

CHESSWOOD GROUP LIMITED

**FIRST QUARTER REPORT
FOR THE THREE MONTHS ENDED**

MARCH 31, 2021



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

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

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

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

TO OUR SHAREHOLDERS

For the first quarter of 2021 we continued to see business momentum at Chesswood Group. Following the events of 2020, business lending has re-emerged strong both in terms of loan demand as well as quality. Originations for Q1 grew consecutively month over month, reaching \$130 million in total for the quarter and continuing to grow as we move into Q2. Based on this early trend, we are confident that our team can achieve the goal of \$650 million for the year.

Total revenue for the quarter increased sequentially reflecting net growth in our loan portfolio balance during this period. Chesswood's revenues are driven by average loan balances in each period, creating a lag effect from one quarter's origination to the next. As we continue to progress throughout the year, we expect revenues to follow the growth in our equipment lease and loan portfolio.

Average portfolio yield for the period was 11.9%, which reflects the continued growth in our prime portfolio over our non-prime portfolio. Prime leases have a lower overall yield than our non-prime portfolio but also have lower loss rates. This improvement in portfolio quality is evident in our low net charge-off rate for the period of 0.6%. Annualized this result reflects a 2.5% loss rate which is lower than we have seen at any time in the past three years. We are encouraged by this result and believe we will see this strong performance continue throughout 2021 (consistent with previous cycles).

Our cost of funds declined to 3.5% reflecting the improving mix of prime loans, the changes made to our funding structure in 2020 and a general decline in North American interest rates. We are always looking for ways to improve our funding structure, seeking out the lowest cost and most flexible funding conduits to aid our growth and compete in the marketplace. We continue to see opportunities to improve this aspect of our business both for our prime and non-prime portfolios.

Operating costs held steady both sequentially and year over year. We should continue to see improved operating leverage throughout the year as we better utilize our infrastructure to support our large origination pipeline. As a result, earnings and free cash flow were strong for the quarter.

Subsequent to our quarter end, we announced and completed the merger of our Canadian business entity, Blue Chip Leasing, with its primary competitor in Canada, Vault Credit Corporation. The transaction will close in the second quarter and brings significant scale to our Canadian operations. We look forward to providing updates and additional information on this transaction in our Q2 report.

To summarize, Chesswood has begun the year on strong footing. We see this momentum continuing throughout the year and look forward to sharing our Q2 results.

Ryan Marr,
President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (this "MD&A") is provided to enable readers to assess the financial condition and results of operations of Chesswood Group Limited ("Chesswood" or the "Company") as at and for the three months ended March 31, 2021. This discussion should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes of the Company as at and for the three months ended March 31, 2021, and the audited consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2020. Unless otherwise indicated, all financial information in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), and all amounts are expressed in Canadian dollars, unless specifically noted otherwise. This MD&A is dated May 6, 2021.

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

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FORWARD-LOOKING STATEMENTS

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

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

The Company cautions readers against placing undue reliance on forward-looking statements when making decisions, as actual results could differ considerably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various factors. Among others, these factors include: continuing access to required financing; continuing access to products that allow the Company and its subsidiaries to hedge exposure to changes in interest rates; risks of increasing default rates on leases, loans and advances; the adequacy of the Company's provisions for credit losses; increasing competition (including, without limitation, more aggressive risk pricing by competitors); increased governmental regulation of the rates and methods we use in financing and collecting on our equipment leases or loans; dependence on key personnel; disruption of business models due to the emergence of new technologies; fluctuations in the Canadian dollar and U.S. dollar exchange rate; the successful integration of the recently merged Blue Chip Leasing and Vault Credit Corporation; and general economic and business conditions (including the continuing effect of the COVID-19 pandemic). The Company further cautions that the foregoing list of factors is not exhaustive.

For more information on the risks, uncertainties and assumptions that would cause the Company's actual results to differ from current expectations, please also refer to "Risk Factors" in this MD&A and in the Company's Annual Information Form, as well as to other public filings of the Company available at www.sedar.com.

The Company does not undertake to update any forward-looking statements, whether oral or written, made by itself or on its behalf, except to the extent required by securities regulation.

NON-GAAP MEASURES

This MD&A makes reference to certain non- Generally Accepted Accounting Principles ("GAAP") measures as supplementary information and to assist in assessing the Company's financial performance.

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

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

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

"Adjusted Operating Income" is Operating Income (Loss), as presented in the consolidated statements of income, adjusted to exclude amortization of intangible assets and the change in allowance for credit losses ("ACL"). Adjusted Operating Income is intended to reflect the recurring income from the Company's businesses. Amortization of intangible assets, which includes the expense related to broker relationships and non-compete clauses, is a function of acquisitions. The cost of maintaining the broker relationships subsequent to acquisition, being internally generated intangible assets, cannot be measured and is therefore not recognized as an asset, meaning that once these acquisition-related intangibles have been fully amortized they are not replenished and the amortization expense will cease. The change in the ACL can be calculated from continuity of the ACL in Note 5(c) - *Finance Receivables* as the difference between the provision for credit losses and the net charge-offs during a period. The change in ACL is a non-cash item and reflects our creditor approved formulas for Adjusted EBITDA and Free Cash Flow that drives our Maximum Permitted Dividends, both relevant measures for users of the Company's financial reporting.

"Free Cash Flow" or "FCF" is defined as Adjusted EBITDA less maintenance capital expenditures, tax effect of the non-cash change in the allowance for credit losses and tax expense. Cash receives significant attention from primary users of financial reporting. The IFRS measures on the statement of cash flows and income measures do not provide primary users with the equivalent information related to cash. Free Cash Flow provides an indication of the cash the Company generates which is available for servicing and repaying debt, investing for future growth and providing dividends to our shareholders. The FCF measure provides information relevant to assessing the resilience of the Company to shocks and the ability to act on opportunities. Free Cash Flow is a calculation that reflects the agreement with one of the Company's significant lenders as to a measure of the cash flow produced by the Company's businesses in a period. It is also management's concurrent view that the measure significantly reduces the impact of large non-cash charges and/or recoveries that do not reflect actual cash flows of the businesses, and can vary greatly in amounts from period to period. See Adjusted EBITDA, Free Cash Flow, Maximum Permitted Dividend section of this MD&A for a reconciliation of Free Cash Flow to Net Income (Loss).

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

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

COMPANY OVERVIEW

Chesswood is North America's only public company focused on commercial equipment finance for small and medium-sized businesses. As at March 31, 2021, its operations consisted of three wholly-owned subsidiaries:

- Pawnee Leasing Corporation ("Pawnee"), which finances micro and small-ticket commercial equipment for small and medium-sized businesses in the U.S. through the third-party broker channel;
- Tandem Finance Inc. ("Tandem"), which sources micro and small-ticket commercial equipment originations through the equipment vendor channel in the U.S.; and
- Blue Chip Leasing Corporation ("Blue Chip"), which provides commercial equipment financing to small and medium-sized businesses across Canada.

On a consolidated basis, at March 31, 2021, the Company had 156 employees (144 employees at December 31, 2020).

As described below (see "Blue Chip" below), on April 30, 2021 Blue Chip was merged with Vault Credit Corporation ("Vault Credit").

PAWNEE

The Company's largest operations are conducted by Pawnee, which accounted for 88.0% of consolidated revenue in the three months ended March 31, 2021. As of March 31, 2021, Pawnee employed 104 full-time equivalent employees (95 employees at December 31, 2020).

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

Established in Fort Collins, Colorado in 1982, Pawnee specializes in providing equipment financing of up to US\$350,000 to small and medium-sized businesses in the U.S., with a wide range of credit profiles from start-up entrepreneurs to more established businesses, in prime and non-prime market segments, through a network of approximately 600 independent equipment finance broker firms (also referred to as the "third-party market" or "third-party channel").

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

Pawnee defines “start-up” businesses as those with less than two years of operating history. Start-up businesses do not fall into traditional credit categories because of their lack of business credit history. “B” credit businesses are those with two or more years of operating history that have some unique aspect to their overall credit profile such that they are not afforded an “A” rated credit score, and/or that the business owner(s) do not have an “A” rated personal or business/commercial credit history. “C” rated businesses have a credit profile that is weaker than “B” credit businesses. Pawnee limits the transaction size for non-prime businesses as one measure of risk mitigation.

These non-prime market niches are not usually served by most conventional financing sources, as they have a generally higher risk profile. To manage the incremental risk associated with financing businesses in these niches, Pawnee’s management has built a stringent operating model that has historically enabled Pawnee to achieve higher net margins than many typical finance companies.

In September 2008, prior to the financial crisis, Pawnee offered equipment financing only to “Core” (start up and “C” markets) and some “B” business. In pursuit of strategic growth, Pawnee leveraged its existing sales channel of equipment finance brokers by expanding its range of products to include the full B credit market. This market consisted of higher quality credits than Pawnee’s historical market segment and is also a significantly larger segment. This was the first meaningful expansion from Pawnee’s “Core” suite of products.

Beginning in 2015, Pawnee expanded its product line once more, by entering the prime or “A”-rated equipment finance market. The prime market segment encompasses the vast majority of the small-ticket equipment finance market and is much larger than the “B” and “Core” (“C” rated and start-up) markets. Prime leases and loans are generally made to well-established businesses who have “A” rated personal and/or commercial credit profiles; these transactions are considered to have the lowest risk of default. To date, Pawnee’s portfolio experience has been excellent.

Pawnee’s brokers predominantly originate prime equipment finance transactions versus “B” and “Core” rated customers. As a result of its longevity and tenured broker relationships, Pawnee has been able to garner a significant portion of its brokers prime credit originations in a short amount of time. Pawnee’s reliability, ease of service, focus on the broker-channel business and offering competitive products has made Pawnee a top tier funding partner to its brokers relative to its competitors for prime originations. More recently, given the sheer market opportunity, prime originations represent greater than 75% of new originations and these volumes are expected to continue to grow as Pawnee’s prime credit products further penetrate Pawnee’s broad broker network. Pawnee offers equipment financing to “B” and “Core” customers up to US\$75,000 and up to US\$350,000 in prime, and it may from time to time and more regularly in the future finance equipment costing up to US\$500,000 in the prime market.

TANDEM

In early 2019, the Company launched Tandem as a strategic long-term investment. Tandem offers equipment financing for small and medium-sized businesses of all credit profiles through equipment vendors and distributors in the U.S. (the “vendor market” or “vendor channel”). Tandem had 25 employees at March 31, 2021 (17 employees at December 31, 2020). Tandem is supported by Pawnee’s credit, documentation, collection and administrative departments which provides “back-office” support to Tandem. Annual originations in the vendor small-ticket market are estimated to be five times larger than the third-party small-ticket market served by Pawnee. While the vendor channel has a longer sales cycle than the third-party channel, equipment vendors and distributors generally form long-term partnerships with funders which can result in programs that generate originations and revenues over many years.

