CHESSWOOD GROUP LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

DECEMBER 31, 2020

FOR THE YEAR ENDED DECEMBER 31, 2020

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 United States. Tandem Finance Inc., located in Colorado, 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. 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.

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.

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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, at 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

Looking Back on a Challenging but Successful Year

The close of 2020 marked the 38th year of Pawnee's operations in the United States, the 24th year of Blue Chip's operations in Canada and Chesswood Group's 20th year as a publicly traded company. It also marked another severe global economic downturn the organization has successfully navigated.

Adverse economic events, and their impact on our operating results, are a reminder that a "credit first" culture is key to our success. We have always emphasized portfolio diversification, pricing risk appropriately and not chasing growth for growth's sake. This year's results, navigating a worldwide pandemic, reflects the benefits of this ongoing focus.

Our portfolio declined modestly over the year as we concentrated our efforts on collections over originations. Our lease and loan recoveries were up 37% for the year while charge-offs increased 27%. As a result, we experienced modestly higher net charge-offs of $6 million on an average net finance receivables portfolio of approximately $890 million. Origination levels were at their lowest in our second and third quarters but recovered in the final quarter of the year. Our teams in the U.S. and Canada successfully transitioned to a "work from home" structure while at the same time reducing costs to match the lower origination levels. Despite all the noise and disruption, before one-time items, we remained economically healthy and profitable. For the full year, free cash flow generation was strong, totaling $19.6 million ($1.10 per fully diluted share).

The teams at Pawnee, Tandem and Blue Chip deserve congratulations. The abrupt impact brought on by COVID-19 caused significant disruption for our customers, funding partners and the regular course of business. These teams provided record levels of lease and loan accommodation, which peaked at 29% of the U.S. portfolio, to assist commercial borrowers during the lock down. As businesses could reopen, we helped customers return to their contracted payment schedules. As a result of these efforts, we ended the year with less than 3% of our total portfolio requiring further assistance as a result of these efforts.

At the peak of deferral activity, coinciding with peak daily COVID-19 infections in North America, we obtained the needed accommodations under our primary credit facilities and successfully sold a large portion of our prime portfolio through an ABS offering, thereby providing us with access to the liquidity and funding to substantially restore our origination capabilities. By the fourth quarter, we reached key performance milestones that allowed us to completely remove all funding restrictions imposed upon us due to COVID-19.

The volatility experienced by the business from the beginning to the end of the year highlighted three primary themes that impact Chesswood and the general commercial lending industry broadly. First is the need for a stable source of funding, irrespective of where you are in the market cycle. Historically, this was limited to bank line diversification, whereas today, there are new channels of liquidity. Second is the need to embrace technology in all aspects of the business to improve efficiencies, make smarter decisions and better serve customers. We are investing in proprietary commercial lending software to drive our business. Third is the ongoing requirement to support our people in addition to attracting new people to our organization. At the end of the day, our people are our most valuable asset.

Sources of Funding

Chesswood's funding structure consists of a corporate revolving credit facility provided by a syndicate of six banks. This revolver provides us with funding for our prime and non-prime originations. On a regular basis, we move leases and loans from our revolver into warehousing facilities for ABS or committed bulk purchase facilities for securitization (under which Chesswood is only subject to limited, or no, recourse). The graduation of assets from the revolver to warehousing and securitization requires relationships with different financial institutions. This form of diversification, while beneficial in normal economic environments, can be more challenging or less available during times of crisis.

The asset backed securitization markets were a strong source of funding during COVID-19. In these markets, Chesswood was able to tap into large institutional investors that looked to purchase asset backed receivables from experienced originators with strong track records – like Chesswood. This experience demonstrated why diversification cannot only be amongst financial institutions but must also be across markets. It was the prior experience of our first ABS offering in 2019 that provided us with the track record and credibility to maintain access during COVID-19.

We have begun making changes to our funding infrastructure to further stabilize access to capital necessary to fund our originations. Our newest facility supporting our U.S. business provides for bulk asset purchases of our non-prime originations. This committed source of capital had not previously been available, which had made us reliant on our corporate revolver for these assets. This will no longer be the case. In addition to this facility, we are looking to streamline our process of getting prime receivables to ABS buyers. We currently have two outstanding ABS receivables packages, both of which are performing well and improving our credibility in these markets for future offerings.

As we move forward in 2021, we see an opportunity to connect private credit investors with commercial borrowers. Investors that are allocating capital to private credit investment funds, in search of yield, are an appealing source of funds that could further improve our objective for stable and diversified funding. This additional source of capital is unique compared to our existing conduits and it is our expectation that experience in this channel will become increasingly important over time.

Embracing Technology

We have seen a revolution in consumer credit, enabled by technology, embracing the theme of “buy now, pay later” programs offered by a variety of new industry participants. Growing e-commerce sales, new payment platforms and the general proliferation of credit has fueled technological development for consumer lending. Unfortunately, little of this evolution has found its way into commercial lending platforms. Commercial lending is often more complicated and requires greater levels of documentation, a more detailed analysis of financial documents and greater understanding of the underlying businesses and their need for credit access.

Chesswood’s operating subsidiaries are undertaking a significant system wide upgrade to modernize our primary technology platform. This proprietary system will utilize decades of data that we have gathered as an organization, helping us make better credit decisions, track portfolio performance and more efficiently service our customers.

We have started this effort by hiring expertise to evaluate the current systems across the organization and to lead and implement improvements. Our team, which has significant financial services industry experience, will now have the added experience of automating systems used in our daily operations. This additional knowledge and experience working with modern technological tools can positively augment our existing processes. We expect to see operating efficiencies and opportunities to improve our origination process as we adopt these new systems.

Our People

Chesswood’s most valuable asset is our people. Despite the operating challenges faced throughout 2020, the team pulled together and found solutions to the problems we encountered. I am fortunate to work alongside dedicated people that are consistently trying to make Chesswood a better company that serves all stakeholders. While I cannot explicitly point to this asset anywhere in our financial statements, I can assure you that the incredible value our people contribute is the fundamental underpinning of our balance sheet assets and overall financial performance.

We ended the year with 144 people across the organization and are looking to add to our talented group throughout 2021. We are excited by our growth prospects going forward and look forward to sharing our results as we progress through the year.

Ryan Marr,
President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management’s discussion and analysis (this "MD&A") is provided to enable readers to assess the financial condition and results of operations of Chesswood Group Limited (“Chesswood” or the "Company”) as at and for the three months and year ended December 31, 2020. This discussion should be read in conjunction with the 2020 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 noted otherwise. This MD&A is dated March 9, 2021.

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.

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FORWARD-LOOKING STATEMENTS

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

Forward-looking statements typically use the conditional, as well as words such as prospect, believe, estimate, forecast, project, expect, anticipate, plan, may, should, could and would, or the negative of these terms, variations thereof or similar terminology. By their very nature, forward-looking statements are based on assumptions and involve inherent risks and uncertainties, both general and specific in nature. The Company operates in a dynamic environment that involves various risks and uncertainties, many of which are beyond its control and which could have an effect on the Company's business, revenues, operating results, cash flow 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 continuing effect of the COVID-19 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 companies. 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, and goodwill and intangible asset impairment. 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 and investments, (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) restructuring and other transaction costs or goodwill and intangible asset impairment, and (vii) any unusual and material one-time gains or expenses. Adjusted EBITDA is a measure of performance defined in one of the Company's significant bank agreements and is the basis for the Company's Free Cash Flow calculation. Adjusted EBITDA is therefore included as a non-GAAP measure that is relevant for a wider audience of users of the Company's financial reporting.

"Adjusted Operating Income" is Operating Income (Loss), as presented in the consolidated statements of income, adjusted to exclude amortization of intangible assets and the change in allowance for credit losses ("ACL"). Adjusted Operating Income is intended to reflect the recurring income from the Company's businesses. Amortization of intangible assets, which includes the expense related to broker relationships and non-compete clauses, is a function of acquisitions. The cost of maintaining the broker relationships 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 and reflects our creditor approved formulas for Adjusted EBITDA and Free Cash Flow that drives our Maximum Permitted Dividends, both relevant measures for users of the Company's financial reporting.

"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 lenders as to a measure of the cash flow produced by the Company's businesses in a period. It is also management's concurrent view that the measure significantly reduces the impact of large non-cash charges and/or recoveries that do not reflect actual cash flows of the businesses, and can vary greatly in amounts from period to period. See 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, 2020, 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, at December 31, 2020, the Company had 144 employees compared to 152 employees at December 31, 2019.

PAWNEE

The Company's largest operations are conducted by Pawnee, which accounted for 86.9% of consolidated revenue in the year ended December 31, 2020. As of December 31, 2020, Pawnee employed 95 full-time equivalent employees compared to 103 employees at December 31, 2019. In early April 2020, Pawnee decreased its workforce by 20 employees due to the slow-down in new originations caused by COVID-19.

Pawnee and Tandem temporarily halted new originations late in April 2020 to allow the Company to settle upon appropriate COVID-19 related amendments to its revolving credit facility. Pawnee and Tandem limited their originations in the U.S. in the second and third quarters, and have returned to normal operations and origination levels by December 31, 2020.

Established in Fort Collins, Colorado in 1982, Pawnee specializes in providing equipment financing of up to US$350,000 to small and medium-sized businesses in the U.S., with a wide range of credit profiles from start-up entrepreneurs to more established businesses, in prime and non-prime market segments, through a network of 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 for 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 "Core" (start-up and "C" markets) 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 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. 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 this 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. The prime market segment encompasses the vast majority of the small-ticket equipment finance market and is much larger than the “B” and “Core” markets. Prime leases and loans are generally made to well-established businesses who have “A”rated personal and/or commercial credit profiles; these transactions are considered to have the lowest risk of default. To date, Pawnee’s portfolio experience has been excellent.

Pawnee’s brokers predominantly originate prime equipment finance transactions versus “B” and “Core” rated customers. As a result of its longevity and tenured broker relationships, Pawnee has been able to garner a significant portion of its brokers prime credit originations in a short amount of time. Pawnee’s reliability, ease of service, focus on the broker-channel business and competitive product has made Pawnee a top tier funding partner to its brokers relative to its competitors for prime originations. More recently, given the sheer market opportunity, prime originations represent greater than 75% of new originations and these volumes are expected to continue to grow as Pawnee’s prime credit products make further penetration within Pawnee’s broad broker network. Pawnee now offers equipment financing to “B” and “Core” customers up to US$75,000 and up to US$350,000 in prime, and it may from time to time and more regularly in the future finance equipment costing up to US$500,000 in 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.
- Pawnee has a credit facility with annual capacity of US$150 million with a life insurance company that expires in October 2028 and funds both prime and near-prime finance receivables. 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 facility covers both prime and non-prime receivables. 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 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.

- Pawnee has two marketed asset-backed securitization which have fixed terms and fixed interest rates, and are collateralized by certain receivables from Pawnee's portfolio of equipment leases and loans. The balance at December 31, 2020 totaled US$312.9 million. Proceeds from the securitization were used to pay down Pawnee's then existing facilities 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:

- Credit underwriting parameters designed to mitigate risk;
- A relationship-driven approach to origination through a well-established and trained network of reputable broker firms;
- Portfolio diversification across geographies, industries, equipment classes, origination source, vendors, equipment cost, and credit classes;
- 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
- 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 based 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.

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, 2020, Pawnee's portfolio of 17,211 leases and loans, representing US$575.0 million in gross finance receivables (excluding residual receivable), was diversified, with:

- Over 82 equipment categories, with the five largest - medical, titled trucks, construction, restaurant, and auto repair - accounting for 39.8% of the total number of active leases and loans;
- Over 241 industry segments, with no industry representing more than 8.9% of the number of active financings;
- No lessee/borrower accounting for more than 0.12% of the total finance receivable balance;
- 50 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 14.8% and 11.4%, respectively); and
- The largest originator (excluding Tandem) accounting for 5.8% of gross lease and loan receivables, and the ten largest accounting for 31.9%.

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. While the restaurant equipment is one of Pawnee's largest equipment type financed, approximately half of that is financed to franchisees of well-known, national brand franchise chains that have benefited from COVID-19 operating conditions (i.e. drive thru or delivery focused).

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 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 95 full-time equivalent employees at 2020 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 77 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 as a strategic long-term investment by Chesswood. Tandem 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"). Tandem had 17 employees at December 31, 2020 compared to 14 employees at December 31, 2019. Tandem is supported by Pawnee's credit, documentation, collection and administrative departments which provides "back-office" support to Tandem. Annual originations in the vendor small-ticket market are estimated to be five times larger than the third-party small-ticket market served by Pawnee. While the vendor channel has a longer sales cycle than the third-party channel, equipment vendors and distributors generally form long-term partnerships with funders which can result in programs that generate originations and revenues over many years.

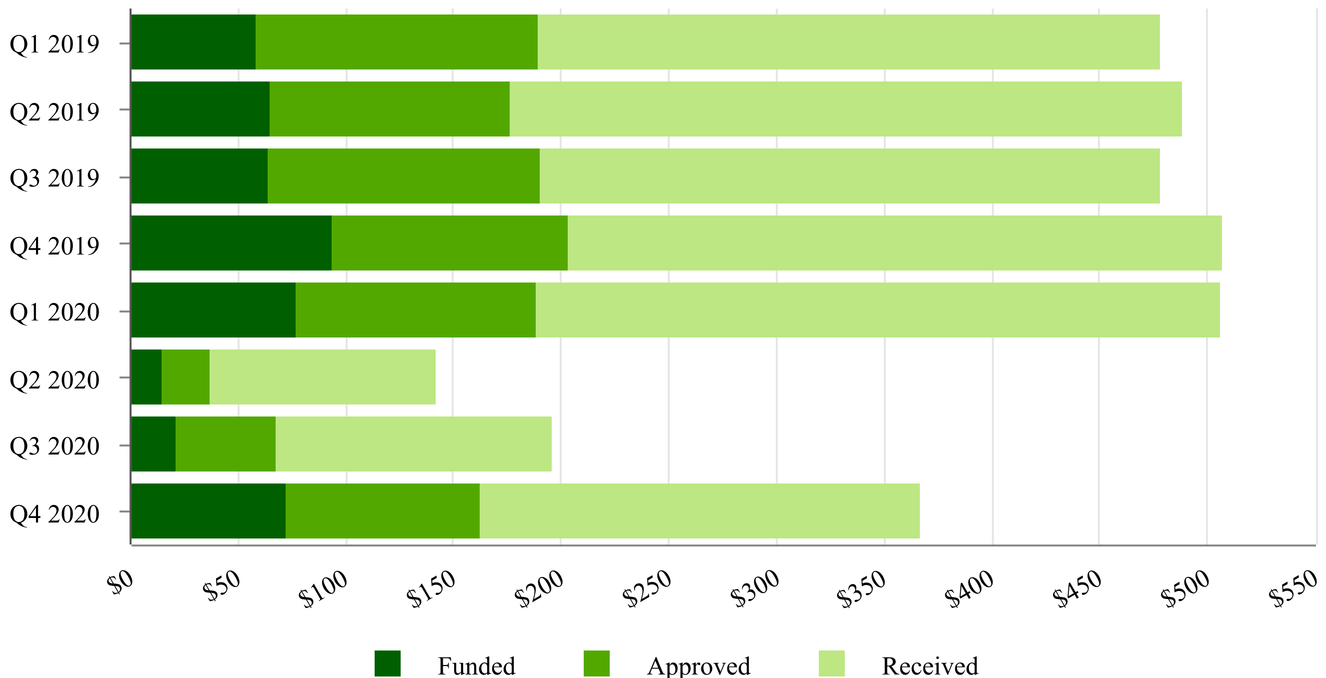
U.S. Equipment Finance Receivable Portfolio Statistics (Pawnee & Tandem)

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

	Mar 31 2019	June 30 2019	Sep 30 2019	Dec 31 2019	Mar 31 2020	June 30 2020	Sep 30 2020	Dec 31 2020
Number of leases and loans outstanding (#)	18,351	18,698	18,879	19,416	19,730	18,184	17,104	17,211
Gross lease and loan receivable ("GLR") (1)(5)	$535,525	$561,452	$580,808	$632,240	$658,562	$606,309	$556,456	$574,991
Residual receivable	$19,347	$20,281	$20,752	$21,242	$21,061	$19,303	$17,883	$17,428
Net investment in leases and loans receivable ("NFR"), before allowance	$444,376	$467,056	$486,397	$531,860	$557,064	$518,544	$479,908	$497,982
Security deposits ("SD") (nominal value)(4)	$12,936	$11,812	$10,946	$9,955	$9,123	$8,009	$6,986	$5,965
Allowance for credit losses ("ACL")	$17,211	$17,528	$18,706	$21,507	$32,464	$28,146	$19,259	$16,552
ACL as % of NFR net of SD	3.99%	3.85%	3.93%	4.12%	5.92%	5.51%	4.07%	3.36%
Over 31 days delinquency (% of GLR) (2)	2.13%	2.12%	2.25%	2.38%	2.61%	1.60%	1.91%	1.85%
Net charge-offs for the three months ended (3)	$3,800	$3,947	$4,328	$5,453	$5,800	$6,975	$3,762	$4,150
Provision for credit losses for the three months ended	$5,106	$4,380	$5,479	$8,508	$17,069	$2,784	$(5,044)	$1,508

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.
(4) Excludes adjustment for discounting security deposits and increasing unearned income for interest savings on security deposits.
(5) At December 31, 2020, approximately 68% of U.S. gross finance receivables (excluding residuals) were in the prime market segment.

