CHESSWOOD GROUP LIMITED
NOTICE TO READERS

Accompanying this notice are the unaudited condensed consolidated interim financial statements of Chesswood Group Limited for the three and six months ended June 30, 2020. These statements have been prepared by, and are the responsibility of, the Company's management.

Following consultation with management and with the Company's independent auditors, the Company's Board of Directors concluded that the auditors would not be engaged to perform a review of these financial statements. Under applicable securities legislation, there is no requirement that auditors be engaged to review these statements, but the Company must advise you if (as noted above) no review engagement is made.

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

	Note	June 30, 2020	December 31, 2019
		(unaudited)	*(audited)*
ASSETS			
Cash		**$ 13,322**	$ 11,032
Restricted funds	*8(d)*	**25,114**	21,751
Other assets	*4*	**7,209**	11,124
Finance receivables	*5*	**811,748**	821,085
Interest rate derivatives		**4**	60
Right-to-use assets		**2,795**	3,024
Property and equipment		**1,882**	1,427
Intangible assets		**16,759**	17,080
Goodwill	*6*	**29,154**	40,334
TOTAL ASSETS		**$ 907,987**	$ 926,917
LIABILITIES			
Accounts payable and other liabilities	*7*	**$ 20,244**	$ 16,835
Premises leases payable		**3,069**	3,222
Borrowings	*8*	**719,150**	714,691
Customer security deposits		**10,194**	12,106
Interest rate derivatives		**712**	293
Deferred tax liabilities		**16,640**	23,087
		770,009	770,234
SHAREHOLDERS' EQUITY			
Common shares		**104,338**	103,963
Non-controlling interest		**11,544**	13,130
Share-based compensation reserve	*12*	**5,468**	5,509
Accumulated other comprehensive income		**17,368**	13,956
Retained earnings (deficit)		**(740)**	20,125
		137,978	156,683
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**$ 907,987**	$ 926,917

Please see notes to the condensed interim consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(in thousands of dollars, except per share amounts, unaudited)

	Note	Three months ended June 30, 2020	Three months ended June 30, 2019	Six months ended June 30, 2020	Six months ended June 30, 2019
Finance revenue					
Interest revenue on finance leases and loans		**$ 26,637**	$ 27,650	**$ 55,984**	$ 54,347
Ancillary finance and other fee income		**3,374**	3,936	**7,340**	7,996
		30,011	31,586	**63,324**	62,343
Finance expenses					
Interest expense		**7,374**	8,536	**15,437**	16,793
Provision for credit losses	*5*	**5,388**	6,253	**29,591**	13,595
		12,762	14,789	**45,028**	30,388
Finance margin		**17,249**	16,797	**18,296**	31,955
Expenses					
Personnel expenses		**4,449**	5,149	**9,829**	10,076
Other expenses		**4,360**	4,786	**9,262**	9,212
Depreciation		**323**	300	**623**	587
Amortization - intangible assets		**333**	333	**666**	666
		9,465	10,568	**20,380**	20,541
Operating income (loss)		**7,784**	6,229	**(2,084)**	11,414
Restructuring and other transaction costs		**(5,776)**	—	**(5,776)**	—
Goodwill impairment	*6*	**—**	—	**(11,868)**	—
Unrealized gain (loss) on investments held	*4*	**—**	121	**(121)**	91
Unrealized gain (loss) on interest rate derivatives		**133**	(626)	**(465)**	(1,129)
Unrealized gain (loss) on foreign exchange		**19**	(63)	**(53)**	(145)
Income (loss) before taxes		**2,160**	5,661	**(20,367)**	10,231
Tax (expense) recovery		**(753)**	(1,767)	**1,947**	(3,266)
Net income (loss)		**$ 1,407**	$ 3,894	**$ (18,420)**	$ 6,965
Attributable to:					
Common shareholders		**$ 1,289**	$ 3,569	**$ (16,884)**	$ 6,384
Non-controlling interest		**$ 118**	$ 325	**$ (1,536)**	$ 581
Income (loss) from operations per share:					
Basic	*14*	**$ 0.08**	$ 0.22	**$ (1.04)**	$ 0.39
Diluted	*14*	**$ 0.06**	$ 0.22	**$ (1.04)**	$ 0.39

Please see notes to the condensed interim consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(in thousands of dollars, unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	**2020**	2019
Net income (loss)	**$ 1,407**	$ 3,894	**$ (18,420)**	$ 6,965
Other comprehensive income:				
Unrealized gain (loss) on translation of foreign operations	**(3,556)**	(1,972)	**3,724**	(4,003)
Comprehensive income (loss)	**$ (2,149)**	$ 1,922	**$ (14,696)**	$ 2,962
Attributable to:				
Common shareholders	**$ (1,971)**	$ 1,762	**$ (13,471)**	$ 2,715
Non-controlling interest	**$ (178)**	$ 160	**$ (1,225)**	$ 247

Please see notes to the condensed interim consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(in thousands of dollars, unaudited)

	Note	Common shares	Common shares	Non-controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings (deficit)	2020 Total
		(# '000s)						
Shareholders' equity - December 31, 2019		**16,248**	**$ 103,963**	**$ 13,130**	**$ 5,509**	**$ 13,956**	**$ 20,125**	**$ 156,683**
Net income (loss)		**—**	**—**	**(1,536)**	**—**	**—**	**(16,884)**	**(18,420)**
Dividends declared	*13*	**—**	**—**	**(362)**	**—**	**—**	**(3,981)**	**(4,343)**
Share-based compensation	*12*	**—**	**—**	**—**	**334**	**—**	**—**	**334**
Exercise of restricted share units	*12*	**37**	**375**	**—**	**(375)**	**—**	**—**	**—**
Unrealized gain on translation of foreign operations			**—**	**312**	**—**	**3,412**	**—**	**3,724**
Shareholders' equity - June 30, 2020		**16,285**	**$ 104,338**	**$ 11,544**	**$ 5,468**	**$ 17,368**	**$ (740)**	**$ 137,978**

