



ANNUAL INFORMATION FORM

For the year ended December 31, 2019

MARCH 27, 2020

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, we make written and/or oral forward-looking statements, including in this document and in other filings with Canadian regulators. Forward-looking information consists of disclosure regarding possible events, conditions or results that is based on assumptions about future economic conditions and courses of action and reflect management's current expectations.

Forward-looking statements are provided for the purposes of assisting the reader in understanding our financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future, and the reader is cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding our operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, many of which are beyond our control, affect our operations, performance and results, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to:

- continuing access to required financing (and, for certain subsidiaries, securitization or bulk leasing facilities);
- continuing access to products to allow us to hedge our exposure to changes in interest rates;
- risks of increasing default rates on leases, loans and advances;
- the adequacy of our provision 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, and on our working capital loans;
- dependence on key personnel;
- disruption of business models due to the emergence of new technologies;
- fluctuations in the Canadian dollar to U.S. dollar exchange rate; and
- general economic and business conditions (including the potential effect of the COVID-19 pandemic).

The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. Information contained in forward-looking statements is based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions of historical trends, current conditions and expected future developments, as well as other considerations that are believed to be appropriate in the circumstances, including that the list of factors in the

prior paragraph, collectively, are not expected to have a material impact on us. While we consider these assumptions to be reasonable based on information currently available to management, they may prove to be incorrect.

Other than as specifically required by applicable Canadian law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Readers should also carefully review the risk factors described under “Risk Factors” below and the risk factors described in our management’s discussion and analysis for the year ended December 31, 2019 filed with various Canadian securities regulatory authorities through SEDAR (the System for Electronic Document Analysis and Retrieval) at www.sedar.com.

GLOSSARY

Unless the context indicates otherwise, all references to the “**Corporation**” or “**Chesswood**” refer to Chesswood Group Limited, and all references to “**we**”, “**our**” and “**us**” refers to Chesswood Group Limited and its consolidated subsidiaries. Unless otherwise indicated, amounts are stated in Canadian dollars.

“**Blue Chip**” means Blue Chip Leasing Corporation, a corporation incorporated and subsequently amalgamated under the laws of the Province of Ontario. In this annual information form, references to Blue Chip in respect of the period prior to June 1, 2015 means Blue Chip Leasing Corporation prior to its amalgamation with Northstar Leasing and references to Blue Chip in respect of the period from and after June 1, 2015 means the corporation which resulted from the amalgamation of Blue Chip Leasing Corporation and Northstar Leasing.

“**Case Funding**” means Case Funding Inc., a corporation incorporated under the laws of Delaware.

“**Chesswood Revolving Credit Facility**” means the Corporation’s syndicated revolving credit facility (as currently in effect) of US\$250,000,000, as more fully described under “Development of Business – Credit Facility”.

“**Class A Acquisitionco Shares**” mean the Class A common shares of U.S. Acquisitionco.

“**Class B Acquisitionco Shares**” mean the Class B common shares of U.S. Acquisitionco.

“**Class C Acquisitionco Shares**” means the Class C common shares of U.S. Acquisitionco.

“**Common Shares**” means common shares in the capital of the Corporation.

“**Conversion**” means the plan of arrangement that was carried out pursuant to the OBCA effective January 1, 2011 pursuant to which the Fund converted from an income fund structure to the Corporation, and trust units of the Fund were exchanged for Common Shares on a one-for-one basis.

“**Corporation Entities**” means, collectively, the Corporation and each of its direct and indirect Subsidiaries.

“**Credit Facility Agreement**” means the amended and restated credit agreement dated November 30, 2016, as amended or restated to date, providing for the Chesswood Revolving Credit Facility.

“**Directors**” means the directors of the Corporation.

“**EcoHome**” means EcoHome Financial Inc., a corporation incorporated under the laws of the Province of Ontario.

“**Fund**” means Chesswood Income Fund.

“**Holdings**” means Chesswood Holdings Ltd., a corporation incorporated under the laws of the Province of Ontario.

“**IAS**” and “**IFRS**” mean, respectively, International Accounting Standards and International Financial Reporting Standards.

“**OBCA**” means the *Business Corporations Act* (Ontario) and the regulations thereunder.

“**Operating Companies**” means Pawnee, Blue Chip and Tandem.

“**Pawnee**” means Pawnee Leasing Corporation, a corporation incorporated under the laws of the State of Colorado.

“**Pawnee Vendors**” means Samuel L. Leeper, Robert J. Day and Monfort Family Limited Partnership I, the shareholders of Pawnee at the time of its indirect acquisition by the Fund (or trusts the beneficiaries of which are their family members).

“**Shareholders**” means holders of Common Shares.

“**Special Voting Shares**” means the shares of the Corporation issued to represent voting rights in the Corporation that accompany securities convertible into or exchangeable for Common Shares, including the Class B Acquisitionco Shares and the Class C Acquisitionco Shares.

“**Subsidiary**” means, with respect to an entity, an entity that is directly or indirectly controlled by such entity.

“**Tandem**” means Tandem Finance Inc, a corporation incorporated under the laws of the State of Colorado.

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder.

“**TSX**” means the Toronto Stock Exchange.

“**U.S. Acquisitionco**” means Chesswood US Acquisition Co Limited, a corporation incorporated under the laws of the State of Delaware.

“**Windset**” means Windset Capital Corporation, a corporation incorporated under the laws of the State of Delaware.

**CHESWOOD GROUP LIMITED
ANNUAL INFORMATION FORM**

CORPORATE STRUCTURE

Chesswood Group Limited is governed by the OBCA pursuant to articles of arrangement dated January 1, 2011. The Common Shares are traded on the TSX under the symbol “CHW”. The principal and head office of the Corporation is located at 156 Duncan Mill Road, Unit 15, Toronto, Ontario M3B 3N2.

The Fund, which was the predecessor to the Corporation, was an unincorporated open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to a declaration of trust made on February 16, 2006, as amended and restated on May 2, 2006 in connection with the Fund’s initial public offering. The Fund was created to invest in the financial services industry in Canada and the United States through the acquisition of cars4U Ltd. and the indirect acquisition of Pawnee.

On January 1, 2011, the Fund completed the Conversion involving, among others, the Fund and the Corporation. As a result of the completion of the Conversion and related transactions, the Corporation acquired, directly and indirectly, the Subsidiaries that owned and operated the businesses that were held and operated by the Fund and its Subsidiaries prior to the Conversion. Following the completion of the Conversion, the Fund was wound up and dissolved.

In late 2016 the holding limited partnership through which the Corporation held its shareholder interest in Holdings (the corporation through which the Operating Companies are held) was dissolved. As a result, the Corporation now holds such interest directly.

The financial year end of the Corporation is December 31.

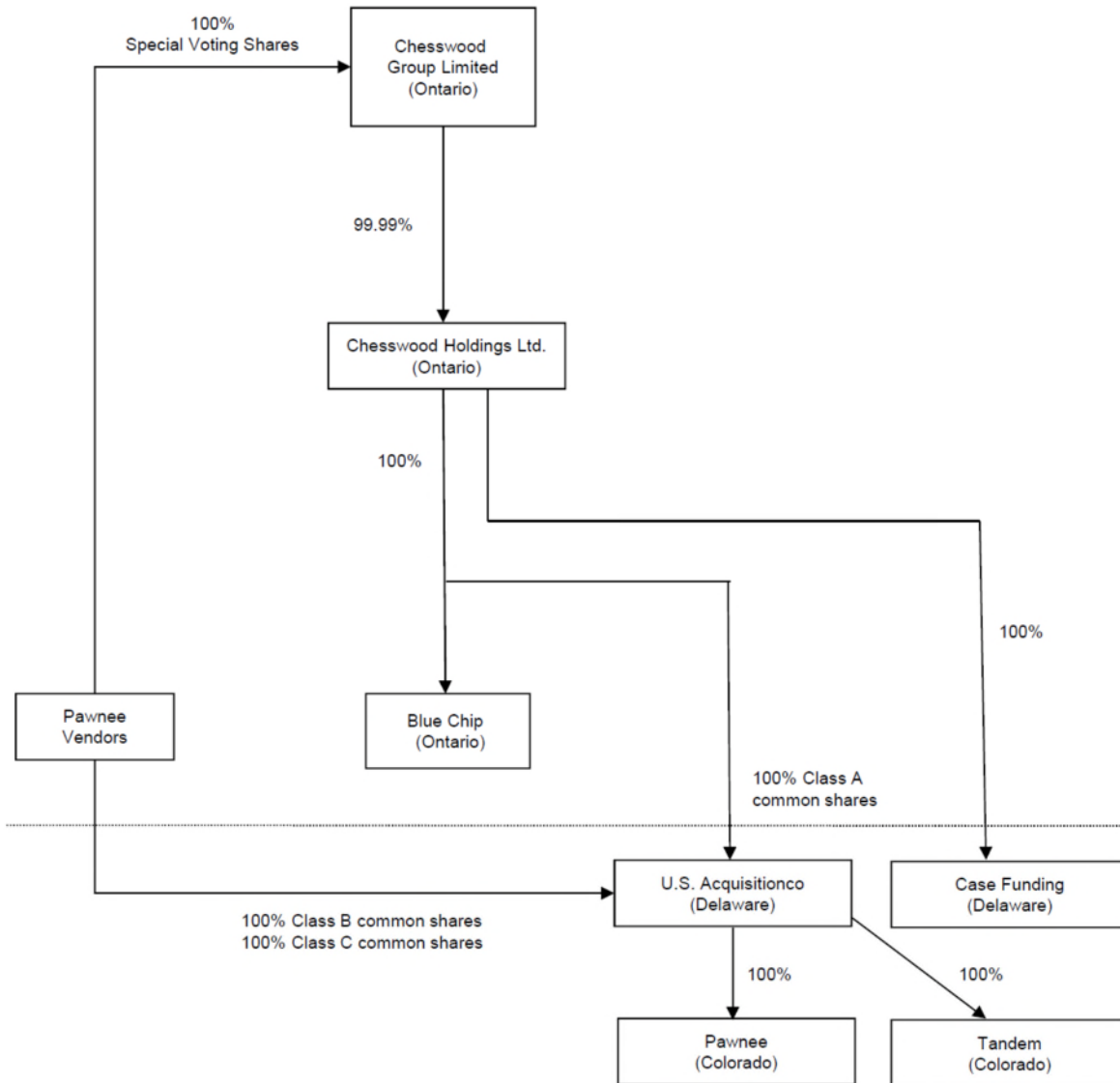
Intercorporate Relationships

The following diagram sets out the current structure of the Corporation and the Operating Companies (and related holding company Corporation Entities), and their respective jurisdictions of incorporation or organization.

As reflected below, each of the Corporation Entities (other than the Corporation itself) is wholly-owned by its direct parent, except U.S. Acquisitionco (the Class A Acquisitionco Shares, which is the only class of voting shares, are indirectly owned by the Corporation and the Class B Acquisitionco Shares and Class C Acquisitionco Shares are owned by the Pawnee Vendors and are exchangeable for Common Shares). In addition, with the exception of U.S. Acquisitionco, for which special arrangements have been made to provide for dividends on the Class B Acquisitionco Shares and Class C Acquisitionco Shares (which provide economic equivalency to any dividends declared on the Common Shares), each of the Corporation Entities has adopted distribution policies which are intended to result in all of their respective distributable cash amounts being distributed through to the Corporation.

Accordingly, this annual information form includes detailed descriptions of (i) the Corporation’s capital structure and the rights of our Shareholders (please see “Description of the Corporation”) and (ii) the capital structure of U.S. Acquisitionco and the rights of its shareholders (please see “Capital Structure and Description of U.S. Acquisitionco”), but does not include descriptions of the capital structures or the attributes of the outstanding securities of the remaining Corporation Entities.

STRUCTURE OF THE CORPORATION



DEVELOPMENT OF BUSINESS

The following is a description of the development of Chesswood's business over the last three financial years, and certain developments during the 2015 financial year which provide background for the last three financial years. As reflected in the description, during these years we completed our transition into a pure commercial equipment finance company, with operating Subsidiaries that have proven track records of success in both the U.S. (Pawnee) and Canada (Blue Chip).

Sales of Case Funding Operations, EcoHome and Acura Dealership

On February 4, 2015, Case Funding completed the sale of its operating assets and most of its portfolio of attorney loans for a purchase price of US\$4,400,000. Case Funding retained an aggregate of US\$8,000,000 of plaintiff advances, medical liens and attorney loans, which are being serviced (collections, recordkeeping, etc.) by a third party. As at December 31, 2019, the aggregate outstanding balance of the retained loans was US\$1.9 million.

On November 17, 2015, Sherway LP (which was indirectly wholly owned by the Corporation) completed the sale of its Acura Sherway new car dealership for a purchase price of approximately \$20.4 million, resulting in a pre-tax gain of approximately \$5.7 million.

On February 18, 2016, the Corporation completed the sale of EcoHome to Dealnet Capital Corp. ("**Dealnet**") for a purchase price of \$35 million, resulting in a pre-tax gain of approximately \$10 million. Of the \$35 million purchase price, \$29 million was paid in cash and Dealnet issued to the Corporation 6,039,689 common shares of Dealnet and a \$2.5 million convertible note which matured and was repaid in February, 2018. On the same date, the Corporation also announced that the Directors had declared a special dividend of \$0.50 per share to Shareholders of record as of February 29, 2016 (such special dividend was paid on March 15, 2016).

The sales of Case Funding's operations, EcoHome and Acura Sherway completed the Corporation's process of becoming focused on its commercial finance businesses and the growth opportunities they offer.

Acquisition of Blue Chip and EcoHome

On March 17, 2015, the Corporation completed its acquisition of all of the shares in the capital of, and certain shareholder loan receivables in respect of, Blue Chip and EcoHome. The aggregate purchase price for such acquisition was \$64,000,000 (of which approximately \$19,444,000 was satisfied through the issue of 1,806,384 Common Shares and the balance was paid in cash). As described above, the Corporation sold EcoHome at a significant profit in early 2016.