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



"Received" reflects all applications for equipment financing received by Pawnee and Tandem, "Approved" are those received applications that receive an approval by Pawnee and Tandem'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 its approach to doing business in its market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of applicants. Pawnee and Tandem refer to total originations Funded, as a percentage of leases and loans Approved, as the "closing ratio".

U.S. PORTFOLIO COVID-19 SUMMARY

Our U.S. operations followed their long-standing guidelines for allowing payment accommodations to lessees/borrowers in warranted circumstances, including COVID-19 (which is not a credit event but rather a pandemic with government mandated broad closures to most small and medium sized businesses).

Payment accommodations were initially provided to approximately 29% of Pawnee and Tandem's U.S. customers, the majority of which were deferrals for 60 days, after which customers were to return to one of three main monthly payment plans that requires the lessee/borrower to begin making monthly payments again. Depending on individual circumstances, customers payment plans following the initial deferral period required resumption of regular payments over the following few months, with some that returned immediately to the original payment schedule and that others were based on a more gradual resumption to the original payment amount, as circumstances warranted.

As shown below, through December 31, 2020, our U.S. operations have had success in this approach and have experienced a significant return to agreed upon payment schedules:

U.S. Portfolio COVID-19 Summary
US$ millions (excluding # of contracts)

	April	May	June	Sep	Dec
COVID Modified Contracts - #[1]	4,496	5,028	2,121	813	541
COVID Modified Contracts - Total Net Investment $[2]	$158.6	$178.0	$75.3	$27.8	$17.9
% of Contracts Modified for COVID - #'s	23.1%	26.6%	11.7%	4.8%	3.1%
% of Contracts Modified for COVID - $'s	29.1%	33.6%	14.8%	5.8%	3.6%

(1) - Accounts that have resumed making full monthly payments are no longer included as "COVID Modified"

(2) - Represents the total net investment in the entire pool of COVID Modified leases/loans

We are very pleased with the extent of the return to regular payment schedules by the end of December, which we believe is partly due to Pawnee's collections department’s effectiveness, the strength of its initial underwriting and the billions of dollars of government sponsored COVID-19 relief.

Pawnee and Tandem's customers received payment accommodations on a very even concentration basis across all credit profiles.

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 13.0% of consolidated revenue in the year ended December 31, 2020. Blue Chip’s portfolio risk is mitigated by its diversification across geographies, industries, equipment types, equipment cost and credit classes. Blue Chip had 27 full-time equivalent employees at December 31, 2020 compared to 30 employees at December 31, 2019.

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

	Mar 31 2019	June 30 2019	Sep 30 2019	Dec 31 2019	Mar 31 2020	June 30 2020	Sep 30 2020	Dec 31 2020
Number of leases and loans outstanding (#)	14,066	13,896	13,525	13,171	12,793	12,000	11,345	10,561
Gross lease and loan receivable (“GLR”)	$189,960	$191,111	$184,938	$177,402	$169,335	$154,640	$143,501	$134,999
Net investment in leases and loans receivable ("NFR"), before allowance	$168,745	$169,928	$164,605	$158,166	$151,307	$138,812	$128,846	$121,085
Allowance for credit losses ("ACL")	$2,278	$2,464	$2,551	$2,372	$2,950	$3,331	$3,672	$3,289
ACL as % of NFR	1.35%	1.45%	1.55%	1.50%	1.95%	2.40%	2.85%	2.72%
Over 31 days delinquency (% of NFR)	0.34%	0.30%	0.45%	0.47%	0.63%	0.54%	1.22%	0.73%

Like Pawnee, Blue Chip provided COVID-19 relief payment accommodations to approximately 14% of its borrowers, representing 23% of its portfolio value at the time. The payment accommodations provided were mostly for 90 day deferrals with minimum payments required during the deferral period. The COVID-19 deferral request activity ceased in June 2020. At December 31, 2020, Blue Chip’s COVID-19 deferred portfolio comprised 0.8% by account, representing 0.9% of its portfolio value.

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 and Tandem, 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, 2020, Blue Chip's gross finance receivables portfolio of $135.0 million, consisting of 10,561 leases and loans, was well diversified:

- Ontario represented 42.6% of net finance receivables, Alberta represented 21.1% and 36.3% were from other provinces;
- the five largest equipment categories by volume - industrial, construction, landscaping, truck and trailers - accounted for 60.5% of net finance receivables;
- of its network of more than 50 originators, the largest originator by dollar volume during 2020 accounted for 17.0% of originations; and
- the four largest brokers by dollars financed accounted for approximately 51.0% of originations during 2020.

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 YEAR ENDED DECEMBER 31, 2020 AND 2019

U.S. dollar results for the year ended December 31, 2020 were converted at an exchange rate of 1.3415, which was the average exchange rate for the year (2019 - 1.3269).

The Company reported a consolidated net loss of $8.5 million in the year ended December 31, 2020 compared to net income of $12.7 million in 2019, a decrease of $21.2 million year-over-year. COVID-19 induced non-cash goodwill and intangible asset impairment of $20.8 million and $9.3 million of restructuring and other transaction costs incurred in 2020 were primary reasons for the decrease in net income year-over-year. The goodwill and intangible asset impairment is described in the Statement of Financial Position section. Operating income increased $2.7 million year-over-year (discussed below), while the changes in net unrealized fair value adjustments and other items increased net income by $1.4 million compared to 2019, and tax expense decreased by $4.8 million in the year ended December 31, 2020 compared to the prior year.

The table below is primarily provided to illustrate the results of operations for Chesswood before any change to the non-cash allowance for credit losses and amortization of intangible assets - referred to below as Adjusted Operating Income. In management's opinion, this measure 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.

Average FX rate	1.3415	1.3269	
	Year ended December 31,		
($ thousands)	2020	2019	Change
Revenue	$ 117,056	$ 126,975	$ (9,919)
Interest expense	(28,521)	(33,663)	5,142
Net charge-offs	(31,374)	(25,641)	(5,733)
	57,161	67,671	(10,510)
Expenses:			
Personnel	(20,123)	(19,569)	(554)
Other expenses	(18,618)	(19,123)	505
Depreciation	(1,216)	(1,184)	(32)
Adjusted Operating Income[(1)]	17,204	27,795	(10,591)
Change in allowance for credit losses ("ACL") - (increase)	5,730	(7,573)	13,303
Amortization - intangible assets	(1,333)	(1,332)	(1)
Operating Income	21,601	18,890	2,711
M2M interest rate derivatives	(118)	(1,109)	991
Restructuring and other transaction costs[(2)]	(9,250)	—	(9,250)
Goodwill and intangible asset impairment[(3)]	(20,828)	—	(20,828)
Other non-cash FMV charges and unrealized FX	477	77	400
Income (Loss) before taxes[(3)]	$ (8,118)	$ 17,858	$ (25,976)
Free Cash Flow[(1)]	$ 19,606	$ 22,361	$ (2,755)

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

(2) Within the COVID-19 induced restructuring and other transaction costs, the Company recorded $3.2 million in severance resulting from employee voluntary retirements and staff reductions and $743,000 in transaction costs. The Company also incurred $2.0 million in amendment fees specific to COVID-19 issues related to its revolving credit facility. The Company expensed $2.5 million in financing costs related to restructuring Pawnee's debt facilities in the third quarter of 2020.

(3) As a result of the unfavorable economic operating conditions caused by uncertainties relating to COVID-19, an interim impairment test was performed at March 31, 2020. Based on this assessment, management recorded an $11.9 million goodwill impairment. An additional $8.96 million in goodwill and intangible asset impairment was also recorded at December 31, 2020.

By segment, the U.S. equipment finance segment's interest revenue on leases and loans totaled $91.5 million, a decrease of $5.5 million year-over-year, as a result of a 2.3% decrease in average annualized interest revenue yield during the year compared to the prior year offset by an increase of US$45.9 million in the average portfolio size. The average annualized interest revenue

yield earned on U.S. based net finance receivables was 13.2% in the year ended December 31, 2020 compared to 15.5% in the prior year, reflecting an increase in the overall percentage of lower yield prime receivables. The US$45.9 million increase in the average portfolio size year-over-year is the result of an increase of US$3,000 in the average book value of the finance receivables offset by approximately 376 fewer finance receivable contracts outstanding during the period compared to the prior year.

The U.S. non-prime portfolio continued to generate strong risk-adjusted returns and profitability, with limited or no growth, while the continued expansion of the prime portfolio exerted its influence on the over all weighted-average portfolio yield in the U.S.. Almost two years ago, management adopted harder credit floors and stiffer pricing policies in the non-prime business compared to many competitors, negatively impacting growth in these portfolio segments. Management believes this was the prudent approach for these portfolios at that time in the economic cycle. Ancillary finance and other fee income decreased due to fewer new leases processed year-over-year. The increase in the average foreign exchange rate for the year ended December 31, 2020 increased total revenue by $1.1 million compared to the prior year.

The U.S. segment's interest expense decreased by $3.9 million compared to the prior year. The decrease in interest expense is driven primarily by approximately 1.2% lower cost of fund facilities and lower average benchmark lending rates (LIBOR and US Treasuries) in the year ended December 31, 2020 compared to the prior year. This decrease in interest expense was offset by the growth in the portfolio of net finance receivables (discussed above) year-over-year, which comprised the majority of the US$36.8 million increase in average debt outstanding during the year. The increase in the foreign exchange rate increased interest expense by $167,000.

The U.S. segment's provision for credit losses decreased by $9.3 million in the year ended December 31, 2020 compared to the prior year as a result of a $14.1 million decrease in the ACL and an increase in actual net charge-offs of $4.8 million. In the year ended December 31, 2020, Pawnee's actual net charge-offs were 4.1% of average finance receivables (before ACL) compared to 3.8% in the same period in the prior year.

The U.S. segment ACL for delinquent finance receivables decreased by $11.3 million in the year ended December 31, 2020 compared to the prior year, representing the majority of the $14.1 million decrease in provision for credit losses due to the decrease in the ACL. Pawnee's 31 days past due delinquency at December 31, 2020 compared to December 31, 2019 decreased by 0.53% (compared to an increase of 0.49% in the prior year), which contributed to the $11.3 million decrease in the ACL at December 31, 2020. The U.S. segment’s ACL was determined as of December 31, 2020 based on forecasts and other information available at that date. Forecasts around the impact of COVID-19 on the economy and on our business, and the timing of a recovery, continue to evolve, which may add significant volatility to the provision for credit losses in future quarters. The ACL for new finance receivables decreased by $3.7 million due to lower originations year-over-year. The increase in the foreign exchange rate increased the provision for credit losses by $238,000 compared to the prior year.

Pawnee and Tandem's other expenses increased by $654,000 year-over-year, or 4.4%. Most of this increase was collection related costs, which increased $900,400 in the year ended December 31, 2020 compared to the prior year, offset by a $332,400 decrease in expenses related to finance receivable origination as a result of the lower originations under COVID-19. The increase in the foreign exchange rate increased the U.S. segment's personnel and other expenses by $342,000 compared to the prior year.

Due primarily to the $9.3 million decrease in the provision for credit losses discussed above, Pawnee and Tandem's operating income increased by $4.8 million compared to the prior year.

Blue Chip generated revenue of $15.2 million during the year ended December 31, 2020 compared to $18.2 million in the prior year, a decrease of $2.9 million, or 16.2%. Blue Chip's average net investment in finance receivables decreased approximately $26.2 million in the year ended December 31, 2020 compared to the prior year due to a contraction of the portfolio on lower volumes. The average number of finance receivable contracts outstanding decreased by 1,808 in the year ended December 31, 2020 compared to the prior year. The decrease in finance receivables outstanding year-over-year is due to competitive market conditions, decreased demand during COVID-19, and stringent COVID-19 underwriting standards. The average annualized yield of 10.88% earned on Blue Chip's net finance receivables during 2020 has decreased from 10.94% in 2019. Blue Chip's interest expense decreased due to lower average debt outstanding by approximately $19.8 million and a 0.4% decrease in the cost of funds compared to the prior year.

Blue Chip's provision for credit loss increased by $1.7 million in the year ended December 31, 2020 compared to the prior year, with $777,000 of this increase relating to the increase in the ACL and $909,000 relating to the increase in actual net charge-offs. As a percentage of average net finance receivables (before ACL), the provision for credit loss was 2.69% for the year ended December 31, 2020, up from 1.25% in the prior year. Blue Chip's operating income totaled $1.5 million in the year ended December 31, 2020, compared to $4.2 million in the prior year, a decrease of $2.7 million, primarily due to the significant increase in provision for credit loss and the decrease in revenue resulting from the decline in the average net investment in finance receivables.

Chesswood incurred COVID-19 induced restructuring, debt restructuring and other transaction costs totaling $9.25 million in the year ended December 31, 2020, which includes $3.2 million in severance costs resulting from employee voluntary retirements and staff reductions, $2.0 million in amendment fees specific to COVID-19 issues related to the revolving credit facility, $2.5 million in non-cash financing costs related to restructuring Pawnee's debt facilities in the third quarter of 2020, and $743,000 in related transaction costs.

The Company's investment in Dealnet Capital Corp. ("Dealnet") common shares increased in market value by $483,000 in the year ended December 31, 2020 compared to $30,000 in the prior year, resulting in an increase in net income of $453,000 year-over-year.

