Chesswood Group Limited

FOR THE YEAR ENDED DECEMBER 31, 2016

TO OUR SHAREHOLDERS

2016 marked a new beginning for Chesswood. We completed our transition into a pure commercial equipment finance company, achieved our sixth consecutive year of record earnings, and started a multi-year investment in our technology and infrastructure to underpin future growth.

Our streamlined focus follows our implementing a number of strategic decisions in the last two years:

- our September 2016 move to cease originating new loans at subsidiary Windset Capital, a U.S. provider of working capital loans, reflecting our view that participants in this segment are significantly underpricing risk;
- the sale of EcoHome, a provider of financing solutions for home improvements, which we purchased in March 2015 and sold in February 2016 for $35 million, resulting in a pre-tax gain of $10.2 million; and
- our 2015 divestitures of our automobile dealership Acura Sherway in Toronto and Case Funding, our U.S. legal finance business.

As a result of our exit from these non-core businesses, Chesswood now exclusively funds equipment leases and loans to small and mid-sized business, where our operating subsidiaries have long and proven track records of success. Through Pawnee Leasing in the U.S. and Blue Chip Leasing in Canada, we are proud to occupy a unique competitive position in our niche, with an unmatched value proposition to our network of brokers. Ours is a human relationship-based approach to originating quality assets and providing exceptional customer service.

- Unlike most competitors with fully-automated underwriting, we give our broker customers the reliability of fast and consistent credit decisions, made possible by a proprietary credit matrix and personal review of most applications by an analyst.
- We select our assets and price for risk at the individual credit and overall portfolio level.
- Equally important, we invest in choosing and working with reputable brokers. We educate them on our products and processes and make our analysts available for guidance on a per-application basis.
- Our time and efficiency advantages are capped by one of the shortest funding windows in the industry.

In 2016, we further enhanced our customer proposition by financing all credit classes on both sides of the border. Over the last two years, by expanding Pawnee's traditional non-prime business to include A-rated credits, and Blue Chip's traditionally A-rated portfolio to include more non-prime borrowers, we have solidified our position as the only commercial equipment funder that offers originators the convenience of one-stop shopping for all credit classes in both countries. This broader emphasis significantly improves our prospects for growth, especially in the U.S. where the prime segment represents the bulk of the market.

The proof of our emergence as a first-choice funder is evident in record originations and our achievement of a new milestone in 2016: our aggregate commercial equipment portfolio exceeded $500 million for the first time and we enjoyed 42% growth in originations over the last year. While loss provisions have grown, due to the normalization of credit markets for non-prime products in the U.S., following the tight money conditions of the post-2008 period, our assets are well-diversified across more than 85 industries, 70 equipment types, and over 26,100 leases and loans North America-wide.

Our portfolios are built to remain robust and deliver reliable returns throughout economic cycles. With Pawnee's origins dating back to 1982 and Blue Chip's to 1996, our operating subsidiaries together have more than half a century of experience in lending to small businesses in good times and bad.

While higher loss provisions in our non-prime portfolios negatively impacted operating earnings in 2016, our risk-adjusted annualized yields in this credit class have also increased, providing margin to absorb charge-offs and increased reserves. Our prime portfolio continued to perform admirably, and consolidated earnings and cash flow remained strong, allowing us to continue to reward shareholders with substantial yield and dividends. Our returns were even more impressive in 2016 due to the addition of a special dividend of $0.50 per share paid in March from the gain on the sale of EcoHome as well as an increase in our regular monthly dividend late in 2016.

Going forward, the economic mood appears cautious but still positive, as reflected in U.S. economic growth of 1.9 percent in 2016 and steady small business borrowing and investing rates. However, industry data shows rising delinquency rates, leading to expectations that default rates will rise from the all-time lows of recent years across all credit classes, while at the same time remaining typical of expansionary business cycles. In both Canada and the U.S., our teams are seasoned and can be counted on to pursue a prudent and relationship-driven approach to growth, through the careful selection of originators, assets, and overall portfolio composition.

To support continued growth, we embarked on a multi-year program in 2016 to invest in the technology and human resources required to further enhance service levels, streamline our risk management processes and develop increasingly advanced analytics for leading-edge portfolio management. These early-stage initiatives increased our year-over-year costs in 2016, but we are confident the resultant enhancements in our digital capabilities will have a meaningful impact on our business, and the competitive positioning of our brand.

Also in support of growth, we increased our credit facility from U.S.$150 million to U.S.$170 million in 2016, primarily for the self-funded portfolio of Pawnee, as Blue Chip's portfolio is largely funded through private securitization and bulk lease financing facilities. This facility has an accordion that can expand to U.S.$250 million.

In 2017, our focus is on differentiating our operating subsidiaries through great service, additional targeted investments in our brand and digital capabilities, and the continued expansion of resources in our U.S. business, as we build out our capacity to effectively serve our customers and the record volumes they are providing. Our ultimate goal, as always, is to generate a safe and consistent yield by selectively growing assets in a manner that is in keeping with our risk profile, backed by industry-leading risk management practices, to generate accretive value for our shareholders.

Barry Shafran
President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis (this "MD&A") is provided to enable readers to assess the financial condition and results of operations of Chesswood Group Limited ("Chesswood" or the "Company") as at and for the fiscal year ended December 31, 2016, compared with prior years. The MD&A should be read in conjunction with the Company's 2016 audited consolidated financial statements and supporting notes. Unless otherwise indicated, all financial information in this MD&A has been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS") and all amounts are expressed in Canadian dollars. This MD&A is dated March 2, 2017.

Additional information relating to the Company, including its Annual Information Form, is available:

- on SEDAR at www.sedar.com,
- at the www.chesswoodgroup.com website,
- email to investorrelations@chesswoodgroup.com, or
- via phone at 416-386-3099.

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CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

The Company cautions readers against placing undue reliance on forward-looking statements when making decisions, as actual results could differ considerably from the opinions, plans, objectives, expectations, forecasts, estimates and intentions expressed in such forward-looking statements due to various material factors. Among others, these factors include: continued access to financing, continuing access to products that allow the Company to hedge exposure to changes in interest rates; risks of increasing default rates on leases, loans and advances; the adequacy of the Company's provisions for credit losses; increasing competition; increased governmental regulation of the rates and methods we use in financing and collecting on our equipment leases or loans, and on our working capital loans; dependence on key personnel; disruption of business models due to the emergence of new technologies; fluctuations in the Canadian dollar and U.S. dollar exchange rates; and general economic and business conditions. The Company further cautions that the foregoing list of factors is not exhaustive. For more information on the risks, uncertainties and assumptions that would cause the Company's actual results to differ from current expectations, please also refer to "Risk Factors" in this Annual Report, as well as to other public filings available at www.sedar.com. The Company does not undertake to update any forward-looking statements, whether oral or written, made by itself or on its behalf, except to the extent required by securities regulations.

COMPANY OVERVIEW

Chesswood is North America's only public company focused exclusively on commercial equipment finance for small and medium-sized businesses. As at December 31, 2016, its primary operations consisted of two wholly-owned subsidiaries:

- Pawnee Leasing Corporation ("Pawnee"), which finances micro and small-ticket commercial equipment for small and medium-sized businesses in the lower 48 U.S. states; and
- Blue Chip Leasing Corporation ("Blue Chip"), which provides commercial equipment financing to small and medium-sized businesses across Canada.

PAWNEE

Overview

The Company's U.S. operations are conducted by Pawnee, which accounted for 70.8% of consolidated revenue and 79.8% of consolidated income from continuing operations before corporate overhead in the fiscal year ended December 31, 2016. Established in Fort Collins, Colorado in 1982, Pawnee has traditionally specialized in providing leases and loans of up to U.S.$75,000 to small businesses in the start-up and "B" (the "non-prime") segment of the U.S. equipment finance market. Beginning in 2015, it expanded its portfolio to include A-rated leases and loans (the "prime" market) originating transactions up to $200,000, and may in the future finance equipment costing up to U.S.$500,000 in this segment.

Pawnee defines "start-up" businesses as those with less than two years of operating history. Start-up businesses do not fall into traditional credit categories because of their lack of business credit history. "B" credit businesses are those with two or more years of operating history that have some unique aspect to their overall credit profile such that they are not afforded an A-rated credit score, and/or that the business owner(s) do not have an A-rated personal credit history. These two non-prime market niches are not usually considered by conventional financing sources and generally have a higher risk profile. To manage the incremental risk associated with financing businesses in these niches, Pawnee's management has built a stringent operating model that has historically enabled Pawnee to achieve higher margins than many typical finance companies.

Key Aspects of Business Model

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

1. high-level credit parameters designed to mitigate risk;
2. a relationship-driven approach to origination through a well-established and trained network of reputable broker firms;
3. portfolio diversification across geographies, industries, equipment classes, origination source, vendors, equipment cost, and credit classes; and
4. risk management resources that include credit analyst reviews of most applications, a proprietary credit matrix to guide consistent analysis and decision-making, and effectively price for risk; and a dedicated and efficient servicing and collection effort.

These four aspects are discussed in greater detail below.

1. **Asset quality at Pawnee begins with high-level parameters that define a conservative approach to doing business and mitigating risk. Generally:**

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

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

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

Pawnee is service-driven in order to encourage the continual volume of quality originations necessary for ongoing portfolio replenishment and growth. The firm has become a funder of choice as a result of unique capabilities that improve efficiency and save time for its broker customers, such as consistent credit decisions; rapid response time, and one-stop shopping for all credit-classes.

