MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

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

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

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

Barry Shafran
President & CEO
March 18, 2020

Independent Auditor's Report

To the Shareholders of
Chesswood Group Limited

Opinion

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

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

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

March 18, 2020
Toronto, Ontario

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

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

Approved by the Board of Directors

Frederick W Steiner, Chairman
Board of Directors

Samuel Leeper
Chairman, Audit, Finance and Risk Committee

Please see notes to the consolidated financial statements.

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

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

Please see notes to the consolidated financial statements.

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

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

Please see notes to the consolidated financial statements.

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

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

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

Please see notes to the consolidated financial statements.

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

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

Please see notes to the consolidated financial statements.

TABLE OF NOTES

1. NATURE OF BUSINESS AND BASIS OF PREPARATION

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

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

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

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

The consolidated financial statements, including comparatives:

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

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

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

Foreign currency transactions

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

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

Statement of cash flows

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

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

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

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

Exercise of judgment and use of accounting estimates and assumptions

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

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

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

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

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

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

2. NEW ACCOUNTING STANDARDS

New accounting standards adopted in 2019

IFRS 16 Leases

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

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

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

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

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

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

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

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

3. FINANCIAL INSTRUMENTS

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

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

Financial assets

Financial assets are categorized for subsequent measurement as follows:

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

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

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

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

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

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

Financial liabilities

Financial liabilities are categorized as follows for subsequent measurement:

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

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

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

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

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

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

(a) Categories and measurement hierarchy

The categories to which the financial instruments are allocated are:

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

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

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

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

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

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

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

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

(i) There is no organized market for the finance receivables. The carrying value is the amortized cost using the effective interest rate method which approximates fair value because contractual interest rates approximate current market rates.

(ii) The stated value of the borrowings approximates fair values, as the interest rates attached to these instruments are representative of current market rates, for loans with similar terms, conditions and maturities.

(iii) Carrying amounts are expected to be reasonable approximations of fair value for cash, restricted funds and for financial instruments with short maturities, including accounts payable and other liabilities.

(iv) The Company determines the fair value of its interest rate derivatives under the income valuation technique using a discounted cash flow model. Significant inputs to the valuation model include the contracted notional amount, LIBOR rate yield curves and the applicable credit-adjusted risk-free rate yield curve. The Company's interest rate derivative is included in the Level 2 fair value hierarchy because all of the significant inputs are directly or indirectly observable.

(v) There is no organized market for the legal finance receivables. The carrying value is the amortized cost using the effective interest rate method which approximates fair value because contractual interest rates approximate current market rates.

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

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

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

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

Significant Estimates

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

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

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

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

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

(b) Gains and losses on financial instruments

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

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

4. FINANCIAL RISK MANAGEMENT

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

There have been no material changes in the Company's objectives, policies or processes for measuring and managing any of the risks to which it is exposed since the previous year end.

i) Credit risk

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

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

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

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

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

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

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

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

ii) Liquidity risk

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

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

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

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

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

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

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

iii) Market risk

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

a) Trading prices

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

b) Interest rate risk

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

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

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

c) Foreign currency risk

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

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

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

5. OTHER ASSETS

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

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

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

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

6. FINANCE RECEIVABLES

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

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

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

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

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

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

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

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

(i) Stage 1 - for new leases and loans recognized and for existing leases or loans that have not experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected to result from defaults occurring in the next 12 months;

(ii) Stage 2 - for those leases or loans that have experienced a significant increase in credit risk since initial recognition, a loss allowance is recognized equal to the credit losses expected over the remaining life of the lease or loan; and

(iii) Stage 3 - for leases or loans that are considered to be credit-impaired, a loss allowance equal to full life time ECLs is recognized.

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

Definitions of default have been selected to eliminate the judgement that may otherwise be necessary, given the diversity within the finance receivable portfolio, the lack of individual drivers of changes in credit risk across assets and over time, and the resulting inability to assess which specific assets will be rectified. For the purposes of measuring ECL, a default is defined as:

- For prime finance receivables: leases and loans that have missed one payment and are not subsequently rectified within 30 days.
- For non-prime finance receivables: leases and loans that have missed one payment.