The provision for taxes for the year ended December 31, 2020 was $407,000, compared to $5.2 million in the prior year. The $407,000 tax expense for the year ended December 31, 2020 is comprised of $2.5 million in current tax expense, $220,600 in withholding tax expense on inter-company dividends offset by future tax recovery of $2.3 million. 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, 2020 AND 2019

U.S. dollar results for the three months ended December 31, 2020 were converted at an exchange rate of 1.3030, which was the average exchange rate for Q4 2020 (Q4 2019 - 1.3200).

The Company reported consolidated net income of $91,000 for the three months ended December 31, 2020 compared to $2.7 million in the same period of 2019, a decrease of $2.7 million year-over-year, impacted significantly by $8.96 million in goodwill and intangible asset impairment. The goodwill and intangible asset impairment is described in the Statement of Financial Position section. Operating income increased $4.5 million year-over-year (discussed below), net unrealized fair value adjustments and other items decreased net income by $78,000 compared to 2019, and the decrease in tax expense of $1.9 million in the three months ended December 31, 2020 compared to the same period in the prior year.

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, and amortization of intangible assets - referred to below as Adjusted Operating Income. In management's opinion, this measure 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. Overall, the operating results for the three months ended December 31, 2020, in comparison to the same period in the prior year, were heavily influenced by a $7.5 million decrease in the change in the allowance for credit losses.

Average FX rate	1.3030	1.3200	
	Three months ended December 31		
($ thousands)	2020	2019	Change
Revenue	$ 26,395	$ 32,851	$ (6,456)
Interest expense	(6,000)	(8,194)	2,194
Net charge-offs	(5,925)	(8,220)	2,295
	14,470	16,437	(1,967)
Expenses:			
Personnel	(5,625)	(4,238)	(1,387)
Other expenses	(4,962)	(5,277)	315
Depreciation	(298)	(298)	—
Adjusted Operating Income[(1)]	3,585	6,624	(3,039)
Change in allowance for credit losses ("ACL") - (increase)	3,986	(3,531)	7,517
Amortization - intangible assets	(334)	(333)	(1)
Operating Income	7,237	2,760	4,477
M2M interest rate derivatives	133	102	31
Goodwill and intangible asset impairment[(2)]	(8,960)	—	(8,960)
Other non-cash FMV charges and unrealized FX	158	267	(109)
Income before taxes	$ (1,432)	$ 3,129	$ (4,561)
Free Cash Flow[(1)]	$ 6,939	$ 5,986	$ 953

(1) 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.
(2) As a result of the unfavorable economic operating conditions caused by uncertainties relating to COVID-19, an interim impairment test was performed at March 31, 2020. Based on this assessment, management recorded an $11.9 million goodwill impairment. An additional $8.96 million in goodwill and intangible asset impairment was also recorded at December 31, 2020.

The U.S. equipment finance segment's interest revenue on leases and loans totaled $19.9 million, a decrease of $5.3 million year-over-year in the three month period, as a result of a decrease in the average yield earned during the period (12.6% compared to 15.0% in the prior year). The U.S. equipment finance segment's average net investment in finance receivables (before ACL) of US$488.9 million decreased US$20.2 million, or 4.0% in the three months ended December 31, 2020 compared to the same period in the prior year due to a decrease of approximately 1,990 in the average number of finance receivables contracts outstanding as a result of lower originations due to COVID-19 offset by an increase of US$1,900 in average book value of finance receivables during the three month period year-over-year. The decrease in overall yield percentage is due to the continuing growth in the lower yield prime segment of the portfolio that changes the overall product mix toward prime from non-prime. The U.S. non-prime portfolio continues to be a very important component of our business that generates strong earnings and cash flow while our expanding suite of products and portfolio mix continues its shift towards a greater concentration in the prime market. The decrease in the foreign exchange rate also decreased revenue in the period by $320,000 over the same quarter in the prior year.

The U.S. segment's interest expense decreased by $1.4 million in the three month period compared to the same period of the prior year. The decrease in interest expense is primarily a result of the decrease of approximately 0.37% in the overall cost of funds year-over-year as a percentage of our average outstanding debt, driven by lower average benchmark lending rates (LIBOR and US Treasuries) in 2020 and lower cost of funds facilities obtained during the prior year, particularly the ABS transaction. The change in the foreign exchange rate decreased interest expense by $45,000 in the three month period compared to the same period of the prior year. In addition to the interest savings on the lower cost of debt, the decrease in the average portfolio of net finance receivables year-over-year in the three month period, resulted in the US$56.1 million decrease in average debt outstanding during the period.

The U.S. segment's provision for credit losses decreased by $9.4 million in the three months ended December 31, 2020 compared to the same period in the prior year as a result of a $7.3 million decrease in the change in the ACL and a decrease in net charge-offs of $2.1 million. A $4.8 million reduction in the ACL for non-delinquent finance receivables was the predominant reason for the decrease in provision for credit losses in the three month period year-over-year, as net charge-offs levels have been much lower than management's initial COVID-19 estimates. The U.S. segment's annualized net charge-off rate decreased to 3.45% in the three months ended December 31, 2020 compared to 4.5% in the same period of the prior year.

Personnel expenses in the U.S. segment increased by $888,000 quarter-over-quarter due to a $411,000 increase of year-end bonuses in the three months ended December 31, 2020 compared to the same period in the prior year. Other expenses increased by $179,000 in the three months ended December 31, 2020 compared to the same period in the prior year, predominantly from the increase in collection related expenses which rose US$188,500 in the period compared to the same period in the prior year. Personnel and other expenses decreased by $90,000 in the three month period year-over-year due to the decrease in the foreign exchange rate.

Blue Chip generated revenue of $3.6 million during the three months ended December 31, 2020, a decrease of $835,000 from the same period in the prior year. Blue Chip's average net investment in finance receivables decreased approximately $36.1 million in the three months ended December 31, 2020 compared to the same period in the prior year, a decrease of approximately 2,395 in the average number of finance receivable contracts outstanding year-over-year over the three month period. The average book value of finance receivables declined by approximately $650 during the three month period year-over-year. The decrease in finance receivables outstanding year-over-year is due to competitive market conditions, decreased demand during COVID-19, and stringent COVID-19 underwriting standards. The average annualized yield earned on Blue Chip's net finance receivables increased by 0.48% during the period compared to the same period in the prior year. Blue Chip's interest expense decreased due to lower average debt outstanding by approximately $34.4 million and a 1.6% decrease in the annualized cost of funds compared to the same period in the prior year.

Blue Chip's provision for credit loss decreased $395,000 in the three months ended December 31, 2020 compared to the same period in the prior year. The change in the provision for credit losses compared to the same period is comprised of a $204,300 decrease in the ACL and a $190,400 decrease in actual net charge-offs. The provision for credit losses was 0.33% of Blue Chip's average finance receivable during the three months ended December 31, 2020, compared to 1.23% in the same period in the prior year. Blue Chip's operating income totaled $1.3 million in the three months ended December 31, 2020 compared to $981,000 in the same period in the prior year, an increase of $339,000, predominantly from the decrease in provision for credit losses.

The non-cash unrealized mark-to-market adjustment on interest rate derivatives for the three months ended December 31, 2020 totaled a gain of $133,000 compared to a gain of $102,000 in the same period in the prior year, translating to an increase in net income of $31,000 year-over-year.

The provision for taxes for the three months ended December 31, 2020 was a recovery of $1.5 million compared to expense of $380,000 in the same period in the prior year. The $1.5 million tax recovery for the three months ended December 31, 2020 is comprised of $2.9 million in current tax recovery offset by $220,600 in withholding tax expense on inter-company dividends and future tax expense of $1.2 million. 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.

($ thousands)	Three months ended December 31, 2020			
	Equipment Financing - U.S.	Equipment Financing - Canada	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	$ 19,947	$ 2,614	$ —	$ 22,561
Ancillary finance and other fee income	2,870	964	—	3,834
Interest expense	(5,397)	(603)	—	(6,000)
Provision for credit losses	(1,837)	(102)	—	(1,939)
Finance margin	**15,583**	**2,873**	**—**	**18,456**
Personnel expenses	3,872	820	379	5,071
Share-based compensation expense	16	6	532	554
Other expenses	4,042	349	571	4,962
Depreciation	244	44	10	298
Amortization - intangible assets	—	334	—	334
Operating income	**7,409**	**1,320**	**(1,492)**	**7,237**
Goodwill and intangible asset impairment	—	(8,960)	—	(8,960)
Fair value adjustments - investments	—	—	60	60
Unrealized gain on interest rate derivatives	1	—	132	133
Unrealized gain on foreign exchange	—	—	98	98
Income before taxes	**7,410**	**(7,640)**	**(1,202)**	**(1,432)**
Tax expense	(760)	(891)	128	(1,523)
Net income	**$ 8,170**	**$ (6,749)**	**$ (1,330)**	**$ 91**
Net cash used in operating activities	$ (21,014)	$ 7,970	$ (600)	$ (13,644)
Net cash used in investing activities	$ (93)	$ —	$ —	$ (93)
Net cash from financing activities	$ (12,132)	$ (5,980)	$ 32,154	$ 14,042
Property and equipment expenditures	$ 93	$ —	$ —	$ 93

($ thousands)	Three months ended December 31, 2019 Equipment Financing - U.S.	Equipment Financing - Canada	Other Operations	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	$ —	$ —	$ —	$ —	$ —

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 overall performance of the Company's businesses. 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				2019				2020
($ thousands)	Q1	Q2	Q3	Q4	Q1	Q2[5]	Q3[5]	Q4
Net income (loss)	$ 3,071	$ 3,894	$ 2,977	$ 2,749	$(19,827)	$ 1,407	$ 9,804	$ 91
Interest expense	8,257	8,536	8,676	8,194	8,063	7,374	7,084	6,000
Provision for (recovery of) taxes	1,499	1,767	1,521	380	(2,700)	753	3,877	(1,523)
Goodwill and intangible asset impairment[6]	—	—	—	—	11,868	—	—	8,960
Amortization and depreciation	620	633	632	631	633	656	628	632
EBITDA [1]	13,447	14,830	13,806	11,954	(1,963)	10,190	21,393	14,160
Interest expense	(8,257)	(8,536)	(8,676)	(8,194)	(8,063)	(7,374)	(7,084)	(6,000)
Non-cash change in finance receivables allowance for credit losses[4]	1,825	615	1,601	3,532	15,315	(5,293)	(11,765)	(3,986)
Share-based compensation expense	225	111	172	187	186	148	32	554
Restructuring and transaction costs [5]	—	—	—	—	—	5,776	3,474	—
Unrealized loss (gain) on investments	30	(121)	61	—	121	—	(544)	(60)
Foreign exchange unrealized loss (gain)	82	63	75	(267)	72	(19)	51	(98)
Unrealized loss (gain) – interest rate derivatives	503	626	82	(102)	598	(133)	(214)	(133)
Adjusted EBITDA [1][4]	7,855	7,588	7,121	7,110	6,266	3,295	5,343	4,437
Maintenance capital expenditures	(72)	(212)	(28)	—	(575)	(156)	(56)	(93)
Tax impact of change in allowance for credit losses[4]	(451)	(207)	(432)	(744)	(4,148)	1,447	3,181	1,072
Provision for taxes	(1,499)	(1,767)	(1,521)	(380)	2,700	(753)	(3,877)	1,523
Free Cash Flow[1][4]	$ 5,833	$ 5,402	$ 5,140	$ 5,986	$ 4,243	$ 3,833	$ 4,591	$ 6,939
FCF L4PQ divided by 4 [1][3]	$ 7,524	$ 6,389	$ 6,204	$ 5,915	$ 5,745	$ 5,326	$ 4,932	$ 4,709
Maximum Permitted Dividends [1][3]	$ 6,772	$ 5,751	$ 5,584	$ 5,324	$ 5,170	$ 4,793	$ 4,438	$ 4,238
Dividends declared [2]	$ 3,713	$ 3,724	$ 3,723	$ 3,723	$ 3,723	$ 620	$ 0	$ 710

(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.
(5) The Company incurred $5.8 million restructuring, transaction, and other related COVID-19 costs in the second quarter of 2020, primarily including severances for employee voluntary retirements and staff reduction and amendment fees specific to COVID-19 issues related to its revolving credit facility. In the third quarter of 2020, the Company expensed $2.5 million in financing costs related to restructuring Pawnee's debt facilities, and a $1.0 million amendment fee specific to COVID-19 issues related to its revolving credit facility.
(6) As a result of the unfavorable economic operating conditions caused by uncertainties relating to COVID-19, an interim impairment test was performed at March 31, 2020. Based on this assessment, management recorded an $11.9 million goodwill impairment. Provision for credit losses was also affected by increased estimates due to COVID-19. An additional $8.96 million in goodwill and intangible asset impairment was recorded at December 31, 2020.

Due to COVID-19 uncertainties (and, subsequently, in accordance with the terms of a COVID-19 related temporary amendment of the Company's revolving credit facility), the Board of Directors determined to reduce the April 2020 dividend and then to temporarily suspend the monthly dividend starting with the May 2020 monthly dividend. On November 12, 2020, the Company announced the resumption of monthly dividend of $0.02 per common share effective for November (paid in December 2020). See 'Liquidity and Capital Resources - Dividends to Shareholders' below.

SELECTED FINANCIAL INFORMATION

($thousands, except per share figures)

		2018[(4)(5)]		2019		2020[(7)(8)]
Average foreign exchange rate for the year		1.2957		1.3269		1.3415
Revenue[(6)]	$	110,586	$	126,975	$	117,056
Finance margin	$	64,516	$	60,098	$	62,891
Operating income[(4)(5)]	$	31,734	$	18,890	$	21,601
Net income[(7)(8)]	$	22,885	$	12,691	$	(8,525)
Basic earnings per share[(2)(5)]	$	1.28	$	0.72	$	(0.48)
Diluted earnings per share[(2)(5)]	$	1.25	$	0.71	$	(0.48)
Foreign exchange rate as at year-end		1.3642		1.2988		1.2732
Total assets	$	817,812	$	926,917	$	827,436
Long-term financial liabilities	$	638,717	$	753,399	$	668,749
Adjusted EBITDA[(1)]	$	35,013	$	29,674	$	19,341
Free Cash Flow[(1)]	$	25,403	$	22,361	$	19,606
Dividends declared[(3)]	$	15,044	$	14,883	$	5,053
Dividends declared per share[(3)]	$	0.84	$	0.84	$	0.285

(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; 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 have 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.
(7) As a result of the unfavorable economic operating conditions caused by uncertainties relating to COVID-19, an interim impairment test was performed at March 31, 2020. Based on this assessment, management recorded an $11.9 million goodwill impairment. Provision for credit losses was also affected by increased estimates due to COVID-19. An additional $8.96 million in goodwill impairment was recorded at December 31, 2020.
(8) The Company incurred $5.8 million restructuring, transaction, and other COVID-19 costs in the second quarter of 2020 primarily including severances for employee voluntary retirements and staff reduction and amendment fees specific to COVID-19 issues related to its revolving credit facility. In the third quarter of 2020, the Company expensed $2.5 million in financing costs related to restructuring Pawnee's debt facilities, and a $1.0 million amendment fee specific to COVID-19 issues related to its revolving credit facility.