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

As of December 31, 2016, Pawnee's portfolio of 14,259 leases and loans, representing U.S.$296.8 million in gross finance receivables (including residual receivable), was diversified across:

- over 70 equipment categories, with the five largest - restaurant, auto repair, titled trucks and trailers, beauty salon and furniture - accounting for 47.3% of the total number of active leases and loans;
- over 85 industry segments, with no industry representing more than 16.4% of the number of active financings;
- no lessee/borrower accounting for more than 0.01% of the total;
- 48 U.S. states, with no state representing more than 8.8% of the number of total active leases and loans, (with the exception of California and Texas which represented 12.3% and 12.7%, respectively); and
- the largest originator accounting for 8.4% of gross lease and loan receivables, and the ten largest accounting for 40.5%.

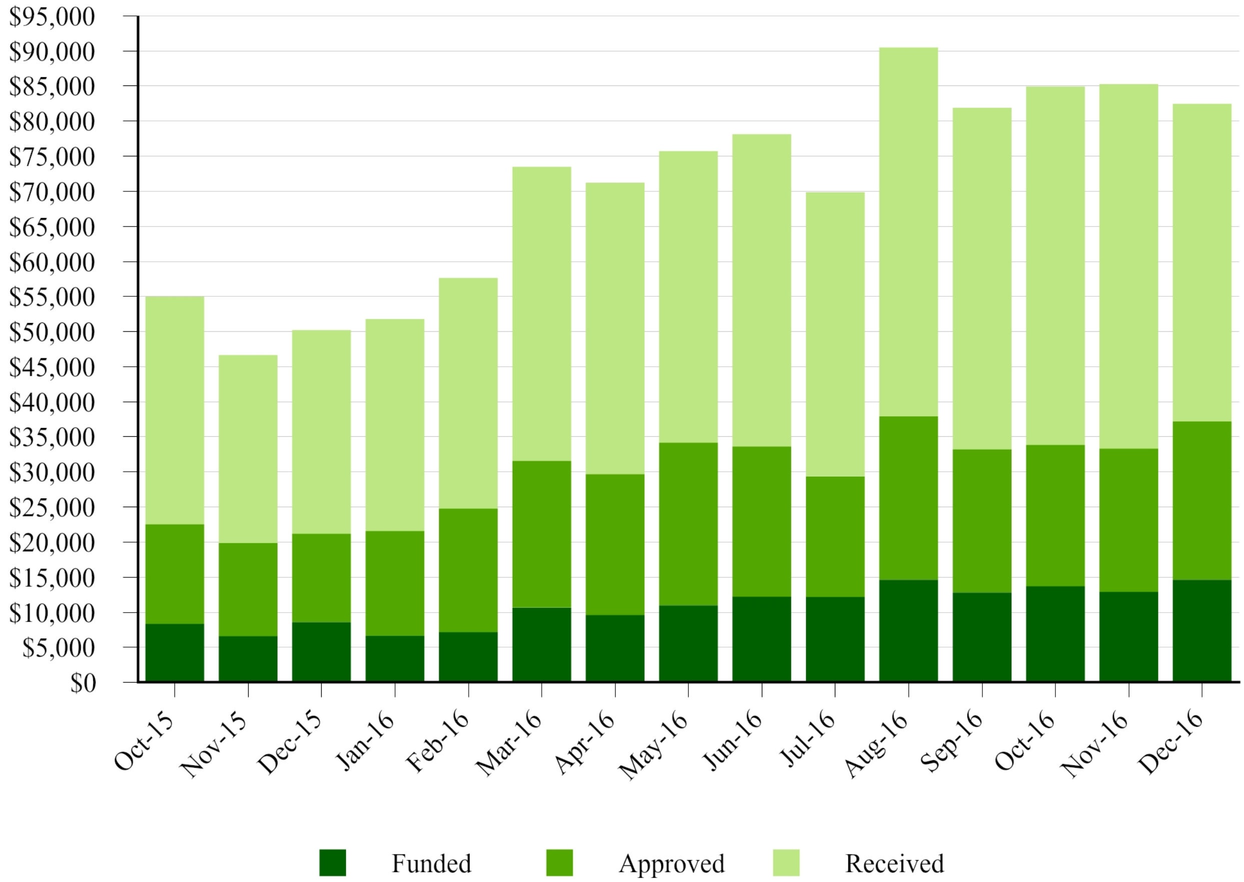
Portfolio diversification is maintained, and rebalanced as necessary, through management's regular review of lease and loan application, approval and origination volumes, for trends that may indicate changes in the economic or competitive landscape and that may necessitate adjustments in Pawnee's approach to doing business in its market segments. Significant changes in these and other metrics may result in a detailed review of specific brokers, industry or equipment type, equipment cost, and/or geographic areas.

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

	Mar 31 2015	June 30 2015	Sep 30 2015	Dec 31 2015	Mar 31 2016	June 30 2016	Sep 30 2016	Dec 31 2016
Number of leases and loans outstanding (#)	10,303	10,707	11,140	11,440	11,881	12,636	13,479	14,259
Gross lease and loan receivable ("GLR") (1)	$176,400	$184,800	$192,863	$200,505	$209,007	$228,984	$255,791	$280,929
Residual receivable	$15,727	$15,614	$15,414	$15,235	$15,112	$15,393	$15,659	$15,906
Net investment in leases and loans receivable, before allowance (4)	$141,226	$147,554	$153,205	$159,210	$165,885	$181,681	$203,189	$213,360
Security deposits (nominal value)(4)	$10,704	$10,684	$10,603	$10,460	$10,480	$10,519	$10,575	$10,812
Allowance for doubtful accounts	$4,646	$4,172	$5,134	$5,265	$4,958	$4,662	$6,044	$7,240
Over 31 days delinquency (% of GLR) (2)	2.73%	2.33%	2.90%	2.91%	2.69%	2.19%	2.59%	2.74%
Net charge-offs for the three-months ended (3)	$1,981	$1,683	$2,069	$2,520	$2,809	$2,357	$2,373	$3,478
Provision for credit losses for the three-months ended	$2,027	$1,244	$2,965	$2,706	$2,685	$2,112	$3,804	$4,740

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 *(in U.S.$ thousands)*



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

Pawnee's credit process is not the automated scoring procedure typical of high volume equipment finance companies. Its success in selecting credit-worthy businesses is based on a model that engages both human expertise and the latest technology to meet clearly defined standards for asset quality. A credit analyst personally reviews most applications and completes a proprietary matrix designed to ensure all analysts are consistent in their credit reviews and to provide guidance in reaching prudent credit decisions. Leases and loans assigned to Pawnee are subject to the same criteria used in its own originations.

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

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

- Pawnee had 73 full-time equivalent employees at 2016 fiscal year-end, of which more than a third were engaged in the collection and servicing processes. Collection and servicing activities are structured to systematically and quickly resolve delinquent leases and loans whenever possible, mitigate losses, and collect post-default recovery dollars.

- Owing to Pawnee's requirement that most lease and loan payments be made by direct debit, it can immediately recognize a delinquent account when a direct debit payment is not received on the required due date.

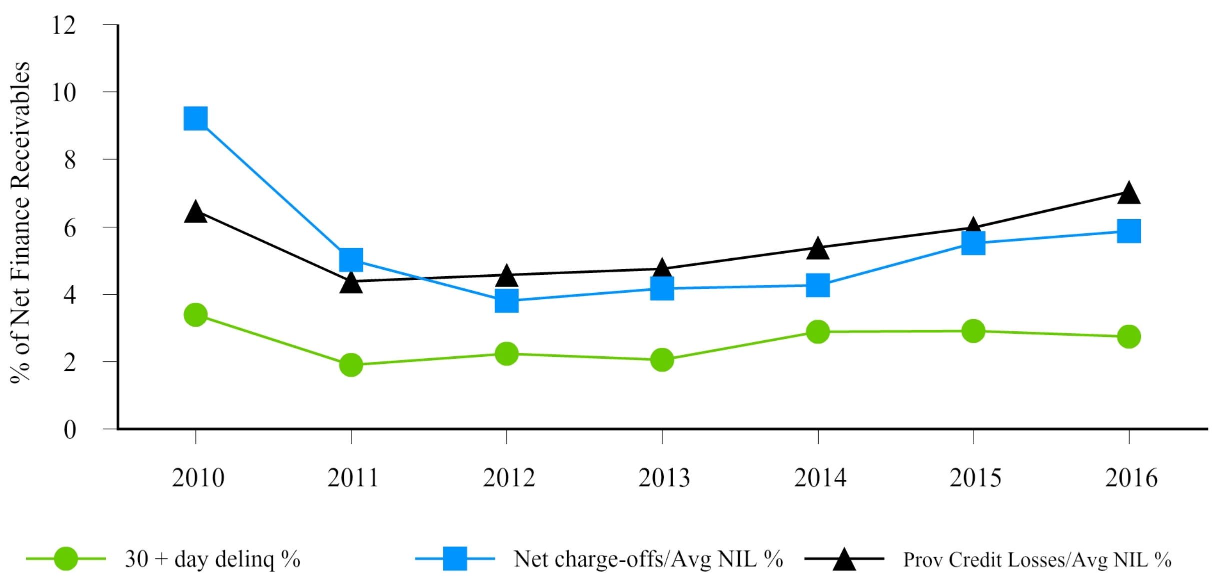
- Generally, when a payment falls 31 days past due, or earlier if investigation reveals an underlying issue at the borrower/lessee level, the account is referred to the appropriate negotiation, repossession/ remarketing, bankruptcy or legal specialist on Pawnee's Advanced Collection Team. Through a combination of collecting payments, issuing forbearances, repossessing and selling financed equipment, initiating lawsuits and negotiating settlements, Pawnee regularly remediates a high percentage of overdue accounts.

