ 1,427**

9. INTANGIBLE ASSETS

Description and accounting policy
Purchased intangible assets are recognized as assets in accordance with IAS 38, *Intangible Assets*, where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably. Intangible assets acquired are initially recognized at cost of purchase and are subsequently carried at cost less accumulated amortization and, if applicable, accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite. Management has determined that trade names have indefinite lives. The broker relationships are considered to have a finite life and are amortized on a scheduled straight-line basis over their estimated useful life of seven to fifteen years. The non-compete agreements are amortized on a scheduled straight-line basis over their three-year life.

The amortization period and method of amortization for intangible assets with finite lives are reassessed annually. Changes in the useful life or in the pattern of economic benefits derived are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually at the cash generating unit ("CGU") level and are reviewed annually to determine whether the indefinite life continues to be applicable. Any change from indefinite life to finite life would be accounted for prospectively. CGUs are defined as the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

A previously recognized impairment loss for non-financial assets is reversed if there has been a change in the assumptions used to determine recoverable amount since the previous impairment loss was recognized. The carrying amount after the reversal cannot exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years.

Significant estimates
The impairment testing utilizes several assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year as a result of the value-in-use ("VIU") being derived from an estimated discounted cash flow model. VIU is the present value of the estimated future cash flows from the CGU discounted using a pre-tax rate that reflects current market rates and the risks inherent in the business of each CGU. The cash flows are derived from budgets for the next five years, excluding restructuring activities and future investments. Other than the cash flow estimates, the value-in-use is most sensitive to the discount rate used and the growth rate applied beyond the five-year estimate.

	Indefinite useful life	Finite useful life		
	Trade names	Broker relationships	Non-Compete	Total
Cost:		*($ thousands)*		
December 31, 2017	$ 7,189	$ 19,517	$ 1,309	$ 28,015
Foreign exchange translation	593	—	—	593
December 31, 2018	7,782	19,517	1,309	28,608
Foreign exchange translation	(353)	—	—	(353)
December 31, 2019	**$ 7,429**	**$ 19,517**	**$ 1,309**	**$ 28,255**

	Trade names	Broker relationships	Non-Compete	Total
Accumulated amortization:		*($ thousands)*		
December 31, 2017	$ 127	$ 7,132	$ 1,072	$ 8,331
Amortization	—	1,275	237	1,512
December 31, 2018	127	8,407	1,309	9,843
Amortization	—	1,332	—	1,332
December 31, 2019	**$ 127**	**$ 9,739**	**$ 1,309**	**$ 11,175**

	Trade names	Broker relationships	Non-Compete	Total
Carrying amount:		*($ thousands)*		
December 31, 2017	$ 7,062	$ 12,385	$ 237	$ 19,684
December 31, 2018	$ 7,655	$ 11,110	$ —	$ 18,765
December 31, 2019	**$ 7,302**	**$ 9,778**	**$ —**	**$ 17,080**

Trade names were recognized in the acquisitions of Pawnee and Blue Chip and can be renewed annually, at nominal cost and for an indefinite period. There is no legal limit to the life of these trade names. The businesses to which these intangible assets relate have established names in the market and, given the stability in the demand for their products and services, management expects to be able to derive economic benefit from these intangible assets for an indefinite period of time and has therefore determined them to be of indefinite life.

The following table shows the carrying amount of indefinite-life intangible assets by CGU as at:

	December 31, 2019	December 31, 2018
	($ thousands)	
Pawnee	**$ 7,014**	$ 7,367
Blue Chip	**288**	288
Total indefinite-life intangible assets	**$ 7,302**	$ 7,655

10. GOODWILL

Description and accounting policy

Goodwill is initially measured at cost which represents the excess of the fair value of consideration paid for a business acquisition over the Company's share of the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Impairment testing is applied on an individual asset basis unless an asset does not generate cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets. None of the Company's non-financial assets generate independent cash inflows and therefore all non-financial assets are allocated to CGUs for purposes of assessing impairment.

Impairment losses are recognized when the carrying amount of a CGU exceeds the recoverable amount, which is the greater of the CGU's fair value less cost to sell and its VIU. If the recoverable amount of the CGU is less than its carrying amount, the CGU is considered impaired and is written down to its recoverable amount. The impairment loss is allocated to reduce the carrying amount of the assets of the CGU, first to reduce the carrying amount of the CGU's goodwill and then to the other assets of the CGU allocated pro-rata on the basis of the carrying amount of each asset. Impairment losses of operations are recognized in the statement of income.

CGUs to which goodwill and intangible assets with indefinite lives have been allocated are tested for impairment annually as at December 31, and all CGUs are tested for impairment more frequently when there is an indication that the CGU may be impaired.

Significant estimates
The impairment testing utilizes several assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year as a result of the VIU being derived from an estimated discounted cash flow model. The cash flows are derived from budgets for the next five years, excluding restructuring activities and future investments. Other than the cash flow estimates, the VIU is most sensitive to the discount rate used and the growth rate applied beyond the five-year estimate.

The goodwill allocated to each CGU and movements in goodwill consist of the following:

	Pawnee	Blue Chip	Total
Cost:		*($ thousands)*	
December 31, 2017	$ 46,225	$ 26,365	$ 72,590
Foreign exchange translation	3,255	—	3,255
December 31, 2018	49,480	26,365	75,845
Foreign exchange translation	(2,371)	—	(2,371)
December 31, 2019	**$ 47,109**	**$ 26,365**	**$ 73,474**

	Pawnee	Blue Chip	Total
Accumulated impairment:		*($ thousands)*	
December 31, 2017	$ 32,733	$ —	$ 32,733
Foreign exchange translation	2,075		2,075
December 31, 2018	34,808	—	34,808
Foreign exchange translation	(1,668)		(1,668)
December 31, 2019	**$ 33,140**	**$ —**	**$ 33,140**

	Pawnee	Blue Chip	Total
Carrying amount:		*($ thousands)*	
December 31, 2017	$ 13,492	$ 26,365	$ 39,857
December 31, 2018	$ 14,672	$ 26,365	$ 41,037
December 31, 2019	**$ 13,969**	**$ 26,365**	**$ 40,334**