As at and for the quarter-ended	2019				2020			
($ thousands, except per share figures)	Q1	Q2	Q3	Q4	Q1[6]	Q2[7]	Q3[7]	Q4[6]
Revenue	$ 30,757	$ 31,586	$ 31,781	$ 32,851	$ 33,313	$ 30,011	$ 27,337	$ 26,395
Finance margin before expenses	15,158	16,797	15,237	12,906	1,047	$ 17,249	$ 26,139	18,456
Operating income[(4)(5)]	5,185	6,229	4,716	2,760	(9,868)	$ 7,784	$ 16,448	7,237
Income (loss) before tax[(5)]	4,570	5,661	4,498	3,129	(22,527)	$ 2,160	$ 13,681	(1,432)
Provision for taxes (recovery)	1,499	1,767	1,521	380	(2,700)	$ 753	$ 3,877	(1,523)
Net income (loss)	$ 3,071	$ 3,894	$ 2,977	$ 2,749	$ (19,827)	$ 1,407	$ 9,804	$ 91
Basic earnings (loss) per share [(2)]	$0.17	$0.22	$0.17	$0.16	($1.12)	$0.08	$0.55	$0.01
Diluted earnings (loss) per share [(2)]	$0.17	$0.22	$0.16	$0.16	($1.10)	$0.06	$0.56	$0.00
Total assets	$ 830,432	$ 855,121	$ 873,610	$ 926,917	$ 1,011,698	$ 907,987	$ 844,920	$ 827,436
Long-term liabilities	$ 656,840	$ 683,204	$ 699,926	$ 753,399	$ 852,448	$ 749,765	$ 681,167	$ 668,749
Other Data								
Adjusted EBITDA [(1)]	$ 7,855	$ 7,588	$ 7,121	$ 7,110	$ 6,266	$ 3,295	$ 5,343	$ 4,437
Free Cash Flow[(1)]	$ 5,833	$ 5,402	$ 5,140	$ 5,986	$ 4,243	$ 3,833	$ 4,591	$ 6,939
Dividends declared [(3)]	$ 3,713	$ 3,724	$ 3,723	$ 3,723	$ 3,723	$ 620	$ 0	$ 710
Dividends declared per share	$0.21	$0.21	$0.21	$0.21	$0.21	$0.035	$0.00	$0.04

(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) As a result of the unfavorable economic operating conditions caused by uncertainties relating to COVID-19, an interim impairment test was performed at March 31, 2020. Based on this assessment, management recorded an $11.9 million goodwill impairment. Provision for credit losses was also affected by increased estimates due to COVID-19. An additional $8.96 million in goodwill and intangible asset impairment was recorded at December 31, 2020.
(7) The Company incurred $5.8 million restructuring, transaction, and other COVID-19 costs in the second quarter of 2020 primarily including severances for employee voluntary retirements and staff reduction and amendment fees specific to COVID-19 issues related to its revolving credit facility. In the third quarter of 2020, the Company expensed $2.5 million in financing costs related to restructuring Pawnee's debt facilities, and a $1.0 million amendment fee specific to COVID-19 issues related to its revolving credit facility.

STATEMENT OF FINANCIAL POSITION

The total consolidated assets of the Company at December 31, 2020 were $827.4 million, a decrease of $99.5 million from December 31, 2019. The U.S. dollar exchange rate on December 31, 2020 was 1.2732, compared to 1.2988 at December 31, 2019. The decrease in the foreign exchange rate represents a decrease of $14.1 million in assets.

Cash totaled $9.7 million at December 31, 2020 compared to $11.0 million at December 31, 2019, a decrease of $1.4 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 three months and years ended December 31, 2020 and 2019.

Restricted funds represent cash reserve accounts which are held in trust as security for Pawnee's secured borrowings and cash collection accounts required by Pawnee's lenders of certain financial assets that can only be used to repay these debts on

specific dates. The 'cash in collections accounts' (see Note 12(d) - *Borrowings)* will be applied to the outstanding borrowings in the following month.

Other assets totaled $2.9 million at December 31, 2020, a decrease of $8.2 million from December 31, 2019. The decrease in Other assets predominantly relates to the receipt of $5.1 million in income tax refunds and $2.7 million collection of a loan receivable. See Note 5 - *Other Assets* in the audited consolidated financial statements for further details.

Finance receivables consist of the following:

	December 31, 2020	December 31, 2019
Period end FX rate	1.2732	1.2988
	($ thousands)	
U.S. equipment finance receivables	$ 612,487	$ 661,907
Canadian equipment finance receivables	128,391	159,178
	$ 740,878	$ 821,085

Finance receivables decreased by $80.2 million, or 10%, during the year ended December 31, 2020. In U.S. dollars, U.S.-based finance receivables decreased by US$28.6 million and the decrease in the foreign exchange rate compared to December 31, 2019 decreased finance receivables by $13.0 million since December 31, 2019, thus reflecting a decrease in U.S. based finance receivables of $49.4 million since December 31, 2019. Blue Chip's finance receivables decreased by $30.8 million during the year ended December 31, 2020. The Company temporarily halted new originations in the U.S. during the second quarter of 2020 to settle upon appropriate COVID-19 related amendments to its revolving credit facility. Originations have since resumed following the completion of the amendments at the end of September.

As a result of COVID-19, the Company’s subsidiaries granted deferrals on portions of their respective portfolios of leases and loans. Please see Note 6(e) - *Finance Receivables - Modification*s for further details, as well as the table in the U.S. Portfolio COVID-19 Summary section, earlier in this MD&A.

The $740.9 million in net investment in leases and loans is net of $24.4 million in ACL (or 3.2%) (compared to $30.3 million in ACL at December 31, 2019, or 3.6%). The $5.9 million decrease in the ACL is predominantly related to the decrease in the size of the finance receivable portfolio ($3.3 million) and a 0.35% decrease in ACL as a percentage of the net finance receivables which resulted in a $2.6 million decrease in the ACL. The increase in ACL for COVID-19 related estimates is offset by the overall reduction in the finance receivable portfolio outstanding and the increase in the percentage of the portfolio in prime receivables at December 31, 2020 compared to December 31, 2019 forcing a reduction in the required ACL. 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 ACL. The Company’s ACL was determined as of December 31, 2020. Since that date, forecasts around the impact of COVID-19 on the economy and the timing of recovery will continue to evolve with any changes to be reflected in the measurement of ACL in future quarters as appropriate. This will likely add significant volatility to the provision 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. Many finance receivables that are charged-off are 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 and Blue Chip locations and were recorded on January 1, 2019 on adoption of IFRS 16. 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). During the fourth quarter of 2020, Blue Chip opted to not renew its premises lease, thus the related right-to-use asset and payable was reversed. During the fourth quarter of 2020, Pawnee sublet a portion of its expanded office to a national company, that lease is for three years and is at market rates.

Intangible assets totaled $10.9 million at December 31, 2020. Of the $6.2 million decrease in intangible assets from December 31, 2019, $1.3 million is amortization, $4.7 million in intangible asset impairment on Blue Chip's broker network and $138,000 decrease related 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. The Company's annual intangible asset impairment assessment as at December 31, 2020 indicated $4.7 million impairment of Blue Chip's broker network. The impairment is due to a combination of projected decreases in originations in the coming months due to continued impact of COVID-19 lockdowns and forecasted increases in the level of charge-offs compared to the March 31, 2020 assessment.

Goodwill totaled $23.9 million at December 31, 2020 compared to $40.3 million at December 31, 2019. The $16.4 million decrease consists primarily of an $16.1 million COVID-19 related impairment loss at Blue Chip and a $276,000 decrease in Pawnee goodwill due to 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. The Company is also required to test its assets, such as intangible assets and goodwill, for impairment when facts and circumstances indicate that impairment may have occurred. The environment at March 31, 2020 was unfavorable due to the various effects of the COVID-19 pandemic: applications and approvals of new finance receivables had dropped compared to the same quarter in the previous year, economic measures indicated a reduced level of activity, including spending and employment; and the Company's dividend and share price had decreased. As a result, an interim impairment test was performed in connection with the preparation of our unaudited condensed interim consolidated financial statements for the three months ended March 31, 2020.

Based on this assessment, management concluded that the carrying value of goodwill for Blue Chip exceeded its recoverable amount and recorded an impairment loss for the excess of $11.9 million. The impairment was due to a combination of: projected decreases in originations in the coming months; forecasted increases in the level of charge-offs; and increased competitive pressures compared to the December 31, 2019 projection. Blue Chip's recoverable amount was determined using discounted cash flows, incorporating several assumptions and estimation uncertainties. Measurements were particularly sensitive, due to the inherently unknowable effects of COVID-19, not least of which are the duration of those effects and the degree of success of the current measures to contain the pandemic's effects on our businesses.

The Company's annual goodwill impairment assessment as at December 31, 2020 indicated further $4.27 million impairment of Blue Chip's goodwill. The impairment is due to a combination of projected decreases in originations in the coming months due to continued impact of COVID-19 lockdowns and forecasted increases in the level of charge-offs compared to the March 31, 2020 assessment. Pawnee has a much larger portfolio of finance receivables relative to goodwill and therefore its estimated value is greater than the carrying amount of its assets by a significant margin. It was determined that no impairment had occurred for Pawnee as at December 31, 2020. See Note 10 - *Goodwill* to the audited consolidated financial statements for further detail.

Accounts payable and other liabilities totaled $17.5 million at December 31, 2020 compared to $16.8 million at December 31, 2019, an increase of $696,000. 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 $639.0 million at December 31, 2020 compared to $714.7 million at December 31, 2019, a decrease of $75.7 million. The decrease in the foreign exchange rate since December 31, 2019, led to a $9.8 million decrease in the borrowing amount. Pawnee's US$ debt is down US$24.7 million and Blue Chip's Canadian dollar debt decreased by a $36.0 million since December 31, 2019 which corresponds with the decrease in finance receivables. On September 30, 2020, Pawnee completed a US$183.5 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 off Pawnee's warehouse line and CapOne facilities, and to pay down Chesswood's senior revolving credit facility. The securitization provided the Company a lower cost of funds than the existing facilities and freed up approximately US$30.0 million of greater leverage than the existing facilities. Please see the discussion under 'Liquidity and Capital Resources' for further details on our borrowings.

The $7.2 million (December 31, 2019 - $12.1 million) in customer security deposits relates to security deposits predominantly held by Pawnee. Historically, Pawnee's non-prime contracts typically required that the lessees/borrowers provide one or two payments as security deposit (not advance payments), which are held for the full term of the lease/loan and then returned or applied to the purchase option of the equipment at the lessee's/borrower's request, unless the contract is in default (in which case the deposit is applied against the receivable). Beginning in January 2019, Pawnee and Tandem discontinued requiring security deposits due to changing market conditions. Both Pawnee and Tandem now require advance payments (first and last months).

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, 2020, the Company would have realized a loss of $340,000 compared to a loss of $293,000 at December 31, 2019. US$20.0 million of these interest rate swap agreements expired on August 13, 2020, with the remaining US$20.0 million maturing on August 13, 2021. During the third quarter of 2019, Pawnee entered into a US$40.0 million interest rate cap agreement that provided for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. The interest rate cap agreement will mature on July 25, 2022. At December 31, 2020, the fair value of the swap was a liability of $300 (December 31, 2019 - $57,000).

Future taxes payable at December 31, 2020 totaled $20.4 million compared to $23.1 million at December 31, 2019, a decrease of $2.7 million. The decrease in future taxes payable is comprised of $2.3 million in future tax recovery offset by a decrease of $371,000 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, 2020, there were 16,255,071 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of $104.2 million. Including the common shares issuable in exchange for the Exchangeable Securities, Chesswood had 17,733,608 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 August 25, 2020, 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.

In November 2020, the Company's Board of Directors approved the repurchase for cancellation of up to 932,296 of the Company's outstanding common shares for the period commencing December 2, 2020 and ending on December 1, 2021. From December 2, 2020 to December 31, 2020, the Company repurchased 85,890 of its shares under the normal course issuer bid at an average cost of $9.1239 per share. The excess of the purchase price over the average stated value of common shares purchased for cancellation was charged to retained earnings. Decisions regarding the timing of purchases are based on market conditions and other factors.

Additionally, the Company has entered into an automatic share purchase plan with a broker for the purpose of permitting the Company to purchase its Common Shares under the normal course issuer bid at times when the Company would otherwise not

be permitted to trade in its own shares during internal blackout periods, including during regularly scheduled quarterly blackout periods. Such purchases will be determined by the broker in its sole discretion based on parameters the Company has established.

Non-controlling interest consists of 1,274,601 Class B common shares and 203,936 Class C common shares (the "Exchangeable Securities") of Chesswood 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, for no additional consideration, through a series of steps and entitle the holders to receive the same dividends as the common shares. Attached to the Exchangeable Securities are Special Voting Shares of the Company which provide the holders of the Exchangeable Securities voting equivalency to holders of common shares. Under IFRS, the Exchangeable Securities must be shown as non-controlling interest because they are equity in a subsidiary not attributable, directly or indirectly, to the parent. 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, 2020. There were 2,708,939 options and 57,000 restricted share units outstanding at December 31, 2020.

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, 2020 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, 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.

As a result of COVID-19, the Company's subsidiaries granted deferrals on portions of their respective portfolios of leases and loans. Pawnee and Tandem had temporarily suspended accepting new financing requests to allow the Company and its subsidiaries to finalize amendments to various facilities to better reflect COVID-19 related experiences and expectations. New equipment financing has since resumed. Certain covenants were waived or amended during the year ended December 31, 2020 to accommodate COVID-19 circumstances. The Company and its subsidiaries were compliant with all covenants at December 31, 2020 and December 31, 2019 and through the periods presented.

At December 31, 2020, the Company had the following facilities:

(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. At December 31, 2020, the Company was utilizing US$71.9 million (December 31, 2019 - US$156.1 million) of its credit facility and had approximately US$178.1 million in additional borrowings available under the corporate credit facility. Based on average debt levels, the effective interest rate during the year ended December 31, 2020 was 5.42% (year-ended December 31, 2019 - 5.49%). The Company paid $2.0 million in amendment fees specific to COVID-19 issues related to the revolving facility that is included in restructuring and transaction costs and other one-time COVID-19 related expenses.

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. The financing facilities are not intended to directly fund dividends by the Company. Under the facility, the maximum amount of cash dividends and purchases under its normal course issuer bid in respect of a month is 1/12 of 90% of Free Cash Flow (see Dividend Policy below) for the most recently completed four financial quarters for which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is defined as the consolidated Adjusted EBITDA less maintenance capital expenditures and tax expense, plus or minus the tax effect of non-cash change in the allowance for credit losses. Please refer to the definitions of Non–GAAP Measures provided in this MD&A. The Company was restricted from paying dividends and limited quarterly equipment financing originations during the period that the temporary COVID-19 related amendments were required.

(b) Pawnee credit facilities:

(i) Through its subsidiary Pawnee Portfolio Fund ("PPF"), Pawnee had a loan facility to fund its prime portfolio. During May 2020, Pawnee elected to convert the facility from a US$250 million warehouse facility to an amortizing facility, where collections were being used to repay the principal. The warehouse facility, which was established in August 2018, held Pawnee's prime receivables before they are securitized. This credit facility was secured by PPF's assets. Based on average debt levels, the effective interest rate during the year ended December 31, 2020 was 7.31% (year-ended December 31, 2019 - 6.16%) (including fees and upfront origination cost amortization). On September 30, 2020, Pawnee paid off the remaining balance of this facility utilizing proceeds of an asset-backed securitization and the facility was closed (December 31, 2019 - US$0.0 million).