FOR THE THREE MONTHS ENDED MARCH 31, 2021

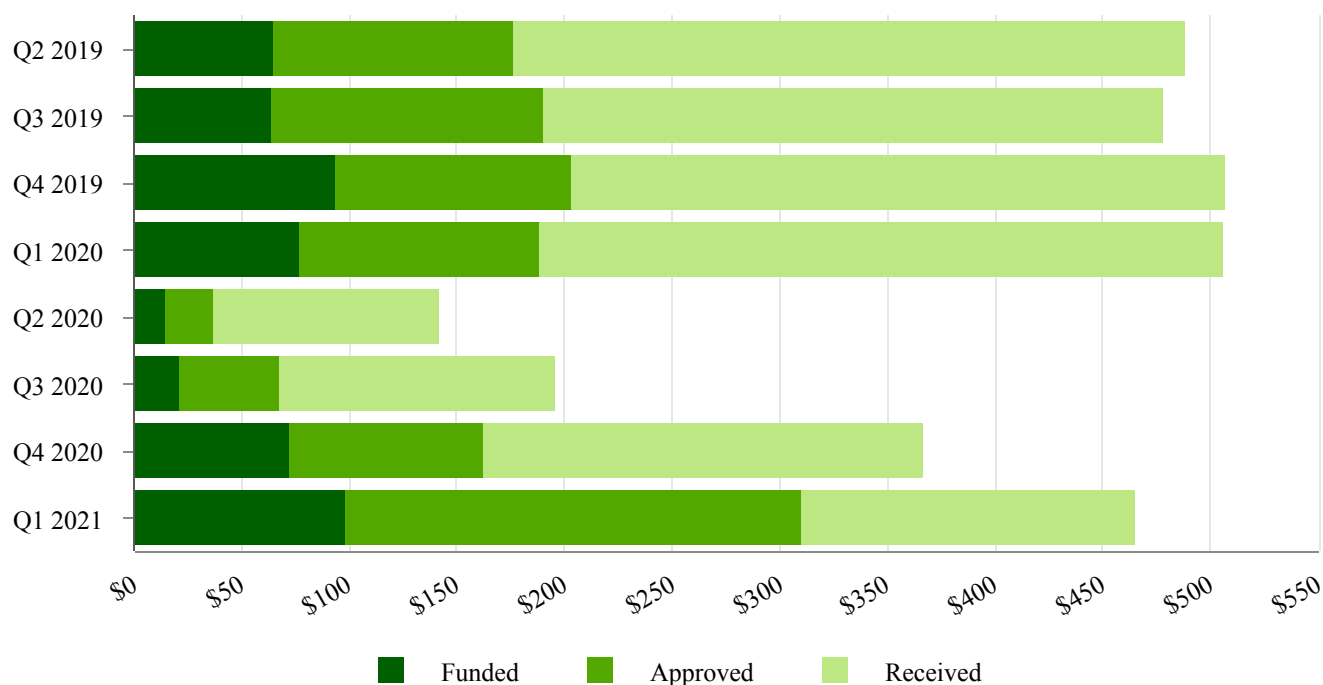
U.S. Equipment Finance Receivable Portfolio Statistics (Pawnee & Tandem)
(in US\$ thousands except # of leases/loans and %'s)

	June 30 2019	Sep 30 2019	Dec 31 2019	Mar 31 2020	June 30 2020	Sep 30 2020	Dec 31 2020	Mar 31 2021
Number of leases and loans outstanding (#)	18,698	18,879	19,416	19,730	18,184	17,104	17,211	17,870
Gross lease and loan receivable ("GLR") ⁽¹⁾⁽⁵⁾	\$561,452	\$580,808	\$632,240	\$658,562	\$606,309	\$556,456	\$574,991	\$632,262
Residual receivable	\$20,281	\$20,752	\$21,242	\$21,061	\$19,303	\$17,883	\$17,428	\$17,268
Net investment in leases and loans receivable ("NFR") ⁽⁶⁾ , before allowance	\$467,056	\$486,397	\$531,860	\$557,064	\$518,544	\$479,908	\$497,982	\$547,204
Security deposits ("SD") (nominal value) ⁽⁴⁾	\$11,812	\$10,946	\$9,955	\$9,123	\$8,009	\$6,986	\$5,965	\$5,323
Allowance for credit losses ("ACL")	\$17,528	\$18,706	\$21,507	\$32,464	\$28,146	\$19,259	\$16,552	\$13,499
ACL as % of NFR net of SD	3.85%	3.93%	4.12%	5.92%	5.51%	4.07%	3.36%	2.49%
Over 31 days delinquency (% of GLR) ⁽²⁾	2.12%	2.25%	2.38%	2.61%	1.60%	1.91%	1.85%	1.07%
Net charge-offs for the three months ended ⁽³⁾	\$3,947	\$4,328	\$5,453	\$5,800	\$6,975	\$3,762	\$4,150	\$3,774
Provision for credit losses for the three months ended	\$4,380	\$5,479	\$8,508	\$17,069	\$2,784	\$(5,044)	\$1,508	\$761

Notes:

- (1) Excludes residual receivable.
- (2) Over 31-days delinquency includes non-accrual gross lease and loan receivables.
- (3) Excludes the "charge-offs" of interest revenue on finance leases and loans on non-accrual leases recognized under IFRS.
- (4) Excludes adjustment for discounting security deposits and increasing unearned income for interest savings on security deposits.
- (5) At March 31, 2021, approximately 69% of U.S. gross finance receivables (excluding residuals) were in the prime market segment.
- (6) Net Finance Receivable ("NFR")

As at March 31, 2021, the percentage of contract modified for COVID was 2% (1.9% of NIL)

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


“Received” reflects all applications for equipment financing received by Pawnee and Tandem, “Approved” are those received applications that receive an approval by Pawnee and Tandem’s credit department and “Funded” refers to previously approved applications that become actual lease or loan transactions through Pawnee’s financing of the customers’ equipment purchase or lease. Management regularly reviews lease and loan application, approval and origination volumes for trends that may indicate changes in the economic or competitive landscape and that may necessitate adjustments in its approach to doing business in its market segments. Management reviews application approval data to analyze and predict shifts in the credit quality of applicants. Pawnee and Tandem refer to total originations Funded, as a percentage of leases and loans Approved, as the “closing ratio”.

BLUE CHIP

Chesswood’s Canadian operations have been conducted by Blue Chip, a specialist in micro and small-ticket equipment finance for small and medium-sized businesses since 1996. Located in Toronto, Blue Chip provides equipment financing across Canada, primarily through a nationwide network of more than 50 independent equipment finance broker firms. Blue Chip accounted for 12.0% of consolidated revenue in the three months ended March 31, 2021. Blue Chip’s portfolio risk is mitigated by its diversification across geographies, industries, equipment types, equipment cost and credit classes. Blue Chip had 22 full-time equivalent employees at March 31, 2021 (27 employees at December 31, 2020).

As at March 31, 2021, the percentage of contract modified for COVID was 0.3% (0.4% of NIL)

FOR THE THREE MONTHS ENDED MARCH 31, 2021

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

	June 30 2019	Sep 30 2019	Dec 31 2019	Mar 31 2020	June 30 2020	Sep 30 2020	Dec 31 2020	Mar 31 2021
Number of leases and loans outstanding (#)	13,896	13,525	13,171	12,793	12,000	11,345	10,561	9,759
Gross lease and loan receivable ("GLR")	\$191,111	\$184,938	\$177,402	\$169,335	\$154,640	\$143,501	\$134,999	\$120,867
Net investment in leases and loans receivable ("NFR"), before allowance	\$169,928	\$164,605	\$158,166	\$151,307	\$138,812	\$128,846	\$121,085	\$108,591
Allowance for credit losses ("ACL")	\$2,464	\$2,551	\$2,372	\$2,950	\$3,331	\$3,672	\$3,289	\$2,715
ACL as % of NFR	1.45%	1.55%	1.50%	1.95%	2.40%	2.85%	2.72%	2.50%
Over 31 days delinquency (% of NFR)	0.30%	0.45%	0.47%	0.63%	0.54%	1.22%	0.73%	0.63%

Merger of Blue Chip and Vault Credit – on April 30, 2021 Blue Chip was merged with Vault Credit. Each of Blue Chip and Vault Credit is now wholly-owned by CHW/Vault Holdco Corp, a newly created corporation in which Chesswood has a 51% ownership interest.

Chesswood exercises control of Blue Chip and Vault Credit through the ability to control decision of the board of directors of CHW/Vault Holdco Corp related to those activities that are most relevant to determining returns. The change of ownership interest in Blue Chip as a result of the merger was a common control reorganization that will be accounted for at consolidated book values.

The acquisition of Vault Credit is expected to increase the Company's receivables portfolio in Canada by approximately \$158 million (based on contractual receivable amounts as of April 30, 2021) and will enable the Company's continued expansion of the Canadian equipment financing operation by removing a competitor and through the use of Vault Credit's proprietary technology. Going forward, Vault Credit will be included in the Canadian Equipment Financing segment.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

U.S. dollar results for the three months ended March 31, 2021 were converted at an exchange rate of 1.2660, which was the average exchange rate for the period (2020 - 1.3449).

The Company reported consolidated net income of \$6.3 million in the three months ended March 31, 2021 compared to net loss of \$(19.8) million in the same period in 2020, an increase of \$26.1 million. Operating income increased \$18.7 million, while the changes in net unrealized fair value adjustments and other items increased net income by \$12.8 million compared to 2020. Offsetting these increases in net income was the increase in tax expense of \$5.4 million in the three months ended March 31, 2021 compared to the same period in the prior year. A significant contributor to the loss in the first quarter of 2020 was the goodwill impairment charge of \$11.9 million taken at Blue Chip.

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

FOR THE THREE MONTHS ENDED MARCH 31, 2021

Average FX rate	1.2660		1.3449		
	Three months ended March 31,				
(\$ thousands)	2021		2020		Change
Revenue	\$	26,309	\$	33,313	\$ (7,004)
Interest expense		(5,895)		(8,063)	2,168
Net charge-offs		(4,899)		(8,888)	3,989
		15,515		16,362	(847)
<u>Expenses:</u>					
Personnel		(5,699)		(5,380)	(319)
Other expenses		(4,805)		(4,902)	97
Depreciation		(238)		(300)	62
Adjusted Operating Income ⁽¹⁾		4,773		5,780	(1,007)
Change in allowance for credit losses ("ACL") - (increase)		4,439		(15,315)	19,754
Amortization - intangible assets		(333)		(333)	—
Operating Income		8,879		(9,868)	18,747
M2M interest rate derivatives		126		(598)	724
Goodwill and intangible asset impairment		—		(11,868)	11,868
Other non-cash FMV charges and unrealized FX		(26)		(193)	167
Income (Loss) before taxes	\$	8,979	\$	(22,527)	\$ 31,506
Free Cash Flow⁽¹⁾	\$	3,756	\$	4,243	\$ (487)

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

By segment, the U.S. equipment finance segment's interest revenue on leases and loans totaled \$20.6 million, a decrease of \$5.6 million year-over-year, as a result of the 5.9% decrease in foreign exchange period over period, a 2% decrease in average annualized interest revenue yield during the period, as well as a US\$9.9 million decrease in the average portfolio size compared to the same period in 2020. The average annualized interest revenue yield earned on U.S. based net finance receivables was 11.9% in the three months ended March 31, 2021 compared to 14.3% in the same period in prior year, reflecting an increase in the overall percentage of lower yield prime receivables. The US\$9.9 million decrease in the average portfolio size year-over-year is the result of lower originations in Q2 and Q3 2020 due to COVID-19, offset by continuous growing originations since the last quarter of 2020, with Q1 2021 portfolio size being \$49.2 million higher than Q4 2020.

The U.S. non-prime portfolio continued to generate strong risk-adjusted returns and profitability, with limited or no growth, while the continued expansion of the prime portfolio exerted its influence on the over all weighted-average portfolio yield in the U.S. Ancillary finance and other fee income decreased by \$0.4 million period over period mainly due to the decrease in average foreign exchange (approximately \$0.2 million) for the period and fewer new leases processed compared to the same period in 2020.

The U.S. segment's interest expense decreased by \$1.6 million compared to the same period in the prior year. The decrease in interest expense is driven primarily by decrease in average foreign exchange for the period (approximately \$0.5 million), average debt outstanding throughout the period (30% less compared to the same period in 2020), partially offset by slightly higher cost of fund facilities of 0.7% in the three months ended March 31, 2021 compared to the same period in the prior year.

The U.S. segment's provision for credit losses decreased by \$22.0 million in the three months ended March 31, 2021 compared to the same period in the prior year as a result of a \$1.8 million decrease in foreign exchange, US\$18.9 million decrease in the ACL due to smaller and better performing portfolio, and an decrease in actual net charge-offs. In the three months ended

March 31, 2021, Pawnee's actual net charge-offs were 2.4% of average finance receivables (before ACL) compared to 4.4% in the same period in the prior year.

Pawnee's 31 days past due delinquency at March 31, 2021 decreased by 1.54% year over year (compared to a year over year increase of 0.48% in 2020), which contributed to the decrease in the ACL at March 31, 2021. The U.S. segment's ACL was determined as of March 31, 2021 based on forecasts and other information available at that date. Forecasts around the impact of COVID-19 on the economy and on our business, and the timing of a full recovery, continue to evolve, which may add volatility to the provision for credit losses in future quarters.

Pawnee and Tandem's personnel expenses increased by 336,000 year-over-year primarily due to having, on average, 8 more staff during the three months ended March 31, 2021 compared to the same period in the prior year. The operating income from U.S. operations increased by \$17.4 million quarter over quarter mainly due to lower provision for credit losses partially offset by lower interest revenue and strengthening of Canadian dollar.

Blue Chip generated revenue of \$3.2 million during the three months ended March 31, 2021 compared to \$4.2 million in the same period in the prior year, a decrease of \$1.0 million, or 24%. Blue Chip's average net investment in finance receivables decreased approximately \$42.7 million in the three months ended March 31, 2021 compared to the same period in the prior year due to a contraction of the portfolio. The decrease in finance receivables outstanding year-over-year is due to competitive market conditions, decreased demand during COVID-19, and stringent COVID-19 underwriting standards. In the three months ended March 31, 2021, the average annualized yield of 11.64% earned on Blue Chip's net finance receivables has increased from 11.01% in the same period in 2020. Blue Chip's interest expense decreased due to lower average debt outstanding by approximately \$49.2 million and a 0.3% decrease in the cost of funds compared to the same period in the prior year.