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

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

Pawnee's static pool loss analysis measures finance receivable loss performance by identifying a finite pool of transactions and segmenting it into quarterly or annual vintages according to origination date. Brokers, geographic areas, equipment types and industries, among other characteristics identified as under-performing are examined for a systematic or other identifiable cause on which corrective action can be taken. For example, if management identifies unusually high losses on financings for a particular type of equipment, it may raise the minimum credit matrix score required or stop new originations for that equipment type.

Pawnee Loss Provisions, Charge-Offs, Delinquencies



Following the 2008 economic crisis, Pawnee's application flow and loss levels benefited from unusually tight credit market conditions, as many competitors retreated due to lack of funding, a return to their core markets, and/or poor earnings performance. In addition, Pawnee entered the B credit market in late 2008, a higher quality market segment that it previously did not service. This market is considerably larger than Pawnee's historical market segment. As a result, from late 2008 to mid-2013, Pawnee began funding businesses with higher credit scores than it had traditionally funded because they could not obtain financing elsewhere, which lowered Pawnee's loss rates. With the gradual normalization of credit markets, loss rates in Pawnee's highest yielding market segment are returning to typical levels.

Funding

Unlike many other leasing, equipment finance, consumer, sub-prime mortgage and finance companies, Pawnee's revenues are derived directly from its leases and loans, which it retains for the full-term of the financing. Revenues are not derived from, or dependent upon, the sale of its portfolio of leases and loans. While portfolio securitization is possible in the future if favorable terms are obtained, Pawnee's leases and loans are presently funded through Chesswood's revolving corporate credit facility. The credit facility was increased on November 30, 2016 to allow borrowings of up to U.S.$170.0 million (2015: U.S.$150.0 million) subject to, among other things, threshold levels of eligible finance receivables, and renewed to December 8, 2019 (previously December 8, 2017). Subject to certain conditions, the facility can be further increased to U.S.$250.0 million (2015: U.S. $200.0 million).

BLUE CHIP

Overview

Chesswood's Canadian operations are conducted by Blue Chip, a specialist in micro and small-ticket equipment finance for small and medium-sized businesses since 1996. Blue Chip accounted for 15.9% of consolidated revenue and 15.4% of consolidated income from continuing operations before corporate overhead in fiscal 2016.

Acquired by Chesswood in March of 2015, Blue Chip had 31 full-time equivalent employees at December 31, 2016. Located in Toronto, Blue Chip originates receivables across Canada which are sourced from a nationwide network of more than 50 independent broker partners and through direct, in-house origination efforts via equipment vendors. It derives substantially all of its revenues from financing leases and loans and related service charges.

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

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 after June 1, 2015 mean the corporation which resulted from the amalgamation of Blue Chip and Northstar.

Key Aspects of Business Model

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

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

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

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

As at December 31, 2016, Blue Chip's gross finance receivables portfolio of $148.3 million (2015: $127.5 million) consisting of 11,883 leases and loans (2015: 10,231) was well diversified:

- Ontario represented 49.2% of net finance receivables, while Alberta represented 19.9% and 30.9% were from the other provinces;
- the five largest equipment categories by volume - industrial, computers, photographic, construction and trailers - accounted for only 49% of net finance receivables;
- of its network of more than 50 originators, the largest originator by dollar volume during 2016 accounted for 23% originations; and
- the four largest brokers by dollars financed accounted for approximately 67.5% of originations during 2016.

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

- In line with Pawnee, Blue Chip has an intense focus on thorough credit analysis, consistent decision-making, risk-based pricing, careful broker selection and education, a strong collection effort, and management's continual evaluation of portfolio performance against key performance indicators.
- Assets are secured, with typical terms of three to five years and similar amortization periods.

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

- The majority of Blue Chip's leases and loans are financed by securitization and bulk lease financing facilities, whereby the Company sells or assigns the future payment stream of a tranche of leases/loans, on a discounted basis, to a third-party such as a life insurance company or bank. A small percentage of the proceeds is held back in a loss reserve pool or supported by Blue Chip through a letter of guarantee in favour of the funder.
- Blue Chip's multiple funding partners have rigorous monitoring and audit processes, including thorough initial portfolio reviews; site visits; file audits to validate credit decisions, documentation accuracy and security perfection; and monthly compliance certificates attesting to the correctness of portfolio and financial statistics.
- Blue Chip also uses Chesswood's revolving credit facility to provide some operational and warehouse funding.
- Blue Chip recognizes its revenue over the full-term of its finance receivables and not through "gain-on-sale" accounting.

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

	June 30 2015	Sep 30 2015	Dec 31 2015	Mar 31 2016	June 30 2016	Sep 30 2016	Dec 31 2016
Number of leases and loans outstanding (#)	9,504	9,852	10,231	10,479	11,142	11,551	11,883
Gross lease and loan receivable ("GLR")	$119,560	$123,250	$127,505	$129,851	$139,692	$144,984	$148,250
Net investment in leases and loans receivable ("NIL"), before allowance	$104,122	$107,745	$111,720	$114,185	$123,022	$127,841	$130,965
Allowance for doubtful accounts	$1,252	$1,272	$844	$888	$1,076	$1,363	$1,342
Over 31 days delinquency (% of NIL)	0.84%	0.32%	0.66%	0.39%	0.67%	0.87%	0.72%

DISCONTINUED OPERATIONS AND WINDSET

WINDSET

For accounting purposes, Windset Capital Corporation ("Windset") is not considered a discontinued operation and its results continue to be grouped with Pawnee in the segment reporting note to the consolidated financial statements (see Note 28 - *Segment Information*).

Chesswood launched Windset in September 2013, headquartered in Riverton, Utah, to provide working capital loans of up to U.S.$125,000 to tenured small businesses in the United States, leveraging Pawnee's broker channel and back-office support to originate and service loans under a managed services agreement between the two companies.

In 2016, Windset's originations were reduced by the effect of new regulations in California that require brokers to have a state lenders' license, and Windset's relatively cautious underwriting practices in a market where many competitors were demonstrating higher appetites for risk. In September, Windset ceased accepting loan applications, but continues to service its existing portfolio for the full-term of the loans.

At December 31, 2016, Windset had 404 loans outstanding with approximately U.S.$8.9 million in gross loan receivables outstanding (December 31, 2015 - 1,023 loans - U.S.$35.8 million). The terms of the loans range from three months to 18 months, but typically average nine to ten months, with approximately 55% scheduled to liquidate by March 31, 2017, 87% by June 30, 2017, and 97% by September 30, 2017. Payments are processed automatically and usually deducted every business day from the borrower's bank account.

DISCONTINUED OPERATIONS

The Company's 2016 financial results include the results of the following operations, which were sold and/or discontinued in keeping with the Company's strategic decision to focus on the commercial equipment finance market:

- EcoHome Financial Inc. ("EcoHome"), a consumer financing company, which was sold in February of 2016; and
- Case Funding Inc. ("Case Funding"), a specialty provider of loans and funding solutions to attorneys and law firms, that sold its assets in 2015, except for a small portfolio of receivables.

Chesswood's 2015 financial results include the results of Acura Sherway, a Toronto automobile dealership sold on November 15, 2015 for approximately $20.4 million resulting in a pre-tax gain of $6.1 million.

The above operations all meet the criteria of a discontinued operation and, accordingly, the comparative figures on the Company's financial statements have been reclassified as if the operations had been discontinued from the start of the comparative year. See Note 4 - *Discontinued Operations*.

EcoHome

Chesswood purchased EcoHome, a provider of consumer financing solutions for a variety of products primarily in the home improvement space, in March 2015 (concurrent with Chesswood's acquisition of Blue Chip). On February 18, 2016, it sold EcoHome to Dealnet Capital Corp. ("Dealnet") for approximately $35.0 million, realizing a pre-tax gain of $10.2 million. The $35 million purchase price included $29 million in cash and 6,039,689 common shares of Dealnet valued at $3.5 million at the time of the sale and a $2.5 million note maturing in February 2018 that is convertible (at Chesswood's option) into common shares of Dealnet at a conversion price of $0.64 per share.

It was determined at December 31, 2015, that EcoHome met the criteria of a discontinued operation and, accordingly, the comparative figures on the consolidated statements of income and cash flows and the comparatives figures in the quarterly charts in this MD&A have been discontinued since it was acquired at March 17, 2015.

Case Funding

On February 3, 2015, Case Funding sold its operations and most of its attorney loan portfolio. Case Funding, as an entity, is still owned by Chesswood and continues to hold a legacy portfolio of legal finance receivables that is gradually winding down.

NON-GAAP MEASURES

This MD&A makes reference to certain non-GAAP measures as supplementary information and to assist in assessing the Company's financial performance. Management believes EBITDA and Adjusted EBITDA, as defined below, are useful measures in evaluating the performance of the Company. EBITDA 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 determined in accordance with GAAP as indicators of performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

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

“Adjusted EBITDA” is 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 or reduction, (vii) any unusual and material one-time expenses 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 FCF 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). Prior to March 17, 2015, the FCF of Blue Chip and EcoHome for the corresponding quarters were added in the calculation of FCF L4PQ.

"Maximum Permitted Dividends" is defined under Chesswood's credit facility as the maximum cash dividends and purchases under its normal course issuer bid that the Company is permitted to pay in respect of a month, being 1/12 of 90% of the FCF L4PQ. The Maximum Permitted Dividends 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 the Acura Sherway dealership in 2015.

