TO OUR SHAREHOLDERS

Our strong portfolio growth continued in the third quarter as our equipment finance portfolio grew to more than 25,000 leases and loans, from 23,700 at the end of the second quarter. Pawnee Leasing - our U.S. business - grew originations over the third quarter of last year by almost 80% while our Canadian business, Blue Chip Leasing, exceeded its third quarter originations of last year by more than 20%. We're proud of achieving another milestone in the quarter as our commercial portfolio exceeded $500 million for the first time.

Our net income for the third quarter was $5.1 million, 45% ahead of our third quarter net income of last year and a million dollars ahead of our net income in the second quarter.

Our operating earnings however, were negatively impacted by a sizable increase in our non-cash allowance for bad debts for this quarter. While our charge-offs in our non-prime U.S. portfolio this quarter were the same as our charge-offs in the last quarter, our delinquencies in the over 30 days past due category of this segment of our portfolio rose over the second quarter, driving up our reserve requirement by almost $1.9 million. This is the same pattern as in prior years, as our delinquency levels are subject to seasonal fluctuations and we typically experience higher delinquencies in the third and fourth quarters of the year, requiring an increase in our reserve for bad debts.

It should be noted that our risk adjusted annual yields in this portfolio segment exceed 20%, providing us with plenty of margin by which to absorb charge-offs and/or increases in our reserves. Our prime portfolios continue to perform very well.

Notwithstanding the higher reserve level in the quarter we continued to generate excellent earnings and strong cash flow, supporting our dividend and the strong yield our shareholders have been enjoying for many years.

We announced late in the quarter that we were closing our U.S. working capital loan business, Windset Capital, as we became uncomfortable with the ever rising levels of risk the industry was building into its evolving standards of underwriting and pricing. We will continue to administer and collect our existing portfolio as it runs off over the next year.

My thanks to all of our outstanding team members who continue to put forth exceptional effort in a climate of rapid change and growth.

Barry Shafran
President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis (this "MD&A") is a review of the financial condition and financial performance of Chesswood Group Limited ("Chesswood" or the "Company") for the three and nine months ended September 30, 2016. This discussion should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes of the Company for the period, and the audited consolidated financial statements and accompanying notes of the Company for the year ended December 31, 2015 set forth in the Company's 2015 Annual Report. The fiscal year of the Company ends on December 31. The date of this MD&A is November 8, 2016. All dollar amounts in this MD&A are in Canadian dollars, unless otherwise indicated.

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The term IFRS also includes all International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Our annual report and annual information form in respect of the fiscal year ended December 31, 2015 are available on SEDAR (the System for Electronic Document Analysis and Retrieval) at www.sedar.com, and provide additional information (including detailed information on each of Chesswood's operating companies) and should be read in conjunction with this management's discussion and analysis, condensed consolidated interim financial statements and notes thereto.

The Company's common shares (the "Common Shares") are listed on the Toronto Stock Exchange under the symbol CHW. The Company's convertible debentures are listed on the Toronto Stock Exchange under the symbol CHW.DB.

FORWARD-LOOKING STATEMENTS

In this report, management makes statements that are considered forward-looking statements. 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. Wherever used, the words "may", "could", "should", "will", "anticipate", "intend", "expect", "plan", "predict", "believe", and similar expressions identify forward-looking statements. These statements reflect management's current beliefs and are based on information currently available to management, but indicate management's expectations of future growth, results of operations, business performance, and business prospects and opportunities.

Forward-looking statements should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether, or the times at which, such performance or results will be achieved. Forward-looking statements are based on information available at the time they are made, assumptions made by management, and management's good faith belief with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in forward-looking statements, historical results or current expectations. The Company assumes no obligation to publicly update or revise its forward-looking statements even if experience or future changes make it clear that any projected results expressed or implied therein will not be realized.

The Company operates in a dynamic environment that involves various risks and uncertainties, many of which are beyond the Company's control and which could have an effect on the Company's business, revenues, operating results, cash flow and financial condition, including without limitation:

- 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;
- general economic and business conditions; and
- the risks that our expectations with respect to our acquisitions will not be met.

Readers should also carefully review the risk factors described under "Risk Factors" below and the risk factors described in the Company's annual information form filed with various Canadian securities regulatory authorities through SEDAR at www.sedar.com.

NON-GAAP MEASURES

The Company provides non-GAAP measures as supplementary information. Management believes EBITDA and Adjusted EBITDA are useful measures in evaluating the performance of the Company. EBITDA and Adjusted EBITDA are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA and Adjusted EBITDA may not be comparable to similarly titled measures presented by other issuers. Readers are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to net income (loss) determined in accordance with GAAP as indicators of performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. Among other items, Adjusted EBITDA reverses non-cash gains or losses during the reference period on the Company's $20.0 million of convertible debentures issued in December 2013, and instead reflects the interest payable on such debentures during the reference period.

Definitions of NON-GAAP measures

"EBITDA" is defined as net income adjusted to exclude interest, income taxes, depreciation and amortization.

"Adjusted EBITDA" is defined as EBITDA further adjusted for (i) interest on debt facilities, (ii) non-cash gain (loss) on interest rate swaps, investments and convertible debentures, (iii) non-cash unrealized gain (loss) on foreign exchange, (iv) non-cash share-based compensation expense, (v) acquisition costs, (vi) contingent consideration accretion (vii) financing costs written off, (viii) any unusual and material one-time expenses (such as convertible debenture issue costs, if any) and (ix) actual interest attributable to the period in respect of the convertible debentures.

"Free Cash Flow" or "FCF" is defined as the Adjusted EBITDA less maintenance capital expenditures and tax expense.

"FCF L4PQ" is defined as Free Cash Flow for the most recently completed four financial quarters in which the Company has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). For the period prior to March 17, 2015, the FCF of Blue Chip and EcoHome for the corresponding quarters are added in the calculation of FCF L4PQ.

"Maximum Permitted Dividends" is defined under Chesswood's credit facility as the maximum cash dividends that the Company is permitted to pay in respect of a month, being 1/12 of 90% of the FCF L4PQ (increased from 80% on January 25, 2016 and to include purchases under normal course issuer bids).

The Maximum Permitted Cash Dividend allowed under Chesswood's credit facility has been further increased to allow for additional amounts up to a total of $3.4 million until November 2017, in relation to the gain realized on the sale of Sherway.

On January 25, 2016, the Company got approval to declare a special dividend and/or make repurchases under normal course issuer bids to an aggregate of $17.7 million in connection with the EcoHome sale (and the Company declared a special dividend on February 18, 2016 of $0.50 per share, for an aggregate special dividend of $8.9 million which was paid on March 15, 2016).

"Operating income" is defined as "income before undernoted items" as presented on the consolidated statement of income.

COMPANY OVERVIEW

The Company operates the following businesses:

- Pawnee Leasing Corporation ("Pawnee") - micro and small-ticket equipment financing to small businesses in the United States.
- Windset Capital Corporation ("Windset") - provided working capital loans to small businesses in 33 states of the United States. After September 26, 2016, Windset is not originating any new loans.
- Blue Chip Leasing Corporation ("Blue Chip") - commercial equipment financing to small and medium businesses in Canada.

On February 3, 2015, Case Funding Inc. ("Case Funding") sold its operations and most of its attorney loan portfolio. Case Funding is still owned by Chesswood and continues to hold a portfolio of legal finance receivables that is gradually winding down. It was determined that Case Funding meets the criteria of a discontinued operation and accordingly, the comparative figures on the condensed consolidated interim statements of income and cash flows and the comparatives figures in the quarterly charts in the MD&A have been reclassified as if the operation had been discontinued from the start of the comparative year.

On March 17, 2015, the Company acquired Blue Chip, which is a commercial equipment finance company in Canada that focuses primarily on the prime credit market, and EcoHome Financial Inc. ("EcoHome"), which offers consumer financing solutions in Ontario, Canada, for a variety of products, primarily in the home improvement space. On June 1, 2015, Northstar Leasing Corporation ("Northstar") and Blue Chip were amalgamated to maximize operational synergies and continue under the Blue Chip name. Northstar was a long-standing non-prime commercial equipment finance company, located in Barrie, Ontario, which was acquired by the Company on January 31, 2014. In this MD&A, references to Blue Chip in respect of the period prior to June 1, 2015, mean Blue Chip prior to its amalgamation with Northstar, and references to Blue Chip in respect of the period from and after June 1, 2015 mean the corporation which resulted from the amalgamation of Blue Chip and Northstar. Blue Chip has retained Northstar's product offerings so it can provide its brokers and customers with a wider product offering.

On November 15, 2015, the Company sold Acura Sherway dealership, for an aggregate purchase price of approximately $20.4 million and pre-tax gain of $6.1 million. It was determined that Acura Sherway meets the criteria of a discontinued operation and accordingly, the comparative figures on the condensed consolidated interim statements of income and cash flows and the comparatives figures in the quarterly charts in the MD&A have been reclassified as if the operation had been discontinued from the start of the comparative year.

On February 18, 2016, the Company sold EcoHome for approximately $35.0 million and an approximate pre-tax gain of $10.5 million. It was determined that EcoHome meets the criteria of a discontinued operation and accordingly, the comparative figures on the condensed consolidated interim statements of income and cash flows and the comparatives figures in the quarterly charts in the MD&A have been discontinued since it was acquired at March 17, 2015.