Blue Chip's provision for credit loss decreased by \$1.8 million in the three months ended March 31, 2021 compared to the same period in the prior year, with \$380,000 of this decrease relating to the decrease in the ACL and \$1.4 million relating to the decrease in actual net charge-offs. As a percentage of average net finance receivables (before ACL), the provision for credit loss was 1.86% for the three months ended March 31, 2021, down from 3.29% in the same period in 2020. Blue Chip's operating income totaled \$1.6 million in the three months ended March 31, 2021, compared to \$0.1 million in the same period in the prior year, an increase of \$1.5 million, primarily due to the decrease in provision for credit loss and interest expense, partially offset by the decrease in revenue resulting from the decline in the average net investment in finance receivables.

The provision for taxes for the three months ended March 31, 2021 was \$2.7 million, compared to \$2.7 million recovery in the same period in the prior year. The change is driven by the improvement in the results of operations. The effective tax rate differs from the Canadian statutory tax rate due to withholding taxes and permanent differences between accounting and taxable income, which include share-based compensation expense.

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

Management believes that its measurement of Free Cash Flow (in the table below) is a meaningful measure of the overall performance of the Company's businesses. Free Cash Flow is a calculation that reflects the agreement with one of the significant lenders as to a measure of the cash flow produced by the businesses in a period, as well as management's concurrent view that the measure eliminates often significant non-cash charges and/or recoveries that do not reflect actual cash flows of the businesses, and can vary greatly in amounts from period to period.

FOR THE THREE MONTHS ENDED MARCH 31, 2021

For the quarter-ended (\$ thousands)	2019			2020				2021
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net income (loss)	\$ 3,894	\$ 2,977	\$ 2,749	\$(19,827)	\$ 1,407	\$ 9,804	\$ 91	\$ 6,313
Interest expense	8,536	8,676	8,194	8,063	7,374	7,084	6,000	5,895
Provision for (recovery of) taxes	1,767	1,521	380	(2,700)	753	3,877	(1,523)	2,666
Goodwill and intangible asset impairment	—	—	—	11,868	—	—	8,960	—
Amortization and depreciation	633	632	631	633	656	628	632	571
EBITDA ⁽¹⁾	14,830	13,806	11,954	(1,963)	10,190	21,393	14,160	15,445
Interest expense	(8,536)	(8,676)	(8,194)	(8,063)	(7,374)	(7,084)	(6,000)	(5,895)
Non-cash change in finance receivables allowance for credit losses ⁽⁴⁾	615	1,601	3,532	15,315	(5,293)	(11,765)	(3,986)	(4,439)
Share-based compensation expense	111	172	187	186	148	32	554	255
Restructuring and transaction costs	—	—	—	—	5,776	3,474	—	—
Unrealized loss (gain) on investments	(121)	61	—	121	—	(544)	(60)	—
Foreign exchange unrealized loss (gain)	63	75	(267)	72	(19)	51	(98)	26
Unrealized loss (gain) – interest rate derivatives	626	82	(102)	598	(133)	(214)	(133)	(126)
Adjusted EBITDA ⁽¹⁾⁽⁴⁾	7,588	7,121	7,110	6,266	3,295	5,343	4,437	5,266
Maintenance capital expenditures	(212)	(28)	—	(575)	(156)	(56)	(93)	(40)
Tax impact of change in allowance for credit losses ⁽⁴⁾	(207)	(432)	(744)	(4,148)	1,447	3,181	1,072	1,196
Provision for taxes	(1,767)	(1,521)	(380)	2,700	(753)	(3,877)	1,523	(2,666)
Free Cash Flow ⁽¹⁾⁽⁴⁾	\$ 5,402	\$ 5,140	\$ 5,986	\$ 4,243	\$ 3,833	\$ 4,591	\$ 6,939	\$ 3,756
FCF L4PQ divided by 4 ⁽¹⁾⁽³⁾	\$ 6,389	\$ 6,204	\$ 5,915	\$ 5,745	\$ 5,326	\$ 4,932	\$ 4,709	\$ 4,743
Maximum Permitted Dividends ⁽¹⁾⁽³⁾	\$ 5,751	\$ 5,584	\$ 5,324	\$ 5,170	\$ 4,793	\$ 4,438	\$ 4,238	\$ 4,268
Dividends declared ⁽²⁾	\$ 3,724	\$ 3,723	\$ 3,723	\$ 3,723	\$ 620	\$ 0	\$ 710	\$ 1,055

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

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

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

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

On November 12, 2020, the Company announced the resumption of a monthly dividend of \$0.02 per common share effective for November (paid in December 2020). See 'Liquidity and Capital Resources - Dividends to Shareholders' below.

FOR THE THREE MONTHS ENDED MARCH 31, 2021

SELECTED FINANCIAL INFORMATION

As at and for the quarter-ended (\$ thousands, except per share figures)	2019			2020				2021
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Revenue	\$ 31,586	\$ 31,781	\$ 32,851	\$ 33,313	\$ 30,011	\$ 27,337	\$ 26,395	\$ 26,309
Finance margin before expenses	16,797	15,237	12,906	1,047	\$ 17,249	\$ 26,139	18,456	19,954
Operating income	6,229	4,716	2,760	(9,868)	\$ 7,784	\$ 16,448	7,237	8,879
Income (loss) before tax ⁽⁵⁾	5,661	4,498	3,129	(22,527)	\$ 2,160	\$ 13,681	(1,432)	8,979
Provision for taxes (recovery)	1,767	1,521	380	(2,700)	\$ 753	\$ 3,877	(1,523)	2,666
Net income (loss)	\$ 3,894	\$ 2,977	\$ 2,749	\$ (19,827)	\$ 1,407	\$ 9,804	\$ 0.091	\$ 6,313
Basic earnings (loss) per share ⁽²⁾	\$0.22	\$0.17	\$0.16	(\$1.12)	\$0.08	\$0.55	\$0.01	\$0.36
Diluted earnings (loss) per share ⁽²⁾	\$0.22	\$0.16	\$0.16	(\$1.10)	\$0.06	\$0.56	\$0.00	\$0.35
Total assets	\$ 855,121	\$ 873,610	\$ 926,917	\$ 1,011,698	\$ 907,987	\$ 844,920	\$ 827,436	\$ 868,715
Long-term liabilities	\$ 683,204	\$ 699,926	\$ 753,399	\$ 852,448	\$ 749,765	\$ 681,167	\$ 668,749	\$ 707,962
<u>Other Data</u>								
Adjusted EBITDA ⁽¹⁾	\$ 7,588	\$ 7,121	\$ 7,110	\$ 6,266	\$ 3,295	\$ 5,343	\$ 4,437	\$ 5,266
Free Cash Flow ⁽¹⁾	\$ 5,402	\$ 5,140	\$ 5,986	\$ 4,243	\$ 3,833	\$ 4,591	\$ 6,939	\$ 3,756
Dividends declared ⁽³⁾	\$ 3,724	\$ 3,723	\$ 3,723	\$ 3,723	\$ 620	\$ 0	\$ 710	\$ 1,055
Dividends declared per share	\$0.21	\$0.21	\$0.21	\$0.21	\$0.035	\$0.00	\$0.04	\$0.06

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

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

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

STATEMENT OF FINANCIAL POSITION

The total consolidated assets of the Company at March 31, 2021 were \$868.7 million, an increase of \$41.3 million from December 31, 2020. The U.S. dollar exchange rate on March 31, 2021 was 1.2575, compared to 1.2732 at December 31, 2020. The decrease in the foreign exchange rate represents a decrease of \$8.4 million in assets.

Cash totaled \$7.0 million at March 31, 2021 compared to \$9.7 million at December 31, 2020, a decrease of \$2.7 million. The Company's objective is to maintain low cash balances, investing any free cash in finance receivables as needed and using any excess to pay down debt on the primary financing facilities. Please see the Liquidity and Capital Resources overview section of this MD&A for a discussion of cash movements during the three months ended March 31, 2021 and 2020.

Restricted funds represent cash reserve accounts which are held in trust as security for Pawnee's secured borrowings and cash collection accounts required by Pawnee's lenders of certain financial assets that can only be used to repay these debts on specific dates. The 'cash in collections accounts' (see Note 7(d) - *Borrowings*) will be applied to the outstanding borrowings in the following month.

Other assets totaled \$4.0 million at March 31, 2021, an increase of \$1.1 million from December 31, 2020. The increase in Other assets predominantly relates to US\$0.4 million in seasonal prepaid expenses. See Note 4 - *Other Assets* in the unaudited condensed interim consolidated financial statements for further details.

FOR THE THREE MONTHS ENDED MARCH 31, 2021

Finance receivables consist of the following:

	March 31, 2021	December 31, 2020
<i>Period end FX rate</i>	1.2575	1.2732
	<i>(\$ thousands)</i>	
U.S. equipment finance receivables	\$ 670,742	\$ 612,487
Canadian equipment finance receivables	112,169	128,391
	<u>\$ 782,911</u>	<u>\$ 740,878</u>

Finance receivables saw an increase of \$42.0 million, or 6%, during the three months ended March 31, 2021. In U.S. dollars, U.S.-based finance receivables increased by US\$46.3 million and the decrease in the foreign exchange rate compared to December 31, 2020 decreased finance receivables by \$7.6 million since December 31, 2020, thus reflecting an increase in U.S. based finance receivables of \$58.3 million since December 31, 2020. Blue Chip's finance receivables decreased by \$16.2 million during the three months ended March 31, 2021.

The \$782.9 million in net investment in leases and loans is net of \$19.7 million in ACL (or 2.5%) (compared to \$24.4 million in ACL at December 31, 2020, or 3.2%). The \$4.7 million decrease in the ACL is predominantly related to the decrease in net charge offs and a 0.76% decrease in ACL as a percentage of the net finance receivables, which resulted in a \$6.0 million decrease in the ACL. Finance receivables are composed of a large number of homogenous leases and loans, with relatively small balances. As such, the evaluation of the allowance for credit losses is performed collectively for the lease and loan receivable portfolios. The measurement of expected credit losses and the assessment of 'significant increase' (per IFRS 9) in credit risk considers information about past events and current conditions, as well as reasonable and supportable forecasts of future events and economic conditions. The estimation and application of forward-looking information also requires judgment when calculating the ACL. The Company's ACL was determined as of March 31, 2021. Since that date, forecasts around the impact of COVID-19 on the economy and the timing of full recovery will continue to evolve with any changes to be reflected in the measurement of ACL in future quarters as appropriate.

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

Intangible assets totaled \$10.5 million at March 31, 2021 compared to \$10.9 million at December 31, 2020. Of the \$0.4 million decrease in intangible assets from December 31, 2020, \$0.3 million is amortization, and a \$0.1 million decrease related to the decrease in the foreign exchange rate. The significant intangible assets of broker relationships and trade names do not require any outlay of cash to be maintained, as the creation of lease and loan receivables does not require an outlay of cash, other than commissions, which are separately expensed over the terms of the lease and loan receivables.

Goodwill totaled \$23.8 million at March 31, 2021 compared to \$23.9 million at December 31, 2020. The \$0.1 million decrease was due to the decrease in foreign exchange rate.

Accounts payable and other liabilities totaled \$17.6 million at March 31, 2021 compared to \$17.5 million at December 31, 2020, an increase of \$105,000. See Note 6 - *Accounts Payable and Other Liabilities* in the unaudited interim condensed consolidated financial statements for more detail on the balances that comprise accounts payable and other liabilities.

Borrowings totaled \$677.8 million at March 31, 2021 compared to \$639.0 million at December 31, 2020, an increase of \$38.8 million. The increase is primarily a function of increasing portfolio in Pawnee and Tandem, offset by the decrease in the foreign exchange rate since December 31, 2020, which led to a \$7.0 million decrease in the borrowing amount. Pawnee's US\$ debt is down US\$21.1 million and Blue Chip's Canadian dollar debt decreased by a \$14.9 million since December 31, 2020 which corresponds with the decrease in its finance receivables. Please see the discussion under 'Liquidity and Capital Resources' for further details on our borrowings.

The \$6.5 million (December 31, 2020 - \$7.2 million) in customer security deposits relates to security deposits predominantly held by Pawnee. Historically, Pawnee's non-prime contracts typically required that the lessees/borrowers provide one or two payments as security deposit (not advance payments), which are held for the full term of the lease/loan and then returned or applied to the purchase option of the equipment at the lessee's/borrower's request, unless the contract is in default (in which case the deposit is applied against the receivable). Beginning in January 2019, Pawnee and Tandem discontinued requiring security deposits due to changing market conditions. Both Pawnee and Tandem now require advance payments (first and last months).