	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		—	—	581	—	—	6,384	6,965
Dividends declared	*13*	—	—	(621)	—	—	(6,815)	(7,436)
Share-based compensation	*12*	—	—	—	336	—	—	336
Exercise of restricted share units	*12*	44	482	—	(482)	—	—	—
Exercise of options	*12*	49	359	—	(108)	—	—	251
Repurchase of common shares under issuer bid		(61)	(388)	—	—	—	(268)	(656)
Unrealized loss on translation of foreign operations			—	(334)	—	(3,669)	—	(4,003)
Shareholders' equity - June 30, 2019		16,261	104,029	13,339	5,160	14,681	21,743	158,952
Net income		—	—	477	—	—	5,249	5,726
Dividends declared		—	—	(621)	—	—	(6,825)	(7,446)
Share-based compensation		—	—	—	359	—	—	359
Exercise of options		4	44	—	(10)	—	—	34
Repurchase of common shares under issuer bid		(17)	(110)	—	—	—	(42)	(152)
Unrealized loss on translation of foreign operations			—	(65)	—	(725)	—	(790)
Shareholders' equity - December 31, 2019		16,248	$ 103,963	$ 13,130	$ 5,509	$ 13,956	$ 20,125	$ 156,683

Please see notes to the condensed interim consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019

		Three months ended June 30,		Six months ended June 30,	
(in thousands of dollars, unaudited)	Note	**2020**	2019	**2020**	2019
OPERATING ACTIVITIES					
Net income (loss)		**$ 1,407**	$ 3,894	**$ (18,420)**	$ 6,965
Non-cash items included in net income					
Amortization and depreciation		**656**	633	**1,289**	1,253
Goodwill impairment	6	**—**	—	**11,868**	—
Provision for credit losses *(excluding recoveries)*	5	**8,665**	9,294	**35,314**	19,004
Amortization of origination costs		**6,184**	6,626	**13,294**	13,117
Tax expense (recovery)		**753**	1,767	**(1,947)**	3,266
Other non-cash items	16	**1,136**	1,501	**3,225**	3,182
		17,394	19,821	**63,043**	39,822
Cash from operating activities before change in net operating assets		**18,801**	23,715	**44,623**	46,787
Funds advanced on origination of finance receivables		**(25,916)**	(109,719)	**(142,356)**	(206,396)
Origination costs paid on finance receivables		**(1,465)**	(9,028)	**(10,589)**	(17,302)
Principal collections of finance receivables		**67,241**	72,114	**146,336**	138,185
Change in other net operating assets	16	**2,579**	(5,423)	**(2,467)**	(7,250)
Cash from (used in) operating activities before tax		**61,240**	(28,341)	**35,547**	(45,976)
Income taxes paid - net		**(59)**	(2,008)	**(698)**	(4,019)
Cash from (used in) operating activities		**61,181**	(30,349)	**34,849**	(49,995)
INVESTING ACTIVITY					
Purchase of property and equipment		**(156)**	(212)	**(731)**	(284)
Cash used in investing activity		**(156)**	(212)	**(731)**	(284)
FINANCING ACTIVITIES					
Borrowings, net	8	**(69,248)**	38,806	**(26,158)**	63,465
Payment of financing costs	8	**—**	(716)	**(39)**	(756)
Payment of lease obligations		**(183)**	(156)	**(353)**	(303)
Proceeds from exercise of options	12	**—**	98	**—**	251
Repurchase of common shares under issuer bid		**—**	—	**—**	(656)
Cash dividends paid	13	**(1,861)**	(3,723)	**(5,584)**	(7,435)
Cash from (used in) financing activities		**(71,292)**	34,309	**(32,134)**	54,566
Unrealized foreign exchange gain (loss) on cash		**(874)**	(92)	**306**	(119)
Net increase (decrease) in cash		**(11,141)**	3,656	**2,290**	4,168
Cash, beginning of period		**24,463**	2,838	**11,032**	2,326
Cash, end of period		**$ 13,322**	$ 6,494	**$ 13,322**	$ 6,494

Please see notes to the condensed interim 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 5 - *Finance Receivables* and Note 8(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.

The consolidated financial statements, including comparatives:

- have been prepared in accordance with IAS 34, *Interim Financial Reporting,* on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2019.
- 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.
- should be read in conjunction with the Company's most recently issued Annual Report which includes information necessary, or useful, to understanding the Company's businesses and financial reporting.
- are unaudited (except otherwise noted).
- the results reported in these condensed consolidated interim financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

The preparation of condensed interim consolidated financial statements, including the application of accounting policies, requires management to make estimates and assumptions using judgment that affect the reported amounts of assets and liabilities, and income and expenses during the reporting period. Estimates and other judgments are continually evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates. The significant estimates and judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were otherwise the same as those that applied to the audited consolidated financial statements for the year ended December 31, 2019.

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 six months ended June 30, 2020 - 1.3651; 2019 - 1.3336), and assets and liabilities are translated at the closing rate (as at June 30, 2020 - 1.3628; December 31, 2019 - 1.2988). Exchange differences arising from the translation are recognized in other comprehensive income. Foreign currency payables and receivables in the statement of financial position are recorded at the transaction date at cost. Exchange gains and losses arising from conversion of monetary assets and liabilities at exchange rates at the end of the reporting period are recognized as income or expense.

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 unaudited condensed consolidated interim financial statements. Case Funding operations were reclassified at December 31, 2019 to continuing operations, as they failed to meet the conditions required for the Discontinued Operations classification, 2019 comparative figures in these unaudited condensed consolidated interim financial statements were reclassified to be consistent with December 31, 2019 presentation.

The Company's unaudited condensed consolidated interim financial statements were authorized for issue on August 6, 2020 by the Board of Directors.

2. 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:

				June 30, 2020
	Level 1	Level 2	Level 3	Carrying Value
ASSETS				($ thousands)
Cash *(iii)*	$ 13,322	$ —	$ —	$ 13,322
Restricted funds *(iii)*	25,114	—	—	25,114
Other assets - investments - Note 4(b)	362	—	—	362
Finance receivables *(i)*	—	811,748	—	811,748
Interest rate derivatives *(iv)*	—	4	—	4
LIABILITIES				
Accounts payable and other liabilities *(iii)*	—	(20,244)	—	(20,244)
Borrowings *(ii)*	—	(719,150)	—	(719,150)
Customer security deposits	—	(10,194)	—	(10,194)
Interest rate derivatives *(iv)*	—	(712)	—	(712)

				December 31, 2019
	Level 1	Level 2	Level 3	Carrying Value
				($ thousands)
ASSETS				
Cash *(iii)*	$ 11,032	$ —	$ —	$ 11,032
Restricted funds *(iii)*	21,751	—	—	21,751
Other assets - loan receivable - Note 4(a)	—	2,671	—	2,671
Other assets - investments - Note 4(b)	483	—	—	483
Other assets - legal finance receiv.*(v)*	—	—	907	907
Finance receivables *(i)*	—	821,085	—	821,085
Interest rate derivatives *(iv)*	—	60	—	60
LIABILITIES				
Accounts payable and other liabilities *(iii)*	—	(16,835)	—	(16,835)
Borrowings *(ii)*	—	(714,691)	—	(714,691)
Customer security deposits	—	(12,106)	—	(12,106)
Interest rate derivatives *(v)*	—	(293)	—	(293)