PAWNEE

Pawnee is a U.S. equipment finance company that provides financing on micro and small-ticket business equipment. Pawnee focuses on small businesses (with a particular focus in the start-up and "B" credit segment of the U.S. equipment finance market), servicing the United States through a network of approximately 600 independent brokers. As of September 30, 2016, Pawnee employed 65 full-time equivalent employees, over one-third of whom are dedicated to collection and default remediation. Management regularly evaluates and analyzes Pawnee's key performance indicators, including the following, to more effectively operate its business:

Pawnee Portfolio Statistics *(in U.S.$ thousands except # of leases/loans and %'s)*

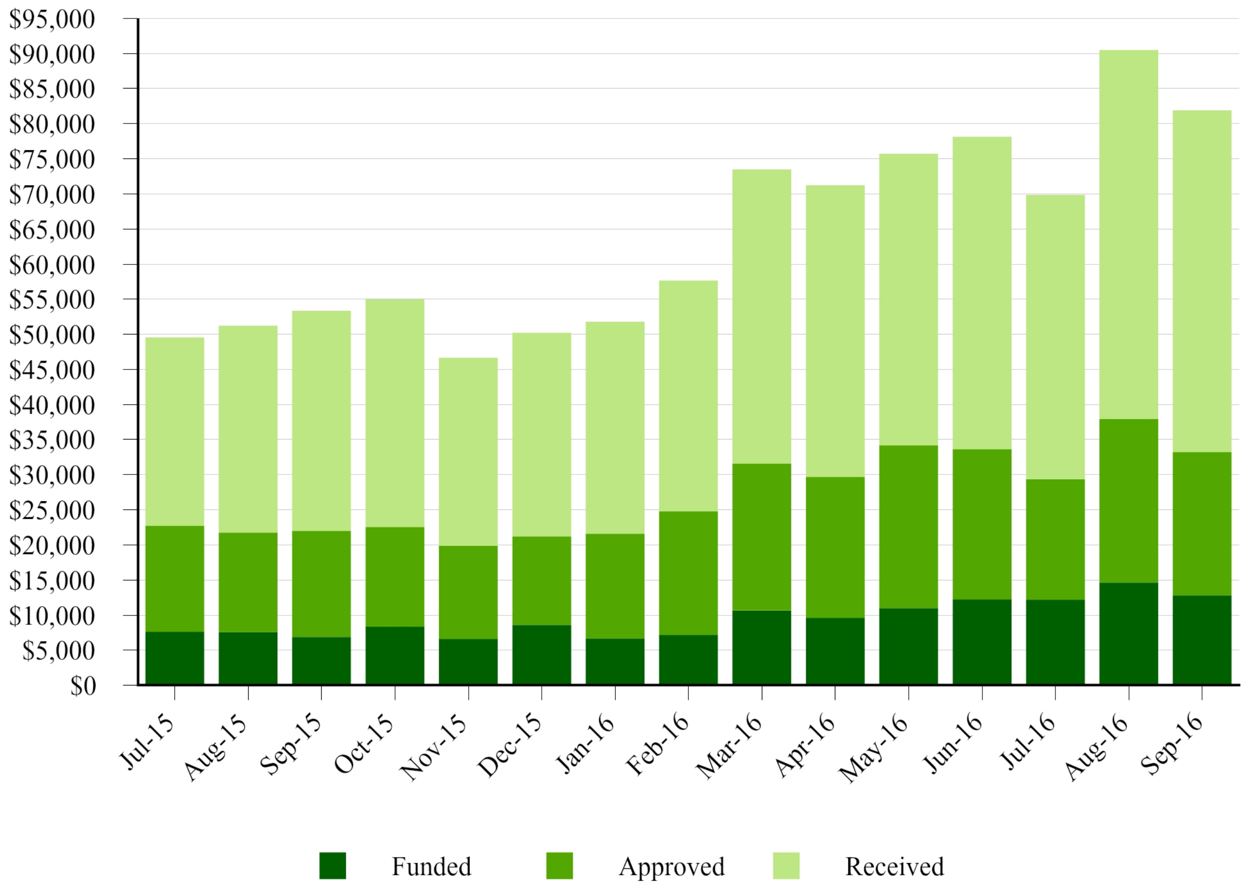
	Dec 31 2014	Mar 31 2015	June 30 2015	Sep 30 2015	Dec 31 2015	Mar 31 2016	June 30 2016	Sep 30 2016
Number of leases and loans outstanding (#)	10,134	10,303	10,707	11,140	11,440	11,881	12,636	13,479
Gross lease and loan receivable ("GLR") (1)	$175,003	$176,400	$184,800	$192,863	$200,505	$209,007	$228,984	$255,791
Residual receivable	$16,201	$15,727	$15,614	$15,414	$15,235	$15,112	$15,393	$15,659
Net investment in leases and loans receivable, before allowance (4)	$140,310	$141,226	$147,554	$153,205	$159,210	$165,885	$181,681	$203,189
Security deposits (nominal value)(4)	$10,975	$10,704	$10,684	$10,603	$10,460	$10,480	$10,519	$10,575
Allowance for doubtful accounts	$4,770	$4,646	$4,172	$5,134	$5,265	$4,958	$4,662	$6,044
Over 31 days delinquency (% of GLR) (2)	2.88%	2.73%	2.33%	2.90%	2.91%	2.69%	2.19%	2.59%
Net charge-offs for the three-months ended (3)	$1,495	$1,981	$1,683	$2,069	$2,520	$2,809	$2,357	$2,373
Provision for credit losses for the three-months ended	$2,490	$2,027	$1,244	$2,965	$2,706	$2,685	$2,112	$3,804

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.

Lease and Loan Application, Approval and Origination Volume

Management regularly reviews lease and loan application, approval and origination volumes, for trends that may indicate changes in the economic or competitive landscape and that may necessitate adjustments in Pawnee's approach to doing business in its market segments.

Lease and Loan Application, Approval and Origination Volume *(in U.S.$ thousands)*



WINDSET

At September 30, 2016, Windset had 735 loans outstanding with approximately U.S.$20.3 million in gross loan receivables outstanding (December 31, 2015 - 1,023 loans - U.S.$35.8 million). Chesswood launched Windset, its working capital loan business, in September 2013. Windset provided working capital loans for up to U.S.$125,000 to tenured small businesses in the United States. Payments are processed automatically and usually deducted every business day from the borrowers' bank account. The terms of these loans can range from three months to 18 months but are typically nine to ten months on average.

In late September 2016, Windset announced it would not be accepting new loan applications but would continue to service all of the loans in its portfolio for the entire duration. As a result of the typical short-term nature of these loans, approximately 45% of the gross loan receivables outstanding at September 30, 2016 have scheduled collections by December 31, 2016, approximately 78% by March 31, 2017 and 94% by June 30, 2017.

Windset's head office is in Riverton, Utah, and leveraged Pawnee's relationships in its broker channel in addition to the separate broker channel for working capital loans, to offer this product to small businesses in 33 states of the United States. Windset is assisted by Pawnee's documentation, collection and administrative departments that provide "back-office" support to Windset, under the terms of a managed services agreement between the two companies.

As stated in our Outlook Section in our 2015 annual report, Windset’s originations in the first nine months of 2016 were reduced by the effect of new regulations in California that require brokers to have a state lenders’ license and our cautious underwriting practices in the face of what we believe are increasingly riskier underwriting practices by many competitors.

BLUE CHIP

Blue Chip is a small and mid-ticket commercial equipment finance company operating across Canada that focuses primarily on the prime credit market and specializes primarily in financing small ticket equipment leases for small and medium size businesses.

On June 1, 2015, the Company amalgamated Northstar into Blue Chip to maximize operational synergies. Blue Chip has retained Northstar's product offerings so that it now offers its broker customers a wider product offering.

As at September 30, 2016, Blue Chip had 11,551 leases and loans under administration with gross finance receivables of approximately $145.0 million (including residual receivables) (December 31, 2015 - 10,232 leases and $132.2 million). Blue Chip employs key performance indicators similar to those used by Pawnee.

At September 30, 2016, Blue Chip employed 31 full-time equivalent employees.

ECOHOME

On March 17, 2015, Chesswood purchased all of the outstanding shares of EcoHome. EcoHome offers consumer financing solutions in Canada including loans and rentals for a variety of products primarily in the home improvement space. EcoHome originates loans and rentals through an external network of heating, ventilating and air conditioning ("HVAC") dealers as well as through sales agencies of manufacturers who produce windows, doors, roofing and siding.

On February 18, 2016, the Company sold EcoHome to Dealnet Capital Corp. ("Dealnet") for approximately $35.0 million. Of the $35.0 million purchase price, $29.0 million was paid in cash and Dealnet further issued to the Company 6,039,689 common shares of Dealnet with a value of $3.5 million and a $2.5 million convertible note, which matures in February 2018 and is convertible into common shares of Dealnet at a conversion price of $0.64 per share. The sale of EcoHome reflects the Company's decision to become singularly focused on our commercial finance businesses. See Note 5 - *Discontinued Operations*.