Future taxes payable at March 31, 2021 totaled \$21.7 million compared to \$20.4 million at December 31, 2020, an increase of \$1.3 million. The increase in future taxes payable is comprised of \$1.5 million in future tax expense offset by a decrease of \$250,000 due to the change in the foreign exchange rate. Taxes at Pawnee and Blue Chip are provided for using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the subsidiary's assets and liabilities and their corresponding tax basis.

At March 31, 2021, there were 16,025,511 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of \$103.0 million. Including the common shares issuable in exchange for the Exchangeable Securities, Chesswood had 17,504,048 common shares outstanding.

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 March 31, 2021, the Company repurchased 378,450 of its shares under the normal course issuer bid at an average cost of \$9.1106 per share. The excess of the purchase price over the average stated value of common shares purchased for cancellation was charged to retained earnings. Decisions regarding the timing of purchases are based on market conditions and other factors.

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

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

Reserves represent the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised at March 31, 2021. There were 2,645,939 options and 57,000 restricted share units outstanding at March 31, 2021.

Accumulated other comprehensive income is the cumulative translation difference between the exchange rate on January 1, 2010, the IFRS adoption date, and the exchange rate on March 31, 2021 of self-sustaining foreign operations net assets.

LIQUIDITY AND CAPITAL RESOURCES

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

The Company and its subsidiaries were compliant with all covenants as at and through the three months ended March 31, 2021.

At March 31, 2021, the Company had the following facilities:

(a) The Chesswood revolving credit facility allows borrowings of up to US\$250.0 million, subject to, among other things, certain percentages of eligible gross finance receivables. This credit facility includes a US\$50 million accordion feature that can increase the overall revolver to US\$300 million, is secured by substantially all of the Company's assets, contains covenants, including maintaining leverage and interest coverage ratios, and expires on December 8, 2022. At March 31, 2021, the Company was utilizing US\$140.3 million (December 31, 2020 - US\$71.9 million) of its credit facility and had approximately US\$109.7 million in additional borrowings available under the corporate credit facility. Based on average debt levels, the effective interest rate during the three months ended March 31, 2021 was 4.55% (year-ended December 31, 2020 - 5.42%).

This revolving credit facility allows Chesswood to internally manage the allocation of capital to its financial services businesses in Canada and the United States. The credit facility supports growth in finance receivables, provides for Chesswood's working capital needs and for general corporate purposes. The facility, available in U.S. or Canadian dollars, also improves the Company's financial flexibility by centralizing treasury management and making the provision of capital to individual businesses more efficient. The financing facilities are not intended to directly fund dividends by the Company. Under the facility, the maximum amount of cash dividends and purchases under its normal course issuer bid in respect of a month is 1/12 of 90% of Free Cash Flow (see Dividend Policy below) for the most recently completed four financial quarters for which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is defined as the consolidated Adjusted EBITDA less maintenance capital expenditures and tax expense, plus or minus the tax effect of non-cash change in the allowance for credit losses. Please refer to the definitions of Non-GAAP Measures provided in this MD&A.

(b) Pawnee credit facilities:

(i) Pawnee has a credit facility, with a US\$150 million annual capacity, with a life insurance company that expires in October 2028. The funder makes approved advances to Pawnee on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. Pawnee maintains certain cash reserves as credit enhancements or provides letters of guarantee in lieu of cash reserves. Pawnee retains the servicing of these finance receivables. The balance of this facility at March 31, 2021 was US\$63.2 million (December 31, 2020 - US\$45.1 million). Based on average debt levels, the effective interest rate was 4.09% (including amortization of origination costs) (December 31, 2020 - 4.94%).

(ii) 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 March 31, 2021 was US\$129.9 million (December 31, 2020 - US\$150 million). Based on average debt levels, the effective interest rate was 3.27% (including amortization of origination costs) (December 31, 2020 - 2.78%).

(iii) On September 30, 2020, Pawnee completed a US\$183.5 million asset-backed securitization which has a fixed term and fixed interest rate and is collateralized by receivables from Pawnee's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay off Pawnee's warehouse line, and CapOne facilities, and to pay down Chesswood's senior revolving credit facility. The balance of this facility at March 31, 2021 was US\$144.4 million (December 31, 2020 - US\$163.5 million). The effective interest rate was approximately 2.62% (including amortization of origination costs) (December 31, 2020 - 2.21%).

As at March 31, 2021, 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 March 31, 2021, 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 March 31, 2021, Blue Chip had \$88.4 million (December 31, 2020 - \$103.4 million) in securitization and bulk lease financing facilities debt outstanding, was utilizing \$57.8 million (December 31, 2020 - \$65.1 million) of its available financing and had access to at least \$132.2 million (December 31, 2020 - \$124.9 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 three months ended March 31, 2021 was 3.4% (December 31, 2020 - 3.58%). As at March 31, 2021, Blue Chip had provided \$5.6 million in outstanding letters of guarantee through Chesswood's revolving credit facility in lieu of cash reserves. Blue Chip must meet certain financial covenants, including leverage ratio, interest coverage ratio, and tangible net worth covenants, to support these securitization and bulk lease financing facilities.

Cash Sources and Uses

The statement of cash flows, which is compiled using the indirect method, shows cash flows from operating, investing, and financing activities, and the Company's cash at the beginning and end of the period. Cash flows in foreign currencies have been translated at the average exchange rate for the period. Cash flow from operating activities comprises net income adjusted for non-cash items, changes in working capital and operational net assets. IFRS deems changes in finance receivables as operating assets for financial companies. Receipts and payments with respect to tax are included in cash from operating activities. Interest revenue and interest expense are included in operating activities. Cash flow from investing activities comprises payments relating to the acquisition of companies, net of cash proceeds from the sale of discontinued operations, and payments relating to the purchase of property and equipment. Cash flow from financing activities comprises changes in borrowings, payment of dividends, proceeds from stock issues, exercise of stock options, and the purchase and sale of treasury stock.

For the three months ended March 31, 2021

In the three months ended March 31, 2021, there was a decrease in cash of \$2,717,000 compared to an increase in cash of \$13.4 million in the same period in the prior year as a result of the reasons discussed below.

The Company's operations utilized \$44.1 million of cash during the three months ended March 31, 2021 compared to utilizing \$26.3 million in the same period in the prior year, an increase in cash utilization of \$17.7 million year-over-year.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, restricted cash, and principal payments) totaled \$62.3 million in the three months ended March 31, 2021 compared to utilization of \$51.1 million in the same period in the prior year, an increase of \$11.2 million in cash utilized year-over-year.

The Company funded growth in finance receivables from excess opening cash, and cash from operations, and net borrowings of \$44.8 million in the three months ended March 31, 2021. In the same period of the prior year, Q1 2020, the Company funded growth in finance receivables from excess opening cash, cash from operations and net borrowings of \$43.1 million.

In the three months ended March 31, 2021, the Company had net tax payments of \$2.4 million compared to \$0.6 million in the same period in the prior year, an increase in cash utilization of \$1.8 million year-over-year.

If the cash generated or utilized from the net change in finance receivables and net tax payments (discussed above) was included in financing activities along with the related borrowing activity or investing activities, the operating activities generated \$20.7 million in cash from net income, non-cash items and other working capital changes compared to \$25.4 million in the same period in the prior year, a decrease of \$4.7 million from the prior year.

Capital expenditures totaled \$40,000 (Q1 2020 - \$575,000) during the three months ended March 31, 2021.

The Company paid \$1.1 million of dividends to the holders of its common shares and Exchangeable Securities during the three months ended March 31, 2021 compared with \$3.7 million paid in the same period in the prior year.

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

Financial Covenants, Restrictions and Events of Default

The Company and its operating subsidiaries are subject to bank and/or funder covenants relative to leverage and/or working capital.

The Company's ability to access funding at competitive rates through various economic cycles enables it to maintain the liquidity necessary to manage its businesses, and its ability to continue to access funding is an important condition to its future success.

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

Advances on the Chesswood revolving credit facility may be drawn at any time, subject to compliance with borrowing base calculations and compliance with the covenants set out therein. As of March 31, 2021, US\$140.3 million was outstanding under the US\$250.0 million facility, which included US\$5.0 million of letters of credit.

Dividends to Shareholders

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

Dividend Policy

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

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

FOR THE THREE MONTHS ENDED MARCH 31, 2021

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

Minimum Payments

The following are the contractual payments and maturities of financial liabilities and other commitments as at March 31, 2021 (including interest):

(\$ thousands)	2021	2022	2023	2024	2025	2026 and beyond	Total
Accounts payable and other liabilities	\$ 17,636	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 17,636
Premises leases payable (a)	413	531	533	543	228	—	2,248
Borrowings (b)	186,200	364,212	117,042	34,951	2,375	19	704,799
Customer security deposits (c)	2,252	2,188	1,940	241	74	—	6,695
Interest rate swaps	336	—	—	—	—	—	336
	206,837	366,931	119,515	35,735	2,677	19	731,714
Service contracts	198	126	2	—	—	—	326
Total commitments	\$ 207,035	\$ 367,057	\$ 119,517	\$ 35,735	\$ 2,677	\$ 19	\$ 732,040

- The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, with expirations up to 2025. The amounts above exclude adjustment for discounting premise lease payable.
- Borrowings are described in Note 7 - *Borrowings* in the unaudited interim condensed consolidated financial statements, and include Chesswood's corporate revolving credit facility which is a line-of-credit; as such the balance can fluctuate. The amount above includes fixed interest payments on Pawnee and Blue Chip's facilities and estimated interest payments on the Chesswood corporate credit facility, assuming the interest rate, debt balance and foreign exchange rate at March 31, 2021 remain the same until its expiry date of December 2022. The amount owing under Chesswood's corporate credit facility is shown in year of maturity, all other expected borrowings payments are based on the underlying finance receivables supporting the borrowings.
- 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.
- Please see Note 5(b) - *Finance Receivables* for the expected collections of finance receivables over the same time period. See Note 7(d) - *Borrowings* - for the amount of restricted cash in collections accounts that will be applied to debt in the following month.

The Company has no material "off-balance sheet" financing obligations, except for US\$5.0 million in letters of guarantee. Other commitments are disclosed in Note 17 - *Contingent Liabilities and Other Financial Commitments* in the 2020 audited consolidated financial statements.

OUTLOOK

Originations remain strong and are likely to increase in our second quarter. Our approval rates are at record levels and our team is hard at work processing and funding new credits. Overall portfolio yield is likely to remain stable from current levels but will depend on our mix of prime and non-prime originations.

As a result of our strong earnings and cash flow generation, the Board has approved an increase in our regular monthly dividend. On an annualized basis, the dividend is being set at \$0.36 per share up from an annualized rate of \$0.24 per share previously. Going forward, we are targeting a dividend payout equal to 40% of free cash flow while maintaining the remainder of our free cash flow to support portfolio growth.

Lastly, having successfully completed the merger of Blue Chip with Vault Credit, we continue to look for opportunities for expansion in the Canadian market. Chesswood's platform is well suited to help other monoline lenders scale their business, achieve better access to funds and diversify business risk.

RISK FACTORS

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

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

As described above, Blue Chip and Vault Credit have recently merged, resulting in Vault Credit becoming a subsidiary of the Company. The risk factors for Blue Chip described below are also risk factors for Vault Credit.

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

The results of the Company's subsidiaries may be negatively impacted by various economic factors and business conditions, including the level of economic activity in the markets in which they operate. To the extent that economic activity or business conditions deteriorate, originations may decrease; and delinquencies and credit losses may increase. Delinquencies and credit losses generally increase during economic slowdowns or recessions such as that experienced in the United States from 2008-2013. As our operating companies extend credit primarily to small businesses, many of their customers may be particularly susceptible to economic slowdowns or recessions, and may be unable to make scheduled lease or loan payments during these periods. Unfavourable economic conditions may also make it more difficult for our operating companies to maintain new origination volumes and the credit quality of new leases and loans at levels previously attained. Unfavourable economic conditions could also increase funding costs or operating cost structures, limit access to credit facilities, securitizations and other capital markets or result in a decision by lenders not to extend further credit.

In addition, the equipment finance industry generally may be affected by changes in accounting treatment for leases and loans, and negative publicity with respect to, among other things, fraud or deceptive practices by certain participants in the industry. Greater governmental scrutiny is also a risk, especially as to the tax treatment of certain transaction structures or other aspects of these transactions that, if changed, could result in additional tax, fee or other revenue to that governmental authority. Any of these factors may make leasing or loaning less attractive or diminish the profitability of the existing financing alternatives offered by our operating companies.