The Company completed its annual goodwill impairment test as at December 31, 2019 and 2018 and determined that no impairment had occurred. Goodwill is considered impaired to the extent that its carrying amount exceeds its recoverable amount. The recoverable amounts of the Company's CGUs were determined based on their VIU. The calculation of VIU incorporated five years of cash flow estimates plus a terminal value and was based on the following key variables:

i) The five years of cash flow estimates were based on achieving key operating metrics and drivers based on management estimates, past history and the current economic outlook, and were approved by Chesswood management. The VIU for Pawnee and Blue Chip is most sensitive to assumptions of lease origination volumes and net charge-offs.
ii) Terminal value incorporated into the VIU calculations was estimated by applying the growth rates in the following chart to cash flow estimates for the fifth year. The growth rates reflect the historical average core inflation rate which does not exceed the long-term average growth rate for the industry.

	Pawnee	Blue Chip
Terminal value growth rates:		
December 31, 2018	3.0%	3.0%
December 31, 2019	3.0%	3.0%

iii) The following pre-tax discount rates were applied in determining the recoverable amount of the CGUs. The discount rates were based on the weighted average cost of capital, adjusted for a liquidity and a risk premium.

	Pawnee	Blue Chip
Pre-tax discount rates:		
December 31, 2018	27.87%	21.41%
December 31, 2019	27.87%	20.75%

Significant estimates
If the future were to adversely differ from management's best estimate of key assumptions, including associated cash flows, the Company could potentially experience future material impairment charges in respect of its goodwill and intangible assets.

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

	December 31, 2019	December 31, 2018
	($ thousands)	
Dividend payable	**$ 1,241**	$ 1,240
Accounts payable	**2,078**	2,187
Sales tax payable	**951**	874
Customer deposits and prepayments	**913**	845
Unfunded finance receivables	**7,230**	5,984
Taxes payable	—	742
Payroll related payables and accruals	**1,408**	1,176
Accrued expenses and other liabilities	**3,014**	2,552
	$ 16,835	$ 15,600

12. BORROWINGS

	Chesswood credit facility *(a)*	Chesswood deferred financing costs	Pawnee credit facilities *(b)*	Pawnee deferred financing costs	Blue Chip financing facilities *(c)*	Total
			($ thousands)			
Net as of December 31, 2017	$ 200,405	$ (2,536)	$ 87,241	$ (2,142)	$ 129,187	$ 412,155
Proceeds or draw-downs	242,806	—	172,288	—	84,029	499,123
Repayments	(227,950)	—	(45,606)	—	(67,054)	(340,610)
Payment of financing costs	—	(425)	—	(3,542)	—	(3,967)
Amortization of deferred financing costs	—	1,254	—	1,521	—	2,775
Foreign exchange translation	18,017	—	14,326	(294)	—	32,049
Net as of December 31, 2018	233,278	(1,707)	228,249	(4,457)	146,162	601,525
Proceeds or draw-downs	245,187	—	416,027	—	68,099	729,313
Repayments	(278,890)	—	(233,730)	—	(74,909)	(587,529)
Payment of financing costs	—	(1,881)	—	(5,577)	—	(7,458)
Amortization of deferred financing costs	—	1,410	—	2,422	—	3,832
Foreign exchange translation	(10,470)	—	(14,803)	281	—	(24,992)
Net as of December 31, 2019	**$ 189,105**	**$ (2,178)**	**$ 395,743**	**$ (7,331)**	**$ 139,352**	**$ 714,691**

(a) The Chesswood revolving credit facility allows borrowings of up to US$250.0 million, subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility includes a US$50 million accordion feature that can increase the overall revolver to US$300 million, is secured by substantially all of the Company's assets, contains covenants, including maintaining leverage and interest coverage ratios, and expires on December 8, 2022 (renewed on September 30, 2019 - previously expired on December 8, 2020). At December 31, 2019, the Company was utilizing US$156.1 million (December 31, 2018 - US $178.7 million) of its credit facility and had approximately US$93.9 million in additional borrowings available under the corporate credit facility. At December 31, 2019 and December 31, 2018, and throughout the periods presented, the Company was compliant with all covenants. Based on average debt levels, the effective interest rate during the year ended December 31, 2019 was 5.49% (year-ended December 31, 2018 - 5.12%).

(b) Pawnee credit facilities:
(i) Pawnee has a US$250 million revolving warehouse loan facility specifically to fund its growing prime portfolio, through its subsidiary Pawnee Portfolio Fund ("PPF"). The warehouse facility will hold Pawnee's prime receivables before they are securitized. This credit facility is secured by PPF's assets, contains covenants, including maintaining leverage and interest coverage ratios, and matures in September 2021 and expires in September 2024. At December 31, 2019, Pawnee was utilizing US$0.0 million of this facility (December 31, 2018 - US$83.0 million). At December 31, 2019 and throughout the period from August 2018, Pawnee was compliant with all covenants. Based on average debt levels, the effective interest rate during the year ended December 31, 2019 was 6.16% (2018 - 7.54%).
(ii) Pawnee has a combined US$125 million non-recourse asset-backed facilities with Capital One (the "CapOne facilities"), through subsidiaries Pawnee Receivable Fund I and II LLC. The CapOne facilities are secured by US$154.2 million in gross receivables from Pawnee's prime portfolio of equipment leases and loans and repayment terms are based on the cash flow of the underlying portfolio. The proceeds were used to pay down Chesswood's existing revolving credit facility. The facilities require Pawnee to mitigate its interest rate risk by entering into interest rate caps for a notional amount not less than 80% of the aggregate outstanding balance. The balance of the facilities at December 31, 2019 was US$48.4 million (December 31, 2018 – US$84.3 million). Pawnee is to comply with leverage ratio, interest coverage ratio, and tangible net worth covenants. At December 31, 2019 and December 31, 2018, and throughout the periods presented, Pawnee was compliant with all covenants. Based on average debt levels, the effective interest rate during the year ended December 31, 2019 was 5.72% (2018 - 5.51%).
(iii) Pawnee has a credit facility, with an US$80 million annual capacity, with a life insurance company that expires in June 2027. The funder makes approved advances to Pawnee 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. Pawnee maintains certain cash reserves as credit enhancements or provides letters of guarantee in lieu of those same cash reserves. Pawnee retains the servicing of these finance receivables. The balance of this facility at December 31, 2019 was US$16.6 million with an effective interest rate of 4.43% (including amortization of origination costs) (December 31, 2018 – nil).
(iv) In October 2019, Pawnee completed a US$254 million asset-backed securitization which has fixed term and fixed interest rate, and is collateralized by receivables from Pawnee's portfolio of equipment leases and loans. The securitization has an approximate cost of funds, including fees and legal costs, of 2.77% per annum. Proceeds from the securitization were used to pay down Pawnee's warehouse line and Chesswood's senior revolving credit facility. During the third quarter of 2019, Pawnee entered into a US$164.5 million interest rate swaption agreement that provided for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. The swaption agreement was used to protect the pricing of the marketed securitization entered into subsequent to the quarter end. The swaption agreement matured on October 23, 2019.

