MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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

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

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

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

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

As more fully detailed in the accompanying MD&A, the Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design and operating effectiveness of the Company's DC&P and ICFR as at December 31, 2020 and have concluded that the Company's DC&P and ICFR are effective as at financial year end.

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

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

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

To the Shareholders of Chesswood Group Limited

Opinion

We have audited the consolidated financial statements of Chesswood Group Limited and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Key Audit Matters

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

Impairment of Goodwill and Intangible Assets

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

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

How the Audit Matter was Addressed in the Audit

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

Allowance for Expected Credit Losses

The Group has an allowance for expected credit losses ('ECL') of $24.4 million recorded against its finance receivables. The Group's assessment of the allowance involves significant estimates and judgements relating to the application of ECL model prescribed in IFRS 9, in particular, with respect to the timing and amount of the credit loss as well as considerations for forward looking information.

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

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

How the Audit Matter was Addressed in the Audit

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

Other Information

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

- The information, other than the financial statements and our auditor's report thereon, included in the Annual Report, and
- The information included in the Management's Discussion and Analysis for the year ended December 31, 2020.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 9, 2021

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

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

Approved by the Board of Directors

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

(signed) Samuel Leeper
Chairman, Audit, Finance and Risk Committee

Please see notes to the consolidated financial statements.

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

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

Please see notes to the consolidated financial statements.

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

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

Please see notes to the consolidated financial statements.

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

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

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

Please see notes to the consolidated financial statements.

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

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

Please see notes to the consolidated financial statements.

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 15, Toronto, Ontario, M3B 3N2, and its shares trade on the Toronto Stock Exchange under the symbol CHW.

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

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

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

The consolidated financial statements, including comparatives:

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

In order to improve clarity, certain items have been combined in the consolidated financial statements with details provided separately in the Notes to the consolidated financial statements.

The Company's audited consolidated financial statements were authorized for issue on March 9, 2021 by the Board of Directors.

Foreign currency transactions

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

The reporting currency is the Canadian dollar and the financial statements are presented in thousands of Canadian dollars except per share amounts and as otherwise noted. The functional currency of the Company, Chesswood Holdings Ltd., Blue Chip and Lease-Win Limited is the Canadian dollar. The functional currency of U.S. Acquisitionco, Pawnee, Windset, Tandem, the SPEs, and Case Funding is the United States dollar. Income and expenses of subsidiaries with a different functional currency than the Company's presentation currency are translated in the Company's consolidated financial statements at the average U.S. dollar exchange rate for the reporting period (for the year ended December 31, 2020 - 1.3415; 2019 - 1.3269), and assets and liabilities are translated at the closing rate (as at December 31, 2020 - 1.2732; December 31, 2019 - 1.2988). Exchange differences arising from the translation are recognized in other comprehensive income. Foreign currency payables and receivables in the statement of financial position are recorded at the transaction date at cost. Exchange gains and losses arising from conversion of monetary assets and liabilities at exchange rates at the end of the reporting period are recognized as income or expense.

Statement of cash flows

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

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

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

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

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

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

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

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

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the audited consolidated financial statements are presented in the following Notes: Note 6 - Finance Receivables, Note 9 and Note 10 - Impairment of Intangibles and Goodwill, and Note 15 - Taxes.

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

2. NEW ACCOUNTING STANDARDS

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

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

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

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

3. FINANCIAL INSTRUMENTS

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

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

Financial assets are categorized for subsequent measurement as follows:

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

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

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

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

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

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

Financial liabilities are categorized as follows for subsequent measurement:

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

amount of the related financial liabilities and amortized using the effective interest method.

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

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

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

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

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

(a) Categories and measurement hierarchy

The categories to which the financial instruments are allocated are:

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

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

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

(ii) Level 2 Inputs - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
(iii) Level 3 Inputs - techniques which use inputs which have a significant effect on the recorded fair value for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

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

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

(b) Gains and losses on financial instruments

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

	For the year ended **December 31,** **2020**	2019
	($ thousands)	
Amortized cost:		
Provision for credit losses	**$ (25,644)**	$ (33,214)
Fair value through net income or loss:		
Investment in Dealnet common shares	**483**	30
Interest rate derivatives	**(118)**	(1,109)
Net loss	**$ (25,279)**	$ (34,293)

4. FINANCIAL RISK MANAGEMENT

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

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

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

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

i) Credit risk

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

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

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

Pawnee and Tandem's credit risk is mitigated by: funding only “business essential” commercial equipment, where the value of the equipment is less than US$350,000, typically obtaining at least the personal guarantee of the majority owners of the lessee\borrower for each lease or loan, and by diversification on a number of levels, including: geographical across the United States, type of equipment, vendor, equipment cost, industries in which Pawnee’s lessees\borrowers operate and through the number of lessees\borrowers, none of which is individually significant. Furthermore, Pawnee’s credit risk in its non-prime portfolio is mitigated by the fact that the standard lease\loan contract may require that the lessee\borrower provide two months payments as a security deposit or advance payments, which, in the case of default, is applied against the lease\loan receivable; otherwise the deposit is held for the full term of the lease\loan and is then returned or applied to the purchase option of the equipment at the lessee’s option.