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

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

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

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

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

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

In addition to internal weighted average static pool data, the process of estimating ECLs uses the following inputs and assumptions to reflect information about past events, current conditions and forecasts of future conditions that are not already captured in the inputs:

- Security deposits held;
- Recoveries of amounts previously charged off in the last 12 months, as an estimate of recoveries for the next 12 months;
- An estimate of the effects of natural disasters and economic shocks that have occurred on credit losses in the next 12 months;

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

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

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

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

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

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

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

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

(d) Finance receivables past due

The following aging represents the total carrying amount of the lease and loan receivables and not just the payments that are past due. The balances presented exclude the $12.1 million (December 31, 2018 - $16.8 million) of security deposits received from lessees/borrowers and the collateral held (including potential proceeds from repossessed equipment, and potential recoveries from personal guarantees) that would offset any charge-offs. An estimate of fair value for the collateral and personal guarantees cannot reasonably be determined.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8. PROPERTY AND EQUIPMENT

Description and accounting policy

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

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

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

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

9. INTANGIBLE ASSETS

Description and accounting policy

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

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

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

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

Significant estimates

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

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

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

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

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

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

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

10. GOODWILL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

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

12. BORROWINGS

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

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

(b) Pawnee credit facilities:
(i) Pawnee has a US$250 million revolving warehouse loan facility specifically to fund its growing prime portfolio, through its subsidiary Pawnee Portfolio Fund ("PPF"). The warehouse facility will hold Pawnee's prime receivables before they are securitized. This credit facility is secured by PPF's assets, contains covenants, including maintaining leverage and interest coverage ratios, and matures in September 2021 and expires in September 2024. At December 31, 2019, Pawnee was utilizing US$0.0 million of this facility (December 31, 2018 - US$83.0 million). At December 31, 2019 and throughout the period from August 2018, Pawnee was compliant with all covenants. Based on average debt levels, the effective interest rate during the year ended December 31, 2019 was 6.16% (2018 - 7.54%).
(ii) Pawnee has a combined US$125 million non-recourse asset-backed facilities with Capital One (the "CapOne facilities"), through subsidiaries Pawnee Receivable Fund I and II LLC. The CapOne facilities are secured by US$154.2 million in gross receivables from Pawnee's prime portfolio of equipment leases and loans and repayment terms are based on the cash flow of the underlying portfolio. The proceeds were used to pay down Chesswood's existing revolving credit facility. The facilities require Pawnee to mitigate its interest rate risk by entering into interest rate caps for a notional amount not less than 80% of the aggregate outstanding balance. The balance of the facilities at December 31, 2019 was US$48.4 million (December 31, 2018 – US$84.3 million). Pawnee is to comply with leverage ratio, interest coverage ratio, and tangible net worth covenants. At December 31, 2019 and December 31, 2018, and throughout the periods presented, Pawnee was compliant with all covenants. Based on average debt levels, the effective interest rate during the year ended December 31, 2019 was 5.72% (2018 - 5.51%).
(iii) Pawnee has a credit facility, with an US$80 million annual capacity, with a life insurance company that expires in June 2027. The funder makes approved advances to Pawnee on a tranche-by-tranche basis, with each tranche collateralized by a specific group

of underlying finance receivables and any related security provided thereunder. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. Pawnee maintains certain cash reserves as credit enhancements or provides letters of guarantee in lieu of those same cash reserves. Pawnee retains the servicing of these finance receivables. The balance of this facility at December 31, 2019 was US$16.6 million with an effective interest rate of 4.43% (including amortization of origination costs) (December 31, 2018 – nil).

(iv) In October 2019, Pawnee completed a US$254 million asset-backed securitization which has fixed term and fixed interest rate, and is collateralized by receivables from Pawnee's portfolio of equipment leases and loans. The securitization has an approximate cost of funds, including fees and legal costs, of 2.77% per annum. Proceeds from the securitization were used to pay down Pawnee's warehouse line and Chesswood's senior revolving credit facility. During the third quarter of 2019, Pawnee entered into a US$164.5 million interest rate swaption agreement that provided for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. The swaption agreement was used to protect the pricing of the marketed securitization entered into subsequent to the quarter end. The swaption agreement matured on October 23, 2019.