ADJUSTED EBITDA, FREE CASH FLOW, MAXIMUM PERMITTED DIVIDENDS [1]

For the quarter-ended	2014	2015				2016		
($ thousands)	Q4	Q1	Q2	Q3	Q4	Q1 [5][6]	Q2	Q3
Net income	$ 1,900	$ 3,498	$ 5,114	$ 3,140	$ 8,052	$ 10,107	$ 3,985	$ 5,083
Interest expense - continuing	1,330	1,308	2,008	2,187	2,260	2,335	2,209	2,522
Interest expense - discontinued	54	130	706	718	734	462	—	—
Provision for taxes - continuing	1,164	2,551	3,672	2,754	2,804	2,650	3,233	2,375
Provision for taxes - discontinued	1	504	131	47	(462)	67	—	—
Amortization - continuing	67	127	424	221	661	398	402	419
Amortization - discontinued	41	95	232	139	377	—	—	—
EBITDA [1]	**4,557**	**8,213**	**12,287**	**9,206**	**14,426**	**16,019**	**9,829**	**10,399**
Interest expense	(1,384)	(1,438)	(2,714)	(2,905)	(2,994)	(2,797)	(2,209)	(2,522)
Share-based compensation expense	337	382	408	462	407	509	266	326
Financing costs written off	607	—	—	—	—	—	—	—
Financing costs - conv deb	646	152	(98)	276	272	100	750	300
Interest expense on conv deb	(328)	(321)	(324)	(328)	(328)	(324)	(324)	(328)
Contingent consideration accretion, acquisition costs & gain on sale of assets	30	(13)	468	173	(4,143)	(6,538)	41	41
Unrealized loss (gain) on investments	—	—	—	—	—	510	31	(363)
Foreign exchange unrealized loss (gain)	59	(103)	(37)	(12)	209	(278)	19	(241)
Unrealized loss (gain) – interest rate swaps	465	—	—	1,300	(454)	1,523	663	(444)
Adjusted EBITDA [1]	**4,989**	**6,872**	**9,990**	**8,172**	**7,395**	**8,724**	**9,066**	**7,168**
Maintenance capital expenditures	(194)	(26)	(137)	(90)	(29)	(55)	—	(27)
Provision for taxes	(1,165)	(3,055)	(3,803)	(2,801)	(2,342)	(2,717)	(3,233)	(2,375)
Free Cash Flow ("FCF") [1]	**$ 3,630**	**$ 3,791**	**$ 6,050**	**$ 5,281**	**$ 5,024**	**$ 5,952**	**$ 5,833**	**$ 4,766**
Free Cash Flow of Acquired Companies	$ 904	$ 1,025	n/a	n/a	n/a	n/a	n/a	n/a
FCF L4PQ divided by 4 [1]	$ 3,343	$ 3,721	$ 4,624	$ 4,761	$ 5,050	$ 5,211	$ 5,482	$ 5,540
Maximum Permitted Dividends [1][3][4][5]	**$ 2,674**	**$ 2,976**	**$ 3,699**	**$ 3,809**	**$ 4,040**	**$ 4,690**	**$ 4,933**	**$ 4,986**
Dividends declared [2]	$ 2,320	$ 2,693	$ 3,451	$ 3,458	$ 3,460	$ 3,461	$ 3,470	$ 3,479
Dividends declared - special [2][5]						$ 8.875		

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

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

(3) Prior to December 2014, the Company did not have a credit facility and therefore dividend restrictions were found in the credit facilities of its subsidiaries. The permitted dividends information in the table in respect of such period is therefore provided on a pro-forma basis for illustrative purposes.

(4) Based on 90% of FCF L4PQ. On January 25, 2016, the rate was changed from 80% to 90%.

(5) In 2016, the Company can declare a special dividend or make repurchases under normal course issuer bids to an aggregate of $17.7 million in connection with the EcoHome sale. In Q1 2016, the Company declared a special dividend of $0.50 per share, for an aggregate special dividend amount paid of $8.9 million on March 15, 2016.

(6) The Q1 unaudited condensed consolidated interim financial statements, accompanying notes and MD&A filed on May 12, 2016 were refiled and amended on August 11, 2016. The effect of the restatement was a $2.1 million reduction in the net gain on sale of EcoHome, which was included in income from discontinued operations and a corresponding increase in taxes payable included in accounts payable and other liabilities. The restatement did not affect income from continuing operations. The restatement had no affect on Adjusted EBITDA or Free Cash Flow.

Chesswood Group Limited

SELECTED FINANCIAL INFORMATION

As at and for the quarter-ended	2014				2015			2016
($ thousands, except per share figures)	Q4	Q1	Q2	Q3	Q4	Q1 [5][6]	Q2	Q3
Revenue [1]	$13,260	$15,412	$18,644	$20,749	$21,772	$22,892	$21,825	$23,195
Finance margin before expenses[1]	8,014	10,452	13,670	12,264	13,499	14,289	14,979	13,698
Income before tax and other items (operating income [1][2])	3,982	6,027	8,399	6,811	7,547	8,095	9,016	7,220
Income before tax [1]	2,205	5,088	7,709	4,911	6,436	5,616	7,179	7,594
Provision for taxes [1]	1,164	2,551	3,672	2,754	2,804	2,650	3,233	2,375
Income from continuing operations [1]	1,041	2,537	4,037	2,157	3,632	2,966	3,946	5,219
Income from discontinued operation [1]	859	961	1,077	983	4,420	7,141	39	(136)
Net income	$1,900	$3,498	$5,114	$3,140	$8,052	$10,107	$3,985	$5,083
Basic earnings per share - continuing operations [3]	$0.09	$0.19	$0.23	$0.11	$0.21	$0.17	$0.22	$0.29
Diluted earnings per share - continuing operations [3]	$0.08	$0.19	$0.22	$0.11	$0.20	$0.16	$0.22	$0.28
Basic earnings per share [3]	$0.16	$0.27	$0.29	$0.17	$0.46	$0.57	$0.22	$0.29
Diluted earnings per share [3]	$0.16	$0.26	$0.28	$0.16	$0.46	$0.56	$0.22	$0.27
Total assets	$255,439	$ 477,179	$509,025	$540,697	$ 565,510	$453,553	$ 473,750	$ 500,202
Long-term liabilities	$158,859	$ 316,678	$346,922	$370,565	$ 316,375	$291,437	$ 309,350	$ 330,468
Other Data								
Adjusted EBITDA [2]	$ 4,989	$ 6,872	$ 9,990	$ 8,172	$ 7,395	$ 8,724	$ 9,066	$ 7,168
Dividends declared [4]	$ 2,320	$ 2,693	$ 3,451	$ 3,458	$ 3,460	$ 3,461	$ 3,470	$ 3,479
Dividends declared - special [4][5]						$ 8,875		
Dividends declared per share [4]	$0.195	$0.195	$0.195	$0.195	$0.195	$0.695	$0.195	$0.195

(1) It was determined that Sherway, Case Funding, and EcoHome meet the criteria of discontinued operations. The comparative figures have been reclassified as if their respective operations had been discontinued from the start of the comparative periods. See Note 5 - *Discontinued Operations.*
(2) Adjusted EBITDA and Operating Income are non-GAAP measures. See “Non-GAAP Measures” for the definitions.
(3) Based on weighted average shares outstanding during period for income attributable to common shareholders.
(4) Includes dividends on Exchangeable Securities (non-controlling interest as described below under "Statement of Financial Position").
(5) In 2016, the Company can declare a special dividend or make repurchases under normal course issuer bids to an aggregate of $17.7 million in connection with the EcoHome sale. In Q1 2016, the Company declared a special dividend of $0.50 per share, for an aggregate special dividend amount paid of $8.9 million on March 15, 2016.
(6) The Q1 unaudited condensed consolidated interim financial statements, accompanying notes and MD&A filed on May 12, 2016 were refiled and amended on August 11, 2016. The effect of the restatement was a $2.1 million reduction in the net gain on sale of EcoHome, which was included in income from discontinued operations and a corresponding increase in taxes payable included in accounts payable and other liabilities. The restatement did not affect income from continuing operations. The restatement had no affect on Adjusted EBITDA.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

The U.S. dollar results for the three months ended September 30, 2016, were converted at approximately 1.3050, which was the average exchange rate for the three month period (three months ended September 30, 2015 - 1.3089).

See Note 20 - *Segment Information* in the notes to the Company’s consolidated financial statements for a breakdown of operating results and other information by industry segment and geographic location.

For the three months ended September 30, 2016, the Company reported consolidated net income of $5.1 million, an increase of $1.9 million compared to the same period in the prior year. The $1.9 million increase in net income was comprised of an increase in operating income ("income before undernoted items") of $409,000, $379,000 decrease in tax expense, a $2.3 million increase in income from non-cash fair value adjustments offset by a decrease in income from discontinued operations by $1.1 million.

For the three months ended September 30, 2016, the Company reported consolidated operating income (“income before undernoted items”) from continuing operations of $7.2 million compared to $6.8 million in the same period in the prior year, an increase of $409,000, or 6%, which was primarily due to:

- Operating income from Pawnee and Windset increased by $426,000 in the three month period compared to the same period in the prior year. The increase in operating income is predominantly from a $1.8 million increase in finance income due to a larger average portfolio outstanding offset by a $319,000 increase in the provision for credit losses and a $1.1 million increase in salary and other expenses. The $319,000 increase in provision for credit losses reflects a U.S.$553,200 increase in actual net charge-offs in the period compared to same period in the prior year, offset by a non-cash U.S.$386,000 reduction in the allowance for doubtful accounts.

- Our Canadian equipment leasing company generated operating income of $969,000 in the three month period compared to $1.2 million in the same period in the prior year, a decrease of $242,000, predominantly from an increase in provision for credit losses.

- Corporate overhead before foreign exchange decreased by $225,000 compared to the same period in the prior year predominantly from the interest income on loans to Dealnet, as part of the EcoHome sale.