In addition to being impacted by factors or conditions in the United States or Canada, political, economic or other significant events or circumstances outside of North America (whether political unrest which impacts upon the prices of oil and other commodities or otherwise) can ultimately significantly impact upon North American economic conditions which, in turn, could result in the adverse implications described in the first paragraph under this heading. Similarly, natural disasters in any part of the world may directly (through impact on supplies of goods or equipment to our businesses) or indirectly impact Chesswood's operations or results. Further, tariffs or duties imposed by a country could adversely impact upon industries in which companies to which our operating companies have provided financing or seek to provide financing, which may impact Chesswood's operations or results.

As of today, Canada and the U.S. are approximately fourteen months into the COVID-19 pandemic. Financial markets and businesses across many industries have experienced significant challenges and it will likely be some time before the duration and ultimate severity of the impact will be known. Chesswood expects that there will be an impact upon originations and delinquencies/charge-offs, perhaps significant.

Portfolio Delinquencies; Inability to Underwrite Lease and Loan Applications

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

Analogous risks are faced by Blue Chip and Tandem in their businesses.

In addition, since defaulted leases and loans and certain delinquent leases and loans cannot be used as collateral under our financing facilities, higher than anticipated lease and loan defaults and delinquencies could adversely affect our liquidity by reducing the amount of funding available to us under our financing arrangements. Furthermore, increased rates of delinquencies or loss levels could result in adverse changes to the terms of future financing arrangements, including increased interest rates payable to lenders and the imposition of more burdensome covenants and increased credit enhancement requirements.

Dependence on Key Personnel

Our operating companies depend to a large extent upon the abilities and continued efforts of their key operating personnel and senior management teams.

Relationships with Brokers and Other Origination Sources

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

Tandem is forming relationships with origination partners, comprised primarily of equipment dealers. It will rely on the relationships it creates to generate lease and loan applications and originations. Many of these relationships may not be formalized in written agreements, and those that are formalized may be terminable at will. The decision by a significant number of Tandem's origination partners to refer their transactions to other companies would impede Tandem's ability to generate transactions.

Risk of Future Legal Proceedings

Our operating companies are threatened from time to time with, or are named as defendants in, or may become subject to, various legal proceedings, fines or penalties in the ordinary course of conducting their respective businesses. A significant judgment or the imposition of a significant fine or penalty on an operating company (or on a company engaged in a similar business, to the extent the operating company operates in a similar manner) could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Interest Rate Fluctuations

The Company and our operating companies are exposed to fluctuations in interest rates under their borrowings. Increases in interest rates (to the extent not mitigated by interest hedging arrangements or fixed rate securitizations) may have a material

adverse impact on our businesses, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

The leases and loans are written at fixed interest rates and terms. Generally, the Company finances the activities of its operating companies with both fixed rate and floating rate funds. To the extent the operating companies finance fixed rate leases and loans with floating rate funds, they are exposed to fluctuations in interest rates such that an increase in interest rates could narrow or eliminate the margin between the yield on a lease and loan and the effective interest rate paid by the borrower.

At the customer level, non-prime segments of the micro and small-ticket equipment finance market have historically and typically been, and continue to be, more sensitive to monthly lease/loan payment amounts than to the effective rates of interest charged.

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

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

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

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

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

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

If judicial or other governmental rulings or actions or interpretations of laws adverse to the equipment finance industry in general or to business practices engaged in by our operating companies, or adverse economic conditions or the occurrence of other significant events such as natural disasters and terrorist attacks, were to occur in a geographic region with a high concentration of leases/loans or equipment financed from our operating companies, there could be a material adverse impact on our business, financial condition and results of operations, and the amount of cash available for dividends to our shareholders.

"Characterization" Risks

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

Defenses to Enforcement of a Significant Number of Leases and Loans

Certain defenses and recovery impediments are more common in micro and small-ticket equipment finance transactions than with respect to equipment finance providers in other segments of the equipment finance industry. Management believes that certain of these risks are sufficiently addressed in the existing documentation and related business practices of our operating

companies. However, there are other risks that they have not addressed for various reasons, including that certain of these risks are not susceptible to being addressed either at all or without incurring cost inefficiencies or taking other measures deemed unacceptable by management based on a risk-reward assessment. Our operating companies have never experienced any material occurrence of these risks nor have these risks historically had a material adverse impact on them. However, there is no assurance that these risks will not have a material adverse impact on their business, financial condition and results of operations in the future.

Origination, Funding and Administration of Transactions

Our operating companies' origination, funding and transaction administration practices could result in certain vulnerabilities in their enforcement rights. For example, certain leases and loans are assignments of transactions already documented by brokers. Acquiring leases/loans by this "indirect" process subjects our operating companies to various risks, including risks that might arise by reason of the broker's insolvency, administrative inadequacies or fraudulent practices, as well as any third party claims against the broker or its rights with respect to the assigned lease or loan. Our operating companies may be subject to risks related to broker practices, whether or not our operating companies have actual legal responsibility for broker conduct. Any of these broker related risks can impair our operating companies' rights with respect to recovering the rents and/or property under leases and loans. Pawnee has not been involved in any claims or litigation in relation to such risks.

If the lessee/borrower or broker is the party to whom the vendor of the equipment has agreed to sell the property at the time of its delivery, then under applicable commercial law, the lessee/borrower or broker, as applicable, may be deemed to have acquired title to the property prior to our operating companies having funded the transaction. It has not been their practice to ensure that the title to the leased property has not already passed or to obtain assurances that it is acquiring good title to that property free of liens and other third party claims. The manner in which our operating companies purchase the equipment is typical in this market segment, especially with respect to similarly situated equipment financing providers. They have not yet faced any meaningful challenge or adverse consequence from this practice, but there can be no assurance that such a challenge or consequence will not occur in the future.

In most circumstances where the equipment is less than US\$15,000 (or US\$10,000 if for a home business) for Pawnee's core product and US\$35,000 for the "B" product, and US\$100,000 for "A", Pawnee's practice of requiring only a verbal confirmation that the property has been delivered and irrevocably accepted under the subject lease or loan, and/or inspecting the property to confirm the same, could make Pawnee vulnerable to certain defenses. By way of example, Pawnee's deemed failure to deliver conforming property under the lease or loan documents could be a defense to a lessee/borrower's "unconditional" obligation to pay the rents and certain other amounts. Pawnee has not suffered any material losses relating to these practices, however, there can be no assurance that it would not in the future.

Analogous risks are faced by Blue Chip and Tandem.

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

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

Licensing Requirements

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

Fees, Rates and Charges

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

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

Insurance

To ensure that the lessor or lender of the leased or financed property suffering a loss receives the related insurance proceeds, the lease or loan also requires that the lessor or lender be named as a loss payee under the requisite casualty coverage. However, each lessee/borrower is ultimately relied upon to obtain and maintain the required coverage for financed equipment but there is no certainty that they will obtain the requisite coverage either conforming to the requirements of the lease or loan, or at all. Additionally, there are often policy provisions including exclusions, deductibles and other conditions that by their terms, or by reason of a breach, could limit, delay or deny coverage. There can be no assurance that any insurance will protect our operating companies interests in the equipment, and the failure by the lessee/borrower to obtain insurance or the failure by the operating companies to receive the proceeds from such insurance policies could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Lessor Liability

There is a risk that a lessor, such as Pawnee, Blue Chip or Tandem, could be deemed liable for harm to persons or property in connection with, among other things, the ownership or leasing of the leased property, or the conduct or responsibilities of the parties to the lease relating to that property. The liability may be contractual (such as warranties regarding the equipment), statutory (such as federal, state or provincial environmental liability) or pursuant to various legal theories (such as negligence). There have been cases in which a lessor has been held responsible for damage caused by leased property without a showing of negligence or wrong-doing on the lessor's part. Even if a lessor ultimately succeeds in defending itself or settling any related litigation, the related costs and any settlement amount could be significant.

Liability for Misuse of Leased Equipment

There is no practical manner to ensure that leased equipment or a leased vehicle will be used, maintained or caused to comply with applicable law. Pawnee, Blue Chip and Tandem require their lessees to deliver evidence of compliance with same as a condition to funding but have no assurance that a lessee will take the appropriate actions during the lease term to address any use, maintenance or compliance issues which may arise. A lessee's conduct (or lack thereof) could subject Pawnee, Blue Chip or Tandem, as applicable, to liability to third parties.

Estimates Relating to Value of Leases

Based on the particular terms of a lease, equipment finance companies estimate the residual value of the financed equipment, which is recorded as an asset on its statement of financial position. At the end of the lease term, equipment finance companies

seek to realize the recorded residual for the equipment by selling the equipment to the lessee or in the secondary market or through renewal of the lease by the lessee. The ultimate realization of the recorded residual values depends on numerous factors, including: accurate initial estimate of the residual value; the general market conditions and interest rate environment at the time of expiration of the lease; the cost of comparable new equipment; the obsolescence of the leased equipment; any unusual or excessive wear and tear on or damage to the equipment; and the effect of any additional or amended government regulations.

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

Competition from Alternative Sources of Financing

The business of micro and small-ticket equipment finance in the United States is highly fragmented and competitive. Pawnee and Tandem focus some of their businesses on the segment of the micro and small-ticket equipment finance market involving start-up businesses that have not established business credit or established businesses that have experienced some credit difficulty in their history that do not meet the credit standards of more traditional financing sources. Pawnee's and Tandem's main competition comes from equipment finance companies, banks, commercial lenders, home equity loans, and credit cards.

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

Many of the firms and institutions providing financing alternatives are substantially larger than Pawnee, Tandem and Blue Chip and have considerably greater financial, technical and marketing resources. Some of them may have a lower cost of funds and access to funding sources that are unavailable to Pawnee, Tandem and Blue Chip. A lower cost of funds could enable a competitor to offer leases and loans with pricing lower than that of Pawnee, Tandem or Blue Chip, potentially forcing them to decrease prices or lose origination volume. In addition, some financing sources may have higher risk tolerances or different risk assessments, which could allow them to establish more origination sources and customer relationships to increase their market share.

Further, because there are fewer barriers to entry with respect to the micro and small-ticket equipment finance market, new competitors could enter this market at any time, especially if an improvement in the economy leads to a greater ability of small and medium-sized businesses to establish improved levels of creditworthiness.

With the ever advancing improvements in technology, financial-technology ("Fintech") firms have been emerging with new business models, based on new technology that often includes an internet component, for offering financial services to businesses and consumers. It is possible that advancements by Fintech firms could negatively impact Pawnee, Tandem or Blue Chip's business in a significant manner.

Fraud by Lessees, Borrowers, Vendors or Brokers

While our operating companies make every effort to verify the accuracy of information provided to them when making a decision whether to underwrite a lease or loan and have implemented systems and controls to protect against fraud, in a small number of cases in the past our operating companies have been a victim of fraud by lessees/borrowers, vendors and brokers. In cases of fraud, it is difficult and often unlikely that our operating companies will be able to collect amounts owing under a lease or loan or repossess the related equipment. Our operating companies may be subject to risks related to broker practices whether or not our operating companies have actual legal responsibility for broker conduct. Increased rates of fraud could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Protection of Intellectual Property

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

Failure of Computer and Data Processing Systems

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

Security Risks

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

Risks Related to our Structure and Exchange Rate Fluctuations

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

Unpredictability and Volatility of Share Price

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

Leverage, Restrictive Covenants

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

Possible Acquisitions

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

Restrictions on Potential Growth

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

Canadian Income Tax Matters

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

United States Income Tax Matters

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

Environmental risk

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

Net Investment in Leases

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

Allowance for Credit Losses

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

Application of the Expected Credit Loss ("ECL") model depends on the following credit stages of the financial assets:

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

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

For Stage 2, leases and loans are considered to have experienced a significant increase in credit risk since initial recognition if they are delinquent for over 30 days and further includes approximately 15% of the non-prime 1-30 day delinquent leases and loans.

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

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

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

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

Impairment of Goodwill

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

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

value-in-use is most sensitive to the discount rate used and the growth rate applied beyond the five year estimate. Changes in these estimates and assumptions could have a significant impact on the value-in-use and/or goodwill impairment.

Share-based Payments

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

Interest rate derivatives

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

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

Taxes

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

RELATED PARTY TRANSACTIONS

See Note 14 - *Related Party Transactions* in the unaudited condensed interim consolidated financial statements for the disclosure of key management compensation.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Chief Executive Officer and the Vice President of Finance (the "Certifying Officers"), along with other members of management, have designed, or caused to be designed under their supervision, Disclosure Controls and Procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the Company is made known to them by others, particularly during the period in which the annual or interim filings are being prepared; and (ii) information required to be

disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

The Certifying Officers have assessed the design effectiveness of the Company's DC&P as at March 31, 2021 and have concluded that the design of the Company's DC&P was effective as at that date.