(c) Blue Chip facilities:

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

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

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

(d) Restricted funds

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

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

(e) Redemption of convertible debentures

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

13. CUSTOMER SECURITY DEPOSITS

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

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

14. INTEREST RATE DERIVATIVES

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

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

(a) Derivative swaps

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

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

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

(b) Derivative caps

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

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

15. TAXES

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

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

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

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

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

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

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

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

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

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

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

(a) Tax expense consists of the following:

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

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

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

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

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

Reconciliation of net deferred tax liabilities:

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

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

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

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

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

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

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

16. MINIMUM PAYMENTS

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

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

i. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2025. See Note 7 - *Right-to-Use Assets and Premises Leases Payable*.
ii. Borrowings are described in Note 12 - *Borrowings*, and include fixed payments for Pawnee and Blue Chip's securitization facilities and Chesswood's corporate revolving credit facility and Pawnee's warehouse facility, which are lines-of-credit and, as such, the balances can fluctuate. The amount above includes fixed interest payments on Pawnee and Blue Chip's credit facilities and estimated interest payments on the Chesswood corporate credit facility, assuming the interest rate, debt balance and foreign exchange rate at December 31, 2019 remain the same until the expiry date of December 2022. The amount owing under Chesswood's corporate revolving credit facility is shown in year of maturity, all other expected borrowings payments are based on the underlying finance receivables supporting the borrowings.
iii. The Company's experience has shown the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.
iv. Please see Note 6(b) - *Finance Receivables* for the expected collections of finance receivables over the same time period. See Note 12(d) - *Borrowings* - for the amount of restricted cash in collections accounts that will be applied to debt in the following month.

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

17. CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

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

Other financial commitments

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

18. CAPITAL MANAGEMENT

The Company's capital consists of borrowings and shareholders' equity. The Company's objectives when managing capital are to safeguard the Company's long-term ability to continue as a going concern and to provide adequate returns for shareholders. The Company's share capital is not subject to external restrictions. There have been no changes since the prior year.

The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk profile of the underlying assets. The Company uses various measures including share repurchases through the normal course issuer bid and the amount of dividends paid to shareholders.

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

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

19. COMMON SHARES

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

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

(a) Normal course issuer bids

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

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

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

20. EXCHANGEABLE SECURITIES

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

21. COMPENSATION PLANS

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

(a) Share options
The options vest 30% at the end of the first year, another 35% at the end of the second year, and the remaining 35% at the end of the third year and expire on the 10th anniversary of the grant date. The options settle in Common Shares and have an exercise price equal to the 10-day volume weighted average price of the Common Shares prior to the day such options were granted. The cost of options is measured using the Black-Scholes option pricing model and is expensed over the vesting period of each tranche with an increase in share-based compensation reserve.

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

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

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

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

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

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

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

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

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

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

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

(b) Restricted share units

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

A summary of the RSUs outstanding is as follows:

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

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

22. DIVIDENDS

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

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

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

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

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

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

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

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

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

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

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

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

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

23. EARNINGS PER SHARE

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

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

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

24. RELATED PARTY TRANSACTIONS

a) The Company has no parent or other ultimate controlling party.
b) The Company's key management consists of the President & Chief Executive Officer, Chief Financial Officer and the Board of Directors. Key management compensation is as follows:

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

25. CASH FLOW SUPPLEMENTARY DISCLOSURE

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

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

26. SEGMENT INFORMATION

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

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

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

Selected information by segment and geographically is as follows:

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

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

27 . SUBSEQUENT EVENT

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

Chesswood Group Limited

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Director, Chairman, Chesswood Group Limited

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

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

David Obront
Director
President, Carpool Two Ltd.

Robert Day
Director
Former Chairman, Pawnee Leasing Corporation

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

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Barry Shafran
President & C.E.O.

Lisa Stevenson
Chief Financial Officer

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