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

SELECTED FINANCIAL INFORMATION

($ thousands, except per share figures)	For the years ended December 31, 2014	2015	2016
Revenue (1)	$ 49,816	$ 76,577	$ 91,583
Finance margin	$ 34,239	$ 49,885	$ 55,940
Income from continuing operations	$ 8,426	$ 12,363	$ 17,317
Net income	$ 11,539	$ 19,804	$ 24,278
Basic earnings per share - continuing operations (3)	$0.72	$0.74	$0.97
Diluted earnings per share - continuing operations (3)	$0.68	$0.72	$0.95
Basic earnings per share (3)	$0.98	$1.19	$1.36
Diluted earnings per share (3)	$0.93	$1.16	$1.33
Total assets	$ 255,439	$ 565,510	$ 527,937
Long-term financial liabilities	$ 158,859	$ 316,375	$ 354,800
Adjusted EBITDA (2)	$ 22,975	$ 32,429	$ 31,031
Dividends declared (4)(5)	$ 9,186	$ 13,062	$ 22,963
Dividends declared per share (4)(5)	$0.78	$0.78	$1.29

(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 4 - *Discontinued Operations*.
(2) Adjusted EBITDA and Operating Income are non-GAAP measures. See “Non-GAAP Measures” above for the definitions.
(3) Based on weighted average shares outstanding during the 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 Q1 2016, the Company declared a special dividend of $0.50 per share related to the sale of EcoHome, for an aggregate special dividend amount paid of $8.9 million on March 15, 2016.

As at and for the quarter-ended				2015				2016
($ thousands, except per share figures)	Q1	Q2	Q3	Q4	Q1 [5][6]	Q2	Q3	Q4
Revenue [1]	$ 15,412	$ 18,644	$ 20,749	$ 21,772	$ 22,892	$ 21,825	$ 23,195	$ 23,671
Finance margin before expenses[1]	10,452	13,670	12,264	13,499	14,289	14,979	13,698	12,974
Income before tax and other items (operating income [1][2])	6,027	8,399	6,811	7,547	8,095	9,016	7,220	5,979
Income before tax [1]	5,088	7,709	4,911	6,436	5,616	7,179	7,594	7,731
Provision for taxes [1]	2,551	3,672	2,754	2,804	2,650	3,233	2,375	2,545
Income from continuing operations [1]	2,537	4,037	2,157	3,632	2,966	3,946	5,219	5,186
Income from discontinued operations [1]	961	1,077	983	4,420	7,141	39	(136)	(83)
Net income	$ 3,498	$ 5,114	$ 3,140	$ 8,052	$ 10,107	$ 3,985	$ 5,083	$ 5,103
Basic earnings per share - continuing operations [1][3]	$0.19	$0.23	$0.11	$0.21	$0.17	$0.22	$0.29	$0.29
Diluted earnings per share - continuing operations [1][3]	$0.19	$0.22	$0.11	$0.20	$0.16	$0.22	$0.28	$0.29
Basic earnings per share [3]	$0.27	$0.29	$0.17	$0.46	$0.57	$0.22	$0.29	$0.28
Diluted earnings per share [3]	$0.26	$0.28	$0.16	$0.46	$0.56	$0.22	$0.27	$0.28
Total assets	$ 477,179	$ 509,025	$ 540,697	$ 565,510	$ 453,553	$ 473,750	$ 500,202	$ 527,937
Long-term liabilities	$ 316,678	$ 346,922	$ 370,565	$ 316,375	$ 291,437	$ 309,350	$ 330,468	$ 354,800
<u>Other Data</u>								
Adjusted EBITDA [2]	$ 6,872	$ 9,990	$ 8,172	$ 7,395	$ 8,700	$ 9,066	$ 7,168	$ 6,097
Dividends declared [4]	$ 2,693	$ 3,451	$ 3,458	$ 3,460	$ 3,461	$ 3,470	$ 3,479	$ 3,678
Dividends declared - special [4][5]					$ 8,875			
Dividends declared per share [4][5]	$0.195	$0.195	$0.195	$0.195	$0.695	$0.195	$0.195	$0.205

(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 4 - *Discontinued Operations*.
(2) Adjusted EBITDA and Operating Income are non-GAAP measures. See "Non-GAAP Measures" above for the definitions.
(3) Based on weighted average shares outstanding during the 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 Q1 2016, the Company declared a special dividend of $0.50 per share related to the sale of EcoHome, 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 the 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 effect on Adjusted EBITDA.

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

For the quarter-ended				2015				2016
($ thousands)	Q1	Q2	Q3	Q4	Q1 [4][6]	Q2	Q3	Q4
Net income	$ 3,498	$ 5,114	$ 3,140	$ 8,052	$ 10,107	$ 3,985	$ 5,083	$ 5,103
Interest expense - continuing	1,308	2,008	2,187	2,260	2,335	2,209	2,522	2,758
Interest expense - discontinued	130	706	718	734	462	—	—	—
Provision for taxes - continuing	2,551	3,672	2,754	2,804	2,650	3,233	2,375	2,545
Provision for taxes - discontinued	504	131	47	(462)	43	—	—	—
Amortization - continuing	127	424	221	661	398	402	419	430
Amortization - discontinued	95	232	139	377	—	—	—	—
EBITDA [1]	8,213	12,287	9,206	14,426	15,995	9,829	10,399	10,836
Interest expense	(1,438)	(2,714)	(2,905)	(2,994)	(2,797)	(2,209)	(2,522)	(2,758)
Share-based compensation expense	382	408	462	407	509	266	326	271
Financing costs - convertible debenture	152	(98)	276	272	100	750	300	510
Interest expense on convertible debenture	(321)	(324)	(328)	(328)	(324)	(324)	(328)	(328)
Contingent consideration accretion (reduction), acquisition costs & gain on sale of assets	(13)	468	173	(4,143)	(6,538)	41	41	(885)
Unrealized loss (gain) on investments	—	—	—	—	510	31	(363)	(181)
Foreign exchange unrealized loss (gain)	(103)	(37)	(12)	209	(278)	19	(241)	389
Unrealized loss (gain) – interest rate swaps	—	—	1,300	(454)	1,523	663	(444)	(1,757)
Adjusted EBITDA [1]	6,872	9,990	8,172	7,395	8,700	9,066	7,168	6,097
Maintenance capital expenditures	(26)	(137)	(90)	(29)	(55)	—	(27)	(30)
Provision for taxes	(3,055)	(3,803)	(2,801)	(2,342)	(2,693)	(3,233)	(2,375)	(2,545)
Free Cash Flow ("FCF") [1]	$ 3,791	$ 6,050	$ 5,281	$ 5,024	$ 5,952	$ 5,833	$ 4,766	$ 3,522
Free Cash Flow of Acquired Companies	$ 1,025	n/a	n/a	n/a	n/a	n/a	n/a	n/a
FCF L4PQ divided by 4 [1]	$ 3,721	$ 4,624	$ 4,761	$ 5,050	$ 5,211	$ 5,482	$ 5,540	$ 5,454
Maximum Permitted Dividends [1][3][5]	$ 2,976	$ 3,699	$ 3,809	$ 4,040	$ 4,690	$ 4,933	$ 4,986	$ 4,909
Dividends declared [2]	$ 2,693	$ 3,451	$ 3,458	$ 3,460	$ 3,461	$ 3,470	$ 3,479	$ 3,678
Dividends declared - special [2][4]					$ 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" above for the definitions.
(2) Includes dividends on Exchangeable Securities (non-controlling interest as described below under "Statement of Financial Position").
(3) Based on 90% of FCF L4PQ. On January 25, 2016, the rate was changed from 80% to 90%.
(4) In Q1 2016, the Company declared a special dividend of $0.50 per share related to the sale of EcoHome, for an aggregate special dividend amount paid of $8.9 million on March 15, 2016.
(5) The Maximum Permitted Dividends 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 the Acura Sherway dealership in 2015.
(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 the 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 effect on Adjusted EBITDA or Free Cash Flow.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED DECEMBER 31, 2016 AND 2015

U.S. dollar results for the three months ended December 31, 2016, were converted at an exchange rate of approximately 1.3341, which was the average exchange rate for the three month period (three months ended December 31, 2015 - 1.3354).

For the three months ended December 31, 2016, the Company reported consolidated net income of $5.1 million, a decrease of $2.9 million compared to the same period in 2015, due primarily to the $4.6 million net gain on the sale of the Acura Sherway dealership in the fourth quarter of 2015. Operating income ("income before undernoted items") was down over the prior year by $1.6 million, offset by increases in income from a $2.9 million increase in non-cash fair value adjustments and a $259,000 decrease in tax expense.