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

At December 31, 2019, Blue Chip had access to the following committed lines of funding: (i) $60.0 million annual limit from a life insurance company; (ii) $100.0 million rolling limit from a financial institution; and (iii) approved funding from another financial institution with no annual or rolling limit. As at December 31, 2019, Blue Chip had $139.4 million (December 31, 2018 - $146.2 million) in securitization and bulk lease financing facilities debt outstanding, was utilizing $74.2 million (December 31, 2018 - $76.2 million) of its available financing and had access to at least $115.8 million (December 31, 2018 - $93.8 million) of additional financing from the Funders.

Interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Based on average debt levels, the effective interest rate during the year ended December 31, 2019 was 3.61% (2018 - 3.37%). As at December 31, 2019, Blue Chip had provided $9.9 million in outstanding letters of guarantee through Chesswood's revolving credit facility in lieu of cash reserves. Blue Chip must meet certain financial covenants, including leverage ratio, interest coverage ratio, and tangible net worth covenants, to support these securitization and bulk lease financing facilities. As at December 31, 2019 and December 31, 2018, and throughout the periods presented, Blue Chip was compliant with all covenants.

(d) Restricted funds
Restricted funds represent cash reserve accounts which are held in trust as security for secured borrowings (Pawnee facilities in *(b)* above) and cash collection accounts required by the lenders of certain financial assets that can only be used to repay these debts on specific dates. The 'cash in collections accounts' will be applied to the outstanding borrowings in the following month.

	December 31, 2019	December 31, 2018
	($ thousands)	
Restricted - cash in collection accounts	**$ 16,412**	$ 9,063
Restricted - cash reserves	**5,339**	4,535
Restricted funds	**$ 21,751**	$ 13,598

(e) Redemption of convertible debentures
On December 12, 2017, the Company exercised its right to redeem the debentures on January 17, 2018. The Company paid, in cash, to the debenture holders $20.0 million in outstanding principal and $60,548 in accrued and unpaid interest up to the redemption date.

13. CUSTOMER SECURITY DEPOSITS

Customer security deposits are held for the full term of the lease and then returned or applied to the purchase option of the equipment at the lessee's request, unless the lessee has previously defaulted in which case the deposit is applied against the lease receivable at that time. Past experience suggests that a very high percentage of the customer deposits are applied to the purchase option of the leased equipment at the end of the lease term, or as an offset against outstanding lease receivables.

		December 31, 2019		December 31, 2018
		($ thousands)		
Security deposits that will be utilized within one year	**$**	**3,896**	$	3,884
Security deposits that will be utilized in future years		**8,210**		12,889
	$	**12,106**	$	16,773

14. INTEREST RATE DERIVATIVES

Interest rate derivatives, which comprise interest rate swaps and caps, are not considered trading instruments as the Company intends to hold them until maturity. The instruments do not qualify as hedges for accounting purposes, and are therefore recorded as separate derivative financial instruments. Accordingly, the estimated fair values are recorded on the accompanying consolidated statement of financial position. The fair values are based on the estimated net present value of cash flows and represent the consideration the Company would receive (pay) if a derivative was terminated on the reporting date.

Payments made and received pursuant to the terms of the instruments are recorded as an adjustment to interest expense. Fair value adjustments are recorded separately on the statement of income.

(a) Derivative swaps

The Company enters into interest rate swap agreements that provide for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. The interest rate swaps are intended to offset a portion of the variable interest rate risk on Chesswood's revolving credit facility (see Note 12(a) - *Borrowings*). At December 31, 2019, the fair value of the swaps was a liability of $293,000 (December 31, 2018 - an asset of $455,000).

The following swap agreements were outstanding at December 31, 2019:

Effective Date	**Notional Amount US$**	**Annual Fixed Rate**	**Maturity Date**
August 15, 2016	$20 million	1.985%	August 13, 2020
August 15, 2016	$20 million	2.120%	August 13, 2021

(b) Derivative caps
During the third quarter, Pawnee entered into a US$40.0 million interest rate cap agreement that provides for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. The interest rate cap is intended to offset a portion of the variable interest rate risk on Pawnee's warehouse facility (see Note 12(b)(*i*) - *Borrowings*). The interest rate cap agreement matures on July 25, 2022. At December 31, 2019, the fair value of the swap was an asset of $57,000 (December 31, 2018 - n/a).

Pawnee's non-recourse asset-backed facilities (see Note 12(b)(*ii*) - *Borrowings*) require Pawnee to mitigate interest rate risk by entering into an interest rate cap for a notional amount of not less than 80% of the aggregate outstanding balance. The interest rate caps are tied to the repayment terms of the underlying finance receivables portfolio supporting the Pawnee facility, through the maturity date, with a floating index rate based on USD-LIBOR-BBA, but subject to a capped fixed rate of 2.25% and 2.75%. At December 31, 2019, the fair value of the interest rate caps was an asset of $3,200 (December 31, 2018 - asset $441,000).