(ii) Pawnee had a combined US$125 million in non-recourse asset-backed facilities with Capital One (the "CapOne facilities"), through subsidiaries Pawnee Receivable Fund I and II LLC. The CapOne facilities were secured by US$154.2 million in gross receivables from Pawnee's prime portfolio of equipment leases and loans, and repayment terms were based on the cash flow of the underlying portfolio. The proceeds were used to pay down Chesswood's existing revolving credit facility. The facilities required 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. Based on average debt levels, the effective interest rate during the year ended December 31, 2020 was 3.89% (2019 - 5.72%). On September 30, 2020, Pawnee paid off the remaining balance of the facilities utilizing proceeds of an asset-backed securitization (December 31, 2019 – US$48.4 million).

(iii) Pawnee has a credit facility, with a US$150 million annual capacity, with a life insurance company that expires in October 2028. 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, 2020 was US$45.1 million (December 31, 2019 - US$16.6 million). Based on average debt levels, the effective interest rate was 4.94% (including amortization of origination costs) (December 31, 2019 – 4.43%).

(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. Proceeds from the securitization were used to pay down Pawnee's warehouse line and Chesswood's senior revolving credit facility. The balance of this facility at December 31, 2020 was US$150.0 million (December 31, 2019 - US$239.7 million). Based on average debt levels, the effective interest rate was 2.78% (including amortization of origination costs) (2019 – 2.77%).

(v) On September 30, 2020, Pawnee completed a US$183.5 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 off Pawnee's warehouse line, and CapOne facilities, and to pay down Chesswood's senior revolving credit facility. The balance of this facility at December 31, 2020 was US$163.5 million (December 31, 2019 - n/a). The effective interest rate was approximately 2.21% (including amortization of origination costs) (2019 – n/a%).

As at December 31, 2020, Pawnee had provided US$500,000 in outstanding letters of guarantee through Chesswood's revolving credit facility in lieu of cash reserves.

(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, 2020, 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, 2020, Blue Chip had $103.4 million (December 31, 2019 - $139.4 million) in securitization and bulk lease financing facilities debt outstanding, was utilizing $65.1 million (December 31, 2019 - $74.2 million) of its available financing and had access to at least $124.9 million (December 31, 2019 - $115.8 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, 2020 was 3.58% (2019 - 3.61%). As at December 31, 2020, Blue Chip had provided $5.6 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.

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. 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, 2020

In the year ended December 31, 2020, there was a decrease in cash of $1.4 million compared to an increase in cash of $8.7 million in the prior year as a result of the reasons discussed below.

The Company's operations generated $79.9 million of cash during the year ended December 31, 2020 compared to utilizing $109.1 million in the prior year, a decrease in the utilization of cash of $189.0 million. The decrease in utilization of cash is from the reduction in originations in the period compared to the prior year due to COVID-19. Pawnee and Tandem temporarily halted new originations late in April 2020 to allow the Company to settle upon appropriate COVID-19 related amendments to its revolving credit facility. Pawnee and Tandem temporarily halted new originations late in April 2020 to allow the Company to settle upon appropriate COVID-19 related amendments to its revolving credit facility. Pawnee and Tandem limited their originations in the U.S. in the second and third quarters, and have returned to normal operations and origination levels by December 31, 2020.

The net cash generated from the net decrease in finance receivables (funds advanced, origination costs, security deposits, restricted cash, and principal payments) totaled $16.3 million in the year ended December 31, 2020 compared to utilization of $205.7 million in the prior year to fund growth in finance receivables, an increase of $189.3 million in cash year-over-year. With the cash inflow from the collection of finance receivable payments, excess opening cash, and cash from operations, the Company paid down its various credit facilities by $69.1 million (included in Financing Activities) in the year ended December 31, 2020. In the prior year, the Company funded growth in finance receivables from excess opening cash, cash from operations and net borrowings of $141.8 million.

In the year ended December 31, 2020, the Company received net tax refunds of $3.5 million compared to net tax payments of $6.5 million in the year ended December 31, 2019, an increase of $10.0 million cash generated year-over-year.

The Company's finance receivables have an average term of approximately 40 months at the time of origination. 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 (or repaid) to support the growth (retraction) 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 (cash generated from the reduction) 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 $92.8 million in cash from net income, non-cash items and other working capital changes compared to $103.1 million in the prior year, a decrease in cash generation of $10.3 million compared to the prior year.

Capital expenditures totaled $880,000 (2019 - $312,000) during the year ended December 31, 2020 predominantly related to Pawnee's upgrade of its computer network infrastructure.

The Company paid dividends to the holders of its common shares and Exchangeable Securities in the amount of $5.9 million during the year ended December 31, 2020, compared to $14.9 million in the prior year. The decrease in dividends paid is due to the COVID-19 related reduction of the dividend in April 2020 and the temporary suspension of the dividend starting in May 2020. On November 12, 2020, the Company announced the resumption of monthly dividend of $0.02 per common share effective for November.

For the three months ended December 31, 2020

In the three months ended December 31, 2020, there was an increase in cash of $17,000 compared to an increase in cash of $3.3 million in the same period in the prior year as a result of the reasons discussed below.

The Company’s operations utilized $13.6 million of cash during the three months ended December 31, 2020 compared to utilizing $54.0 million in the same period in the prior year, a decrease in cash utilization of $40.3 million year-over-year.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, and principal payments) totaled $38.4 million in the three months ended December 31, 2020 compared to utilization of $83.3 million in the same period in the prior year, a decrease of $44.9 million in cash utilized year-over-year.

The Company funded growth in finance receivables from excess opening cash, and cash from operations, and net borrowings of $16.9 million in the three months ended December 31, 2020. In the same period of the prior year, Q4 2019, the Company funded growth in finance receivables from excess opening cash, cash from operations and net borrowings of $65.8 million.

In the three months ended December 31, 2020, the Company received net tax refunds of $5.1 million compared to net tax payments of $1.1 million in the same period in the prior year, a decrease in cash utilization of $6.2 million year-over-year.

If the cash generated or utilized from the net change 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 $19.6 million in cash from net income, non-cash items and other working capital changes compared to $30.4 million in the same period in the prior year, a decrease of $10.8 million from the prior year.

Capital expenditures totaled $93,000 (Q4 2019 - $—) during the three months ended December 31, 2020.

Due to the COVID-19 related temporary suspension of the dividend starting in May 2020 until November 2020, the Company paid only $355,000 of dividends to the holders of its common shares and Exchangeable Securities during the three months ended December 31, 2020 compared with $3.7 million paid in the same period in the prior year.

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

Financial Covenants, Restrictions and Events of Default

The Company and its operating subsidiaries are subject to bank and/or funder covenants relative to leverage and/or working capital. Certain of these covenants were temporarily amended or waived to accommodate COVID-19 circumstances. The Company was restricted from paying dividends and limited quarterly equipment financing originations during the period that the temporary COVID-19 related amendments were required. New equipment financing has since resumed.

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, 2020, US$71.9 million was outstanding under the US$250.0 million facility, which included US$4.9 million of letters of credit.

Dividends to Shareholders

The Company declared monthly cash dividends of $0.07 per common share from January 2020 to March 31, 2020. The Company declared a monthly dividend of $0.035 per common share for April 2020 due to COVID-19 uncertainties. On May 19, 2020, the Company announced a temporary suspension of dividends due to COVID-19 uncertainties (and subsequently, in accordance with the terms of a COVID-19 related temporary amendment of the Company's revolving credit facility). On November 12, 2020, the Company announced the resumption of monthly dividends of $0.02 per common share starting with the dividend for November (paid on December 15, 2020).

Dividend Policy

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

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

The amount of any dividends payable by Chesswood is at the discretion of its Board of Directors, is evaluated on an ongoing basis, and may be revised subject to business circumstances and expected capital requirements depending on, among other things, Chesswood's earnings, financial requirements for its operating entities, 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, 2020 (including interest):

($ thousands)	2021	2022	2023	2024	2025	2026 and beyond	Total
Accounts payable and other liabilities	$ 17,531	$ —	$ —	$ —	$ —	$ —	$ 17,531
Premises leases payable (a)	579	562	565	576	242	—	2,524
Borrowings (b)	245,679	270,963	112,815	31,885	1,323	19	662,684
Customer security deposits (c)	2,950	2,324	2,050	210	63	—	7,597
Interest rate swaps	340	—	—	—	—	—	340
	267,079	273,849	115,430	32,671	1,628	19	690,676
Service contracts	285	126	2	—	—	—	413
Total commitments	$ 267,364	$ 273,975	$ 115,432	$ 32,671	$ 1,628	$ 19	$ 691,089

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 revolving credit facility which is a line-of-credit; as such the balance 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, 2020 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$4.9 million in letters of guarantee. Other commitments are disclosed in Note 17 - *Contingent Liabilities and Other Financial Commitments* in the 2020 audited consolidated financial statements.

OUTLOOK

As a result of the lockdowns in 2020, there is a strong sense of pent-up demand amongst our customers. Furthermore, the potential for additional economic stimulus in North America gives us confidence that 2021 originations will be significantly greater than 2020. Our teams at Pawnee, Tandem and Blue Chip anticipate funded lease and loan volumes to be in excess of $650 million for 2021 with over 70% of the volume being prime credits. We expect origination levels to rise throughout the year as COVID-19 vaccines are broadly administered and business activity normalizes.

To support our growth plans, we are hiring across most departments to fill positions that had been previously furloughed. We are always looking to maintain high levels of service to assist our customers and ensure a quality experience. In Canada, we are looking to expand with partnerships in the third-party channel to leverage our fixed cost infrastructure in this market.

Our portfolio experienced a higher level of charge-offs in 2020 as we dealt with customers exposed to sectors heavily impacted by the pandemic. Barring any resurgence or unforeseen adverse economic events, we expect charge-off levels to normalize in 2021. As we have experienced in the past, our best credit performance tends to occur after times of crisis.

The combination of portfolio growth and normalized charge-offs should fuel improvements in Free Cash Flow generation on a per share basis. We plan to reinvest a portion of this cash to fund our receivables portfolios and other strategic initiatives. In addition, and on a regular basis, we will assess our dividend policy.

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.

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

The results of the Company's subsidiaries may be negatively impacted by various economic factors and business conditions, including the level of economic activity in the markets in which they operate. To the extent that economic activity or business conditions deteriorate, originations may decrease; 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 approximately eleven months into the COVID-19 pandemic. Financial markets and businesses across many industries have experienced significant challenges and it will likely be some time before the duration and ultimate severity of the impact will be known. Chesswood expects that there will be an impact upon originations and delinquencies/charge-offs, perhaps significant. Chesswood's subsidiaries have previously granted deferrals on payments on material portions of their portfolios of leases and loans, and this may continue.

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 and loan defaults and delinquencies could adversely affect our liquidity by reducing the amount of funding available to us under our financing arrangements. Furthermore, increased rates of delinquencies or loss levels could result in adverse changes to the terms of future financing arrangements, including increased interest rates payable to lenders and the imposition of more burdensome covenants and increased credit enhancement requirements. As described elsewhere in this MD&A, the Company and its subsidiaries entered into temporary amendments to their credit facilities to better reflect COVID-19 related experiences and expectations.

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/distributors. 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 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.

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 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.

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.

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, Tandem, or Blue Chip (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 and Tandem focus some of their businesses 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 and Tandem's main competition comes from equipment finance companies, banks, commercial lenders, home equity loans, and credit cards.

As Pawnee and Tandem expand their suite of products and targets potential lessees/borrowers with better credit scores, both will face competition from more traditional financing sources, including: national, regional and local finance companies; captive finance and equipment finance companies affiliated with major equipment manufacturers; and financial services companies, such as commercial banks, thrifts and credit unions.

Many of the firms and institutions providing financing alternatives are substantially larger than Pawnee, Tandem and Blue Chip 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, Tandem and Blue Chip. A lower cost of funds could enable a competitor to offer leases and loans with pricing lower than that of Pawnee, Tandem or Blue Chip, 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, Tandem or Blue Chip'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.

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.

Application of the Expected Credit Loss ("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.

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

On January 1, 2019, the Company recorded a right-of-use asset for premises leases and a corresponding lease liability with no net impact on retained earnings. The nature of expenses related to premises 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 or interm 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, 2020 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, 2020.

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, 2020 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, 2020.

During the quarter ended December 31, 2020, 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, 2020.

	High	Low	Average Daily Volume
January	$10.93	$9.99	12,850
February	$10.55	$8.93	22,052
March	$9.70	$3.61	41,370
April	$6.53	$3.33	51,047
May	$5.99	$3.39	36,530
June	$4.46	$3.53	32,123
July	$4.90	$3.60	25,154
August	$6.16	$4.75	21,649
September	$6.22	$4.74	17,368
October	$6.06	$5.51	10,868
November	$8.87	$5.61	28,149
December	$9.95	$8.43	19,725
	$10.93	$3.33	26,631

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 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, 2020 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.

(signed) Ryan Marr
President & CEO
March 9, 2021

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, 2020 and 2019, 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, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of Goodwill and Intangible Assets

The Group's goodwill is recognized in two Cash Generating Units (CGU's): 'Pawnee' and 'Blue Chip'. The Group also has both definite and indefinite life intangible assets that were recognized in previous business combinations. The Group recognized an impairment loss of $4.7 million on its broker network, $16.1 million on the goodwill attributed to the Blue Chip CGU and $nil to Pawnee.

The Company's impairment testing of its goodwill and intangible assets utilizes several assumptions that are subject to significant estimation uncertainties as a result of the inputs required in the value-in-use ("VIU") calculation, which is derived from an estimated discounted cash flow model. In the current year, as a result of the COVID-19 pandemic, there was additional uncertainty surrounding these inputs. As a result, we identified the assessment of goodwill impairment as a significant risk area that could result in a material adjustment, thus requiring special audit consideration. Refer to the consolidated statements of financial position and Notes 9 and 10 to the consolidated financial statements for details of the Group's impairment test and assumptions.

How the Audit Matter was Addressed in the Audit

Our audit procedures included the following, among others, using the work of a valuation expert to assist us in evaluating the methodologies, assumptions and data used by the Group, in particular, those assumptions relating to the forecasted revenue growth and profit margins for Pawnee and Blue Chip. We also focused on the adequacy of the Group's disclosures about those significant assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill and cause the high degree of estimation uncertainty.

Allowance for Expected Credit Losses

The Group has an allowance for expected credit losses ('ECL') of $24.4 million recorded against its finance receivables. The Group's assessment of the allowance involves significant estimates and judgements relating to the application of ECL model

prescribed in IFRS 9, in particular, with respect to the timing and amount of the credit loss as well as considerations for forward looking information.

In addition, as a result of the COVID-19 pandemic, the economic environment experienced significant volatility and uncertainty, which had a direct impact on forward-looking macroeconomic variables, probability weights and overlays. As a result, we identified the loss allowance measurement for expected credit losses as a significant risk, requiring special audit consideration.

Refer to Note 6 of the consolidated financial statements for details of the Group's finance receivables and allowance for expected credit loss.

How the Audit Matter was Addressed in the Audit

Our audit procedures included, among others, an assessment of the appropriateness of the ECL model developed by management. We performed an independent assessment of the significant inputs and assumptions used by management such as historical loss rate, segmentation and staging of the lease and loan portfolio, assessment of significant increase in credit risk, and forward-looking macroeconomic factors. We also focused on the adequacy of the Group's disclosures over the description of its methodology and the related significant inputs and assumptions.