Internal Control over Financial Reporting

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

The Certifying Officers have assessed the design effectiveness of the Company's ICFR as at March 31, 2021 and have concluded that the design of the Company's ICFR was effective as at that date.

During the quarter ended March 31, 2021, there has been no significant change in the Company's ICFR that would have materially affected, or would be reasonably likely to materially affect, the Company's ICFR.

Limitations of an Internal Control System

The Certifying Officers believe that any DC&P or ICFR, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues, including instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) breakdowns could occur because of undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

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

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

MARKET FOR SECURITIES

The Company's common shares are traded on the Toronto Stock Exchange under the symbol CHW. The following table summarizes the high and low sales prices of the common shares and the average daily trading volume for each month in the three months ended March 31, 2021.

	High	Low	Average Daily Volume
January	\$9.30	\$8.38	11,296
February	\$9.28	\$8.78	10,860
March	\$9.44	\$8.90	13,320
	\$9.44	\$8.38	11,890

CHESSWOOD GROUP LIMITED
NOTICE TO READERS

Accompanying this notice are the unaudited condensed consolidated interim financial statements of Chesswood Group Limited for the three months ended March 31, 2021. These statements have been prepared by, and are the responsibility of, the Company's management.

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

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

	<i>Note</i>	March 31, 2021 <i>(unaudited)</i>	December 31, 2020 <i>(audited)</i>
ASSETS			
Cash		\$ 6,951	\$ 9,668
Restricted funds	7(d)	37,342	35,714
Other assets	4	4,034	2,904
Finance receivables	5	782,911	740,878
Interest rate derivatives		—	—
Right-to-use assets		1,576	1,697
Property and equipment		1,649	1,736
Intangible assets		10,501	10,919
Goodwill		23,751	23,920
TOTAL ASSETS		\$ 868,715	\$ 827,436
LIABILITIES			
Accounts payable and other liabilities	6	\$ 17,636	\$ 17,531
Premises leases payable		2,027	2,163
Borrowings	7	677,782	638,976
Customer security deposits		6,502	7,210
Interest rate derivatives		211	340
Deferred tax liabilities		21,651	20,400
		725,809	686,620
SHAREHOLDERS' EQUITY			
Common shares		103,047	104,236
Non-controlling interest		12,134	11,797
Share-based compensation reserve	11	5,654	5,605
Accumulated other comprehensive income		10,598	11,733
Retained earnings		11,473	7,445
		142,906	140,816
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 868,715	\$ 827,436

Please see notes to the condensed interim consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(in thousands of dollars, except per share amounts, unaudited)

	<i>Note</i>	<u>2021</u>	<u>2020</u>
Finance revenue			
Interest revenue on finance leases and loans		\$ 22,919	\$ 29,347
Ancillary finance and other fee income		3,390	3,966
		<u>26,309</u>	<u>33,313</u>
Finance expenses			
Interest expense		5,895	8,063
Provision for credit losses	5	460	24,203
		<u>6,355</u>	<u>32,266</u>
Finance margin		<u>19,954</u>	<u>1,047</u>
Expenses			
Personnel expenses		5,699	5,380
Other expenses		4,805	4,902
Depreciation		238	300
Amortization - intangible assets		333	333
		<u>11,075</u>	<u>10,915</u>
Operating income		<u>8,879</u>	<u>(9,868)</u>
Restructuring and other transaction costs		—	—
Goodwill and intangible asset impairment		—	(11,868)
Unrealized gain (loss) on investments held	2	—	(121)
Unrealized gain (loss) on interest rate derivatives	2	126	(598)
Unrealized gain (loss) gain on foreign exchange		(26)	(72)
Income (loss) before taxes		<u>8,979</u>	<u>(22,527)</u>
Tax (expense) recovery		(2,666)	2,700
Net income (loss)		<u>\$ 6,313</u>	<u>\$ (19,827)</u>
Attributable to:			
Common shareholders		\$ 5,784	\$ (18,173)
Non-controlling interest		\$ 529	\$ (1,654)
Income (loss) from operations per share:			
Basic	13	\$ 0.36	\$ (1.12)
Diluted	13	\$ 0.35	\$ (1.10)

Please see notes to the condensed interim consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(in thousands of dollars, unaudited)

	<u>2021</u>	<u>2020</u>
Net income (loss)	\$ 6,313	\$ (19,827)
Other comprehensive income:		
Unrealized gain (loss) on translation of foreign operations	<u>(1,240)</u>	<u>7,280</u>
Comprehensive income (loss)	<u><u>\$ 5,073</u></u>	<u><u>\$ (12,547)</u></u>
Attributable to:		
Common shareholders	\$ 4,647	\$ (11,500)
Non-controlling interest	\$ 426	\$ (1,047)

Please see notes to the condensed interim consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020
(in thousands of dollars, unaudited)

	<i>Note</i>	Common shares	Common shares	Non- controlling interest	Share-based compensation reserve	Accumulated other comprehensive income	Retained earnings	2021 Total
		(# '000s)						
Shareholders' equity - December 31, 2020		16,255	\$ 104,236	\$ 11,797	\$ 5,605	\$ 11,733	\$ 7,445	\$ 140,816
Net income (loss)		—	—	529	—	—	5,784	6,313
Dividends declared	12	—	—	(89)	—	—	(966)	(1,055)
Share-based compensation	11	—	—	—	255	—	—	255
Exercise of restricted share units		—	—	—	—	—	—	—
Exercise of options		63	688	—	(206)	—	—	482
Repurchase of common shares under issuer bid		(293)	(1,877)	—	—	—	(790)	(2,667)
Unrealized loss on translation of foreign operations		—	—	(103)	—	(1,135)	—	(1,238)
Shareholders' equity - March 31, 2021		16,025	\$ 103,047	\$ 12,134	\$ 5,654	\$ 10,598	\$ 11,473	\$ 142,906

	<i>Note</i>	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)		—	—	(1,654)	—	—	(18,173)	(19,827)
Dividends declared	12	—	—	(311)	—	—	(3,412)	(3,723)
Share-based compensation	11	—	—	—	186	—	—	186
Exercise of restricted share units	11	—	—	—	—	—	—	—
Exercise of options	11	—	—	—	—	—	—	—
Repurchase of common shares under issuer bid		—	—	—	—	—	—	—
Unrealized loss on translation of foreign operations		—	—	608	—	6,672	—	7,280
Shareholders' equity - March 31, 2020		16,248	103,963	11,773	5,695	20,628	(1,460)	140,599
Net income		—	—	943	—	—	10,359	11,302
Dividends declared		—	—	(110)	—	—	(1,220)	(1,330)
Share-based compensation		—	—	—	734	—	—	734
Exercise of restricted share units		93	824	—	(824)	—	—	—
Exercise of options		—	—	—	—	—	—	—
Repurchase of common shares under issuer bid		(86)	(551)	—	—	—	(234)	(785)
Unrealized loss on translation of foreign operations		—	—	(809)	—	(8,895)	—	(9,704)
Shareholders' equity - December 31, 2020		16,255	\$ 104,236	\$ 11,797	\$ 5,605	\$ 11,733	\$ 7,445	\$ 140,816

Please see notes to the condensed interim consolidated financial statements.

CHESSWOOD GROUP LIMITED
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

<i>(in thousands of dollars, unaudited)</i>	<i>Note</i>	<u>2021</u>	<u>2020</u>
OPERATING ACTIVITIES			
Net income (loss)		<u>\$ 6,313</u>	<u>\$ (19,827)</u>
Non-cash items included in net income			
Amortization and depreciation		571	633
Goodwill and intangible asset impairment		—	11,868
Provision for credit losses <i>(excluding recoveries)</i>	5	4,079	26,649
Amortization of origination costs		5,487	7,110
Tax expense		2,666	(2,700)
Other non-cash items	15	1,172	2,089
		<u>13,975</u>	<u>45,649</u>
Cash from operating activities before change in net operating assets		20,288	25,822
Funds advanced on origination of finance receivables		(133,498)	(116,440)
Origination costs paid on finance receivables		(8,138)	(9,124)
Principal collections of finance receivables		82,039	79,095
Change in other net operating assets	15	(2,330)	(5,046)
Cash from (used in) operating activities before tax		(41,639)	(25,693)
Income taxes recovery (paid) - net		(2,418)	(639)
Cash from (used in) operating activities		<u>(44,057)</u>	<u>(26,332)</u>
INVESTING ACTIVITY			
Purchase of property and equipment		(40)	(575)
Cash used in investing activity		<u>(40)</u>	<u>(575)</u>
FINANCING ACTIVITIES			
Borrowings, net	7	44,848	43,090
Payment of financing costs	7	(31)	(39)
Payment of lease obligations		(136)	(170)
Proceeds from exercise of options	11	482	—
Repurchase of common shares under issuer bid		(2,667)	—
Cash dividends paid	12	(1,055)	(3,723)
Cash from (used in) financing activities		<u>41,441</u>	<u>39,158</u>
Unrealized foreign exchange loss on cash		(61)	1,180
Net increase (decrease) in cash		(2,717)	13,431
Cash, beginning of year		9,668	11,032
Cash, end of year		<u><u>\$ 6,951</u></u>	<u><u>\$ 24,463</u></u>

Please see notes to the condensed interim consolidated financial statements.

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1. NATURE OF BUSINESS AND BASIS OF PREPARATION

Chesswood Group Limited (the “Company” or “Chesswood”) is incorporated under the laws of the Province of Ontario. The Company’s head office is located at 1133 Yonge Street, Suite 603, Toronto, ON, M4T 2Y7, and its shares trade on the Toronto Stock Exchange under the symbol CHW.

The Company holds a 100% interest in Chesswood Holdings Ltd. Chesswood Holdings Ltd. owns 100% of the shares of the operating companies: Blue Chip Leasing Corporation (“Blue Chip”) incorporated in Ontario, Lease-Win Limited, Case Funding Inc. (“Case Funding”), as well as 100% of the shares of Chesswood U.S. Acquisition Co Ltd. (“U.S. Acquisitionco”), a corporation which owns 100% of the shares of each of the operating subsidiaries Pawnee Leasing Corporation (“Pawnee”), incorporated in Colorado, United States, Tandem Finance Inc. (“Tandem”), incorporated in Colorado, United States and Windset Capital Corporation (“Windset”), incorporated in Delaware, United States. In addition, Pawnee holds, through consolidated, wholly-owned Special Purpose Entities (collectively “SPEs”), a portfolio of leases and loans which are financed through arm's length financial institutions. See Note 5 - *Finance Receivables* and Note 7(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 IAS 34, *Interim Financial Reporting*, on a basis consistent with the accounting policies disclosed in the audited consolidated financial statement for the year ended December 31, 2020.

- have been prepared on the going concern and historical cost bases, except for derivative financial instruments and hybrid financial liabilities designated as at fair value through net income or loss, which have been measured at fair value.
- include the financial statements of the Company and its subsidiaries as noted above. Subsidiaries are consolidated using the purchase method from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated as long as control is held. The financial statements of all subsidiaries are prepared for the same reporting period as the Company, using uniform accounting policies in accordance with IFRS 10, *Consolidated Financial Statements*. All intra-group balances and items of income and expense resulting from intra-group transactions are eliminated in full. Transaction costs in connection with business combinations are expensed as incurred.
- should be read in conjunction with the Company's most recently issued Annual Report which includes information necessary, or useful, to understanding the Company's businesses and financial reporting.
- are unaudited (except otherwise noted).
- the results reported in these condensed consolidated interim financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

The preparation of condensed interim consolidated financial statements, including the application of accounting policies, requires management to make estimates and assumptions using judgment that affect the reported amounts of assets and liabilities, and income and expenses during the reporting period. Estimates and other judgments are continually evaluated and are based on management's experience and other factors, including expectations about future events that are believed to be reasonable under the circumstances. Actual results may differ from those estimates. The significant estimates and judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were otherwise the same as those that applied to the audited consolidated financial statements for the year ended December 31, 2020.

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 three months ended March 31, 2021 - 1.2660; 2020 - 1.3415), and assets and liabilities are translated at the closing rate (as at March 31, 2021 - 1.2575; December 31, 2020 - 1.2732). 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.

The Company's unaudited condensed interim consolidated financial statements were authorized for issue on May 6, 2021 by the Board of Directors.