Credit Facility

On December 8, 2014, the Corporation entered into a credit facility agreement to initially create the Chesswood Revolving Credit Facility with a syndicate of leading Canadian and U.S. banks. Such agreement was amended and restated by entering into the current Credit Facility Agreement on November 30, 2016. During 2017, the Chesswood Revolving Credit Facility was expanded and renewed. The Credit Facility Agreement now provides for a facility of US\$250 million, with an additional US\$50 million accordion feature. The obligations under the Credit Facility Agreement are secured by first ranking security over all of the assets of the Corporation and guarantees and security from each of the other Corporation Entities. When the Chesswood Revolving Credit Facility was first established in 2014 the Corporation used approximately US\$94 million of its availability to repay and retire Pawnee's credit facility (which had been used to provide the operational funding for both Pawnee and Windset). The Credit Facility Agreement provides for a term to December 8, 2022.

The Chesswood Revolving Credit Facility not only provides significant additional funding to grow the respective financing portfolios of the Operating Companies but also allows significant flexibility for the Corporation to manage and allocate funding amongst the Operating Companies.

The borrowing base for the Chesswood Revolving Credit Facility, which cannot exceed the commitment of the loan, is calculated as either a percentage of eligible gross receivables, a percentage of the net present value of eligible gross receivables, or a percentage of the equipment cost of eligible equipment, of the Operating Companies.

The Credit Facility Agreement contains customary representations, warranties, covenants, conditions to funding and events of default. In particular, the Credit Facility Agreement contains restrictive covenants with respect to certain business matters, including among others, (i) restrictions on capital expenditures in excess of \$1,000,000 in aggregate for the Corporation Entities in any rolling twelve-month period and (ii) restrictions on the aggregate monthly dividends that can be paid and repurchases of Common Shares under issuer bids (these restrictions are detailed in the Corporation's management's discussion and analysis for the year ended December 31, 2019, which is included in the Corporation's 2019 Annual Report).

Securitization and Warehouse Facilities

On October 16, 2017, Pawnee closed its first non-recourse US\$75 million asset-backed facility, which is secured by a portfolio of Pawnee's prime equipment leases and loans. A second US\$50 million facility was closed during 2018. The repayment terms are based on the cash flow of the underlying portfolio. The proceeds from these non-recourse facilities were applied to reduce the outstanding amount under the Chesswood Revolving Credit Facility.

In August 2018, Pawnee closed its first US\$250 million warehouse facility with a syndicate of three major banks which expires in September 2024. The warehouse facility is used to fund most of Pawnee's prime originations before they are securitized.

In June 2019, Pawnee obtained a credit facility with annual capacity of US\$80 million with a life insurance company that expires in June 2027. The funder makes advances to Pawnee on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. Pawnee maintains certain cash reserves (or provides letters of guarantee in lieu of those same cash reserves) as credit enhancements for this facility and retains the servicing of the related finance receivables. Proceeds from advances under this facility are applied to the Chesswood Revolving Credit Facility.

In the fourth quarter of 2019, Pawnee completed its first US\$254 million marketed asset-backed securitization which has a fixed term and fixed interest rate, and is collateralized by certain receivables from Pawnee's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay down Pawnee's warehouse line and the Chesswood Revolving Credit Facility.

Blue Chip has had securitization and bulk lease financing facilities for many years.

Windset Loan Originations Ceased

Windset was formed in August 2013, and formally launched in late September 2013. Windset offered working capital loans in amounts up to US\$125,000 to businesses in many of the 50 states of the U.S. These loans, made only to commercial borrowers, provided the borrowers with working capital to support their business operations.

In September, 2016 Windset management, in conjunction with both Pawnee and Chesswood executives, determined (based on their view that participants in this industry segment were significantly underpricing risk) that Windset should cease originating new loans and wind down the existing portfolio. The last of Windset's remaining loans were collected in 2018.

Redemption of Debentures

The Corporation issued \$20 million principal amount of 6.5% convertible unsecured subordinated debentures (the "**Debentures**") on December 16, 2013.

On December 12, 2017, the Corporation exercised its right to redeem all of the outstanding Debentures (with a redemption date of January 17, 2018). In January 2018, the Corporation paid, in cash, to the Debenture holders an aggregate redemption payment amount of \$20 million in outstanding principal and \$60,548 in accrued and unpaid interest up to the redemption date.

COVID-19

As at the date of this annual information form, businesses are determining their contingency plans for operating in the context of the COVID-19 pandemic. We are no different. We have plans in place today that focus on having our inside staff working remotely (as some are already doing) and the processes for that are underway. We believe that COVID-19 may negatively affect our portfolio performance, and ultimately charge-offs, however there is no way to determine that at this time nor to assess what the potential effects might be. Today, Chesswood has a strong balance sheet with more than \$150 million of equity, modest leverage with our banks, significant liquidity and availability in each of our funding facilities.

We continue to believe that we are in the very late stages of the credit cycle with a correction that seems very close, and perhaps even closer as a result of COVID-19. We therefore remain cautious in underwriting today, especially at Pawnee.

BUSINESS DESCRIPTION

Chesswood is North America's only public company focused exclusively on commercial equipment finance for small and medium-sized businesses. As at December 31, 2019, its primary continuing operations were conducted through the following two Subsidiaries:

- Pawnee, which finances micro and small-ticket commercial equipment in the U.S. through the third party broker channel,
- Tandem, which sources micro and small-ticket commercial equipment originations in the U.S. through the equipment vendor channel, and
- Blue Chip, which finances commercial equipment across Canada.

Business of Pawnee

Overview

The Corporation's largest operations are conducted by Pawnee, which accounted for 83.9% of consolidated revenue and 87.2% of consolidated Operating Income before corporate overhead and intangible asset amortization in the fiscal year ended December 31, 2019. As of December 31, 2019, Pawnee employed 103 full-time equivalent employees.

Established in Fort Collins, Colorado in 1982, Pawnee specializes in providing equipment financing of up to US\$250,000 to small and medium-sized businesses in the United States, 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").

Pawnee initially specialized in providing financing to small businesses in the start-up and the "C" (the "non-prime") segment in the U.S. In September 2008, prior to the financial crisis and in pursuit of growth, Pawnee leveraged its sales channel of equipment finance brokers by expanding its range of products to include the B credit market. This market consists of higher quality credits than Pawnee's historical market segment and is also a significantly larger segment. This was the first meaningful expansion of Pawnee's "core" suite of products. Beginning in 2015, it expanded

its underwriting to include A-rated leases and loans (the “prime” market), originating transactions up to US\$250,000, and may in the future finance equipment costing more than US\$250,000 in this segment.

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.

As the financial crisis took hold in late 2008, Pawnee’s portfolio also experienced more stress; however, it remained profitable by having maintained risk-adjusted pricing in the years leading up to the crisis that were in excess of most of its competitors. A large majority of Pawnee’s competitors, in both the its “Core” (start-up and “C” markets) and B markets were gone by January 2009 - having either retreated to their prime markets, lost their funding or closed their operations. Pawnee was fortunate, therefore, to be able to take advantage of its strong market position and continued access to capital to grow significantly while building a portfolio which, in each product “bucket”, enjoyed unprecedented credit quality due to the also unprecedented contraction in credit markets, especially from 2009 through 2013. With the gradual normalization of credit markets, loss rates in Pawnee's higher yielding market segments have returned to more typical levels. These levels continue to allow Pawnee to generate excellent risk-adjusted returns, but at levels below the years immediately following the crisis, consistent with the pattern seen in past economic cycles.

These gradual expansions in Pawnee’s product offerings have allowed it to become a much more important source of funding to its broker customers, as well as expanding its overall market to include brokers with whom it did not have a prior business relationship. Many brokers concentrate on prime equipment finance customers and therefore did not consider Pawnee as a source for the funding prior to its entry into the prime market.

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

Key Aspects of Business Model

Management believes Pawnee’s long track-record of success is attributable to several key aspects of its business model, including:

- credit underwriting parameters designed to mitigate risk;
- a relationship-driven approach to origination through a well-established and trained network of reputable broker firms;
- portfolio diversification across geographies, industries, equipment classes, origination sources, vendors, equipment cost, and credit classes;
- risk management resources that include credit analyst reviews of all applications, a proprietary credit scorecard to guide consistent analysis and decision-making, and effectively price for risk; and a dedicated and efficient servicing and collection effort; and
- a tenured senior management team.

These five aspects are discussed in greater detail below.

Asset quality at Pawnee begins with underwriting parameters that define a careful approach to doing business and mitigating risk.

Generally:

- Pawnee finances equipment that is fundamental to the core operations of the lessee/borrower's business, reflecting management's view that payments on "business essential" equipment are among the least susceptible to default except in the case of business failure;
- Pawnee operates only in select market segments, excluding certain industries such as agriculture and hazardous materials;
- A personal guarantee of at least the major shareholder(s)/owner(s) and generally all owners are obtained for non-prime credits, with acceptable personal credit profiles a prerequisite for credit approval;
- Business owners are interviewed by Pawnee for verification purposes prior to the commencement of the lease or loan, with site inspections conducted for financings as low as US\$15,000 or more (US\$100,000 for A-rated credits); and
- All scheduled payments for non-prime financings are paid by direct debit from the lessee's/borrower's account, allowing Pawnee's collection team to take immediate action on delinquencies.

Pawnee originates finance receivables through a network of over 600 independent broker firms across the U.S., with a relationship-driven approach and service capabilities that have distinguished it as a first-choice funder.

Risk management begins with the selection and training of broker firms and their staff. Broker principals must have an acceptable personal credit profile, industry references, and preferably a minimum one-year track record in the equipment finance industry. Pawnee's Business Development managers train new and existing brokers and their staff, and develop a knowledge base on Pawnee's underwriting policies and procedures. The training process is instrumental in reducing both the broker and Pawnee time spent reviewing applicants unable to meet Pawnee's credit qualifications. Business Development managers also monitor broker efficiencies in credit application reviews and closings, including applications submitted, approved and ultimately funded.

Pawnee's service-driven focus strengthens the relationships with its customers, helping to support and expand origination volumes. It has become a funder of choice as a result of unique capabilities that improve efficiency and save time for its broker customers, such as consistent credit decisions, rapid response time, a customized broker portal for application submissions, tracking of lease and loan status and documentation and one-stop shopping for all credit-classes.

Pawnee's portfolio of leases and loans is well diversified across geography, brokers, equipment types, industries, vendors, equipment cost, and credit classes.

As of December 31, 2019, Pawnee's portfolio of 19,416 leases and loans, representing US\$632.2 million in gross finance receivables (excluding residual receivables), was diversified, with:

- over 87 equipment categories, with the five largest - restaurant, titled trucks, medical, beauty salons, and construction - accounting for 39.5% of the total number of active leases and loans;

- over 243 industry segments, with no industry representing more than 10.6% of the number of active financings;
- no lessee/borrower accounting for more than 0.13% of the total;
- 48 U.S. states, with no state representing more than 10.0% of the number of total active leases and loans (with the exception of California and Texas, which represented 14.4% and 11.8%, respectively); and
- the largest originator accounting for 6.6% of gross finance receivables, and the ten largest accounting for 38.4%.

Portfolio diversification is maintained, and rebalanced as necessary, through management's regular review of Pawnee's portfolio performance for trends that may indicate changes in the economic or competitive landscape that may necessitate adjustments in Pawnee's approach to doing business in specific credit products, market segments, or asset categories. Significant changes in these and other metrics may result in a detailed review of data including (among others) specific brokers, industry or equipment type, equipment cost, product mix and/or geographic areas.

Risk management resources include a credit analyst's personal review of all applications, a proprietary credit scorecard to guide consistent decision-making and effectively pricing for risk, efficient servicing and collection processes, and other risk management tools.

Pawnee's credit process is not the automated scoring procedure typical of high-volume equipment finance companies, although it does use a significant amount of automation, technology and data for efficiencies and to assist its analysts. Its success in correctly pricing selected credit-worthy businesses is based on a model that engages both human expertise and the latest technology to meet clearly defined standards for asset quality, in an efficient manner. A credit analyst personally reviews all applications and completes a proprietary scorecard designed to ensure all analysts are consistent in their credit reviews and to provide guidance in reaching prudent credit decisions, including pricing.

Additionally, analysts are available to directly assist brokers submitting applications and personally communicate credit decisions, including information on how to improve the likelihood of approval, such as obtaining a business owner's personal credit information and/or guarantee.

Given the importance of limiting defaults to the greatest extent possible, Pawnee emphasizes the employment and retention of experienced personnel, and clearly delineated collection and portfolio servicing processes.

- Pawnee had 103 full-time equivalent employees at 2019 fiscal year-end, of which more than a third were engaged in the collection and servicing processes. Collection and servicing activities are structured to systematically and quickly resolve delinquent leases and loans whenever possible, mitigate losses, and collect post-default recovery dollars.
- Because of Pawnee's requirement that most lease and loan payments be made by direct debit, it can immediately recognize a delinquent account when a direct debit payment is not received on the required due date.
- Generally, when a payment falls 31 days past due, or earlier if investigation reveals an underlying issue at the borrower/lessee level, the account is referred to the appropriate negotiation, repossession/remarketing, bankruptcy or legal specialist on Pawnee's Advanced Collection Team. Through a combination of collecting payments, issuing forbearances, repossessing and selling financed equipment, initiating lawsuits and negotiating settlements, Pawnee regularly remediates a high percentage of past due accounts.

- After 154 days of delinquency, or earlier if Pawnee deems the account uncollectible, the debt is written off. However, collection efforts continue when prospects for recovery through a personal guarantor, sale of equipment, or other remedy warrant. Otherwise, the account is normally assigned to an independent collection agency for further collection efforts, where the primary sources of recovery include payments on restructured accounts, settlements with guarantors, equipment sales, litigation, and bankruptcy court distributions.

Risk management tools and processes are continually monitored and improved to address changes in portfolio performance and in the equipment finance industry, and periodically assessed by outside professionals with statistical expertise.

Pawnee's static pool loss analysis measures finance receivable loss performance by identifying a finite pool of transactions and segmenting it into quarterly or annual vintages according to origination date. Performance by brokers, geographic area, equipment type, industry, transaction size, and product type are among the characteristics examined in these analyses. Under-performing portfolio segments are further examined to identify areas for underwriting adjustment and/or a change in funding guidelines or for other identifiable causes on which corrective action can be taken.

A tenured senior management team

Pawnee's senior management team has a combined 73 years in the industry and has been together for almost 15 years. Pawnee's President was directly responsible for building out its broker network in the company's early years and continues to play an important role in business development.