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

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

(b) Gains and losses on financial instruments

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

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	**2020**	2019
	($ thousands)			
Amortized cost:				
Provision for credit losses	**$ (5,388)**	$ (6,253)	**$ (29,591)**	$ (13,595)
Fair value through net income or loss:				
Investment in Dealnet common shares	**—**	121	**(121)**	91
Interest rate derivatives	**133**	(626)	**(465)**	(1,129)
Net loss	**$ (5,255)**	$ (6,758)	**$ (30,177)**	$ (14,633)

3. FINANCIAL RISK MANAGEMENT

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

There have been no material changes in the Company's objectives, policies or processes for measuring and managing any of the risks to which it is exposed since the previous year end, except for the effects of COVID-19 on credit and liquidity risk as describe in the following. Refer to Note 4 - *Financial Risk Management* of the 2019 annual audited consolidated financial statements for further disclosure.

COVID-19 has led to loss allowances for existing finance receivables increasing significantly compared to the same periods in the prior year, as described in Note 5(c). Modifications to the terms of finance receivables have also been granted to a higher volume of receivables than usual, as described in Note 5(e), as a means to avert economic losses. To manage the increased credit risk and minimize future losses and charge offs, measures have been put in place at all operating subsidiaries. Those measures include a tightening of underwriting, including limiting the type of equipment, industry, dollar value and receivable term and also require higher credit ratings, which will dampen originations.

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

4. OTHER ASSETS

		June 30, 2020	December 31, 2019
		($ thousands)	
Tax receivable		**$ 5,288**	$ 5,089
Sales tax receivable		**62**	558
Prepaid expenses and other current assets		**1,497**	2,323
Loan receivable - EcoHome	*a*	**—**	2,671
Common shares - Dealnet	*b*	**362**	483
Other assets		**7,209**	11,124
Current portion		7,209	10,334
Long-term portion		$ —	$ 790

(a) Loan receivable - EcoHome - On February 18, 2016, the Company sold EcoHome Financial Inc. ("EcoHome") to Dealnet Capital Corp. ("Dealnet"). The loan 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 was secured by specific EcoHome leases and loans and a general security agreement over all the assets of EcoHome. The loan was repayable with fixed monthly principal payments, and related interest based on a floating interest rate plus a fixed margin and was repaid in May 2020 prior to is October 2020 maturity date. The loan receivable was carried at amortized cost. At December 31, 2019, 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".

5. 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 8 - *Borrowings*. The lenders have the right to enforce their security interest in the pledged lease and loan receivables if the Company defaults under these facilities. 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.

	June 30, 2020	December 31, 2019
	($ thousands)	
Net investment in leases	**$ 391,344**	$ 432,200
Loan receivables	**420,404**	388,885
	$ 811,748	$ 821,085

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

	June 30, 2020	December 31, 2019
	($ thousands)	
Total minimum finance receivable payments *(b)*	**$ 981,004**	$ 998,888
Residual values of leased equipment	**26,445**	27,747
	1,007,449	1,026,635
Unearned income, net of initial direct costs	**(162,747)**	(178,630)
Net investment in finance receivables before allowance for credit losses	**844,702**	848,005
Allowance for credit losses *(c)*	**(41,688)**	(30,305)
	803,014	817,700
Reserve receivable on securitized financial contracts	**8,734**	3,385
Net investment in finance receivables	**811,748**	821,085
Current portion	276,310	283,865
Long-term portion	$ 535,438	$ 537,220

(b) Minimum scheduled collections of finance receivables at June 30, 2020, are presented in the following table. The Company's experience has shown that the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the following minimum scheduled collections are not to be regarded as a forecast of future cash collections.

	Minimum payments	Present value
	($ thousands)	
2020	$ 194,317	$ 143,632
2021	329,669	267,136
2022	238,457	205,732
2023	141,594	128,256
2024	66,931	63,732
2025 and thereafter	10,036	9,769
Total minimum payments	$ 981,004	$ 818,257

(c) Allowance for credit losses

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

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

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

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

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

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

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

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

For Stage 1, the Company utilized recent static pool data applied to recent origination levels and 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 20% of non-prime assets that are in default but have been delinquent for less than 30 days at the reporting date.

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

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

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

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

- Security deposits held;
- Recoveries of amounts previously charged off in the last 12 months, as an estimate of recoveries for the next 12 months;
- An estimate of the effects on credit losses in the next 12 months of natural disasters and economic shocks, including the COVID-19 pandemic;
- The stage of the business cycle for the industry, which considers: the competitive environment, GDP growth, prevailing interest rates and expectations of future rates, fiscal policy and inflation rates; and
- Current delinquency trends of non-accrual and greater than 30 days delinquency rates.

Forecasts of future events and conditions are incorporated by adjusting losses from the static pool data, which is consistent with prior periods. Determining the inputs listed and ECLs requires significant estimation uncertainty. In particular, determining the COVID-19 effects to be layered over the static pool data at June 30, 2020 to estimate the extent to which ECLs have increased at that date - which requires assessing the direction of macroeconomic variables in the forward looking scenarios, the duration of lock-down conditions, the effectiveness of relief programs at mitigating the effects on our lessees and borrowers, amongst other factors - are subject to significant measurement uncertainty. Determining which finance receivables have seen a significant increase in credit risk is also subject to significant judgement.

The Company's ECL was determined as at June 30, 2020 based on forecasts and other information available at that date. The impact of COVID-19 on the economy and the timing of recovery will continue to evolve with the subsequent effect reflected in the measurement of ECLs in future quarters as appropriate. This may add significant volatility to ECL.