15. TAXES

Description and accounting policy
Taxes are accounted for using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising from investments in subsidiaries that are not expected to reverse in the foreseeable future are not recognized.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Tax expense reflects the mix of taxing jurisdictions in which pre-tax income and losses were recognized.

Significant estimates and judgments
The Company is subject to income tax laws in the various jurisdictions that it operates in and the complex tax laws are potentially subject to different interpretations by the Company and the relevant tax authority. Management's judgment is applied in interpreting the relevant tax laws and estimating the expected timing and the amount of the provision for current and deferred income taxes. Determining the value of deferred tax assets recognized requires an estimate of the value of tax benefits that will eventually be realized by the Company which utilizes several assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

On December 22, 2017, the U.S. government enacted new tax legislation effective January 1, 2018. The legislation made broad and complex changes to the U.S. tax code. The tax provision may change in the future following a more comprehensive review of the legislation, including implementation of the associated rules and regulations and supporting guidance from the Internal Revenue Service and other bodies, and as a result of any future changes or amendments to this legislation.

U.S. federal tax legislation enacted in 2004 addresses perceived U.S. tax concerns over “corporate inversion” transactions. A “corporate inversion” generally occurs when a non-U.S. entity acquires “substantially all” of the equity interests in, or the assets of, a U.S. corporation or partnership, if, after the acquisition, former equity holders of the U.S. corporation or partnership own a specified level (referred to as the “percentage identity”) of equity in the non-U.S. entity, excluding equity interests acquired in the acquiring entity in public offerings associated with the acquisition. Adverse U.S. tax consequences are only triggered if:

(i) Pawnee sells or licenses any of its assets as part of its acquisition by the Company, or licenses any assets to a related non-U.S. entity during the subsequent 10 years; or

(ii) If Pawnee does sell or license any such assets, it does not offset its U.S. tax arising from such sales or licenses with loss carry-forwards, foreign tax credits or certain tax amounts with similar attributes.

Management has concluded that neither of these conditions will be triggered.

(a) Tax expense consists of the following:

	For the years ended December 31, 2019		December 31, 2018	
	($ thousands)			
Current tax expense	**$**	**1,623**	$	7,206
Deferred tax expense		**3,544**		2,167
Tax expense	**$**	**5,167**	$	9,373

(b) The table below shows the reconciliation between tax expense reported in the consolidated statements of income and the tax expense that would have resulted from applying the combined Canadian Federal and Ontario tax rate of 26.5% (2018 - 26.5%) to income before income taxes.

	For the years ended December 31, 2019		December 31, 2018	
	($ thousands)			
Income before taxes	**$**	**17,858**	$	32,258
Canadian tax rate		**26.5%**		26.5%
Theoretical tax expense		**4,732**		8,548
Tax cost of non-deductible items		**212**		311
Unrecognized tax losses, net		**204**		14
Withholding tax on inter-company dividends		**529**		795
Lower (higher) effective tax rates in foreign jurisdictions		**(168)**		666
Change in substantively enacted tax rates of future periods		**—**		(1,033)
True-up of prior year		**(357)**		(87)
Other		**15**		159
Tax expense	**$**	**5,167**	$	9,373

(c) The net deferred tax balances within the consolidated statements of financial position were comprised of the following:

		December 31, 2019	December 31, 2018
		($ thousands)	
Deferred tax assets	*(d)*	**$ 283**	$ 375
Deferred tax liabilities	*(e)*	**(23,370)**	(20,794)
Net deferred tax liabilities		**$ (23,087)**	$ (20,419)

Reconciliation of net deferred tax liabilities:

		For the years ended **December 31,** **2019**	2018
		($ thousands)	
Balance, beginning of year		**$ (20,419)**	$ (20,447)
Deferred tax recovery (expense) in the statements of income	*(a)*	**(3,544)**	(2,167)
Adoption of IFRS 9 & 15		**—**	**3,453**
Foreign exchange translation		**876**	(1,258)
Net change in net deferred tax liabilities during the year		**(2,668)**	28
Balance, end of year		**$ (23,087)**	$ (20,419)

(d) The tax effects of the significant components of temporary differences giving rise to the Company's net deferred tax liabilities are as follows:

	December 31, 2019	December 31, 2018
Deferred tax assets:	*($ thousands)*	
Leased assets	**$ 75,397**	$ 41,195
Allowance for credit losses	**7,057**	7,482
Tax losses carried forward	**5,180**	3,357
Financing costs and accrued liabilities	**205**	375
	87,839	52,409
Deferred tax liabilities:		
Finance receivables	**108,739**	70,169
Difference in goodwill and intangible asset base	**2,187**	2,659
	110,926	72,828
Deferred taxes liabilities, net	**$ 23,087**	$ 20,419

The Company has determined that it is probable that all recognized deferred tax assets will be realized through a combination of future reversals of temporary differences and taxable income.

Deferred tax assets are recognized to the extent that realization of the related tax benefit through future taxable profits is probable.

At December 31, 2019, Case Funding had US$660,000 (2018 - US$455,000) in tax losses carried forward and taxable timing differences of US$660,000 (2018 - US$455,000) that have not been recognized.

The Company has not recognized deferred tax liabilities in respect of unremitted earnings in foreign subsidiaries, totaling $76.4 million (2018 - $56.1 million), as it is not considered probable that this temporary difference will reverse in the foreseeable future.