Funding

Pawnee's leases and loans are presently funded through the following facilities:

- The Chesswood Revolving Credit Facility, which allows borrowings of up to US\$250 million subject to, among other things, threshold levels of eligible finance receivables, and is renewed to December 8, 2022.
- On October 16, 2017, Pawnee closed its first non-recourse US\$75 million asset-backed facility, which is secured by a portfolio of Pawnee's prime equipment leases and loans. A second US\$50 million facility was closed during 2018. The repayment terms are based on the cash flow of the underlying portfolio. The proceeds from these non-recourse facilities were applied to reduce the outstanding amount under the Chesswood Revolving Credit Facility.
- In August 2018, Pawnee closed its first US\$250 million warehouse facility with a syndicate of three major banks which expires in September 2024. The warehouse facility is used to fund most of Pawnee's prime originations before they are securitized.
- In June 2019, Pawnee obtained a credit facility with annual capacity of US\$80 million with a life insurance company that expires in June 2027. The funder makes advances to Pawnee on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. The facility has recourse only to the assets financed. The cost of each loan advance is fixed at the time of each tranche. Pawnee maintains certain cash reserves (or provides letters of guarantee in lieu of those same cash reserves) as credit enhancements for this facility and retains the servicing of the related finance receivables. Proceeds from advances under this facility are applied to the Chesswood Revolving Credit Facility.
- In the fourth quarter of 2019, Pawnee completed its first US\$254 million marketed asset-backed securitization which has a fixed term and fixed interest rate, and is collateralized by certain

receivables from Pawnee's portfolio of equipment leases and loans. Proceeds from the securitization were used to pay down Pawnee's warehouse line and the Chesswood Revolving Credit Facility.

Business of Tandem

In early 2019, the Company launched Tandem, located in Houston, Texas, which 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").

Annual originations in the vendor small-ticket market is estimated to be five times larger than the third-party small-ticket market served by Pawnee and Blue Chip. While the vendor channel has a longer sales cycle than the traditional third-party channel, equipment vendors and distributors generally form long-term partnerships with funders which usually result in programs that generate originations and revenues over many years. As a start-up in 2019, Chesswood had modest revenue expectations for Tandem in its first year of operations and is very pleased that Tandem was able to slightly exceed its 2019 twelve-month target of US\$30 million in originations, despite only ten months of operating activity. Chesswood expected Tandem to generate a net loss of up to \$3.0 million, as it built out Tandem's infrastructure to support the first years' activity as well as a platform for the future.

Tandem had 14 employees at December 31, 2019 and had net expenses of approximately \$584,000 and \$2.2 million for the three months and year ended December 31, 2019, respectively, which are reflected in Chesswood's operating results and income before taxes. Tandem originated US\$31 million in 2019 and was supported by Pawnee's credit, documentation, collection and administrative departments which provides "back-office" support to Tandem.

U.S. Equipment Finance Receivable Portfolio Statistics⁽⁶⁾

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

	Mar 31 2018 ⁽⁵⁾	June 30 2018	Sep 30 2018	Dec 31 2018	Mar 31 2019	June 30 2019	Sep 30 2019	Dec 31 2019
Number of leases and loans	17,037	17,604	17,974	18,179	18,351	18,698	18,879	19,416
Gross lease and loan receivable ("GLR") ⁽¹⁾⁽⁵⁾	\$427,100	\$465,526	\$493,370	\$515,439	\$535,525	\$561,452	\$580,808	\$632,240
Residual receivable	\$17,101	\$17,617	\$18,175	\$18,725	\$19,347	\$20,281	\$20,752	\$21,242
Net investment in leases and loans receivable ("NFR"), before allowance ⁽⁴⁾	\$352,431	\$384,643	\$408,957	\$426,065	\$444,376	\$467,056	\$486,397	\$531,860
Security deposits ("SD") (nominal value) ⁽⁴⁾	\$12,734	\$13,330	\$13,763	\$13,787	\$12,936	\$11,812	\$10,946	\$9,955
Allowance for credit losses ("ACL")	\$15,309	\$15,895	\$15,489	\$15,904	\$17,211	\$17,528	\$18,706	\$21,507
ACL as % of (NFR - SD)	4.51%	4.28%	3.92%	3.86%	3.99%	3.85%	3.93%	4.12%
Over 31 days delinquency (% of GLR) ⁽²⁾	2.10%	1.97%	1.83%	1.89%	2.13%	2.12%	2.25%	2.38%
Net charge-offs for the three-months ended ⁽³⁾	\$3,765	\$3,131	\$3,208	\$3,986	\$3,800	\$3,947	\$4,328	\$5,453
Provision for credit losses for the three- months ended	\$3,379	\$3,717	\$2,802	\$4,059	\$5,106	\$4,380	\$5,479	\$8,508

Notes:

- (1) Excludes residual receivable.
- (2) Over 31-days delinquency includes non-accrual gross lease and loan receivables.
- (3) Excludes the "charge-offs" of interest revenue on finance leases and loans on non-accrual leases recognized under IFRS.
- (4) Excludes adjustment for discounting security deposits and increasing unearned income for interest savings on security deposits.
- (5) At December 31, 2019, approximately 62% of U.S. gross finance receivables (excluding residuals) were in the prime market segment.
- (6) Figures for 2019 include both Pawnee and Tandem.

U.S. Equipment Financing Market Information

The equipment finance market in the U.S. is commonly divided into four segments that are differentiated by the cost or the ticket price of the equipment: micro-ticket (less than US\$25,000), small-ticket (US\$25,000 to US\$250,000), mid-ticket (US\$250,000 to US\$5,000,000) and large-ticket (over US\$5,000,000). The micro and small-ticket portions of the market are further segmented into ranges based on the creditworthiness of the lessee.

“A” credit refers to lessees/borrowers whose credit worthiness commands finance rates at or near the prime lending rate in the market. “B” credit businesses are those that have two or more years of operating history and have some unique aspect to their overall credit profile such that they are not afforded an “A” rated credit score or that the business owner(s) do not have an “A” rated personal credit history. “C” credit requires highly restrictive terms, higher finance rates, security deposits and generally more stringent terms and conditions.

Also active in the micro and small-ticket segment of the equipment finance market are lessees/borrowers that are start-up businesses, whose creditworthiness does not fall into traditional credit categories because of their lack of business credit history. Pawnee’s determination of whether to provide a lease/loan to a “start-up” includes the requirement that the owner(s) and/or guarantors generally demonstrate an “A” rated personal credit history, and that they guarantee the obligations under the finance agreement. The lack of business operating history prevents these businesses from obtaining credit at preferred rates. When deciding to advance credit to a start-up business, Pawnee does not categorize the business in a specific letter grade of credit quality, but views “start-ups” as a separate credit category altogether.

Pawnee and its competitors in the micro and small-ticket segment serve lessees/borrowers that are almost entirely small businesses. Small businesses are often defined by the U.S. Small Business Administration Office of Advocacy as firms having fewer than 500 employees.

There are a variety of equipment finance sources available to small businesses in the United States, including equipment finance companies; national, regional and local finance companies; captive finance and leasing companies affiliated with major equipment manufacturers; home equity loans; credit cards; and financial services companies, including commercial banks, thrifts and credit unions.

The equipment finance industry originates business primarily through the following four channels: (i) equipment vendors; (ii) direct financing by lessee or borrower; (iii) equipment distributor and/or manufacturer captive finance companies; and (iv) third-party equipment finance broker firms. Start-up and “B” credit quality lessees and borrowers in need of equipment finance rely to a significant extent on independent brokers to arrange available financing options and to assist in obtaining financing to purchase equipment, while prime lessees and borrowers are served through all channels. Independent brokers are a significant origination source for new leases and loans, especially in the start-up and “B” credit small-ticket business-essential financing market, and are Pawnee’s only source of originations.

With respect to the equipment vendor channel (which is Tandem’s source of originations):

- “program” oriented vendor finance companies compete to form long-term partnerships with vendors that generate recurring revenue and opportunities for program growth/enhancement over time (cumulative originations);
- sales cycles for program business is lengthy, and vendors have natural inertia in effecting a change in partners;
- vendor channel equipment finance sources do not generally offer the ability to underwrite and fund non-prime transactions, but usually syndicate these opportunities (although syndication results in much slower response times and too many declines); and

- many equipment vendors will not award their programs to equipment finance brokers, preferring a direct relationship with the funders of their customers.

See also “Risk Factors – Competition”.

Business of Blue Chip

Overview

Chesswood’s Canadian operations are conducted by Blue Chip, a company that specializes in micro and small-ticket equipment finance for small and medium-sized businesses since 1996. Blue Chip accounted for 14.3% of consolidated revenue and 22.5% of consolidated Operating Income before corporate overhead and intangible asset amortization in fiscal 2019.

Acquired by Chesswood in March of 2015, Blue Chip had 30 full-time equivalent employees at December 31, 2019. Located in Toronto, Blue Chip originates receivables across Canada which are sourced from a nationwide network of more than 50 independent equipment finance broker firms and through direct, and in-house origination efforts via equipment vendors. It derives substantially all of its revenues from financing leases and loans and related service charges.

Historically, Blue Chip targeted the A-rated or “prime” segment of the credit market for small and medium-sized businesses. Beginning in 2013 and especially following its 2015 amalgamation with Northstar Leasing Corporation (acquired by Chesswood in January 2014), which had focused on non-prime lending in Canada since 1983, Blue Chip expanded its product line to offer a single source of commercial equipment financing across all credit classes.

Blue Chip also provides financing to a small number of condominium corporations for building improvements. These secured loans typically have terms ranging from three to five years with an amortization of three to 25 years. As of December 31, 2019, Blue Chip had two of these loans in its portfolio with a net investment of approximately \$783,000.

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

	Mar 31 2018	June 30 2018	Sep 30 2018	Dec 31 2018	Mar 31 2019	June 30 2019	Sep 30 2019	Dec 31 2019
Number of leases and loans	14,188	14,587	14,494	14,253	14,066	13,896	13,525	13,171
Gross lease and loan receivable (“GLR”)	\$175,681	\$190,466	\$191,365	\$189,917	\$189,960	\$191,111	\$184,938	\$177,402
Net investment in leases and loans receivable (“NIL”), before allowance	\$155,930	\$168,745	\$169,657	\$168,631	\$168,745	\$169,928	\$164,605	\$158,166
Allowance for credit losses (“ACL”)	\$1,731	\$1,974	\$2,127	\$2,233	\$2,278	\$2,464	\$2,551	\$2,372
ACL as % of NIL	1.11%	1.17%	1.25%	1.32%	1.35%	1.45%	1.55%	1.50%
Over 31 days delinquency (% of NIL)	0.34%	0.46%	0.19%	0.25%	0.34%	0.30%	0.45%	0.47%

Key Aspects of Business Model

Management believes Blue Chip’s track record of success is attributable to several key aspects of its business model, including those described below.

Blue Chip has successfully generated originations and earnings by filling a market void created by the tendency of Canadian bank competitors to have slower small ticket processes and a preference to finance larger-ticket equipment, and by Blue Chip's nimbleness in addressing customer needs as an efficient and consistent funding source.

- The micro-ticket segment is a high-volume, low-touch business. Blue Chip has an application, approval, and funding process, designed to speed up credit decisions and automate the preparation of secure documents to meet market demand for rapid funding and customer service excellence.
- Blue Chip also has the expertise in financial analysis and detailed documentation to meet the underwriting requirements of the small-ticket segment.
- Like Pawnee, Blue Chip's value proposition to originators is relationship and service based, with fast and predictable credit decision-making and the convenience of one-stop shopping for commercial equipment financing needs across all credit classes.

Blue Chip's portfolio risk is mitigated by its diversification across geography, origination sources, industry, equipment type, equipment cost and credit class.

As at December 31, 2019, Blue Chip's gross finance receivables portfolio of \$177.4 million (2018: \$189.9 million) consisting of 13,171 leases and loans (2018: 14,253) was well diversified:

- Ontario represented 45.0% of net finance receivables, Alberta represented 20.2% and 34.8% were from the other provinces;
- the five largest equipment categories by volume - industrial, construction, landscaping, truck and trailers - accounted for 59.2% of net finance receivables;
- of its network of more than 50 originators, the largest originator by dollar volume during 2019 accounted for 16.2% of originations; and
- the four largest brokers by dollars financed accounted for approximately 49.4% of originations during 2019.

Effective risk management has made Blue Chip a solid performer in its markets throughout business cycles.

Blue Chip has a focus on thorough credit analysis, consistent decision-making, risk-based pricing, careful broker selection and education, a strong collection effort, and management's continual evaluation of portfolio performance against key performance indicators.

Blue Chip's performance has been enhanced by its success in negotiating a competitive cost of funds.

- The majority of Blue Chip's leases and loans are financed by securitization and bulk lease financing facilities, whereby it sells or assigns the future payment stream of a tranche of leases/loans, on a discounted basis, to a third-party such as a life insurance company or bank. A small percentage of the proceeds is held back in a loss reserve pool or supported by Blue Chip through a letter of guarantee in favour of the funder.
- Blue Chip's multiple funding partners have rigorous monitoring and audit processes, including thorough initial portfolio reviews; site visits; file audits to validate credit decisions, documentation accuracy and security perfection; and monthly compliance certificates attesting to the correctness of portfolio and financial statistics.

- Blue Chip also uses the Chesswood Revolving Credit Facility to provide some operational and warehouse funding.
- Blue Chip recognizes its revenue over the full-term of its finance receivables and not through "gain-on-sale" accounting.

Canadian Equipment Financing Market Information

The business model of commercial equipment finance companies in Canada is based on a number of factors, including the average transaction size. Different deal sizes require different expertise and service levels. The equipment finance market is commonly divided into four segments that are differentiated by the cost or the ticket price of the equipment: micro-ticket (less than \$25,000), small-ticket (\$25,000 to \$250,000), mid-ticket (\$250,000 to \$1,000,000) and large-ticket (over \$1,000,000).

Business models in the commercial equipment finance industry are also distinguished by the origination strategy pursued by equipment finance firms. These strategies include equipment vendor, direct, captive finance companies and indirect (broker) origination models. The equipment vendor segment requires the finance companies to have trained sales people who solicit equipment vendors and that have knowledge of the new and used equipment and the credit requirements needed to obtain funding. Indirect originations involve the purchase of transactions from third parties who originate and package transactions that meet the credit requirements of funding sources like Blue Chip.

Blue Chip's competitors include a variety of equipment financing sources available to small businesses in Canada, including national, regional and local equipment finance companies (many of which are owned by banks); captive finance and leasing companies affiliated with major equipment manufacturers; home equity loans; credit cards; and financial services companies, including commercial banks, thrifts and credit unions.