	Three months ended December 31, 2016				
($ thousands)	Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations	Corporate overhead - Canada	Total
Interest revenue on leases and loans	$ 17,116	$ 2,698		$ —	$ 19,814
Ancillary finance and other fee income	2,509	1,245		103	3,857
Interest expense	(1,834)	(924)		—	(2,758)
Provision for credit losses	(7,490)	(449)		—	(7,939)
Finance margin	10,301	2,570		103	12,974
Personnel expenses	2,701	556		331	3,588
Share-based compensation expense	60	20		191	271
Other expenses	2,206	418		421	3,045
Amortization - property and equipment	87	4		—	91
Income before undernoted items	**5,247**	**1,572**		**(840)**	**5,979**
Amortization - intangible assets, contingent consideration accretion/ reduction (non-cash)	—	(339)		1,052	713
Fair value adjustments - convertible debentures and investments	—	—		(329)	(329)
Unrealized loss on interest rate swaps	—	—		1,757	1,757
Unrealized loss on foreign exchange	—	—		(389)	(389)
Income before taxes	5,247	1,233		1,251	7,731
Tax expense	1,148	408		989	2,545
Income from continuing operations	4,099	825		262	5,186
Income from discontinued operations	—	—	(83)	—	(83)
Net income	**$ 4,099**	**$ 825**	**$ (83)**	**$ 262**	**$ 5,103**
Net cash used in operating activities	$ (8,267)	$ (1,452)	$ (26)	$ (727)	$ (10,472)
Net cash from investing activities	$ (77)	$ —	$ —	$ 3,532	$ 3,455
Net cash from financing activities	$ —	$ 3,054	$ —	$ 9,828	$ 12,882
Property and equipment expenditures	$ 77	$ —	$ —	$ —	$ 77

	Three months ended December 31, 2015				
($ thousands)	Equipment Financing - U.S.	Equipment Financing - Canada	Discontinued Operations	Corporate overhead - Canada	Total
Interest revenue on leases and loans	$ 16,403	$ 2,488		$ —	$ 18,891
Ancillary finance and other fee income	2,028	853		—	2,881
Interest expense	(1,379)	(881)		—	(2,260)
Provision for credit losses	(6,090)	77		—	(6,013)
Finance margin	10,962	2,537		—	13,499
Personnel expenses	1,915	626		248	2,789
Share-based compensation expense	62	23		282	367
Other expenses	1,676	552		504	2,732
Amortization - property and equipment	61	3		—	64
Income before undernoted items	**7,248**	**1,333**		**(1,034)**	**7,547**
Acquisition related items	—	—		52	52
Amortization - intangible assets, contingent consideration accretion/ reduction (non-cash)	—	(597)		(539)	(1,136)
Fair value adjustments - convertible debentures	—	—		(272)	(272)
Unrealized gain on interest rate swaps	—			454	454
Unrealized loss on foreign exchange	—	—		(209)	(209)
Income before taxes	7,248	736		(1,548)	6,436
Tax expense	2,031	357		416	2,804
Income from continuing operations	5,217	379		(1,964)	3,632
Income from discontinued operations	—	—	4,420	—	4,420
Net income	**$ 5,217**	**$ 379**	**$ 4,420**	**$ (1,964)**	**$ 8,052**
Net cash used in operating activities	$ (8,596)	$ (1,247)	$ (5,748)	$ (1,276)	$ (16,867)
Net cash used in investing activities	$ (12)	$ (3)	$ (59)	$ 12,138	$ 12,064
Net cash from financing activities	$ —	$ (3,674)	$ 10,644	$ (886)	$ 6,084
Property and equipment expenditures	$ 12	$ 3	$ —	$ —	$ 15

For the three months ended December 31, 2016, the Company reported consolidated operating income ("income before undernoted items") from continuing operations of $5.98 million compared to $7.55 million in the same period in 2015, a decrease of $1.57 million, or 21%, which was primarily due to:

- Operating income from Pawnee and Windset decreased by $2.0 million in the three month period compared to the same period in the prior year. The decrease in operating income is predominantly from a $739,000 increase in finance income due to a larger average portfolio outstanding offset by a $1.4 million increase in the provision for credit losses, which reflects a U.S. $363,900 increase in actual net charge-offs in the period compared to the same period in the prior year, and a non-cash U.S.$641,600 increase in the allowance for doubtful accounts. Please see the Pawnee Loss Provisions, Charge-offs, Delinquencies graph and discussion in the Pawnee overview section of this MD&A. Personnel and other expenses increased by $1.3 million as Pawnee and Windset's combined employee headcount increased by 8 employees during the three months ended December 31, 2016 to bring the total to 73 (up from 61 employees in the fourth quarter of 2015).

- Blue Chip generated operating income of $1.6 million in the three month period compared to $1.3 million in the same period in the prior year, an increase of $239,000.

The provision for credit losses increased by $526,000 in the three month period compared to the prior year.

- Corporate overhead before foreign exchange and other items decreased by $194,000 compared to the same period in the prior year predominantly from the interest income on loans to Dealnet, as part of the EcoHome sale; decreases in professional fees and share-based compensation expense.

The amortization of intangible assets at Blue Chip totaled $339,000 for the three months ended December 31, 2016 compared to $597,000 in the same period in the prior year. The reduction of the contingent consideration payable translated to income of $1.1 million in the three months ended December 31, 2016 compared to accretion of $539,000 in the same period in the prior year. The decrease in intangible asset amortization expense, reduction of contingent consideration and acquisition related costs resulted in an increase in net income of $1.8 million year-over-year.

For the three months ended December 31, 2016, our investment in the common shares of Dealnet increased in market value by $181,000.

The non-cash unrealized mark-to-market adjustment on the Company's convertible debentures for the three months ended December 31, 2016 totaled $510,000 compared to $272,000 in the same period in the prior year, translating to a decrease in net income of $238,000 year-over-year.

The non-cash unrealized mark-to-market adjustment on the interest rate swaps for the three months ended December 31, 2016 totaled a gain of $1.8 million compared to a gain of $454,000 in the same period in the prior year, translating to an increase in net income of $1.3 million year-over-year.

The provision for taxes for continuing operations for the three months ended December 31, 2016 totaled $2.5 million compared to $2.8 million in the same period of the prior year. The $2.5 million provision for taxes for the three months ended December 31, 2016 is comprised of $4.75 million in current tax recovery, future tax expense of $7.36 million (which reflects the re-allocation from current tax payable to deferred taxes payable) and $94,400 in withholding tax adjustment 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 or reduction and non-deductible acquisition costs.

The Company recorded a loss $83,000 from discontinued operations for the three months ended December 31, 2016 compared to income of $4.4 million recorded in the same quarter in the prior year. The 2015 income from discontinued operations includes the gain on sale of Sherway, full quarterly results for EcoHome, and 46 days of operations for Sherway, while in 2016 the quarterly results exclude Sherway and EcoHome's operating results as Sherway's operations and EcoHome were sold in November 2015 and February 2016, respectively. The loss from discontinued operations in 2016 includes income from the wind-down of Case Funding's remaining legal finance receivables.

RESULTS OF OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

U.S. dollar results for the year ended December 31, 2016, were converted at an exchange rate of 1.3248, which was the average exchange rate for 2016 (2015 - 1.2787).

See Note 28 - *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.

The Company reported consolidated net income of $24.3 million in fiscal 2016 compared to $19.8 million in 2015. The $4.5 million increase in net income reflects a $1.5 million increase in operating income ("income before undernoted items") from continuing operations and a $2.5 million increase in income from other items, offset by a $480,000 decrease in income from discontinued operations.

Consolidated operating income ("income before undernoted items") from continuing operations of $30.3 million, compared to $28.8 million in the prior year, was an increase of $1.5 million or 5.3%, as a result of:

- A $142,000 decrease in operating income from Pawnee and Windset compared to the prior year. Finance income (before provision for credit losses) rose $9.6 million due to growth in the finance receivables portfolio and an increase in the foreign exchange rate. This was partially offset by a $5.7 million increase in provisions for credit losses predominantly from a U.S. $4.4 million increase in actual net charge-offs. Please see the Pawnee Loss Provisions, Charge-offs, Delinquencies graph and discussion above in the Pawnee overview section of this MD&A. Personnel and other expenses increased by $4.0 million reflecting support for the growth in finance receivables and for the strategic initiatives to improve future efficiency, enhance the Company's technology and its competitive capabilities. Pawnee and Windset's combined employee headcount increased by 12 employees during the year ended December 31, 2016 to bring the total to 73.

- Blue Chip generated annual operating income of $5.04 million compared to $3.78 million last year. The increase of $1.26 million reflects the fact that 2016 results include Blue Chip's earnings for the entire fiscal year, compared to less than ten months in fiscal 2015 as Blue Chip was acquired on March 17, 2015.

- Corporate overhead before other items decreased by $413,000 year-over-year, mainly from the interest income on loan receivable from Dealnet and EcoHome as part of the EcoHome sale proceeds.

The reduction of the contingent consideration payable translated to income of $678,000 in the year ended December 31, 2016 compared to an expense of $518,900 in the prior year. The acquisition related items for the year ended December 31, 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 $1.3 million for the year ended December 31, 2016 compared to $1.2 million in the prior year, resulting in a decrease in net income of $157,000 year-over-year. 2015 results only include amortization for the period from March 17, 2015 (date of acquisition) to December 31, 2015.

At December 31, 2016, the Company's investment in Dealnet common shares had decreased in market value by $3,000 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 was $1.7 million compared to $602,000 in the prior year, translating to a decrease in net income of $1.1 million year-over-year.

The non-cash unrealized mark-to-market adjustment on the interest rate swaps for the year ended December 31, 2016 totaled a gain of $15,000 compared to a loss $846,000 in the prior year translating to an increase in net income of $861,000 year-over-year.

The provision for taxes for the year ended December 31, 2016 totaled $10.8 million compared to $11.8 million in the prior year. The $10.8 million provision for taxes for the year ended December 31, 2016 is comprised of $9.4 million in current tax expense, future tax expense of $1.2 million and $201,900 in withholding tax on inter-company dividends. The effective tax rate differs from the Canadian statutory tax rate due to higher foreign jurisdictional tax rates and permanent differences between accounting and taxable income, which primarily include share-based compensation expense, contingent consideration accretion or reduction and non-deductible acquisition costs.

Income from discontinued operations in 2016 totaled $7.0 million compared to $7.4 million recorded in 2015. The income from discontinued operations for 2016 includes the $6.7 million net gain on the sale of EcoHome compared to the $5.5 million net gain on the sale of Acura Sherway and the assets of Case Funding in 2015. The 2015 income from discontinued operations includes 11.5 months of operating results for Sherway, while in 2016 the results exclude Sherway's operating results as Acura Sherway was sold in 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 December 31, 2015.