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

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

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

ii) Liquidity risk

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

The Company’s objective is to maintain low cash balances, investing any free cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. At December 31, 2020, the Company's operations have at least $485.2 million (2019 - $644.0 million) in additional borrowings available under various credit facilities to fund business operations.

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

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

The Company has a corporate credit facility that allows borrowings of up to US$250.0 million with a US$50 million accordion feature, subject to certain percentages of eligible gross lease receivables, of which US$71.9 million was utilized at December 31, 2020 (2019 - US$156.1 million). See Note 12 - Borrowings. In addition, the Company has several bulk financing lines available to its Canadian business and similar financing for its U.S. prime portfolio. At this time; however, management believes that the syndicate of financial institutions that provides Chesswood's credit facility and the banks and life insurance company that provides financing to our subsidiaries are financially viable and will continue to provide the facilities.

Under the corporate credit facility, the maximum cash dividends that the Company can pay in any month is 1/12 of 90% of free cash flow for the most recently completed four financial quarters in which the Company has publicly filed its consolidated financial statements less the cost of any repurchases under normal course issuer bids, if any. The Company's dividend payments were suspended during the year as disclosed in Notes 12(a) and 22.

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

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

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

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

The following table presents a sensitivity analysis for a reasonable fluctuation in interest rates and the effect on the Company for the years ended December 31, 2020 and 2019:

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

c) Foreign currency risk
The Company is exposed to fluctuations in the U.S. dollar exchange rate because significant operating cash inflows are generated in the United States, while dividends are paid to shareholders in Canadian dollars. For the year-ended December 31, 2020, dividends paid totaled $5.9 million (2019 - $14.9 million).

The following table presents a sensitivity analysis for a hypothetical fluctuation in U.S. dollar exchange rates and the effect on the Company as at December 31, 2020 and 2019:

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

5. OTHER ASSETS

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

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

(b) Common shares - Dealnet - as partial consideration for the sale of EcoHome, the Company received 6,039,689 common shares of Dealnet. The Dealnet shares were measured at fair value through net income or loss. The fair value represented the trading price at each reporting date. The Dealnet shares were disposed of during the year.

6. FINANCE RECEIVABLES

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

		December 31, 2020		December 31, 2019
		($ thousands)		
Net investment in leases	**$**	**335,814**	$	432,200
Loan receivables		**405,064**		388,885
	$	**740,878**	$	821,085

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

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

(b) Minimum scheduled collections of finance receivables at December 31, 2020, are presented in the following table. The Company's experience has shown that the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the following minimum scheduled collections are not to be regarded as a forecast of future cash collections.

	Minimum payments	Present value
	($ thousands)	
2021	$ 339,042	$ 269,805
2022	253,492	213,274
2023	162,449	143,553
2024	86,679	80,148
2025	25,388	24,450
2026 and thereafter	1,057	1,105
Total minimum payments	$ 868,107	$ 732,335

(c) Allowance for credit losses

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

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

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

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

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

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

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

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

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

For Stage 2, the Company considers prime leases and loans to have experienced a significant increase in credit risk since initial recognition if they are delinquent for over 30 days. Non-prime leases and loans that have experienced a significant increase in credit risk include: those instruments that are delinquent for over 30 days; and an estimate of those assets that will subsequently become delinquent calculated as approximately 15% (2019 - 20%) of non-prime assets that are in default but have been delinquent for less than 30 days at the reporting date.

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

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

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

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

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

Forecasts of future events and conditions are incorporated by adjusting losses from the static pool data, which is consistent with prior periods. Determining the inputs listed and ECLs requires significant estimation uncertainty. In particular, determining the COVID-19 effects to be layered over the static pool data at December 31, 2020 to estimate the extent to which ECLs have increased at that date - which requires assessing the direction of macroeconomic variables in the forward-looking scenarios, the duration of lock-down conditions, the effectiveness of relief programs at mitigating the effects on our lessees and borrowers, amongst other factors - are subject to significant measurement uncertainty. Determining which finance receivables have seen a significant increase in credit risk is also subject to significant judgement. If the expected loss rates increased or decreased by 10% the provision for credit loss and the allowance for credit losses would increase or decrease by approximately $2.2 million.