The micro ticket segment is a high volume, low touch business that requires technology to meet market demand for fast credit decisions, quick funding of transactions and customer service excellence. Transactions in the small ticket segment have the additional requirement of some financial statement analysis and more detailed documentation. Blue Chip has successfully originated strong volumes of transactions from the micro and small ticket markets primarily through its established network of equipment dealers and brokers.

See also "Risk Factors – Competition".

RISK FACTORS

An investment in Common Shares entails various 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 this annual information form, but should also bear in mind that it is not possible to identify or fully describe all potential risks. The risks described below are those which we believe to be the most relevant and significant risks as at the date of this annual information form.

Risks Related to the Businesses of the Operating Companies

Dependence on Key Personnel

The Operating Companies depend to a large extent upon the abilities and continued efforts of their key operating personnel and senior management teams. If any of these persons becomes unavailable to continue in such capacity, or if the Operating Companies are unable to attract and retain other qualified employees, it could have a material adverse impact on our businesses, financial condition and results of operations.

The Corporation is similarly dependent upon its senior management team.

Relationships with Brokers and Other Origination Sources

Pawnee and Blue Chip have formed relationships with hundreds of origination sources, comprised primarily of equipment finance brokerage firms. 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 in Canada where Blue Chip gets a substantial portion of its origination volume from a few large equipment brokerage firms.

Tandem was only recently launched and 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. It is expected that typical relationships will not commit the origination partner to provide a minimum number of transactions to Tandem or require the partner to exclusively direct transactions to Tandem. 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

The 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 operation and on the amount of cash available for dividends to Shareholders. By way of example, any successful challenge to a fee, charge, or procedure authorized by a lease form (including an insurance charge), or to a violation by an Operating Company (or a company engaged in a similar business) of any applicable federal, state or provincial law, would be likely to require a change in business practices of the Operating Company that is the subject of such challenge (or which operates in a similar business). This could include discontinuing the practice of demanding any payments that are deemed vulnerable to similar challenges with the Operating Companies suffering a loss of previously anticipated revenue as a result. There could also be a significant financial obligation by reason of a settlement or judgment involving the Operating Company, as well as risks pertinent to financing facilities, including acceleration and/or loss of funding availability. Publicity regarding involvement in matters of this type, especially if there is an adverse settlement or finding in the litigation, could result in adverse consequences to an Operating Company's reputation that could, among other things, impair its ability to attract further business. The continuing expansion of class action litigation in U.S. and Canadian court actions has the effect of increasing the scale of potential judgements. Defending such a class action or other major litigation could be costly, divert management's attention and resources and have a material adverse impact on our businesses, financial condition and results of operation and on the amount of cash available for dividends to our Shareholders.

Interest Rate Fluctuations

The Corporation and the 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, we finance our activities using both fixed rate and floating rate funds. To the extent the Operating Companies' fixed rate leases and loans are financed with floating rate funds, we 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. If this margin is too narrow or is eliminated it would have a material adverse impact on our businesses,

financial condition and results of operation and on the amount of cash available for dividends to our Shareholders. While we enter into interest rate swaps to mitigate rate fluctuation risk, there can be no assurances that these arrangements will be sufficient to fully protect against interest rate risks, or that we will be able to maintain such arrangements on a continuing basis.

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.

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 have experienced some business or personal credit difficulty at some time in their 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. There can be no guarantee that the delinquency and loss levels of Pawnee's 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 addition, since defaulted leases and loans and certain delinquent leases and loans cannot be used as collateral under our variable rate financing facilities, higher than anticipated lease defaults and delinquencies could adversely affect our liquidity by reducing the amount of funding available to us under these financing arrangements as well as affecting Chesswood's ability to sustain its current level of dividends and/or pay dividends. 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.

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

Our operating results may be negatively impacted by various economic factors and business conditions, including the level of economic activity in the markets in which we operate. To the extent that economic activity or business conditions deteriorate, originations may decrease, 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 to 2013. As the 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. Any of these events 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.

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 lending less attractive or diminish the profitability of the existing financing alternatives offered by the 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 upon our 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 the date of this annual information form, Canada and the U.S. are only weeks into the COVID-19 pandemic. Financial markets and businesses across many industries are already experiencing significant challenges and it will likely be some time before the duration and ultimate severity of the impact will be known. Chesswood expects that, at a minimum, there will be some period of decreased originations and increased delinquencies/charge-offs, perhaps significant.

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, our Operating Companies may have to set aside additional reserves which could 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.

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 operation and the amount of cash available for dividends to our Shareholders.

External Financing

We depend and will continue to depend on the availability of credit from external financing sources to continue to finance new leases/loans, refinance existing leases/loans and satisfy our other working capital needs. We may be unable to obtain additional financing on acceptable terms or at all. If any or all of our funding sources become unavailable on acceptable terms or at all, or if any of our credit, securitization or warehousing facilities are not renewed or re-negotiated upon expiration of their terms, we may not have access to the financing necessary to conduct our

businesses, which would limit our ability to finance our operations and could 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.

“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, the adverse consequences could result with respect to leases entered into in such form, including that:

- the lessee, rather than Pawnee as lessor, would be considered to be the owner of the leased property (with Pawnee having only a security interest in the leased property), and Pawnee would not have the special rights of a lessor in a bankruptcy proceeding or otherwise that generally entitle a lessor to more speedy remedies and higher recoveries than exist for a mere secured party;
- if Pawnee did not file a financing statement describing the leased property, naming the lessee as a debtor/lessee with respect to the leased property, and otherwise complying with the *Uniform Commercial Code* (which Pawnee does not do for leases with an equipment value of less than US\$15,000) Pawnee would not be recognized as having a security interest in the leased property in the context of a bankruptcy of the lessee or otherwise, and could therefore be precluded from recovering significant amounts on its claim, since unsecured creditors often recover much less than their total claims;
- such non-true lease could be subject to limitations on finance charges and other fees determined to constitute “interest” under a relevant state’s usury laws, with excess “interest” (and, depending on the state, possibly the entire lease payment) being deemed uncollectible;
- Pawnee could be determined to owe additional federal income tax (and related penalties) as a result of the different inclusions and deductions applicable to income tax payments owed by lessors with respect to true and non-true leases; and
- Pawnee could be determined to owe additional state sales or similar taxes (and related penalties) as a result of timing differences with respect to the payment of sales taxes on true leases versus non-true leases.

Analogous Risks may be faced by Blue Chip and Tandem.

Case Funding’s non-recourse plaintiff advances may be re-characterized as loans or determined to be improper fee-splitting, which would adversely affect the collectability of the advances.

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 Operating Companies’ existing lease/loan documentation and related business practices. However, there are other risks that the Operating Companies 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. The 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 our business, financial condition and results of operations in the future.

If, due to changes in law or adverse judicial or administrative determinations, lease or loan provisions or business practices affecting a material portion of our leases or loans were determined to be unenforceable, illegal, or impracticable, there could be a material adverse effect on our business, financial condition, and results of operations and on the amount of cash available for dividends to our Shareholders. In this regard, successful challenges (a) to enforceability of (i) the leases and loans in general, (ii) finance charges or other portions of lease payments on categories of leases such as non-true leases, or (iii) charges representing significant portions of our revenue, such as insurance surcharges or late fees and termination payments, or (b) to specific collection or other business practices, would be of more concern than challenges to less material portions of the leases or loans of our business.

Origination, Funding and Administration of Transactions

The 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 their 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 their leases and loans. Pawnee has not been involved in any claims or litigation in relation to such risks and Pawnee does not conduct lien searches in the name of, require lien releases from, or file financing statements against, the lease broker.

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 leased property prior to Pawnee having funded the transaction. It has not been Pawnee's practice to ensure that the title to the 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. We believe that the manner in which Pawnee purchases the equipment is typical in this market segment, especially with respect to similarly situated equipment financing providers. Pawnee has 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. A majority of Pawnee's portfolio is made up of leases and loans originated by brokers and subsequently assigned to Pawnee, although these leases and loans are originated by a large number of brokers such that occurrence of the foregoing broker related risks would only have a material impact on our business, financial condition and results of operations and the amount of cash available for dividends to Shareholders if the occurrence of such risks were related to a high concentration of leases and loans originated by a single broker or a number of higher volume brokers.

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, US\$35,000 for the "B" product and "A" credit to US\$100,000, 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's/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 business, strategy or operations in a fashion that could hamper the ability to conduct business in the future and which could have a material adverse impact on our business, financial condition and results of operations and the amount of cash available for dividends to our Shareholders.

Licensing Requirements

If a relevant 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 lender's 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. Insurance non-compliance fees, in particular, have been the subject of class action litigation in states in which significant numbers of Pawnee's lessees and borrowers are located. Several of these cases have settled with the payment of large sums by the lessors/funders. Many cases involved "force-placed" insurance programs, under which the lessor/funder collected a charge to defray the costs of arranging insurance protection where the lessee/borrower failed to do so as required by the lease or loan. Among other things, the lessees/borrowers alleged that the insurance fees they paid were unreasonably higher than the actual cost of insurance that the lessor/funder arranged or could have arranged and that the lessors/funders did not adequately disclose the risk that the lessee/borrower would suffer this additional cost or the fact that the lessor/funder might profit from the insurance charges. Pawnee levies a non-compliance fee of 1% of the equipment cost per month on its lessees/borrowers who fail to provide timely evidence of insurance to Pawnee or insure the equipment. While this surcharge has never been successfully challenged, there can be no assurance that a successful claim may not be brought in the future. Although our Operating Companies 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 them in relation to fees and charges, which they may or may not be successful in defending.

Other litigation to which certain lessors/funders have been subject has focused on late fees and administrative costs, generally based on similar claims of deceptive statements regarding the purpose of the fee, inadequate disclosure and unreasonable amounts. Our Operating Companies have never been and currently are not a party to any such lawsuits claiming that any such provisions are deceptive, do not contain all adequate disclosure which are made in the lease/loan document and by written notice to the lessee/borrower before collection or the fees are unreasonable.

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 their industry practices in their market segments. Nevertheless, certain attributes of these fees or charges, and their practices, including that their 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 they 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 Operating Companies and their failure to continue to collect most or all 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

A lease or loan requires that the lessee/borrower maintain insurance covering a loss of, or physical damage to, the related equipment or vehicle in an amount that, if paid pursuant to a total loss, is intended to allow the lessor/funder to recover its investment in the property suffering that loss. It is the lessee's/borrower's responsibility to purchase insurance for the equipment and our Operating Companies' documents state that they will not purchase insurance or replacement insurance. Additionally, such documents state that any charges or fees payable for the lessee's/borrower's failure to purchase insurance do not constitute insurance.

To ensure that the lessor or funder of the item of leased or financed property suffering a loss receives the related insurance proceeds, the lease or loan also requires that the lessor or funder 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 the Operating Companies' interest in the equipment, and the failure by the lessee/borrower to obtain insurance or the inability of 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.

The casualty insurance requirements under the lease or loan may not be a reliable source for our Operating Company to recover its investment if the leased property is either damaged and not repaired by the lessee or suffers a casualty.

Lessor Liability

There is a risk that a lessor, such as our Operating Companies, 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, which 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.

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. Our Operating Companies 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 an Operating Company to liability to third parties, which 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.

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 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 or vehicle; the obsolescence of the 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 an Operating Company (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

The business of micro and small-ticket equipment finance in the United States is highly fragmented and competitive. Pawnee and Tandem focus a part 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 main competition comes from equipment finance companies, banks, commercial lenders, home equity loans, and credit cards.

As Pawnee expands its suite of products and targets potential lessees/borrowers with better credit scores, it faces 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 our Operating Companies and have considerably greater financial, technical and marketing resources. Some of them have a lower cost of funds and access to funding sources that are unavailable to our Operating Companies. A lower cost of funds could enable a competitor to offer leases and loans with pricing lower than that of our Operating Companies, potentially forcing our Operating Companies 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. In particular, Pawnee expects to continue to see origination pressure as certain competitors continue to offer underwriting terms and pricing which Pawnee does not believe are consistent with sustainable risk adjusted returns.

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. For example, firms and institutions that typically provide financing for large-ticket or mid-ticket transactions, which generally require higher levels of creditworthiness, could begin competing with Pawnee on micro and small-ticket leases. Also, due to the already large number of diverse financing alternatives for customers with higher creditworthiness, it may be difficult for Pawnee to develop additional products to attract customers with whom it has not historically done business. Because of all these competitive factors, Pawnee may be unable to sustain its operations at its current levels or generate growth in revenues or operating income, which 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.

Similarly, competition from a variety of other funding sources may result in a decrease in demand for Blue Chip's or Tandem's financing products.

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 our Operating Companies' businesses 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 where any one of the following events have occurred: (i) a signature has been forged or the lease/loan is not with the properly documented entity; (ii) the equipment is purported to be new, but is used; (iii) our Operating Company believes the equipment exists, but in fact it does not; (iv) not all of the lessees/borrowers have been identified or the actual lessees/borrowers have not executed the lease/loan documentation; (v) the lessee/borrower has sold the equipment and ceases to make payments; (vi) the equipment has been moved from the location that our Operating Company believes it to be; (vii) the equipment was included in a sale of the business to an unsuspecting or sometimes a conspiring, buyer; (viii) the soft costs are hidden in the cost of the equipment where, if known, would greatly exceed the soft cost allowance set out in our Operating Company broker guidelines; or (ix) titled equipment has not been properly documented. Further, there are other incidents of fraud in broker transactions which to date our Operating Companies have not experienced. These include: (i) the broker funding the lease/loan transaction with more than one finance company; (ii) the selling of equipment where there is no lessee/borrower; or (iii) the equipment being delivered is substantially different from that included in the lease/loan. In cases of fraud, it is difficult and often unlikely that our Operating Companies will be able to collect amounts owing under a lease/loan or repossess the related equipment. 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

The Operating Companies 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 processes. Despite the efforts of our Operating Companies to protect their proprietary rights, unauthorized parties may attempt to obtain and use information we regard as proprietary. Preventing unauthorized use of such proprietary rights may be difficult, time-consuming and costly. There can be no assurance that our Operating Companies will be successful in protecting their proprietary rights.

Failure of Computer and Data Processing Systems

The 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 upon the ability of our Operating Companies to originate and service their lease and loan portfolios 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, result in liability and could 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.