STATEMENT OF FINANCIAL POSITION

The total consolidated assets of the Company at December 31, 2016 were $527.9 million. This is a decrease of $37.6 million from December 31, 2015. The U.S. dollar exchange rate on December 31, 2016 was 1.3427 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 $9.1 million. These factors were partially offset by a $65.5 million increase in finance receivables.

Cash totaled $11.4 million at December 31, 2016 compared to $15.2 million at December 31, 2015, a decrease of approximately $3.8 million. Please see the Liquidity and Capital Resources Overview section of this MD&A for a discussion on cash movements during 2016 and 2015.

Assets held for sale consist of Case Funding's legal finance receivables for funds advanced to plaintiffs, attorneys, and for the purchase of medical liens relating to plaintiff cases. At December 31, 2016 there were 298 advances and loans outstanding totaling $5.9 million (December 31, 2015 - 406 advances and loans totaling $10.6 million). 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 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 $14.5 million at December 31, 2016, an increase of $4.2 million from December 31, 2015. The total of other assets of $10.7 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 are expected to 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 December 31, 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 fair value of the common shares represents the trading price at each reporting date, the value at December 31, 2016 totaled $3.5 million. Other assets also includes a loan receivable from EcoHome representing the inter-company warehouse funding for leases and loans that had not yet been securitized with EcoHome funders prior to the sale of EcoHome. The value at December 31, 2016 totaled $3.0 million. See Note 7 - *Prepaids and other assets* for further details.

Finance receivables consist of the following:

	December 31, 2016	December 31, 2015
	($ thousands)	
U.S. equipment leases and loans - Pawnee	$ 290,681	$ 212,146
Canadian equipment leases - Blue Chip	130,778	112,476
Working capital loans - Windset	9,589	40,937
	$ 431,048	$ 365,559

Finance receivables increased by $65.5 million, or 17.9%, since December 31, 2015. The decrease in the foreign exchange rate led to a $7.6 million decrease in finance receivables since December 31, 2015. In U.S. dollars, Pawnee's finance receivables increased by U.S.$63.2 million. At the same time, Windset's net investment in working capital loans decreased by U.S.$22.4 million due to Windset's September 2016 announcement that it would not be accepting new loan applications, which was decided by management because of the combined impact of new regulations in California requiring brokers to have a state lenders' license and Windset's more conservative underwriting practices relative to competitors with a greater appetite for risk. Blue Chip's finance receivables increased by $18.3 million year-over-year as a result of expanded product lines and enhanced relationships with its brokers.

The $431.0 million in net investment in leases and loans is net of $12.3 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. Windset charges off loans when they become 60 days contractually past due. A high percentage of charge-offs are recognized before the subject leases/loans reach 154 days (Windset - 60 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 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. Blue Chip charges off leases and loans on an individual basis.

Intangible assets totaled $21.9 million at December 31, 2016. Of the $1.5 million decrease in intangible assets from 2015, $1.3 million reflects amortization and $125,000 relates to the decrease in the foreign exchange rate. The significant intangible assets of broker relationships and trade names do not require any outlay of cash to be maintained, as the creation of lease and loan receivables does not require an outlay of cash, other than commissions, which are separately expensed over the term of the lease and loan receivable.

Goodwill totaled $40.8 million at December 31, 2016 compared to $41.3 million at December 31, 2015. The $444,000 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, 2016 and December 31, 2015.

Accounts payable and other liabilities totaled $15.24 million at December 31, 2016 compared to $18.77 million at December 31, 2015, a decrease of $3.53 million. See Note 12 - *Accounts Payable and Other Liabilities* for more detail on the balances that comprise accounts payable and other liabilities. Income taxes payable at December 31, 2016 includes $3.5 million in taxes relating to the sale of EcoHome in 2016 and taxes payable at December 31, 2015 included income taxes of $1.5 million relating to the sale of Acura Sherway in November 2015. The contingent consideration of $538,000 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. The estimate of the fair value of contingent consideration requires very subjective assumptions to be made of various potential operating result scenarios and discount rates. The Company will continue to periodically review expected operating results and an updated assessment of various probability weighted projected scenarios. If circumstances change, such future revisions may materially change the estimate of the fair value of contingent consideration and could therefore materially affect the Company’s future financial results.

On December 16, 2013, the Company issued a total of $20.0 million principal amount 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 the Company's 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 declaration of a $0.50 per share special dividend in 2016). 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:

- Prior to December 31, 2017, the Company has the option to redeem the debentures (at a redemption price equal to the principal amount plus accrued and unpaid interest) 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.

Borrowings totaled $293.1 million at December 31, 2016 compared to $255.2 million at December 31, 2015, an increase of $37.9 million. The $37.9 million increase in borrowings is supporting the $65.5 million growth in our net finance receivables and are offset by $10.0 million in proceeds from EcoHome being applied to debt and $4.8 million decrease due to the decrease in the foreign exchange rate.

Chesswood was utilizing U.S.$144.3 million of its credit facility at December 31, 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.

On November 30, 2016, the Company announced that it had expanded and renewed its corporate revolving credit facility. Chesswood’s credit facility allows borrowings of up to U.S. $170.0 million (2015 - U.S.$150.0 million) subject to, among other things, certain percentages of eligible gross finance receivables. The facility can be expanded, subject to certain conditions, to U.S.$250.0 million (2015 - U.S.$200.0 million) and matures on December 8, 2019 (2015 - December 8, 2017).

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 covenants including the maintaining of leverage and interest coverage ratios. Chesswood was in full compliance with all its bank covenants at December 31, 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 "Funders"). 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 release of cash reserves. Blue Chip continues to service these finance receivables on behalf of the Funders. As at December 31, 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. At least $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 and bulk lease financing facilities. As at December 31, 2016 and December 31, 2015 (and throughout the periods), Blue Chip was in compliance with all covenants.

The $13.6 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.

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 would have been $850,000 at December 31, 2016 (December 31, 2015 - $892,000).

Future taxes payable at December 31, 2016 totaled $27.0 million compared to $26.5 million at December 31, 2015. The $491,000 increase reflects a $1.4 million increase in future tax expense, offset by a $898,000 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 December 31, 2016, there were 16,513,867 common shares outstanding (excluding the shares issuable in exchange for the Exchangeable Securities, as defined below) with a book value of $104.6 million. Including the Exchangeable Securities, Chesswood would have had 17,992,404 common shares outstanding.

In August 2016, the Company's Board of Directors approved the repurchase for 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 December 31, 2016, 6,000 common shares were repurchased under this normal course issuer bid at an average cost of $10.9877. 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 repurchase 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 Company's Board of Directors approved the repurchase for 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, 28,356 common shares were repurchased under this normal course issuer bid at an average cost of $10.5710.

Non-controlling interest consists of 1,274,601 Class B common shares and 203,936 Class C common shares (the "Exchangeable Securities") of Chesswood US Acquisitionco Ltd. ("U.S. Acquisitionco"), which were issued as partial consideration for the acquisition of Pawnee and are fully exchangeable at any time for the Company's common shares, on a one-for-one basis, 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 the units of Chesswood Income Fund on the Toronto Stock Exchange on December 31, 2010) as the Exchangeable Securities are fully exchangeable into the Company's common shares. Their portion of the cumulative income and dividends from May 2006 to January 1, 2011 was not allocated to non-controlling interest; however, their portion of income and dividends has since been allocated to non-controlling interest.

Reserves represent the accumulated share-based compensation expensed over the vesting term for options and restricted share units unexercised at December 31, 2016. There were 1,837,989 options and 70,000 restricted share units outstanding at December 31, 2016. Please see Note 23 - *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 December 31, 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 and bulk lease financing facilities. The primary uses of cash for the Company and its subsidiaries are to fund business operations, equipment leases and loans, working capital loans, long-term debt principal repayments and dividends.

At December 31, 2016, the Company's continuing operations had approximately $34.6 million in additional borrowings available under the corporate credit facility before the accordion feature and at least $92.5 million under Blue Chip's securitization and bulk lease financing 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.$80.0 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.

Pawnee expects to spend approximately $300,000, in the first half of 2017, on expansion of their office space and equipment due to growth in their staff count.

The Chesswood credit facility is used to provide funding for operations (i.e. to provide financing for the purchase of assets that are to be the subject of leases and loans and support working capital). Under the facility, the maximum cash dividends and purchases under its normal course issuer bid, the Company can pay in respect of a month is 1/12 of 90% of Free Cash Flow (see Dividend Policy below) for the most recently completed four financial quarters 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 December 31, 2016

In the three months ended December 31, 2016, there was an increase in cash of $6.0 million compared to an increase in cash of $1.9 million in the same period in the prior year as a result of reasons discussed below.

The Company's continuing operations utilized $10.4 million of cash during the three months ended December 31, 2016 compared to $11.1 million in the same period in the prior year, a decrease in the utilization of cash of $673,000 mainly due to lower net tax payments.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, less principal payments) totaled $30.5 million in the three months ended December 31, 2016 compared to $25.3 million in the same period in the prior year, an increase in cash utilization of $5.2 million. The Company funds the growth in finance receivables from excess opening cash, cash from operations and $16.7 million in borrowings in the three months ended December 31, 2016 (2015 - $864,000 in borrowing repayments).

In the three months ended December 31, 2016, the Company's subsidiaries made net tax payments of $708,000 compared to $4.8 million in the three months ended December 31, 2015 leading to an decrease of cash needs of $4.1 million 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 $20.8 million in cash from net income, as adjusted by non-cash items and other working capital changes compared to $19.0 million in the prior year, an increase of $1.8 million.