The amortization of the intangible assets at Blue Chip totaled $333,000 for the three months ended September 30, 2016 compared to $163,000 in the same period in the prior year. The accretion of the contingent consideration payable translated to an expense of $41,000 in the three months ended September 30, 2016 compared to $163,000 in the same period in the prior year. The increase in intangible asset amortization expense, accretion of contingent consideration and acquisition related costs resulted in a decrease in net income of $38,000 year-over-year.

For the three months ended September 30, 2016, our investment in the common shares of Dealnet increased in market value by $363,000.

The non-cash unrealized mark-to-market adjustment on the Company's convertible debentures for the three months ended September 30, 2016 totaled $300,000 compared to $276,000 in the same period in the prior year, translating to a decrease in net income of $24,000 year-over-year.

The non-cash unrealized mark-to-market adjustment on the interest rate swaps for the three months ended September 30, 2016 totaled a gain of $444,000 compared to a loss of $1.3 million in the same period in the prior year, translating to an increase in net income of $1.7 million year-over-year..

The provision for taxes for continuing operations for the three months ended September 30, 2016, totaled $2.4 million compared to $2.8 million in the same period of the prior year. The $2.4 million provision for taxes for the three months ended September 30, 2016, is comprised of $8.1 million in current tax expense, future tax recovery of $5.8 million (which reflects the re-allocation from deferred tax payable to current taxes payable) and $172,900 in withholding tax on inter-company dividends. The effective tax rate differs from the Canadian statutory tax rate due to permanent differences between accounting and taxable income and higher foreign jurisdictional tax rates. Permanent differences primarily include share-based compensation expense, contingent consideration accretion and non-deductible acquisition costs.

Income from discontinued operations for the three months ended September 30, 2016 totaled a loss of $136,000 compared to income of $1.0 million recorded in the same quarter in the prior year. The 2015 income from discontinued operations includes full quarterly results for Sherway and EcoHome, while in 2016 the quarterly results exclude Sherway and EcoHome's operating results as the operations were sold in November 2015 and February 2016, respectively. Income from discontinued operations in 2016 includes results from Case Funding's remaining legal finance receivables as they gradually wind-down.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

The U.S. dollar results for the nine months ended September 30, 2016, were converted at 1.3218, which was the average exchange rate for the period (nine months ended September 30, 2015 - 1.26).

See Note 20 - *Segment Information* in the notes to the Company's consolidated financial statements for a breakdown of operating results and other information by industry segment and geographic location.

For the nine months ended September 30, 2016, the Company reported consolidated net income of $19.2 million compared to $11.8 million in the same period in the prior year, an increase of $7.4 million.

Of the $7.4 million increase in net income, income from discontinued operations increased by $4.0 million predominantly from the gain on sale of EcoHome, operating income ("income before undernoted items") from continuing operations increased $3.1 million offset by a decrease in income from other items of $413,000.

For the nine months ended September 30, 2016, the Company reported consolidated operating income ("income before undernoted items") from continuing operations of $24.3 million, compared to $21.2 million in the prior year, an increase of $3.1 million, or 14.6%.

The $3.1 million increase in operating income for the nine months ended September 30, 2016 compared with the prior year was the result of:

- A $1.9 million increase in operating income from Pawnee and Windset compared to the prior year. Finance income (before provision for credit losses) increased $8.9 million due to growth of our portfolio of finance receivables and an increase in the foreign exchange rate. This was offset partially by a $4.3 million increase in provision for credit losses and a $2.7 million increase in personnel and other expenses. The $4.3 million increase in provision for credit losses year-over-year is predominantly from a U.S.$4.0 million increase in actual net charge-offs, over half of which relates to Windset.

- Blue Chip, our Canadian equipment leasing company, generated operating income of $3.47 million in the nine months ended compared to $2.45 million in the prior year, an increase of $1.0 million. Blue Chip was acquired on March 17, 2015, thus the 2015 results only include 6.5 months of operating results compared to nine months in 2016.

- Corporate overhead before other items decreased by $217,000 for the nine months ended September 30, 2016 compared with the prior year predominantly from the interest income on loans to Dealnet as part of the EcoHome sale .

The accretion of the contingent consideration payable translated to an expense of $374,000 in the nine months ended September 30, 2016 compared to $518,900 in the same period in the prior year. The acquisition related items for the nine months ended September 30, 2015 also includes $949,000 in costs associated with the acquisition of Blue Chip and EcoHome.

The amortization of the intangible assets at Blue Chip totaled $998,000 for the nine months ended September 30, 2016 compared to $583,000 in the same period in the prior year, resulting in a decrease in net income of $415,000 year-over-year.

At September 30, 2016, our investment in Dealnet common shares had decreased in market value by $178,000 since the value attributed to them on February 18, 2016 as part of the proceeds on the sale of EcoHome.

The non-cash unrealized mark-to-market adjustment on the Company's convertible debentures for the nine months ended September 30, 2016 totaled $1.2 million compared to $330,000 in the same period in the prior year, translating to a decrease in net income of $820,000 year-over-year.

The non-cash unrealized mark-to-market adjustment on the interest rate swaps for the nine months ended September 30, 2016 totaled $1.7 million compared to $1.3 million in the same period in the prior year translating to a decrease in net income of $442,000 year-over-year.

The provision for taxes for the nine months ended September 30, 2016 totaled $8.3 million compared to $9.0 million in the prior year. The $8.3 million provision for taxes for the nine months ended September 30, 2016 is comprised of $14.1 million in current tax expense offset by a future taxes recovery of $6.1 million (which reflects the re-allocation from deferred tax payable to current taxes payable) and $296,300 in withholding tax on inter-company dividends. The effective tax rate differs from the Canadian statutory tax rate due to permanent differences between accounting and taxable income and higher foreign jurisdictional tax rates. Permanent differences primarily include share-based compensation expense, contingent consideration accretion and non-deductible acquisition costs.

Income from discontinued operations for the nine months ended September 30, 2016 totaled $7.0 million compared to $3.0 million recorded in the same period in the prior year. The income from discontinued operations for 2016 includes the $6.4 million net gain on the sale of EcoHome compared to the $840,000 net gain on the sale of Case Funding in the first quarter of 2015. The 2015 income from discontinued operations includes nine months of operating results for Sherway, while in 2016 the quarterly results exclude Sherway's operating results as it was sold on November 15, 2015. Income from discontinued operations in 2016 include operating results of EcoHome for the period of January 1, 2016 to February 18, 2016, the date of disposal; while 2015 results include operating results from March 17, 2015 (date of acquisition) to September 30, 2015.

STATEMENT OF FINANCIAL POSITION

The total consolidated assets of the Company at September 30, 2016 were $500.2 million. This is a decrease of $65.3 million from December 31, 2015. The U.S. dollar exchange rate on September 30, 2016 was 1.3117 compared to 1.384 at December 31, 2015. The disposal of EcoHome accounted for $97.2 million of the decrease in assets and the change in the foreign exchange rate represents a decrease of $15.9 million. These factors were partially offset by a $42.4 increase in finance receivables.

Cash totaled $5.4 million at September 30, 2016 compared to $15.2 million at December 31, 2015, a decrease of approximately $9.8 million. Proceeds from the sale of EcoHome was more than offset by the partial payment of the contingent consideration, reduction in borrowings and cash dividends paid out, including the special dividend paid out in conjunction with the sale of EcoHome.

Assets held for sale consist of Case Funding's legal finance receivables which relate to funds advanced to plaintiffs, attorneys, and for the purchase of medical liens relating to plaintiff cases. At September 30, 2016, there were 314 advances and loans outstanding totaling $6.4 million (December 31, 2015 - 406 advances and loans totaling $10.6 million). On February 3, 2015, Case Funding sold its operations and most of its attorney loan portfolio to a private equity firm. Case Funding received proceeds of approximately $525,000 for certain attorney loans, as Case Funding still has full recourse if those specific loans are uncollectible, thus the loans are still included in assets held for sale and the contingent payable is included in liabilities held for sale. The advances and loans are due when the underlying cases are settled. Interest income is recognized for accounting purposes by estimating the collection date and thus total funds to be collected, from which income can be determined on an effective interest rate basis. The advances and loans are due when the underlying cases are settled. The number of days the receivable is outstanding does not necessarily indicate the likelihood of impairment. It is normal for receivables in this industry to be outstanding anywhere from 6 months to 48 months. Under IFRS, an allowance for the collectability of the legal finance receivables can only be set up if there is objective evidence that the impairment has already occurred - potential losses expected as a result of future events, no matter how likely based on past historical evidence or known uncertainties with this type of receivable, are not allowed to be recognized. The collectability of loans and/or advances made by Case Funding depends on litigation outcomes in the form of judgments and/or settlements. Once an advance/loan is made, the timing of the collection cycle is out of Case Funding's control. Therefore, the timing of actual collections will be irregular.