2. FINANCIAL INSTRUMENTS

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

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

Financial assets 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 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	<u>Classification</u>
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).

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.

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

	March 31, 2021			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Carrying Value</u>
ASSETS				(\$ thousands)
Finance receivables (i)	—	782,911	—	782,911
LIABILITIES				
Borrowings (ii)	—	(677,782)	—	(677,782)
Customer security deposits	—	(6,502)	—	(6,502)
Interest rate derivatives (iv)	—	(211)	—	(211)
				December 31, 2020
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Carrying Value</u>
				(\$ thousands)
ASSETS				
Finance receivables (i)	—	740,878	—	740,878
LIABILITIES				
Borrowings (ii)	—	(638,976)	—	(638,976)
Customer security deposits	—	(7,210)	—	(7,210)
Interest rate derivatives (v)	—	(340)	—	(340)

- (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) 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.

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

(b) *Gains and losses on financial instruments*

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

		For the three months ended March 31,	
		2021	2020
		(\$ thousands)	
Amortized cost:			
Provision for credit losses		\$ (460)	\$ (24,203)
Fair value through net income or loss:			
Investment in Dealnet common shares		—	(121)
Interest rate derivatives		126	(598)
Net loss		\$ (334)	\$ (24,922)

3. FINANCIAL RISK MANAGEMENT

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

There have been no material changes in the Company's objectives, policies or processes for measuring and managing any of the risks to which it is exposed since the previous year end, except for the effects of COVID-19 on credit and liquidity risk. Refer to Note 4 - *Financial Risk Management* of the 2020 annual audited consolidated financial statements for further disclosure.

4. OTHER ASSETS

		March 31, 2021	December 31, 2020
		(\$ thousands)	
Tax receivable	\$	1,708	\$ 1,503
Sales tax receivable		67	29
Prepaid expenses and other current assets		2,259	1,372
Other assets		4,034	2,904
Current portion		4,034	2,904
Long-term portion	\$	—	\$ —

5. FINANCE RECEIVABLES

All lease and loan receivables have been pledged as security for amounts borrowed from lenders under various facilities, as described in Note 7 - *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.

	March 31, 2021	December 31, 2020
	(\$ thousands)	
Net investment in leases	\$ 332,996	\$ 335,814
Loan receivables	449,915	405,064
	\$ 782,911	\$ 740,878

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

	March 31, 2021	December 31, 2020
	(\$ thousands)	
Total minimum finance receivable payments (b)	\$ 916,985	\$ 868,107
Residual values of leased equipment	21,820	22,311
	938,805	890,418
Unearned income, net of initial direct costs	(142,497)	(135,772)
Net investment in finance receivables before allowance for credit losses	796,308	754,646
Allowance for credit losses (c)	(19,690)	(24,363)
	776,618	730,283
Reserve receivable on securitized financial contracts	6,293	10,595
Net investment in finance receivables	782,911	740,878
Current portion	215,541	274,309
Long-term portion	\$ 567,370	\$ 466,569

(b) Minimum scheduled collections of finance receivables at March 31, 2021, 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	\$ 269,316	\$ 212,390
2022	286,134	237,651
2023	194,122	169,325
2024	114,152	104,206
2025	47,675	45,442
2026 and thereafter	5,586	5,473
Total minimum payments	\$ 916,985	\$ 774,487

(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% (2020 - 15%) of non-prime assets that are in default but have been delinquent for less than 30 days at the reporting date.

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

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

Pawnee, 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 March 31, 2021 to estimate the effect on ECLs at that date - which requires assessing the direction of macroeconomic variables in the forward-looking scenarios, the duration of lock-down conditions, the effectiveness of relief programs at mitigating the effects on our lessees and borrowers, amongst other factors - are subject to significant measurement uncertainty. Determining which finance receivables have seen a significant increase in credit risk is also subject to significant judgement.

The Company's ECL was determined as at March 31, 2021 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 March 31, 2021			
					Stage 1	Stage 2	Stage 3	Total
					Performing	Under-Performing	Non-Performing	
					(\$ thousands)			
Prime	\$	580,204	\$	1,541	\$	2,693	\$	584,438
Non-prime		206,001		2,472		3,397		211,870
Total	\$	786,205	\$	4,013	\$	6,090	\$	796,308

					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

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

Three months ended March 31, 2021				
	Stage 1	Stage 2	Stage 3	
	Performing	Under-Performing	Non-Performing	Total
	(\$ thousands)			
Balance, January 1, 2021	\$ 10,832	\$ 6,831	\$ 6,700	\$ 24,363
Transfer to Performing (Stage 1)	2,762	(2,138)	(624)	—
Transfer to Under-Performing (Stage 2)	(3,893)	3,893	—	—
Transfer to Non-Performing (Stage 3)	—	(4,975)	4,975	—
Net remeasurement of loss allowance	(2,095)	256	(164)	(2,003)
New receivables originated	2,463	—	—	2,463
Provision for credit losses	(763)	(2,964)	4,187	460
Charge-offs	—	—	(8,519)	(8,519)
Recoveries of amounts previously charged off	—	—	3,620	3,620
Net charge-offs	—	—	(4,899)	(4,899)
Foreign exchange translation	(101)	(60)	(73)	(234)
Balance, end of period	\$ 9,968	\$ 3,807	\$ 5,915	\$ 19,690

Three months ended March 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)	2,707	(2,285)	(422)	—
Transfer to Under-Performing (Stage 2)	(14,424)	14,482	(58)	—
Transfer to Non-Performing (Stage 3)	—	(13,027)	13,027	—
Net remeasurement of loss allowance	20,770	617	108	21,495
New receivables originated	2,708	—	—	2,708
Provision for credit losses	11,761	(213)	12,655	24,203
Charge-offs	—	—	(11,334)	(11,334)
Recoveries of amounts previously charged off	—	—	2,446	2,446
Net charge-offs	—	—	(8,888)	(8,888)
Foreign exchange translation	1,583	718	1,086	3,387
Balance, end of period	\$ 25,258	\$ 8,577	\$ 15,172	\$ 49,007

(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 \$6.5 million (December 31, 2020 - \$7.2 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 March 31, 2021					
<i>(\$ thousands)</i>	Current	1-30 days	31 - 60 days	61 - 90 days	Over 90 days	Total
Finance receivables	\$ 774,436	\$ 12,922	\$ 4,368	\$ 2,297	\$ 2,285	\$ 796,308
Credit impaired	\$ 947	\$ 541	\$ 99	\$ 2,166	\$ 2,161	\$ 5,914
Past due but not impaired	\$ —	\$ 12,381	\$ 4,269	\$ 131	\$ 124	\$ 16,905

	As of December 31, 2020					
<i>(\$ thousands)</i>	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

(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 2021 or prior) and are current at March 31, 2021 is \$163.9 million (December 31, 2020 - \$184.4 million). On average the terms have been modified to extend the contracts by approximately one to three months, depending on the modification. Finance receivables modified during the three months ended March 31, 2021 had a total net investment in finance receivable balance at the time of modification of \$11.3 million (2020 - \$37.4 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 period ended March 31, 2021, the proceeds from the disposal of repossessed equipment that was charged-off totaled \$0.8 million (December 31, 2020 - \$5.7 million). Repossessed equipment is held at various warehouses by the companies contracted to repossess and sell the equipment.

6. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprise:

	March 31, 2021	December 31, 2020
	(\$ thousands)	
Dividend payable	\$ 350	\$ 355
Accounts payable	1,602	1,554
Sales tax payable	1,413	1,219
Customer deposits and prepayments	730	992
Unfunded finance receivables	6,561	4,731
Taxes payable	1,491	2,549
Payroll related payables and accruals	1,864	1,671
Accrued expenses and other liabilities	2,756	4,460
Property taxes payable on equipment leases	869	0
	\$ 17,636	\$ 17,531

7. BORROWINGS

The Company and its subsidiaries were compliant with all covenants attached to the following facilities at March 31, 2021 and throughout the period then ended.

	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, 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
Proceeds or draw-downs	126,669	—	31,635	—	—	158,304
Repayments	(40,175)	—	(58,360)	—	(14,921)	(113,456)
Payment of financing costs	—	—	—	(31)	—	(31)
Amortization of deferred financing costs	—	141	—	850	—	991
Debt restructuring	—	—	—	—	—	—
Foreign exchange translation	(1,619)	—	(5,441)	58	—	(7,002)
Net as of March 31, 2021	\$ 170,172	\$ (987)	\$ 424,415	\$ (4,255)	\$ 88,437	\$ 677,782

(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 March 31, 2021, the Company was utilizing US\$140.3 million (December 31, 2020 - US\$71.9 million) of its credit facility and had approximately US\$109.7 million in additional borrowings available under the corporate credit facility. Based on average debt levels, the effective interest rate during the three months ended March 31, 2021 was 4.55% (year-ended December 31, 2020 - 5.42%).

(b) Pawnee credit facilities:

(i) 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 March 31, 2021 was US\$63.2 million (December 31, 2020 - US\$45.1 million). Based on average debt levels, the effective interest rate, including amortization of origination costs, was 4.09% (December 31, 2020 - 4.94%).

(ii) 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 March 31, 2021 was US\$129.9 million (December 31, 2020 - US\$150.0 million). Based on average debt levels, the effective interest rate was 3.27% (including amortization of origination costs) (December 31, 2020 - 2.78%).

(iii) 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 March 31, 2021 was US\$144.4 million (December 31, 2020 - US\$163.5 million). The effective interest rate was approximately including amortization of origination costs, was 2.62% (December 31, 2020 - 2.21%).

As at March 31, 2021, 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 March 31, 2021, 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 March 31, 2021, Blue Chip had \$88.4 million (December 31, 2020 - \$103.4 million) in securitization and bulk lease financing facilities debt outstanding, was utilizing \$57.8 million (December 31, 2020 - \$65.1 million) of its available financing and had access to at least \$132.2 million (December 31, 2020 - \$124.9 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 three months ended March 31, 2021 was 3.4% (December 31, 2020 - 3.58%). As at March 31, 2021, 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.

(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.

	March 31, 2021	December 31, 2020
	(\$ thousands)	
Restricted - cash in collection accounts	\$ 14,899	\$ 15,516
Restricted - cash reserves	22,443	20,198
Restricted funds	\$ 37,342	\$ 35,714

8. 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	\$ 17,636	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 17,636
Premises leases payments (i)	413	531	533	543	228	—	2,248
Borrowings (ii)	186,200	364,212	117,042	34,951	2,375	19	704,799
Customer security deposits (iii)	2,252	2,188	1,940	241	74	—	6,695
Interest rate swaps	336	—	—	—	—	—	336
	206,837	366,931	119,515	35,735	2,677	19	731,714
Service contracts	198	126	2	—	—	—	326
Total commitments	\$ 207,035	\$ 367,057	\$ 119,517	\$ 35,735	\$ 2,677	\$ 19	\$ 732,040

- 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. The amounts above exclude adjustment for discounting premise lease payable.
- ii. Borrowings are described in Note 7 - *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 March 31, 2021 remain the same until the expiry date of December 2022. The amount owing under Chesswood's corporate revolving credit facility is shown in year of maturity, all other expected borrowings payments are based on the underlying finance receivables supporting the borrowings.
- iii. The Company's experience has shown the actual contractual payment streams will vary depending on a number of variables including: prepayment rates, charge-offs and modifications. Accordingly, the scheduled contractual payments of customer security deposits shown in the table above are not to be regarded as a forecast of future cash payments.
- iv. Please see Note 5(b) - *Finance Receivables* for the expected collections of finance receivables over the same time period. See Note 7(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\$5.0 million in letters of guarantee. For contingent liabilities and other commitments, refer to Note 17 - *Contingent Liabilities and Other Financial Commitments* of the 2020 annual audited consolidated financial statements.

9. 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 March 31, 2021 and throughout the period, the Company was compliant with all covenants. Financing facilities of operating subsidiaries are used to provide funding for the respective subsidiary's operations (namely to provide financing for the purchase of assets which are to be the subject of leases and loans or to support working capital). The financing facilities are not intended to directly fund dividends paid by the Company.

10. 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.

	<u>Common shares</u> (# '000s)	<u>Amount</u> (\$ thousands)
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	<u>16,255</u>	<u>\$ 104,236</u>
Exercise of options	63	688
Repurchase of common shares under issuer bid (a)	(293)	(1,877)
Balance, March 31, 2021	<u>16,025</u>	<u>\$ 103,047</u>

(a) Normal course issuer bids

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 March 31, 2021, the Company repurchased 378,450 of its shares under the normal course issuer bid at an average cost of \$9.1106 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 17 - *Subsequent Events*.