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

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

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

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

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

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

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

(d) Finance receivables past due

The following aging represents the total carrying amount of the lease and loan receivables and not just the payments that are past due. The balances presented exclude the $7.2 million (December 31, 2019 - $12.1 million) of security deposits received from lessees/borrowers and the collateral held (including potential proceeds from repossessed equipment, and potential recoveries from personal guarantees) that would offset any charge-offs. An estimate of fair value for the collateral and personal guarantees cannot reasonably be determined.

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

					As of December 31, 2020	
($ thousands)	**Current**	**1-30 days**	**31 - 60 days**	**61 - 90 days**	**Over 90 days**	**Total**
Finance receivables	**$ 732,061**	**$ 13,354**	**$ 4,481**	**$ 2,439**	**$ 2,311**	**$ 754,646**
Credit impaired	**$ 115**	**$ 664**	**$ 1,560**	**$ 2,179**	**$ 2,182**	**$ 6,700**
Past due but not impaired	**$ —**	**$ 12,690**	**$ 2,921**	**$ 260**	**$ 129**	**$ 16,000**

					As of December 31, 2019	
($ thousands)	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days	Total
Finance receivables	$ 817,865	$ 15,639	$ 6,142	$ 2,233	$ 6,126	$ 848,005
Credit Impaired	$ 515	$ 397	$ 1,317	$ 2,091	$ 5,999	$ 10,319
Past due but not impaired	$ —	$ 15,242	$ 4,825	$ 142	$ 127	$ 20,336

(e) Modifications

In cases where a borrower experiences financial difficulties, Pawnee and Blue Chip may grant certain concessionary modifications to the terms and conditions of a lease or loan. Modifications may include payment deferrals, extension of amortization periods, and other modifications intended to minimize the economic loss and to avoid repossession of collateral.

Pawnee and Blue Chip have policies in place to determine the appropriate remediation strategy based on certain conditions. Significant increase in credit risk (Stage 2 categorization) is assessed based on the risk of default at initial recognition of the original asset. Expected cash flows arising from the modified contractual terms are considered when calculating the ECL for the modified asset. For finance receivables that were modified while having a lifetime ECL, the leases and loans can revert to having 12-month ECL after a period of performance and improvement in the borrower's financial condition.

The net investment in finance receivables that have been modified (in 2020 or prior) and are current at December 31, 2020 is \$184.4 million (December 31, 2019 - \$13.5 million). On average the terms have been modified to extend the contracts by approximately one to three months, depending on the modification. The majority of the increase from December 31, 2019 is the result of COVID-19 deferrals. Finance receivables modified during the year ended December 31, 2020 had a total net investment in finance receivable balance at the time of modification of \$418.9 million (2019 - \$27.1 million). These amounts reflect the net investment in finance receivable balances prior to payments collected since modification, or leases that terminated early after modifications or leases charged-off after modification.

(f) Collateral
Pawnee and Blue Chip are entitled to repossess financed equipment if the borrower defaults on their lease or loan contract. When a lease or loan is charged-off, the related equipment no longer has a carrying value on the consolidated financial statements. Any amounts recovered from the sale of equipment after a charge-off, are credited to the allowance for credit losses when received. In the year ended December 31, 2020, the proceeds from the disposal of repossessed equipment that was charged-off totaled \$5.7 million (2019 - \$4.7 million). Repossessed equipment is held at various warehouses by the companies contracted to repossess and sell the equipment.

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

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

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

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

The lease liability for the Company’s leases will be remeasured in a future period if there is a change in future lease payments arising from a change in the likelihood that extension options or termination options are exercised. A sublet of leased space is treated as a disposal of the associated right-to-use asset with any resulting gain or loss recognized in net income. On remeasuring a lease agreement, a corresponding adjustment is made to the carrying amount of the right-to-use asset.

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

	For the year ended	
	December 31, 2020	December 31, 2019
	($ thousands)	
Premises:		
Balance, beginning of year	$ 3,024	$ —
Adoption of IFRS 16	—	3,837
	3,024	3,837
Additions	55	—
Reductions - sublet and termination	(726)	—
Depreciation	(646)	(678)
Foreign exchange translation	(10)	(135)
Balance, end of year	$ 1,697	$ 3,024

The contractual undiscounted cash flows for the related lease obligations are disclosed in Note 16 - *Minimum payments*. The effective interest expense on these lease obligations for the year ended December 31, 2020 was $140,000 and is included in interest expense. Total outflow for leases was $711,000. Expenses for leases of low-dollar value items are not material. Pawnee's two options to extend the premises lease term for two additional periods of 60 month each are not reasonably certain to be exercised and have therefore been excluded from the measurement of lease obligations.