Security Risks

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

Possible Acquisitions; New Business Operations

Acquisitions by the Corporation, 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 the Corporation 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 our growth and profitability, including: (i) the

risk that management may not be able to successfully manage the acquired operations and that the integration may place significant demands on management, diverting their attention from existing operations; (ii) the risk that existing operational, financial and management systems may be incompatible with or inadequate to effectively integrate and manage acquired systems; (iii) the risk that acquisitions may require substantial financial resources that otherwise could be used in the development of other aspects of the business; (iv) the risk that acquisitions may result in liabilities and contingencies, that could be significant to the operations of the Operating Companies; (v) the risk that personnel from the acquisitions and the existing business may not be able to work together successfully; and (vi) the risk that the acquisition may not be accretive to the Corporation, which could affect the operation of our businesses. There is no assurance that such acquisitions will be successfully integrated, and the failure to do so could have a material adverse impact on our businesses, financial condition and results of operations and the amount of cash available for dividends to our Shareholders.

The Corporation recently incorporated Tandem, and its business is being launched. The Corporation may in the future create additional new business entities and/or launch additional new business lines. With respect to Tandem and any such future new entities or business lines, the Corporation will face risks analogous to those described above for acquisitions.

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

The shares of a publicly-traded company will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the 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 Corporation and its Subsidiaries have third party debt service obligations under their respective financing facilities. The degree to which Subsidiaries of the Corporation 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 Corporation; and (iii) certain of our borrowings will be at variable rates of interest, which will expose us to the risk of increased interest rates. Our ability to make scheduled payments of the principal of or interest on, or to refinance, our indebtedness will depend on our future cash flow, which is subject to our assets, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond our control.

The Credit Facility Agreement and the securitization and warehousing facilities of our Operating Companies contain numerous restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of the Operating Companies to create liens or other encumbrances, to pay distributions or to make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the Credit Facility Agreement and such other facilities contain financial covenants that require the Corporation to meet

certain consolidated financial ratios and financial condition tests and require our Operating Companies to meet various conditions and tests, respectively. A failure to comply with such obligations could result in a default which, if not cured or waived, could permit acceleration of indebtedness and could result in termination of dividends by the Corporation to our Shareholders. If any such indebtedness were to be accelerated, there can be no assurance that the assets of the Operating Companies would be sufficient to repay in full that indebtedness we would not be able to fund any new leases or loans. Such a default and the acceleration of the indebtedness would have a material adverse effect on our business, financial condition and results of operations and on the amount of cash available for dividends to our Shareholders.

Structural Subordination of the Common Shares

In the event of a bankruptcy, liquidation or reorganization of Holdings, U.S. Acquisitionco, or any of our other Subsidiaries, holders of certain of their indebtedness and certain trade creditors will generally be entitled to payment of their claims from the assets of Holdings, U.S. Acquisitionco and those other Subsidiaries before any assets are made available for distribution to the Corporation. The Common Shares are effectively subordinated to most of the indebtedness and other liabilities of the Corporation Entities. None of the Corporation Entities is limited in its ability to incur secured or unsecured indebtedness (other than restrictions in the Credit Facility Agreement or our other facility agreements).

Capital Investment

The timing and amount of capital expenditures by the Corporation Entities will directly affect the amount of cash available for dividends by the Corporation.

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 the Operating Companies and their cash flow.

Case Funding Risks

The returns on loans and/or advances made by Case Funding, and thus the returns for Chesswood, depend on litigation outcomes in the form of judgments or settlements. Litigation of individual cases entails a large degree of uncertainty. It is also possible that a claimant may die or abandon his or her case, that the lawyer may abandon the plaintiff's case, or that the defendant, the law firm, or the defendant's insurance carrier may declare bankruptcy. Case Funding is also reliant on the capabilities of the attorneys handling the cases in which it has provided funding to effectively litigate claims with due skill and care. Although Case Funding sought to weigh such uncertainties in the due diligence conducted before making its funding decisions, and intended to reduce risk by funding in a broad array of cases, there can be no assurance that the outcome of any given litigated claim or basket of claims can be predicted, whether or not the probabilities were correctly assessed by Case Funding.

The nature of litigation recoveries, including the timing and amounts recovered, are outside the control of Case Funding. Individual claims may be resolved over drastically varying times: for example, as short as one month, or longer than three years. Case Funding will be required to wait for an indeterminate period of time to fully collect money from judgment recoveries. Therefore, there is no assurance as to collection times, and collections will likely be irregular.

If plaintiffs or law firms to which Case Funding has advanced or loaned funds do not pay Case Funding pursuant to the terms of the advances/loans made, Case Funding may be required to pursue costly legal actions to collect. It is also possible that a plaintiff's attorney or a law firm may attempt to renegotiate the ultimate amount owed to Case Funding or that there is not enough proceeds from the case to repay Case Funding in full. In these situations, Case Funding may have to accept a smaller return than anticipated in order to avoid litigation. The inability of Case Funding to collect or the necessity of legal action to collect could ultimately harm or reduce the potential cash flow.

Canadian Income Tax Matters

The income of the Corporation Entities must be computed in accordance with Canadian and foreign tax laws, as applicable, and the Corporation and Blue Chip are subject to Canadian tax laws, all of which may be changed in a manner that could adversely affect the amount of distributable cash.

United States Income Tax Matters

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

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

It is possible that U.S. "corporate inversion" tax rules could apply to U.S. Acquisitionco's acquisition of Pawnee. If these rules were to apply, they could prevent certain types of income of Pawnee from being offset by certain tax attributes such as loss carryforwards. However, because it is not anticipated that Pawnee will have significant amounts of the types of income that are subject to these rules, the potential adverse effect of these rules are not expected to be significant.

This discussion does not deal with all aspects of U.S. federal taxation that may be relevant to non-U.S. Shareholders including, without limitation, non-U.S. Shareholders subject to special treatment under the U.S. federal income tax laws, non-U.S. Shareholders who are engaged in a U.S. trade or business or who have relinquished U.S. citizenship or ceased to be treated as U.S. resident aliens. It also does not address U.S. state, local, gift, estate or alternative minimum tax issues. Each person should seek advice based on the person's particular circumstances from an independent tax advisor.

Environmental risk

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

DISTRIBUTIONS AND DIVIDENDS

The Corporation paid dividends of \$0.05 per Common Share in respect of each of the months after the Conversion to April 2012, reflecting an increase from the distribution rate of \$0.045 per Fund trust unit prior to the Conversion. On May 4, 2012, the Corporation announced an increase in the monthly cash dividend to \$0.055 per Common Share (an increase of \$0.005 per Common Share), effective with the dividend for the month of May 2012. On February 7, 2013, the Corporation announced an increase in the monthly cash dividend to \$0.06 per Common Share (an increase of \$0.005 per Common Share), effective with the dividend for the month of February 2013. On November 4, 2013, the Corporation announced an increase in the monthly cash dividend to \$0.065 per Common Share (an increase of \$0.005 per Common Share), effective with the dividend for the month of November 2013, payable in December 2013. On November 8, 2016, the Corporation announced an increase in the monthly cash dividend to \$0.07 per Common Share (an increase of \$0.005 per Common Share), effective with the dividend for the month of November 2016, payable in December 2016. The Corporation paid dividends of \$0.07 per Common Share in respect of each of the months from November 2016 to present.

On February 18, 2016, following the completion of the sale of EcoHome, the Corporation announced a special dividend of \$0.50 per share (an aggregate divided amount of \$8.9 million) for Shareholders of record on February 29, 2016, which was paid on March 15, 2016.

Cautionary Note Regarding Future Dividends

The amount of any dividends payable by the Corporation will be at the discretion of the Directors, will be evaluated on an ongoing basis, and may be revised subject to business circumstances and expected capital requirements depending on, among other things, our earnings, financial requirements for the Operating Companies, growth opportunities, the satisfaction of applicable solvency tests for the declaration and payment of dividends and other conditions existing from time to time.

CAPITAL STRUCTURE AND DESCRIPTION OF THE CORPORATION

Common Shares

The Corporation is authorized to issue an unlimited number of Common Shares, of which 16,247,961 were issued and outstanding as of March 26, 2020.

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 Directors. The Shareholders will also be entitled to share equally, share-for-share, in any distribution of the assets of the Corporation upon the liquidation, dissolution or winding-up of the Corporation 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 Corporation can be found in the Corporation's Articles and by-laws, which have been filed under the Corporation's profile on SEDAR at www.sedar.com.

Special Voting Shares and Exchange Rights for Holders of U.S. Acquisitionco Shares

In connection with the acquisition of Pawnee by U.S. Acquisitionco, U.S. Acquisitionco issued to the Pawnee Vendors an aggregate of 1,274,601 Class B Acquisitionco Shares and 203,936 Class C Acquisitionco Shares. Each Class B Acquisitionco Share and Class C Acquisitionco Share is exchangeable (for no additional consideration) on a one-for-one basis for Common Shares, and are exchangeable at any time (prior to the Conversion, such shares were exchangeable on a one-for-one basis for trust units of the Fund). The Class B Acquisitionco Shares and Class C Acquisitionco Shares entitle the holders to per share distributions equal to any dividends made on the Common Shares.

In order to provide voting equivalency to the holders thereof with the rights of the holders of Common Shares, the Class B Acquisitionco Shares and Class C Acquisitionco Shares are non-voting, but one special voting share of the Corporation (each, a "**Special Voting Share**") was issued for (and effectively attached to) each Class B Acquisitionco Share and Class C Acquisitionco Share (prior to the Conversion, one special voting unit of the Fund was issued for each such share). Each Special Voting Share entitles the holder thereof to a number of votes at any meeting of Shareholders equal to the number of Common Shares which may be obtained upon the exchange of the Class B Acquisitionco Share or the Class C Acquisitionco Share to which the Special Voting Share relates. As of March 24, 2017, the Corporation had 1,478,537 issued and outstanding Special Voting Shares.

Except for the right to be counted towards a quorum and to requisition, vote at, and receive materials for, meetings of Shareholders, the Special Voting Shares do not confer any other rights upon the holders.

The amended and restated share exchange agreement with the Pawnee Vendors provides that if a non-exempt take-over bid from a person acting at arm's length to the holders of Class B Acquisitionco Shares and Class C Acquisitionco Shares (the "**Exchangeable Securities**") (or any affiliated entity or associate thereof) is made for the Common Shares and a contemporaneous identical offer is not made for the Exchangeable Securities (in terms of price, timing, proportion of securities sought to be acquired and conditions; provided that the offer for Exchangeable Securities may be conditional on Common Shares being taken up and paid for under the take-over bid), then all limitations on the exchange and transfer of Exchangeable Securities will terminate and, provided that (i) not less than 25% of the Common Shares (other than Common Shares held at the date of the take-over bid by or on behalf of the offeror or associates or affiliated entities of the offeror) are taken-up and paid for pursuant to the non-exempt bid from

and after the date of first take-up of Common Shares under the said take-over bid and (ii) the take-over bid is not for any and all Common Shares tendered or is not structured such that holders of Exchangeable Securities can exchange into Common Shares conditional on take-up, the Exchangeable Securities will be exchangeable at an exchange ratio equal to 100% of the exchange ratio previously in effect, such that, based on the current one-to-one exchange ratio, on exchange the holder of Exchangeable Securities will receive one Common Share for each Common Share that the holder would otherwise have received. Notwithstanding any adjustment on completion of an exclusionary offer as described above, the voting rights attaching to the Special Voting Shares will not be similarly adjusted, and the distribution rights attaching to the Exchangeable Securities will not be adjusted until the exchange right is actually exercised.

Dividend Policy

The Corporation paid dividends of \$0.05 per Common Share in respect of each of the months after the Conversion to April 2012, reflecting an increase from the distribution rate of \$0.045 per Fund trust unit prior to the Conversion. On May 4, 2012, the Corporation announced an increase in the monthly cash dividend to \$0.055 per Common Share (an increase of \$0.005 per Common Share), effective with the dividend for the month of May 2012. On February 7, 2013, the Corporation announced an increase in the monthly cash dividend to \$0.06 per Common Share (an increase of \$0.005 per Common Share), effective with the dividend for the month of February 2013. On November 4, 2013, the Corporation announced an increase in the monthly cash dividend to \$0.065 per Common Share (an increase of \$0.005 per Common Share), effective with the dividend for the month of November 2013, payable in December 2013. On November 9, 2016, the Corporation announced an increase in the monthly cash dividend to \$0.07 per Common Share (an increase of \$0.005 per Common Share), effective with the dividend for the month of November 2016, payable in December 2016. The amount of any dividends payable by the Corporation is at the discretion of the Directors, is evaluated on an ongoing basis, and may be revised subject to business circumstances and expected capital requirements depending on, among other things, our earnings, financial requirements for the Operating Companies, growth opportunities, the satisfaction of applicable solvency tests for the declaration and payment of dividends and other conditions existing from time to time.

Repurchase of Common Shares

The Corporation is allowed, from time to time, to purchase Common Shares for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases will constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof (or, if applicable, available exemptions therefrom). See “Normal Course Issuer Bid”.

Information and Reports

The Corporation furnishes to Shareholders and holders of Special Voting Shares, in accordance with applicable securities laws, all financial statements of the Corporation (including quarterly and annual financial statements and certifications) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Shareholders’ tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Shareholders, the Directors will provide to the Shareholders and the holders of Special Voting Shares (along with notice of the meeting) all information, together with such certifications, as is required by applicable law to be provided to Shareholders and holders of Special Voting Shares.

The Directors and the directors and senior officers of the other Corporation Entities are required to file insider reports and comply with insider trading provisions under applicable Canadian securities legislation in respect of trades made by such persons in Common Shares.

Book-Entry Only System

Registration of interests in, and transfers of, the Common Shares are made only through the book-entry only system (the “**Book-Entry Only System**”) administered by The Canadian Depository for Securities Limited (“**CDS**”). Common Shares must be purchased and transferred through a participant in the CDS depository service. All rights of a Shareholder must be exercised through, and all payments or other property to which a Shareholder is entitled will be made or delivered by, CDS or the CDS participant through which the Shareholder holds the Common Shares. Upon a purchase of any Common Shares, the Shareholder will receive only a customer confirmation from the registered dealer which is a CDS participant and from or through which the Common Shares are purchased. References in this annual information form to a Shareholder means, unless the context otherwise requires, the owner of the beneficial interest in those Common Shares.