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, 2020.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Toronto, Ontario
March 9, 2021

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

	Note		**December 31, 2020**		December 31, 2019
ASSETS					
Cash		**$**	**9,668**	$	11,032
Restricted funds	*12(d)*		**35,714**		21,751
Other assets	*5*		**2,904**		11,124
Finance receivables	*6*		**740,878**		821,085
Interest rate derivatives	*14*		**—**		60
Right-to-use assets	*7*		**1,697**		3,024
Property and equipment	*8*		**1,736**		1,427
Intangible assets	*9*		**10,919**		17,080
Goodwill	*10*		**23,920**		40,334
TOTAL ASSETS		**$**	**827,436**	$	926,917
LIABILITIES					
Accounts payable and other liabilities	*11*	**$**	**17,531**	$	16,835
Premises leases payable	*7*		**2,163**		3,222
Borrowings	*12*		**638,976**		714,691
Customer security deposits	*13*		**7,210**		12,106
Interest rate derivatives	*14*		**340**		293
Deferred tax liabilities	*15*		**20,400**		23,087
			686,620		770,234
SHAREHOLDERS' EQUITY					
Common shares	*19*		**104,236**		103,963
Non-controlling interest	*20*		**11,797**		13,130
Share-based compensation reserve	*21*		**5,605**		5,509
Accumulated other comprehensive income			**11,733**		13,956
Retained earnings			**7,445**		20,125
			140,816		156,683
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$**	**827,436**	$	926,917

Approved by the Board of Directors

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

(signed) 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, 2020 AND 2019
(in thousands of dollars, except per share amounts)

	Note	2020	2019
Finance revenue			
Interest revenue on finance leases and loans		**$ 102,896**	$ 110,603
Ancillary finance and other fee income		**14,160**	16,372
		117,056	126,975
Finance expenses			
Interest expense		**28,521**	33,663
Provision for credit losses	*6*	**25,644**	33,214
		54,165	66,877
Finance margin		**62,891**	60,098
Expenses			
Personnel expenses		**20,123**	19,569
Other expenses		**18,618**	19,123
Depreciation		**1,216**	1,184
Amortization - intangible assets		**1,333**	1,332
		41,290	41,208
Operating income		**21,601**	18,890
Restructuring and other transaction costs		**(9,250)**	—
Goodwill and intangible asset impairment	*9 & 10*	**(20,828)**	—
Unrealized gain on investments held	*5*	**483**	30
Unrealized loss on interest rate derivatives		**(118)**	(1,109)
Unrealized (loss) gain on foreign exchange		**(6)**	47
Income (loss) before taxes		**(8,118)**	17,858
Tax expense	*15*	**(407)**	(5,167)
Net income (loss)		**$ (8,525)**	$ 12,691
Attributable to:			
Common shareholders		**$ (7,814)**	$ 11,633
Non-controlling interest		**$ (711)**	$ 1,058
Income (loss) from operations per share:			
Basic	*23*	**$ (0.48)**	$ 0.72
Diluted	*23*	**$ (0.48)**	$ 0.71

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(in thousands of dollars)

		2020		2019
Net income (loss)	**$**	**(8,525)**	$	12,691
Other comprehensive income:				
Unrealized loss on translation of foreign operations		**(2,424)**		(4,793)
Comprehensive income (loss)	**$**	**(10,949)**	$	7,898
Attributable to:				
Common shareholders	**$**	**(10,037)**	$	7,239
Non-controlling interest	**$**	**(912)**	$	659

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(in thousands of dollars)

	Note	Common shares	Common shares	Non-controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	2020 Total
		(# '000s)						
Shareholders' equity - December 31, 2019		**16,248**	**$ 103,963**	**$ 13,130**	**$ 5,509**	**$ 13,956**	**$ 20,125**	**$ 156,683**
Net income (loss)		—	—	**(711)**	—	—	**(7,814)**	**(8,525)**
Dividends declared	*22*	—	—	**(421)**	—	—	**(4,632)**	**(5,053)**
Share-based compensation	*21*	—	—	—	**920**	—	—	**920**
Exercise of restricted share units	*21*	**93**	**824**	—	**(824)**	—	—	—
Repurchase of common shares under issuer bid	*19*	**(86)**	**(551)**	—	—	—	**(234)**	**(785)**
Unrealized loss on translation of foreign operations			—	**(201)**	—	**(2,223)**	—	**(2,424)**
Shareholders' equity - December 31, 2020		**16,255**	**$ 104,236**	**$ 11,797**	**$ 5,605**	**$ 11,733**	**$ 7,445**	**$ 140,816**

	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

Please see notes to the consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(in thousands of dollars)	Note	2020	2019
OPERATING ACTIVITIES			
Net income (loss)		**$ (8,525)**	$ 12,691
Non-cash items included in net income			
Amortization and depreciation		**2,549**	2,516
Goodwill and intangible asset impairment	9 & 10	**20,828**	—
Provision for credit losses *(excluding recoveries)*	6	**40,675**	44,147
Amortization of origination costs		**24,725**	26,781
Tax expense		**407**	5,167
Other non-cash items	25	**7,584**	5,720
		96,768	84,331
Cash from operating activities before change in net operating assets		**88,243**	97,022
Funds advanced on origination of finance receivables		**(280,753)**	(442,342)
Origination costs paid on finance receivables		**(20,523)**	(35,681)
Principal collections of finance receivables		**304,988**	285,315
Change in other net operating assets	25	**(15,525)**	(6,861)
Cash from (used in) operating activities before tax		**76,430**	(102,547)
Income taxes recovery (paid) - net		**3,450**	(6,544)
Cash from (used in) operating activities		**79,880**	(109,091)
INVESTING ACTIVITY			
Purchase of property and equipment	8	**(880)**	(312)
Cash used in investing activity		**(880)**	(312)
FINANCING ACTIVITIES			
Borrowings, net	25	**(69,147)**	141,784
Payment of financing costs	12	**(3,645)**	(7,458)
Payment of lease obligations	7	**(711)**	(638)
Proceeds from exercise of options	21	**—**	285
Repurchase of common shares under issuer bid	19	**(785)**	(808)
Cash dividends paid	22	**(5,939)**	(14,882)
Cash from (used in) financing activities		**(80,227)**	118,283
Unrealized foreign exchange loss on cash		**(137)**	(174)
Net increase (decrease) in cash		**(1,364)**	8,706
Cash, beginning of year		**11,032**	2,326
Cash, end of year		**$ 9,668**	$ 11,032

Please see notes to the consolidated financial statements.

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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 15, 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.

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.

The Company's audited consolidated financial statements were authorized for issue on March 9, 2021 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, 2020 - 1.3415; 2019 - 1.3269), and assets and liabilities are translated at the closing rate (as at December 31, 2020 - 1.2732; December 31, 2019 - 1.2988). 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, Note 9 and Note 10 - Impairment of Intangibles and Goodwill, 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 6 - Finance Receivables, Note 9 and Note 10 - Impairment of Intangibles and Goodwill, and Note 15 - Taxes.

2. NEW ACCOUNTING STANDARDS

The Company adopted amendments to various accounting standards (including IFRS 3 *Business Combinations*, that provides guidance on the definition of a business; and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, that clarifies the definition of 'material') and also to the *Conceptual Framework for Financial Reporting* during the current year, none of which had any significant effect on the Company's financial position or performance.

Management is currently considering the effect of the following amendments issued by the IASB during 2020 but that are not yet effective:

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, to clarify which costs to include in the assessment of whether a contract is onerous. The Company will adopt the amendment when it becomes effective in the Company's December 31, 2022 year.

Phase 2 of the Interest Rate Benchmark Reform amendments made to IFRSs: 7, *Financial Instruments: Disclosures*; 9 *Financial Instruments*; and 16 *Leases*, that provide relief for issues that may arise on transition to an alternative benchmark, for example, changes to contractual cash flows for financial instruments. The Company will adopt the amendments when they become effective for the Company's December 31, 2021 year.

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 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) were 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 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:

				December 31, 2020
	Level 1	Level 2	Level 3	Carrying Value
ASSETS				*($ thousands)*
Cash *(iii)*	$ 9,668	$ —	$ —	$ 9,668
Restricted funds *(iii)*	35,714	—	—	35,714
Finance receivables *(i)*	—	740,878	—	740,878
LIABILITIES				
Accounts payable and other liabilities *(iii)*	—	(17,531)	—	(17,531)
Borrowings *(ii)*	—	(638,976)	—	(638,976)
Customer security deposits	—	(7,210)	—	(7,210)
Interest rate derivatives *(iv)*	—	(340)	—	(340)

				December 31, 2019
	Level 1	Level 2	Level 3	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)*	—	—	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 *(v)*	—	(293)	—	(293)

(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.

(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,	
	2020	2019
	($ thousands)	
Amortized cost:		
Provision for credit losses	**$ (25,644)**	$ (33,214)
Fair value through net income or loss:		
Investment in Dealnet common shares	**483**	30
Interest rate derivatives	**(118)**	(1,109)
Net loss	**$ (25,279)**	$ (34,293)

4. FINANCIAL RISK MANAGEMENT

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

There have been no material changes in the Company's objectives, policies or processes for measuring and managing any of the risks to which it is exposed since the previous year end, except for the effects of COVID-19 on credit and liquidity risk as described in the following paragraphs.

Due to COVID-19, modifications to the terms of finance receivables have also been granted to a higher volume of receivables than usual, as described in Note 6(e), as a means to avert economic losses. To manage the increased credit risk and minimize future losses and charge offs, measures have been put in place at all operating subsidiaries. Those measures include a tightening of underwriting, including limiting the type of equipment, industry, dollar value and receivable term and also require higher credit ratings, which will dampen originations.

The Company's subsidiaries granted deferrals on portions of their respective portfolios of leases and loans as a result of the COVID-19 pandemic. In addition, various credit facilities were amended to better reflect COVID-19 related experiences and expectations.

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 EcoHome loan receivable was repaid during the year.

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, Tandem 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 and Tandem's credit risk is mitigated by: funding only "business essential" commercial equipment, where the value of the equipment is less than US$350,000, 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, Tandem 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 and Tandem'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.

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, 2020, the Company's operations have at least $485.2 million (2019 - $644.0 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. Presentation of cash outflows for 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, subject to certain percentages of eligible gross lease receivables, of which US$71.9 million was utilized at December 31, 2020 (2019 - US$156.1 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.

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 Company's dividend payments were suspended during the year as disclosed in Notes 12(a) and 22.

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 interest rates and foreign currency.

a) Trading prices

The Company's investment in Dealnet common shares (included in Note 5(b) - Other Assets on the Consolidated Statements of Financial Position) was measured at fair value at each reporting date with changes in fair value recognized in net income or loss. The Dealnet common shares were sold during the period.

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, 2020 and 2019:

	For the years ended			
	December 31, 2020		December 31, 2019	
	+100 bps	-100 bps	+100 bps	-100 bps
	($thousands)			
Increase (decrease) in interest expense	$ 1,418	$ (1,418)	$ 2,503	$ (2,503)
Increase (decrease) in net income and equity	$ (1,283)	$ 1,283	$ (1,787)	$ 1,787

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, 2020, dividends paid totaled $5.9 million (2019 - $14.9 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, 2020 and 2019:

	December 31, 2020	December 31, 2019
	($thousands)	
Year-end exchange rate	1.2732	1.2988
U.S. denominated net assets in U.S.$ held in Canada	$ 125	$ 1,638
Effect of a 10% increase or decrease in the Canadian/U.S. dollar on U.S. denominated net assets	$ 16	$ 213

5. OTHER ASSETS

		December 31, 2020	December 31, 2019
		($ thousands)	
Tax receivable		**$ 1,503**	$ 5,089
Sales tax receivable		**29**	558
Prepaid expenses and other current assets		**1,372**	2,323
Loan receivable - EcoHome	*a*	**—**	2,671
Common shares - Dealnet	*b*	**—**	483
Other assets		**2,904**	11,124
Current portion		2,904	10,334
Long-term portion		$ —	$ 790

(a) Loan receivable - EcoHome - On February 18, 2016, the Company sold EcoHome Financial Inc. ("EcoHome") to Dealnet Capital Corp. ("Dealnet"). The loan receivable was secured by specific EcoHome leases and loans and a general security agreement over all the assets of EcoHome. The loan was repayable with fixed monthly principal payments, and related interest based on a floating interest rate plus a fixed margin and was repaid in May 2020 prior to its October 2020 maturity date. The loan receivable was carried at amortized cost.

(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 were measured at fair value through net income or loss. The fair value represented the trading price at each reporting date. The Dealnet shares were disposed of during the year.

6. FINANCE RECEIVABLES

All lease and loan receivables have been pledged 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. The Company retains significant risks and rewards of ownership (in some cases through consolidated SPE's) and servicing responsibilities of the pledged lease and loan receivables, and therefore 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, 2020	December 31, 2019
	($ thousands)	
Net investment in leases	**$ 335,814**	$ 432,200
Loan receivables	**405,064**	388,885
	$ 740,878	$ 821,085

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

	December 31, 2020	December 31, 2019
	($ thousands)	
Total minimum finance receivable payments *(b)*	**$ 868,107**	$ 998,888
Residual values of leased equipment	**22,311**	27,747
	890,418	1,026,635
Unearned income, net of initial direct costs	**(135,772)**	(178,630)
Net investment in finance receivables before allowance for credit losses	**754,646**	848,005
Allowance for credit losses *(c)*	**(24,363)**	(30,305)
	730,283	817,700
Reserve receivable on securitized financial contracts	**10,595**	3,385
Net investment in finance receivables	**740,878**	821,085
Current portion	274,309	283,865
Long-term portion	$ 466,569	$ 537,220

(b) Minimum scheduled collections of finance receivables at December 31, 2020, 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)	
2021	$ 339,042	$ 269,805
2022	253,492	213,274
2023	162,449	143,553
2024	86,679	80,148
2025	25,388	24,450
2026 and thereafter	1,057	1,105
Total minimum payments	$ 868,107	$ 732,335

(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 inputs by credit stage:

For Stage 1, the Company utilized recent static pool data applied to recent origination levels and included forward-looking macroeconomic assumptions. 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% (2019 - 20%) 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, Tandem 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 on credit losses in the next 12 months of natural disasters and economic shocks, including the COVID-19 pandemic;
- 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, which is consistent with prior periods. Determining the inputs listed and ECLs requires significant estimation uncertainty. In particular, determining the COVID-19 effects to be layered over the static pool data at December 31, 2020 to estimate the extent to which ECLs have increased at that date - which requires assessing the direction of macroeconomic variables in the forward-looking scenarios, the duration of lock-down conditions, the effectiveness of relief programs at mitigating the effects on our lessees and borrowers, amongst other factors - are subject to significant measurement uncertainty. Determining which finance receivables have seen a

significant increase in credit risk is also subject to significant judgement. If the expected loss rates increased or decreased by 10% the provision for credit loss and the allowance for credit losses would increase or decrease by approximately $2.2 million.

The Company's ECL was determined as at December 31, 2020 based on forecasts and other information available at that date. The impact of COVID-19 on the economy and the timing of recovery will continue to evolve with the subsequent effect reflected in the measurement of ECLs in future quarters as appropriate. This may add significant volatility to ECL.