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

	As of June 30, 2020			
	Stage 1	Stage 2	Stage 3	Total
	Performing	Under-Performing	Non-Performing	
	($ thousands)			
Prime	$ 606,803	$ 1,331	$ 4,630	$ 612,764
Non-prime	223,492	3,409	5,037	231,938
Total	$ 830,295	$ 4,740	$ 9,667	$ 844,702

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

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

	Six months ended June 30, 2020			
	Stage 1	Stage 2	Stage 3	
	Performing	Under-Performing	Non-Performing	**Total**
	($ thousands)			
Balance, January 1, 2020	$ 11,914	$ 8,072	$ 10,319	**$ 30,305**
Transfer to Performing (Stage 1)	3,235	(2,617)	(618)	**—**
Transfer to Under-Performing (Stage 2)	(17,701)	17,811	(110)	**—**
Transfer to Non-Performing (Stage 3)	—	(19,054)	19,054	**—**
Net remeasurement of loss allowance	26,933	(77)	(582)	**26,274**
New receivables originated	3,317	—	—	**3,317**
Provision for credit losses	15,784	(3,937)	17,744	**29,591**
Charge-offs	—	—	(25,293)	**(25,293)**
Recoveries of amounts previously charged off	—	—	5,723	**5,723**
Net charge-offs	—	—	(19,570)	**(19,570)**
Foreign exchange translation	489	399	474	**1,362**
Balance, end of period	**$ 28,187**	**$ 4,534**	**$ 8,967**	**$ 41,688**

	Six months ended June 30, 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)	1,685	(1,075)	(610)	**—**
Transfer to Under-Performing (Stage 2)	(15,553)	15,601	(48)	**—**
Transfer to Non-Performing (Stage 3)	—	(13,648)	13,648	**—**
Net remeasurement of loss allowance	9,275	(617)	(245)	**8,413**
New receivables originated	5,182	—	—	**5,182**
Provision for credit losses	589	261	12,745	**13,595**
Charge-offs	—	—	(16,563)	**(16,563)**
Recoveries of amounts previously charged off	—	—	5,409	**5,409**
Net charge-offs	—	—	(11,154)	**(11,154)**
Foreign exchange translation	(388)	(251)	(285)	**(924)**
Balance, end of period	**$ 11,080**	**$ 6,151**	**$ 8,215**	**$ 25,446**

(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 $10.2 million (December 31, 2019 - $12.1 million) of security deposits received from lessees/borrowers and the collateral held (including potential proceeds from repossessed equipment, and potential recoveries from personal guarantees) that would offset any charge-offs. An estimate of fair value for the collateral and personal guarantees cannot reasonably be determined.

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

						As of June 30, 2020
($ thousands)	**Current**	**1-30 days**	**31 - 60 days**	**61 - 90 days**	**Over 90 days**	**Total**
Equipment lease receivables	**$ 391,661**	**$ 6,132**	**$ 2,191**	**$ 1,220**	**$ 2,753**	**$ 403,957**
Loan receivables	**427,160**	**8,992**	**1,802**	**1,295**	**1,496**	**440,745**
	$ 818,821	**$ 15,124**	**$ 3,993**	**$ 2,515**	**$ 4,249**	**$ 844,702**
Credit impaired	**$ 287**	**$ 574**	**$ 2,044**	**$ 2,419**	**$ 3,643**	**$ 8,967**
Past due but not impaired	**$ —**	**$ 14,550**	**$ 1,949**	**$ 96**	**$ 606**	**$ 17,201**

						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

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

The net investment in finance receivables that have been modified (in 2020 or prior) and are current at June 30, 2020 is $265.3 million (December 31, 2019 - $13.5 million). On average the terms have been modified to extend the contracts by approximately one to three months, depending on the modification. The majority of the increase from December 31, 2019 is the result of COVID-19 deferrals. Finance receivables modified during the six months ended June 30, 2020 had a total net investment in finance receivable balance at the time of modification of $349.8 million (2019 - $7.1 million). These amounts reflect the net investment in finance receivable balances prior to payments collected since modification, or leases that terminated early after modifications or leases charged-off after modification.

6. GOODWILL

Goodwill totaled $29.2 million million at June 30, 2020 compared to $40.3 million at December 31, 2019. The $11.2 million decrease consists of an $11.9 million COVID-19-induced impairment loss against goodwill at Blue Chip and a $688,000 increase in Pawnee goodwill due to the increase in value of the US dollar relative to the Canadian dollar. After the impairment loss, Blue Chip has goodwill of $14.5 million remaining at June 30, 2020.

The Company's annual goodwill impairment test, which was last performed as at December 31, 2019. The Company is also required to test its assets for impairment, including goodwill and intangible assets with indefinite lives, between the annual assessments when facts and other circumstances indicate that impairment may have occurred. The current environment is unfavorable due to the various effects of the COVID-19 pandemic: applications and approvals of new finance receivables have dropped compared to the same quarter in the previous year; economic measures indicate a reduced level of activity, including spending and employment; and the Company's dividend and share price have decreased. As a result, an interim impairment test was performed as at March 31, 2020.

The impairment test is performed at the level of cash generating units (CGU) because none of the Company's non-financial assets generate independent cash inflows. The recoverable amount for the Blue Chip CGU, which is also an operating segment of the Company, was its value in use (VIU), calculation of which was based on a discounted cash flow model which incorporated the following inputs:

i) The five years of forecast cash flows used in the December 2019 annual impairment test, adjusted for the estimated effects of COVID-19, which included management's estimates of the reduction in finance revenue and cash inflows due to the effects of decreased originations and increased charge offs in the coming months. In addition, ongoing competitive pressures which are expected to intensify on resumption of business-as-usual. The cash flow inputs used represent management's current best estimates and are consistent with changes seen in the finance receivable portfolio and with readily available external sources of information.
ii) A terminal value incorporated into the VIU calculation which was estimated by applying a 3.0% growth rate to the cash flow forecast for the fifth year. The growth rate reflects the historical average core inflation rate which does not exceed the long-term average growth rate for the industry. Management predicts that Blue Chip will revert to historical growth rates after the current restrictions are lifted and that the long term growth rate for the industry will be unaffected.

iii) A pre-tax discount rate of approximately 26.8% applied to forecast cash flows, compared to the rate used in the annual impairment test of 20.75%. The change in the estimated pre-tax discount rate is due to inclusion of a higher risk premium to reflect the risks present in the finance receivables in the current environment.

The VIU is most sensitive to assumptions of lease origination volumes, net charge-offs and the discount rate used. Each of those variables will ultimately be determined by the duration of restrictions that are currently in place to contain the pandemic, the effects and ultimate success of which are inherently unknowable. The estimation of VIU is therefore subject to considerable measurement uncertainty. Any significant adverse differences between management's estimates and assumptions compared to actual outcomes in future quarters may result in additional goodwill impairment losses.