Prepaid expenses and other assets totaled $15.6 million at September 30, 2016, an increase of $5.3 million from December 31, 2015. The total of other assets of $14.0 million related to the sale of EcoHome was partially offset by a $5.1 million reduction in taxes receivable due to the refund of Pawnee's tax installments. In relation to the sale of EcoHome, $1.75 million of the proceeds were also held back as escrow and will be released by August 18, 2017. The net present value of the escrowed funds at $1.7 million is included in other assets. Also included in other assets at September 30, 2016 is the non-cash consideration received as part of the sale of EcoHome to Dealnet Capital Corp. ("Dealnet") in February 2016. Along with $29.0 million in cash proceeds, the Company received a $2.5 million convertible note and 6,039,689 Dealnet common shares. The Dealnet shares are measured at fair value at each reporting date (mark-to-market), with the changes in value from period to period reflected in our income statement. The fair value represents the trading price at each reporting date; the value at September 30, 2016 totaled $3.3 million. Other assets also includes a loan receivable from EcoHome which had a maturity date of April 28, 2016, bore interest at 4.0% per annum and represented the inter-company warehouse funding to EcoHome for leases and loans that had not yet been securitized with EcoHome funders prior to the sale of EcoHome. The secured note evidencing the loan was restated to extend the maturity date to September 30, 2017, with interest at 5.5% per annum for the first 12 months. As part of the extension, the loan receivable will provide monthly cash flow sweeps from a designated portfolio of leases and loans as well as specific quarterly repayment provisions. The value represents the net present value of the expected cash flows from the loan receivable. The value at September 30, 2016 totaled $6.5 million.

Finance receivables consist of the following:

		September 30, 2016		December 31, 2015
		($ thousands)		
U.S. equipment leases and loans - Pawnee	**$**	**257,730**	$	212,146
Canadian equipment leases - Blue Chip		**127,832**		112,476
Working capital loans - Windset		**22,387**		40,937
	$	**407,949**	$	365,559

Finance receivables increased by $42.4 million, or 11.6%, since December 31, 2015. The decrease in the foreign exchange rate led to a $13.2 million decrease in finance receivables since December 31, 2015. In U.S. dollars, Pawnee's finance receivables increased by U.S.$43.2 million, while Windset's net investment in working capital loans decreased by U.S.$12.5 million. As stated in our Outlook Section in our 2015 annual report, Windset's originations in the first nine months of 2016 were reduced by the effect of new regulations in California that require brokers to have a state lenders' license and our cautious underwriting practices in the face of what we believe are increasingly riskier underwriting practices by many competitors. In late September 2016, Windset announced it would not be accepting new loan applications but would continue to service all of the loans in its portfolio for the entire duration. Blue Chip's finance receivables increased by $15.4 million since December 31, 2015 through our expansion of product lines and enhanced relationships with our broker customers.

The $407.9 million in net investment in leases and loans is net of $10.4 million in allowance for doubtful accounts (compared to $10.6 million in allowance for doubtful accounts at December 31, 2015). Under IFRS, an allowance can only be set up if there is objective evidence that an impairment has already occurred. Potential losses expected as a result of future events, no matter how likely based on past historical evidence, are not allowed to be recognized.

Pawnee charges off leases and loans when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted. A high percentage of our charge-offs are recognized before the subject leases/loans reach 154 days contractually past due. As only a small percentage of the total lease and loan receivable portfolio have monthly payments that are past due at any one reporting date, the portion of the receivables that shows observable objective evidence of impairment at any one reporting date is quite small, despite long-term historical experience that indicates that future charge-offs with respect to the current lease and loan receivable will typically exceed the level of observable impairment in a matter of months.

Windset charges off loans when they become 60 days contractually past due, unless information indicates that an earlier charge-off is warranted. A very high percentage of the charge-offs are recognized before the subject loans reach 60 days contractually past due. As only a small percentage of the portfolio has payments that are past due at any one reporting date, the portion of the receivables that shows observable objective evidence of impairment at any one reporting date is quite small, despite industry experience that suggests that future charge-offs with respect to the current loan receivable may exceed the level of observable impairment, in a matter of months.

Blue Chip charges off leases and loans on an individual basis. As only a small percentage of the total lease and loan receivable portfolios have monthly payments that are past due at any one reporting date, the portion of the receivables that shows observable objective evidence of impairment at any one reporting date is quite small.

Intangible assets totaled $22.0 million at September 30, 2016. Of the $1.3 million decrease in intangible assets from December 31, 2015, $323,000 relates to the decrease in the foreign exchange rate and $998,000 in amortization. The significant intangible assets of broker relationships and trade names do not require any outlay of cash to be maintained, as the creation of lease and loan receivables does not require an outlay of cash, other than commissions, which are separately expensed over the term of the lease and loan receivable.

Goodwill totaled $40.5 million at September 30, 2016 compared to $41.3 million at December 31, 2015. The $778,000 decrease in goodwill relates to the decrease in the foreign exchange rate. Goodwill is typically tested annually for impairment unless certain circumstances arise that would require an assessment prior to an annual review. The Company's annual goodwill impairment assessment did not indicate any impairment as at December 31, 2015 and during the nine months ended September 30, 2016, no circumstances arose that would have required an assessment prior to the 2016 annual impairment assessment.

Accounts payable and other liabilities totaled $16.74 million at September 30, 2016 compared to $11.56 million at December 31, 2015, an increase of $5.18 million. See Note 8 - *Accounts Payable and Other Liabilities* for more detail on the balances that comprise accounts payable and other liabilities. Income taxes of $1.5 million were paid during the first quarter of 2016 relating to the sale of Acura Sherway in November 2015, while $3.4 million in taxes were accrued during the year relating to the sale of EcoHome in February 2016.

The contingent consideration of $1.6 million represents management's estimate of additional consideration payable which is contingent upon the future performance targets of Blue Chip. In February 2016, as a result of the sale of EcoHome, the Company paid the amounts relating to the first and second year contingent consideration payable, totaling $6.0 million.

Borrowings totaled $273.5 million at September 30, 2016 compared to $255.2 million at December 31, 2015, an increase of $18.3 million. The $18.3 million increase in borrowings is supporting the $42.4 million growth in our net finance receivables and are offset by $10.0 million in proceeds from EcoHome being applied to debt and $8.4 million decrease due to the decrease in the foreign exchange rate.

Chesswood was utilizing U.S.$134.0 million of its credit facility at September 30, 2016 compared to U.S.$125.0 million at December 31, 2015. The corporate credit facility allows Chesswood to internally manage the allocation of capital to its various financial services businesses in Canada and the United States. The credit facility supports growth in finance receivables, provides for Chesswood’s working capital needs and for general corporate purposes. The facility, available in U.S. or Canadian dollars, also improves the Company's financial flexibility by centralizing treasury management and making the provision of capital to individual businesses more efficient.

The Company's borrowings under the credit facility are subject to, among other things, adhering to certain percentages of eligible gross lease/loan receivables. The credit facility is secured by substantially all of the Company’s assets, contains negative covenants including the maintaining of leverage and interest coverage ratios and matures on December 8, 2017. Chesswood was in full compliance with all its bank covenants at September 30, 2016 and December 31, 2015 (and throughout the periods).

Blue Chip has entered into master purchase and servicing agreements and bulk lease financing facilities with various financial institutions and life insurance companies (referred to collectively as the “Securitizers”). The funding facilities are advanced to Blue Chip on a tranche-by-tranche basis, with each tranche collateralized by a specific group of underlying finance receivables and any related security provided thereunder. Interest rates are fixed at the time of each advance and are based on Government of Canada Bond yields with maturities comparable to the term of the underlying leases plus a premium. Blue Chip maintains either certain cash reserves as credit enhancements or provides letters of guarantee in return for cash release from the cash reserves. Blue Chip continues to service these finance receivables on behalf of the Securitizers. As at September 30, 2016, Blue Chip had access to at least $104.0 million of committed bulk financing lines of funding from both financial and insurance companies, in addition to access to Chesswood's revolving facility. Approximately $70.0 million of the funding availability is based on annual limits while the additional $80.0 million is based on rolling balances. Blue Chip must meet certain financial covenants to support these securitization facilities. As at September 30, 2016 and December 31, 2015 (and throughout the periods), Blue Chip was in compliance with all covenants.

The $13.2 million (December 31, 2015 - $13.9 million) in customer security deposits relates to security deposits predominantly held by Pawnee. Pawnee’s non-prime contracts requires that the lessee/borrower provide two payments as security deposit (not advance payments), which are held for the full term of the lease and then returned or applied to the purchase option of the equipment at the lessee’s request, unless the lessee has previously defaulted (in which case the deposit is applied against the lease receivable). Historically, a very high percentage of lessees’ deposits are either applied to the purchase option of the leased equipment at the end of the lease term or used to offset charge-offs.

On December 16, 2013, the Company issued a total of $20.0 million of convertible debentures. The debentures mature on December 31, 2018, and bear interest at a rate of 6.5% per annum, payable semi-annually. The outstanding principal under the debentures may, at the option of the holders, be converted into Common Shares at a conversion price of $20.19 per share at any time (the original conversion price of 21.25 was adjusted as a result of the recent declaration of a $0.50 per share special dividend). Upon a holder's election to convert its debentures, in lieu of delivering shares, the Company may elect to pay the holder cash. The Company also has the right to satisfy its payment obligations under the debentures (subject to obtaining any required regulatory approvals) by issuing common shares (based on a deemed issue price of 95% of the current market value).

The Company has the following options to redeem the convertible debentures before their maturity:

- After December 31, 2016 and prior to December 31, 2017, the Company has the option to redeem the debentures provided the current market price, as defined for purposes of the debentures, is at least 125% of the conversion price of $20.19.
- Subsequent to December 31, 2017 and prior to December 31, 2018, the Company has the option to redeem the debentures at a redemption price equal to the principal amount plus accrued and unpaid interest.