16. MINIMUM PAYMENTS

The following are the contractual payments and maturities of financial liabilities and other commitments (including interest):

($ thousands)		2020	2021	2022	2023	2024	2025 +	**Total**
Accounts payable and other liabilities		$ 16,835	$ —	$ —	$ —	$ —	$ —	**$ 16,835**
Premises leases payments	*(i)*	696	719	729	740	570	239	**3,693**
Borrowings	*(ii)*	207,433	166,315	302,807	64,151	18,269	436	**759,411**
Customer security deposits	*(iii)*	3,896	3,793	2,899	2,214	135	10	**12,947**
Interest rate swaps		57	236	—	—	—	—	**293**
		228,917	171,063	306,435	67,105	18,974	685	**793,179**
Service contracts		285	220	113	2	—	—	**620**
Total commitments		$ 229,202	$ 171,283	$ 306,548	$ 67,107	$ 18,974	$ 685	**$ 793,799**

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 2025. See Note 7 - *Right-to-Use Assets and Premises Leases Payable*.
ii. Borrowings are described in Note 12 - *Borrowings*, and include fixed payments for Pawnee and Blue Chip's securitization facilities and Chesswood's corporate revolving credit facility and Pawnee's warehouse facility, which are lines-of-credit and, as such, the balances can fluctuate. The amount above includes fixed interest payments on Pawnee and Blue Chip's credit facilities and estimated interest payments on the Chesswood corporate credit facility, assuming the interest rate, debt balance and foreign exchange rate at December 31, 2019 remain the same until the expiry date of December 2022. The amount owing under Chesswood's corporate revolving credit facility is shown in year of maturity, all other expected borrowings payments 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.
iv. Please see Note 6(b) - *Finance Receivables* for the expected collections of finance receivables over the same time period. See Note 12(d) - *Borrowings* - for the amount of restricted cash in collections accounts that will be applied to debt in the following month.

The Company has no material liabilites that have not been recognized and presented on the statements of financial position, other than US$10.5 million in letters of guarantee. For contingent liabilities and other commitments, refer to Note 17 - *Contingent Liabilities and Other Financial Commitments*.

17. CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

Contingent liabilities
The Company is subject to various claims and legal actions in the normal course of its business, from various customers, suppliers and others. The individual value of each claim and the total value of all claims as at December 31, 2019 and 2018 were not material or possible outflows are considered remote.

Other financial commitments
The Company has entered into retention agreements with certain employees whereby such employees shall be entitled to certain retention severance amounts upon the occurrence of events identified in each respective agreement.

18. 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. 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.

Chesswood's three-year revolving senior secured US$250 million credit facility and includes a US$50 million accordion feature supports growth in finance receivables, provides the Company's working capital needs and for general corporate purposes. The facility, available in U.S. or Canadian dollars, also improves the Company's financial flexibility by centralizing treasury management and making the provision of capital to individual businesses more efficient. This credit facility is secured by substantially all of the Company's assets, contains covenants including maintaining leverage and interest coverage ratios, and expires on December 8, 2022. At December 31, 2019 and December 31, 2018, and throughout the periods presented, the Company was compliant with all covenants.

Financing facilities of operating subsidiaries are used to provide funding for the respective subsidiary's operations (namely to provide financing for the purchase of assets which are to be the subject of leases and loans or to support working capital). The financing facilities are not intended to directly fund dividends paid by the Company.

19. COMMON SHARES

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.

		Common shares		Amount
		(# '000s)		*($ thousands)*
Balance, December 31, 2017		16,575	$	105,208
Exercise of restricted share units (*Note 21(b)*)		70		806
Exercise of options (*Note 21(a)*)		83		741
Repurchase of common shares under issuer bid	*(a)*	(499)	$	(3,179)
Balance, December 31, 2018		16,229	$	103,576
Exercise of restricted share units (*Note 21(b)*)		44		482
Exercise of options (*Note 21(a)*)		53		403
Repurchase of common shares under issuer bid	*(a)*	(78)		(498)
Balance, December 31, 2019		**16,248**	**$**	**103,963**

(a) Normal course issuer bids

In August 2017, the Company's Board of Directors approved the repurchase for cancellation of up to 1,085,981 of the Company's outstanding common shares for the period commencing August 25, 2017 and ending on August 24, 2018. During 2017, no common shares were repurchased under this normal course issuer bid. From January 1, 2018 to August 24, 2018, the Company repurchased 293,096 of its shares under the normal course issuer bid at an average cost of $10.5277 per share. The excess of the purchase price over the average stated value of common shares purchased for cancellation was charged to retained earnings.

In August 2018, the Company's Board of Directors approved the repurchase for cancellation of up to 1,043,895 of the Company's outstanding common shares for the period commencing August 25, 2018 and ending on August 24, 2019. From August 25, 2018 to December 31, 2018, the Company repurchased 206,340 of its shares under the normal course issuer bid at an average cost of $10.2412 per share. From January 1, 2019 to August 24, 2019, the Company repurchased 78,020 of its shares under the normal course issuer bid at an average cost of $10.3583 per share. The excess of the purchase price over the average stated value of common shares purchased for cancellation was charged to retained earnings.

In August 2019, the Company's Board of Directors approved the repurchase for cancellation of up to 1,031,791 of the Company's outstanding common shares for the period commencing August 26, 2019 and ending on August 25, 2020. From August 26, 2019 to December 31, 2019, no common shares were repurchased under this normal course issuer bid. Decisions regarding the timing of purchases are based on market conditions and other factors.

20. EXCHANGEABLE SECURITIES

As partial consideration for the acquisition of Pawnee in May 2006, 1,274,601 Class B shares and 203,936 Class C shares of U.S. Acquisitionco were issued ("Exchangeable Securities"). The Exchangeable Securities are non-voting shares of U.S. Acquisitionco and are fully exchangeable for Common Shares of the Company, on a one-for-one basis, for no additional consideration, through a series of steps and entitle the holders to receive the same dividends as the Common Shares. Attached to the Exchangeable Securities are Special Voting Units of the Company which provide the holders of the Exchangeable Securities voting equivalency to Company Shareholders. The Exchangeable Securities are reflected as non-controlling interest. Under IFRS 10, Consolidated Financial Statements, the Exchangeable Securities must be shown as non-controlling interest because they are equity in a subsidiary not attributable, directly or indirectly, to the parent even though they have no voting powers in the subsidiary. There are no restrictions to the Company's ability to access or use assets and settle liabilities of U.S. Acquisitionco as a result of the non-controlling interest. The non-controlling interest share of the Company's consolidated net assets and net income is presented on the consolidated financial statements. These shares represent 99.3% (2018 - 99.3%) of the outstanding shares of US Acquisitionco. Dividends paid to Exchangeable Securities holders during the year were $1.2 million (2018 - $1.2 million).