The ability of a beneficial owner of Common Shares to pledge those shares or otherwise take action with respect to the Shareholder’s interest in those shares (other than through a CDS participant) may be limited due to the lack of a physical certificate.

The Corporation has the option to terminate registration of the Common Shares through the Book-Entry Only System, in which case certificates for the Common Shares in fully registered form would be issued to beneficial owners of those Common Shares or their nominees.

CAPITAL STRUCTURE AND DESCRIPTION OF U.S. ACQUISITIONCO

General

U.S. Acquisitionco is a corporation incorporated under the laws of the State of Delaware for the purpose of acquiring all of the outstanding shares of Pawnee.

Share Capital

The authorized capital of U.S. Acquisitionco consists of an unlimited number of Class A Acquisitionco Shares, Class B Acquisitionco Shares and Class C Acquisitionco Shares. All of the Class A Acquisitionco Shares are owned by Holdings and all of the Class B Acquisitionco Shares and Class C Acquisitionco Shares are owned by the Pawnee Vendors.

The Class A Acquisitionco Shares are voting common shares in the capital of U.S. Acquisitionco and the Class B Acquisitionco Shares and the Class C Acquisitionco Shares are non-voting common shares in the capital of U.S. Acquisitionco. The Class B Acquisitionco Shares and Class C Acquisitionco Shares are exchangeable, indirectly, on a one-for-one basis (subject to customary anti-dilution provisions and dilutive adjustments in certain circumstances as described under “Exchange Rights”) for Common Shares at the option of the holders (prior to the Conversion, such shares were exchangeable on a one-for-one basis for Fund trust units). Exchange rights in respect of the Class B Acquisitionco Shares and the Class C Acquisitionco Shares may be exercised at any time. In addition, distributions or advances to be made to holders of Class B Acquisitionco Shares and Class C Acquisitionco Shares are, to the greatest extent practicable, economically equivalent to any cash dividends made on the Common Shares.

While a majority of the source of cash to date for monthly distributions by the Fund on its trust units prior to the Conversion and by the Corporation since the Conversion originated from the business of Pawnee, a portion originates from the businesses of Blue Chip and Case Funding, and such cash is not distributed through U.S. Acquisitionco. As a result, in order to provide distributions on the Class B Acquisitionco Shares and the Class C Acquisitionco Shares which reflect a *pro rata* entitlement as contemplated above, the distributions on the Class B Acquisitionco Shares and Class C Acquisitionco Shares represent a disproportionately larger portion per share of the aggregate distributions paid by U.S. Acquisitionco than the distributions paid on the Class A Acquisitionco Shares.

Distributions

Each Class B Acquisitionco Share and each Class C Acquisitionco Share entitles the holder thereof to dividends, to be declared and paid substantially concurrently with the declaration and payment of dividends by the Corporation to the Shareholders, with the amount to be distributed per share to be the U.S. dollar equivalent of the per Common Share amount being paid by the Corporation. The U.S. dollar equivalent of the per Common Share amount being paid will be determined using a spot rate on the date a dividend is paid to the holders of Class B Acquisitionco Shares or Class C Acquisitionco Shares. The balance of U.S. Acquisitionco's distributable cash will be distributed to Holdings, as the holder of all of the Class A Acquisitionco Shares.

Distributions are made on the Class A Acquisitionco Shares, Class B Acquisitionco Shares and Class C Acquisitionco Shares in a manner consistent with the Corporation's payment of dividends; however U.S. Acquisitionco may, in addition, make a distribution at any other time.

U.S. Acquisitionco's distributable cash will represent, in general, all of its cash, after:

- satisfaction of its debt service obligations (principal and interest);
- satisfaction of its other obligations (including withholding and other applicable taxes); and
- retaining reasonable reserves for administrative and other expense obligations and reasonable reserves for capital expenditures (if any) as may be considered appropriate by its board of directors.

Exchange Rights

On completion of the Fund's indirect acquisition of Pawnee, the Fund, U.S. Acquisitionco and the Pawnee Vendors entered into a share exchange agreement. This share exchange agreement granted the Pawnee Vendors the right to effectively exchange, on a one-for-one basis, through a series of steps, all or any portion of their Class B Acquisitionco Shares and Class C Acquisitionco Shares for Fund trust units. This share exchange agreement was amended and restated to reflect the exchange of Fund trust units for Common Shares as a result of the Conversion. Exchange rights in respect of the Class B Acquisitionco Shares and Class C Acquisitionco Shares may be exercised at any time.

The exchange procedure may be initiated at any time by the holder of a Class B Acquisitionco Share or a Class C Acquisitionco Share so long as all of the following conditions have been met:

- (i) the Corporation is legally entitled to issue the Common Shares in connection with the exercise of the exchange rights; and
- (ii) the person receiving the Common Shares upon the exercise of the exchange rights complies with all applicable securities laws.

The amended and restated share exchange agreement provides that if requested by a holder of Class B Acquisitionco Shares and/or Class C Acquisitionco Shares, the Corporation will cause a purchaser (other than the Corporation or an affiliate of the Corporation) of securities of U.S. Acquisitionco or any permitted assignee to purchase a *pro rata* portion of the securities of U.S. Acquisitionco held by such holder, on the same terms and subject to the same conditions as are applicable to the purchase of securities of U.S. Acquisitionco by the purchaser. The Corporation will be entitled, in connection with the direct or indirect sale of all of its interests in U.S. Acquisitionco, to require holders of Class B Acquisitionco Shares or Class C Acquisitionco Shares, as applicable, or any permitted assignee to sell its securities in U.S. Acquisitionco on the same conditions as are applicable to the Corporation's direct or indirect sale of all other interests in U.S. Acquisitionco, and upon the Corporation making such request and completing such sale, the holder of the Class B Acquisitionco Shares or Class C Acquisitionco Shares, as applicable, or any permitted assignee will have no further interest in U.S. Acquisitionco.

With the exception of administrative changes for the purpose of adding covenants for the protection of the holders of the Class B Acquisitionco Shares and Class C Acquisitionco Shares, and the making of necessary amendments or curing ambiguities or clerical errors (in each case provided that the Directors and the board of directors of U.S. Acquisitionco are of the opinion that such amendments are not prejudicial to the interests of the holders of the Class B Acquisitionco Shares or Class C Acquisitionco Shares), the share exchange agreement may not be amended without the approval of all the holders of the Class B Acquisitionco Shares and the Class C Acquisitionco Shares.

CURRENCY AND INTEREST RATE HEDGING POLICY

Certain Corporation Entities generate cash flows and earn income in Canadian dollars while others (most notably Pawnee) generate cash flows and earn income in U.S. dollars in the ordinary course. The currency mix of cash flows and earnings depends on factors which vary from period to period. In particular, cash flows from Pawnee (which are expected to continue to represent a significant majority of the cash flows of the Operating Companies) will be in U.S. dollars, while any dividends the Corporation makes to Shareholders are paid in Canadian dollars. At December 31, 2019, the Corporation did not have any currency hedging arrangements with respect to the anticipated amounts of U.S. dollars to be paid up from its U.S. Corporation Entities. Management from time-to-time may enter into foreign exchange hedges as it deems appropriate.

Intended to offset a portion of the variable interest rate risk on the Chesswood Revolving Credit Facility, the Corporation entered into interest rate swap agreements in the third quarter of 2015 that provide for payment of an annual fixed rate, in exchange for a LIBOR based floating rate amount. At December 31, 2019, the fair value of the swaps were a liability of \$293,000 (2018 – an asset of \$455,000).

Pawnee's non-recourse asset-backed facility requires it to mitigate interest rate risk by entering into an interest rate cap for a notional amount of not less than 80% of the aggregate outstanding balance. The interest rate cap is tied to the repayment terms of the underlying finance receivables portfolio supporting the Pawnee facility, through the maturity date, with a floating index rate based on USD-LIBOR-BBA, but subject to a capped fixed rate. At December 31, 2019, the fair value of the cap was an asset of \$60,000 (2018 – \$441,000).

MARKET FOR SECURITIES

The Common Shares are listed and posted for trading on the TSX 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 period from January 1, 2019 to December 31, 2019, as reported by the TSX.

2019	High	Low	Average Daily Volume
January	\$11.90	\$10.25	25,126
February	\$11.94	\$11.41	18,200
March	\$12.45	\$10.83	24,820
April	\$11.15	\$10.10	19,576
May	\$10.52	\$9.64	20,589
June	\$10.30	\$9.82	16,098
July	\$10.10	\$9.78	16,840
August	\$9.82	\$8.41	24,376
September	\$9.90	\$8.75	19,340
October	\$11.06	\$9.30	21,455
November	\$11.10	\$8.95	28,188
December	\$10.73	\$9.90	18,315
	\$12.45	\$8.41	21,136

NORMAL COURSE ISSUER BID

Current NCIB

Pursuant to a Notice of Intention to Make a Normal Course Issuer Bid dated August 22, 2019, the Corporation commenced a normal course issuer bid (a “**NCIB**”) to repurchase for cancellation up to 1,031,791 Common Shares, representing approximately 10% of the public float of Common Shares outstanding as of August 20, 2019. Purchases under this NCIB were permitted to commence on the TSX on August 26, 2019 and will terminate on August 25, 2020. Purchase and payment for the Common Shares are made by the Corporation in accordance with the rules and policies of the TSX and the price for any Common Shares so acquired is the market price of the Common Shares at the time of acquisition. As of March 26, 2019, no Common Shares had been repurchased under this NCIB.

Additionally, the Corporation has entered into an automatic share purchase plan with a broker for the purpose of permitting the Corporation to repurchase Common Shares under the NCIB at times when the Corporation 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 Corporation has established.

Previous Year’s NCIB

Pursuant to a Notice of Intention to Make a NCIB dated August 23, 2018, the Corporation commenced a NCIB to repurchase for cancellation up to 1,043,895 Common Shares, representing approximately 10% of the public float of Common Shares outstanding as of August 22, 2018. Purchases under this NCIB were permitted to commence on the TSX on August 25, 2018 and terminated on August 24, 2019. From August 25, 2018 to December 31, 2018, the Company repurchased 206,340 of its common shares under this normal course issuer bid at an average cost of \$10.2412 per share. From January 1, 2019 to August 24, 2019, the Company repurchased 78,020 of its shares under the normal course issuer bid at an average cost of \$10.3583 per share.

DIRECTORS AND OFFICERS

The names, province or state, and country of residence of each of the persons who are Directors and officers of the Corporation, their respective positions and offices held, their respective principal occupations during the five preceding years, and the number of Common Shares beneficially owned, or controlled or directed, directly or indirectly, is set out below. The term of office for each of the Directors will expire at the time of the next annual meeting of the Shareholders. Except as otherwise indicated below, it is expected that each of the current Directors will be nominated for re-election at the Corporation’s next annual meeting, to be held on May 12, 2019.

Name and Municipality of Residence	Position(s) ⁽⁵⁾	Principal Occupation	Common Shares held ⁽⁶⁾
FREDERICK W. STEINER ⁽¹⁾⁽²⁾⁽³⁾ Toronto, Ontario Canada	Director	Retired. Until June 30, 2018, Chief Executive Officer of Imperial Coffee and Services Inc. (an office food and beverage distribution company)	1,179,732 Common Shares
BARRY SHAFRAN Toronto, Ontario Canada	Chief Executive Officer of the Corporation, Director, Chief Executive Officer of Pawnee	President and Chief Executive Officer of the Corporation	159,750 Common Shares
DAVID OBRONT ⁽¹⁾⁽³⁾ Toronto, Ontario Canada	Director	President of Carpool Two Ltd. (a private investment company)	39,400 Common Shares

Name and Municipality of Residence	Position(s)⁽⁵⁾	Principal Occupation	Common Shares held⁽⁶⁾
CLARE R. COPELAND ⁽¹⁾⁽³⁾⁽⁴⁾ Toronto, Ontario Canada	Director	Vice-Chair of Ontario Cannabis Retail Corporation	51,085 Common Shares
SAMUEL L. LEEPER ⁽¹⁾⁽⁴⁾ Tucson, Arizona United States	Director	Retired	254,920 Special Voting Shares (related to Class B Acquisitionco Shares) 40,787 Special Voting Shares (related to Class C Acquisitionco Shares) 158,243 Common Shares
ROBERT J. DAY ⁽¹⁾ Austin, Texas United States	Director	Retired	148,612 Common Shares 594,474 Special Voting Shares (related to Class B Acquisitionco Shares) 95,116 Special Voting Shares (related to Class C Acquisitionco Shares)
LISA STEVENSON Toronto, Ontario Canada	Director of Finance of the Corporation	Director of Finance of the Corporation	139,370 Common Shares

Notes:

- (1) Independent Director.
- (2) Chairman of the board of Directors.
- (3) Member of the Audit, Finance and Risk Committee.
- (4) Member of the Governance, Nominating and Compensation Committee.
- (5) Each of the persons above who is a Director has been a Director since December 24, 2010 (other than Mr. Shafran, who has been a Director since March 19, 2010). Prior to the Conversion, each of such persons (other than Mr. Shafran) served as a director of the Fund's administrator (and, in certain cases, also as a trustee of the Fund) until the effective date of the Conversion, being January 1, 2011.
- (6) As of March 26, 2019.

As of March 26, 2019, the Directors and executive officers of the Corporation, as a group, beneficially own, directly or indirectly, approximately 17.94% of the outstanding Common Shares (assuming the exchange of the 985,297 Class B Acquisitionco Shares and Class C Acquisitionco Shares held by certain Directors).

The biographies for each of the Directors and senior officers of the Corporation are set out below and where not otherwise stated, the current position and occupation as set out in their respective biography has been held by such person for the last five years.

Clare R. Copeland

Mr. Copeland is the Vice-Chair of Ontario Cannabis Retail Corporation. Mr. Copeland was the Vice-Chair of Falls Management Company, a commercial development and casino in Niagara Falls, Ontario. Mr. Copeland is a former Chairman of Toronto Hydro Corporation, a position held from 1999 until May 2013, Mr. Copeland was Chairman and Chief Executive Officer of OSF Inc., a manufacturer of retail store interiors, from the beginning of 2000 until April 2002 and he was Chief Executive Officer of People's Jewellers Corporation, a jewellery retailer, from 1993 to May 1999. Mr. Copeland is also a director of Telesat and Ontario Cannabis Retail Corporation.