11. 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 March 31, 2021. There were 2,645,939 options and 57,000 restricted share units outstanding at March 31, 2021 (2020 - 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 three months ended	
	March 31,	
	2021	2020
Balance, beginning of period	2,708,939	2,553,939
Granted	—	—
Exercised	(63,000)	—
Forfeited	—	—
Balance, end of period	2,645,939	2,553,939

During the three months ended March 31, 2021, personnel expenses and the share-based compensation reserve included \$82,000 (2020 - \$74,200) relating to option expense. As of March 31, 2021, unrecognized non-cash compensation expense related to the outstanding options was \$354,400 (2020 - \$187,100), which is expected to be recognized over the remaining vesting period.

During the three months ended March 31, 2021, 63,000 options were exercised (2020 - nil) for total cash consideration of \$481,770 (2020 - nil). On exercise, the accumulated amount in share-based compensation reserve related to these exercised options was transferred to Common Share capital (Common Share capital was also increased by the cash consideration received upon exercise). For the options exercised during the three months ended March 31, 2021, the weighted average share price at the date of exercise was \$9.17 (2020 - nil).

At March 31, 2021, the weighted average exercise price is \$10.31 (2020 - \$10.40) and the weighted average remaining contractual life for all options outstanding is 3.9 years (2020 - 5.3 years). The 2,332,689 options exercisable at March 31, 2021 have a weighted average exercise price of \$10.56 (2020 - 2,077,689 options at \$10.42).

An analysis of the options outstanding at March 31, 2021 is as follows:

Range of exercise prices	Weighted average remaining life (in years)	Vested #	Options outstanding unvested #	Total #
\$ 6.14 - \$ 7.79	0.49	508,489	—	508,489
\$ 8.01 - \$ 8.95	6.33	209,250	313,250	522,500
\$10.17 - \$10.96	4.74	684,950	—	684,950
\$12.15 - \$12.53	3.97	665,000	—	665,000
\$14.12	2.76	265,000	—	265,000
	3.88	2,332,689	313,250	2,645,939

(b) Restricted share units

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

A summary of the RSUs outstanding is as follows:

	For the three months ended March 31,	
	2021	2020
Balance, beginning of period	57,000	44,000
Granted	—	—
Exercised	—	—
Balance, end of period	57,000	44,000

During the three months ended March 31, 2021, personnel expenses and share-based compensation reserve included \$170,830 (2020 - \$111,200) relating to RSUs. During the three months ended March 31, 2021, no RSUs were granted (2020 - nil).

During the three months ended March 31, 2021, no RSUs were exercised (2020 - nil).

As of March 31, 2021, unrecognized non-cash compensation expense related to non-vested RSUs was \$170,830 (2020 - \$74,400). The weighted average remaining contractual life for all RSUs outstanding is 9.1 years (December 31, 2020 - 9.4 years).

An analysis of the RSUs outstanding at March 31, 2021, 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
	<u>57,000</u>	<u>7,000</u>		

12. DIVIDENDS

Under the Chesswood revolving credit facility (see Note 7(a) - *Borrowings*), the maximum amount of cash dividends (and/or cost of any repurchases under normal course issuer bids) that the Company can pay in respect of a month is 1/12 of 90% of Free Cash Flow for the most recently completed four financial quarters in which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is defined in the MD&A.

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the three months ended March 31, 2021:

Record date	Payment date	Cash dividend per share (\$)	Total dividend amount (\$ thousands)
December 31, 2020	January 15, 2021	\$ 0.020	\$ 355
January 31, 2021	February 16, 2021	\$ 0.020	353
February 28, 2021	March 15, 2021	\$ 0.020	347
			<u>\$ 1,055</u>

The following dividends were paid to Common Shareholders and Exchangeable Securities holders (included as non-controlling interest) during the three months ended March 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
			<u>\$ 3,723</u>

13. EARNINGS PER SHARE

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

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

	For the three months ended March 31,	
	2021	2020
Weighted average number of common shares outstanding	16,130,230	16,247,961
Dilutive effect of options	191,202	108,914
Dilutive effect of restricted share units	57,000	44,000
Weighted average common shares outstanding for diluted earnings per share	16,378,432	16,400,875
Options excluded from calculation of diluted shares for the period due to their anti-dilutive effect	1,614,950	1,857,450

14. RELATED PARTY TRANSACTIONS

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

	For the three months ended March 31,	
	2021	2020
	(\$ thousands)	
Salaries, fees and other employee benefits	\$ 379	\$ 352
Share-based compensation	62	131
Compensation expense of key management	\$ 441	\$ 483

15. CASH FLOW SUPPLEMENTARY DISCLOSURE

<i>Note</i>	For the three months ended	
	March 31,	
	2021	2020
	(\$ thousands)	
Interest paid	\$ 4,467	\$ 6,215

<i>Note</i>	For the three months ended	
	March 31,	
	2021	2020
	(\$ thousands)	
Other non-cash items included in net income		
Share-based compensation expense	11 \$ 255	\$ 186
Amortization of deferred financing costs	7 992	1,075
Unrealized gain on investments	—	121
Interest expense - premises leases payable	25	37
Unrealized loss on interest rate derivatives	(126)	598
Unrealized (gain) loss on foreign exchange	26	72
	\$ 1,172	\$ 2,089

Change in other net operating assets		
Restricted funds	\$ (2,075)	\$ (3,542)
Other assets	1,407	(948)
Accounts payable and other liabilities	(1,039)	532
Customer security deposits	(623)	(1,088)
	\$ (2,330)	\$ (5,046)

Borrowings

Draw-downs or proceeds from borrowings	7 \$ 158,304	\$ 188,703
Payments - borrowings	7 (113,456)	(145,613)
	\$ 44,848	\$ 43,090

16. 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)	Three months ended March 31, 2021			
	Equipment Financing - U.S.	Equipment Financing - Canada	Corporate Overhead - Canada	Total
Interest revenue on leases and loans	\$ 20,597	\$ 2,322	\$ —	\$ 22,919
Ancillary finance and other fee income	2,553	837	—	3,390
Interest expense	(5,143)	(753)	—	(5,896)
Provision for credit losses	(963)	504	—	(459)
Finance margin	17,044	2,910	—	19,954
Personnel expenses	4,409	552	483	5,444
Share-based compensation expense	16	2	237	255
Other expenses	3,898	405	502	4,805
Depreciation	212	16	10	238
Amortization - intangible assets	—	333	—	333
Operating income	8,509	1,602	(1,232)	8,879
Restructuring costs	—	—	—	—
Goodwill and intangible asset impairment	—	—	—	—
Fair value adjustments - investments	—	—	—	0
Unrealized loss on interest rate derivatives	—	—	124	124
Unrealized loss on foreign exchange	—	—	(26)	(26)
Income (loss) before taxes	8,509	1,602	(1,134)	8,977
Tax expense	2,390	425	(150)	2,665
Net income (loss)	\$ 6,119	\$ 1,177	\$ (984)	\$ 6,312
Net cash from operating activities	\$ (56,670)	\$ 15,465	\$ (2,071)	\$ (43,276)
Net cash used in investing activities	\$ (40)	\$ —	\$ —	\$ (40)
Net cash used in financing activities	\$ (27,277)	\$ (15,101)	\$ 84,650	\$ 42,272
Total assets	\$ 738,259	\$ 127,034	\$ 3,422	\$ 868,715
Total liabilities	\$ 463,327	\$ 92,054	\$ 170,430	\$ 725,811
Finance receivables	\$ 670,743	\$ 112,169	\$ —	\$ 782,912
Goodwill and intangible assets	\$ 20,315	\$ 13,937	\$ —	\$ 34,252
Property and equipment expenditures	\$ 40	\$ —	\$ —	\$ 40

	Three Months Ended March 31, 2020				
	Equipment Financing - U.S.	Equipment Financing - Canada	Other Operations	Corporate Overhead - Canada	Total
<i>(\$ thousands)</i>					
Interest revenue on leases and loans	\$ 26,181	\$ 3,166		\$ —	\$ 29,347
Ancillary finance and other fee income	2,939	999		28	3,966
Interest expense	(6,775)	(1,288)		—	(8,063)
Provision for credit losses	(22,957)	(1,246)		—	(24,203)
Finance margin	(612)	1,631		28	1,047
Personnel expenses	4,073	694		427	5,194
Share-based compensation expense	45	3		138	186
Other expenses	3,877	475	56	494	4,902
Depreciation	257	33		10	300
Amortization - intangible assets	—	333		—	333
Operating income	(8,864)	93	(56)	(1,041)	(9,868)
Goodwill Impairment	—	(11,868)	—	—	(11,868)
Fair value adjustments - investments	—	—	—	(121)	(121)
Unrealized loss on interest rate derivatives	(58)	—	—	(540)	(598)
Unrealized loss on foreign exchange	—	—	—	(72)	(72)
Income before taxes	(8,922)	(11,775)	(56)	(1,774)	(22,527)
Tax expense	(2,519)	9	—	(190)	(2,700)
Net income	\$ (6,403)	\$ (11,784)	\$ (56)	\$ (1,584)	\$ (19,827)
Net cash used in operating activities	\$ (31,613)	\$ 6,400	\$ 153	\$ (1,272)	\$ (26,332)
Net cash used in investing activities	\$ (575)	\$ —	\$ —	\$ —	\$ (575)
Net cash from financing activities	\$ 30,685	\$ (1,791)	\$ —	\$ 10,264	\$ 39,158
Total assets	\$ 810,826	\$ 186,888	\$ 775	\$ 13,209	\$ 1,011,698
Total liabilities	\$ 504,360	\$ 145,184	\$ —	\$ 221,555	\$ 871,099
Finance receivables	\$ 743,308	\$ 152,647	\$ —	\$ —	\$ 895,955
Goodwill and intangible assets	\$ 22,919	\$ 24,230	\$ —	\$ —	\$ 47,149
Property and equipment expenditures	\$ 575	\$ —	\$ —	\$ —	\$ 575

17. SUBSEQUENT EVENTS

Blue Chip Leasing corporation merger - On April 30, 2021 (the Effective Date), the Company acquired a controlling 51% interest in Vault Credit Corporation (Vault) through the following substantive steps:

- (i) A new holding company named CHW / Vault Holdco Corp. (Holdco) was formed, as a wholly owned subsidiary of the Company;
- (ii) The Company's ownership interest in Blue Chip Leasing Corporation (Blue Chip), a wholly owned subsidiary of the Company, was rolled into Holdco and became its wholly owned subsidiary; and
- (iii) Holdco acquired 100% of the outstanding equity in Vault from 2750036 Ontario Inc., Vault's parent entity, by the issuance of common shares representing a 49% interest in Holdco.

The Company exercises control of Vault through the ability to control decisions of the board of directors related to those activities that are most relevant to determining returns. The change of ownership interest of Blue Chip in step (ii) above was a common control reorganization that will be accounted for at consolidated book values.

The acquisition of Vault is expected to increase the Company's receivables portfolio in Canada by approximately \$158 million (based on contractual receivable amounts) on the Effective Date and will enable the Company's continued expansion of the

Canadian equipment financing operation by removing a competitor and through the use of Vault's proprietary technology. Vault will be included in the Canadian Equipment Financing segment.

The estimated consideration paid for the acquisition included:

			As at April 30, 2021
Non-controlling interest in Blue Chip	a	\$	21,200,000
Special warrants	b		15,000,000
		\$	36,200,000

(a) The non-controlling interest in Blue Chip is measured at 49% of Blue Chip's net carrying amount in the consolidated financial statements of the Company at the Effective Date.

(b) A total of 1,600,000 special warrants, each exercisable for the purchase of one common share of the Company. The special warrants vest in equal quarterly tranches for the three years following the closing date.

Full access to Vault's books and records was not obtained until the Effective Date. Vault prepared historical general-purpose financial statements in accordance with private accounting standards. Adjustments will be required, amongst others, to apply IFRS accounting policies that are consistent with the Company's policies. An independent valuator has been retained to identify and measure the fair values of the intangible assets acquired and intangible liabilities assumed in the acquisition but has not yet reported to the Company. Given these factors and the proximity of the Effective Date to the current reporting period the purchase accounting, including the dollar amounts above, has not yet been finalized.

The transaction costs related to the acquisition expensed during the three months ended March 31, 2021 were not significant.

Share Repurchases - Subsequent to quarter end (up to and including May 6, 2021), the Company repurchased 15,500 of its shares under the normal course issuer bid at an average cost of \$9.48.

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.

Tobias Rajchel

Chief Financial Officer

Other Information

Auditors

BDO Canada LLP

Transfer Agent

TSX Trust Company

Corporate Counsel

McCarthy Tétrault LLP

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