The convertible debentures have several embedded derivative features which were determined to not meet the criteria for treatment as equity components and would otherwise be required to be recognized as separate financial instruments, measured at fair value through profit or loss. The Company has elected under *IAS 39.11A* to designate the entire convertible debentures (and all the embedded derivatives) as a combined financial liability at fair value through profit or loss. The fair value of the convertible debentures is based on their trading price on the Toronto Stock Exchange as at the end of each reporting period. As a result, there may be increased volatility in the reported net income.

The Company 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. The interest rate swaps are intended to offset a portion of the variable interest rate risk on the credit facility. The cost to terminate the interest rate swaps totaled $2.6 million at September 30, 2016 (December 31, 2015 - $892,000).

Future taxes payable at September 30, 2016 totaled $19.2 million compared to $26.5 million at December 31, 2015, a decrease of $7.3 million. Future taxes payable were reduced by $6.4 million during the period to reflect future tax timing differences at the various subsidiaries and $942,000 decrease due to the change in the foreign exchange rate. Tax at Pawnee, Windset and Blue Chip is provided for using the asset and liability method of accounting. This method recognizes future tax assets and liabilities that arise from differences between the accounting basis of the subsidiary's assets and liabilities and their corresponding tax basis.

At September 30, 2016, there were 16,376,083 Common Shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of $103.0 million. Including the Exchangeable Securities, Chesswood would have had 17,854,620 Common Shares outstanding.

In August 2016, the Board of Directors approved the repurchase and cancellation of up to 1,078,096 of the Company's outstanding Common Shares for the period commencing August 25, 2016 and ending on August 24, 2017. From August 25, 2016 to September 30,2016, there were 3,200 Common Shares were repurchased under this normal course issuer bid at an average cost of $10.9822. The excess of the purchase price over the average stated value of Common Shares purchased for cancellation is charged to retained earnings.

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

In August 2015, the Board of Directors approved the repurchase and cancellation of up to 1,078,741 of the Company's outstanding Common Shares for the period commencing August 25, 2015 and ended on August 24, 2016. During August 2016, there were 28,356 Common Shares were repurchased under this normal course issuer bid at an average cost of $10.5710.

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

Reserves represent the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised at September 30, 2016. There were 1,967,989 options and 70,000 restricted share units outstanding at September 30, 2016. Please see Note 12 - *Compensation Plan* for more details.

Accumulated other comprehensive income is the cumulative translation difference between the exchange rate on January 1, 2010, the IFRS adoption date and the exchange rate on September 30, 2016 of self-sustaining foreign operations net assets.

LIQUIDITY AND CAPITAL RESOURCES OVERVIEW

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

At September 30, 2016, the Company's continuing operations had approximately $16.0 million in additional borrowings available under the corporate credit facility before the accordion feature and $104.1 million under Blue Chip's securitization facilities to fund business operations.

The Chesswood credit facility includes an "accordion" feature which allows for an increase in the maximum permitted borrowings of up to an additional U.S.$50.0 million provided that certain conditions are met.

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

The Chesswood credit facility is used to provide funding for operations (i.e. to provide financing for the purchase of assets which are to be the subject of leases and loans and support working capital). Under the facility, the maximum cash dividends that the Company can pay in respect of a month is 1/12 of 90% of Free Cash Flow (which was amended from 80%, see Dividend Policy below) for the most recently completed four financial quarters in which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter), including the Free Cash Flow of Blue Chip and EcoHome for the corresponding period for periods prior to March 17, 2015. Free Cash Flow is defined as the consolidated adjusted EBITDA less maintenance capital expenditures and tax expense.

Cash Sources and Uses

The statement of cash flows, which is compiled using the indirect method, shows cash flows from operating, investing, and financing activities, and the Company's cash at the beginning and end of the period. Cash flows in foreign currencies have been translated at the average rate for the period. Cash flow from operating activities comprises net income (loss) adjusted for non-cash items, changes in working capital and operational net assets. IFRS deems changes in finance receivables as operating assets for financial companies. Receipts and payments with respect to tax are included in cash from operating activities. Interest revenue and interest expenses are included in operating activities and not investing or financing activities. Cash flow from investing activities comprises payments relating to the acquisition of companies, net of cash proceeds from the sale of discontinued operations, and property and equipment. Cash flow from financing activities comprises changes in borrowings, payment of dividends, proceeds from stock issues, exercise of stock options, and the purchase and sale of treasury stock.

For the three months ended September 30, 2016

In the three months ended September 30, 2016, there was an increase in cash of $3.0 million compared to an increase in cash of $467,000 in the same period in the prior year as a result of reasons discussed below.

The Company's continuing operations utilized $22.1 million of cash during the three months ended September 30, 2016 compared to utilizing $7.8 million in the same period in the prior year, an increase in the utilization of cash of $14.3 million predominantly related to the growth in finance receivables. The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, less principal payments) totaled $38.2 million in the three months ended September 30, 2016 compared to $24.1 million in the same period in the prior year, an increase of $14.0 million. The Company funds the growth in finance receivables from excess opening cash, cash from operations and $25.9 million in borrowings in the three months ended September 30, 2016 (2015 - $13.2 million in borrowings).

In the three months ended September 30, 2015, the Company's subsidiaries paid tax payments of $4.7 million compared to $5.2 million in the three months ended September 30, 2016, leading to an increase of cash needs of $460,000 year-over-year.

If the net cash utilized to fund the growth in finance receivables and net tax payments (discussed above) is excluded from cash from operating activities, the Company generated $21.2 million in cash from net income, as adjusted by non-cash items and other working capital changes compared to $21.0 million in the prior year, an increase of $229,000.

Capital expenditures totaled $66,000 (2015 - $90,000) during the three months ended September 30, 2016.

The Company paid dividends to the holders of Common Shares and Exchangeable Securities in the amount of $3.5 million during the three months ended September 30, 2016 compared to $3.5 million in the prior year; an increase of $20,000 due to a higher number of shares outstanding. The Company received $417,000 (2015 - $13,000) from the exercise of options by employees during the three months ended September 30, 2016.

For the nine months ended September 30, 2016

In the nine months ended September 30, 2016, there was a decrease in cash of $10.5 million compared to an increase in cash of $3.8 million in the same period in the prior year as a result of reasons discussed below.

The Company's continuing operations utilized $33.8 million of cash during the nine months ended September 30, 2016 compared to utilizing $38.6 million in the same period in the prior year, a decrease in the utilization of cash of $4.8 million.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, less principal payments) totaled $93.05 million in the nine months ended September 30, 2016 compared to $75.65 million in the same period in the prior year, an increase of $17.4 million. The Company funds the growth in finance receivables from excess opening cash, cash from operations and $26.3 million in borrowings in the nine months ended September 30, 2016 (2015 - $51.1 million in borrowings).

In the nine months ended September 30, 2015, the Company's subsidiaries paid tax payments of $13.6 million compared to $4.7 million in the nine months ended September 30, 2016, leading to a reduction of cash needs of $8.9 million year-over-year.

If the cash utilized to fund the growth in finance receivables and net tax payments (discussed above) is excluded from cash from operating activities, the Company generated $63.9 million in cash from net income, non-cash items and other working capital changes compared to $50.6 million in the prior year, an increase of $13.3 million.

From the $27.4 million in net proceeds from the sale of EcoHome, $6.0 million was used to pay contingent consideration as provided in the Blue Chip and EcoHome acquisition agreement, $8.9 million for a special dividend, and approximately $10.0 million was applied to Chesswood's credit facility during the first quarter of 2016.

Capital expenditures totaled $767,000 (2015 - $239,000) during the nine months ended September 30, 2016. The majority of the capital expenditures relate to the one-time expenditures for furniture and equipment for the new premises of Pawnee, which they moved into in June 2016.

The Company paid dividends to the holders of Common Shares and Exchangeable Securities in the amount of $19.3 million during the nine months ended September 30, 2016 compared to $9.2 million in the prior year; an increase of $10.1 million due to the $8.9 million special dividend and a higher number of shares outstanding. The Company received $716,000 (2015 - $399,000) from the exercise of options by employees during the nine months ended September 30, 2016.

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

Financial Covenants, Restrictions and Events of Default

The Company and Blue Chip are subject to bank and/or securitizer covenants relative to leverage and/or working capital.

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

The Company's secured borrowing agreement and Blue Chip's securitization facility agreements have financial covenants and other restrictions to obtain continued funding and avoid default.

Advances on the Chesswood revolving facility may be drawn at any time, subject to compliance with borrowing base calculations and compliance with the covenants set out therein. As of September 30, 2016, U.S.$129.8 million was outstanding under the U.S. $150.0 million facility and the Company had capacity to draw up to U.S.$16.0 million and remain within the borrowing base under the facility. The Company had U.S.$4.2 million of letters of credit outstanding under the Chesswood credit facility. The Company used some of the proceeds from the sale of EcoHome to pay down the Chesswood credit facility.

The following are the contractual principal payments and maturities of financial liabilities and other commitments as at September 30, 2016:

($ thousands)	2016	2017	2018	2019	2020	2021 and beyond	Total
Accounts payable and other liabilities	$ 14,330	$ 2,411	$ —	$ —	$ —	$ —	**$ 16,741**
Contingent consideration	—	—	1,589	—	—	—	**1,589**
Borrowings (a)	11,822	209,102	27,899	16,899	7,388	350	**273,460**
Customer security deposits (b)	1,334	3,550	3,718	2,948	1,761	902	**14,213**
Convertible debentures	—	—	20,000	—	—	—	**20,000**
Interest rate swaps	—	—	—	—	1,107	1,467	**2,574**
	27,486	215,063	53,206	19,847	10,256	2,719	**328,577**
Other financial commitments (c)	336	601	209	214	217	411	**1,988**
Total commitments	$27,822	$215,664	$53,415	$20,061	$10,473	$3,130	**$330,565**

a. The Company's financing credit facility is a line-of-credit; as such the balance can fluctuate. The credit facility matures in December 2017. The interest rate has a floating component, thus the interest payments are dependent on the balance of the line of credit and the interest rate at any point of time. This table includes amounts payable under securitization debt as well.