21. COMPENSATION PLANS

Share-based compensation reserve represents the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised at December 31, 2019. There were 2,553,939 options and 44,000 restricted share units outstanding at December 31, 2019 (2018 - 2,384,354 and 44,000).

(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 10-day volume weighted average price of the Common Shares prior to the day such options were granted. 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 share-based compensation reserve.

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

	For the years ended December 31, 2019	2018
Balance, beginning of year	**2,384,354**	2,155,989
Granted	**222,500**	405,000
Exercised	**(52,915)**	(83,135)
Forfeited	**—**	(93,500)
Balance, end of year	**2,553,939**	2,384,354

An analysis of the options outstanding at December 31, 2019 is as follows:

Grant date	Number of options outstanding	Vested	Expiry date	Exercise price
April 25, 2011	197,500	197,500	April 24, 2021	$ 7.79
June 10, 2011	50,000	50,000	June 9, 2021	$ 7.73
December 6, 2011	170,000	170,000	December 6, 2021	$ 6.14
June 25, 2012	153,989	153,989	June 24, 2022	$ 7.45
December 6, 2012	125,000	125,000	December 6, 2022	$ 8.86
April 29, 2014	265,000	265,000	April 29, 2024	$ 14.12
April 16, 2015	160,000	160,000	April 16, 2025	$ 12.53
April 29, 2015	150,000	150,000	April 29, 2025	$ 12.24
August 15, 2016	334,950	334,950	August 15, 2026	$ 10.17
June 19, 2017	355,000	230,750	June 19, 2027	$ 12.15
March 28, 2018	370,000	111,000	March 28, 2028	$ 10.96
September 6, 2019	222,500	—	September 6, 2029	$ 8.95
	2,553,939	1,948,189		

During the year ended December 31, 2019, personnel expenses and the share-based compensation reserve included $320,600 (2018 - $528,000) relating to option expense. As of December 31, 2019, unrecognized non-cash compensation expense related to the outstanding options was $261,300 (December 31, 2018 - $395,700), which is expected to be recognized over the remaining vesting period.

During the year ended December 31, 2019, 52,915 options were exercised (2018 - 83,135) for total cash consideration of $285,000 (2018 - $571,000). On exercise, the accumulated amount in share-based compensation reserve related to the exercised options of $118,000 (2018 - $169,000) was transferred to Common Share capital (Common Share capital was also increased by the cash consideration received upon exercise). For the options exercised during the year ended December 31, 2019, the weighted average share price at the date of exercise was $10.56 (2018 - $11.20).

At December 31, 2019, the weighted average exercise price is $10.40 (December 31, 2018 - $10.43) and the weighted average remaining contractual life for all options outstanding is 5.6 years (December 31, 2018 - 6.1 years). The 1,948,189 options exercisable at December 31, 2019 have a weighted average exercise price of $10.39 (December 31, 2018 - 1,643,354 options at $10.07).

The value of the options granted during the period was determined using the Black-Scholes Option Pricing model with the following assumptions:

	September 6, 2019	March 28, 2018
Number of options granted	222,500	405,000
Weighted average share price at date	$8.95	$10.96
Expected volatility	27% - 28%	30% - 32%
Expected life (years)	7 - 9	7 - 9
Expected dividend yield	7.04%	7.40%
Risk-free interest rates	1.19%	2.05%
Weighted average fair value of options granted	$0.84	$1.23

The risk-free rate was based on the Government of Canada benchmark bond yield on the date of grant for a term equal to the expected life of the options. Expected volatility was determined by calculating the historical volatility of the Company's share price over a period equal to the expected life of the options. The expected life was based on the contractual life of the awards and adjusted, based on management's best estimate and historical redemption rates.

The Black-Scholes Option Pricing Model was developed for use in estimating the fair value of traded options, which have no black-out or vesting restrictions and are fully transferable. In addition, the Black-Scholes Option Pricing Model requires the use of subjective assumptions, including the expected stock price volatility. As a result of the Company's Stock Option Plan having characteristics different from those of traded options, and because changes in the subjective assumptions can have a material effect on the fair value estimates, the Black-Scholes Option Pricing model does not necessarily provide a single measure of the fair value of options granted.

(b) Restricted share units

Restricted share units (RSUs) typically vest one year from the date of issue, are to be settled by the issue of Common Shares and expire in ten years. RSUs granted are in respect of future services and are expensed over the vesting period with an increase in share-based compensation reserve. Compensation cost is measured based on the weighted average market price of the Common Shares for the 10 days prior to the date of the grant of the RSUs, which was $10.14 (2018 - $10.96). Holders of RSUs are not entitled to dividends before the RSUs are exercised.

A summary of the RSUs outstanding is as follows:

	For the years ended **December 31,**	
	2019	2018
Balance, beginning of year	**44,000**	70,000
Granted	**44,000**	44,000
Exercised	**(44,000)**	(70,000)
Balance, end of year	**44,000**	44,000

During the year ended December 31, 2019, personnel expenses and share-based compensation reserve included $375,200 (2018 - $566,000) relating to RSUs. During the year ended December 31, 2019, an aggregate of 44,000 RSUs were granted (2018 - 44,000) to directors. During the year ended December 31, 2019, 44,000 RSUs were exercised (2018 - 70,000). On exercise, the accumulated balance in share-based compensation reserve related to the RSUs of $482,200 (2018 - $806,200) was transferred from reserve to Common Share capital. For the RSUs exercised during the year ended December 31, 2019, the weighted average share price at the date of exercise was $11.10 (2018 - $10.48). As of December 31, 2019, unrecognized non-cash compensation expense related to non-vested RSUs was $185,900 (December 31, 2018 - $115,000). The outstanding RSUs at December 31, 2019, have not yet vested.