Capital expenditures totaled $77,000 (2015 - $15,000) during the three months ended December 31, 2016.

The Company paid dividends to the holders of its common shares and Exchangeable Securities in the amount of $3.6 million during the three months ended December 31, 2016 compared to $3.5 million in the prior year; an increase of $119,000 due to a higher number of shares outstanding and an increase in the dividend per share. The Company received $1.2 million (2015 - $0) from the exercise of options by employees during the three months ended December 31, 2016.

For the year ended December 31, 2016

In the year ended December 31, 2016, there was a decrease in cash of $4.5 million compared to an increase in cash of $5.7 million in the prior year as a result of reasons discussed below.

The Company's continuing operations utilized $44.2 million of cash during the year ended December 31, 2016 compared to utilizing $49.7 million in the prior year, a decrease in the utilization of cash of $5.5 million.

The net cash utilized to fund the growth in finance receivables (funds advanced, origination costs, security deposits, less principal payments) totaled $123.6 million in the year ended December 31, 2016 compared to $101.0 million in the prior year, an increase of $22.6 million. The Company funds the growth in finance receivables from excess opening cash, cash from operations and $42.9 million in borrowings in the year ended December 31, 2016 (2015 - $50.3 million in borrowings).

In the year ended December 31, 2016, the Company's subsidiaries (predominantly Pawnee) made tax payments of $5.4 million compared to $18.4 million in the year ended December 31, 2015, leading to a reduction of cash needs of $13.1 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 $84.7 million in cash from net income, non-cash items and other working capital changes compared to $69.6 million in the prior year, an increase in cash generated from operations of $15.1 million.

From the $29.0 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 $844,000 (2015 - $254,000) during the year ended December 31, 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 its common shares and Exchangeable Securities in the amount of $22.9 million during the year ended December 31, 2016 compared to $12.7 million in the prior year, an increase of $10.2 million, due to the $8.9 million special dividend, an increase in the monthly dividend per share paid in December 2016 and a higher number of shares outstanding. The Company received $2.0 million (2015 - $399,000) from the exercise of options by employees during the year ended December 31, 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 funder covenants relative to leverage and/or working capital.

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

The Company’s secured borrowing agreement and Blue Chip's securitization and bulk lease financing 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 December 31, 2016, U.S.$144.3 million was outstanding under the U.S.$170.0 million facility and the Company had capacity to draw up to U.S.$25.7 million and remain within the borrowing base under the facility. The Company had U.S.$4.3 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 payments and maturities of financial liabilities and other commitments as at December 31, 2016 (including interest):

($ thousands)	2017	2018	2019	2020	2021	2022 and beyond	Total
Accounts payable and other liabilities	$ 14,705	$ 538	$ —	$ —	$ —	$ —	$ 15,243
Borrowings (a)	52,144	39,768	214,974	9,976	1,496	—	318,358
Customer security deposits (b)	4,072	3,808	3,467	2,056	1,406	15	14,824
Convertible debentures	1,300	21,300	—	—	—	—	22,600
Interest rate swaps	—	—	—	383	467	—	850
	72,221	65,414	218,441	12,415	3,369	15	371,875
Other financial commitments (c)	791	294	299	219	223	323	2,149
Total commitments	$ 73,012	$ 65,708	$ 218,740	$ 12,634	$ 3,592	$ 338	$ 374,024

a. The Company's financing credit facility is a line-of-credit; as such the balance can fluctuate. The credit facility matures in December 2019. The amount above includes fixed interest payments on securitization and bulk lease financing facilities and estimated interest payments on the corporate credit facility, assuming the interest rate, debt balance and foreign exchange rate at December 31, 2016 remains the same until December 2019.

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

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. $4.3 million in letters of guarantee. Other commitments are disclosed in Note 19 - *Contingent liabilities and other financial commitments* of the 2016 annual consolidated financial statements.

Dividends to Shareholders

The Company declared monthly cash dividends of: $0.065 per common share from January 2016 to October 2016, $0.07 per common share for November and December 2016, and a special dividend on February 18, 2016 of $0.50 per share, totaling $8.9 million, that was paid on March 15, 2016 to shareholders of record on February 29, 2016.

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 monthly cash dividend and repurchases under its normal course issuer bid is 1/12 of 90% of Free Cash Flow for the most recently completed four financial quarters in which Chesswood has publicly filed its consolidated financial statements. The maximum cash dividend was increased from 1/12 of 80% FCF on January 25, 2016, and was 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 Acura Sherway.

In addition, the Company can also declare a special dividend and/or make repurchases under its normal course issuer bid to an aggregate maximum of $17.7 million related to the EcoHome sale, of which $0.50 per share, totaling $8.9 million 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

We expect 2017 to be a year in which we see the U.S. prime portfolio grow to become a meaningful part of our business. This growth will go hand in hand with our investment in expanding our technology, some of which shows up in our income statement despite its nature as an investment in our future. In 2016 our earnings reflected approximately U.S. $400,000 of costs associated with these efforts - the benefits of which are future oriented. We expect those efforts in 2017 to add another approximately U.S.$600,000 of costs, and that we will start to see tangible benefits late in the year, or in early 2018.

We also view 2017 in our U.S. business in similar fashion to 2016 - a continuation of the build out of significant operating resources, commensurate with the large increases in new business volumes that we continue to experience and expect. Our personnel and administrative expenses will continue to grow during the year and fall to more traditional levels, relative to our revenues and portfolio size, in 2018. With our commitment to service at the core of what we do, we are building our business accordingly. This is a transition that takes several years.

We believe that we will also see growth in our non-prime portfolio in the U.S. It is our view that performance in this segment of the portfolio has returned to a more expected level following years of tighter capital availability for small business. We are closely watching the metrics in this segment of our portfolio given the trend of rising charge-offs over the last two years. Notwithstanding this pattern, we continue to earn very strong risk-adjusted returns in this segment.

We are not unique in our view that the U.S. economy, especially for small and medium-sized business, is difficult to predict given 2016's unique political process and results. We believe that this is likely to be positive for business given the new administration's pro-business views, but it is very difficult to discern how they will ultimately impact the economy. Industry data suggests that we will see a continuation of delinquency that is elevated from where it has been over the last few years, while at the same time remaining typical of expansionary business cycles.

We expect our Canadian business to continue its pattern of growth in both prime and non-prime originations.

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 preparation of these consolidated financial statements requires us to make estimates and judgments that affect reported amounts of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of our 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.

Net Investment in Leases

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

Allowance for Doubtful Accounts

The carrying value of net investment in leases and loans is net of allowance for doubtful accounts. Quantifying the impairment is based on the estimates of the carrying value that will ultimately not be collected where there is objective evidence of impairment.

The finance receivables are each composed of a large number of homogenous leases and loans, with relatively small balances made to inherently risky borrowers. Pawnee charges-off leases and loans when they become 154 days contractually past due, unless information indicates that an earlier charge-off is warranted. A high percentage of charge-offs are made before the subject leases and loans reach 154 days contractually past due.

Pawnee's allowance for doubtful accounts on Chesswood's consolidated financial statements is comprised of the net investment in leases and loans value that is over 30 days delinquent, plus any leases or loans identified as impaired less than 30 days delinquent and approximately 19% of the 1-30 day delinquent leases (those considered most likely to fall into the over 30 days delinquent category by the next month). A similar approach is taken for Windset and Blue Chip.

Under IFRS, an allowance 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, are not allowed to be recognized. 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 lease and loan 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.

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

Legal Finance Receivables

Attorney loans and medical lien financing are deemed to be a financial asset as they are a contractual right to receive cash from another entity and are considered to be loans and receivables for accounting purposes, based on an evaluation of all the terms and conditions of the contracts. The contracts are deemed to have fixed or determinable payments, in that the payments are due when the underlying cases are settled however the date as to which that will happen is not known and is estimated. Loans and receivables are accounted for at amortized cost using the effective interest method; however the effective interest rate is calculated using estimated cash flows based on an estimated settlement dated.

Plaintiff advances are deemed to be a financial asset as they are a contractual right to receive cash from another entity and are considered to be available-for-sale financial assets for accounting purposes, based on an evaluation of all the terms and conditions of the contracts. The terms of the plaintiff advances are on a non-recourse basis, and payment depends on the success and potential claim size. Thus, the terms may limit the expected cash flows and other than for credit deterioration, they are deemed not to be loans and receivables. Available-for-sale financial assets are valued at fair value, the accretion or reduction in value is recognized based on the effective interest method and recognized into finance income.

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.

Impairment of Goodwill

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

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

Contingent Consideration

The estimate of the fair value of contingent consideration requires very subjective assumptions to be made of various potential operating result scenarios and discount rates. The Company will continue to periodically review expected operating results and an updated assessment of various probability weighted projected scenarios. If circumstances change, such future revisions may materially change the estimate of the fair value of contingent consideration and therefore could materially affect the Company's future financial results.

Convertible Debentures

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 as separate financial instruments, measured at fair value through the 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. As the convertible debentures will be fair valued based on the trading price on the Toronto Stock Exchange every reporting period, there may be increased volatility in our reported net income. As result of the election to value the convertible debentures at fair value, the expenses related to the issuance of the convertible debenture were expensed when incurred.

Share-based Payments

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

Interest Rate Swaps

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

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

Taxes

Pawnee and Blue Chip use the asset and liability method to account for taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance for future tax benefits for which realization is not considered more likely than not. Pawnee and Blue-Chip account for their lease arrangements as operating leases for federal tax reporting purposes. This results in temporary differences between financial and tax reporting for which deferred taxes have been provided.