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

c. The Company and its subsidiaries are committed to future minimum rental payments under existing leases for premises, excluding occupancy costs and property tax, expiring in 2017 and 2023, which represent the bulk of other financial commitments.

The Company has no material “off-balance sheet” financing obligations, except for long-term premises lease agreements and U.S. $4.2 million in letters of guarantee. Other commitments are disclosed in Note 24 - *Contingent liabilities and other financial commitments* of the 2015 annual consolidated financial statements.

Dividends to Shareholders

The Company declared cash dividends during the nine months ended September 30, 2016 as follows:

Shareholder Record Date	Per Share
January 29, 2016	$ 0.065
February 29, 2016	0.065
February 29, 2016 - special	0.500
March 31, 2016	0.065
April 30, 2016	0.065
May 30, 2016	0.065
June 30, 2016	0.065
July 31, 2016	0.065
August 31, 2016	0.065
September 30, 2016	0.065
	$ 1.085

Dividend Policy

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

Under the Chesswood credit facility, the maximum cash dividends that the Company can pay, in respect of a month is 1/12 of 90% (from 80% subsequent to year-end, see below) of Free Cash Flow for the most recently completed four financial quarters in which Chesswood has publicly filed its consolidated financial statements (including its annual consolidated financial statements in respect of a fourth quarter). Free Cash Flow is defined as the consolidated adjusted EBITDA less maintenance capital expenditures and tax expense.

The Maximum Permitted Cash Dividend allowed under Chesswood's credit facility has been further increased to allow for additional amounts up to a total of $3.4 million until November 2017, in relation to the gain realized on the sale of Sherway.

On January 25, 2016, the maximum cash dividends that the Company can pay in respect of a month, including cost of any repurchases under normal course issuer bids, was amended to 1/12 of 90% (increased from 80%) of the Free Cash Flow for the most recently completed four financial quarters in which Chesswood has publicly filed its condensed consolidated interim financial statements (including its annual financial statements in respect of a fourth quarter). In addition, the Company can also declare a special dividend and/or make repurchases under normal course issuer bids to an aggregate of $17.7 million as a result of the EcoHome sale.

On February 18, 2016, the Company announced a special dividend of $0.50 per share or $8.9 million for shareholders of record on February 29, 2016 that was paid on March 15, 2016.

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

OUTLOOK

The higher delinquency in our over 31 days past due segment of our non-prime U.S. portfolio in the third quarter suggests that we should expect elevated charge-offs from that portfolio segment in the last quarter, typically the most difficult quarter for our collection efforts, due to the holidays.

We expected and did generate the significant growth we were expecting in the third quarter. We expect that growth to continue, on a seasonal basis, for the balance of the year, and into 2017. Both our Canadian and U.S. businesses are well positioned in their respective markets and the growth we have been experiencing throughout the year provides a great foundation for earnings in 2017 and beyond.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Understanding the Company's accounting policies is essential to understanding the results of the Company's operations and financial condition. The Company's significant accounting policies are described in Note 3 - *Significant Accounting Policies* to the Company's consolidated financial statements for the year ended December 31, 2015. The preparation of these condensed consolidated interim financial statements requires us to make estimates and judgments that affect reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our consolidated financial statements. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

FUTURE ACCOUNTING STANDARDS

A listing of the recent accounting pronouncements not yet adopted by the Company is included in Note 4 - *Accounting Standards Issued But Not Yet Effective* to the condensed consolidated interim financial statements for the nine months ended September 30, 2016.

RISK FACTORS

An investment in Common Shares entails certain risk factors that should be considered carefully.

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

Dependence on Key Personnel

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

Relationships with Brokers and Other Origination Sources

Pawnee has formed relationships with hundreds of origination sources, comprised primarily of equipment finance brokerage firms. Pawnee relies on these relationships to generate applications and originations. The failure to maintain effective relationships with its brokers and other origination sources or decisions by them to refer transactions to, or to sign contracts with, other financing sources could impede Pawnee's ability to generate transactions.

Similarly, the business models of Windset and Blue Chip depend to a large extent on referral relationships.

Risk of Future Legal Proceedings

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

Interest Rate Fluctuations

The Company and our operating companies are exposed to fluctuations in interest rates under their borrowings. Increases in interest rates (to the extent not mitigated by interest hedging arrangements) 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. The operating companies generally, finances their activities using both fixed rate and floating rate funds. To the extent the operating companies finance fixed rate leases and loans with floating rate funds, they are exposed to fluctuations in interest rates such that an increase in interest rates could narrow or eliminate the margin between the yield on a lease and loan and the effective interest rate paid by the borrower.

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 smaller, 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. The typical borrower in Pawnee's portfolio is a start-up business that has not established business credit or a more established business that has experienced some business or personal credit difficulty at some time in its history. As a result, such leases entail a relatively higher risk and may be expected to experience higher levels of delinquencies and loss levels. Pawnee cannot guarantee that the delinquency and loss levels of its receivables will correspond to the historical levels Pawnee has experienced on its portfolio and there is a risk that delinquencies and losses could increase significantly.

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 our financing arrangements. Furthermore, increased rates of delinquencies or loss levels could result in adverse changes to the terms of future financing arrangements, including increased interest rates payable to lenders and the imposition of more burdensome covenants and increased credit enhancement requirements.

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

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

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

In addition, the leasing and working capital loan industries 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 less attractive or diminish the profitability of the existing financing alternatives offered by our operating companies.

In addition to being impacted by factors or conditions in the United States, 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 relevant place in the world may directly (through impact on supplies of goods or equipment to our businesses) or indirectly impact upon our operations or results.

Losses from Leases and Loans

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

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

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

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

"Characterization" Risks

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

Case Funding's non-recourse advances may be re-characterized in certain jurisdictions, 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 Pawnee's existing documentation and related business practices. However, there are other risks that Pawnee has 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 Pawnee's management based on a risk-reward assessment. Pawnee has never experienced any material occurrence of these risks nor have these risks historically had a material adverse impact on Pawnee. However, there is no assurance that these risks will not have a material adverse impact on Pawnee's business, financial condition and results of operations in the future.

Origination, Funding and Administration of Transactions

Our operating companies' origination, funding and transaction administration practices could result in certain vulnerabilities in their enforcement rights. For example, certain leases and loans are assignments of transactions already documented by its 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. Any of these broker related risks can impair our operating companies' rights with respect to recovering the rents and/or property under its 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 property prior to Pawnee's having funded the transaction. It has not been Pawnee's practice to ensure that the title to the leased property has not already passed or to obtain assurances that it is acquiring good title to that property free of liens and other third party claims. The manner in which 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.

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

Analogous risks are faced by Blue Chip.

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 it to alter its respective business, strategy or operations, in a fashion that could hamper the ability to conduct business in the future.

Licensing Requirements

If an applicable court or regulatory authority were to make an adverse finding or otherwise take adverse action with respect to our operating companies based on their failure to have a finance lender's or other license or registration required in the applicable state, 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 has recently announced changes so as to require that referring brokers have a lenders' license, which may impact upon 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, 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 over the past few years. Although our subsidiaries are not currently the subject of any such litigation, there can be no assurance that a lessee/borrower or a group of lessees/borrowers will not attempt to bring a lawsuit against our subsidiaries in relation to fees and charges, which our subsidiaries may or may not be successful in defending.

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

Possible Acquisitions

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

Insurance

To ensure that the lessor or funder of the 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 our operating company's interest in the equipment, and the failure by the lessee/borrower to obtain insurance or the failure by the operating companies to receive the proceeds from such insurance policies could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Lessor Liability

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

Liability for Misuse of Leased Equipment

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

Estimates Relating to Value of Leases

Based on the particular terms of a lease, equipment finance companies estimate the residual value of the financed equipment, which is recorded as an asset on its statement of financial position. At the end of the lease term, equipment finance companies seek to realize the recorded residual for the equipment by selling the equipment to the lessee or in the secondary market or through renewal of the lease by the lessee. The ultimate realization of the recorded residual values depends on numerous factors, including:

accurate initial estimate of the residual value; the general market conditions and interest rate environment at the time of expiration of the lease; the cost of comparable new equipment; the obsolescence of the leased equipment; any unusual or excessive wear and tear on or damage to the equipment; and the effect of any additional or amended government regulations.

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

Competition From Alternative Sources of Financing

The business of micro and small-ticket equipment finance in the United States is highly fragmented and competitive. Pawnee focuses its business 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 leasing companies, home equity loans, and credit cards.

If Pawnee expands its suite of products to target potential lessees with higher credit scores or if the creditworthiness of its potential customers increases for various external reasons, it can expect to face competition from more traditional financing sources as well, including: national, regional and local finance companies; captive finance and equipment finance companies affiliated with major equipment manufacturers; and financial services companies, such as commercial banks, thrifts and credit unions.