	For the year ended	
	December 31, 2020	December 31, 2019
	($ thousands)	
Premises Leases Payable		
Balance, beginning of year	$ 3,222	$ —
Adoption of IFRS 16	—	3,837
	3,222	3,837
Additions	55	—
Reduction - termination	(513)	—
Principal payments	(571)	(477)
Foreign exchange translation	(30)	(138)
Balance, end of year	$ 2,163	$ 3,222

8. PROPERTY AND EQUIPMENT

Description and accounting policy

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

	Furniture and equipment	Computer hardware	Total
Cost:			
December 31, 2018	$ 1,212	$ 2,206	$ 3,418
Additions	208	104	312
Disposals	(20)	(2)	(22)
Foreign exchange translation	(3)	1	(2)
December 31, 2019	1,397	2,309	3,706
Additions	162	718	880
Disposals	—	(17)	(17)
Foreign exchange translation	18	(14)	4
December 31, 2020	**$ 1,577**	**$ 2,996**	**$ 4,573**

	Furniture and equipment	Computer hardware	Total
Accumulated depreciation:			
December 31, 2018	$ 578	$ 1,212	$ 1,790
Depreciation	133	373	506
Disposals	(21)	(2)	(23)
Foreign exchange translation	4	2	6
December 31, 2019	694	1,585	2,279
Depreciation	157	414	571
Disposals	—	(17)	(17)
Foreign exchange translation	2	2	4
December 31, 2020	**$ 853**	**$ 1,984**	**$ 2,837**

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

9. INTANGIBLE ASSETS

Description and accounting policy

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

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

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

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

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

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

	Indefinite useful life	Finite useful life	
	Trade names	Broker relationships	Total
Cost:		($ thousands)	
December 31, 2018	$ 7,782	$ 19,517	$ 27,299
Foreign exchange translation	(353)	—	(353)
December 31, 2019	7,429	19,517	26,946
Foreign exchange translation	(138)	—	(138)
December 31, 2020	**$ 7,291**	**$ 19,517**	**$ 26,808**

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

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

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

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

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

10. GOODWILL

Description and accounting policy

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

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

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

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

Significant estimates

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

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

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

The impairment test is performed at the level of cash generating units (CGU) because none of the Company's non-financial assets generate independent cash inflows. The recoverable amounts of the Company's CGUs were determined based on their VIU. The calculation of VIU incorporated five years of cash flow estimates plus a terminal value and was based on the following key variables:

i) The five years of cash flow estimates were based on achieving key operating metrics and drivers based on management estimates, past history and the current economic outlook, and were approved by Chesswood management. The VIU for Pawnee and Blue Chip is most sensitive to assumptions of lease origination volumes and net charge-offs. The cash flow inputs used represent management's current best estimates and are consistent with changes seen in the finance receivable portfolio and with readily available external sources of information. Each of those variables will ultimately be determined by the duration of restrictions that are currently in place to contain the pandemic, the effects and ultimate success of which are inherently unknowable.

ii) A terminal value incorporated into the VIU calculation which was estimated by applying a 3.0% growth rate to the cash flow forecast for the fifth year. The growth rate reflects the historical average core inflation rate which does not exceed the long-term average growth rate for the industry. Management predicts that Blue Chip will revert to historical growth rates after the current restrictions are lifted and that the long-term growth rate for the industry will be unaffected.

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

The estimation of VIU is subject to considerable measurement uncertainty.

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

	Pawnee	Blue Chip	Total
Cost:		*($ thousands)*	
December 31, 2018	$ 49,480	$ 26,365	$ 75,845
Foreign exchange translation	(2,371)	—	(2,371)
December 31, 2019	$ 47,109	$ 26,365	$ 73,474
Foreign exchange translation	(929)	—	(929)
December 31, 2020	**$ 46,180**	**$ 26,365**	**$ 72,545**