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

	Pawnee	Blue Chip	Total
Cost:		*($ thousands)*	
December 31, 2018	$ 49,480	$ 26,365	$ 75,845
Foreign exchange translation	(2,371)	—	(2,371)
December 31, 2019	$ 47,109	$ 26,365	$ 73,474
Foreign exchange translation	2,321	—	2,321
June 30, 2020	**$ 49,430**	**$ 26,365**	**$ 75,795**

	Pawnee	Blue Chip	Total
Accumulated impairment:		*($ thousands)*	
December 31, 2018	$ 34,808	$ —	$ 34,808
Foreign exchange translation	(1,668)	—	(1,668)
December 31, 2019	$ 33,140	$ —	$ 33,140
Impairment	—	11,868	11,868
Foreign exchange translation	1,633	—	1,633
June 30, 2020	**$ 34,773**	**$ 11,868**	**$ 46,641**

	Pawnee	Blue Chip	Total
Carrying amount:		*($ thousands)*	
December 31, 2018	$ 14,672	$ 26,365	$ 41,037
December 31, 2019	$ 13,969	$ 26,365	$ 40,334
June 30, 2020	**$ 14,657**	**$ 14,497**	**$ 29,154**

7. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

	June 30, 2020	December 31, 2019
	($ thousands)	
Dividend payable	$ —	$ 1,241
Accounts payable	**1,726**	2,078
Sales tax payable	**1,400**	951
Customer deposits and prepayments	**685**	913
Unfunded finance receivables	**4,403**	7,230
Taxes payable	**4,934**	—
Payroll related payables and accruals	**1,826**	1,408
Accrued expenses and other liabilities	**5,270**	3,014
	$ 20,244	$ 16,835

8. 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, 2018	$ 233,278	$ (1,707)	$ 228,249	$ (4,457)	$ 146,162	$ 601,525
Proceeds or draw-downs	245,187	—	416,027	—	68,099	729,313
Repayments	(278,890)	—	(233,730)	—	(74,909)	(587,529)
Payment of financing costs	—	(1,881)	—	(5,577)	—	(7,458)
Amortization of deferred financing costs	—	1,410	—	2,422	—	3,832
Foreign exchange translation	(10,470)	—	(14,803)	281	—	(24,992)
Net as of December 31, 2019	189,105	(2,178)	395,743	(7,331)	139,352	714,691
Proceeds or draw-downs	121,105	—	79,175	—	22,874	223,154
Repayments	(108,273)	—	(105,377)	—	(35,662)	(249,312)
Payment of financing costs	—	—	—	(39)	—	(39)
Amortization of deferred financing costs	—	547	—	1,631	—	2,178
Foreign exchange translation	9,297	—	19,546	(365)	—	28,478
Net as of June 30, 2020	**$ 211,234**	**$ (1,631)**	**$ 389,087**	**$ (6,104)**	**$ 126,564**	**$ 719,150**

As a result of COVID-19, the Company's subsidiaries have granted deferrals on portions of their respective portfolios of leases and loans. Pawnee and Tandem temporarily suspended accepting new financing requests to allow the Company and its subsidiaries to finalize amendments to various facilities to better reflect COVID-19 related experiences and expectations. New equipment financings then resumed.

(a) The Chesswood revolving credit facility allows borrowings of up to US$250.0 million, subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility includes a US$50 million accordion feature that can increase the overall revolver to US$300 million, is secured by substantially all of the Company's assets, contains covenants, including maintaining leverage and interest coverage ratios, and expires on December 8, 2022. At June 30, 2020, the Company was utilizing US$162.2 million (December 31, 2019 - US$156.1 million) of its credit facility and had approximately US$87.8 million in additional borrowings available under the corporate credit facility. At June 30, 2020 and December 31, 2019, and throughout the periods presented, the Company was compliant with all covenants, with certain future-period covenants being waived or amended to accommodate COVID-19 circumstances. Based on average debt levels, the effective interest rate during the six months ended June 30, 2020 was 5.36% (year-ended December 31, 2019 - 5.49%). The Company paid $1.1 million in amendment fees specifc to COVID-19 issues related to the revolving facility that is included in restructuring and transaction costs and other one-time COVID-19 related expenses. The Company is restricted from paying dividends and limited quarterly equipment financing originations during the period that the temporary COVID-19 related amendments are required.

(b) Pawnee credit facilities:
(i) Through its subsidiary Pawnee Portfolio Fund ("PPF"), Pawnee has a loan facility to fund its prime portfolio. During May 2020, the company elected to convert the facility from a US$250 million revolving facility to an amortizing facility, where collections are now being used to repay the principal. The warehouse facility holds 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. At June 30, 2020, Pawnee was utilizing US$44.1 million of this facility (December 31, 2019 - US$0.0 million). At June 30, 2020 and December 31, 2019, Pawnee was compliant with all covenants, with certain covenants being waived or amended to accommodate COVID-19 circumstances. Based on average debt levels, the effective interest rate during the six months ended June 30, 2020 was 7.5% (year-ended December 31, 2019 - 6.16%) (including fees and upfront origination cost amortization).
(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 at inception were secured by US$154.2 million in gross receivables from Pawnee's prime portfolio of equipment leases and loans and repayment terms 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 June 30, 2020 was US$33.2 million (December 31, 2019 – US$48.4 million). At June 30, 2020 and December 31, 2019, and throughout the periods presented, Pawnee was compliant with all covenants, with certain covenants being waived or amended to accommodate COVID-19 circumstances. Based on average debt levels, the effective interest rate during the six months ended June 30, 2020 was 4.1% (2019 - 5.72%).
(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 cash reserves. Pawnee retains the servicing of these finance receivables. The balance of this facility at June 30, 2020 was US$13.4 million (December 31, 2019 - US$16.6 million). Based on average debt levels, the effective interest rate was 4.7% (including amortization of origination costs) (December 31, 2019 – 4.43%). At June 30, 2020 and December 31, 2019, Pawnee was compliant with all covenants, with certain covenants being waived or amended to accommodate COVID-19 circumstances.
(iv) In October 2019, Pawnee completed a US$254 million asset-backed securitization which has fixed term and fixed interest rate, and is collateralized by receivables from Pawnee's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay down Pawnee's warehouse line and Chesswood's senior revolving credit facility. The balance of this facility at June 30, 2020 was US$194.9 million (December 31, 2019 - US$239.7 million). Based on average debt levels, the effective interest rate was 2.99% (including amortization of origination costs) (2019 – 2.77%).

As at June 30, 2020, Pawnee had provided US$2.9 million in outstanding letters of guarantee through Chesswood's revolving credit facility in lieu of cash reserves.

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

At June 30, 2020, Blue Chip had access to the following committed lines of funding: (i) $60.0 million annual limit from a life insurance company; (ii) $100.0 million rolling limit from a financial institution; and (iii) approved funding from another financial institution with no annual or rolling limit. As at June 30, 2020, Blue Chip had $126.6 million (December 31, 2019 - $139.4 million) in securitization and bulk lease financing facilities debt outstanding, was utilizing $77.8 million (December 31, 2019 - $74.2 million) of its available financing and had access to at least $112.2 million (December 31, 2019 - $115.8 million) of additional financing from the Funders.

Interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Based on average debt levels, the effective interest rate during the six months ended June 30, 2020 was 3.59% (2019 - 3.59%). As at June 30, 2020, Blue Chip had provided $5.8 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 June 30, 2020 and December 31, 2019, and throughout the periods presented, Blue Chip was compliant with all covenants, with certain covenants being waived or amended to accommodate COVID-19 circumstances.

(d) Restricted funds

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

	June 30, 2020	December 31, 2019
	($ thousands)	
Restricted - cash in collection accounts	**$ 19,627**	$ 16,412
Restricted - cash reserves	**5,487**	5,339
Restricted funds	**$ 25,114**	$ 21,751

9. 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		$ 20,244	$ —	$ —	$ —	$ —	$ —	**$ 20,244**
Premises leases payments	*(i)*	357	732	743	754	584	245	**3,415**
Borrowings	*(ii)*	116,497	195,823	354,234	75,038	21,454	2,679	**765,725**
Customer security deposits	*(iii)*	1,912	3,483	2,882	2,295	281	67	**10,920**
Interest rate swaps		631	81	—	—	—	—	**712**
		139,641	200,119	357,859	78,087	22,319	2,991	**801,016**
Service contracts		164	266	118	2	—	—	**550**
Total commitments		$ 139,805	$ 200,385	$ 357,977	$ 78,089	$ 22,319	$ 2,991	**$ 801,566**

i. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2025.

ii. Borrowings are described in Note 8 - *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 June 30, 2020 remain the same until the expiry date of December 2022. The amount owing under Chesswood's corporate revolving credit facility is shown in year of maturity, all other expected borrowings payments are based on the underlying finance receivables supporting the borrowings.

iii. The Company's experience has shown the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.

iv. Please see Note 5(b) - *Finance Receivables* for the expected collections of finance receivables over the same time period. See Note 8(d) - *Borrowings* - for the amount of restricted cash in collections accounts that will be applied to debt in the following month.

The Company has no material liabilities that have not been recognized and presented on the statements of financial position, other than US$7.2 million in letters of guarantee. For contingent liabilities and other commitments, refer to Note 17 - *Contingent Liabilities and Other Financial Commitments* of the 2019 annual audited consolidated financial statements.

10. CAPITAL MANAGEMENT

The Company's capital consists of borrowings and shareholders' equity. The Company's objectives when managing capital are to safeguard the Company's long-term ability to continue as a going concern and to provide adequate returns for shareholders. 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 June 30, 2020 and December 31, 2019, and throughout the periods presented, the Company was compliant with all covenants, with certain covenants being waived or amended resulting from the onset of the COVID-19 pandemic. Financing facilities of operating subsidiaries are used to provide funding for the respective subsidiary's operations (namely to provide financing for the purchase of assets which are to be the subject of leases and loans or to support working capital). The financing facilities are not intended to directly fund dividends paid by the Company. The Company and its subsidiaries have finalized amendments to various facilities to better reflect COVID-19 related experiences and expectations.

11. 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 (# '000s)		Amount ($ thousands)
Balance, December 31, 2018		16,229	$	103,576
Exercise of restricted share units		44		482
Exercise of options		53		403
Repurchase of common shares under issuer bid	*(a)*	(78)		(498)
Balance, December 31, 2019		16,248	$	103,963
Exercise of restricted share units		37		375
Balance, June 30, 2020		**16,285**	**$**	**104,338**

(a) Normal course issuer bids

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

In August 2019, the Company's Board of Directors approved the repurchase for cancellation of up to 1,031,791 of the Company's outstanding common shares for the period commencing August 26, 2019 and ending on August 25, 2020. From August 26, 2019 to June 30, 2020, no common shares were repurchased under this normal course issuer bid. Decisions regarding the timing of purchases are based on market conditions and other factors.

12. 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 June 30, 2020. There were 2,553,939 options and 7,000 restricted share units outstanding at June 30, 2020 (2019 - 2,335,939 and nil).

(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 three months ended **June 30,**		For the six months ended **June 30,**	
	2020	2019	**2020**	2019
Balance, beginning of period	**2,553,939**	2,357,854	**2,553,939**	2,384,354
Granted	**—**	—	**—**	—
Exercised	**—**	(21,915)	**—**	(48,415)
Balance, end of period	**2,553,939**	2,335,939	**2,553,939**	2,335,939

During the six months ended June 30, 2020, personnel expenses and the share-based compensation reserve included $148,200 (2019 - $184,000) relating to option expense. As of June 30, 2020, unrecognized non-cash compensation expense related to the outstanding options was $113,100 (June 30, 2019 - $211,400), which is expected to be recognized over the remaining vesting period.

During the six months ended June 30, 2020, no options were exercised (2019 - 48,415) for total cash consideration of $0 (2019 - $251,000). On exercise, the accumulated amount in share-based compensation reserve related to the exercised options of $0 (2019 - $108,000) 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 six months ended June 30, 2020, the weighted average share price at the date of exercise was $nil (2019 - $10.70).

At June 30, 2020, the weighted average exercise price is $10.40 (June 30, 2019 - $10.54) and the weighted average remaining contractual life for all options outstanding is 4.5 years (June 30, 2019 - 5.7 years). The 2,258,439 options exercisable at June 30, 2020 have a weighted average exercise price of $10.51 (June 30, 2019 - 1,830,189 options at $10.39).

An analysis of the options outstanding at June 30, 2020 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	125,000	125,000	August 31, 2023	$ 14.12
April 29, 2014	140,000	140,000	April 29, 2024	$ 14.12
April 16, 2015	160,000	160,000	April 16, 2025	$ 12.53
April 29, 2015	150,000	150,000	August 31, 2023	$ 12.24
August 15, 2016	100,000	100,000	August 31, 2023	$ 10.17
August 15, 2016	234,950	234,950	August 15, 2026	$ 10.17
June 19, 2017	90,000	90,000	August 31, 2023	$ 12.15
June 19, 2017	265,000	265,000	June 19, 2027	$ 12.15
March 28, 2018	90,000	90,000	August 31, 2023	$ 10.96
March 28, 2018	280,000	182,000	March 28, 2028	$ 10.96
September 6, 2019	25,000	25,000	August 31, 2023	$ 8.95
September 6, 2019	197,500	—	September 6, 2029	$ 8.95
	2,553,939	2,258,439		

(b) Restricted share units

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

A summary of the RSUs outstanding is as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	**2020**	2019
Balance, beginning of period	**44,000**	—	**44,000**	44,000
Granted	**—**	44,000	**—**	44,000
Exercised	**(37,000)**	—	**(37,000)**	(44,000)
Balance, end of period	**7,000**	44,000	**7,000**	44,000

During the six months ended June 30, 2020, personnel expenses and share-based compensation reserve included $185,900 (2019 - $151,600) relating to RSUs. During the six months ended June 30, 2020, no RSUs were granted (2019 - 44,000) to directors.