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

	As of December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
	Performing	Under-Performing	Non-Performing	
	($ thousands)			
Prime	$ 545,048	$ 3,241	$ 3,105	$ 551,394
Non-prime	195,505	3,872	3,875	203,252
Total	$ 740,553	$ 7,113	$ 6,980	$ 754,646

	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

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

	Year ended December 31, 2020			
	Stage 1	Stage 2	Stage 3	
	Performing	Under-Performing	Non-Performing	**Total**
	($ thousands)			
Balance, January 1, 2020	$ 11,914	$ 8,072	$ 10,319	**$ 30,305**
Transfer to Performing (Stage 1)	2,715	(1,978)	(737)	—
Transfer to Under-Performing (Stage 2)	(30,346)	30,365	(19)	—
Transfer to Non-Performing (Stage 3)	—	(29,288)	29,288	—
Net remeasurement of loss allowance	20,046	(259)	(758)	**19,029**
New receivables originated	6,615	—	—	**6,615**
Provision for credit losses	(970)	(1,160)	27,774	**25,644**
Charge-offs	—	—	(46,405)	**(46,405)**
Recoveries of amounts previously charged off	—	—	15,031	**15,031**
Net charge-offs	—	—	(31,374)	**(31,374)**
Foreign exchange translation	(112)	(81)	(19)	**(212)**
Balance, end of year	**$ 10,832**	**$ 6,831**	**$ 6,700**	**$ 24,363**

	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**

(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 $7.2 million (December 31, 2019 - $12.1 million) of security deposits received from lessees/borrowers and the collateral held (including potential proceeds from repossessed equipment, and potential recoveries from personal guarantees) that would offset any charge-offs. 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 lease/loan reaches 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, 2020	
($ thousands)	**Current**	**1-30 days**	**31 - 60 days**	**61 - 90 days**	**Over 90 days**	**Total**
Finance receivables	**$ 732,061**	**$ 13,354**	**$ 4,481**	**$ 2,439**	**$ 2,311**	**$ 754,646**
Credit impaired	**$ 115**	**$ 664**	**$ 1,560**	**$ 2,179**	**$ 2,182**	**$ 6,700**
Past due but not impaired	**$ —**	**$ 12,690**	**$ 2,921**	**$ 260**	**$ 129**	**$ 16,000**

					As of December 31, 2019	
($ thousands)	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days	Total
Finance receivables	$ 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

(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 2020 or prior) and are current at December 31, 2020 is $184.4 million (December 31, 2019 - $13.5 million). On average the terms have been modified to extend the contracts by approximately one to three months, depending on the modification. The majority of the increase from December 31, 2019 is the result of COVID-19 deferrals. Finance receivables modified during the year ended December 31, 2020 had a total net investment in finance receivable balance at the time of modification of $418.9 million (2019 - $27.1 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, 2020, the proceeds from the disposal of repossessed equipment that was charged-off totaled $5.7 million (2019 - $4.7 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 or termination options are exercised. A sublet of leased space is treated as a disposal of the associated right-to-use asset with any resulting gain or loss recognized in net income. 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, 2020	December 31, 2019
	($ thousands)	
Premises:		
Balance, beginning of year	$ 3,024	$ —
Adoption of IFRS 16	—	3,837
	3,024	3,837
Additions	55	—
Reductions - sublet and termination	(726)	—
Depreciation	(646)	(678)
Foreign exchange translation	(10)	(135)
Balance, end of year	$ 1,697	$ 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, 2020 was $140,000 and is included in interest expense. Total outflow for leases was $711,000. 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, 2020	December 31, 2019
	($ thousands)	
Premises Leases Payable		
Balance, beginning of year	$ 3,222	$ —
Adoption of IFRS 16	—	3,837
	3,222	3,837
Additions	55	—
Reduction - termination	(513)	—
Principal payments	(571)	(477)
Foreign exchange translation	(30)	(138)
Balance, end of year	$ 2,163	$ 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, 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
Additions	162	718	880
Disposals	—	(17)	(17)
Foreign exchange translation	18	(14)	4
December 31, 2020	**$ 1,577**	**$ 2,996**	**$ 4,573**

	Furniture and equipment	Computer hardware	Total
Accumulated depreciation:			
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
Depreciation	157	414	571
Disposals	—	(17)	(17)
Foreign exchange translation	2	2	4
December 31, 2020	**$ 853**	**$ 1,984**	**$ 2,837**

	Furniture and equipment	Computer hardware	Total
Carrying amount:		*($ thousands)*	
December 31, 2018	$ 634	$ 994	$ 1,628
December 31, 2019	$ 703	$ 724	$ 1,427
December 31, 2020	**$ 724**	**$ 1,012**	**$ 1,736**

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 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.

Based on the annual assessment of intangible assets, management determined that the carrying value of Blue Chip's broker network exceeded its estimated fair value and recorded a $4.7 million impairment charge due to projected decreases in future originations compared to the prior year end projection. The fair value was determined based primarily on discounted cash flows, utilizing several assumptions and estimation uncertainties, especially as it relates to COVID-19. Any changes in forward-looking information will be reflected in future quarters as appropriate and could result in an additional intangible asset impairment.

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	Total
Cost:		*($ thousands)*	
December 31, 2018	$ 7,782	$ 19,517	$ 27,299
Foreign exchange translation	(353)	—	(353)
December 31, 2019	7,429	19,517	26,946
Foreign exchange translation	(138)	—	(138)
December 31, 2020	**$ 7,291**	**$ 19,517**	**$ 26,808**

	Trade names	Broker relationships	Total
Accumulated amortization:		*($ thousands)*	
December 31, 2018	$ 127	$ 8,407	$ 8,534
Amortization	—	1,332	1,332
December 31, 2019	127	9,739	9,866
Impairment	—	4,690	4,690
Amortization	—	1,333	1,333
December 31, 2020	**$ 127**	**$ 15,762**	**$ 15,889**

	Trade names	Broker relationships	Total
Carrying amount:		*($ thousands)*	
December 31, 2018	$ 7,655	$ 11,110	$ 18,765
December 31, 2019	$ 7,302	$ 9,778	$ 17,080
December 31, 2020	**$ 7,164**	**$ 3,755**	**$ 10,919**

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, 2020	December 31, 2019
	($ thousands)	
Pawnee	**$ 6,876**	$ 7,014
Blue Chip	**288**	288
Total indefinite-life intangible assets	**$ 7,164**	$ 7,302

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.

Goodwill totaled $23.9 million at December 31, 2020 compared to $40.3 million at December 31, 2019. The $16.4 million decrease consists of an $16.1 million COVID-19-induced impairment loss against goodwill at Blue Chip and a $276,000 decrease in Pawnee goodwill due to the decrease in value of the US dollar relative to the Canadian dollar.

The Company performs an annual goodwill impairment test. The Company is also required to test its assets for impairment, including goodwill and intangible assets with indefinite lives, between the annual assessments when facts and other circumstances indicate that impairment may have occurred. At March 31, 2020, the economic environment was unfavorable due to the various effects of the COVID-19 pandemic: applications and approvals of new finance receivables had dropped compared to the same period in the previous year; economic measures indicated a reduced level of activity, including spending and employment; and the Company's dividend and share price had decreased. As a result, an interim impairment test was performed as at March 31, 2020 and found a goodwill impairment of $11.9 million. The Company's annual goodwill impairment test performed as at December 31, 2020 identified a further $4.2 million impairment in Blue Chip's goodwill.

The impairment test is performed at the level of cash generating units (CGU) because none of the Company's non-financial assets generate independent cash inflows. 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. The cash flow inputs used represent management's current best estimates and are consistent with changes seen in the finance receivable portfolio and with readily available external sources of information. Each of those variables will ultimately be determined by the duration of restrictions that are currently in place to contain the pandemic, the effects and ultimate success of which are inherently unknowable.
ii) A terminal value incorporated into the VIU calculation which was estimated by applying a 3.0% growth rate to the cash flow forecast for the fifth year. The growth rate reflects the historical average core inflation rate which does not exceed the long-term average growth rate for the industry. Management predicts that Blue Chip will revert to historical growth rates after the current restrictions are lifted and that the long-term growth rate for the industry will be unaffected.
iii) A pre-tax discount rate of approximately 26.8% applied to forecast cash flows, compared to the rate used in the annual impairment test of 20.75%. The change in the estimated pre-tax discount rate is due to inclusion of a higher risk premium to reflect the risks present in the finance receivables in the current environment.

The estimation of VIU is subject to considerable measurement uncertainty.

Pawnee has a much larger portfolio of finance receivables relative to goodwill and therefore its VIU is greater than the carrying amount of its assets by a significant margin. It was determined that no impairment had occurred for Pawnee as at December 31, 2020 or at any point during the year.

	Pawnee	Blue Chip	Total
Cost:		*($ thousands)*	
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
Foreign exchange translation	(929)	—	(929)
December 31, 2020	**$ 46,180**	**$ 26,365**	**$ 72,545**

	Pawnee	Blue Chip	Total
Accumulated impairment:		*($ thousands)*	
December 31, 2018	$ 34,808	$ —	$ 34,808
Foreign exchange translation	(1,668)	—	(1,668)
December 31, 2019	$ 33,140	$ —	$ 33,140
Impairment	—	16,138	16,138
Foreign exchange translation	(653)	—	(653)
December 31, 2020	**$ 32,487**	**$ 16,138**	**$ 48,625**

	Pawnee	Blue Chip	Total
Carrying amount:		*($ thousands)*	
December 31, 2018	$ 14,672	$ 26,365	$ 41,037
December 31, 2019	$ 13,969	$ 26,365	$ 40,334
December 31, 2020	**$ 13,693**	**$ 10,227**	**$ 23,920**

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, 2020	December 31, 2019
	($ thousands)	
Dividend payable	**$ 355**	$ 1,241
Accounts payable	**1,554**	2,078
Sales tax payable	**1,219**	951
Customer deposits and prepayments	**992**	913
Unfunded finance receivables	**4,731**	7,230
Taxes payable	**2,549**	—
Payroll related payables and accruals	**1,671**	1,408
Accrued expenses and other liabilities	**4,460**	3,014
	$ 17,531	$ 16,835

12. BORROWINGS

As a result of COVID-19, the Company's subsidiaries have granted deferrals on portions of their respective portfolios of leases and loans. Pawnee and Tandem temporarily suspended accepting new financing requests to allow the Company and its subsidiaries to finalize amendments to various facilities to better reflect COVID-19 related experiences and expectations. New equipment financings then resumed. Certain covenants were waived or amended during the year ended December 31, 2020 to accommodate COVID-19 circumstances. The Company and its subsidiaries were compliant with all covenants at December 31, 2020 and December 31, 2019 and through the periods presented.

	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, 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
Proceeds or draw-downs	200,194	—	373,526	—	35,353	609,073
Repayments	(305,644)	—	(301,229)	—	(71,347)	(678,220)
Payment of financing costs	—	—	—	(3,645)	—	(3,645)
Amortization of deferred financing costs	—	1,050	—	3,342	—	4,392
Debt restructuring	—	—	—	2,491	—	2,491
Foreign exchange translation	1,642	—	(11,459)	11	—	(9,806)
Net as of December 31, 2020	**$ 85,297**	**$ (1,128)**	**$ 456,581**	**$ (5,132)**	**$ 103,358**	**$ 638,976**

(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. At December 31, 2020, the Company was utilizing US$71.9 million (December 31, 2019 - US$156.1 million) of its credit facility and had approximately US$178.1 million in additional borrowings available under the corporate credit facility. Based on average debt levels, the effective interest rate during the year ended December 31, 2020 was 5.42% (year-ended December 31, 2019 - 5.49%). The Company paid $2.0 million in amendment fees specific to COVID-19 issues related to the revolving facility that is included in restructuring and transaction costs and other one-time COVID-19 related expenses. The Company was restricted from paying dividends and limited quarterly equipment financing originations during the period that the temporary COVID-19 related amendments were required.

(b) Pawnee credit facilities:
(i) Warehouse facility - Through its subsidiary Pawnee Portfolio Fund ("PPF"), Pawnee had a loan facility to fund its prime portfolio. During May 2020, the company elected to convert the facility from a US$250 million revolving facility to an amortizing facility, where collections were being used to repay the principal. The warehouse facility held Pawnee's prime receivables before they are securitized. This credit facility was secured by PPF's assets, contains covenants, including maintaining leverage and interest coverage ratios. Based on average debt levels, the effective interest rate during the year ended December 31, 2020 was 7.31% (year-ended December 31, 2019 - 6.16%) (including fees and upfront origination cost amortization). Pawnee was not utilizing this facility at December 31, 2019. On September 30, 2020, Pawnee paid off the remaining balance of this facility utilizing proceeds of the new asset-backed securitization and the facility was closed.
(ii) CapOne facilities - Pawnee had a combined US$125 million of non-recourse asset-backed facilities with Capital One (the "CapOne facilities"), through subsidiaries Pawnee Receivable Fund I and II LLC. The CapOne facilities at inception were secured by US$154.2 million in gross receivables from Pawnee's prime portfolio of equipment leases and loans and repayment terms were based on the cash flow of the underlying portfolio. The proceeds were used to pay down Chesswood's existing revolving credit facility. The facilities required 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. Based on average debt levels, the effective interest rate during the year ended December 31, 2020 was 3.89% (2019 - 5.72%). On September 30, 2020, Pawnee paid off the remaining balance of the facilities utilizing proceeds of the new asset-backed securitization. At December 31, 2019, the balance was US$48.4 million.

(iii) LifeCo Facility - this facility, with a life insurance company ("LifeCo"), has an US$150 million annual capacity, that expires in October 2028. 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 cash reserves. Pawnee retains the servicing of these finance receivables. The balance of this facility at December 31, 2020 was US$45.1 million (December 31, 2019 - US$16.6 million). Based on average debt levels, the effective interest rate was 4.94% (including amortization of origination costs) (December 31, 2019 – 4.43%).
(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. Proceeds from the securitization were used to pay down Pawnee's warehouse line and Chesswood's senior revolving credit facility. The balance of this facility at December 31, 2020 was US$150.0 million (December 31, 2019 - US$239.7 million). Based on average debt levels, the effective interest rate was 2.78% (including amortization of origination costs) (2019 – 2.77%).
(v) On September 30, 2020, Pawnee completed a US$183.5 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 off Pawnee's warehouse line, and CapOne facilities, and pay down Chesswood's senior revolving credit facility. The balance of this facility at December 31, 2020 was US$163.5 million (December 31, 2019 - n/a). The effective interest rate was approximately 2.21% (including amortization of origination costs).

As at December 31, 2020, Pawnee had provided US$500,000 in outstanding letters of guarantee through Chesswood's revolving credit facility in lieu of cash reserves.

(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, 2020, 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, 2020, Blue Chip had $103.4 million (December 31, 2019 - $139.4 million) in securitization and bulk lease financing facilities debt outstanding, was utilizing $65.1 million (December 31, 2019 - $74.2 million) of its available financing and had access to at least $124.9 million (December 31, 2019 - $115.8 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, 2020 was 3.58% (2019 - 3.61%). As at December 31, 2020, Blue Chip had provided $5.6 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, 2020 and December 31, 2019, and throughout the periods presented, Blue Chip was compliant with all covenants, with certain covenants being waived or amended to accommodate COVID-19 circumstances.

(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, 2020	December 31, 2019
	($ thousands)	
Restricted - cash in collection accounts	**$ 15,516**	$ 16,412
Restricted - cash reserves	**20,198**	5,339
Restricted funds	**$ 35,714**	$ 21,751

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, 2020	December 31, 2019
	($ thousands)	
Security deposits that will be utilized within one year	**$ 2,950**	$ 3,896
Security deposits that will be utilized in future years	**4,260**	8,210
	$ 7,210	$ 12,106

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, 2020, the fair value of the swaps was a liability of $340,000 (December 31, 2019 - $293,000).

The following swap agreement was outstanding at December 31, 2020:

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

(b) Derivative caps

During the third quarter of 2019, Pawnee entered into a US$40.0 million interest rate cap agreement that provided for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. The interest rate cap agreement will mature on July 25, 2022. At December 31, 2020, the fair value of the swap was a liability of $300 (December 31, 2019 - $57,000).