Frederick Steiner

Mr. Steiner was until recently the Chief Executive Officer of Imperial Coffee and Services Inc., a company he started in 1974. Imperial is the largest independent coffee and vending company in Canada. Mr. Steiner was a co-founder of the Corporation's predecessors.

Barry Shafran

Mr. Shafran is the President and Chief Executive Officer of the Corporation, Chief Executive Officer of Pawnee, and was the President and Chief Executive Officer of the Fund's administrator since the commencement of the Fund's operations. Prior thereto, Mr. Shafran was President and Chief Executive Officer of cars4U Ltd. From June 1998 to July 1999, Mr. Shafran served as the Director of Business Development and Senior Vice-President of Operations of CryptoLogic Inc. From November 1996 to June 1998, Mr. Shafran was President of Modern Building Cleaning Inc., a founding shareholder of Brukar Inc., an importer of custom metal components for the food services industry, and served as President of Selena Coffee Ltd. from 1989 to 1994. A Chartered Professional Accountant (CPA, CA), Mr. Shafran also holds a Bachelor of Arts degree in Commerce from the University of Toronto.

David Obront

Mr. Obront joined cars4U Ltd. following the sale of his dealership, Acura Sherway, to cars4U Ltd. in November 1999. He is currently President of Carpool Two Ltd., an investment holding company. Mr. Obront holds an MBA from the University of Western Ontario and a BA Commerce/Economics from the University of Toronto.

Robert J. Day

Robert J. Day founded Pawnee in 1982 and continues to serve on the board of directors of both Pawnee and the Corporation. Mr. Day received his B.S. degree in Finance from the University of Tennessee in 1965. Following graduation he spent four years with the U.S. Marine Corps. Upon discharge from the Marines, he spent two years in banking and finance before returning to school and obtaining a degree in Optometry from Southern California College of Optometry in 1976.

Samuel L. Leeper

Sam L. Leeper joined Pawnee in 1997. Mr. Leeper's professional career includes 27 years in banking, with a focus on credit and general administration. From 1982 to 1987, he served as President of Intra West Bank of Greeley and from 1987 to 1988 served as President of United Banks of Fort Collins, Colorado and prior to joining Pawnee, Mr. Leeper served as Senior Vice President of Bank One Colorado. He received his B.S. degree in Engineering from the University of Illinois in 1963 and an MBA from Indiana University in 1968.

Lisa Stevenson

Ms. Stevenson is the Director of Finance of the Corporation and was the Director of Finance of the Fund's administrator since the commencement of the Fund's operations. Prior thereto, Ms. Stevenson was the Director of Finance of cars4U Ltd. since February 2000. From 1997 to 1999, Ms. Stevenson served as Controller of CryptoLogic Inc. A Chartered Professional Accountant (CPA, CA), Ms. Stevenson also has an MBA from Saint Mary's University as well as a Bachelor of Business Management from Ryerson Polytechnic University.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

To the Corporation's knowledge, based on information supplied by the Directors and executive officers, except as described below, no Director or executive officer has, within the ten years preceding the date of this annual information form, (i) become bankrupt, made a proposal under legislation relating to bankruptcy or insolvency or become subject to any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such nominee, or (ii) been a director or executive officer of any company or

other entity that, while the nominee was acting in that capacity (or within a year of ceasing to act in that capacity), became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets. Further, to the knowledge of the Corporation, and based upon information provided to it by the Directors and executive officers, no Director or executive officer has, within the ten years preceding the date of this annual information form, been a director, chief executive officer or chief financial officer of a company that, during the time the Director or executive officer was acting in such capacity or as a result of events that occurred while the Directors or executive officer was acting in such capacity, was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities laws that was in effect for a period of more than 30 consecutive days.

AUDIT, FINANCE AND RISK COMMITTEE INFORMATION

Composition of the Audit, Finance and Risk Committee

The Audit, Finance and Risk Committee of the Corporation is comprised of Samuel Leeper (Chairman), Clare R. Copeland and David Obront. The following chart sets out the assessment of each Audit, Finance and Risk Committee member's independence, financial literacy and relevant educational background and experience supporting such financial literacy.

Name	Independent	Financially Literate	Relevant Education and Experience
Samuel Leeper	Yes	Yes	Mr. Leeper's professional career includes 27 years in banking. From 1982 to 1987, he served as President of Intra West Bank of Greeley and from 1987 to 1988 served as President of United Banks of Fort Collins, Colorado and prior to joining Pawnee, Mr. Leeper served as Senior Vice President of Bank One Colorado. He received his B.S. degree in Engineering from the University of Illinois in 1963 and an MBA from Indiana University in 1968. He has extensive experience with reading and interpreting financial statements.
Clare R. Copeland	Yes	Yes	Mr. Copeland has over 35 years' experience in industry. He has held senior executive positions with major corporations such as Peoples Jewellers and OSF Inc. He is currently Vice-Chair of Ontario Cannabis Retail Corporation. He is the former Chairman of Toronto Hydro Corporation and former Chief Executive Officer of Falls Management Company. He has served as a trustee of RioCan Real Estate Investment Trust and a director of MDC Partners Inc., and also served on their respective Audit, Finance and Committees.
David Obront	Yes	Yes	Mr. Obront is President of Carpool Two Ltd., an investment holding company. Mr. Obront holds his MBA from the University of Western Ontario and a BA Commerce/Economics from the University of Toronto

External Auditor Audit Fees

The following table sets forth the audit service fees paid or accrued by the Corporation and Blue Chip to BDO Canada LLP for the years ended December 31, 2018 and 2019:

	December 31, 2019	December 31, 2018
Audit fees – year-end	\$300,000	\$308,000
Public offering	0	0
Taxation services	0	0
All other fees	38,000	30,000
Total	\$338,000	\$338,000

In addition, Pawnee paid fees of approximately US\$108,600 (2018 - US\$93,500) to its auditor with respect to financial statements prepared by Pawnee provided to its lender in the United States.

Pre-Approval Policies and Procedures

The Audit, Finance and Risk Committee must pre-approve all non-audit services to be provided to the Corporation and its subsidiaries by the external auditors, as described in the Audit, Finance and Risk Committee Charter attached hereto as Schedule “A”.

LEGAL PROCEEDINGS

Management of the Corporation is not aware of any litigation of a material nature outstanding, threatened or pending as of the date hereof by or against the Corporation or any of the Operating Companies.

INTEREST OF INSIDERS IN MATERIAL TRANSACTIONS

There have been no transactions in the three most recently completed fiscal years and there are no proposed transactions which in either case have materially affected or are reasonably expected to affect the Corporation in which any of the Directors or officers of the Corporation had or has any material, direct or indirect, interest.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares is TSX Trust Company at its principal offices in Toronto, Ontario.

MATERIAL CONTRACTS

The following are the only material contracts, other than contracts entered into in the ordinary course of business, that were either (i) entered into by the Corporation Entities in 2019, or (ii) entered into by the Corporation Entities prior to 2019, which were still in effect on December 31, 2019:

- (b) the Credit Facility Agreement, referred to under “Development of Business – Credit Facility”;
- (c) the shareholders’ agreement of U.S. Acquisitionco; and
- (d) the amended and restated share exchange agreement related to the Class B Acquisitionco Shares and Class C Acquisitionco Shares.

Copies of these and certain other agreements have been filed by the Corporation on SEDAR and are available through the SEDAR website at www.sedar.com.

INTEREST OF EXPERTS

Our auditors are BDO Canada LLP. BDO Canada LLP provided an opinion on our financial statements for the year ended December 31, 2019 contained in filings pursuant to National Instrument 51-102 during the year ended December 31, 2019. BDO Canada LLP has informed us that they are independent in accordance with applicable rules of professional conduct.

ADDITIONAL INFORMATION

Information including securities authorized for issuance under the Corporation's equity incentive plan and remuneration of the Directors and officers of the Corporation and principal holders of the Common Shares is contained in the Corporation's management information circular for its annual meeting. Additional financial information of the Corporation is provided in the Corporation's consolidated financial statements and MD&A for the Corporation's fiscal year ended December 31, 2019.

Additional information about the Corporation (including the documents described in the preceding paragraph) is available:

- At the www.chesswoodgroup.com website
- At the www.sedar.com website
- Via email to investorrelations@chesswoodgroup.com, or
- Via phone at 416-386-3099

SCHEDULE A – AUDIT, FINANCE AND RISK COMMITTEE CHARTER



RESTATED CHARTER OF THE AUDIT, FINANCE AND RISK COMMITTEE OF THE BOARD OF DIRECTORS OF CHESSWOOD GROUP LIMITED

I. ADOPTION

This restated Audit, Finance and Risk Committee (the “**AF&R Committee**”) Charter (this “**Charter**”) has been adopted by the board of directors (the “**Board**”) of Chesswood Group Limited (the “**Corporation**”) as of November 6, 2019 and is subject to annual review and approval by the AF&R Committee and the Board, respectively.

II. BACKGROUND

The Corporation is incorporated under the laws of the Province of Ontario and has succeeded to the various ownership interests of Chesswood Income Fund as a result of the conversion of such fund into a corporate structure through a plan of arrangement.

The Corporation has ownership interests in various operating entities (the Corporation and its direct and indirect subsidiary entities are collectively referred to herein as the “Corporation Entities”).

III. PURPOSE

The AF&R Committee is a committee of the directors of the Corporation (the “Directors”) and is appointed by the Directors to assist the Board in fulfilling its oversight responsibilities relating to:

- A. the integrity of the Corporation’s financial statements, corporate accounting and financial reporting processes and financial information that will be provided to shareholders and others;
- B. the evaluation of the qualifications, independence and performance of independent auditors;
- C. the effectiveness of the Corporation’s internal control over financial reporting and disclosure controls and procedures;
- D. the Corporation’s compliance with ethical standards and regulatory requirements;
- E. the Corporation’s financing plans; and
- F. the Corporation’s risk identification, assessment and management program.

The AF&R Committee will primarily fulfill its responsibilities by carrying out the activities enumerated in Part VI (“Responsibilities and Duties”) of this Charter. The primary function of the AF&R Committee is to assist the Directors in fulfilling their legal and fiduciary obligations and responsibilities.

IV. COMPOSITION AND MEETINGS

The AF&R Committee will be composed of three or more Directors as shall be determined by the Directors from time to time, all of whom must be Independent (as defined below). In accordance with National Instrument 58-101, a Director is considered “**Independent**” to the Corporation if he or she has no direct or indirect “material relationship” with any of the Corporation Entities which could, in the view of the Directors, reasonably interfere with the exercise of his or her independent judgment. Notwithstanding the foregoing, a Director will be deemed to have a “material relationship” with the Corporation (and therefore be considered as not Independent) if he or she falls in one of the categories listed in Appendix “A” attached hereto. All members of the AF&R Committee must also be “financially literate” (meaning that he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected and be raised by the Corporation’s financial statements).

The members of the AF&R Committee will be elected by the Directors at the annual organizational meeting of the Directors or until their successors are duly elected and qualified. Unless a Chairman is elected by the Directors, the members of the AF&R Committee may designate a Chairman by majority vote of the full AF&R Committee membership.

The AF&R Committee is to meet as frequently as circumstances require (but at least quarterly). The AF&R Committee will meet prior to the filing of quarterly financial statements to review and discuss the unaudited financial results for the preceding quarter and the related management discussion and analysis (“**MD&A**”), and will meet prior to filing the annual audited financial statements to review and discuss the audited financial results for the year and related MD&A.

As part of its job to foster open communications, the AF&R Committee should meet at least annually with management of the Corporation and the external auditors in separate executive sessions to discuss any matters that the AF&R Committee or each of these groups believe should be discussed privately.

Quorum for the transaction of business at any meeting of the AF&R Committee is the presence in person or by telephone or other communication equipment of a majority of the number of members of the AF&R Committee or such greater number as the AF&R Committee shall by resolution determine.

If within one hour of the time appointed for a meeting of the AF&R Committee, a quorum is not present, the meeting shall stand adjourned to the same hour on the second business day following the date of such meeting at the same place. If at the adjourned meeting a quorum as hereinbefore specified is not present within one hour of the time appointed for such adjourned meeting, the quorum for the adjourned meeting will consist of the members then present.

If and whenever a vacancy exists, the remaining members of the AF&R Committee may exercise all of its powers and responsibilities so long as a quorum remains in office.

Notice of a meeting of the AF&R Committee may be given verbally, in writing or by telephone, email or other means of communication, and need not specify the purposes of the meeting.

Any written material provided to the AF&R Committee shall be appropriately balanced (i.e. relevant and concise) and shall be distributed in advance of the respective meeting with sufficient time to allow AF&R Committee members to review and understand the information.

Minutes are to be kept of meetings of the AF&R Committee which are to be submitted to the Directors. The AF&R Committee may, from time to time, appoint any person, who need not be a member, to act as secretary at any meeting.

All decisions of the AF&R Committee will require the vote of a majority of its members present at a meeting at which a quorum is present.

V. AUTHORITY OF THE AF&R COMMITTEE

The AF&R Committee has the authority to (a) engage independent counsel and other advisors as it determines necessary to carry out its duties; (b) set and pay the compensation for any advisors employed by it; and (c) communicate directly with the Corporation's internal and external auditors and advisors to the AF&R Committee.

The AF&R Committee also has the authority to conduct or authorize investigations into any matters within the scope of its responsibilities.

The AF&R Committee may request the external auditors as well as any Director or member of management of any Corporation Entity, outside counsel of the Corporation or others, to attend an AF&R Committee meeting or to meet with members of, or advisors to, the AF&R Committee and to provide pertinent information as necessary. For purposes of performing their oversight related duties, members of the AF&R Committee are to have full access to the books and records of the Corporation Entities and are to be permitted to discuss such information and any other matters relating to the financial position of the Corporation Entities with senior employees, management and external auditors and advisors of the Corporation Entities.

VI. RESPONSIBILITIES AND DUTIES

To fulfill their responsibilities and duties, the AF&R Committee is expected to:

GENERAL RESPONSIBILITIES

1. Review and assess this Charter at least annually, as conditions dictate, and submit any proposed revisions to the Board for approval.
2. Prior to the beginning of a fiscal year, submit an annual planner for the meetings to be held during the upcoming fiscal year, for review and approval by the Board to ensure compliance with the requirements of this Charter.
3. Report periodically (but no less frequently than quarterly) to the Board as to its work and its recommendations.