During the six months ended June 30, 2020, 37,000 RSUs were exercised (2019 - 44,000). On exercise, the accumulated balance in share-based compensation reserve related to the RSUs of $nil (2019 - $482,200) was transferred from reserve to Common Share capital. For the RSUs exercised during the six months ended June 30, 2020, the weighted average share price at the date of exercise was $3.84 (2019 - $11.10).

As of June 30, 2020, unrecognized non-cash compensation expense related to non-vested RSUs was $nil (June 30, 2019 - $409,500). The outstanding RSUs at June 30, 2020, are fully vested.

13. DIVIDENDS

Under the Chesswood revolving credit facility (see Note 8(a) - *Borrowings*), the maximum amount of cash dividends (and/or cost of any repurchases under normal course issuer bids) that the Company can pay in respect of a month is 1/12 of 90% of Free Cash Flow for the most recently completed four financial quarters in which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is defined in the MD&A. On May 19, 2020, the Company announced a temporary suspension of dividends due to COVID-19 uncertainties (and subsequently, in accordance with the terms of a COVID-19 related temporary amendment of the Company's revolving credit facility).

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the six months ended June 30, 2020:

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
December 31, 2019	January 15, 2020	$ 0.070	$ 1,241
January 31, 2020	February 18, 2020	$ 0.070	1,241
February 28, 2020	March 16, 2020	$ 0.070	1,241
March 31, 2020	April 15, 2020	$ 0.070	1,241
April 30, 2020	May 15, 2020	$ 0.035	620
May 29, 2020		$ —	—
			$ 5,584

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the six months ended June 30, 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, 2018	April 16, 2018	$ 0.070	1,241
April 30, 2019	May 15, 2019	$ 0.070	1,241
May 31, 2019	June 17, 2019	$ 0.070	1,242
			$ 7,436

14. EARNINGS PER SHARE

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

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 three months ended June 30,		For the six months ended June 30,	
	2020	2019	**2020**	2019
Weighted average number of common shares outstanding	**16,259,818**	16,246,753	**16,253,890**	16,220,069
Dilutive effect of options	**—**	209,606	**11,126**	267,353
Dilutive effect of restricted share units	**32,143**	14,505	**38,071**	26,740
Weighted average common shares outstanding for diluted earnings per share	**16,291,961**	16,470,864	**16,303,087**	16,514,162
Options excluded from calculation of diluted shares for the period due to their anti-dilutive effect	**2,553,939**	1,300,000	**2,383,939**	1,300,000

15. RELATED PARTY TRANSACTIONS

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

	For the three months ended June 30, 2020	For the three months ended June 30, 2019	For the six months ended June 30, 2020	For the six months ended June 30, 2019
	($ thousands)			
Salaries, fees and other employee benefits	**$ 321**	$ 442	**$ 673**	$ 885
Restructuring costs	**2,006**	—	**2,006**	—
Share-based compensation	**109**	61	**240**	213
Compensation expense of key management	**$ 2,436**	$ 503	**$ 2,919**	$ 1,098

16. CASH FLOW SUPPLEMENTARY DISCLOSURE

	For the three months ended June 30, 2020	For the three months ended June 30, 2019	Note	For the six months ended June 30, 2020	For the six months ended June 30, 2019
	($ thousands)				
Non-cash transactions					
Common shares issued on exercise of RSUs	**$ 334**	$ —		**$ 334**	$ 482
Interest paid	**$ 5,485**	$ 7,044		**$ 11,700**	$ 13,797
Other non-cash items included in net income					
Share-based compensation expense	**$ 148**	$ 111	*12*	**$ 334**	$ 336
Amortization of deferred financing costs	**1,103**	780	*8*	**2,178**	1,579
Unrealized (gain) loss on investments	**—**	(121)		**121**	(91)
Interest expense - premises leases payable	**37**	42		**74**	84
Unrealized (gain) loss on interest rate derivatives	**(133)**	626		**465**	1,129
Unrealized (gain) loss on foreign exchange	**(19)**	63		**53**	145
	$ 1,136	$ 1,501		**$ 3,225**	$ 3,182
Change in other net operating assets					
Restricted funds	**$ 1,249**	$ (5,692)		**$ (2,293)**	$ (5,125)
Other assets	**4,879**	1,638		**3,931**	1,925
Accounts payable and other liabilities	**(2,126)**	27		**(1,594)**	(1,632)
Customer security deposits	**(1,423)**	(1,396)		**(2,511)**	(2,418)
	$ 2,579	$ (5,423)		**$ (2,467)**	$ (7,250)
Borrowings					
Draw-downs or proceeds from borrowings	**$ 34,451**	$ 125,044	*8*	**$ 223,154**	$ 209,868
Payments - borrowings	**(103,699)**	(86,238)	*8*	**(249,312)**	(146,403)
	$ (69,248)	$ 38,806		**$ (26,158)**	$ 63,465

17. SEGMENT INFORMATION

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

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

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

($ thousands)	Six months ended June 30, 2020 Equipment Financing - U.S.	Equipment Financing - Canada	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	$ 49,893	$ 6,091	$ —	$ 55,984
Ancillary finance and other fee income	5,357	1,955	28	7,340
Interest expense	(12,938)	(2,499)	—	(15,437)
Provision for credit losses	(27,101)	(2,490)	—	(29,591)
Finance margin	**15,211**	**3,057**	**28**	**18,296**
Personnel expenses	7,475	1,265	755	9,495
Share-based compensation expense	79	6	249	334
Other expenses	7,747	845	670	9,262
Depreciation	539	64	20	623
Amortization - intangible assets	—	666	—	666
Operating income (loss)	**(629)**	**211**	**(1,666)**	**(2,084)**
Restructuring costs	—	—	(5,776)	(5,776)
Goodwill impairment	—	(11,868)	—	(11,868)
Fair value adjustments - investments	—	—	(121)	(121)
Unrealized loss on interest rate derivatives	(58)	—	(407)	(465)
Unrealized loss on foreign exchange	—	—	(53)	(53)
Income (loss) before taxes	**(687)**	**(11,657)**	**(8,023)**	**(20,367)**
Tax expense (recovery)	(823)	36	(1,160)	(1,947)
Net income (loss)	**$ 136**	**$ (11,693)**	**$ (6,863)**	**$ (18,420)**
Net cash from operating activities	$ 21,372	$ 15,468	$ (1,991)	$ 34,849
Net cash used in investing activities	$ (731)	$ —	$ —	$ (731)
Net cash used in financing activities	$ (26,508)	$ (12,873)	$ 7,247	$ (32,134)
Total assets	$ 728,456	$ 176,477	$ 3,054	$ 907,987
Total liabilities	$ 422,181	$ 134,335	$ 213,493	$ 770,009
Finance receivables	$ 667,534	$ 144,214	$ —	$ 811,748
Goodwill and intangible assets	$ 22,017	$ 23,896	$ —	$ 45,913
Property and equipment expenditures	$ 731	$ —	$ —	$ 731