Significant management judgment is required in determining the provision for taxes, deferred tax assets and liabilities and any necessary valuation allowance recorded against net deferred tax assets. The process involves summarizing temporary differences resulting from the different treatment of items, for example, leases for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated statement of financial position. Management must then assess the likelihood that deferred tax assets will be recovered from future taxable income or tax carry-back availability and, to the extent management believes recovery is not probable, a valuation allowance must be established. To the extent that we establish a valuation allowance in a period, an expense must be recorded within the tax provision in the statement of income. The Company's estimate of its future taxes will vary based on actual results of the factors described above, and such variations may be material.

FUTURE ACCOUNTING STANDARDS

A listing of the recent accounting pronouncements not yet adopted by the Company is included in Note 2 - *Accounting Standards Issued But Not Yet Effective* to the consolidated financial statements for the year ended December 31, 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 and Blue Chip have formed relationships with hundreds of origination sources, comprised primarily of equipment finance brokerage firms. They rely on these relationships to generate applications and originations. The failure to maintain effective relationships with their brokers and other origination sources or decisions by them to refer transactions to, or to sign contracts with, other financing sources could impede their ability to generate transactions.

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

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

Portfolio Delinquencies; Inability to Underwrite Lease and Loan Applications

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

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

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.

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

The results of the Company's subsidiaries 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 experienced in the United States from 2008-2013. As our operating companies extend credit primarily to small businesses, many of their customers may be particularly susceptible to economic slowdowns or recessions, and may be unable to make scheduled lease or loan payments during these periods. Unfavourable economic conditions may also make it more difficult for our operating companies to maintain new origination volumes and the credit quality of new leases and loans at levels previously attained. Unfavourable economic conditions could also increase funding costs or operating cost structures, limit access to credit facilities, securitizations and other capital markets or result in a decision by lenders not to extend further credit.

In addition, the 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 or Canada, political, economic or other significant events or circumstances outside of North America (whether political unrest which impacts upon the prices of oil and other commodities or otherwise) can ultimately significantly impact upon North American economic conditions which, in turn, could result in the adverse implications described in the first paragraph under this heading. Similarly, natural disasters in any part of the world may directly (through impact on supplies of goods or equipment to our businesses) or indirectly impact Chesswood's operations or results.

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

Origination, Funding and Administration of Transactions

Our operating companies' origination, funding and transaction administration practices could result in certain vulnerabilities in their enforcement rights. For example, certain leases and loans are assignments of transactions already documented by brokers. Acquiring leases/loans by this "indirect" process subjects our operating companies to various risks, including risks that might arise by reason of the broker's insolvency, administrative inadequacies or fraudulent practices, as well as any third party claims against the broker or its rights with respect to the assigned lease or loan. Any of these broker related risks can impair our operating companies' rights with respect to recovering the rents and/or property under leases and loans. Pawnee has not been involved in any claims or litigation in relation to such risks 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 our operating companies having funded the transaction. It has not been their practice to ensure that the title to the leased property has not already passed or to obtain assurances that it is acquiring good title to that property free of liens and other third party claims. The manner in which our operating companies purchase the equipment is typical in this market segment, especially with respect to similarly situated equipment financing providers. They have not yet faced any meaningful challenge or adverse consequence from this practice, but there can be no assurance that such a challenge or consequence will not occur in the future.

In most circumstances where the equipment is less than 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 them to alter their respective business, strategy or operations, in a fashion that could hamper the ability to conduct business in the future.

Licensing Requirements

If an applicable court or regulatory authority were to make an adverse finding or otherwise take adverse action with respect to our operating companies based on their failure to have a finance lender's or other license or registration required in the applicable jurisdiction, our operating companies would have to change business practices and could be subject to financial or other penalties. Further, certain jurisdictions may enact or change administrative practices in respect of licensing requirements for our operating companies or their referring brokers. For example, California 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 under, or enforcement, of their leases and loans. It could be determined that these fees and/or the interest rates charged exceed applicable statutory or other legal limits. If the charges are deemed to be punitive and not compensatory, or to have other attributes that are inconsistent with, or in violation of, applicable laws, they could be difficult to enforce. A number of charges payable with respect to equipment finance transactions in the micro and small-ticket equipment finance market have been the subject of litigation by customers against financing parties 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 their fee programs are designed and administered so as to comply with legal requirements and are within the range of industry practices in their market segments. Nevertheless, certain attributes of these fees or charges, and their practices, including that their leases and loans typically provide for several different fees and charges resulting in a substantial amount of fee income and the possibility that the fees and charges may exceed actual costs involved or may otherwise be deemed excessive, could attract litigation, including class actions, that would be costly even if our subsidiaries were to prevail and as to which no assurance can be given of their successful defense. In addition to the risk of litigation, fee income is important to our subsidiaries and the failure of our subsidiaries to continue to collect most of these fees could have a material adverse impact on our business, financial condition and results of operations, and on the amount of cash available for dividends to our shareholders.

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

Lessor Liability

There is a risk that a lessor, such as Pawnee 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 require its lessees to deliver evidence of compliance with same as a condition to funding but have no assurance that a lessee will take the appropriate actions during the lease term to address any use, maintenance or compliance issues which may arise. A lessee's conduct (or lack thereof) could subject Pawnee 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 some 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.

As 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 expects 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 and loans 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 and medium-sized businesses to establish improved levels of creditworthiness.

Similarly, competition from a variety of other funding sources may result in a decrease in demand for 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 and proprietary systems and processes, which is an important factor in maintaining a competitive market position. No assurance can be given that competitors will not independently develop substantially similar branding, systems or process. Despite the efforts of our operating subsidiaries to protect their proprietary rights, unauthorized parties may attempt to obtain and use information the subsidiaries regard as proprietary. Preventing unauthorized use of such proprietary rights may be difficult, time-consuming and costly, and without any assurance of success.

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 have to accept a smaller return than anticipated in order to accommodate and maintain business relationships or avoid litigation. In either event, the inability of Case Funding to collect or the necessity of legal action to collect, could 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 companies to originate and service their lease and loan portfolio and broker networks. If sustained or repeated, a system failure could negatively affect these operations. Our operating companies maintain confidential information regarding lessees and borrowers in their computer systems. This infrastructure may be subject to physical break-ins, computer viruses, programming errors, attacks by third parties or similar disruptive problems. A security breach of computer systems could disrupt operations, damage reputation and result in liability.

Security Risks

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

Risks Related to our Structure and Exchange Rate Fluctuations

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

Unpredictability and Volatility of Share Price

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

Leverage, Restrictive Covenants

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

Restrictions on Potential Growth

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

Canadian Income Tax Matters

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

United States Income Tax Matters

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

RELATED PARTY TRANSACTIONS

See Note 26 - *Related Party Transactions* to the consolidated 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 December 31, 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. 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 the consolidated financial statements are presented fairly in all material respects. Management believes the staffing level of Pawnee's finance department is appropriate in the context of the scope of Pawnee's operations, and that 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. However, the nature and size of the Company's operations are such that the duties are performed by a small number of persons with limited segregation of duties. 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. The Company has also engaged the services of external resources to perform independent reviews of the Company's financial close, consolidation and reporting processes and schedules to create further segregation of duties.

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 and 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 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. 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 the disclosed data is in accordance with GAAP. Furthermore, through the use of external resources to conduct independent reviews, establishment of a sub–certification process and creation of a Disclosure Committee, management has taken further steps to ensure the integrity of the Company's disclosure documents.

3) Anti-Fraud Controls

As a result of the lack of segregation of duties at the Company level as described above, 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. Furthermore, management has engaged the service of external resources to perform a complete review of the journal entries on a quarterly basis thus reducing the risk of error and fraud in the Company's financial close process at the Corporate Office.

4) Accounting for the Sale of EcoHome

While finalizing the second quarter report in 2016, 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 Company's Corporate Finance department due to the February 18, 2016 sale of EcoHome and other year-end activities. This heightened activity level diminished the Company's capabilities in the timely completion of all control procedures related to 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. 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, 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 ICFR or its DC&P 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 December 31, 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 and Governance 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 items includes the design and implementation of specific policies, procedures and controls to address the control weaknesses discussed above and 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 could occur because of undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

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

MARKET FOR SECURITIES

The Company's 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 year ended December 31, 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
October	$102.01	$102.00	3,050
November	$105.00	$101.00	9,682
December	$101.31	$101.00	900
	$105.00	$95.49	12,624

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 year ended December 31, 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
October	$12.58	$11.02	15,144
November	$12.50	$10.90	29,424
December	$12.05	$11.20	13,829
	$12.71	$8.80	17,740

Chesswood Group Limited

DIRECTORS, OFFICERS AND OTHER INFORMATION

Directors

Frederick W. Steiner
Director, Chairman of Chesswood Group Limited
C.E.O., Imperial Coffee and Services Inc.

Clare Copeland
Director, Chairman, Compensation Committee
Vice-Chair, Falls Management Company

Barry Shafran
Director
President & C.E.O., Chesswood Group Limited

David Obront
Director
President, Carpool Two Ltd.

Robert Day
Director
Former Chairman, Pawnee Leasing Corporation

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

Daniel Wittlin
Director
Former President & C.E.O. of Blue Chip Leasing

Executive Team

Barry Shafran
President & C.E.O.

Lisa Stevenson
Chief Financial Officer

Other Information
Auditors
BDO Canada LLP

Transfer Agent
TSX Trust Company

Corporate Counsel
McCarthy Tétrault LLP

Website
www.chesswoodgroup.com

Toronto Stock Exchange Symbols
CHW
CHW.DB