Certain of Pawnee's former non-recourse asset-backed facilities (see Note 12(b)(*ii*) - *Borrowings*) required 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 were 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%. These interest rate caps were terminated when the facility was paid out during 2020. At December 31, 2019, the fair value of the interest rate caps was an asset of $3,200.

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.

(a) Tax expense consists of the following:

	For the year ended	
	December 31, 2020	December 31, 2019
	($ thousands)	
Current tax expense	**$ 2,723**	$ 1,623
Deferred tax (recovery) expense	**(2,316)**	3,544
Tax expense	**$ 407**	$ 5,167

(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% (2019 - 26.5%) to income before income taxes.

	For the year ended	
	December 31, 2020	December 31, 2019
	($ thousands)	
Income before taxes	**$ (8,118)**	$ 17,858
Canadian tax rate	**26.5 %**	26.5 %
Theoretical tax expense	**(2,151)**	4,732
Tax cost of non-deductible items	**4,635**	212
Tax benefit on U.S. loss carry-back rate change	**(3,560)**	—
Unrecognized tax losses, net	**697**	204
Withholding tax on inter-company dividends	**221**	529
Higher (lower) effective tax rates in foreign jurisdictions	**524**	(168)
Other	**41**	(342)
Tax expense	**$ 407**	$ 5,167

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

		December 31, 2020	December 31, 2019
		($ thousands)	
Deferred tax assets	*(d)*	**$ —**	$ 283
Deferred tax liabilities	*(d)*	**(20,400)**	(23,370)
Net deferred tax liabilities		**$ (20,400)**	$ (23,087)

Reconciliation of net deferred tax liabilities:

		For the year ended **December 31,**	
		2020	2019
		($ thousands)	
Balance, beginning of year		**$ (23,087)**	$ (20,419)
Deferred tax recovery (expense) in the statements of income	*(a)*	**2,316**	(3,544)
Foreign exchange translation		**371**	876
Net change in net deferred tax liabilities during the year		**2,687**	(2,668)
Balance, end of year		**$ (20,400)**	$ (23,087)

(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, 2020	December 31, 2019
	($ thousands)	
Deferred tax assets:		
Leased assets	**$ 57,654**	$ 75,397
Allowance for credit losses	**5,149**	7,057
Tax losses carried forward	**141**	5,180
Financing costs and accrued liabilities	**188**	205
	63,132	87,839
Deferred tax liabilities:		
Finance receivables	**82,549**	108,739
Difference in goodwill and intangible asset base	**983**	2,187
	83,532	110,926
Deferred taxes liabilities, net	**$ 20,400**	$ 23,087

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, 2020, Case Funding had US$700,000 (2019 - US$660,000) in tax losses carried forward and taxable timing differences that have not been recognized. At December 31, 2020, Chesswood had $335,000 (2019 - $0) in allowable capital tax losses carried forward that have not been recognized.

The Company has not recognized deferred tax liabilities in respect of unremitted earnings in foreign subsidiaries, totaling $29.3 million (2019 - $76.4 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)		2021	2022	2023	2024	2025	2026 +	**Total**
Accounts payable and other liabilities		$ 17,531	$ —	$ —	$ —	$ —	$ —	**$ 17,531**
Premises leases payments	*(i)*	579	562	565	576	242	—	**2,524**
Borrowings	*(ii)*	245,679	270,963	112,815	31,885	1,323	19	**662,684**
Customer security deposits	*(iii)*	2,950	2,324	2,050	210	63	—	**7,597**
Interest rate swaps		340	—	—	—	—	—	**340**
		267,079	273,849	115,430	32,671	1,628	19	**690,676**
Service contracts		285	126	2	—	—	—	**413**
Total commitments		$ 267,364	$ 273,975	$ 115,432	$ 32,671	$ 1,628	$ 19	**$ 691,089**

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.

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 which is a line-of-credit and, as such, the balance 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, 2020 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 liabilities that have not been recognized and presented on the statements of financial position, other than US$4.9 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, 2020 and 2019 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, 2020 and December 31, 2019, and throughout the periods presented, the Company was compliant with all covenants, with certain covenants being waived or amended resulting from the onset of the COVID-19 pandemic. 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. The Company and its subsidiaries have finalized amendments to various facilities to better reflect COVID-19 related experiences and expectations.

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, 2018		16,229	$	103,576
Exercise of restricted share units		44		482
Exercise of options		53		403
Repurchase of common shares under issuer bid	*(a)*	(78)		(498)
Balance, December 31, 2019		16,248	$	103,963
Exercise of restricted share units		93		824
Repurchase of common shares under issuer bid	*(a)*	(86)		(551)
Balance, December 31, 2020		**16,255**	**$**	**104,236**

(a) Normal course issuer bids

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 August 25, 2020, no common shares were repurchased under this normal course issuer bid.

In November 2020, the Company's Board of Directors approved the repurchase for cancellation of up to 932,296 of the Company's outstanding common shares for the period commencing December 2, 2020 and ending on December 1, 2021. From December 2, 2020 to December 31, 2020, the Company repurchased 85,890 of its shares under the normal course issuer bid at an average cost of $9.1239 per share. The excess of the purchase price over the average stated value of common shares purchased for cancellation was charged to retained earnings. Decisions regarding the timing of purchases are based on market conditions and other factors.

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

See Note 27 - *Subsequent Events*.

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 non-voting shares represent 99.3% (2019 - 99.3%) of the outstanding shares of US Acquisitionco. Dividends paid to Exchangeable Securities holders during the year were $421,000 (2019 - $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, 2020. There were 2,708,939 options and 57,000 restricted share units outstanding at December 31, 2020 (2019 - 2,553,939 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 year ended **December 31,**	
	2020	2019
Balance, beginning of year	**2,553,939**	2,384,354
Granted	**175,000**	222,500
Exercised	**—**	(52,915)
Forfeited	**(20,000)**	—
Balance, end of year	**2,708,939**	2,553,939

During the year ended December 31, 2020, personnel expenses and the share-based compensation reserve included $226,800 (2019 - $320,600) relating to option expense. As of December 31, 2020, unrecognized non-cash compensation expense related to the outstanding options was $442,100 (December 31, 2019 - $261,300), which is expected to be recognized over the remaining vesting period.

During the year ended December 31, 2020, no options were exercised (2019 - 52,915 options were exercised for total cash consideration of $285,000. On exercise, the accumulated amount in share-based compensation reserve related to the exercised options of $118,000 was transferred to Common Share capital, Common Share capital was increased by the cash consideration received upon exercise, the weighted average share price at the date of exercise in 2019 was $10.56).

At December 31, 2020, the weighted average exercise price is $10.25 (December 31, 2019 - $10.40) and the weighted average remaining contractual life for all options outstanding is 4.2 years (December 31, 2019 - 5.6 years). The 2,297,689 options exercisable at December 31, 2020 have a weighted average exercise price of $10.47 (December 31, 2019 - 1,948,189 options at $10.39).

An analysis of the options outstanding at December 31, 2020 is as follows:

Range of exercise prices	Weighted average remaining life (in years)	Vested #	Options outstanding unvested #	Total #
$ 6.14 - $ 7.79	0.82	571,489	—	571,489
$ 8.01 - $ 8.95	6.73	209,250	313,250	522,500
$10.17 - $10.96	5.27	586,950	98,000	684,950
$12.15 - $12.53	4.42	665,000	—	665,000
$14.12	3.02	265,000	—	265,000
	4.18	2,297,689	411,250	2,708,939

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

	2020	2020	2019
Number of options granted	100,000	75,000	222,500
Weighted average share price at date	$8.01	$8.11	$8.95
Expected volatility	62%	62%	27% -28%
Expected life (years)	2	2	7 - 9
Expected dividend yield	2.68%	2.68%	7.04%
Risk-free interest rates	0.28%	0.28%	1.19%
Weighted average fair value of options granted	$2.27	$2.30	$0.84

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. Holders of RSUs are not entitled to dividends before the RSUs are exercised.

A summary of the RSUs outstanding is as follows:

	For the year ended **December 31,**	
	2020	2019
Balance, beginning of year	**44,000**	44,000
Granted	**106,000**	44,000
Exercised	**(93,000)**	(44,000)
Balance, end of year	**57,000**	44,000

During the year ended December 31, 2020, personnel expenses and share-based compensation reserve included $693,300 (2019 - $375,200) relating to RSUs. During the year ended December 31, 2020, 106,000 RSUs were granted (2019 - 44,000).

During the year ended December 31, 2020, 93,000 RSUs were exercised (2019 - 44,000). On exercise, the accumulated balance in share-based compensation reserve related to the RSUs of $824,000 (2019 - $482,200) was transferred from reserve to Common Share capital. For the RSUs exercised during the year ended December 31, 2020, the weighted average share price at the date of exercise was $6.40 (2019 - $11.10).

As of December 31, 2020, unrecognized non-cash compensation expense related to non-vested RSUs was $341,700 (December 31, 2019 - $185,900). The weighted average remaining contractual life for all RSUs outstanding is 9.4 years (December 31, 2019 - 9.4 years).

An analysis of the RSUs outstanding at December 31, 2020, is as follows:

Grant date	Number of RSUs outstanding	Vested	Expiry date	Value on grant date
May 31, 2019	7,000	7,000	May 31, 2029	$ 10.14
November 30, 2020	50,000	—	June 29, 2030	$ 8.01
	57,000	7,000		

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. On May 19, 2020, the Company announced a temporary suspension of dividends due to COVID-19 uncertainties (and subsequently, in accordance with the terms of a COVID-19 related temporary amendment of the Company's revolving credit facility). On November 12, 2020, the Company announced the resumption of monthly dividends of $0.02 per common share starting with the dividend for November (paid on December 15, 2020).

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the year ended December 31, 2020:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
December 31, 2019	January 15, 2020	$ 0.070	$ 1,241
January 31, 2020	February 18, 2020	$ 0.070	1,241
February 28, 2020	March 16, 2020	$ 0.070	1,241
March 31, 2020	April 15, 2020	$ 0.070	1,241
April 30, 2020	May 15, 2020	$ 0.035	620
November 30, 2020	December 15, 2020	$ 0.020	355
			$ 5,939

The following dividend was declared but not paid to Common Shareholders and Exchangeable Securities holders during the year-ended December 31, 2020 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, 2020	January 15, 2021	$ 0.020	$ 355

The following dividends were declared before the financial statements were authorized for issue but not recognized during the year ended December 31, 2020:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
January 29, 2021	February 16, 2021	$ 0.020	353
February 26, 2021	March 15, 2021	$ 0.020	322
			$ 675

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

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,	
	2020	2019
Weighted average number of common shares outstanding	**16,269,894**	16,235,041
Dilutive effect of options	**6,651**	224,428
Dilutive effect of restricted share units	**26,883**	35,441
Weighted average common shares outstanding for diluted earnings per share	**16,303,428**	16,494,910
Options excluded from calculation of diluted shares for the period due to their anti-dilutive effect	**2,538,939**	1,300,000

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 year ended December 31,	
	2020	2019
	($ thousands)	
Salaries, fees and other employee benefits	**$ 1,341**	$ 1,535
Salaries and other employee benefits included in restructuring costs	**2,674**	—
Share-based compensation	**713**	477
Compensation expense of key management	**$ 4,728**	$ 2,012

25. CASH FLOW SUPPLEMENTARY DISCLOSURE

		For the year ended December 31,	
	Note	**2020**	2019
		($ thousands)	
Non-cash transactions			
Common shares issued on exercise of RSUs		**$ 824**	$ 482
Interest paid		**$ 21,606**	$ 27,056

	Note	For the year ended December 31, 2020	2019
		($ thousands)	
Other non-cash items included in net income			
Share-based compensation expense	*21*	**$ 920**	$ 695
Amortization of deferred financing costs	*12*	**6,883**	3,832
Unrealized gain on investments		**(483)**	(30)
Interest expense - premises leases payable	*7*	**140**	161
Unrealized loss on interest rate derivatives	*14*	**118**	1,109
Unrealized (gain) loss on foreign exchange		**6**	(47)
		$ 7,584	$ 5,720
Change in other net operating assets			
Restricted funds		**$ (15,132)**	$ (8,995)
Other assets		**5,197**	3,548
Accounts payable and other liabilities		**(684)**	2,535
Customer security deposits		**(4,906)**	(3,949)
		$ (15,525)	$ (6,861)
Borrowings			
Draw-downs or proceeds from borrowings	*12*	**$ 609,073**	$ 729,313
Payments - borrowings	*12*	**(678,220)**	(587,529)
		$ (69,147)	$ 141,784

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 and Tandem's information is aggregated as Chesswood's U.S. Equipment Financing segment as Pawnee and Tandem offer lending solutions to small businesses in the United States. Tandem continues 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, 2020			
	Equipment Financing - U.S.	**Equipment Financing - Canada**	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 91,481	$ 11,415	$ —	$ 102,896
Ancillary finance and other fee income	10,338	3,794	28	14,160
Interest expense	(24,303)	(4,218)	—	(28,521)
Provision for credit losses	(21,890)	(3,754)	—	(25,644)
Finance margin	**55,626**	**7,237**	**28**	**62,891**
Personnel expenses	15,011	2,705	1,487	19,203
Share-based compensation expense	120	14	786	920
Other expenses	15,524	1,551	1,543	18,618
Depreciation	1,035	140	41	1,216
Amortization - intangible assets	—	1,333	—	1,333
Operating income	**23,936**	**1,494**	**(3,829)**	**21,601**
Restructuring costs	(2,491)	—	(6,759)	(9,250)
Goodwill and intangible asset impairment	—	(20,828)	—	(20,828)
Fair value adjustments - investments	—	—	483	483
Unrealized loss on interest rate derivatives	(61)	—	(57)	(118)
Unrealized loss on foreign exchange	—	—	(6)	(6)
Income (loss) before taxes	**21,384**	**(19,334)**	**(10,168)**	**(8,118)**
Tax expense	2,105	(864)	(834)	407
Net income (loss)	**$ 19,279**	**$ (18,470)**	**$ (9,334)**	**$ (8,525)**
Net cash from operating activities	$ 47,914	$ 37,148	$ (5,182)	$ 79,880
Net cash used in investing activities	$ (880)	$ —	$ —	$ (880)
Net cash used in financing activities	$ 68,121	$ (36,174)	$ (112,174)	$ (80,227)
Total assets	$ 678,837	$ 146,237	$ 2,362	$ 827,436
Total liabilities	$ 490,274	$ 109,573	$ 86,773	$ 686,620
Finance receivables	$ 612,487	$ 128,391	$ —	$ 740,878
Goodwill and intangible assets	$ 20,569	$ 14,270	$ —	$ 34,839
Property and equipment expenditures	$ 880	$ —	$ —	$ 880

($ thousands)	Year Ended December 31, 2019 Equipment Financing - U.S.	Equipment Financing - Canada	Other Operations	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 loss 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

27. SUBSEQUENT EVENTS

Share Repurchases - Subsequent to year end (up to and including March 3, 2021), the Company repurchased 190,370 of its shares under the normal course issuer bid at an average cost of $9.06.

Chesswood Group Limited

DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors

Edward Sonshine
Director, Chairman, Chesswood Group Limited

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

Robert Day
Director
Former Chairman, Pawnee Leasing Corporation

Jeff Fields
Director, Chesswood Group Limited

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

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

Frederick W. Steiner
Director, Chesswood Group Limited

Executive Team

Ryan Marr
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

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