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

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

Significant estimates

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

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

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

12. BORROWINGS

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

	Chesswood credit facility *(a)*	Chesswood deferred financing costs	Pawnee credit facilities *(b)*	Pawnee deferred financing costs	Blue Chip financing facilities *(c)*	Total
			($ thousands)			
Net as of December 31, 2018	$ 233,278	$ (1,707)	$ 228,249	$ (4,457)	$ 146,162	$ 601,525
Proceeds or draw-downs	245,187	—	416,027	—	68,099	729,313
Repayments	(278,890)	—	(233,730)	—	(74,909)	(587,529)
Payment of financing costs	—	(1,881)	—	(5,577)	—	(7,458)
Amortization of deferred financing costs	—	1,410	—	2,422	—	3,832
Foreign exchange translation	(10,470)	—	(14,803)	281	—	(24,992)
Net as of December 31, 2019	189,105	(2,178)	395,743	(7,331)	139,352	714,691
Proceeds or draw-downs	200,194	—	373,526	—	35,353	609,073
Repayments	(305,644)	—	(301,229)	—	(71,347)	(678,220)
Payment of financing costs	—	—	—	(3,645)	—	(3,645)
Amortization of deferred financing costs	—	1,050	—	3,342	—	4,392
Debt restructuring	—	—	—	2,491	—	2,491
Foreign exchange translation	1,642	—	(11,459)	11	—	(9,806)
Net as of December 31, 2020	**$ 85,297**	**$ (1,128)**	**$ 456,581**	**$ (5,132)**	**$ 103,358**	**$ 638,976**

(a) The Chesswood revolving credit facility allows borrowings of up to US$250.0 million, subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility includes a US$50 million accordion feature that can increase the overall revolver to US$300 million, is secured by substantially all of the Company's assets, contains covenants, including maintaining leverage and interest coverage ratios, and expires on December 8, 2022. At December 31, 2020, the Company was utilizing US$71.9 million (December 31, 2019 - US$156.1 million) of its credit facility and had approximately US$178.1 million in additional borrowings available under the corporate credit facility. Based on average debt levels, the effective interest rate during the year ended December 31, 2020 was 5.42% (year-ended December 31, 2019 - 5.49%). The Company paid $2.0 million in amendment fees specific to COVID-19 issues related to the revolving facility that is included in restructuring and transaction costs and other one-time COVID-19 related expenses. The Company was restricted from paying dividends and limited quarterly equipment financing originations during the period that the temporary COVID-19 related amendments were required.

(b) Pawnee credit facilities:
(i) Warehouse facility - Through its subsidiary Pawnee Portfolio Fund ("PPF"), Pawnee had a loan facility to fund its prime portfolio. During May 2020, the company elected to convert the facility from a US$250 million revolving facility to an amortizing facility, where collections were being used to repay the principal. The warehouse facility held Pawnee's prime receivables before they are securitized. This credit facility was secured by PPF's assets, contains covenants, including maintaining leverage and interest coverage ratios. Based on average debt levels, the effective interest rate during the year ended December 31, 2020 was 7.31% (year-ended December 31, 2019 - 6.16%) (including fees and upfront origination cost amortization). Pawnee was not utilizing this facility at December 31, 2019. On September 30, 2020, Pawnee paid off the remaining balance of this facility utilizing proceeds of the new asset-backed securitization and the facility was closed.
(ii) CapOne facilities - Pawnee had a combined US$125 million of non-recourse asset-backed facilities with Capital One (the "CapOne facilities"), through subsidiaries Pawnee Receivable Fund I and II LLC. The CapOne facilities at inception were secured by US$154.2 million in gross receivables from Pawnee's prime portfolio of equipment leases and loans and repayment terms were based on the cash flow of the underlying portfolio. The proceeds were used to pay down Chesswood's existing revolving credit facility. The facilities required Pawnee to mitigate its interest rate risk by entering into interest rate caps for a notional amount not less than 80% of the aggregate outstanding balance. Based on average debt levels, the effective interest rate during the year ended December 31, 2020 was 3.89% (2019 - 5.72%). On September 30, 2020, Pawnee paid off the remaining balance of the facilities utilizing proceeds of the new asset-backed securitization. At December 31, 2019, the balance was US$48.4 million.

(iii) LifeCo Facility - this facility, with a life insurance company ("LifeCo"), has an US$150 million annual capacity, that expires in October 2028. The funder makes approved advances to Pawnee on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. Pawnee maintains certain cash reserves as credit enhancements or provides letters of guarantee in lieu of cash reserves. Pawnee retains the servicing of these finance receivables. The balance of this facility at December 31, 2020 was US$45.1 million (December 31, 2019 - US$16.6 million). Based on average debt levels, the effective interest rate was 4.94% (including amortization of origination costs) (December 31, 2019 – 4.43%).
(iv) In October 2019, Pawnee completed a US$254 million asset-backed securitization which has fixed term and fixed interest rate, and is collateralized by receivables from Pawnee's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay down Pawnee's warehouse line and Chesswood's senior revolving credit facility. The balance of this facility at December 31, 2020 was US$150.0 million (December 31, 2019 - US$239.7 million). Based on average debt levels, the effective interest rate was 2.78% (including amortization of origination costs) (2019 – 2.77%).
(v) On September 30, 2020, Pawnee completed a US$183.5 million asset-backed securitization which has a fixed term and fixed interest rate, and is collateralized by receivables from Pawnee's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off Pawnee's warehouse line, and CapOne facilities, and pay down Chesswood's senior revolving credit facility. The balance of this facility at December 31, 2020 was US$163.5 million (December 31, 2019 - n/a). The effective interest rate was approximately 2.21% (including amortization of origination costs).