22. DIVIDENDS

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

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the year ended December 31, 2019:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
December 31, 2018	January 15, 2019	$ 0.070	$ 1,240
January 31, 2019	February 15, 2019	$ 0.070	1,236
February 28, 2019	March 15, 2019	$ 0.070	1,236
March 29, 2019	April 15, 2019	$ 0.070	1,241
April 30, 2019	May 15, 2019	$ 0.070	1,241
May 31, 2019	June 17, 2019	$ 0.070	1,242
June 28, 2019	July 15, 2019	$ 0.070	1,242
July 31, 2019	August 15, 2019	$ 0.070	1,241
August 30, 2019	September 16, 2019	$ 0.070	1,240
September 30, 2019	October 15, 2019	$ 0.070	1,241
October 31, 2019	November 15, 2019	$ 0.070	1,241
November 29, 2019	December 16, 2019	$ 0.070	1,241
			$ 14,882

The following dividend was declared but not paid to Common Shareholders and Exchangeable Securities holders during the year-ended December 31, 2019 and was included in accounts payable and other liabilities (Note 11 - *Accounts payable and other liabilities*):

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
December 31, 2019	January 15, 2020	$ 0.070	$ 1,241

The following dividends were declared before the financial statements were authorized for issue but not recognized during the year ended December 31, 2019:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
January 31, 2020	February 18, 2020	$ 0.070	$ 1,241
February 28, 2020	March 16, 2020	$ 0.070	1,241
			$ 2,482

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the year ended December 31, 2018:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
December 29, 2017	January 15, 2018	$ 0.070	$ 1,264
January 31, 2018	February 15, 2018	$ 0.070	1,264
February 28, 2018	March 15, 2018	$ 0.070	1,260
March 29, 2018	April 16, 2018	$ 0.070	1,260
April 30, 2018	May 15, 2018	$ 0.070	1,254
May 31, 2018	June 15, 2018	$ 0.070	1,257
June 29, 2018	July 16, 2018	$ 0.070	1,252
July 31, 2018	August 15, 2018	$ 0.070	1,252
August 31, 2018	September 17, 2018	$ 0.070	1,253
September 28, 2018	October 15, 2018	$ 0.070	1,254
October 31, 2018	November 15, 2018	$ 0.070	1,252
November 30, 2018	December 17, 2018	$ 0.070	1,245
			$ 15,067

The following dividend was declared but not paid to Common Shareholders and Exchangeable Securities holders during the year-ended December 31, 2018 and was included in accounts payable and other liabilities (Note 11 - *Accounts payable and other liabilities*):

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
December 31, 2018	January 15, 2019	$ 0.070	$ 1,240

The following dividends were declared before the financial statements were authorized for issue but not recognized during the year ended December 31, 2018:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
January 31, 2019	February 15, 2019	$ 0.070	$ 1,236
February 28, 2019	March 15, 2019	$ 0.070	1,236
			$ 2,472

23. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income for the year by the weighted average number of common shares outstanding during the year.

Diluted earnings per share is calculated using the same method as for basic earnings per share and adjusted for the weighted average number of common shares outstanding during the year to reflect the dilutive impact, if any, of any options, RSUs, or other commitments and instruments assuming they were exercised for that number of common shares calculated by applying the treasury stock method. The treasury stock method assumes that all proceeds received by the Company when options are exercised will be used to purchase common shares at the average market price during the reporting period.

	For the year ended December 31, 2019	2018
Weighted average number of common shares outstanding	**16,235,041**	16,439,392
Dilutive effect of options	**224,428**	311,347
Dilutive effect of restricted share units	**35,441**	60,608
Weighted average common shares outstanding for diluted earnings per share	**16,494,910**	16,811,347
Options excluded from calculation of diluted shares for the period due to their anti-dilutive effect	**1,300,000**	930,000

24. 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:

	For the years ended December 31, 2019	2018
	($ thousands)	
Salaries, fees and other short-term employee benefits	**$ 1,535**	$ 1,525
Share-based compensation	**477**	757
Compensation expense of key management	**$ 2,012**	$ 2,282

25. CASH FLOW SUPPLEMENTARY DISCLOSURE

	Note	For the years ended December 31, 2019	2018
		($ thousands)	
Non-cash transactions			
Common shares issued on exercise of RSUs		**$ 482**	$ 806
Interest paid		**$ 27,056**	$ 21,939

	Note	For the years ended December 31, 2019		For the years ended December 31, 2018	
Other non-cash items included in net income					
Share-based compensation expense	21	**$**	**695**	$	1,094
Amortization of deferred financing costs	12		**3,832**		2,775
Financing costs - convertible debentures			**—**		(29)
Unrealized (gain) loss on investments			**(30)**		181
Interest expense - premises leases payable	7		**161**		—
Unrealized (gain) loss on interest rate derivatives	14		**1,109**		(705)
Unrealized loss on foreign exchange			**(47)**		29
		$	**5,720**	$	3,345
Change in other net operating assets					
Restricted funds		**$**	**(8,995)**	$	(6,749)
Other assets			**3,548**		5,955
Accounts payable and other liabilities			**2,535**		(556)
Customer security deposits			**(3,949)**		1,467
		$	**(6,861)**	$	117
Borrowings					
Draw-downs or proceeds from borrowings	12	**$**	**729,313**	$	499,123
Payments - borrowings	12		**(587,529)**		(340,610)
		$	**141,784**	$	158,513

26. SEGMENT INFORMATION

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

The Company's U.S. Equipment Financing business is located in the United States and is involved in small-ticket equipment leasing and lending to small and medium-sized businesses. Pawnee, Tandem and Windset's information is aggregated with Chesswood's U.S. Equipment Financing segment as Pawnee, Tandem and Windset offer lending solutions to small businesses in the United States. Tandem and Windset continue to leverage off Pawnee's experience, processes and "back-office" support for credit adjudication, collections and documentation. The Canadian Equipment Financing segment provides commercial equipment financing to small and medium-sized businesses in Canada and includes Blue Chip.