	Six Months Ended June 30, 2019				
($ thousands)	**Equipment Financing - U.S.**	**Equipment Financing - Canada**	**Other Operations**	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 47,434	$ 6,913		$ —	$ 54,347
Ancillary finance and other fee income	5,623	2,248		125	7,996
Interest expense	(14,037)	(2,756)		—	(16,793)
Provision for credit losses	(12,650)	(945)		—	(13,595)
Finance margin	**26,370**	**5,460**		**125**	**31,955**
Personnel expenses	7,274	1,498		968	9,740
Share-based compensation expense	103	7		226	336
Other expenses	7,377	912	280	643	9,212
Depreciation	504	63		20	587
Amortization - intangible assets	—	666		—	666
Operating income	**11,112**	**2,314**	**(280)**	**(1,732)**	**11,414**
Fair value adjustments - investments	—	—	—	91	91
Unrealized loss on interest rate derivatives	(373)	—	—	(756)	(1,129)
Unrealized loss on foreign exchange	—	—	—	(145)	(145)
Income before taxes	**10,739**	**2,314**	**(280)**	**(2,542)**	**10,231**
Tax expense	2,159	609	—	498	3,266
Net income	**$ 8,580**	**$ 1,705**	**$ (280)**	**$ (3,040)**	**$ 6,965**
Net cash used in operating activities	$ (47,502)	$ (44)	$ 92	$ (2,541)	$ (49,995)
Net cash used in investing activities	$ (270)	$ (14)	$ —	$ —	$ (284)
Net cash from financing activities	$ 37,237	$ (386)	$ —	$ 17,715	$ 54,566
Total assets	$ 637,324	$ 209,955	$ 1,406	$ 6,436	$ 855,121
Total liabilities	$ 295,194	$ 151,654	$ —	$ 249,321	$ 696,169
Finance receivables	$ 588,255	$ 170,803	$ —	$ —	$ 759,058
Goodwill and intangible assets	$ 21,142	$ 37,097	$ —	$ —	$ 58,239
Property and equipment expenditures	$ 270	$ 14	$ —	$ —	$ 284

	Three months ended June 30, 2020			
($ thousands)	**Equipment Financing - U.S.**	**Equipment Financing - Canada**	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 23,712	$ 2,925	$ —	$ 26,637
Ancillary finance and other fee income	2,418	956	—	3,374
Interest expense	(6,163)	(1,211)	—	(7,374)
Provision for credit losses	(4,144)	(1,244)	—	(5,388)
Finance margin	**15,823**	**1,426**	**—**	**17,249**
Personnel expenses	3,402	571	328	4,301
Share-based compensation expense	34	3	111	148
Other expenses	3,870	370	120	4,360
Depreciation	282	31	10	323
Amortization - intangible assets	—	333	—	333
Operating income	**8,235**	**118**	**(569)**	**7,784**
Restructuring costs	—	—	(5,776)	(5,776)
Fair value adjustments - investments	—	—	—	—
Unrealized gain on interest rate derivatives	—	—	133	133
Unrealized gain on foreign exchange	—	—	19	19
Income before taxes	**8,235**	**118**	**(6,193)**	**2,160**
Tax expense	1,696	27	(970)	753
Net income	**$ 6,539**	**$ 91**	**$ (5,223)**	**$ 1,407**
Net cash from operating activities	$ 52,985	$ 9,068	$ (872)	$ 61,181
Net cash used in investing activities	$ (156)	$ —	$ —	$ (156)
Net cash used in financing activities	$ (57,193)	$ (11,082)	$ (3,017)	$ (71,292)
Property and equipment expenditures	$ 156	$ —	$ —	$ 156

($ thousands)	Three months ended June 30, 2019				
	Equipment Financing - U.S.	**Equipment Financing - Canada**	**Other Operations**	**Corporate Overhead - Canada**	**Total**
Interest revenue on leases and loans	$ 24,159	$ 3,491		$ —	$ 27,650
Ancillary finance and other fee income	2,763	1,116		57	3,936
Interest expense	(7,143)	(1,393)		—	(8,536)
Provision for credit losses	(5,709)	(544)		—	(6,253)
Finance margin	**14,070**	**2,670**		**57**	**16,797**
Personnel expenses	3,805	762		471	5,038
Share-based compensation expense	41	3		67	111
Other expenses	3,785	472	211	318	4,786
Depreciation	258	32		10	300
Amortization - intangible assets	—	333		—	333
Operating income	**6,181**	**1,068**	**(211)**	**(809)**	**6,229**
Fair value adjustments - investments	—	—	—	121	121
Unrealized loss on interest rate derivatives	(125)	—	—	(501)	(626)
Unrealized loss on foreign exchange	—	—	—	(63)	(63)
Income before taxes	**6,056**	**1,068**	**(211)**	**(1,252)**	**5,661**
Tax expense	1,240	268		259	1,767
Net income	**$ 4,816**	**$ 800**	**$ (211)**	**$ (1,511)**	**$ 3,894**
Net cash used in operating activities	$ (28,923)	$ (271)	$ (34)	$ (1,121)	$ (30,349)
Net cash used in investing activities	$ (198)	$ (14)	$ —	$ —	$ (212)
Net cash from financing activities	$ 35,270	$ 4,337	$ —	$ (5,298)	$ 34,309
Property and equipment expenditures	$ 198	$ 14	$ —	$ —	$ 212

Chesswood Group Limited

DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors

Edward Sonshine
Director, Chairman, Chesswood Group Limited

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

Robert Day
Director
Former Chairman, Pawnee Leasing Corporation

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

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

Frederick W. Steiner
Director, Chesswood Group Limited

Executive Team

Ryan Marr
President & C.E.O.

Lisa Stevenson
Chief Financial Officer

Other Information
Auditors
BDO Canada LLP

Transfer Agent
TSX Trust Company

Corporate Counsel
McCarthy Tétrault LLP

Toronto Stock Exchange Symbol
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