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

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

At December 31, 2020, Blue Chip had access to the following committed lines of funding: (i) $60.0 million annual limit from a life insurance company; (ii) $100.0 million rolling limit from a financial institution; and (iii) approved funding from another financial institution with no annual or rolling limit. As at December 31, 2020, Blue Chip had $103.4 million (December 31, 2019 - $139.4 million) in securitization and bulk lease financing facilities debt outstanding, was utilizing $65.1 million (December 31, 2019 - $74.2 million) of its available financing and had access to at least $124.9 million (December 31, 2019 - $115.8 million) of additional financing from the Funders.

Interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Based on average debt levels, the effective interest rate during the year ended December 31, 2020 was 3.58% (2019 - 3.61%). As at December 31, 2020, Blue Chip had provided $5.6 million in outstanding letters of guarantee through Chesswood's revolving credit facility in lieu of cash reserves. Blue Chip must meet certain financial covenants, including leverage ratio, interest coverage ratio, and tangible net worth covenants, to support these securitization and bulk lease financing facilities. As at December 31, 2020 and December 31, 2019, and throughout the periods presented, Blue Chip was compliant with all covenants, with certain covenants being waived or amended to accommodate COVID-19 circumstances.

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

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

13. CUSTOMER SECURITY DEPOSITS

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

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

14. INTEREST RATE DERIVATIVES

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

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

(a) Derivative swaps

The Company enters into interest rate swap agreements that provide for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. The interest rate swaps are intended to offset a portion of the variable interest rate risk on Chesswood's revolving credit facility (see Note 12(a) - *Borrowings*). At December 31, 2020, the fair value of the swaps was a liability of $340,000 (December 31, 2019 - $293,000).

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

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

(b) Derivative caps

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

Certain of Pawnee's former non-recourse asset-backed facilities (see Note 12(b)(*ii*) - *Borrowings*) required Pawnee to mitigate interest rate risk by entering into an interest rate cap for a notional amount of not less than 80% of the aggregate outstanding balance. The interest rate caps were tied to the repayment terms of the underlying finance receivables portfolio supporting the Pawnee facility, through the maturity date, with a floating index rate based on USD-LIBOR-BBA, but subject to a capped fixed rate of 2.25% and 2.75%. These interest rate caps were terminated when the facility was paid out during 2020. At December 31, 2019, the fair value of the interest rate caps was an asset of $3,200.

15. TAXES

Description and accounting policy

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

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

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

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

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

Significant estimates and judgments

The Company is subject to income tax laws in the various jurisdictions that it operates in and the complex tax laws are potentially subject to different interpretations by the Company and the relevant tax authority. Management's judgment is applied in interpreting the relevant tax laws and estimating the expected timing and the amount of the provision for current and deferred income taxes.

Determining the value of deferred tax assets recognized requires an estimate of the value of tax benefits that will eventually be realized by the Company which utilizes several assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

(a) Tax expense consists of the following:

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

(b) The table below shows the reconciliation between tax expense reported in the consolidated statements of income and the tax expense that would have resulted from applying the combined Canadian Federal and Ontario tax rate of 26.5% (2019 - 26.5%) to income before income taxes.

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

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

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

Reconciliation of net deferred tax liabilities:

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

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

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

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

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

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

The Company has not recognized deferred tax liabilities in respect of unremitted earnings in foreign subsidiaries, totaling $29.3 million (2019 - $76.4 million), as it is not considered probable that this temporary difference will reverse in the foreseeable future.

16. MINIMUM PAYMENTS

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

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

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

ii. Borrowings are described in Note 12 - *Borrowings*, and include fixed payments for Pawnee and Blue Chip's securitization facilities and Chesswood's corporate revolving credit facility which is a line-of-credit and, as such, the balance can fluctuate. The amount above includes fixed interest payments on Pawnee and Blue Chip's credit facilities and estimated interest payments on the Chesswood corporate credit facility, assuming the interest rate, debt balance and foreign exchange rate at December 31, 2020 remain the same until the expiry date of December 2022. The amount owing under Chesswood's corporate revolving credit facility is shown in year of maturity, all other expected borrowings payments are based on the underlying finance receivables supporting the borrowings.