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

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

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

Fraud by Lessees, Borrowers, Vendors or Brokers

While our operating companies make every effort to verify the accuracy of information provided to them when making a decision whether to underwrite a lease or loan and have implemented systems and controls to protect against fraud, in a small number of cases in the past our operating companies have been a victim of fraud by lessees/borrowers, vendors and brokers. In cases of fraud, it is difficult and often unlikely that our operating companies will be able to collect amounts owing under a lease or loan or repossess the related equipment. Increased rates of fraud could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

Protection of Intellectual Property

Chesswood's operating subsidiaries continually develop and improve their brand recognition, which are an important factor in maintaining a competitive position. No assurance can be given that others will not independently develop substantially similar branding. Despite the efforts of our operating subsidiaries to protect their proprietary rights, unauthorized parties may attempt to obtain and use information that they regard as proprietary. Stopping unauthorized use of such proprietary rights may be difficult, time-consuming and costly. There can be no assurance that our operating subsidiaries will be successful in protecting their proprietary rights.

Uncertainty of Outcome of Cases

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 provides 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.

Uncertainty in the Timing of Litigation Settlements and Awards

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 after an advance/loan is made to fully collect money from judgment recoveries.

Case Funding May Have Difficulty Collecting on its Investments

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 accept a smaller return than anticipated in order to accommodate and maintain business relationships or avoid litigation. In either event, the failure of Case Funding to collect or the necessity of legal action to collect could ultimately harm or reduce the potential cash flow.

Failure of Computer and Data Processing Systems

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

Security Risks

Despite implementation of network security measures similar to most other on-line e-commerce sites, the infrastructure of our subsidiaries' websites and our management network is potentially vulnerable to computer break-ins and similar disruptive problems.

Risks Related to our Structure and Exchange Rate Fluctuations

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

Unpredictability and Volatility of Share Price

A publicly-traded company will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which 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 Company and Blue Chip have third party debt service obligations under their respective credit and securitization facilities. The degree to which our subsidiaries are leveraged could have important consequences to our shareholders, including: (i) the ability to obtain additional financing for working capital in the future may be limited; (ii) a portion of the cash flow from the assets of such subsidiaries may be dedicated to the payment of the principal of and interest on their respective indebtedness, thereby reducing funds available for distribution to the Company; and (iii) certain of the respective borrowings of such subsidiaries will be at variable rates of interest, which will expose them to the risk of increased interest rates. The ability of such subsidiaries to make scheduled payments of the principal of or interest on, or to refinance, their indebtedness will depend on their future cash flow, which is subject to their respective assets, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond their control.

Restrictions on Potential Growth

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

Canadian Income Tax Matters

The income of the Company and its related entities must be computed in accordance with Canadian and foreign tax laws, as applicable, and the Company is subject to Canadian tax laws, all of which may be changed in a manner that could adversely affect the amount of distributable cash.

United States Income Tax Matters

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

RELATED PARTY TRANSACTIONS

Please see Note 18 - *Related Party Transactions* to the condensed consolidated interim financial statements for the disclosure of key management compensation.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

The Certifying Officers, along with other members of management, have also designed, or caused to be designed under their supervision, Internal Control over Financial Reporting (“ICFR”) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes prepared in accordance with IFRS. The Certifying Officers have used the Internal Control - Integrated Framework ("1992 COSO Framework") issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) to design the Company’s ICFR.

Evaluation of Design Effectiveness of Controls

The Certifying Officers have evaluated, or caused to be evaluated under their supervision, the design effectiveness of the Company's DC&P and ICFR as at September 30, 2016 and have concluded that the Company's DC&P and ICFR are not effective due to the existence of Material Weaknesses as described below. The control weaknesses listed below also reflect a further weakness which related to the restatement of the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2016. A Material Weakness is defined as a deficiency, or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis.

The following provides a description of Material Weaknesses identified by the Certifying Officers and the risk mitigation procedures that have been implemented in relation to such weaknesses:

1) Segregation of Duties

Given the Company's size, it has limited resources within the finance department at head office to adequately segregate duties and to permit or necessitate the comprehensive documentation of all policies and procedures that form the basis of an effective design of ICFR. As a result, the Company is reliant on the knowledge of a limited number of employees and on the performance of mitigating procedures during its financial close process to ensure that the consolidated financial statements are presented fairly in all material respects. Although the finance department of Pawnee has staffing levels which the Company's management believes is appropriate in the context of the scope of Pawnee's operations, and although the individuals comprising the members of the Company's management and Pawnee's management responsible for financial reporting are considered to have appropriate proficiency and experience to effectively perform their respective duties, the nature and size of the Company's operations are such that the duties are performed by a small number of persons. While management of the Company believes that the flow of information and degree of consultation with the finance personnel of Pawnee is significant, in order to mitigate the risk of material misstatement in the consolidated financial statements, the Company has implemented additional review and monitoring controls at head office on a monthly basis, and at Pawnee on a quarterly basis. In addition, further steps to cross train existing personnel have been undertaken where possible.

2) Information Technology Controls

Due to the relatively small size of the Company, the Company has not been able to maintain effective controls over certain key end user computing applications, such as spreadsheets, used in the Company's financial reporting process as well as appropriate security controls to manage access to key information. Controls pertaining to access profiles and password protocols require revision to mitigate the risk of inappropriate access to systems and applications. In addition, improvements to exception reporting are required to ensure that any unauthorized modification of the data or formulas within spreadsheets is identified and reported. It should be noted that the foregoing weaknesses relate to the Company and its systems and that Pawnee's systems are believed to be more commensurate with the scope of its operations.

Given the above noted weaknesses, the Company has performed additional analyses and other post-closing procedures to ensure the consolidated financial statements are prepared accurately and completely and that the disclosed data is in accordance with GAAP.

3) Anti-Fraud Controls

As a result of the lack of segregation of duties at the Company level as described above, the anti-fraud controls are limited. While management found no evidence of fraudulent activity, the Director of Finance has access to both accounting records and corporate assets, principally the operating bank account, and prepares journal entries without any independent review**.** Management feels the existing signing authorities and current review of bank balances is sufficient to mitigate the risk.

4) Accounting for the Sale of EcoHome

While finalizing the second quarter report, the Company identified an understatement of taxes payable related to the sale of EcoHome in the first quarter of 2016. The effect of the restatement was a \$2.1 million reduction in the net gain on sale of EcoHome, which was included in income from discontinued operations, and accounts payable and other liabilities was increased by \$2.1 million. The restatement did not affect income from continuing operations.

During the first quarter of 2016, there was an unusually high volume of activity within the Corporate Finance department due to the sale of EcoHome and other year-end activities. This level of activity diminished the Company's capabilities to complete all necessary control procedures around the sale of EcoHome during this period. Management also did not avail itself of a timely comprehensive review by external advisers and accounting and tax experts in analyzing the accounting and tax implications of the sale of EcoHome on February 18, 2016. As a result, the understatement of taxes payable related to the sale of EcoHome was not detected on a timely basis. Accordingly, management has concluded that lack of a timely comprehensive review by external advisers for the EcoHome transaction constituted a Material Weakness in the application of proper controls around complex and non-recurring transactions. The impact of this Material Weakness, which was limited to non-recurring discontinued operations, provides for the reasonable possibility that a material misstatement in the annual or interim financial statements of the Company would not be prevented or detected by the Company's internal control over financial reporting or its disclosure controls and procedures in similar situations. The Company is undertaking a review of the structure and capacity of its internal resources as well as the timely utilization of external expertise in accounting for unusual and complex transactions and plans to remediate this deficiency in the future.

Changes in ICFR

During the three months ended September 30, 2016, there has been no change in the Company's ICFR that has materially affected, or is reasonably likely to materially affect, the Company's ICFR.

With the oversight of the Audit Committee, the Certifying Officers have commenced a comprehensive Internal Control Program to address the remediation of Material Weaknesses reported above. The Program is managed by external advisers and among other things includes design and implementation of specific policies, procedures and controls that would address the control weaknesses discussed above and would assist management in transitioning the Company's internal control environment to the updated 2013 COSO Internal Control Framework.

Limitations of an Internal Control System

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

Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues, including instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) breakdowns can occur because of undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

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

MARKET FOR SECURITIES

The Company's convertible debentures due December 31, 2018 are traded on the Toronto Stock Exchange under the symbol CHW.DB. The following table summarizes the high and low sales prices of the debentures and the average daily trading volume for each month in the period ended September 30, 2016.

Convertible debentures - 2016	High	Low	Average Daily Volume
January	$101.00	$97.50	9,725
February	$99.89	$95.49	13,750
March	$100.01	$96.50	19,364
April	$100.49	$98.01	48,024
May	$102.48	$99.40	27,000
June	$102.10	$100.50	6,386
July	$102.00	$100.00	14,650
August	$102.01	$100.61	15,682
September	$103.50	$101.00	10,857
	$103.50	$95.49	15,220

The Common Shares are traded on the Toronto Stock Exchange under the symbol CHW. The following table summarizes the high and low sales prices of the Common Shares and the average daily trading volume for each month in the period ended September 30, 2016.

Common shares - 2016	High	Low	Average Daily Volume
January	$10.30	$8.80	9,601
February	$10.89	$9.27	12,867
March	$10.69	$9.52	11,411
April	$10.98	$10.11	30,114
May	$10.76	$9.91	18,714
June	$10.76	$9.60	15,978
July	$10.70	$9.80	17,128
August	$11.80	$9.96	40,043
September	$12.71	$10.97	19,683
	$12.71	$8.80	17,069

ADDITIONAL INFORMATION

Additional information about Chesswood 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