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

Selected information by segment and geographically is as follows:

($ thousands)	Year ended December 31, 2019				
	Equipment Financing - U.S.	**Equipment Financing - Canada**	**Other Operations** *(Note 5(c))*	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 96,965	$ 13,638		$ —	$ 110,603
Ancillary finance and other fee income	11,641	4,518		213	16,372
Interest expense	(28,164)	(5,499)		—	(33,663)
Provision for credit losses	(31,145)	(2,069)		—	(33,214)
Finance margin	**49,297**	**10,588**		**213**	**60,098**
Personnel expenses	14,071	2,987		1,816	18,874
Share-based compensation expense	184	14		497	695
Other expenses	14,870	1,884	587	1,782	19,123
Depreciation	1,015	128		41	1,184
Amortization - intangible assets	—	1,332		—	1,332
Operating income	**19,157**	**4,243**	**(587)**	**(3,923)**	**18,890**
Fair value adjustments - investments	—	—	—	30	30
Unrealized loss on interest rate derivatives	(367)	—	—	(742)	(1,109)
Unrealized gain on foreign exchange	—	—	—	47	47
Income before taxes	**18,790**	**4,243**	**(587)**	**(4,588)**	**17,858**
Tax expense	3,535	812	—	820	5,167
Net income	**$ 15,255**	**$ 3,431**	**$ (587)**	**$ (5,408)**	**$ 12,691**
Net cash used in operating activities	$ (119,171)	$ 12,142	$ 309	$ (2,371)	$ (109,091)
Net cash used in investing activities	$ (292)	$ (20)	$ —	$ —	$ (312)
Net cash from financing activities	$ 176,253	$ (6,980)	$ —	$ (50,990)	$ 118,283
Total assets	$ 714,563	$ 204,166	$ 907	$ 7,281	$ 926,917
Total liabilities	$ 434,016	$ 147,438	$ —	$ 188,780	$ 770,234
Finance receivables	$ 661,907	$ 159,178	$ —	$ —	$ 821,085
Goodwill and intangible assets	$ 20,983	$ 36,431	$ —	$ —	$ 57,414
Property and equipment expenditures	$ 292	$ 20	$ —	$ —	$ 312

	Year Ended December 31, 2018				
($ thousands)	**Equipment Financing - U.S.**	**Equipment Financing - Canada**	**Other Operations** *(Note 5(c))*	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 84,452	$ 13,475		$ —	$ 97,927
Ancillary finance and other fee income	8,011	4,284		364	12,659
Interest expense	(21,604)	(5,043)		—	(26,647)
Provision for credit losses	(17,829)	(1,594)		—	(19,423)
Finance margin	**53,030**	**11,122**		**364**	**64,516**
Personnel expenses	11,126	2,592		1,685	15,403
Share-based compensation expense	285	20		789	1,094
Other expenses	10,411	1,735	458	1,663	14,267
Depreciation	490	16		—	506
Amortization - intangible assets	—	1,512		—	1,512
Operating income	**30,718**	**5,247**	**(458)**	**(3,773)**	**31,734**
Fair value adjustments - convertible debentures and investments	—	—	—	(152)	(152)
Unrealized gain on interest rate derivatives	228	—	—	477	705
Unrealized loss on foreign exchange	—	—	—	(29)	(29)
Income before taxes	**30,946**	**5,247**	**(458)**	**(3,477)**	**32,258**
Tax expense	5,904	1,260	—	2,209	9,373
Net income	**$ 25,042**	**$ 3,987**	**$ (458)**	**$ (5,686)**	**$ 22,885**
Net cash used in operating activities	$ (100,770)	$ (16,304)	$ 1,259	$ (277)	$ (116,092)
Net cash used in investing activities	$ (212)	$ —	$ —	$ —	$ (212)
Net cash from financing activities	$ 123,140	$ 16,925	$ —	$ (25,214)	$ 114,851
Total assets	$ 600,652	$ 208,514	$ 1,852	$ 6,794	$ 817,812
Total liabilities	$ 267,999	$ 152,893	$ —	$ 233,425	$ 654,317
Finance receivables	$ 559,542	$ 169,382	$ —	$ —	$ 728,924
Goodwill and intangible assets	$ 22,039	$ 37,763	$ —	$ —	$ 59,802
Property and equipment expenditures	$ 212	$ —	$ —	$ —	$ 212

27 . SUBSEQUENT EVENT

As of the date of authorization of these financial statements, Canada and the U.S. are only weeks into the Coronavirus pandemic. Financial markets and businesses across many industries are beginning to experience challenges and it will likely be some time before the severity of impact will be known. Chesswood expects that, at a minimum, there will be some period of decreased originations and increased delinquencies/charge-offs. The impact may materially adversely affect the business operations and future financial results, including expected credit loss estimation and goodwill valuations.

Chesswood Group Limited

DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors

Frederick W. Steiner
Director, Chairman, Chesswood Group Limited

Samuel Leeper
Director, Chairman, Audit, Finance and Risk Committee
Former C.E.O., Pawnee Leasing Corporation

Clare Copeland
Director, Chairman, Governance, Nominating and Compensation Committee

David Obront
Director
President, Carpool Two Ltd.

Robert Day
Director
Former Chairman, Pawnee Leasing Corporation

Barry Shafran
Director
President & C.E.O., Chesswood Group Limited

Executive Team

Barry Shafran
President & C.E.O.

Lisa Stevenson
Chief Financial Officer

Other Information
Auditors
BDO Canada LLP

Transfer Agent
TSX Trust Company

Corporate Counsel
McCarthy Tétrault LLP

Toronto Stock Exchange Symbol
CHW

Chesswood Group Limited
156 Duncan Mill Road, Unit 15
Toronto, Ontario, Canada M3B 3N2
Tel. 416.386.3099 Fax. 416.386.3085
e-mail:investorrelations@chesswoodgroup.com
www.chesswoodgroup.com

Chesswood Group Limited

Equipment Finance Company
Serving U.S. and Canada

TSX: CHW
Executive Office:
Chesswood Group Limited
156 Duncan Mill Road, Suite 15
Toronto, Ontario, Canada M3B 3N2
Tel. 416.386.3099 • Fax. 416.386.3085
email:investorrelations@chesswoodgroup.com
www.chesswoodgroup.com