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

iv. Please see Note 6(b) - *Finance Receivables* for the expected collections of finance receivables over the same time period. See Note 12(d) - *Borrowings* - for the amount of restricted cash in collections accounts that will be applied to debt in the following month.

The Company has no material liabilities that have not been recognized and presented on the statements of financial position, other than US$4.9 million in letters of guarantee. For contingent liabilities and other commitments, refer to Note 17 - *Contingent Liabilities and Other Financial Commitments*.

17. CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

Contingent liabilities

The Company is subject to various claims and legal actions in the normal course of its business, from various customers, suppliers and others. The individual value of each claim and the total value of all claims as at December 31, 2020 and 2019 were not material or possible outflows are considered remote.

Other financial commitments

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

18. CAPITAL MANAGEMENT

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

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

Chesswood's three-year revolving senior secured US$250 million credit facility and includes a US$50 million accordion feature supports growth in finance receivables, provides the Company's working capital needs and for general corporate purposes. The facility, available in U.S. or Canadian dollars, also improves the Company's financial flexibility by centralizing treasury management and making the provision of capital to individual businesses more efficient. This credit facility is secured by substantially all of the Company's assets, contains covenants including maintaining leverage and interest coverage ratios, and expires on December 8, 2022. At December 31, 2020 and December 31, 2019, and throughout the periods presented, the Company was compliant with all covenants, with certain covenants being waived or amended resulting from the onset of the COVID-19 pandemic. Financing facilities of operating subsidiaries are used to provide funding for the respective subsidiary's operations (namely to provide financing for the purchase of assets which are to be the subject of leases and loans or to support working capital). The financing facilities are not intended to directly fund dividends paid by the Company. The Company and its subsidiaries have finalized amendments to various facilities to better reflect COVID-19 related experiences and expectations.

19. COMMON SHARES

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

		Common shares		Amount
		(# '000s)		*($ thousands)*
Balance, December 31, 2018		16,229	$	103,576
Exercise of restricted share units		44		482
Exercise of options		53		403
Repurchase of common shares under issuer bid	*(a)*	(78)		(498)
Balance, December 31, 2019		16,248	$	103,963
Exercise of restricted share units		93		824
Repurchase of common shares under issuer bid	*(a)*	(86)		(551)
Balance, December 31, 2020		**16,255**	**$**	**104,236**

(a) Normal course issuer bids

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

In August 2019, the Company's Board of Directors approved the repurchase for cancellation of up to 1,031,791 of the Company's outstanding common shares for the period commencing August 26, 2019 and ending on August 25, 2020. From August 26, 2019 to August 25, 2020, no common shares were repurchased under this normal course issuer bid.

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

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

See Note 27 - *Subsequent Events*.

20. EXCHANGEABLE SECURITIES

As partial consideration for the acquisition of Pawnee in May 2006, 1,274,601 Class B shares and 203,936 Class C shares of U.S. Acquisitionco were issued ("Exchangeable Securities"). The Exchangeable Securities are non-voting shares of U.S. Acquisitionco and are fully exchangeable for Common Shares of the Company, on a one-for-one basis, for no additional consideration, through a series of steps and entitle the holders to receive the same dividends as the Common Shares. Attached to the Exchangeable Securities are Special Voting Units of the Company which provide the holders of the Exchangeable Securities voting equivalency to Company Shareholders. The Exchangeable Securities are reflected as non-controlling interest. Under IFRS 10, Consolidated Financial Statements, the Exchangeable Securities must be shown as non-controlling interest because they are equity in a subsidiary not attributable, directly or indirectly, to the parent even though they have no voting powers in the subsidiary. There are no restrictions to the Company's ability to access or use assets and settle liabilities of U.S. Acquisitionco as a result of the non-controlling interest. The non-controlling interest share of the Company's consolidated net assets and net income is presented on the consolidated financial statements. These non-voting shares represent 99.3% (2019 - 99.3%) of the outstanding shares of US Acquisitionco. Dividends paid to Exchangeable Securities holders during the year were $421,000 (2019 - $1.2 million).

21. COMPENSATION PLANS

Share-based compensation reserve represents the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised at December 31, 2020. There were 2,708,939 options and 57,000 restricted share units outstanding at December 31, 2020 (2019 - 2,553,939 and 44,000).