SPECIFIC RESPONSIBILITIES

A. Review of Financial Documents

(i) Annual Financial Statements

4. Meet with management and external auditors to review the financial statements and the results of the audit as well as to discuss significant issues regarding accounting principles, practices and judgments of management.
5. Review the audited annual financial statements to satisfy itself that, to the best of the knowledge of its members, such statements are presented in accordance with generally accepted accounting principles ("GAAP"), including any reconciliation of GAAP and Non-GAAP Measures.
6. Recommend to the Board whether or not the audited financial statements and all related documents should be approved, prior to their being publicly disclosed and filed with the appropriate regulatory authorities.
7. Satisfy itself that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements and periodically assess the adequacy of such procedures.

8. Review the post-audit or management letter containing the recommendations of the external auditors and management's response and subsequent follow-up to any identified weaknesses.
 9. Review the MD&A relating to annual financial statements.
 10. Review complex and/or unusual transactions, and judgmental areas such as significant claims and contingencies that could materially impact the Corporation's consolidated financial position.
- (ii) Interim Financial Statements
11. Review the interim financial statements.
 12. Meet with management to review the financial statements and related MD&A and to obtain explanations from management on whether, to the best of management's knowledge, information and belief, after reasonable inquiry:
 - (a) actual financial results for the interim period varied significantly from budgeted or forecasted results;
 - (b) changes in financial ratios and the relationships between the interim financial statements are consistent with changes in the operations and financing practices of the Corporation Entities;
 - (c) GAAP has been consistently applied, including any reconciliation of GAAP and Non-GAAP Measures;
 - (d) there are any actual or proposed changes in accounting or financial reporting practices;
 - (e) there are any significant or unusual events or transactions; and
 - (f) the interim financial statements contain adequate and appropriate disclosures.
 13. Recommend to the Board whether (and, if so, the nature of) review of interim financial statements and/or related documents by the Corporation's external auditors is in the best interests of the Corporation and its shareholders having regard to cost and other relevant factors.
 14. Prior to their being publicly disclosed and filed with the appropriate regulatory authorities, either (i) recommend to the Board whether or not the interim financial statements, related MD&A and all related documents should be approved or (ii) if so empowered by the Board, approve such interim financial statements, related MD&A and all related documents.
- (iii) Financial Reporting Processes
15. Review, in consultation with the external auditors, the integrity of the organization's financial reporting processes, both internal and external.
 16. Consider the external auditors' judgments about the quality and appropriateness, not just the acceptability, of the Corporation's accounting principles and financial disclosure practices, as applied in its financial reporting, particularly about the degree of aggressiveness or conservatism of its accounting principles and underlying estimates and whether those principles are common practices or are unusual practices.
 17. Consider and approve, if appropriate, major changes to the accounting principles and practices of the Corporation Entities as suggested by management with the concurrence of the external auditors and ensure that management's reasoning is described in determining the appropriateness of changes in accounting principles and disclosure.

18. Establish regular and separate systems of reporting to the AF&R Committee by each of management and the external auditors regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.
19. Review with the external auditors and management significant findings during the year and the extent to which changes or improvements in financial or accounting practices, as approved by the AF&R Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the AF&R Committee.

(iv) Other

20. Review the Corporation's interim and annual earnings press releases and any other public disclosure documents that are required to be reviewed by the AF&R Committee under any applicable laws prior to their public disclosure and/or filing with any governmental body.
21. Review policies and procedures with respect to the expense reimbursement of the Directors, officers and senior management of the Corporation.
22. Review all related party transactions entered into by Corporation Entities.

B. External Audit

23. Recommend to the Directors (i) the external auditors to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review and attest services for the Corporation, and (ii) the compensation of the external auditors.
24. Instruct the external auditors that they are to report directly to the AF&R Committee and ensure that significant findings and recommendations made by the external auditors are received and discussed by the AF&R Committee on a timely basis.
25. Pre-approve all audit and non-audit services not prohibited by law to be provided to the Corporation Entities by the external auditors and the related fees for such services.
26. Review the external auditors' audit plan, including scope, approach, procedures and timing of the audit and ensure no unjustified restrictions or limitations have been placed on the scope of the audit. The AF&R Committee may authorize the external auditors to perform supplemental reviews or audits as the AF&R Committee may deem desirable.
27. Following completion of the annual audit and quarterly reviews, review separately with each of management and the external auditors any significant changes to planned procedures, any difficulties encountered during the course of the audit and reviews, including any restrictions on the scope of work or access to required information and the cooperation that the external auditors received during the course of the audit and reviews.
28. Review and resolve any significant disagreements among management and the external auditors in connection with financial reporting or the preparation of the financial statements. Ensure, where there are significant unsettled issues, that there is an agreed course of action for the resolution of such matters.
29. Monitor and assess the relationship between management and the external auditors including reviewing any management letters or other reports of the external auditor and discussing and resolving any material differences of opinion between management and the external auditors.
30. Monitor, confirm, review and discuss, on an annual basis, with the external auditors all significant relationships they have with Corporation Entities and the range of services provided to determine the independence and objectivity of the external auditors.

31. Oversee the work and review the performance of the external auditors and approve any proposed discharge of the external auditors when circumstances warrant. Consider with management and the external auditors the rationale for employing accounting/auditing firms other than the principal external auditors.
32. Periodically consult with the external auditors out of the presence of management about any matters that the AF&R Committee or the external auditors believe should be discussed privately.
33. Review the draft audit opinion on annual financial statements, including matters related to the conduct of the audit.
34. Arrange for the external auditors to be available to the AF&R Committee, and the Directors, as needed.
35. Review the fees paid to the external auditors and other professionals in respect of audit and non-audit services for Corporation Entities on an annual basis.
36. Review and approve the hiring policies of the Corporation regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation (and its predecessor entities).
37. At least annually, obtain and review a report by the external auditors describing the firm's internal quality-control procedures, any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, and any steps taken to deal with any such issues.

C. Internal Controls

38. Monitor and review the Corporation's Timely Disclosure, Confidentiality and Insider Trading Policy, Social Media Policy and Information Technology Security – Corporate Guiding Principles on an annual basis.
39. On a quarterly basis, review management's assessment of the design effectiveness of the Corporation's Disclosure Controls & Procedures (“**DC&P**”) and Internal Control over Financial Reporting (“**ICFR**”) including any significant control deficiencies identified and the related remediation plans.
40. On an annual basis, review management's assessment of the operating effectiveness of the Corporation's DC&P and ICFR including any significant control deficiencies identified and the related remediation plans.
41. Review and discuss any fraud or alleged fraud involving management or other employees who have a role in the Corporation's ICFR and the related corrective and disciplinary actions to be taken.
42. Discuss with management any significant changes in the ICFR that are disclosed, or considered for disclosure, on a quarterly basis.
43. Review and discuss with the CEO and the CFO the procedures undertaken in connection with the CEO and CFO certifications for the annual and interim filings with the securities commissions.

D. Ethical Standards and Legal Compliance

44. Establish, maintain and oversee the Corporation's Code of Business Conduct and Ethics (the “**Conduct and Ethics Code**”), and assist the Board with the monitoring of compliance with the Conduct and Ethics Code and consider any waivers of the Conduct and Ethics Code (other than waivers applicable to the Directors or executive officers, which shall be subject to review by the Board as a whole).
45. Review the Corporation's Whistleblower Policy and (a) assess the procedures for the receipt, retention and treatment of reports (“**Reports**”) received by the Corporation regarding accounting, internal accounting

controls, auditing matters or violations of the Conduct and Ethics Code relating to financial matters, and the confidential, anonymous submission by employees of Reports and (b) the investigation of such matters with appropriate follow-up actions.

46. Review management's monitoring of the systems that are in place to ensure that the Corporation's financial statements, reports and other financial information disseminated to governmental organizations and the public satisfy legal requirements.
47. Obtain regular updates from management and others, including external auditors, legal counsel and other external advisors, concerning the compliance of Corporation Entities with financial related laws and regulations such as tax and financial reporting laws and regulations and legal withholding requirements.
48. Review insider stock trades for compliance with the Corporation's Timely Disclosure, Confidentiality and Insider Trading Policy.
49. Be satisfied that, to the best of the knowledge of its members, all regulatory compliance matters have been considered in the preparation of financial statements.
50. Review the findings of any examination by regulatory agencies.

E. Financing Plans

51. Review, and recommend for approval to the Board, the financing plans of the Corporation Entities including the arrangement of credit, securitization and bulk lease financing facilities.
52. Review and recommend for approval to the Board the Corporation's long-term debt principal repayment, share repurchase and dividend plans.
53. Review and approve the Corporation Entities' interest rate and foreign exchange hedging programs and derivative policies.

F. Risk Management

54. Review management's program of risk assessment, including risk of fraud, and steps taken to address significant risks or exposures and how effectively such risks are being managed or controlled.
55. Review the Corporation's annual insurance report (including uninsured exposure, if any) and the Corporation's other loss prevention policies, disaster response and recovery programs, and corporate liability protection programs for Directors and officers.

VII. OTHER RESPONSIBILITIES

While the AF&R Committee has the responsibilities and duties as set out in this Charter, it shall perform any other activities consistent with this Charter, the Business Corporations Act (Ontario), the constating documents of the Corporation and all applicable legal, regulatory and listing requirements (including, without limitation, those of the Ontario Securities Commission and the Toronto Stock Exchange), as it or the Board deems necessary or appropriate.

The AF&R Committee shall review and reassess annually the adequacy of this Charter and recommend any proposed changes to the Board.

Members of the AF&R Committee shall be provided with appropriate and timely training to enhance their understanding of auditing, accounting, regulatory and industry issues applicable to the Corporation Entities. New AF&R Committee members shall be provided with an orientation program to educate them on the Corporation's business, their responsibilities and the Corporation's financial reporting and accounting practices.

The AF&R Committee is responsible for developing and conducting an annual self-assessment of its performance. The AF&R Committee shall report to the full Board on the results of its assessment each year and shall make any appropriate recommendations to further enhance the AF&R Committee's performance.

VIII. CAVEAT

While the AF&R Committee has the duties and responsibilities set forth in this Charter, the role of the AF&R Committee is oversight. The AF&R Committee is not responsible for planning or conducting the audit or for determining whether the Corporation's financial statements are complete and accurate and are in accordance with GAAP.

This Charter is a broad policy statement and is intended to be part of the AF&R Committee's flexible governance framework. While this Charter should comply with applicable laws, regulations and stock exchange requirements, and the Corporation's articles and by-laws, this Charter does not create any legally binding obligations on the AF&R Committee, the Board, any Director or the Corporation.

APPENDIX “A”

Meaning of “Material Relationship”

A “material relationship” is a relationship that could, in the view of the issuer’s board of directors, be reasonably expected to interfere with the exercise of a member’s independent judgment. The following individuals are considered to have a material relationship with the issuer:

- A. an individual who is, or has been within the last three years, an employee or executive officer of the issuer;
- B. an individual whose immediate family member is, or has been within the last three years, an executive officer of the issuer;
- C. an individual who: (i) is a partner of a firm that is the issuer’s internal or external auditor, (ii) is an employee of that firm, or (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer’s audit within that time;
- D. an individual whose spouse, minor child or stepchild, or child or stepchild who shares a home with the individual: (i) is a partner of a firm that is the issuer’s internal or external auditor; (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or (iii) was within the last three years a partner or employee of that firm and personally worked on the issuer’s audit within that time;
- E. an individual who, or whose immediate family member, is or has been within the last three years, an executive officer of an entity if any of the issuer’s current executive officers serves or served at that same time on the entity’s compensation committee; and
- F. an individual who received, or whose immediate family member who is employed as an executive officer of the issuer received, more than \$75,000 in direct compensation from the issuer during any 12-month period within the last three years.

An individual will not be considered to have a material relationship with the issuer solely because (a) he or she had a relationship identified above if that relationship ended before March 30, 2004; or (b) he or she had a relationship identified above by virtue of such relationship being with a subsidiary entity or a parent of that issuer, if that relationship ended before June 30, 2005.

An individual will not be considered to have a material relationship with the issuer solely because the individual or his or her immediate family member (a) has previously acted as an interim chief executive officer of the issuer, or (b) acts, or has previously acted, as a chair or vice-chair of the board of directors or of any board committee of the issuer on a part-time basis.

For the purposes of “C” and “D” above, a partner does not include a fixed income partner whose interest in the firm that is the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with that firm if the compensation is not contingent in any way on continued service.

For the purposes of “F” above, direct compensation does not include: (a) remuneration for acting as a member of the board of directors or of any board committee of the issuer, and (b) the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.

Despite any determination made whether an individual has a material relationship with an issuer, an individual who (a) accepts directly or indirectly, any consulting, advisory or other compensatory fee from the issuer or any subsidiary entity of the issuer, other than as remuneration for acting in his or her capacity as a member of the board of directors or any board committee, or as a part-time chair or vice-chair of the board or any board committee; or (b) is an affiliated entity of the issuer or any of its subsidiary entities, is considered to have a material relationship with the issuer. The indirect acceptance by an individual of any such consulting, advisory or other compensatory fee

includes acceptance of a fee by (a) an individual's spouse, minor child or stepchild, or a child or stepchild who shares the individual's home; or (b) an entity in which such individual is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the issuer or any subsidiary entity of the issuer. Compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.

"company" - any corporation, incorporated association, incorporated syndicate or other incorporated organization;

"control" - the direct or indirect power to direct or cause the direction of the management and policies of a person or company, whether through ownership of voting securities or otherwise;

"executive officer" of an entity – means an individual who is (a) a chair of the entity; (b) a vice-chair of the entity; (c) the president of the entity; (d) a vice-president of the entity in charge of a principal business unit, division or function including sales, finance or production; (e) an officer of the entity or any of its subsidiary entities who performs a policy-making function in respect of the entity; or (f) any other individual who performs a policy-making function in respect of the entity;

"issuer" includes a subsidiary entity of the issuer and a parent of the issuer;

"person" - an individual partnership, unincorporated association, unincorporated syndicate, unincorporated organization, trust, trustee, executor, administrator, or other legal representative; and

"subsidiary entity" - a person or company is considered to be a subsidiary entity of another person or company if (a) it is controlled by (i) that other, or (ii) that other and one or more persons or companies each of which is controlled by that other, or (iii) two or more persons or companies, each of which is controlled by that other; or (b) it is a subsidiary entity of a person or company that is the other's subsidiary entity.