(a) Share options

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

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

	For the year ended December 31,	
	2020	2019
Balance, beginning of year	**2,553,939**	2,384,354
Granted	**175,000**	222,500
Exercised	**—**	(52,915)
Forfeited	**(20,000)**	—
Balance, end of year	**2,708,939**	2,553,939

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

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

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

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

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

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

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

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

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

(b) Restricted share units

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

A summary of the RSUs outstanding is as follows:

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

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

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

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

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

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

22. DIVIDENDS

Under the Chesswood revolving credit facility (see Note 12(a) - *Borrowings*), the maximum amount of cash dividends (and/or cost of any repurchases under normal course issuer bids) that the Company can pay in respect of a month is 1/12 of 90% of Free Cash Flow for the most recently completed four financial quarters in which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is defined in the MD&A. On May 19, 2020, the Company announced a temporary suspension of dividends due to COVID-19 uncertainties (and subsequently, in accordance with the terms of a COVID-19 related temporary amendment of the Company's revolving credit facility). On November 12, 2020, the Company announced the resumption of monthly dividends of $0.02 per common share starting with the dividend for November (paid on December 15, 2020).

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

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

The following dividend was declared but not paid to Common Shareholders and Exchangeable Securities holders during the year-ended December 31, 2020 and was included in accounts payable and other liabilities (Note 11 - *Accounts payable and other liabilities*):

Record date	Payment date	Cash dividend per share ($)	Total dividend amount
			($ thousands)
December 31, 2020	January 15, 2021	$ 0.020	$ 355

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

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

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

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

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

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

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

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

23. EARNINGS PER SHARE

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

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

	For the year ended December 31, 2020	2019
Weighted average number of common shares outstanding	**16,269,894**	16,235,041
Dilutive effect of options	**6,651**	224,428
Dilutive effect of restricted share units	**26,883**	35,441
Weighted average common shares outstanding for diluted earnings per share	**16,303,428**	16,494,910
Options excluded from calculation of diluted shares for the period due to their anti-dilutive effect	**2,538,939**	1,300,000

24. RELATED PARTY TRANSACTIONS

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

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

25. CASH FLOW SUPPLEMENTARY DISCLOSURE

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

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

26. SEGMENT INFORMATION

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

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

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

($ thousands)	Year ended December 31, 2020 Equipment Financing - U.S.	Equipment Financing - Canada	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	$ 91,481	$ 11,415	$ —	$ 102,896
Ancillary finance and other fee income	10,338	3,794	28	14,160
Interest expense	(24,303)	(4,218)	—	(28,521)
Provision for credit losses	(21,890)	(3,754)	—	(25,644)
Finance margin	**55,626**	**7,237**	**28**	**62,891**
Personnel expenses	15,011	2,705	1,487	19,203
Share-based compensation expense	120	14	786	920
Other expenses	15,524	1,551	1,543	18,618
Depreciation	1,035	140	41	1,216
Amortization - intangible assets	—	1,333	—	1,333
Operating income	**23,936**	**1,494**	**(3,829)**	**21,601**
Restructuring costs	(2,491)	—	(6,759)	(9,250)
Goodwill and intangible asset impairment	—	(20,828)	—	(20,828)
Fair value adjustments - investments	—	—	483	483
Unrealized loss on interest rate derivatives	(61)	—	(57)	(118)
Unrealized loss on foreign exchange	—	—	(6)	(6)
Income (loss) before taxes	**21,384**	**(19,334)**	**(10,168)**	**(8,118)**
Tax expense	2,105	(864)	(834)	407
Net income (loss)	**$ 19,279**	**$ (18,470)**	**$ (9,334)**	**$ (8,525)**
Net cash from operating activities	$ 47,914	$ 37,148	$ (5,182)	$ 79,880
Net cash used in investing activities	$ (880)	$ —	$ —	$ (880)
Net cash used in financing activities	$ 68,121	$ (36,174)	$ (112,174)	$ (80,227)
Total assets	$ 678,837	$ 146,237	$ 2,362	$ 827,436
Total liabilities	$ 490,274	$ 109,573	$ 86,773	$ 686,620
Finance receivables	$ 612,487	$ 128,391	$ —	$ 740,878
Goodwill and intangible assets	$ 20,569	$ 14,270	$ —	$ 34,839
Property and equipment expenditures	$ 880	$ —	$ —	$ 880

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

27. SUBSEQUENT EVENTS

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

Chesswood Group Limited

DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors

Edward Sonshine
Director, Chairman, Chesswood Group Limited

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

Robert Day
Director
Former Chairman, Pawnee Leasing Corporation

Jeff Fields
Director, Chesswood Group Limited

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

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

Frederick W. Steiner
Director, Chesswood Group Limited

Executive Team

Ryan Marr
President & C.E.O.

Lisa Stevenson
Chief Financial Officer

Other Information

Auditors
BDO Canada LLP

Transfer Agent
TSX Trust Company

Corporate Counsel
McCarthy Tétrault LLP

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